THE NEW CHALLENGE: CHINA IN THE WESTERN HEMISPHERE

HEARING

BEFORE THE

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THE WESTERN HEMISPHERE

OF THE

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THE NEW CHALLENGE: CHINA IN THE WESTERN HEMISPHERE

WEDNESDAY, JUNE 11, 2008

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE WESTERN HEMISPHERE,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 3:35 p.m. in room 2172, Rayburn House Office Building, Hon. Eliot L. Engel (chairman of the subcommittee) presiding.

Mr. ENGEL. A quorum being present, the Subcommittee on the Western Hemisphere will come to order.

I want to apologize to our guests and to our attendees. It seems that whenever we have a hearing, the leadership calls a vote just at that point. So we can always predict when the votes are because it is when we are supposed to start our hearings. So I do apologize, and hopefully we won't be interrupted by any more votes.

I am pleased to welcome you to today's hearing entitled,"The New Challenge: China in the Western Hemisphere." This is a topic of growing interest, and I look forward to it.

Here on the Western Hemisphere Subcommittee, we are charged with keeping a close watch on developments throughout Latin America and the Caribbean. Several countries have for years required a great deal of attention. Colombia, Cuba, and Haiti have often led the list. Likewise, regional issues like poverty and inequality, energy production, remittances, and migration also top the list of issues we must monitor.

In recent years another challenge has also caught the attention of the subcommittee, and it emanates from the other side of the globe. The growth and increasing power of the People's Republic of China is today forcing policymakers to take a new look at our priorities not only in Asia, but in Latin America as well.

The expansion of the Chinese economic juggernaut has not only had a great impact on businesses and workers in the United States, it is also powerfully affecting the entire hemisphere. In 1999, total trade between China and Latin America and the Caribbean region stood at $8.2 billion. By 2007, it had risen to almost $102 billion, a more than tenfold increase, in less than 10 years. Likewise, Chinese exports to the region have soared by a similar amount.

In November 2004, Chinese President Hu Jintao's visit to several Latin American countries underscored China's increased presence in the hemisphere. Cynthia Watson recently wrote, "The November 2004 rock star visit of Chinese President Hu Jintao to Latin America was a wakeup call for many in the United States that China had discovered Latin America." During a speech to the Brazilian Congress, Hu stated that China would invest $100 billion over the next decade and $20 billion in Argentina alone. While China has a tendency of over promising investment in Latin America, there is obviously no doubt that Beijing's presence in the region is growing.

I was particularly struck by China's visibility in the Western Hemisphere when I led a congressional delegation to the Southern Caribbean last year. Our visit just happened to coincide with the international cricket championships held in several Caribbean countries, and Grenadian Prime Minister Keith Mitchell scheduled our meeting with him at their brand-new Chinese-built cricket stadium during a cricket match. I learned that everyone in Grenada knew that the Chinese built the multimillion-dollar stadium, and built it, as I remember, within a year.

Unfortunately, people were not nearly aware of what the United States had done for the island of Grenada. In September 2004, Hurricane Ivan slammed into Grenada and did terrible damage. Although people know about the Chinese building of the sports arena, they don't know that the United States provided $42 million to Grenada for recovery and reconstruction in the aftermath of the hurricane, or that we repaired over 1,000 private homes, helped 269 small businesses to reopen, and assisted 1,300 farmers to plant new crops.

But we should keep the Chinese challenge in perspective. The U.S. still remains the biggest player in the hemisphere by far. While China's reported foreign direct investment in the region was $11.5 billion in 2005, United States investment was $366 billion. United States geographic proximity to Latin America, close cultural ties, and longstanding trade patterns give the United States overwhelming advantages. Nevertheless, the challenge is clear. And, if we don't pay attention, in my opinion, and conduct effective public diplomacy, as we didn't in Grenada even after we invaded that country in the 1980s, even the best intentions and the most worthy humanitarian efforts often go unrecognized. Likewise, if we are not careful, American businesses could find their investments undercut and their trade diminished.

The battle for diplomatic recognition between China and Taiwan is also alive and well in the Western Hemisphere, and is thought by many to be China's number one priority in the region. I was just reading today that there are now going to be direct air flights between China and Taiwan.

Of the 33 independent countries in the Latin American-Caribbean region, China currently has official diplomatic relationships with 21 states, while the remaining 12 nations currently maintain relations with Taiwan. That is actually a very large percentage compared with the rest of the world, and where the rest of the world has diplomatic relations during the China-Taiwan split.

For decades, Taiwan was a consistent provider of financial assistance and investment in Latin America and the Caribbean in order to nurture its remaining official relationships. Today, it is hard pressed to compete against the growing economic and diplomatic clout of China, which in recent years has stepped up its own version of what is sometimes called checkbook diplomacy.

The growth of Beijing's power and wealth is now visible in the number of countries recognizing China. Since 2004, Dominica, Costa Rica, and Grenada have switched their recognition to the People's Republic of China from Taiwan, and reports indicate that other countries in the region might soon follow.

But, not everything always goes well for Beijing in its efforts to expand official relationships in the hemisphere. When national anthems were played at the inauguration at that Chinese-built cricket stadium in Grenada that I mentioned before, the Grenadian police band made a serious mistake: It performed the national anthem of the Republic of China, not the People's Republic of China, and the Republic of China is also known as Taiwan, instead of the People's Republic of China, which is Beijing. So I guess China can't win them all.

We have a distinguished group of experts with us today to discuss today's hearing topic, The New Challenge: China in the Western Hemisphere. First, I would like to introduce Daniel P. Erikson, senior associate for U.S. policy at the Inter-American Dialogue. Welcome.

Second, we have Evan Ellis, adjunct professor at the University of Miami. Welcome, Dr. Ellis.

And, finally, I am pleased to welcome Francisco E. González, assistant professor of Latin American studies at the Paul H. Nitze School of Advanced International Studies at Johns Hopkins University.

[The prepared statement of Mr. Engel follows:]

PREPARED STATEMENT OF THE HONORABLE ELIOT L. ENGEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK, AND CHAIRMAN, SUBCOMMITTEE ON THE WESTERN HEMISPHERE

I am pleased to welcome you to today's hearing, entitled "The New Challenge: China in the Western Hemisphere." This is a topic of growing interest, and I look forward to exploring the issue.

Here on the Western Hemisphere Subcommittee, we are charged with keeping a close watch on developments throughout Latin America and the Caribbean. Several countries have for years required a great deal of attention: Colombia, Cuba, and Haiti have often led the list. Likewise, regional issues like poverty and inequality, energy production, remittances, and migration also top the list of issues we must monitor.

In recent years, another challenge has also caught the attention of the Subcommittee—and it emanates from the other side of the globe. The growth and increasing power of the People's Republic of China is today forcing policy-makers to take a new look at our priorities, not only in Asia, but Latin America, as well.

The expansion of the Chinese economic juggernaut has not only had a great impact on businesses and workers in the United States, it is also powerfully affecting the entire hemisphere. In 1999, total trade between China and the Latin America and Caribbean region stood at $8.2 billion. By 2007, it had risen to almost $102 billion—a more than ten fold increase in less than 10 years. Likewise, Chinese exports to the region have soared by a similar amount.

In November 2004, Chinese President Hu Jintao's visit to several Latin American countries underscored China's increased presence in the hemisphere. Cynthia Watson recently wrote that "the November 2004 'rock star' visit of Chinese President Hu Jintao to Latin America was a wake-up for many in the United States that China had 'discovered' Latin America." During a speech to the Brazilian Congress, Hu stated that China would invest $100 billion over the next decade, and $20 billion in Argentina, alone. While China has a tendency of overpromising investment in Latin America, there is no doubt that Beijing's presence in the region is growing.

I was particularly struck by China's visibility in the Western Hemisphere when I led a Congressional Delegation to the southern Caribbean last year. Our visit just happened to coincide with the International Cricket Championships, held in several Caribbean countries—and Grenadian Prime Minister Keith Mitchell scheduled our meeting at their brand new Chinese-built cricket stadium during a cricket match. I learned that everyone in Grenada knew that the Chinese built the multi-million dollar stadium.

Unfortunately, people were not nearly aware of what the United States has done for the island. In September 2004, Hurricane Ivan slammed into Grenada and did terrible damage. Although people know about the Chinese building of a sports arena, they don't know that the United States provided $42 million to Grenada for recovery and reconstruction in the aftermath of the hurricane or that we repaired over 1,000 private homes, helped 269 small businesses to reopen, and assisted 1300 farmers to plant new crops.

But, we should keep the Chinese challenge in perspective. The U.S. remains the biggest player in the hemisphere, by far. While China's reported foreign direct investment in the region was $11.5 billion in 2005, U.S. investment was $366 billion. U.S. geographic proximity to Latin America, close cultural ties, and long-standing trade patterns give the United States overwhelming advantages. Nevertheless, the challenge is clear—and if we don't pay attention and conduct effective public diplomacy, as we didn't in Grenada, even the best intentions and the most worthy humanitarian efforts might go unrecognized. Likewise, if we're not careful American businesses could find their investments undercut and their trade diminished.

The battle for diplomatic recognition between China and Taiwan is also alive and well in the Western Hemisphere, and is thought by many to be China's number one priority in the region. Of the 33 independent countries in the Latin America and Caribbean region, China currently has official diplomatic relations with 21 states, while the remaining 12 nations currently maintain relations with Taiwan. For decades, Taiwan was a consistent provider of financial assistance and investment in Latin America and the Caribbean in order to nurture its remaining official relationships. Today it is hard-pressed to compete against the growing economic and diplomatic clout of China, which in recent years has stepped up its own version of what is sometimes called "checkbook diplomacy."

The growth of Beijing's power and wealth is now visible in the numbers of countries recognizing China. Since 2004, Dominica, Costa Rica, and Grenada have switched their recognition to the PRC and reports indicate that other countries in the region might soon follow.

But not everything always goes well for Beijing in its efforts to expand official relations in the hemisphere. When national anthems were played at the inauguration of that Chinese-built cricket stadium in Grenada, the Grenadian police band made a serious mistake. It performed the national anthem of the Republic of China (also known as Taiwan), instead of the People's Republic of China (China). So, I guess China can't win them all.

We have a distinguished group of experts with us today to discuss today's hearing topic: "The New Challenge: China in the Western Hemisphere." First, I would like to introduce Daniel P. Erikson, Senior Associate for U.S. Policy, at the Inter-American Dialogue. Second, we have Evan Ellis, Adjunct Professor at the University of Miami. Finally, I am pleased to welcome Francisco E. González, Assistant Professor of Latin American Studies, at The Paul H. Nitze School of Advanced International Studies of Johns Hopkins University.

I would now like to recognize the Ranking Member of the Subcommittee and my good friend, Dan Burton, for his opening statement.

Mr. ENGEL. Mr. Burton is just in the anteroom, and he will be coming back momentarily, but I would like to ask if any of my colleagues, Mr. Delahunt, has an opening statement, or Mr. Smith? Mr. Smith.

Mr. SMITH. Thank you very much, Mr. Engel and Mr. Chairman, for convening this very, very important hearing.

For some time now we have been aware of the challenge that China's growing influence around the world poses to United States interests on a number of fronts. China's influence in the Western Hemisphere hasn't been much of a focus as it maneuvers in some parts of the world, but it is truly time to take a closer look at China's strategy in Latin America. If China's plan for Africa is a blueprint for what it wants to do in Latin America, I, for one, am very concerned.

I would note to my colleagues that I convened a hearing on the Subcommittee on Africa, Global Human Rights and International Operations in July 2005 that described disturbing trends regarding China's activities in Africa, activities that revealed just how insidious the Chinese Government's influence is on that continent. The damaging influence of China on the situation in Darfur and in Zimbabwe is well known, and these dangerous policies are part of a wider trend.

At our 2005 hearing, Carolyn Bartholomew, Commissioner of the U.S.-China Economic and Security Review Commission, explained the darker side of China's economic expansion. She described China's willingness to provide "economic, military, and diplomatic assistance to undemocratic African regimes in direct opposition to political forces that have spent years attempting to encourage change there." She also noted that China is quick to block attempts by the United States to use multilateral institutions to censure the appalling human rights practices of some of the Chinese Government's allies.

As the Chinese pour money into Africa, their partners are free to pursue any policies they wish, even if they violate international treaties and thwart basic human rights. And how can we expect the Chinese Government to hold its business partners to any standards on human rights? This is the government that thwarts the aspirations of its own people in any number of ways, denying basic rights, sustenance, freedom of speech, and any labor rights. It pursues a draconian one-child-per-couple policy that promotes the killing of innocent human life.

We now have also seen how China has adapted to new technologies in its attempt to subjugate its own people, restricting the Internet, and locking up those who use it to speak freely.

With China routinely violating the human rights of its own citizens, why would they care at all about the rights of Latin Americans?

I know that China has built its investments in Africa on economic, cultural, and geographic factors that are very different from those in Latin America, but when we see China ramping up its financial stake in the Western Hemisphere from $8.2 billion of total trade in 1999 to almost $102 billion in 2007, we can be sure that the Chinese Government's influence won't stop there. I am convinced that, in the end, the people of this hemisphere will pay the price for becoming part of China's expanding economic and, unfortunately, its political empire.

I yield back the balance of my time.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF THE HONORABLE CHRISTOPHER H. SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Thank you Mr. Chairman, and I want to commend you for convening this important hearing.

For some time now, we have been aware of the challenge that China's growing influence around the world poses to U.S. interests on a number of fronts. China's influence in the Western Hemisphere hasn't been as much of a focus as its maneuvers in some other parts of the world. But it is surely time to take a close look at

China's strategy in Latin America. If China's plan for Africa is a blueprint for what it wants to do in Latin America, I, for one, am very concerned.

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As the Chinese pour money into Africa, their partners are free to pursue any policies they wish, even if they violate international treaties and thwart basic human rights.

And how can we expect the Chinese government to hold its business partners to any standard on human rights? This is a government that thwarts the aspirations of its own people in any number of ways, denying basic rights such as freedom of speech and religion. It pursues a Draconian one-child-per-couple policy that promotes the killing of innocent human life.

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I'm convinced that, in the end, the people of this hemisphere will pay the price for becoming part of the China's expanding economic—and, unfortunately, its political—empire.

Mr. ENGEL. I thank the gentleman.

And I guess what we will do is when Mr. Burton returns, we will let him give his opening statement at that point, or submit in the record anything that he may desire.

So why don't we start with our panel. Mr. Erikson, why don't you begin.

STATEMENT OF MR. DANIEL P. ERIKSON, SENIOR ASSOCIATE FOR U.S. POLICY, DIRECTOR OF CARIBBEAN PROGRAMS, INTER–AMERICAN DIALOGUE

Mr. ERIKSON. Thank you very much, Mr. Chairman, and thank you for the other members of the committee who are here today. This is an extremely important topic, and it is an honor for me to testify. I am going to make a summary of my views, and ask that my full summary be placed in the record.

Mr. ENGEL. Without objection.

Mr. ERIKSON. The Inter-American Dialogue has been closely following China's engagement with the Western Hemisphere over the past several years with an emphasis on the political, economic, and security dimensions of the relationship. Today there is little doubt that the People's Republic of China has moved from the periphery to become a central actor in the Western Hemisphere.

While many Latin American and Caribbean countries enjoy long-established political and economic ties with Beijing, the scope of change since 2001 has been striking. By almost every conceivable metric, including high-level visits, Presidential diplomacy, the pace of trade and investment, the level of cultural exchange and military contacts, China's relations with Latin America have never been more robust. Moreover, this deepening relationship has occurred against the backdrop of three interrelated trends.

First, China's stunning rate of economic growth has driven its search for new markets as well as endowed it with greater resources to cultivate political and economic allies throughout the world, including Latin America.

Second, Latin American and Caribbean economies are seeking to diversify away from their traditional trading partners, such as the United States and Europe, and take advantage of the economic opportunities presented by China.

And, third, Latin America remains an important battleground for diplomatic recognition between China and Taiwan, as Beijing intends to pry loose Taiwan's remaining allies in the region.

I will tackle these points one by one. To begin with, it is clear that China's rising economic power and its global search for the commodities necessary to sustain its economic expansion forms the bedrock of its relationship with Latin America. Let's consider a few numbers. The pace of trade between China and the region has skyrocketed from about $10 billion in the year 2000 to over $100 billion in 2007. This is an impressive figure, although still well below the estimated $560 billion in United States-Latin American trade, and less than half of the trade that exists between Europe and Latin America. Much of this trade has been in the form of commodities, including Chilean copper, Argentine and Brazilian soya, Venezuelan oil, and Cuban nickel.

China sells a wide range of manufactured and consumer products to the Latin American countries. Brazil was China's largest trading partner with two-way trade totaling $30 billion; followed by Mexico at roughly half that; then Chile, Argentina, and Peru. Venezuela, Panama, and Colombia round out China's top eight trading partners in the region. China has signed a free trade agreement with Chile in 2005 and is entering into trade negotiations with Costa Rica and Peru.

Chinese foreign direct investment in Latin America lags far behind that of the European Union and the United States. In fact, the EU is estimated to be the region's largest investor with about $600 billion in investments, followed by U.S. investment of around $350 billion. By contrast, a top Chinese trade official recently estimated that about one-quarter of China's total overseas investment goes to Latin America, which equals about $22 billion. However, official estimates of Chinese investment in Latin America often vary, and in any case the vast majority of this investment goes to the Virgin Islands and Cayman Islands and other offshore financial centers. In fact, nonfinancial direct investment in Latin America is probably around $1.9 billion.

The chairman mentioned the speech made by President Hu Jintao before the Brazilian Congress where he promised $100 billion in investment over the next 10 years. The Chinese now say that they were actually misquoted; they were talking about $100 billion in trade and not investment, but they allowed that assertion to hang out in the Latin American press for over a year and generate a great level of excitement about what China may bring to the region. In fact, the Chinese now say that it was trade they were aiming for in terms of $100 billion, not investment, and they claim to have already reached that goal, while investment to the region has traveled much slower.

This initial confusion over what precisely China was promising to Latin America indicates the degree to which cultural differences and China's relative lack of experience in the region has at times undercut its diplomacy.

Let us discuss a few political and security concerns. Does China's renewed economic presence in Latin America pose either a short-term or long-term risk to United States political and security interests? It is difficult to answer this with either a strict yes or no answer. It is clear that China places its highest priority on its relations with Washington and is highly sensitive to United States perception of its involvement in Latin America. Nevertheless, there are three cases where security concerns there are traditionally raised. They involve Venezuela, Cuba, and the Panama Canal.

The relationship between China and Venezuela's Hugo Chavez has been the subject of substantial debate and analysis. Much of this has been driven by Chavez's obvious interest in diversifying its oil exports away from the United States and China's search for energy. However, in the short term it seems it will be very difficult for Venezuela to somehow cut off or dramatically reduce its oil exports to the United States and sell to China instead. This is something that should be watched very carefully, but at the same time is not necessarily concern for immediate alarm.

China is now the second largest trading partner of Cuba and is helping to sustain the Cuban economy at a time when the United States is attempting to isolate Cuba through sanctions. However, there is also evidence that the Chinese are disappointed that Cuba is not following the China model of development and instead is resisting economic reforms.

In terms of Panama, while there have been concerns about China's role around the Panama Canal, particularly the operating of several ports, at the same time the reality is that trade through the Panama Canal has flowed relatively smoothly over the past 8 years since the United States passed over the Canal Zone to Panama. In the short term, it has not seemed that China's involvement in the Panama Canal is likely to disrupt trade there.

Let me conclude with a few remarks on how the United States should respond. China is poised to be a major player in the Western Hemisphere for the foreseeable future, irrespective of what actions the United States does or does not take in reaction to Beijing's growing influence. However, there is a response that could help the United States consolidate its influence in the hemisphere.

First, it should strengthen its ties with Latin America and the Caribbean through trade, economic integration, and cooperation in multilateral fora. The next Summit of the Americas in 2009 will present an ideal moment for the United States to renew ties to the Western Hemisphere.

Second, the United States should maintain an open dialogue with China on issues of U.S. concern in the hemisphere, especially as it relates to democracy, human rights, and environmental concerns.

Third, the United States should carefully monitor the evolution of China's ties with Latin America in the Caribbean in consultation with other countries.

The primary goal of United States policies as it relates to China in the Western Hemisphere should focus on ensuring that China acts as a responsible stakeholder that contributes to the region's economic prosperity while respecting the democratic principles that serve as the guiding values for the Inter-American system. Thank you.

[The prepared statement of Mr. Erikson follows:]

PREPARED STATEMENT OF MR. DANIEL P. ERIKSON, SENIOR ASSOCIATE FOR U.S. POLICY, DIRECTOR OF CARIBBEAN PROGRAMS, INTER-AMERICAN DIALOGUE

It is an honor for me to testify here today about China's evolving role in hemispheric affairs and I thank the chair and members of this distinguished committee for the opportunity, as well as my fellow panelists for sharing their views. The Inter-American Dialogue has been closely following China's engagement with the Western Hemisphere over the past several years with an emphasis on the political, economic, and security aspects of the relationship. In addition, we have actively sought to bring together top scholars and analysts from the U.S., China, and Latin America to explore the current dynamics of the relationship and identify important future trends.

Today, there is little doubt that the People's Republic of China has moved from the periphery to become a central actor in hemispheric affairs. This development should not be viewed in a vacuum but rather as part of a broader shift in Latin America's global relations as the region seeks to complement its strong partnerships with the United States and the European Union with new ties to Asia, the Middle East, and Africa. Still, while many Latin American and Caribbean countries enjoy long established political and economic ties with Beijing, the scope of change since 2001 has been striking. By almost every conceivable metric, including presidential visits and high level diplomacy, the pace of trade and investment, and the level of cultural exchange, China's relations with Latin America have never been so robust. Moreover, this deepening relationship has occurred against the backdrop of three inter-related trends. First, China's stunning rate of economic growth has driven its search for new markets as well as endowed it with greater resources to cultivate political alliances throughout the world, including Latin America. Second, Latin American and Caribbean economies are seeking to diversify their trade partners and take advantage of the economic opportunities presented by China. Third, Latin America remains an important battle ground for diplomatic recognition between China and Taiwan as Beijing attempts to pry loose Taipei's remaining allies in the region.

President Hu Jintao's successful visit to Latin America in November 2004, during and after the Asia-Pacific Economic Cooperation (APEC) summit, marked the moment when China's expansion into the Western Hemisphere drew widespread notice in the United States. After the summit in Chile, President Hu traveled to Argentina, Brazil, and Cuba, and he subsequently returned the following year to visit Canada and Mexico. This spate of high level diplomacy between China and the Western Hemisphere prompted a flurry of articles and policy reports from U.S.-based institutions that sought to explain increased Chinese activity on America's southern flank. Some observers fretted that the combination of an expanding China, the rise of the political left in Latin America, and the declining U.S. image and influence in the region would create a potentially negative situation for U.S. interests in region. A preliminary assessment of the past three-and-a-half years indicates that the more alarmist fears were unfounded but areas of concern remain. Now that President Hu Jintao plans to return to South America once again to attend the upcoming APEC summit in Peru this November, it is a particularly opportune time to explore these questions in greater depth.

CHINA'S ECONOMIC RELATIONSHIP WITH LATIN AMERICA

China is a rising economic power. Its growth rate has exceeded 10% for the past decade and is forecast to remain strong—above 8.5%—for the next five years at least. There is little question that China's global search for the commodities necessary to sustain its rapid economic expansion forms the bedrock of its relationship with Latin America. The pace of trade between China and the region has skyrocketed from $10 billion in 2000 to over $100 billion in 2007. This is an impressive figure, although still well below the $560 billion in U.S.-Latin American trade last year, and less than half the $250 billion in trade between Europe and Latin America. Still, China is now Latin America's third largest trading partner after the United States and the European Union, and its clout is poised to grow.

In 2004, following Hu Jintao's speech to the Brazilian parliament, he was widely reported to have promised that China would make $100 billion in investments in Latin America over the next decade, that is, by 2014. Given that Chinese investment in the region at that time was only $6 billion, it appeared to be a boldly ambitious vow that galvanized expectations in the region. It certainly helped China to win coveted "market economy status" from many of the fifteen Latin American and Caribbean countries that have granted this recognition to Beijing. The Chinese government now claims that Hu was misquoted and that the $100 billion figure referred to trade, not investment. Nevertheless, they allowed the initial assertion to be repeated in the Latin American press for well over a year before Chinese officials decided to walk back this figure and clarify that the objective was $100 billion in trade. Beijing now estimates that trade between China and Latin America reached $102.6 billion in 2007—marking a 42.6% jump over the previous year—and thus claims that President Hu's pledge has been fulfilled ahead of schedule. However, the initial confusion over what precisely China was promising to Latin America indicates the degree to which cultural differences and China's relative lack of experience with the region has at times undercut its diplomacy.

Chinese foreign direct investment in Latin America lags far behind that of the European Union and the United States. In fact, it is the European Union that is the region's largest investor with an estimated $620 billion in investments, followed by U.S. investment of $350 billion. By contrast, a top Chinese trade official recently estimated that about 25% of China's total overseas investment of $90 billion went to Latin America, which would equal about $22 billion. However, official estimates of Chinese investment in Latin America often vary, and, in any case, the vast majority goes to off-shore financial havens such as the Cayman Islands and the Virgin Islands, with only about $1.9 billion accounting for non-financial direct investment in the region. Conversely, Latin American companies have made sizable investments in China with $20 billion already paid in of the $34.6 billion contracts signed.

According to the official Chinese trade figures for 2007 recently released by Xinhua Economic News Service, Brazil was China's largest trading partner last year with two-way trade totaling $29.9 billion, followed by Mexico with $14.9 billion, Chile with $14.6 billion, Argentina with $9.9 billion, and Peru with $6 billion. Venezuela, Panama, and Colombia rounded out China's top eight trading partners in the region. It is striking to note that Chile is on the verge of edging out Mexico to become China's second largest trading partner, reflecting the fact that Chile became the first ever country to sign a free trade agreement with China in 2005. China is now beginning trade negotiations with Peru and Costa Rica. However, China only joined the World Trade Organization in 2001, and is still in the very early stages of plotting its long term trade strategy.

China's growth has both positive and negative implications for Latin America and the Caribbean. It is true that the commodity exporting countries of South America have profited handsomely from their relationship with China, but Mexico, Central America, and the Caribbean have felt the sting of Chinese competition in the manufacturing sector. Moreover, there remain important concerns about whether China will be willing to adhere to basic labor and environmental standards as it deepens its engagement with Latin America. China's focus on basic commodities, its reluctance to open some sectors of economy to competition from Latin America, and the slow pace of value-added investment are all likely to emerge as points of future contention between China and the region.

While China's expansion into Latin America may imply a potential loss for some U.S. business sectors, it is important to note that trade is not a zero sum game. To the extent that China's involvement is sparking economic growth in Latin America, it may contribute to economic stability and well-being in a manner that suits the U.S. desire to see a prosperous and healthy neighborhood. In any case, it is up to the Latin American countries themselves to ensure that they are reaping the benefits of China's growth and competing effectively in the global marketplace.

POLITICAL AND SECURITY CONCERNS

Does China's renewed economic presence in Latin America pose a short term or long term threat to U.S. political and security interests in the Western Hemisphere?

This question defies an easy "yes" or "no" answer. While China's engagement in Latin America appears highly dynamic at a moment when the U.S. influence has diminished sharply across the region, there are few signs of any real frictions between the U.S. and China in Latin America. Indeed, China is sensitive to U.S. perceptions of its involvement in Latin America and clearly places its highest priority on its relations with Washington. For its part, the U.S. supported China's bid to become an observer of the Organization of American States in 2004 and recently backed its application to join the Inter-American Development Bank, although the final terms of China's entry are still under negotiation. Still, Washington has expressed some concerns about China's activities in the hemisphere, principally related to Venezuela and Cuba, as well as questions about the Chinese role in managing the Panama Canal. Bilateral tensions could grow over time, although it is equally possible that the economic links with China can play a positive role in helping to build a more prosperous and globally-minded Latin America. Indeed, given the rapid advancement of globalization, it is important to remember that China is just one of many non-hemispheric actors deepening ties with Latin America—a group that includes strong U.S. allies like the European Union, Japan, India, and South Korea, as well as current or potential rivals such as Iran and Russia.

The relationship between China and Venezuela's Hugo Chavez has been the subject of substantial debate and analysis. Much of this has been driven by Chavez's obvious interest in developing China as an export market for petroleum products, but China has shown little enthusiasm in becoming entangled in Chavez's larger goal of counter-balancing U.S. influence in the hemisphere. In May, China and Venezuela established the first-ever refinery in China for the purpose of processing Venezuelan oil. This may help to deepen China-Venezuela trade, which currently lags behind many other countries, reaching only $5.9 billion in 2007, ranking as China's sixth largest trading partner. Chavez has pledged to sell China 1 million barrels of oil per day by 2011, but the two countries have been slow to hit their targets. While Chavez's own comments have sparked speculation and concern that the Venezuelan government may attempt to cut off oil supplies to the United States and sell to China instead, the logistical difficulties and transportation costs remain daunting. In any case, Venezuela is currently heavily dependent on its sales to the U.S., and since oil is a fungible commodity on the global market the U.S. could simply purchase oil from alternative sources. Thus, the existing relationship between China and Venezuela should not be a cause for immediate alarm, though its evolution does bear careful watching. The same is true for China's energy investments elsewhere in the Andes, including Colombia, Ecuador, and Bolivia. China is an increasingly relevant factor at a time when competition for Latin America's energy supplies will intensify as many nations are seeking to exercise greater control over their oil and gas reserves.

China is currently the second largest trading partner of Cuba, and last year trade between the two countries jumped by nearly 25% to $2.2 billion. Cuba's main exports to China include nickel and sugar, and Havana is buying a range of Chinese consumer goods, as well as buses and trains to help alleviate the island's transportation crisis. However, Venezuela still remains by far the island's largest trading partner, and collectively the European Union exceeds China as an economic partner, although China outranks any single European country. Chinese officials stress that they want to maintain positive relations with Cuba and adhere to their policy of non-intervention in the affairs of other states. Still, their renewed economic engagement in Cuba has helped to revive the Cuban economy even though Cuba shows few signs of adopting the "China model" of economic development. One suspects that China is disappointed by Cuba's resistance to undertaking more robust economic reforms, while the hard-nosed approach of Chinese investors has chastened Cuban officials who seek "socialist solidarity" from a China that is primarily driven by capitalist motivations.

China's role in Panama has been another area of U.S. concern, driven mainly by the geo-strategic importance of the Panama Canal. Indeed, when the United States formally handed over the control of the Canal Zone to Panama on December 31, 1999, there was a swathe of commentary that the move would endanger U.S. interests due to the fact that Hutchison-Whampoa, a Hong Kong company with ties to the Chinese military, had won a contract to manage two canal ports. During the past eight years, however, trade through the Panama Canal has proceeded uninterrupted. The United States and China now rank as the two top users of the canal, and companies from the two countries have joined with a Japanese firm in a consortium to bid for a role in the expansion of the Panama Canal. Given the record of smooth cooperation, and China's own strong interest in maintaining an uninterrupted flow of trade through the canal, it appears unlikely that China's role in Panama will to disrupt U.S. interests there.

More broadly, China's military relations with Latin America and the Caribbean remain underdeveloped and there are few signs that China is pursuing the goal of conventional power projection into the Western Hemisphere. The principal form of military-to-military contact between China and Latin America occurs in the form of exchanges of defense personal for professional development and the placement of military attachés in their respective embassies. There is some satellite cooperation between China and several countries in Latin America—including Brazil, Argentina, and Venezuela—although most of these ventures remain in the planning phase. Since 2004, China has deployed 125 riot police in Haiti as part of the 9,000 strong United Nations peacekeeping mission there. This is notable because it represents the first deployment of substantial Chinese security personnel in the Western Hemisphere, but China has overall been supportive of the mission's goals and even authorized a full one-year extension for the mission last October, even though Beijing is still rankled by Haiti's strong ties to Taiwan.

THE TAIWAN FACTOR

Latin America is half a world away from the decades-long conflict simmering in the Taiwan Strait, but the diplomatic tussle between Taiwan and China remains a red-hot issue in the Caribbean and Central America. Beijing rigorously promotes its "One China" policy, which means that non-recognition of the Taiwanese government is a prerequisite for conducting formal diplomatic relations with the People's Republic of China—in effect forcing other governments to choose between Beijing and Taipei. Although Latin American countries involved in this geopolitical chess match have little individual clout, together they make up the most significant group of states caught in the cross-strait tug-of-war, representing 12 of the 23 countries that recognize Taiwan. Today, Taiwan preserves relations with Guatemala, Belize, El Salvador, Honduras, Nicaragua, and Panama, as well as the Dominican Republic, Haiti, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Paraguay—the lone holdout in South America.

After nearly a decade of fairly stable alliances, the battle between China and Taiwan in Latin America really began to heat up in 2004, when Dominica defected to China. Grenada followed suit in 2005, but Taiwan struck back in 2007 by wooing the newly-elected government of St. Lucia. Beijing notched a major victory later that year by winning over Costa Rica, which was the first Central American country to recognize China. For China, Costa Rica's benign image in Washington presented a huge advantage by minimizing U.S. concern about this decision. Its president, Oscar Arias, is a Nobel Prize-winner who supports free trade and has tangled publicly with Cuba's Fidel Castro. The defection of Costa Rica may mark the beginning of a domino effect that will lead all of Central America to forge ties with Beijing over the next decade. Given the change in government in Taipei, coupled with the conciliatory rhetoric of the new president Ma Ying-jeou, China hopes to seize the moment to peel off other Latin American nations—especially Guatemala, the most populous country to recognize Taiwan, and Panama, which is already a key trading partner. In addition, the recent election of left-leaning Fernando Lugo will likely put Paraguay in play and raises the risk that Taiwan will lose its last remaining ally in South America.

China is also eyeing new alliances in the English-speaking Caribbean, where Chinese trade has doubled in the in the past two years to about $4 billion. In 2007, China used the opportunity posed by the Cricket World Cup to seal a series of geostrategic alliances with the small, island countries that hosted this event in the Caribbean. Its principal method was to woo local support by building stadiums and financing infrastructure projects for the region's first major sporting event. Of the eight venues constructed or refurbished for the 2007 World Cricket Cup, China assisted in the construction of five, providing more than 1,000 workers and more than $140 million. Chinese aid also paid for roads, schools, hospitals and other infrastructure improvements in recent years, earning the allegiance of many nations in the process. The results earned China significant political capital in the Caribbean and enhanced what had been a weak to nonexistent relationship with many countries.

Today, Taiwan feels the pressure of the One-China policy and has sought to give the tiny nations of the Caribbean good reason for bucking the world trend of recognizing China. In St. Kitts, Taiwan stemmed pressure to switch allegiance to Beijing by funding the construction of Warner Park Stadium, an $8 million "Thank you" from Taipei. But the overall trajectory is clear. China has successfully used a combination of aid projects through dollar diplomacy and trade preferences to wean the Caribbean away from Taiwan.

Still, the diplomatic competition between China and Taiwan in Latin America and the Caribbean is rife with unintended consequences that have proven to be a double-edged sword for many countries. In the case of the UN peacekeeping mission in Haiti, fears persist that China will seek to use its troop contribution and UN Security Council veto as an instrument to pry Haiti away from Taiwan's grasp—although this has not yet come to pass. Taiwan's financial gifts have been at the center of several major corruption scandals throughout Central America, and communist China is hardly a force for greater transparency and good governance. Even countries that switch their allegiance to China often find that the diplomatic pressure remains intense. In Dominica, when opposition leaders flew Taiwanese flags at their political rallies, the Chinese government formally protested, raising concerns about freedom of speech. In February 2007, Grenada committed one of its most grievous errors in recent memory when officials accidentally played the Taiwanese national anthem at the inauguration of a new national stadium built by China at a cost of $40 million, much to the embarrassment of Prime Minister Keith Mitchell. Other Caribbean countries were both amused and troubled by the matter, which they viewed as a cautionary tale that reflects the region's delicate balancing act.

If the estimation of Chinese officials is correct, Taiwanese diplomats stationed throughout Central America and the Caribbean are fighting a losing battle. For every major economy of the region, however, it is largely a settled matter, with China by far the victor. The United States finds itself in an awkward position with respect to the cross-strait dispute. The official U.S. position is, understandably, that other governments' decisions to maintain or sever diplomatic relations with Taiwan are for those governments to make. Moreover, since Washington also officially recognizes the People's Republic of China, it has little moral authority with which to lobby other governments on Taiwan's behalf, and little apparent motivation to do so. At present, the United States has publicly reacted with nonchalance towards the prospect that Taiwan's hemispheric alliances will continue to unravel. This strategic ambiguity may suit the United States, but it often leaves officials in Beijing, Taipei, and the capitols of Central America and the Caribbean scratching their heads as they try to divine Washington's true feelings. In the final analysis, the choice between China and Taiwan will remain a highly charged foreign policy decision for a narrow swathe of vulnerable Latin American countries for many years to come.

CONCLUSION: FROM THREAT TO STAKEHOLDER?

China's emerging role in Latin America and the Caribbean is a new phenomenon that lacks easy historical parallels. On the one hand, China is a strong economic and political partner of the United States, but on the other, China is a non-democratic country that is viewed as a potential rival to U.S. influence across the globe over the long term. Clearly, the United States does not enjoy the same comfort level with China that it has with the European Union, but nor should China's presence in Latin America be interpreted as a de facto "threat" to U.S. interests. Rather, China's evolving role in Latin America reflects the increasingly complex mosaic of international relationships that is a product of a more globalized world. China is poised to be a major player in the Western Hemisphere for many years to come, irrespective of what actions the U.S. does or does not take in reaction to Beijing's growing influence. The proper U.S. response will be to strengthen its ties with its neighbors in Latin America and the Caribbean, maintain an open dialogue with China on issues of U.S. concern in the hemisphere, and carefully monitor the evolution of China's ties with Latin America and the Caribbean in consultation with countries of the region. The primary goal of U.S. policy as its relates to China in the Western Hemisphere should focus on ensuring that China acts as a responsible stakeholder that contributes to the region's economic prosperity while respecting the democratic principles that are the guiding values of the Inter-American system.

Mr. ENGEL. Thank you very much.
Mr. Ellis.

STATEMENT OF R. EVAN ELLIS, PH.D., ADJUNCT PROFESSOR OF INTERNATIONAL STUDIES, UNIVERSITY OF MIAMI

Mr. ELLIS. Thank you. I am also honored by the opportunity to testify today before this committee. As with Mr. Erikson, I would like to summarize my remarks and ask that they be entered in full in the Congressional Record.

Mr. ENGEL. Without objection, so ordered.

Mr. ELLIS. The PRC's growing relationships with Latin America may be understood in terms of economic and strategic imperatives arising from its emergence as a global power, including, of course, a worldwide search for new markets and reliable sources of supply, as well as the PRC using its increasing international weight in its longstanding efforts to isolate Taiwan.

The principal challenge, I believe, for the United States is to continue to be a constructive partner as the Latin American region's needs and interests continue to evolve, including to help the region deal with what will be undesirable side effects of the new interactions between it and the People's Republic of China, including economic displacement and potential sources of misunderstanding.

With respect to some of the questions that the committee has indicated are of interest, what is the PRC buying from the region? First of all, very great quantities of goods; however, not always what the businessmen of Latin America hope to sell it.

First of all, the Chinese growing middle class is using its affluence to sample brand-named goods. Latin American beneficiaries specifically include Chilean wine, Mexican beers represented by Grupo FEMSA and Modelo, although even media outlets such as Televisa reportedly have plans to translate Mexican telenovelas into Mandarin for broadcasting into China.

At the same time, as is well known, PRC's interest extends to Latin America's primary products as one global source among many to fuel its manufacturing base. Examples, as Mr. Erikson indicated, include copper and potassium nitrate from Chile; include iron and other mining products from Brazil, Peru, and Bolivia; and, of course, petroleum from Venezuela, Ecuador, and Brazil, and we must not forget from Canada the Alberta Tar Sands as well.

In addition, PRC agricultural needs, increasingly acute, cause it to buy bulk foodstuffs from the regions, such as soy from Brazil and Argentina. Indeed, one of the little known impacts of the Argentine crisis right now in the agricultural sector is that its principal purchaser of soy products, the Chinese, have been scrambling for alternative sources.

It is important, I believe, to emphasize that the region, despite its hopes, has been much less successful in placing its traditional crops, but more labor-intensive crops such as banana and coffee, in the PRC despite great efforts to do so.

As Mr. Erikson indicated, while few of the hopes for PRC investments in social and infrastructure projects in the region have materialized, Chinese companies have invested significantly in primary product sectors through acquisitions and joint ventures in order to achieve secure sources of supply of interest to them. Notable examples include the $500 million copper agreement between China Minmetals and CODELCO, as well as current and potential $3 billion to purchase mines in Peru, as well as the recent $1.42 billion acquisition of petroleum assets in the country of Ecuador, as well as $4 billion in loans just recently achieved in Venezuela.

Latin America is also of increasing interest to the PRC as a market for its goods, especially given that slow economic growth in its traditional markets, the United States, European Union, and Japan, have increased that importance.

I should point out that in addition to the well-known Chinese inexpensive textiles, toys and other products, the Chinese products as they move up the value-added chain have a real social impact. The possibility of buying a new Lifan motorcycle for $500 or a new Cherry automobile for $6,000 puts motorized transportation in the reach of an entirely new class in Latin America, and that has a social impact.

With respect to the Taiwan issue, of course it is widely known that the PRC offers significant aid in competition with the aid offered by Taiwan as a quid pro quo for recognition. However, the growing hopes of doing business with the PRC as a market also drives much of those hopes, as indeed it was one of the driving forces behind Costa Rica's decision in June 2007 to change its recognition. That has implications for Nicaragua and Honduras, because those countries have less short-term hopes to export to the PRC and thus increased higher interest to continue with their strong established relationships with the Taiwanese.

I believe that Paraguay will be one of the upcoming, perhaps the next test case, in that President-elect Lugo in Paraguay expressed interest during his campaign in recognizing the PRC. And I would also note that the Taiwanese President has plans to visit Paraguay in August to presumably help to shore up Taiwan's relationships with that country.

Turning to energy security, I fundamentally believe that one of the reasons of the Chinese increasing presence with respect to loans and oil companies in Venezuela, as well as Ecuador, as well as deals in Brazil is of particular concern to the United States is the impact of declining Mexican production and Mexican deliveries to the United States from places like the Gulf of Campeche and fields such as Cantarell. Given that, behind Canada, that Mexico is the major supplier in this hemisphere of oil, the question of where Venezuelan oil goes as Mexican oil begins to decline begins to become relevant to United States energy security questions from this hemisphere.

Beyond that, I believe it is important to point out that with respect to Chinese relationships with what are often termed the populous countries of the Andes, it is important to point out that China also has very real concerns over those nations. For example, after China invested $1.42 billion in the nation of Ecuador to acquire oil assets there, it is probably not at all pleased by the recent initiatives by President Correa in that country to force it to renegotiate those into service contracts. At the same time, it was not pleased ostensibly in 2006 when, after having built a $350 million facility to use the fuel oil emulsion, that PdVSA in its joint venture called Sinovensa reneged on its supply agreement to provide that fuel oil to China.

Also, in places such as Ecuador it is useful to point out that the Chinese companies, equal as Western companies, have had some very real problems with mobilized social forces. In November 2006, for example, the assets of Andes Petroleum were impaired and production was impaired when local interests took over an oilfield in Tarapoa, as well as in November 2007 when the Ecuadorian Government was forced to declare a state of emergency in the broader province of Orellana due to violence directed at Petroriental, another Chinese interest.

Finally, to turn to security interests, I would like to point out that perhaps although the military relationships are much talked about, I believe that a key point is to look at the emerging relationship between Chinese and Latin American criminal organizations as the ties between those countries increase; for example, the group Red Dragon, which was implicated in a major scandal involving a Bolivian Congressman and former Congressman, and other indications that these activities are increasing.

To echo what Mr. Erikson said, I believe that given the possibilities for misunderstanding in the region, that the process initiated during the August 2006 trip by Secretary Shannon to Beijing, a process of coordination to help resolve the sources of misunderstanding takes us in the right direction, and certainly should be encouraged and deepened where possible.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Ellis follows:]

PREPARED STATEMENT OF R. EVAN ELLIS, PH.D., ADJUNCT PROFESSOR OF INTERNATIONAL STUDIES, UNIVERSITY OF MIAMI

Mr. Chairman, I am honored by the opportunity to testify today about the activities of the people's republic of China in Latin America. My thinking has been greatly shaped by government officials, businessmen, and others in the region who I have had the fortune to speak with while researching a book on this topic. I would like to emphasize that the testimony I offer today is my personal opinion, based on that research and those interactions.

I had the fortune to be in Chile in November 2004, when Chinese president Hu Jintao traveled to the region in conjunction with the Asia-Pacific economic cooperation (APEC) summit in Santiago. I was particularly impressed by the enthusiasm with which Chinese initiatives were received, in a region whose foreign direct investment had fallen to a record low of $36 billion in the previous year, compounded by a perception, whether fair or not, that U.S. policymakers were not giving sufficient priority to our neighbors to the south.

The PRC's growing relationships with Latin America may be understood in terms of economic and strategic imperatives arising from its emergence as a global power, including a *worldwide* search for new markets and reliable sources of supply, plus using its increasing international weight in its longstanding efforts to isolate Taiwan.

The principal challenge for the united states is to be a constructive partner to the region, as Latin America's needs and interests evolve, and to deal with undesirable side effects of the new China ties, such as the collapse of established economic sectors and the expansion of new ones, as well as new patterns of organized crime, and the potential for US-Chinese tension due to the tumultuous way that events in the region sometimes unfold.

What is the PRC buying from the region? Great quantities of goods, but not always what the businessmen of Latin America hope to sell it.

First, the growing Chinese "middle class" . . . currently between 15 and 260 million people, depending on where you set the barrier, wishes to use its affluence to sample western brand-name goods. The entry of Macdonalds, Starbucks, and coca cola are well known. Latin American beneficiaries include Chilean wines, premium Mexican beers represented by Grupo FEMSA and Modelo, and Bimbo brand bakery goods. In this vein, the media outlet Televisa reportedly has plans to translate Mexican telenovelas into mandarin for broadcast in China.

Second, because so much of the new Chinese economy is based on manufacturing for export, the PRC is interested in Latin America's primary products as one global source among many to fuel its economic base. Examples include copper and potassium nitrate from Chile, iron and other mining products from Brazil, Peru, and Bolivia, and, of course, petroleum from Venezuela, Ecuador, Brazil, and Canada.

Because the PRC has a relative shortage of cropland and water, it also buys ever greater quantities of bulk foodstuffs from Latin America, including soy products from Brazil and Argentina, as well as fishmeal from Peru and Chile. Latin America has been less successful, however, in exporting more labor intensive crops such as bananas and coffee, which are at a disadvantage against closer, cheaper suppliers.

While few of the hoped-for PRC investments in social and infrastructure projects in the region have materialized, Chinese companies *have* invested significantly in primary product sectors to attain secure sources of supply.

Notable examples include the $500 million agreement between China Minmetals and the Chilean national mining company CODELCO for the advance purchase of copper, joint ventures between the Chinese firm Baosteel and the Brazilian mining giant CVRD, plus the purchases of the Rio Blanco copper mine in Piura, and the Toromocho mine in Junin, involving a collective investment of almost $3 billion. They also include ongoing interest by Shandong Luneng in developing some part of the el Mutún iron fields in Bolivia. The Chinese companies CNPC and Petrochina recently invested $1.42 billion to acquire assets in the petroleum sector of Ecuador, China has also provided $4 billion in loans to Venezuela through the "heavy investment fund" with the possibility of providing up to $18 billion through this vehicle.

Latin America is also of increasing interest to the PRC as a market for its goods . . . particularly in light of slow economic growth by its traditional customers, such as the US, the EU, and Japan.

Inexpensive Chinese clothing, toys, and footwear, both legitimate and contraband, are increasingly prevalent in the region. Although it receives less attention, there is also a growing infrastructure in both the formal and informal sectors in the region for selling these goods. Even in small towns such as Portoviejo, Ecuador, as one of its residents notes, "you find a Chinese shop every 100 meters."

The PRC is also moving up the value-added ladder. As it seeks to gain experience with its own national brand appliances, computers, motorcycles, and cars, the middle-income nature of Latin America makes it a very attractive market. In places such as Santiago, Lima, and Bogota, the ability to purchase a Chinese motorcycle for $500, or a Chinese automobile for $6000, makes having motorized transportation possible for an entire new class of Latin American consumers. For example, in November 2007 Mexico's Elektra and the Chinese automaker *first automobile works* announced a project to sell and finance FAW cars through *Elektra's* retail outlets, basically in the same way that those outlets today sell and finance washing machines and toasters.

With respect to efforts by the PRC to change the position of Latin American nations which diplomatically recognize Taiwan, China generally relies on two levers: aid projects, and implied access to its consumer markets.

As demonstrated by the PRC's construction of a $40 million sports stadium in Grenada in 2006, modest projects can carry significant weight because of the small populations and economies of the countries of central America and the Caribbean.

By contrast to aid, market access is a subtle lever, which is as much a matter of hopes as it is of promises. Costa Rica's recognition of the PRC in June 2007, for example, was driven in part by the desire of president arias to allow his country to more fully engage with the PRC as one of the largest, most dynamic economies in the world.

On the other hand, for countries such as Nicaragua and Honduras which do not have the capability to export significant quantities of primary products to China, the benefits of current aid and development projects from Taiwan may still outweigh uncertain future benefits from the PRC.

Paraguay will be an important test case of the balance between current benefits from Taiwan, versus hopes of exports to the PRC. Campaign statements by recently-elected president Fernando Lugo indicate an interest in recognizing the PRC. His coalition, however, is fragile and the Taiwanese have strong financial and personal bonds with key segments of Paraguayan society. Indeed, recognizing the importance of the power transition in Paraguay, Taiwan's president Ma Ying-Jeou is also planning to visit the country in august, presumably to shore up the relationship.

Turning to energy security, declining oil production in Mexico—currently the second largest supplier to the US in the region after Canada, makes China's involvement in the petroleum sectors of Venezuela and Ecuador somewhat more important than it might otherwise be.

The PdVSA strategic plan includes 800,000 barrels per day of new oil shipments to the PRC by 2012. To meet its new commitments to the PRC, while fulfilling existing contracts with the US and other customers, PdVSA asserts that it will raise production to 5.1 billion barrels per day. Such plans, however, conflict with industry data that shows PdVSA production down 33% since 2003 to less than half of this amount.

If PdVSA cannot fulfill its obligations to both the US and to the PRC, the combination of politics and the increasing Venezuelan dependence on Chinese companies and capital in the oil sector will weigh heavily in determining to whom that oil goes.

Beyond Venezuela. The PRC also controls a significant portion of petroleum production in Ecuador through the Andes Petroleum consortium and Petroriental. It also has a stake in natural gas production in Peru the through Sapet and Chinese interest in Pluspetrol Norte. Peru currently has plans for a liquid natural gas export terminal, which would allow it, for the first time, to ship part of its new gas resources out of the region to destinations in Asia.

As we look further at the PRC relationships with Venezuela, Bolivia, and Ecuador, although the PRC doubtlessly values the resources of these countries, and the enthusiasm with which their governments have embraced a relationship, I also believe that China has very real concerns about these regimes.

Given that the PRC is interested in reliable access to primary products, the Chinese are probably not pleased by the Ecuadorian government's attempt to force Chinese companies represented by Andes Petroleum to renegotiate its oil holdings in the country into a service contract, just two years after it spent $1.42 billion to acquire these assets.

In Venezuela, the financial, administrative, and technical difficulties of PdVSA have undercut the ability of the PRC to exploit the country's petroleum resources. Moreover, Chinese oil companies in Venezuela have often been treated as badly as their western counterparts. In August 2006, for example, the Venezuelan government backed out of a commitment to supply ormulsion to the PRC after the Chinese had invested $350 million in building a plant to use the fuel.

In Bolivia, although Chinese companies such as Huanji and Shengli oil expressed interest in investing in the country during the administrations of Carlos Mesa and Eduardo Rodriguez, such interest appears to have been suspended due to the climate of political and contractual uncertainty in the country, including the may 2006 nationalization of the Bolivian hydrocarbons sector and the may 2008 actions against Chaco, CHLB, Transredes, and Petroandina.

Like their western counterparts, Chinese companies are experiencing problems not only with the populist *governments* of Andean nations, but also with mobilized social groups. In November 2006 in Ecuador, oilfields controlled by Andes Petroleum in Tarapoa were seized by local activists, who took the oil workers hostage and shut down production. Similarly in 2007, a conflict between Petroriental and local interests fueled violent confrontations with police that ultimately forced president Rafael Correa to declare a state of emergency.

Turning to security issues, it is important to distinguish between *possibilities* raised by the Chinese presence in Latin America, versus events that are actually unfolding.

The PRC is gradually increasing military-to-military contacts and military equipment sales with countries of the region, yet the direct military impact of these developments is of less concern than the *relationships* that are being built.

Recent PRC arms transactions in the region include Venezuela's purchase of JYL–1 mobile air defense radars, as well as current negotiations to buy two squadrons of Chinese H–8 aircraft . . . relatively old, low-performance trainers, but with the capacity to be equipped with air-to-air or air-to-ground munitions.

Modest quantities of PRC military goods are also going to Bolivia, including its lease of two MA–60 cargo and passenger aircraft, as well as equipment donations, such as 43 SUVs and busses delivered in August 2007, plus prior gifts of 25-person assault craft, infantry and artillery munitions, night vision goggles, and Kevlar helmets.

As we in the US focus on how narcotrafficking and other forms of transnational crime impact our national security, it is also relevant that Latin America's expanding commercial interactions with the region are also leading to new interactions in organized crime. In 2006 in Bolivia, the Chinese group "Red Dragon," was implicated in a high-profile visa trafficking case involving a number of current and former legislators and government officials.

With increasing frequency, law enforcement authorities throughout the region uncover the activities of Chinese human trafficking networks, who use the region as a transit zone to smuggle immigrants into the United States.

As the flow of goods, people and money between China and Latin America expand, their respective criminal organizations will both come into conflict and find new ways to work together.

With respect to possibilities for Sino-US collaboration in Latin America, I would like to make three observations.

First, the US and the PRC do directly or indirectly compete in Latin America for the markets and resources of the region. This should not surprise anyone, nor prevent us from working together.

Second, because the PRC generally does not condition its aid and commerce on its partners' adherence to democratic practices and respect for human rights, the option of doing business with the PRC undercuts the ability of the US to apply pressure on these issues.

Third, such differences notwithstanding, the united states and the PRC have a range of shared interests and objectives in Latin America that can serve as the basis for cooperation, to the benefit of the region. These include working together to strengthen Latin American government and commercial institutions, and to help the region to maintain and modernize its infrastructure in order to facilitate efficient and reliable trade.

In addition, law enforcement may be a win-win area where China and the US can collaborate in exchanging data and personnel so that ethnic and language barriers do not create sanctuaries for Chinese criminal elements in Latin America, or vice versa.

Finally, the US and the PRC share a mutual interest in developing mechanisms for avoiding misunderstandings where the pursuits of the two nations could come into conflict. To this extent, I believe that the consultation process established during the visit by Assistant Secretary of State Shannon to China in April 2006 takes us in the right direction.

It is useful to recall that PRC is not the first country to engage Latin America by seeking to purchase its primary products and sell it high value added manufactured goods. Although China's relationship with the region is an uncomfortable change to the historical pattern, it does create opportunities for us to build a new kind of constructive partnership, based on the imperatives and opportunities of globalization, bringing greater prosperity and equality to a region that is ultimately tied to the United States by economic relationships, by geography, and by the heritage of many of those living in this country.

Mr. ENGEL. Thank you very much.

Dr. González.

STATEMENT OF FRANCISCO E. GONZÁLEZ, PH.D., RIORDAN ROETT ASSISTANT PROFESSOR OF LATIN AMERICAN STUDIES, THE PAUL H. NITZE SCHOOL OF ADVANCED INTERNATIONAL STUDIES (SAIS), JOHNS HOPKINS UNIVERSITY

Mr. GONZÁLEZ. Mr. Chairman, members of the subcommittee, I am honored to appear before you to discuss the challenge of China's growing presence in the Western Hemisphere. And like my colleagues, I am happy to have my testimony included in the Congressional Record.

In my view, the short- and medium-term challenge that the United States Government faces vis-à-vis the expansion of China's influence in the Western Hemisphere is and will remain economic rather than diplomatic or geopolitical. Even if China had the capacity to project hard power to the Americas, which it does not have, its top priority in the hemisphere is and will remain having a good relationship with the United States. China has much more to lose from alienating the United States than it has to win from strengthening its standing in the Americas.

Instead, China has chosen to exercise soft power in the region. They have used two channels for this purpose. The most important by far is economic in terms of trade and investment promises; the other one is diplomatic and cultural, and it has mainly been propelled by expanding Chinese Embassies, consulates, and Confucius cultural centers in the region.

In the diplomatic cultural arena, however much-educated Latin Americans admire China's millennial culture and achievements, the region will remain firmly a member of the Atlantic family, sharing its alphabet, its political traditions, and many of its social and cultural mores with Europe and the United States. Additionally, and this addresses the point Representative Smith was talking about, Latin Americans remain distrustful and in fear of overcentralized rule like China's. We have to remember Latin American's own distant and recent historical experience with unaccountable politics and its corollaries, human rights abuses, corruption, economic irrationality, and official impunity. Latin Americans don't want to revisit their political past, and therefore China is not a political model that Latin America would like to embrace no matter how strong and high their economic growth is. On the contrary, what Latin Americans desperately want is to strengthen their young and still fragile democracies.

In my view, the U.S. should promote decidedly the strengthening of liberal democracy in Latin America as a matter of tactics as well as principle, and this objective should be promoted not only through the traditional channels of the Inter-American system or bilateral relations, but also through an explicit program that gives visibility to the U.S. Government's commitment in helping to advance this goal. For all their unattained aims and serious shortcomings, Latin Americans, for example, still remember FDR's Good Neighbor Policy and JFK's Alliance for Progress as high tides of constructive engagement.

Regarding the growing economic presence of China in Latin America, I think an argument can also be made that this is, in fact, in the interest of the United States, because what this country, the U.S., faces south of it border is the most unequal region in the world. And while this fact should not necessarily represent a problem, inequality has been strongly politicized throughout Latin America since the early 2000s in a way that has produced a backlash. This backlash has been characterized by the rise of democratically elected governments that promise short-term redress and redistribution by undoing the free-market policies that the U.S. and the international multilateral institutions recommended in the 1980s and 1990s, the so-called Washington Consensus. The fact remains that majorities or big minorities of voters throughout Latin America think the outward-oriented model did not deliver on its promises and therefore must be changed.

Chinese economic engagement in Latin America proves that the commitment to opening economies can actually yield benefits to the region, which, for example, has enjoyed its fastest 5-year growth period, between 2003 and 2007, since the late 1960s. Thanks to commodity exports, growing proportions of which have been going to the booming economies of Asia, first and foremost China.

The so-called super cycle commodity boom that these raw materials exporters have enjoyed since 2003 have translated into several benefits, which again, in my view, are in the interests of the U.S. First, high windfall gains from commodities' exports have allowed countries to strengthen their fiscal positions by redeeming outstanding external debts, bringing down borrowing costs, and creating bond markets in domestic-denominated currencies. These trends are behind the recent investment grade attained by Peru and Brazil. And these developments are in the interests of U.S. banks and businesses, which will find it easier to engage in productive activities in Latin America thanks to stronger, more liquid financial markets in the region.

Also, a sound fiscal position and deepening financial markets in Latin America are in the interest of the U.S. Government, because the development of domestic bond markets reduces the likelihood of speculative attacks against currencies, macro devaluations, and the concomitant cost of bailouts, some of which, as we know, the U.S. has been forced to participate in.

Second, the higher outward-oriented output in Latin America has produced spillovers into the domestic economy which have translated into higher consumption and savings for the growing middle classes. This trend has been facilitated by another China-related factor, namely the cheap availability of consumer products, many of which used to be the preserve of upper-middle and upper classes of Latin America. The availability of consumer goods plus the rise of credit markets for poorer sectors in the region are not silver bullets that will remedy the complex challenge of underdevelopment in the region; however, they are an important trend that can act as a cushion against the wholesale attack against free markets that have come to dominate the politics in many of the region's countries.

Lastly, on the issue of energy, conventional wisdom has it that a China-Venezuela partnership would be to the detriment of American energy security. From my perspective, this proposition is false on two counts, economically and politically. Economically it makes no sense, nor would it make anytime as long as oil remains a fungible commodity, for Venezuela to ship high amounts of heavy crude to China. The bulk of heavy refining capacity remains in the Gulf of Mexico coast of the United States. Even if China started investing in heavy refining infrastructure, the likelihood that this line of investment could become dominant is very low because most of China's oil import bill is made up of light crude shipped from the Middle East and Africa. Why invest in a venture that requires massive installation costs plus higher transport costs when the current alternative is the most cost effective?

Politically, China will continue to tread very carefully in Latin America for fear of alienating the United States, and, in my perspective, the Chinese will not forgo investment and commercial opportunities, Venezuelan and Ecuadorian oil, the Panama Canal, the Manta base in Ecuador. But if they do this, if they continue engaging, they will do so in the same fashion as Japanese, South Korean, Spanish or Canadian firms do; that is, as strict commercial ventures only.

Given China's awareness about the potential to alienate the United States if it pushes into Latin America as aggressively as it has in, say, Africa, and given that this is exactly what they don't want, my perspective is that Chinese bids and real commercial commitments in Latin America will actually remain smaller and more low-profile than those of other Asian and European countries.

Thank you.

[The prepared statement of Mr. González follows:]

PREPARED STATEMENT OF FRANCISCO E. GONZÁLEZ, PH.D., RIORDAN ROETT ASSISTANT PROFESSOR OF LATIN AMERICAN STUDIES, THE PAUL H. NITZE SCHOOL OF ADVANCED INTERNATIONAL STUDIES (SAIS), JOHNS HOPKINS UNIVERSITY

Mr. Chairman and Members of the Subcommittee:

I am honored to appear before you today to discuss the challenge of China's growing presence in the Western Hemisphere. In my view, the short and medium term challenge that the United States government faces vis-à-vis the expansion of China's influence in the Western Hemisphere is—and will remain—economic rather than diplomatic or geopolitical.

Even if China had the capacity to project hard power to the Americas, which it does not have nor will it be able to develop in many years (China's tough neighborhood means that the types of hard power it will continue to develop will remain a function of the challenges it faces vis-à-vis Russia, Japan, and India, not to speak of its own internal political troubles), its top priority in the Western Hemisphere is and will remain having a good relationship with the United States. China has much more to lose from alienating the United States than it has to win from strengthening its standing in the Americas. Instead, China has chosen to exercise soft power in the region. Two channels have been used to project this type of power. By far the most important one has been the economic channel in terms of trade and investment promises. The other channel has been diplomatic-cultural and it has been propelled by expanding Chinese embassies, consulates and Confucius cultural centers in the region. Neither of these two channels of influence threatens or jeopardizes the standing of the United States in the region because trade and diplomacy need not be zero-sum games.

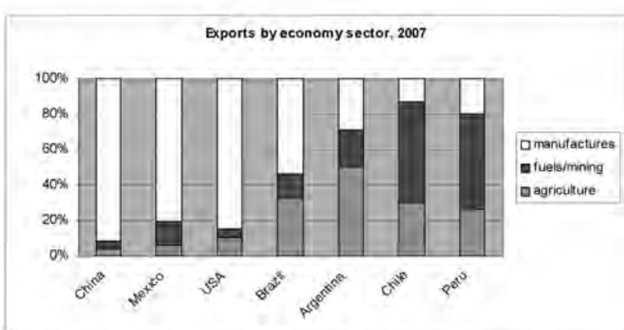
In the diplomatic-cultural arena, however much educated Latin Americans admire China's millennial culture and achievements, the region will remain firmly a member of the Atlantic family, sharing its alphabet, its political traditions, and many of its social and cultural mores with Europe and the United States. Additionally, Latin Americans remain distrustful and in fear of over-centralized rule—like China's—given the region's own distant and recent historical experience with unaccountable politics and its corollaries, i.e. human rights' abuses, corruption, economic irrationality, and official impunity. Latin Americans don't want to revisit their political past and therefore China is not a political model that they would like to embrace. On the contrary, what they desperately want is to strengthen their young and still fragile democracies. Therefore, by far the most important policy that the United States can and should promote in Latin America's diplomatic-cultural arena is strengthening liberal democracy. It's now widely accepted that the United States largely disengaged from the Western Hemisphere after 9/11. Cynics say that in fact nothing could be better for Latin America: better to go unnoticed than to be at the center of United States' policy designs. Of course what this view does not take into account are the high opportunity costs that Latin America incurs when it becomes disengaged from the most powerful country, the largest market, and the most advanced science and technology hub in the world. Of greater concern than the views of political cynics, which in any case remain a small minority, are public opinion surveys that show concern by a majority of Latin Americans regarding the fact that even when the United States engages the region, it does so in negative ways. Thus, the issues that continue to dominate Latin Americans' views of United States engagement in the region are the recurrent verbal spats with President Chávez of Venezuela, continued military aid and training in Colombia, and the continuation of the Cuba embargo.

Most Latin American countries and the United States are members of the world's family of democracies. China is not. Therefore, the United States should promote decidedly the strengthening of liberal democracy in Latin America as a matter of tactics as well as principle. This objective should be promoted not only through the traditional channels such as the Inter-American system or bilateral relations, but also through an explicit program that gives visibility to the United States' government commitment in helping to advance this goal. For all their unattained aims and serious shortcomings, Latin Americans still remember FDR's Good Neighbor Policy and JFK's Alliance for Progress as high tides of constructive engagement. Nostalgia in the region for such type of engagement should be enough for U.S. policymakers to realize that there is appetite for re-engagement, but one that has democracy at the core.

Regarding the growing economic presence of China in Latin America, an argument can be made that this is in fact in the interest of the United States because what this country has to face south of its border is the most unequal region in the world. Whereas this fact should not necessarily represent a problem, inequality has become strongly politicized throughout Latin America since the early 2000s in a way that has produced a backlash. This backlash has been characterized by the rise of democratically elected governments that promise short-term redress and redistribution by undoing the free market policies that the United States and international multilateral institutions recommended in the 1980s and 1990s (the so-called 'Washington Consensus'). Regardless of how accurate the critique of the 'Washington Consensus' is (i.e. free market reforms in Latin America have had a mixed record, for example helping to bring down the region's previously high inflation rates, but also wiping out jobs in small and medium sized enterprises and concentrating economic activity in few areas), the fact remains that majorities or big minorities of voters throughout Latin America think the outward-oriented model did not deliver on its promises, and therefore must be changed.

Chinese economic engagement in Latin America proves that a commitment to open economies can yield benefits to the latter. Latin America has enjoyed its fastest five-year period growth (2003–2007) since the late 1960s thanks to commodity exports, growing proportions of which have been going to the booming economies of Asia—first and foremost China, but also Japan, South Korea and India. The fast-industrializing Asian giants now consider the supply of raw commodities a matter of national security, and therefore the Western Hemisphere has become their latest region of interest (first came Southeast Asia and then Africa and the Middle East). The so-called 'super cycle commodity boom' that raw materials' exporters have enjoyed since 2003 has translated into several benefits for Latin American economies, which are also in the interest of the United States. First, high windfall gains from commodities' exports have allowed countries to strengthen their fiscal positions by redeeming outstanding external debts, bringing down borrowing costs and creating bond markets in domestic-denominated currencies. These trends are behind the recent investment grade attained by Peru and Brazil. These developments are in the interest of United States banks and businesses, which will find it easier to engage in productive activities in Latin America thanks to stronger, more liquid financial markets in the region. A sound fiscal position and deepening financial markets in Latin America are also in the interest of the United States government because the development of domestic bond markets reduces the likelihood of speculative attacks, macro-devaluations, and the concomitant costs of bail-outs, in some of which the United States has been forced to participate. Second, higher outward-oriented output in Latin America has produced spillovers into the domestic economies, which have translated into higher consumption and savings for the growing lower middle and middle classes. This trend has been facilitated by another China-related factor, namely, the cheap availability of consumer products, many of which used to be the preserve of the upper middle and upper classes in Latin America. The availability of consumer goods plus the rise of credit markets for poorer sectors in the region is not a silver bullet that will remedy the complex challenge of under-development in Latin America. However, it is an important trend that can act as a cushion against the wholesale attack against free markets that has come to dominate politics in many of the region's countries. China's appetite for raw materials has been partly responsible for the rise of this trend and Latin American economies have benefited from it.

This is not to say that Chinese economic engagement with Latin America has not produced drawbacks. As in most trade relationships there have been winners and losers. The best way to appreciate which Latin American countries have benefited and which have not is by comparing their economic structures with both the United States and China (figure below), and then relating them to countries' exports destinations and the products included in their exports' baskets.



Source: Data elaborated from World Trade Organization (WTO). Statistics database. Trade profiles. http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=AR,BR,CL,CN,MX,PE,US

Countries that mostly export mining commodities like Chile and Peru are the most complementary with China given this country's overwhelming manufacturing export base and its rapid urbanization. Similarly, Brazil and Argentina's strong agricultural export base also makes these sectors complementary given China's rapid demand growth for foodstuffs. The high growth of copper, iron, zinc, tin and other minerals, and of soybeans and other foodstuffs' exports from these Latin American countries to China in the last five years corroborates that their economies are complementary in these sectors. There is a caveat however because whereas Chile and Peru have very small manufacturing export bases, Brazil and to a lesser extent Argentina have bigger ones that compete directly with China in sectors such as textiles/apparel, furniture, toys, and footwear. Moreover, the real threat to these sectors is not necessarily their dwindling foreign markets because at the end of the day Brazil and Argentina's real prowess as exporters still lies in raw commodities (except for Brazil's heavy manufacturing base which includes the auto industry and aeronautics). The real threat has been for Brazilian and Argentinean manufacturers whose natural markets have been traditionally domestic, and whose products have been displaced by cheaper Chinese imports.

Of all the big Latin American economies, Mexico's has been the hardest hit by the Chinese manufacturing juggernaut. It is not only that Mexico's export structure resembles China's more than any other Latin American country, but also that both countries compete with a similar export basket of goods for the same market, namely, the United States. In addition, Mexican manufacturers have been losing market share not only in the United States, but also, like their Brazilian and Argentinean peers, domestically. Central American countries with growing manufacturing sectors, mainly concentrated in textiles and apparel like the Dominican Republic, El Salvador, and Honduras, have also been squeezed. Regarding the United States itself and despite its similarity with China's exports' structure, they do not compete because their export baskets and destinations are fundamentally different. United States manufacture exports are concentrated at the top-end of the value chain whereas China's remain at low and intermediate levels.

Given the strategic and long term interests that the United States has in its most proximate vicinity, including Mexico, Central America and the Caribbean, and given that losers in the China-Latin America economic relationship concentrate in this area, the American government should promote higher growth, job creation, and compensatory schemes in this region. The institutional frameworks of NAFTA and CAFTA would be ideal vehicles to reach agreements that promote such aims. We cannot forget that mass illegal immigration to the United States, a large majority of which comes from Mexico, Central America and the Caribbean, is a function first and foremost of a lack of economic opportunities in these countries. The less capable these economies are in competing with rising giants such as China and India, the more pressure there will be on the ground to migrate to the United States (and if this is not possible then to organize, protest and follow the lure of populist politicians, who promise short term redress and radical redistribution).

Lastly, regarding the issue of energy resources in the Western Hemisphere and potential competition between China and the United States to secure such resources, the conventional wisdom has it that a China-Venezuela partnership would be to the detriment of American energy security. This proposition is false on two counts, economically and politically. Economically, it makes no sense (nor will it make anytime as long as oil remains a fungible commodity) for Venezuela to ship heavy crude to China. The bulk of heavy refining capacity remains in the Gulf of Mexico coast of the United States. Even if China started investing in heavy refining infrastructure, the likelihood that this line of investment could become dominant is very low because most of China's oil import bill is made up of light crude shipped from the Middle East and Africa. Why invest in a venture that requires massive installation costs plus higher transport costs when the current alternative is the most cost effective? Politically, China will continue to tread very carefully in Latin America for fear of alienating the United States. This does not mean that the Chinese will forgo investment and commercial opportunities in places that have caused some concern in some American circles such as Venezuelan and Ecuadorean oil, the Panama Canal, or the Manta base in Ecuador. The same political logic will continue to apply to these and to other similar ventures. Chinese firms will bid for projects in the region but they will do so in the same fashion as Japanese, South Korean, Spanish or Canadian firms do, that is, as strict commercial ventures only. Moreover, given China's awareness about the potential to alienate the United States if it pushes into Latin America as aggressively as it has in, say, Africa, Chinese bids and real commercial commitments (as opposed to those simply expressed) in Latin America will remain smaller and more low profile than those of other Asian or European countries.

Mr. ENGEL. Thank you very much.

I now would like to give our ranking member, Mr. Burton, an opportunity to make a statement or even ask some questions if he would like.

Mr. BURTON. Thank you, Mr. Chairman. I apologize for being late. I was with the Ambassador from Argentina, and I had to show a little courtesy to him, because he is a fine fellow, and they are a good friend to the United States.

My big concern, along with my colleague Mr. Smith, is the human rights violations that we see in China and the slave labor camps that they have. Last I heard, there were 10 million people producing products in slave labor camps that are sold all over the world, and that has been a big concern of mine.

But we are not here today to talk about that; we are here to talk about China's influence in Latin America and how that will affect the United States of America.

I am concerned about that. Some of the things you said right now, like Dr. González kind of allayed some of those fears because you don't think it is going to be a major problem for us long term. At least that is the way I took your comment. And I guess that is positive. But I am still concerned about things like Venezuela. You don't seem to think that Venezuela is going to export a lot of their heavy oil to China because of production problems? I am not so sure about that.

We get about 16 or 17 percent, according to my staff, from Venezuela, and their close ties or growing ties with countries like Iran and China, I think, is a very troubling thing. And China has the resources to build the kind of refining plants necessary to take that heavier oil and make it into oil.

One of the things that concerns me about China and possibly buying more and more oil from Latin America is that that makes it more difficult for the United States to keep the energy resources that we need. We have a lot of resources in this country, and one of the big debates that is taking place on the floor of the U.S. House and has been taking place over the last few weeks is our ability to produce our own energy. We have energy supplies that would help us reduce our dependency on foreign oil like Venezuela and the Middle East, but unfortunately, because of environmental concerns by some environmental groups, we haven't been able to get the Congress of the United States to allow us to drill in ANWR or off the Continental Shelf, and we aren't able to go into some of our national forests to get maybe a 300- or 400-year supply of natural gas, which is clean-burning.

I am going off on a tangent here, but this is important. And we are not able to become energy-independent by using such things as coal shale, which could be converted into oil and gasoline. And, as a result, Americans are madder than the dickens at us right now because gasoline is at $4-plus a gallon, and here we are worrying about China coming into the Western Hemisphere and taking away a lot of the resources that we have depended upon in the past. And I don't know what we are going to do. If we aren't able to go after our own resources, and we do see some of these things being siphoned off by countries like China who have the money to do it, we are going to be in a lot of hurt. And I hope that I can convince my colleagues, along with others, that it is time for us to reevaluate our situation and realize that while we are concerned about the environment, we also have to be concerned about our economy, and that means that we have to have the energy necessary to make this economy work.

So I have gone off on a tangent, Mr. Chairman. Let me apologize for that.

Let me just say I am still concerned about China's influence in Latin America. They have been able to, with their China-owned companies, actually take control of both ends of the Panama Canal. I know that doesn't seem like a great threat, but in time of conflict, it could be a real problem even though most of our battleships couldn't get through the Panama Canal anyhow. But as far as commerce is concerned, the Panama Canal is still very important, and with China having both ends of it, we could have a problem down the road.

And also, I am concerned also about the influence that they have through their money and their ability to invest in Central and South America, that maybe some of the democracies that we were able to see come to fruition during the Reagan years may be heading in the opposite direction. Venezuela is a perfect case in point. Venezuela was a democracy. We have a lot of countries down there that are democracies, Nicaragua, Bolivia, and others that are moving to the left. I am concerned about that. And I think in part it is due to the fact that countries like China are going in there and investing, and they have more influence than we have had in the past.

So with that, I am anxious to hear what questions are asked. I have some questions of my own, Mr. Chairman, but I will reserve those for later on in the hearing. Thank you.

[The prepared statement of Mr. Burton follows:]

PREPARED STATEMENT OF THE HONORABLE DAN BURTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

To begin, I would like to thank the Chairman for holding today's hearing on the complex issue of China's ambitions within the Western Hemisphere. I look forward to discussing the influence of those ambitions on U.S. strategic interests as well as the growing impact on our neighbors.

I chaired a hearing on this topic back in April of 2005, and it seems to me that many of the same concerns are still valid today. The foreign and military relations China is pursuing around the globe are still very troubling in nature. China continues to further ties with Iran, supports the brutal military rulers of Burma and has become the largest weapons supplier to the government of Sudan. It appears that China is more than willing to turn a blind eye to these brutal regimes in order to feed its ravenous energy appetite.

China's aggressive move into our Hemisphere has proven to be equally as blind. This purely economic motive pursued by China has resulted in the deepening of relations with rogue states such as Cuba and Venezuela. China is appealing to the developing world as an alternative model for ending poverty, and Latin America is eating it up as the region has seen billions of dollars of Chinese money earmarked for infrastructure, transport, energy and defense projects.

The countries that make up the Western Hemisphere continue to face considerable challenges to their still maturing democracies. Persistent poverty, violent guerrilla conflicts, drug trafficking, corruption, terrorist infiltration and non-democratic leaders flush with petro dollars are making it difficult for many in the region to fully embrace and develop strong democracies.

Countries where transparency, accountability and strong institutional structures are still developing provide fertile ground for Beijing's agenda and China's leaders are definitely exploiting this opening.

Latin America is an attractive destination for China due to its rich mineral resources, commodities and particularly energy sources. As the second-largest consumer of oil, China is a leading competitor of the United States in the search for oil, gas and minerals across the globe.

According to statistics released in April of this year by the China Petroleum and Chemical Industry Association (CPCIA), China's consumption of oil products composed of gasoline, diesel and kerosene has risen by 16.5 percent to 52.73 million tons in the first three months, and crude oil, rose by 8 percent to 91.8 million tons. These numbers show unprecedented growth in the first quarter of 2008.

As we all know, oil is a finite resource and the competition to exploit it is a zero-sum game. The more global oil the Chinese gobble up, the less oil available to flow into American power plants, commercial trucks and home heating systems. Given that we are unable to use the oil resources within our own country—which in my opinion is a huge mistake—our future progress and security relies on access to oil in outside countries.

Recent developments are compounding these concerns that I have addressed in the past. First, China's growing influence can be seen in the shift away from support for Taiwan that is being fueled through China's "dollar diplomacy." Three countries (Dominica, Grenada and Costa Rica) shifted their allegiance since 2004, and if the President Elect of Paraguay follows through with his promises, the last South American country with ties to Taiwan may shift as well.

Second, I have strongly promoted free trade agreements with our allies in Latin America in an effort to secure long term trade and investment among our countries. If we do not pursue these markets they will be lost to a country that cares little for the well-being of our hemisphere in favor of the communist model of success. The failure to pass the U.S.-Colombia FTA provides an open door for China's encroaching influence and is a direct threat to our national security.

Third, China is also exerting itself into the Hemisphere through the Manta Airbase located in Ecuador that has served as a U.S. Military Forward Operating Location for 10 years. In 2006 alone aircrews flew more than 1,200 missions from Manta and helped seize more than 258 tons of illegal drugs with an estimated street value of $5.2 billion. China's take over of this airbase is a huge blow to the regional efforts to fight drugs as the Chinese will most likely use the renovated airbase for cargo transit in trade and not to fight the detrimental trafficking of drugs throughout the region. This new agreement between Ecuador and China, if it moves forward as planned in 2009 when the U.S. contract expires, will also work to secure Chinese capital for fulfilling Manta's future role as one of the largest Sino-Latin American trade trans-shipment hubs.

Finally, the trade imbalance and poor business practices that follow China's investment in a region continue to be a growing area of concern for Latin America. The United States has the most dynamic and powerful economy in the world and yet even our economy and industries are being staggered by the massive trade imbalance with China. It is not hard to imagine the impact this unlevel playing field, as well as the long term costs of poor business practices on developing economies, is having on the economies of smaller countries in Latin America.

As you can tell, I am very concerned with the rise of influence China is pursuing in our Hemisphere and I believe it is important that the United States grasps the economic, social and national security implications of a Latin America under the thumb of China. Once China is able to move in and expand control, it will be difficult to turn the tide.

I look forward to hearing from our distinguished panelists on these and other topics China's interest and growing influence in Latin America.

Mr. ENGEL. Thank you, Mr. Burton.

Congressional Research Service always puts out memorandums on different subjects, and when they sent us one on China's involvement in Latin America, it was extensive, but they opened up, and I would like to read you half of that paragraph and ask you to comment on it. You all have commented on it, but I would like you to comment on it more. This is what they say:

> "China's growing interest in Latin America and the Caribbean is a fairly new phenomenon that has developed over the past several years. Beginning in April 2001 with President Jiang Zemin's 13-day tour of Latin America, a succession of senior Chinese officials have visited Latin American countries

> to court regional governments, while Latin American leaders have also been frequent visitors in Beijing.
>
> "There are two main drivers in China's expansions of its relations with Latin American and Caribbean countries: One, competition with Taiwan for diplomatic recognition, particularly in the Caribbean and Central America; and, two, strengthened relations with resource-rich countries in the region that can help feed China's resource needs and expanding economy."

Now, someone before touched on the fact that China has been under tremendous criticism with its moves in Africa to try to tax, some would say steal, the resource needs of Africa for its expanding economy. Is that something that we should worry about in terms of Latin America? And should we also worry about how that might affect us if China is expanding her resource needs for her expanding economy? So if anyone would like to comment on that.

Mr. ERIKSON. I will offer a few quick comments.

First, I think what you see in China's overall strategy toward Latin America is a two-tiered strategy. When you look at Central America and the Caribbean, this is principally about Taiwan. That is the largest group of countries that still recognize Taiwan. China won a major victory last year when Costa Rica became the first Central American country to defect from Taiwan and recognize China. And then, of course, there is Paraguay. That is the only one left in South America, and it could be likely to switch soon.

When you look toward South America, that is when you are really seeing this drive for resources and trying to feed China's growing economy. You have a different situation in Latin America than you do in Africa in the sense that Latin America has basically middle-income democracies. There are a few very poor countries such as Guyana and others, but you have countries in general that have a greater level of democratic development, institutional development than exists in Africa. And so for that reason, the severity of the problem that you see with China's engagement in Africa probably isn't going to replicate itself in quite the same way in the majority of the Latin American countries.

Nevertheless, there is obviously a shortage of commodities worldwide. You are seeing prices rise across the board in every energy sector, in terms of the food products, and also basic commodities and metals. And a lot of that is driven by the growth of China and of India. And so what you are seeing is a global impact. And to some degree, China's growing role in Latin America does imply some loss for United States business interests there, but this is something that is playing out not just in Latin America, but across the world. And because of the United States' longstanding ties with Latin America and the very deep economic relationship that exists, including the number of free trade agreements that the United States has with Latin America countries, the United States actually may be better positioned in Latin America than it is in, say, Africa. Thank you.

Mr. ELLIS. I would like to focus my comments on the resource dimension of that.

First, of course, of the governments of the region, at least many of them are reaping the benefits of the global commodity boom to the extent that they have the commodities to sell. Why, for example, is the President Kirchner government in Argentina focusing on taxing approximately half of the $24 billion soy crop? It is largely because the value of that crop comes from the Chinese demand, the massive demand for those soy products. We find similar issues with respect to the booms that the Peruvians have been reaping with respect to copper and iron, with respect to the Chileans and copper and potassium nitrates, et cetera.

However, as we have heard from other sources, oftentimes the negative side of growth fueled by primary product exports is, where do those benefits go to? To the extent that they benefit governments and oftentimes can fuel increases in corruption of those who allocate who gets the concessions or who does not, as well as oftentimes the benefits go to those who hold the lands, whether it is the cropland or mining or oil or other concessions, and to that extent may actually help to contribute to inequality in the region, traditionally a problem.

In addition, as we look at where China is going with respect to their industrial policy versus Latin America, as China moves ever higher up the value-added chain with Lenovo computers, with introducing new car brands in Latin America, with introducing washing machines and other high-technology items, Latin America seems to be moving down the value-added chain into ever more basic industries with ever more low value added. And that is not good for the diversity of Latin America and the diversity that is needed to sustain democracy.

I would also like to comment quickly with respect to Venezuela. I respectfully disagree with my esteemed colleague Dr. González. I believe that fundamentally, although oil is a fungible commodity, it is fungible if you have enough time to wait for the change and enough money to pay for the additional. And what is happening right now is that PdVSA, according to their 2012 strategic plan, says that they are going to give an additional 800,000 barrels a day to the Chinese while at the same time maintaining their contractual commitments to the United States and its refineries. However, generally off-the-record oil executives indicate that that is almost not going to happen.

My own time in Caracas leads me to believe that the things that you have to put into place such as infrastructure and pipelines and mixing stations and additional refinery capacity, given the capital crunch that PdVSA is experiencing right now, two things are happening. First of all, it is becoming ever more dependent on the $4 billion, which may go up to $18 billion, in short-term funds from China Development Bank called the heavy investment funds, as well as other players as we have seen, such as Iran and Russia. At the same time, it is becoming ever more dependent on the presence of those state oil companies such as CNPC and PetroChina.

So the question becomes in 2012, when Venezuela has to make a choice between where does its ever smaller quantities of oil go, does it go to the United States, or does it go to Venezuela, given that the Chinese have already gotten the PdVSA to agree to pay for the additional $3 a barrel transportation costs from the Venezuelan side, I believe that that will have a lot to do with the politics, who was in charge in Venezuela at the time, as well as the very heavy presence and investment commitments from the Chinese to the Venezuelans. Thank you.

Mr. ENGEL. Thank you.

Dr. González, I would like to give you a chance to respond.

Mr. GONZÁLEZ. Thank you.

On the issue of Africa and Latin America, I would highlight three points. First, the fact that Latin America has stronger governance structures than Africa. I mean, after all, this is a region which has had to fight its fair bit with human rights abuses. The Latin America pre-1980s, post-1990s is a very different region. Most of the countries in Latin America have ombudsmen. For the last three decades Latin American has enjoyed uninterrupted democratic rule, as my colleague Dan Erikson was mentioning. And this is not just any token, oh, you have got elections. The mechanism of democratic representation does work in Latin America today better than it has at any point in time. Politicians are more responsive to publics than they used to be.

So the idea that the Chinese could be able to come to Latin America as they have gone to Botswana or to Angola bringing their 5,000, 10,000 workers to do their own thing, that is just not going to happen in Latin America. Stronger governance structures, the mechanism of representation works in Latin America much more than in sub-Saharan Africa.

Second, Latin America has strong trade unions and strong mass-based political parties, which also puts pressure on who can come to invest, what kinds of resources can come into a country. And this ties directly with the issue of resource nationalism, which, as you know, has been the backbone of nationalist politics in Latin America since the 1930s.

It is not that Latin American countries are weary or suspicious only about North America or Europe. In general, the idea of resource nationalism and that raw materials are first and foremost part of the nation and should be either part of a state monopoly, or maybe you can end up engaging in partnerships, but nonetheless partnerships are meticulously monitored, I think that is by and large politics as usual in Latin America. I doubt that there is going to be any change in that. And that kind of jealousy that Latin American governments have shown in terms of the management of their resources will apply no matter who it is that comes knocking on the door, China, the United States, Spain.

And just very quickly, two comments on Representative Burton's speech. Again, let me just point out at the moment, Venezuela is exporting around 200,000 barrels of oil to the Chinese, and the great pledge was that in 5 years' time they might be able to increase this to 2 million. As my esteemed colleague Dr. Ellis said, Venezuela has real terrible problems in terms of its infrastructure, its whole infrastructure. In the last 6 months, Venezuela has been having to buy Russian crude to meet its own commitments. The International Energy Agency says that you would require a barrel of oil to be $200—and today anything can happen, I am sure—but in a sustained fashion, $200 in order that there remains a minimum profit margin for the Venezuelans to make a buck out of exporting oil to China.

Venezuela's business is exporting oil to the United States, and that is that. Venezuela is dependent on the United States much more than the United States is on Venezuela. I think that will continue to be the case in the future.

Mr. BURTON. Thank you, Mr. Chairman.

You know, there was a movie called Cabaret, gentlemen. There is a movie called Cabaret. Did you ever see that movie? In the movie, the proprietor or the master of ceremonies sang a song, "Money makes the world go around, the world go around." And I am going to tell you, money does make the world go around, unfortunately.

China has an awful lot of it, which is our money buying their products which are produced by very cheap labor. And they use that money to get the things they want in other parts of the world, whether it is influence, commodities, or whatever. You talked about a number of commodities in South America, copper, and oil as well.

China in the last couple of years, I was just looking at these figures here, their consumption of oil products composed of gasoline, diesel, and kerosene has risen by 16.5 percent to 52.73 million tons in the first 3 months of the year, and crude oil rose by 8 percent to 91.8 million tons. Tremendous growth. They have a huge appetite for energy because they are expanding their economy on the backs of the rest of the world by using their labor, as my colleague down here probably has talked about before I got here, and they use that labor to produce products that we are buying in huge amounts. I think we are their biggest trading partner by far. We have a huge trade deficit with them. And they use that money then to go into other parts of the world to extract commodities and to extend their influence.

They continue to further their ties with Iran, the brutal military rules in Burma, that horrible Government of Sudan, selling them weapons, all because they want energy. And at the rate they are expanding their economy, I believe that they are going to try to get energy from any source they can.

And Mr. Chavez down there, who I was kind of interested in what you said about him having to import oil from Russia. That is because he is such a terrible leader. He has the resources down there to make that country flourish; instead, he has been exporting his money and his influence into Nicaragua and Bolivia and elsewhere so he can make those countries move to the left, as well as his relationship with Raul Castro and Fidel Castro in Cuba.

So I am still concerned about their influence. They have expanded their influence in South America; they have expanded their influence indirectly in Central America, and I think that there is a concern there.

Finally, let me just say this. You have to look at the way the world is, not the way you want it. China is a superpower—not a superpower in the same context as the United States, but they are a growing power. And because of their system, and because they have the ability to use the money they are getting from us and other countries because of their cheap labor and production of products, they have been able to expand their economy, in my view, on the backs of the rest of the world, and we need to be concerned about that.

Now, Central and South America are our front yard, and I am very concerned about the influence of Iran, I am very concerned about the influence of China and other what I would consider radical countries around the world. And I would like to see us—and I wish our State Department was here today. I would like to see our State Department pay more attention to Central and South America and the influence that is being exerted by other countries down there so that we don't have to look back 10 or 15 years from now and say, what happened? We already are too dependent on foreign energy, and we have the resources here and are not doing anything about it, and that is going to become a more difficult situation in the years to come if we don't do something pretty quickly about Central, South America, and our own resources.

Thank you, Mr. Chairman.

Mr. ENGEL. Thank you.

If anyone would like to do a quick answer or comment, we have just been notified that there are a series of votes, so I am going to try to wrap this up in the next 15 minutes. I am going to call on Mr. Smith, but if you would like to—anyone would like to comment.

Mr. Erikson.

Mr. ERIKSON. Sure. Just quickly on this point about China and Venezuela. I think it is clear that Venezuela and Mr. Chavez is a major variable in United States-Latin America relations and a major one in terms of China's economic outreach in the region. There is no doubt.

When you look at who China's largest trading partners are in Latin America, though, Venezuela doesn't make the top five, in fact. You have Brazil, Chile, Mexico, and others that are bigger. Trade with Venezuela is around $6 billion, which is about the same that China has with Panama and with Peru.

And so the question is, given the fact that Venezuela is such a major energy exporter and China needs so much energy, why are the figures still so low? I mean, one would think that, in fact, it should be much, much larger. And I think that what some of my fellow panelists have alluded to, that you still have a lot of costs that are associated with trying to sell heavy Venezuelan crude to China both in terms of transportation and refining, although China and Venezuela are announcing a new refinery in China to process Venezuelan crude, so they may be addressing that.

Then there is the political dimension. The Chinese know that the United States is paying very, very careful attention to what is happening in Venezuela. And China values its relationship with the United States more than it values its relationship with Venezuela. So I think there has been a certain level of caution there. I think last year Chinese-Venezuelan trade grew about 30 percent. That is a nice growth figure, but it is less than what the growth was with China's trade in other Latin America countries.

But the question is, when you look at the current trends, and you have these oil prices which are going sky high and may remain there for some period of time, clearly a relationship between China and Venezuela that is deepening, even if it is not deepening at the pace that Mr. Chavez would like it to, I think this is something that it does require some very specific attention over the long term.

I don't think myself or other members of the panel would say don't worry about it; we are just saying, let's not panic prematurely either.

Mr. ENGEL. Dr. González, you had your hand up. So if you want to perhaps in a minute——

Mr. GONZÁLEZ. Yes. Thank you. My main point to Mr. Burton is a high growing Latin America is in the interest of the United States and before this current commodity boom which has largely been driven by the economies of Asia, first and foremost, China, but also India, Latin America had a pretty mediocre record in terms of growth. Between the 1980s and 1990s were not a good period. This is what fueled all this disaffection, which has brought forward the winning, the victorious populist politicians in Latin America. My sense is that Latin America, which is growing faster in a sustained way—actually, what you end up doing is at least partly taking away the banner of those who are crying radical redistribution here and now. And if the United States or Europe are not at the moment consuming enormous amounts of commodities as China and India are and Latin America can sell those to them, then that is good for social cohesion, that is good for the future of Latin America.

I don't want to sound overtly optimistic. For example, I share Dr. Ellis' concern in terms or organized crime. I think that one of the key challenges of China's presence in Latin America, particularly in Mexico and Central America, is human trafficking. That is something that I would really look into more seriously than the current economic engagement of China in the region.

Mr. ENGEL. Thank you.

Mr. Smith.

Mr. SMITH. Four brief questions. It made me want to get back on the record for some answers although we will run out of time. You mentioned human trafficking, and that is an issue I have worked on for more than a dozen years. We noted that China has a female dearth directly attributable to their one-child-per-couple policy. They are missing as many as 100 million girls because they have been forcibly aborted as part of the one-child-per-couple policy. You might want to comment on the concerns that brokers—traffickers will increasingly focus on Latin women to bring them to China. We are already seeing it in Vietnam. And we are seeing it in a number of other countries. And the problem only gets worse. Forty million men will not be able to find wives by 2020, according to the Chinese demographers, because they have been aborted. So this lack of women, they are gone, they are missing and now they will be looking elsewhere to find those women.

Secondly, on the Human Rights Council, eight members of the Latin countries make up—have membership on the Human Rights Council. Do you have concerns about, as we have seen in the past, the buying of influence by the Chinese Government through foreign aid and trade deals so that China goes unscathed and there is no scrutiny brought to bear on their deplorable human rights record on a myriad of fronts?

Thirdly, the issue of cyber terrorism. We know that in December, while on a trade mission, Carlo Gutierrez had his PC and other electronics—I think his BlackBerry as well—compromised. We know that the Chinese use the cyber—and there is a front page National Journal article about the Chinese cyber invasion. All of us have great concerns about their control, their dominance of the Internet and its misuse to not only incarcerate people in China, but to wreak havoc elsewhere.

In 2006 and in 2007, my subcommittee, the Human Rights Subcommittee, was hit, we believe and it is not absolute, we can't prove it beyond any reasonable doubt, but we believe it was hit by the Chinese. There was an IT Chinese address, and what they went after seems to have been the work we were doing on Chinese human rights. I am very concerned that all of Latin America, since commerce is increasingly being done on the Internet, could be compromised severely because they have honed that capability so well.

I have another one, but I am out of time. So if you could touch on those.

Mr. ENGEL. Why don't we start with Dr. Ellis?

Mr. ELLIS. Thank you, Mr. Chairman. Let me just respond specifically to cyber terrorism. One of the interesting dynamics, although it is less recognized given Chinese commodity purchases, is that Chinese telecommunications firms, specifically Huawei, ZTE but also to a lesser extent Shanghai Bell, are making tremendous inroads in Latin America largely on costs to the point where traditional suppliers such as Telecom and Telefonica are actually getting concerned. One of the things that we see, for example, in Brazil in December of last year, there was an issue which 70 workers of one of those two Chinese companies were actually detained by Brazilian authorities for operating out of their parent facility without proper visa authorization, which raises the issue of what are the larger possibilities raised from the security perspective by this tremendous growth of Chinese infrastructure, telecom infrastructure in the region. And indeed when we look at Venezuela, we see that in this moment when there is an interesting triple combination of essentially the redoing of the Venezuelan telecom infrastructure by ZTE in combination with supplying the new telecom satellite which will be launched in, I believe, August by the Chinese in combination with other issues.

So I believe that this certainly is an issue that is of concern and merits monitoring.

Mr. ENGEL. I have another question. But anyone want to comment on Mr. Smith's—Dr. González.

Mr. GONZÁLEZ. Thank you very much. On Mr. Smith's point, I am definitely very aware about the issue of human trafficking more in the direction from Asia to the Western Hemisphere than in the other direction. From Asia to the Western Hemisphere, Mexican officials have at least monitored the possibility—have caught several Chinese operators already in partnerships with Guatemalan, Mexican gangs. And what they basically engage in is the trafficking of economic laborers, trying to bring people to the U.S.

Second, a very worrisome issue is child abductions for the adoption market. Both Mexican, Central Americans and Chinese gang members have been caught abducting children.

And third, of course, and very sadly is the whole issue of women being smuggled through Central America and/or Mexico into the

United States for forced prostitution. So hear, hear, on that one, Mr. Smith.

On the issue of the eight countries that have representation on the Commission for Human Rights in the U.N., I wouldn't be surprised at all if China was able to buy its influence. I follow the issue closely. And judging by the voting record of that commission, I am saddened by it and I share your concern.

Mr. ENGEL. Thank you. I would like to ask a question about Taiwan. There are a number of countries, particularly in Central America, which have switched recognition from Taiwan to PRC. Can you just talk a little bit, and I guess it will have to be quick, how the decision to recognize PRC or China relate to issues of trade and diplomacy in the region, and I have been very supportive of the Taiwan-U.S. relationship because I think it is an important relationship and I think the United States has a special obligation to the people of Taiwan. We in the United States obviously don't have formal diplomatic relations with Taiwan, but we do have lots of other relations with them and agreements with them.

Would you foresee that kind of arrangement with some of the countries in last America who perhaps don't have diplomatic relations with Taiwan but could have other types of relations maybe with some encouragement by the United States?

Mr. ERIKSON. Thank you for the question. It is a very important issue. As you mentioned in the beginning, about 12 of the countries in the Western Hemisphere recognize Taiwan and there are only 23 worldwide that do so. So more than half of Taiwan's allies are in fact in Latin America, principally Central America and the Caribbean. And this issue is really an extremely important and highly charged foreign policy decision for a group of countries that are in general the poorest, the weakest sort of countries in the hemisphere. If you look at the countries that currently recognize Taiwan, they include Guatemala, Belize, El Salvador, Honduras, Nicaragua, Panama, plus several Caribbean countries, including the Dominican Republic and Haiti, as well as Paraguay. I really see the trend, now that Costa Rica has switched over to China, that probably within the next decade you are going to see a string of countries defect from Taiwan and recognize China. And it is important to note that every single major economy in the Western Hemisphere has already done so, including, of course, the United States.

The United States to date has preserved what I would describe as a strategic ambiguity in terms of advising what precisely Central America and Caribbean countries should do. On the one hand, the formal position of the U.S. is that this is a decision for these countries to make. The United States can't decide whether a country is going to go with Taiwan or with China. But at the same time there are mixed signals that are sent out from different branches of the U.S. Government. And I think that many times there are officials in Beijing, Taipei and the capitals of Latin America wondering what precisely the U.S. position is.

It may make sense in the long term to encourage Taiwan's investment and certainly knowledge sharing in Latin America and the Caribbean, but at the same time obviously China is by far and away the most recognized country in the world out of the two, and

I think the expectation will be that Taiwan will continue to see its numbers drop over the coming years.

Mr. ENGEL. Thank you. I know the others might want to comment. But I have to run for a vote. Unless you want in 30 seconds to say something, I am going to end the hearing. But let me just say that I would hope that the United States would encourage our friends in Latin America to have important relations with Taiwan, if not diplomatic, then economic and other relations as well.

So Dr. González, Dr. Ellis, I guess we will leave it at that, and I want to thank the three of you for testifying. It was very enlightening for me, and I am sure for my colleagues, and we will be pursuing these matters in the future.

The hearing is now adjourned.

[Whereupon, at 4:45 p.m., the subcommittee was adjourned.]

APPENDIX

Material Submitted for the Hearing Record

Prepared Statement of the Honorable Gene Green, a Representative in Congress from the State of Texas

Thank you, Mr. Chairman, for holding this hearing and I would like to welcome our panelists.

As China continues to emerge as a global power, I think that it is important that we consider their influence in the Western Hemisphere and what, if any, implications that might mean for the United States.

It is understandable why China has an interest in the resource-rich countries in the Western Hemisphere.

China needs these resources to further expand its economy and feed its people and this demand is just going to continue to increase.

To date, China has mainly focused on trade and investment opportunities in the Western Hemisphere that help its own economic development.

However, even then, China still ranks as one of the top four export and import markets for many of the countries in the region, and these countries will naturally seek stronger partnerships with China as China continues to grow in economic prowess.

For the most part, we have ignored our neighbors to the south over the last eight years.

During this time, China's trade with Latin America and the Caribbean region has multiplied over ten times.

If there is anything that we should take away from this hearing, it is that we cannot continue to ignore our neighbors from the south.

U.S. trade and investment in the Western Hemisphere still dwarfs that of China, and I am not convinced that China's presence in Latin America is necessarily detrimental to the United States.

These countries will continue to make economic decisions that are best for them.

However, it does show us that we cannot continue to ignore our own backyard.

We need to foster good relationships with Latin American and Caribbean countries and we cannot continue to ignore this hemisphere.

If we do, China has showed us that there are several other countries willing to fill in the void.

Thank you again, Mr. Chairman, for holding this hearing, and I look forward to the testimony of our panelists.

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