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**IS THE CHINESE MODEL GAINING ECONOMIC  
AND POLITICAL INFLUENCE IN LATIN AMERICA?**

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**JAIME DAREMBLUM:** Excellencies, members of the diplomatic community, ladies and gentlemen, distinguished friends and guests, on behalf of the Hudson Institute and its Center for Latin American Studies, it is my pleasure to welcome you to today's program on China and Latin America.

Years ago, many more than I would ever dare to admit, I was a graduate student at the Fletcher School when the war in Vietnam raged in Southeast Asia and also in the streets of Washington. Social scientists were then busy attempting to analyze the face of China in the battle region and in the world.

Among my professors I remember William Griffith explaining the structure and dynamics of the Chinese Communist Party, Marshall Schulman shedding light on the Sino-Soviet rift, while Kenneth Organski focused on political development as the key factor allowing China to successfully modernize its masses and challenge the West.

Thanks to them and to so many other precursors in the emerging field – then-emerging field of Sinology – China became less of a mystery. Still, what has not changed is the persistent sense in the West of an unknown side in China's design in the world arena. That is very much the case in China's doings in Latin America and the Caribbean. The widespread opinion is that China's increasing presence in the region responds to its rising needs for primary products for its growing industrial might. In this respect, many may add, China is behaving like the Western colonial powers behaved in the past.

However, Venezuelan leader Hugo Chavez and some of his allies lend credence to the belief that China's contemporary model of authoritarianism, whose carefully calibrated opening to a modern market economy has an actual following among current and prospective Latin American dictators.

To discuss these issues and others, we're privileged to have with us today an outstanding group of scholars with first-hand view and experience on this topic.

In the first panel, Charles Horner, Susan Kaufman Purcell, and Robert Leiken – all of them very well known by us – will discuss both China's model and its likely influence in our region. When they conclude their presentations we will open a space for questions, answers, and hopefully a robust discussion with you all. They will be followed by Jaime Suchlicki, Pedro Burelli and Gabe Collins, who will take on China's impact on several countries in the hemisphere. We will end with a discussion on the role played by Taiwan vis-à-vis the People's Republic in Latin America.

I turn now then to Charles Horner to begin our program. Thank you very much.

**CHARLES HORNER:** Well, thank you very much. I'm very happy to be here. And principally, I suppose, as the one professional sinologue here, no one who is going to contradict any of the otherwise outrageous things I might say. So there is something comforting in that.

And in discussing this with Jaime when we were leading up to the conference to begin with, I did say that it occurred to me that the main providence of this subject seems to be among students of Latin America rather than of sinologues, as such. I think of my own role here is providing perhaps some context and some background about China these days – can you hear now? – China these days, and what we might expect from this interaction based on some of the things we've seen in the past.

The Chinese are like most other people; they are very much interested in themselves; they're very much interested in their own history; they're very much interested in their place in the scheme of things. And of late – that is to say of late, let's say the last 25 or almost 30 years now since China embarked on the new course, which is called Opening to the World, it has become interested in its connections to the world, and it has become interested in its own history of maritime exploration and of openness and of international commerce and trade, all sorts of things which in the preceding regime, at the height of Chairman Mao's ascendancy, people weren't interested in at all.

And so you find peculiar things happening, or maybe not so peculiar. As some of you know, the Chinese are coming increasingly to believe that it was they themselves that discovered the Western Hemisphere and not the Europeans. Indeed, there is a whole book that has been published about this, if you're really interested in it, by an English and maritime historian, by Gavin Menzies, who holds that the Chinese were the first people to do it. And technologically speaking, it's not an implausible claim at all, although historians, of course, argue it.

The Chinese also know, as indeed we all should remember, that why was there a Western Hemisphere discovery at all? It was only because it was on the way to China, which is how Christopher Columbus and the rest of them stumbled on this place. I mean, otherwise it would have been of no interest to anyone in particular – similarly, North America, of course, where people were looking for northwest – a northwest passage. And so one might say that it's a fortunate – how shall I say it? – a fortunate boon from geographical and geological history that this place was placed where it is on the way to China.

We also know, from when we think about it, that the imperial history of the area – Spanish imperial history – connected this area of the Western hemisphere, what we now call Latin America, to the Far East, to Asia very early on in the development of the Spanish worldwide empire, and in so doing led to what we now think of as the first era of globalization or the first unification of the world as a – in a national and economic market.

What's interesting to the Chinese, and maybe to the rest of us, to reflect on this is that by about 1800 or so, or at least as economic historians and people who do cliometrics tell us, China accounted for something like 30 percent of the world's gross domestic product – it was the largest economy in the world by far – and that the South Asian subcontinent accounted for maybe another 20-plus percent. So that's about half -- a little bit more than half of the gross domestic product of the entire world.

And it is not implausible to believe that as the decades unfold, we're going to get back to a situation where those folks at least think is a normal situation; that is to say that the economic productivity in the world is distributed or at least is redistributed.

The other thing that is always fascinating about this is to remember that the Chinese economy at that time ran an enormously favorable trade balance with the rest of the world. And so it became – most of the New World's silver, and a lot of Japanese silver too, ended up in China. And so, using modern parlance, China accumulated enormous foreign exchange reserves.

And after all, the rest of the world was constantly making – let's say undertaking diplomatic missions to the court in Beijing to get the Chinese government to rectify the situation, so that, I suppose that Henry Paulson is not the first finance minister in the history of the world to go to Beijing and to say to them that this situation is unsustainable – the word we like to use is “unsustainable” – to which I suppose they replied, oh, is that right? In other words, this kind of outlook about how you deal with the rest of the world is well ingrained.

There is another thing about the history that's important here, which is the Chinese have a huge body of economic thought and of economic history of their own, which they're starting to study and understand. And this gets all mixed up with all the things they've learned recently about communism, socialism, capitalism and all of the rest of that stuff, and they've gone through various modes of organization.

They now have a system, which was set up by the late Deng Xiaoping, who called it socialism with Chinese characteristics – socialism with Chinese characteristics as distinct from other kinds of characteristics. The model itself in China is under serious debate among Chinese themselves. It has its apologists, of course, but it also has its detractors. And some of its detractors are orthodox leftists and orthodox Maoists, who regard the arrangement as state capitalism or fascism and so on.

And there is a school of free marketeers, if you will, or neo-liberals or “neo-Hayekians, or whatever you want to call them, who have studied economics at the best economic departments in the United States and have gone back with pockets stuffed with ballpoint pens and pocket guards, trying to instruct their elders, who are still, incidentally, the products of Soviet-type education either in the Soviet Union or in China.

So the people who run the place now – for example, Hu Jintao is probably one of the last people we'll see. He is a 1964 graduate of Qinghua University, in hydraulic

engineering – in other words, this typical kind of dull and plodding kind of thing. And one can only imagine when these smart young guys come back from MIT, or even more significantly, one would hope, from the University of Chicago, what have you.

So what everyone makes of this model – which is kind of hard to understand, which the Chinese themselves have difficulty understanding because it's not very well established doctrinally – I think they're going to think of it as one response that appeared in the world as a response to what we call western imperialism in modern times.

And the question is always the same: How can a poor and weak and backward and easily dominated country improve its circumstances? And to what extent can any one country in this condition improve its own prospects by cooperating with others in like measure? What's the formula? What's the secret? You see, what's the trick? How do we get these roles reversed?

We know that the planned economies that were established in the Soviet Union and its satellites were for a long time thought of as the model, the answer to this, the way in which poor backward countries transform themselves.

China at that time had a very elaborate ambition for the world; it was interested in remaking the entire world order, as some of us may remember. Counterinsurgency expert – (inaudible) – would remember from the perilous (?) times when the Chinese put forward the idea that it would start wars of national liberation in all of the so-called world countryside, countries of Africa and Latin America, and from there one would surround the world city, which was North America and Western Europe, and one would transform the entire balance of power in the world. One would overthrow imperialism in its home place.

And this had a lot of following in the world. It's hard to remember that, but it did. And I will leave it to my colleagues here to tell me if there is any connection at all between this inspiration of a lot of the violence that occurred in Latin America. And I just remember from words – I don't know exactly what they mean; they will tell me – Montaneros, Fugimarios (ph), Sandinista, Shining Path people, Zapatistas – the people you would see on TV wearing ski masks and so on.

So that was one variation of looking to people for models. Another one that I mostly remember is to perform the requisite jujitsu – is what we used to study in school. We had modernization theory, which was a product of the political science of the 1960s. We had something called dependency theory, which is I guess why the – I remember in the 1970s we had the new international economic order theory, if you will, embodied in the United Nations, which seemed to be kind of ascendant in the world at that time. It's gone.

There was cartel theory, as you know, all the raw material producers. And in 1970s were going to get together and corner the world market in bananas, coffee, coco, oil and such things and bring the world to its knees. We've also seen its opposite, a free

market ascendancy, which – once again, our University of Chicago School in Chile. We have the neo-liberal consensus of the 1990s. We had the reaction against it to through the year 2000.

And I noticed in a recent ad from Harvard University Press, you can buy a book called “Empire” by Professors Michael Hardt of Duke and Antonia Negri of the University of Padua. This book is described as follows, and I quote, “More than analysis, “Empire” is also an unabashedly utopian work of political philosophy, a new communist manifesto looking beyond the regimes of exploration, control that characterize today’s world order, seeks an alternative political paradigm, the basis for a truly democratic global society.” And, you know, perhaps that’s going to be found in the Chinese model, but I doubt it.

We ourselves, I think, make a mistake when we think that the appeal of this model is therefore an appeal from the left to the left because it’s not much that China does these days that’s recognizable as classical leftism, but one of the things that benefits it in this discussion that is going on in the world is precisely the aura and the memory of this past thing.

So you can have socialism with Chinese characteristics as socialism, I suppose, which allows one to have ad hoc cooperation with so-called Islamofascism, mullahs in Iran and all the variant socialism in Venezuela, whatever that is.

I’ll just mention just a couple of things which just seem to me that I think of as the glow of the embers of those days which are helpful to the Chinese in this. The first one I’ll talk about is race, which we’re not allowed to talk about. I understand that; it’s a very difficult subject. If I may make an atrocious metaphor here, one that I’m really fond of. I’ll read here: “Race is the subtext that hovers over this discussion.”

You see, oppressors are white and the oppressed are not white. Well, that’s true in the national – it’s true domestically. And of course the way to correct this equation internationally is for us to correct it domestically. So the race aspect – which is all caught up in the Western Hemisphere, is that mixture of white, black, Indian and so on – varies very much by country. And it varies by how races work in each of these policies, but it is at work.

And the corollary to this, I suppose, is that the only non-white people in the world who really matter, say, in running the international economy are either Japanese or Chinese. Or maybe they’re Korean, but let’s just say for the sake of this argument the Chinese now. It used to be the Japanese had a certain purchase in their model. So the Chinese have a certain thing going for themselves. They’re not European, they’re not American, they’re not white.

They have another advantage in the fact that they call their system socialism and that they call their ruling party communist. And this, as Jaime suggests, with respect to their actual conduct, you see, allows them to say or allows them to claim, allows them to

think that what they do – that their economic expansion in the world is somehow different in kind from the Western economic expansion of the 19<sup>th</sup> and 20<sup>th</sup> century, and that China’s multinational banks and corporations, who are very active in Latin America is something different, and so on, even as, analytically speaking, Hobson or Lenin would recognize China as a kind of economic imperialist power. It imports primary products; it’s a creditor; it exports finished goods; it exploits its own and other countries’ cheap labor, is what it does do; it invests in and wants to control critical infrastructure like ports, airports, highways, telecommunications; and it uses its political influence – that is to say corrupts local political systems to protect its economic interests.

But there may – for all of this now, I think we’re already beginning to see the signs of the certain self-limiting aspect of it. As Chair Mao himself once wrote, you see, “Wherever there is oppression, there will be resistance.” And we can’t be surprised therefore that there are resentments already building in Brazil about the terms of trade, or in Mexico about the fact that China is a competitor for the American market.

And countries which export primary products are not happy to see the Chinese drifting vaguely into the group of importers, trying to use their own strong position in the market – I think the technical term for this is monopsonist – position to somehow bargain with exporters for price constraints.

And therefore it does seem that the countries are on the receiving end of this sort of thing, wherever they are, tend to seek balance. In this case the so-called stronger parties are China and the United States, and presumably it is in the space between them that one finds ones own opportunities as countries in this situation always have ever since 1945.

Last year was the 50<sup>th</sup> anniversary of the Bandung meeting in Bandung, Indonesia in 1955, where the whole basis of intra-third-world cooperation was laid down. It’s had many fits and starts since. And one can assume that as we watch these meetings between Hugo Chavez and the president of Iran and others, that it will continue for quite some time.

Thanks.

(Applause.)

**SUSAN KAUFMAN PURCELL:** Good morning, everybody. I’m very pleased to be here today. And I want to thank Jaime, a dear old friend, not in age of course but –

**JAIME SUCHLICKI:** Of course not.

**MS. KAUFMAN PURCELL:** – (chuckles) – but in time, for inviting me to speak here.

I'm going to speak a little bit about China's relationship with Latin America and essentially asking two rather simplistic-sounding questions. First of all, is what China is doing good for Latin America or bad for Latin America, or both, and is it good or bad in terms of U.S. interests?

First I just want to say a few words about context, even though I know Charles just spoke about it, but in a sense to understand what's motivating China in Latin America, although the obvious answer that always pops up is China's desire for commodities and raw materials.

It reminds me of that famous – was it Al Capone quote? – which I'm sure I'll mangle, but someone asked him why he robbed banks and he said, well, that's where the money is. In a sense, why is China interested in Latin America primarily starting out? That's where the commodities are.

But anyway, in terms of the actual context, I mean, China has been growing about 9.5 percent for the last decade or two, actually two decades, and so obviously to sustain this rate of growth for a population the size of China they need commodities and food.

And if you look at the situation today – it was interesting when Charles mentioned that – at a certain point China accounted for – what was it? – 30 percent of the GNP, you said. Today I think it's only about 4 or 5 percent of the world GNP. But today – well, I have it here: China, 4.4 percent of the world's GNP, but it consumes, as of today, 7.4 percent of the world's oil, 31 percent of the world's coal, 30 percent of the world's iron, 27 percent of world steel and 40 percent of cement. So clearly China is on a tear economically and needs these kinds of inputs into its economy to continue growth and its economic development effort.

But of course its economic development effort isn't only about economic development; it's also about political stability. There is an argument to be made that – I don't know what percentage of economic growth China needs to sustain annually, but if it has been growing at 9.5 percent, obviously to suddenly go down to 2 percent or 3 percent will not keep China stable. It's hard to predict in that kind of political system what the consequences of a drastic or even a gradual slowing of economic growth would be, but I think that we could all speculate, and it's not going to be very great, very good. So there is that issue too, the political stability issue.

And so both of these things – the desire to modernize the economy and become a great economic power, and also to maintain political stability – are really behind China's growth – China's search for commodities and food.

The other motivating factor is that China does not like living in a unipolar world, or at least in a world where there is only one superpower. And although we think of China as a big country, basically it's still developing, and it actually shouldn't be so surprising to think that China feels itself vulnerable in this kind of situation. And we get all excited when we see China is moving into the Western hemisphere, but we're all over



Asia. I mean, it's not exactly as if China has control over the whole Asia-Pacific region. It doesn't. It would like to increase its power and control there obviously.

So this sense of Chinese vulnerability and the idea that the United States wants to stay the only superpower – it got this idea because the United States government, in a paper or two, said that that's exactly what our strategy should be, to maintain our superpower – our only superpower status. And also China looks around and sees that the United States is willing to intervene, both diplomatically and even militarily, when it doesn't like certain governments because of its politics or human rights behavior or whatever. And although we can say we're never going to invade China – I mean, we have enough trouble with Iraq; we're certainly not going to invade China – it's not clear that China sees it that way – I mean that U.S. behavior in the world undermines or feeds China's sense of vulnerability.

And so as a result of these things, China's strategy has been to both – how can I put it? – avoid its dependence on any particular area of the world or any particular countries, both economically and politically: economically diversified sources for what it needs to feed its economy, diplomatically work in multilateral institutions to try and create strategic alliances throughout the world, diversify both its strategic and its trade partners, et cetera.

And one of the things that it does to do this – and this is part of what disturbs the United States, and I'll talk about it later – is that it has been – you know, it looks for a particular niche if it could. And one niche that's just up there for grabs are countries, which for a variety of reasons, don't have particularly good relations with the United States and/or Europe.

And so either because of political instability in those areas, which make them less desirable to foreign investors, or because foreign investors, private investors, or China has an advantage against private investors because they can afford, through their state economic and financial institutions, to lend money at below market rates and they themselves are subsidizing various things that they do, and also they can operate in countries where legal restrictions involving human rights abuses, et cetera, keep the United States and Europe out. And so it should come as no surprise that these countries are particularly receptive to any kinds of Chinese overtures, and China obviously sees that it has a comparative advantage in those kinds of countries.

Having said this, though, I think that part of the underlying context however is that the most important relationship for China is the United States and it's not Latin America by any stretch of the imagination, and that what China is really interested in is maintaining a good relationship with the United States, to the extent possible, while at the same time it feels somewhat vulnerable because it needs the United States to continue to develop and to continue to make headway into the global, economic and diplomatic world.

So it is trying so far to avoid gratuitously alienating or annoying the United States, but at the same time – and doesn't want to provoke the United States at this point. In general it's actually made clear that it wants to keep what it is doing commensurate with its power capabilities. And so what this means is as of now it has no interest in provoking the United States or going head-to-head with the United States for certain kinds of – in certain kinds of situations.

The question is, what happens as China keeps getting stronger, or if China keeps getting stronger? Will it then be somewhat more provocative? Will it be somewhat more competitive, somewhat more confrontational? That's something that we all can discuss. I mean, I think that chapter isn't written yet. So that's part – I mean, China has made it very clear that it's not going to overextend itself. The question is as it gets stronger and it then would not be an overextension to be much more active in ways that might be in its interest but not necessarily in ours.

Okay, now where does Latin America fit in to this context? And as I said when I started, the most obvious is the whole commodities/food issue at this time, and particularly the search for energy security.

Here the Iraq war played a big role because until the Iraq war, China had been largely dependent on the Middle East, or that was the big region – for no surprises obviously – in terms of its energy supplies. But when its oil from Iraq got cut off, it provoked a very rational decision to start diversifying its sources of energy supply. And both Africa and Latin America loomed much larger at this juncture. And so Chinese involvement with the energy producing countries of Latin America has increased.

Now, unfortunately the energy-producing countries in Latin America are usually either – what do you want to call them? – you can call them authoritarian populist regimes, democratically elected authoritarian populist, authoritarian bureaucratic, elected dictators, whatever you want to call it, but they are not – they are the part of a Latin American left that are not the good guys, from our point of view.

I mean, the Latin American left, as you all know, is not one thing. It's not even two things. But basically if you want to split it into two it's the democratically elected regimes that are more along the lines of European social democracy, and then there are other kind of regimes, which are really in the Latin American militaristic caudillo-type of tradition, maybe more caudillo than militaristic. We know who they are right now, leading with Venezuela. Bolivia is in that camp. We'll see what happens with how Cuba evolves.

We've got elections coming up – what is it? – this Sunday in Ecuador, where if he doesn't win on the first round, Correa looks like he'll win on the second. And he has already thrown in his lot to a certain extent with – although – it's not clear cut in every case, but he likes Chavez.

And then of course we've got the Nicaraguan elections coming up, where, for some unfathomable reason – well, no, it's not unfathomable – Ortega might actually be elected again. It's not unfathomable because the reason he would be reelected is because the opposition is so divided and so far has not shown any sign of coming together.

So it turns out that these more authoritarian regimes also tend, in many cases, to be where the oil is or the gas. And maybe it's not a coincidence that they also happen to be the more authoritarian or caudillo kind of regimes because having the oil and gas allows for a concentration of economic resources in the hands of the state. So it's not a random correlation.

In terms of energy, obviously the Chinese have invested in Venezuelan oil fields. I think they're going to be doing more with exploring the Orinoco region. I'm not clear yet what is going to happen with Bolivian gas, mainly because the Chinese aren't too clear because the Bolivian government isn't too clear. But these are all places where the Chinese have shown interest. In terms of raw materials you have copper in Chile, steel in Peru and Brazil, nickel in Cuba. In terms of food products – grains and soy, which is mainly – which are mainly Argentina and Brazil.

I should point out that between 1999 and 2005, Chinese imports from Latin America grew more than six times at a pace of about 60-percent increase per year, between '99 and '05. So the Chinese really have been buying a lot from Latin America.

In terms of investment, because they often say trade and investment – we often say trade and investment go together – investment – so far in various trips by high-level government officials there have been promises or implications of promises, but so far the investment that the Latins were expecting hasn't occurred, which doesn't mean it won't. But so far the investment is focused in infrastructure that basically allows the extraction of raw materials and food products, railways in Argentina, roads in Peru and Brazil, for example.

Chinese FDI in Latin America still isn't very significant; overall it's about \$6 billion. But in the context of overall Chinese FDI abroad, it represents about half. So Latin America is important to China in terms of where it's investing abroad, even though in terms of overall investment it still is small.

Latin America is also attracted to China for its markets. I mean, China's trade has been a lot with Japan, Europe, the United States, and still is, but Latin America represents markets where there is a growing middle class and there are markets that are not yet saturated and the more developed markets in certain areas are.

Now, in terms of China's strategic interests in Latin America, one thing is the Taiwan issue. There are about, I think – if this is still up to date – there are 26 countries that still recognize Taiwan, and 12 of them are in Latin America and the Caribbean. I don't remember if Paraguay has switched or it might soon switch, but in any case that's a hefty number of 12 of 26. So you've got the Taiwan issue, and then you've got all the

votes from the region in the United Nations on a variety of issues. So those are two strategic reasons for China's interest in Latin America.

Charles mentioned China's ability and willingness to identify with the poor, oppressed, et cetera, darker or non-white regions of the world. And this actually gives it an in with some of the more authoritarian looking and behaving governments in Latin America since several of those have either an Indian population or a very mixed population.

In terms of military involvement, China's military involvement with Latin America has been increasing in part because we, in a sense, shot ourselves in the foot. The 2002 American Service-members Protection Act, which Congress was trying to look out for U.S. military men – it blocks military financing for nations that haven't agreed to ban extradition of U.S. citizens to the International Criminal Court. The motivation was good but the impact was basically to make it impossible for us to continue military aid to Latin American militaries, including training in the United States, et cetera.

That just got changed. Congress – I guess it was last week. I don't remember if President Bush has signed it or not, but he will, so U.S. training and IMET things and all of that can start being reversed. But the Chinese were quick to take advantage of an obviously favorable situation to them. China now has military aid to 11 Latin American countries.

At the time the U.S. Southern Command and General Craddock, the head of it, lobbied heavily with Congress to get this thing overturned, citing critical relationships – military relationships with Peru, Ecuador, Brazil and Bolivia that were really harming U.S. interests. So anyway, that did get changed.

China has been selling air defense radar systems to Venezuela. It offered shoulder-fired anti-aircraft missiles and fighter planes to Venezuela also. Venezuela has so far preferred Russian equipment because the Chinese equipment apparently isn't good enough yet. But I guess when China improves its production, that that could change, too.

Now to get to the two other questions: In all of what's happening, is it good for Latin America? Well, first of all it's hard to talk about Latin America as a region. It's good for some Latin American countries; it's less good for others, at least in the short run. In the long run they may reverse. But in any case it's obviously good in general in terms of really contributing to Latin America's fairly decent growth numbers over the last couple of years. Latin America has clearly benefited from the commodities boom, and China is a big part of it.

It also allows Latin America an opportunity to kind of reduce U.S. influence or reduce the impact of the United States on its behavior. In some ways Latin America was nostalgic for the Cold War when it used to play off the Soviet Union against the United States, and vice versa, and where the two superpowers were competing for Latin America. And so although it's not exactly the same because the relationship between

China and the United States is not as hostile, at least at this point, as was the case between the United States and the Soviet Union. And also China really has not been – even though it's technically communist, it hasn't been as ideological, so that the competition between the United States and China is not as ideologically based as was the competition between the United States and the Soviet Union.

But in any case, so Latin America welcomes the chance to kind of reduce its dependence on us. But there are several rather negative impacts or even potential impacts of China's involvement in Latin America for Latin America.

First of all, right now, although Latin America has benefited tremendously by China's huge imports from the region, 2006 may turn out to be the first year where the terms of trade switch because China's exports, manufactured exports, to Latin America have been increasing very, very rapidly. I thought I had the numbers here but I don't. But anyway, this year may be the year where Latin America sells more to Latin America than it imports. This clearly is changing. Argentina is a key example where the imports of Chinese goods into Argentina have been growing very, very rapidly compared to the exports to China.

The other way in which the involvement in China will work against Latin America, and maybe already has, is that China managed – when it was promising all these great trade benefits and agreements – managed to get Argentina, Chile and Brazil to grant it a – to label it a – give it market economy status, which meant that anti-dumping legislation under the WTO rules would be – the impact of them would be substantially diminished. They couldn't bring – Latin American countries couldn't bring those kinds of charges. So as a result, this gave China much more access to their markets in terms of exports of Chinese manufactured goods. Even the United States and Europe didn't give China the market economy status, and Brazil, Argentina and Chile did. And I think Ecuador recently joined in.

So this is going to hurt Latin America because it's going to tip the scales much more in favor of China, which doesn't exactly abide by all the free trade kinds of rules. It's highly protectionist; also, it steals a lot of intellectual property and the like.

The other problem with the relationship is that because of the commodities boom, et cetera, Latin America – the chances of Latin America enacting the kinds of economic reforms that are necessary in order to make the Latin American economies more globally competitive are now reduced, with the exception of Chile – everything is always with the exception of Chile. But with the exception of Chile, which is setting aside some of the revenues from the commodities boom for times when the commodities boom is not with us, most of Latin America is just spending the money, taking it in but not thinking ahead, not planning, not using it to make Latin America more economically competitive globally. So these are chickens that are going to come home to roost.

The other negative for Latin America is that obviously Chinese relationships with countries like Venezuela, Bolivia, et cetera, works to undermine democracy in the region and strengthens countries that are not exactly pro-democratic or anti-military or whatever.

And, of course, I'm someone who grew up – went to graduate school during the days of dependencia theory, where the Latin American scholars were claiming that – coming from the left – that the relationship with U.S. and multinational corporations, et cetera, was bad for Latin America. The terms of trade were bad; that Latin America was being reinforced as a producer of commodities, whereas the United States was selling manufacturers to Latin America.

Well, guess what? I mean, that's China and Latin America now. I mean, you could make the argument that the economic relationship with China is reinforcing Latin America's traditional role as a commodities producer, and is favoring Chinese efforts to sell manufacturers, which supposedly have, in general, better terms of trade.

Finally the issue of, is it good or bad for the United States, China's relationship with Latin America? I mean, some of this is already obvious, that it helps the United States' interests in the region to the extent that China helps Latin America grow and stabilize. China is not interested in having a chaotic, unstable Latin America for reasons of its own, and that of course is good for the United States, too.

But on the other hand, if you look at the pillars – I mean, a lot of people say that the United States has no policy toward Latin America so there is no way we can even identify what the pillars of the policy are, but I do think we do have a policy toward Latin America. Whether or not it's the right one or whether or not we're doing enough is another issue.

But support for democracy and human rights, the Chinese involvement is not supportive of that.

Support for market economies – China is in a sense kind of neutral. Some of them are being supported; some of them are not.

Arms race – it's helping in terms of supporting countries like Venezuela, et cetera.

In terms of support for the Latin American left – we don't care about the Latin American left in general as long as they're democratic. Well, the Chinese behavior is also consolidating the – or helping to consolidate the not-good Latin American left.

Chinese involvement is clearly reducing U.S. influence in the region, and there are areas where if the United States and – if the United States' relationship with China goes bad, that Latin America then comes into play. I mean, there are Chinese companies on both ends of the Panama Canal.

Clearly the Chinese involvement with Venezuela and with Cuba itself will have some kind of an impact on the transition in Cuba. If I had to guess, it clearly reduces the chances for a democratic transition in Cuba, without a doubt. It helps Chavez consolidate his power.

The whole issue of energy lockups we could discuss. I mean, if energy is fungible, does it matter that much if China kind of locks in supplies from Venezuela or elsewhere, because Chavez has said he's going to and has begun diverting supplies to China, although China still doesn't have their refineries to process heavy crude. So I don't know; we'll see how long that takes.

And, of course, you have the possibility when China, and if China, and the United States do start conflicting, then once again you get like during the Cold War, third-world areas becoming a kind of a proxy place for the conflict, and also diverting U.S. attention. Because during Central America – the Central American wars of the '80s, for example, Europeans were always against U.S. policies because they claimed it sort of allowed the conflict to continue and it diverted U.S. attention from Europe. Well, it's the whole issue of if things go bad in Latin America it diverts U.S. resources and attention from other trouble spots, which perhaps are considered more important to Latin America.

And then two last words: You've got the war on terror continuing, you've got the whole nuclear issue. Research is only now starting to be done on that, but they remain potential threats to U.S. interests, and potentially the most severe in terms of Venezuela with Iran, for example, or what groups like Hezbollah might be doing in the region. So those will remain open questions.

So as of now, my last sentence is that so far there is nothing hugely threatening about China's behavior in terms of U.S. interests with regard to Latin America.

Thank you very much.

(Applause.)

**ROBERT LEIKEN:** Thank you. I used to work on Latin America quite a bit when we were worried about communism and revolution in Latin American/Central America back in the '80s and in the '70s even. And then the Cold war ended and I looked around for other things to do and decided to exchange steamy Managua mornings for croissants in Paris. So I have been working on Europe and European immigration and terrorism.

But even as I was doing it, I was bothered by what I was hearing about China's inscrutable – China's new Latin suitors. And I emphasize suitors, not lovers or spouses, because as both of the presentations that came before me indicated, China is not jumping into bed with the kinds of people I'm about to mention.

And let me start with Evo Morales, who was elected President of Bolivia in December and took his first foreign trip to China. And he kicked off his tour in China by declaring himself to be “a great admirer of Mao Zedong's proletarian revolution.” That’s a quote. He said that he had read Mao’s biography, quote, “since I was a young man,” and had, quote, “great respect for China’s communist revolution.” He expressed admiration for orthodox Chinese communism, though of course as we have been hearing, China has long replaced its Maoist economics with whatever you want to call it – market socialism or something like that.

But the Chinese offered what they called investments by strong prestigious Chinese companies in Bolivia, and Morales welcomed the proposal and invited more companies, Chinese companies, to come to Bolivia. And the Chinese foreign minister said at the time that Morales was China’s ideological ally.

When Morales was asked how he would confront U.S. displeasure with plans to stop eradicating cocoa cultivation or to national natural gas resources, Morales replied that there were other countries willing to help, and the first one he named was China.

Let’s move upward to Daniel Ortega, an old acquaintance. Upon Morales’ December election, Ortega sent him a congratulatory message of, quote, “revolutionary jubilation.” And he vowed – Ortega did, that – Ortega, as we’ve heard, is running for election again for the fourth time, and he has said that he would – were he to be elected he would switch Nicaragua’s recognition to China from Taiwan.

Now, that might not – that might seem rather natural, but keep in mind that when Ortega was the leader of Nicaragua during the 1980s, he steadily spurned China’s overtures to do exactly that. Why? Because he was strongly pro-Soviet. And that’s part of the big change in the region. The Soviets, as the other speakers have indicated – the Chinese in some ways are stepping into the shoes of the Soviets – very, very carefully, very slowly, very discreetly, with a long-range vision.

Ortega himself is part of a resurgence of a – Susan tried to name it – of a populist leftist authoritarian alliance, which resembles the hard left in its international politics. And it’s led by, of course, by Fidel Castro, Hugo Chavez, Morales, and it has fellow travelers like Prupareness (ph), like Kirchner in Argentina. Let me get myself some water. I’m drying out. And Lopez Obrador in Mexico, who we haven’t mentioned yet, and Ecuador’s Raphael Correa, who Susan talked about.

But the difference from the old days is that – and from Cuba’s historical efforts to revolutionize Latin America, is that this time it’s backed with the deep pockets of Chavez’s petro – pesos. His aid to Latin American revolution is really key. One example from Nicaragua – just the other day, Saturday, Chavez sent Nicaragua a shipment of cut-rate diesel fuel, which arrived Saturday, last Saturday, in a demonstration of his support for Nicaragua’s leftist leader, Daniel Ortega before the November 5<sup>th</sup> elections, and there was a huge rally and ceremony at the Port of El Rama in which Ortega welcomed 84,000 gallons of diesel fuel, the first in a delivery which will amount to 200,000 gallons. He as



flanked, Ortega was, by a phalanx of Sandinista mayors who had all signed an agreement with the Venezuela state oil company, the PDVSA.

Chavez has also helped Cuba. He's given them 90 – he gives them 90,000 barrels of oil a day in exchange for Cuban teachers and doctors in the slums of Venezuela who I think are doing something more than attending to the bodily and intellectual demands of the Venezuelan people. I think they're also there for propaganda and for security.

The rebels in Colombia, the FARC, have been allowed to address Venezuela's National Assembly, and the Colombian military has seized FARC weapons bearing Venezuela's military markings. Susan has talked about Correa, and I'll just say one thing, that Raphael Correa, the man who is running for president in Ecuador with Chavez' now more quiet backing – and I'll explain why – said that Chavez had made a mistake when he compared Bush to the devil at the U.N. because, he said, the devil was much more intelligent.

There has been a backlash in Nicaragua, in Peru, where Chavez tried to intervene, and in Mexico. So Chavez is being much more careful. Ortega is being very moderate in his remarks during the election campaign. There is a little good news, just to slightly correct what Susan said, is it looks like now that the opposition is uniting in Nicaragua and there is a good chance that Ortega won't get – will once again, for the third time, lose an election, but that's still up in the air.

But there has been no backlash from the Caribbean, where Chavez gives oil – or sells oil on extremely generous terms. And I could go on – Petrosur oil to Southern Cone countries, a people's trade agreement which Cuba and Venezuela have created to take the place of NASA and of the free trade agreement that has been extended now to Bolivia. Daniel Ortega has promised to join if he wins in November. And Chavez has also signed on to Mercosur, which is a pretty innocuous group, but Chavez has the aim and has stated the aim of transforming it into an anti-U.S. regional block.

But I think in some ways the most disturbing recipient of Chavez's revolutionary zeal and revolutionary treasure is TeleSUR, which is a 24/7 news but also documentaries, political talk show – a network which some have compared to al Jazeera. It's ongoing. It claims to be an effort “to break the northern broadcast network monopolies,” unquote, but as everyone knows who has spent any time in Latin American countries, they're all well equipped for television channels of their own. This TeleSUR has offices in Argentina, Brazil, Bolivia, Colombia, Cuba, Mexico, the U.S. and Uruguay, the last time I looked. Its head of the staff was a former Cuban state television executive. The staff members include leftist journalists from all over and producers from all over the continent. It receives financing from the Venezuelan government. And it is the beneficiary of Chinese technology, including a communications satellite named Simon Bolivar.

And Chavez has certainly courted China quite actively. This summer after Chavez visited Belarus, Russia, Vietnam, Iran, Qatar, and Mali, he described his relations

with China as a strategic alliance. He said that the Chinese revolution was, quote, “one of the biggest events of the 20<sup>th</sup> century, more important than the U.S.’s placing a man on the moon,” unquote. He said, quote, “If Mao Zedong and Bolivar had known each other, they would have been good friends.”

Argentina is more complicated case. The relationship, as Susan suggested, is much more economic than anything else. China has elevated Argentina to a country with which it has strategic rather than just cooperative relations. But it’s worth remembering that Kirchner is a loyal and proud Peronist with authoritarian, military, autarchic and anti-U.S. feelings.

So this is not just a matter of speeches and sentiments; it’s also visits, it’s ceremonies, it’s memoranda of understanding, it’s meetings, it’s agreements. And it’s not just Latin America but it is international. I’m going to talk a little bit about the international implications of this, and I’m going to sound a note of alarm, I think, because with the exception of this group here, complacency has been reigning in Washington, D.C., in spite of what I think are some pretty alarming developments.

Susan and I agree that there is at least three sorts of regimes in Latin America: the moderate entrepreneurial right, the moderate left, and the populist, et cetera, et cetera authoritarian left. And it’s from the last that the United States has worries. All of the people I’ve been mentioning, the suitors that I’ve been mentioning, are populist, left, authoritarian, statist, crony capitalist, anti-American, and looking for geopolitical ballast vis-à-vis the U.S. in the same way that the FMLN in El Salvador used to tell me that they welcomed Russia’s presence because it gave them a counterweight to America – what the Sandinistas felt about the Soviet Union. And of course Fidel Castro began to evidence began to evidence as early as 1961.

But the Chinese are very cautious about this whole thing. They don’t, as Susan indicated, as Charles indicated, they don’t want to alarm U.S. business because they need the U.S. market to develop and the fear the antics of Ahmadinejad and Chavez, et cetera. And of course Venezuelan oil is thick and dirty and hard to refine. The Chinese don’t have the planning capacity for it right now.

China, however, pursues a long-term, comprehensive national power strategy. Its military adventurism in East Asia backfired. Remember the missiles in the Taiwan Straits, the occupation of reefs in the South China Sea, which alienated Vietnam and Philippines. Countries began to unite against it, and China shifted to a much more cautious and long-range policy, which it has used in East Asia – it’s developed strong economic relations with East Asia – and only now begins to use those relations politically. And the East Asian countries feel so involved with China that they engage in a kind of form of self-censorship, and that’s the kind of thing that I think we might worry about vis-à-vis Latin America – Chinese soft power.

Right now there’s something called the Shanghai Cooperation Organization, the CSO (sic), which links China, Russia and Central Asia. Ahmadinejad was very active in

2006 in the meeting earlier this year, in 2006, and he touted identical views on world issues between China, Russia and Iran. But China advertises nothing in return and non-interference. When it enters into relations with Latin American countries, it always talks in those terms and of course who is the country that is asking for something in return and is interfering? It's the United States.

Let me talk a little bit about Chavez and Tehran. Ahmadinejad went to Venezuela this fall to cement an alliance with Chavez. He was greeted with full military honors. He was awarded the Liberator Medal. He signed a series of accords on everything from car production to oil exploration, and still found time to denounce the United States and praise Chavez, who returned the praise. Ahmadinejad said, "I salute all the revolutionaries who oppose world hegemony. The distance between our countries may be a bit far, but our hearts and thoughts are close." And Chavez wrapped an arm around Ahmadinejad's shoulder, and when the Iranian president stepped off his plane, he responded by declaring, "Two revolutions are giving each other a hand." And he went on to praise the spiritual depth of Islam, and offered Iran's help should the United States "invade."

They signed a memorandum of understanding to form a joint homebuilding company, planning to build 40,000 residential units in Venezuela. Chavez signed some 20 trade accords with Iran, totaling more than \$200 million.

So this starts to get into larger geopolitical questions. There is an article published in the National Interest, which we at the Nixon Center published, which I recommend to you, called – well, I forget what it's called but it's by Flynt Leverett and Pierre Noël. I think it's called "The Axis of Oil." (sic). That's the term that I took from it.

At the center of this undeclared but increasingly assertive axis is a growing geopolitical partnership between Russia, a major energy producer, and China, that paradigmatic rising consumer, against what both perceive as excessive U.S. unilateralism. The impact of this axis on U.S. interests has already been felt in the largely successful Sino-Russian effort to roll back U.S. influence in Central Asia. But the real significance is being seen in the growing frustration of U.S. objectives on the Iranian nuclear issue.

The United States – I think these goings-on in Latin America are a reflection of a larger geopolitical problem. The United States faces the possibility of a four-power alliance in four regions of the world: Latin America, East Asia, Central Asia, and the Middle East – a new, fluid alliance of nations that could potentially oppose the United States and other democracies. These four regions in the past several years have all witnessed rising nationalism and anti-Americanism, resulting in part from U.S. distraction in Iraq. All have seen a retreat from democracy since 1989, and in all four regions, authoritarian governments have a new weapon, one potentially as powerful as nukes or suicide bombers, and that weapon is oil.

Venezuela receives weapons, real weapons, guns from Russia. Russia supports Venezuela's candidacy for a seat in the Security Council. The Saudis allowed China's president to address the Shura Council, which Bush has never been able to do, and there have been joint Chinese and Russian military exercises. The common denominator is oil as a major weapon. Russia, Venezuela, Bolivia, and Iran all use the state to monopolize and chose partners for its oil and gas products. Putin has dismantled private Yukos and folded it into a state company. He has argued explicitly for years that the state should use its natural resources to wield power. He has boosted Gazprom, their gas company, as a powerful, in his words – "as a powerful political and economic lever of influence over the rest of the world." We've seen him use gas to pressure Ukraine, Moldova, Georgia, and to petrify Europe last year.

So Chavez' use of oil money is not a peculiarity of Chavez. It's not just his own comic, clownish, excessive ambition. It's part of a tendency that is going on elsewhere in the world, and that he has linked up with specifically with Russia, with China, with Iran.

What should we do? I think the first thing is the kinds of meetings that we're having today, to draw some attention to this. The Pentagon, in its recent reports, has been waking up to the problem. The first war game – it held its first war game just in April that fought an alliance in which the United States fought an alliance of China, Russia and Venezuela. We need to consolidate our alliance with Europe, and to develop it for India and Japan to offset China – not because China is our enemy. China may not know what way it's going, or it may have a very long-term vision, a century-long-term vision, which it's implementing slowly, but certainly strengthening ourselves and showing China that certain activities will isolate it might deter it from that course.

It's a real – the situation I think is a kind of vindication of the realist theory that when you get a hegemonic power – and we have been a hegemonic power for nearly 20 years – and I think we spent our hegemony lavishly and unwisely – but hegemony produces rivals, unites countries against us, or against the hegemonies. And I think we're seeing something of that, or at least we're seeing some indications of it, in Latin America and also of course with the relationships between Russia, China, Tehran and Chavez.

Thank you very much.

(Applause.)

**MR.** : Ambassador Darembaum had to leave. He yielded the powers of the chair to me. In the spirit of the meeting, as I was saying to Susan, I will exercise these powers in an authoritarian, populist – (inaudible) – way. But, therefore, just if you have questions, just if you would be so good as – if you would just identify yourself and wait for Philip (sp) here to give you the microphone so that – okay, we'll start way in the back.

**Q:** Thank you. I'm John Ottley (ph) with the Atlas Foundation. Professor Purcell, are there any precise example that the U.S. is actually – U.S. companies have actually lost business because of the growing anti-American feeling since Bush and all

that. One hears about it, but are there polls of executives – are there – you never hear of any precise losses. Are there such losses? Does it convert, in other words, the anti-American feeling to losing – American companies losing business?

**MS. KAUFMAN PURCELL:** Well, the obvious one is Occidental Petroleum in Ecuador, which I think it's still in the state of being nationalized, but I'm not sure where the negotiations are, if any, at this point. So that's really the key one in very recent years. I don't know – Evan (sp), do you know any others? They probably have lost some investments, though, as a result of policies toward oil companies in Ecuador. I mean, so far no companies have pulled out, I don't think, of Venezuela, but –

**MR. :** I think Exxon did.

**MS. KAUFMAN PURCELL:** Did Exxon pull out already?

**MR. :** I don't know if it pulled out –

(Cross talk.)

**MS. KAUFMAN PURCELL:** It's not putting more in. It had said it would invest and then it said no. But they have fairly costly fixed assets already in the country, which they're loath to abandon at this point. But so far, to the best of my knowledge – and if anyone here knows something more – Occidental is the key – is the key one.

But that's not exclusively an anti-American thing. I mean, that is part of also the dynamic of – you know, these governments are sort of feeling their oats and deciding they can get away with it, and they want to get their hands on energy resources and development, et cetera, so it's part of also an anti-privatization wave, which, as Bob mentioned, isn't only going on in Latin America now; it's going on in Russia and other places.

Did you have something to add to it, or that's a question?

**MR. :** (Inaudible.)

**MS. KAUFMAN PURCELL:** Okay.

**Q:** My name is Robert Chandler (sp) from Strategic Planning International. The question really is for Mr. Leiken. What you laid out has been building for some time, and I'm really delighted that you brought this thing and laid it out directly, which is a focus of some current research that I am conducting. So my question to you directly is have you put those ideas down on a paper that is citable, footnotable, or anything else, or can I –

**MR. LEIKEN:** No.

**Q:** Then I will cite some of the key points that are here if you don't mind.

**MR. LEIKEN:** (Inaudible.)

**Q:** I do want to add that just after the fall of the Berlin Wall, sitting around a table with a bunch of people, trying to think through what the heck was going on, Paul Nitze was very quiet, sitting over in the corner. He didn't say a word. Then all of a sudden he had this burst and said, what's going to happen is Russia and China and a Middle Eastern country, probably Iran, are going to join forces as opposed to the United States. No one in the world – no one likes the rich guy on the block, no one likes the powerful kid on the block and the rest, and we're going to have to deal with it and live through that. He didn't raise Chavez – he's gone now, which is too bad – but we're seeing that come though. And this focus that you're on – this focus you're on is essential, and I think it's essential that it be shared with government officials because, as you intimated – I'll be more direct – they're fumbling the ball and have been for some time in Latin America.

**MR. LEIKEN:** Well, to answer your question about writing it down, I am going to be writing this down in a form of a funding proposal because I would like to do research. That will be the easy part. The hard part will be finding the funders. But that's my next step. I'd be happy to share it with you – the proposal.

**Q:** (Inaudible.)

**MR. :** I would like to follow up on that with some related material. With regard to gas, Gazprom – it's been in the media that Gazprom is building the most modern, largest international gas pipeline in South America, linking Venezuela, Bolivia, Argentina and Brazil. But also, Gazprom, in the United States, in September, about three or four weeks ago, announced in Russia that it had not only incorporated but is registered in Houston, Texas in the United States with a two-pronged business plan – one prong to import all of the liquid natural gas that will be sold to the United States, and the second prong to purchase American small gas companies and pipelines.

To link the two together again begs the question, will American interests be losing money and which companies, et cetera, but also the kinds of leverage, energy leverage, that could be exerted. And this is an important area. There are other examples.

I think the press in the Russian Federation, in Eastern Europe carries this kind of information, not specifically what I just mentioned but it's available on websites – not blogging but official. The information I got was actually from the Kremlin website. And the, should I say, the Western press is not covering this, and it's linked to legislation. Legislators will legislate what is impressed upon them by the voters. And if the voters aren't informed by the public, general press, and if business leaders, decision-makers, aren't informed by the general press, that emphasis to legislators is a gap. And by example – I won't mention who, but there was a legislator who had crafted trade legislation with regard to countries that do business with members of the SCO. And I

asked him how he looked at the SCO in view of the legislation that he had written, and the answer was, haven't.

**MR.** : (Inaudible.)

**MS. KAUFMAN PURCELL:** Can I just make a comment on it?

(Cross talk.)

**MR.** : – which is not a bad thing, but at this point – and Susan wants to say something.

**MS. KAUFMAN PURCELL:** Yes, I just want to express some skepticism about this 5,000-mile pipeline. You know, it's going through a number of countries that aren't exactly known for super-duper cooperation. It's going through the Amazon. It's running up against lots of – it will run up against more grassroots environmental groups. It was planned at a time when oil was \$70 – well, who knows if it's going to go back up again or not? And the Venezuelan government – I mean, the Chavez government has made all kinds of commitments that it's not clear that it has the ability to carry through on.

So I myself am skeptical about this 5,000-mile pipeline. I'm not going to comment on what Gazprom is doing in the United States.

**MR.** : Let me just get someone in the back. Oh, there's someone else – we have two.

**Q:** Yeah, I'm Tony Freeman from SAIS. Is there any sign of interest in the Chinese government – interest or temptation in the Chinese government to project its political model in Latin America?

**MR. LEIKEN:** No, not especially. I think that one of the things that is – the Chinese economic historical experience over the last 25 years is really hard to imagine being reduplicated in any Latin American country, in part because there's a large overseas Chinese involvement from Southeast Asia and overseas Chinese sources of capital because they're – all kinds of things.

I think one of the things the Chinese say – and I think they may even believe that they would just as soon these people pursue their own separate roots to whatever it is they're going to do and not try to say you ought to emulate us in an economic organizational way, and from a certain point of view they wouldn't want that because it's the creation of a certain kind of competition. I think, as Susan has suggested, there are opportunities for China in the political economy of Brazil and Argentina as presently constituted, which might not otherwise exist. And I think they're also attentive to the possibilities of – I think they're increasingly attentive – not overly sensitive but increasingly attentive to the possibilities of backlash, which we've seen I think somewhat in Mexico, that they're starting to see a bit in Brazil and in other places. And inevitably,

the commodities boom, which is already, shall I say, coming to an end, at least the prices of it – not going to reduplicate I think in the next 10 years what we've seen in this 10 with respect to price increases. It will just require an awful lot of readjustment of expectations among all parties.

**MS. KAUFMAN PURCELL:** I just want to add a word about Cuba, which Jaime Suchlicki will talk about in a second. The only country that people have talked about – not that China is trying to push its model, but that the Chinese model might look attractive to might be Raul – Raul with Cuba because the thought is that Raul might have to do something to get the Cuban economy moving besides depending on Venezuelan largesse.

But, you know, it required quite a bit of government control – I mean, the China model isn't really applicable easily to other countries, but Cuba under Raul is the only time I've heard it cited as a plausible model. And when people in Latin American talk about China as a model, what they really mean is they would like to have political control and make a lot of money. It's a very loosely defined model.

**MR.** : Go right here.

**Q:** Mark Marr (ph) from the Wilson Center. I was intrigued, Mr. Leiken – sort of you – towards the end of your presentation you mentioned that what we need to do is to develop an alliance with Europe, Japan and India to offset China. That's a big one. So if you could elaborate a little bit. And that would seem to – you know what Professor Purcell said was that they're kind of a little bit sensitive, and one of the things in Chinese mentality traditionally, historically, and at present is this fear of being surrounded. So your model would – you know, what I'm positing is your model makes things worse, so I would appreciate an elaboration on it. Thank you.

**MR. LEIKEN:** Yes, perhaps "alliances" was the wrong word to use, but Japan is – and especially today – or since yesterday since the explosion in North Korea – is already worried about China. It's not clear that China is going to be – I mean, it goes back to the old question of appeasement versus standing up. I think India is a country that has, historically, problems with China. I don't think that we – I'm not talking about arming India against China, but I think we need to look to the countries that we have – that we can have relations with and who are worried about China – not to encourage them to scare China, but to indicate to China that there is resistance.

But I think the most important thing we can do, and I think what's hurt us most in developing alliances, has been our own divisions, which I think the Iraq war has exacerbated. I think if we could find a golden bridge, a way out of Iraq – I think there is way out of Iraq – that would go a long way to rehabilitating the United States politically and making it possible to develop alliances.

I should just add, by the way, on this point, that Hudson Institute is always ahead of the curve here, you know. Last July we sponsored what we thought was the first



meeting between Indians and Japanese in Tokyo on a variety of these subjects, and the interesting ideas that have come out of that from people who are well-connected in the new Japanese government – let's put it that way – are interested in this idea of Japan, India, Australia, the United States, maybe Canada – and it's true, you know, the Chinese have a terrible fear of being surrounded, as do the Soviets, who always liked to make a big canon, and things of this kind. And I'm sure one has to be attentive to their sensibilities, and if there is some kind of homegrown paranoia, certainly one does not want to stoke it.

And yet, whether or not that ought to – how that plays out, there's a lot of concern about all this. By the way, on this question of long-term Chinese interest in an energy summit, it also happens that we're sponsoring with a Chinese think tank with which we've maintained fraternal and comradely relations in Beijing, a two-day conference on the future of Chinese energy policy. And what the Chinese appear to be interested in is thinking through the next 30 years of how they're going to approach it – it's not so much today or tomorrow – and try to figure out what are the big bets to place and why.

So much of this discussion, even in the higher reaches of government, is so fad-driven. I'm remarkably struck by the fact, if I can say. An article appears in the Economist, you know, end of this, and then some column appears in Financial times, the beginning of that. And then there's this endless parade of jerks – CNBC – who will say, oh, oil is going to \$100 a barrel, and then people – and of course this has real effects like this poor young fellow who lost \$6 billion for his investors in one week actually paying attention to this stuff.

So it's very hard to sort of –

**MS. KAUFMAN PURCELL:** Do you really feel sympathetic toward him?

**MR. LEIKEN:** Well, I do. I do. It must be quite a thing to lose \$6 billion in a week, most of which isn't even yours. (Cross talk.) People are after you.

So, I mean, I think that we're hoping, through this kind of discussion, to see whether we can get – in a sense, building all of these things together, because the questions of strategy and indeed of technology and geopolitics and ideology and not to say in the new international theology, which somehow enters into advanced anti-imperialist doctrine – my mind is still reeling on this business of the spiritual depth of Islam meets the something or other of Che Guevara, meets oppressed Indians in Venezuela, meets something else. It is quite remarkable.

**MR. :** All right, another question. You have another question. I'm looking at the gentleman here.

**Q:** Ralph Galiano, U.S.-Cuba Policy Report. My question is to the panel. How has the role of China developed in Panama, and what is its importance today throughout the Western Hemisphere?

**MS. KAUFMAN PURCELL:** What importance to the Western Hemisphere? What it's doing in Panama or in general? I mean, the main thing that I know of is the fact that there are Chinese companies at either end of the mouth of the canal, which means that if there was something to go wrong in the U.S.-Chinese relationship, that's a potential chokepoint – you know, way of choking off the canal.

But aside from that, on – are you aware of anything?

**MR. LEIKEN:** Well, friend Leiken here has a proposal to – you know, one of our perennial proposals is “Strategic Implications of Globalization of Chinese Enterprise,” as we call it, and the complex interaction – these companies are owned, I think both of them or one of them, by – (inaudible). So what's the relation between these folks and –

**MS. KAUFMAN PURCELL:** (Inaudible.)

**MR. LEIKEN:** Yeah – and the Chinese government, and what is the role of the overseas Chinese capital, which has some relation to, obviously, China and – the relation between Chinese state-owned enterprise and independent enterprise, which became an issue in the attempt to buy Unocal.

I mean, so what it would mean operationally I don't know. It was a contentious political question in the country for a while, and now it seems to have gone away. It was also about the Chinese acquiring – a Chinese company acquiring the right to the port of – in Long Beach, and then we had the variation of Dubai and – so, I mean, the point of it is that it adds to this aura of power and has a certain mystery about it, and the way things are going, and the fact of the matter is these two places are managed by four companies that are Chinese or some sort, as distinct from being Danish of some sort of Norwegian of some sort, or, perish the thought, American of some sort.

And it's true in telecommunications and other things, a whole case of these. You may also remember the attempted acquisition to purchase the – shall I say another failed venture? – the detritus of the Global Crossing fiber optic network, and who is going to control these – the cable systems that run between the West Coast of Latin America and the Latin America and China and laying the fiber optic cable – all of these kinds of things. And I don't know that we've sorted out very much how much actual leverage this gives to the Chinese government, as such, but certainly – I mean, it certainly creates something the Chinese are interested in, aside from – which is aura, you see. I mean, after all, the appearance of power and the appearance of prestige and influence and being on the move is oftentimes as valuable as the real thing. You see, we've got much more power than they do, the U.S. right now – much, much more. We've got, I don't know, some – we've got all this power and yet somehow the impression is being created that we don't or the aura is not good.

**MS. KAUFMAN PURCELL:** Or that we can't use it.

**MR. LEIKEN:** Or can't use it, or it's not translatable into usable – all of these kinds of things. It's a very – I mean, it's a very interesting and intriguing kind of question.

I'll say one more thing. The next big issue will be some kind – I don't know what – of another acquisition by the Chinese of some big thing here in the – big thing here in the United States. I don't know what it will be.

**MS. KAUFMAN PURCELL:** The Rockefeller Center.

**MR. LEIKEN:** Well, Rockefeller Center or huge financial services company or a bank or something –

**MR.** : Tom Cruise's film company.

**MR. LEIKEN:** Excuse me?

**MR.** : Tom Cruise's film company.

**MR. LEIKEN:** Tom Cruise's film company or something –

**MR.** : The New York Yankees.

**MR. LEIKEN:** The New York Yankees would be even better, actually. (Cross talk.) They whipped those overpaid – into shape. (Laughter.)

So, I mean, it's interesting from that point of view.

**MS. KAUFMAN PURCELL:** But I think no acquisition would be as touchy, that I can think of, as oil.

**MR. LEIKEN:** Oh, sure. Look, I mean, the Dutch own a lot in this country and the British own a lot in this country, but of course they're not enemies, you see. The Japanese own a lot, but we're treaty allies of ours, so that's a rather big – you know, it's –

(Cross talk.)

**MS. KAUFMAN PURCELL:** The reason I mentioned Rockefeller Center is –

**MR. LEIKEN:** Oh – no, absolutely.

(Cross talk.)

**MR. LEIKEN:** Well, and they bought Pebble Beach –

**MS. KAUFMAN PURCELL:** But they lost money, too.

**MR. LEIKEN:** And they bought Pebble Beach golf course too, you may remember.

And all of these are incidentally cautionary tales for the Chinese because they know about them.

All right, let's – I think let's just take one more question, and we'll have 15 minutes of coffee break. How about here, and then – and you get to ask the same question in the next panel because obviously the questions are fungible, and – (laughter) – in that way.

**Q:** Thank you. My name is Deva Torim (ph). I'm permanent deputy representative of Spain to the OES. And my question is to the panel.

There is something weird, curious around this, because a lot of people seemed worried here in the United States about the rising of China, but the truth is that present China, nowadays China is an offspring of the United States because it's – the United States who is pumping money and technology into China so that China can grow and develop herself in the future, and at the same time I see, you know, a lot of American corporations are happy in delocalizing production and taking it to China, building plants there, and at the same time I see the American Treasury happy also when China is buying a lot of Treasury bonds.

So, you know, I think that either you have to solve, you know, this paradox or contradiction, or not being worried about China. I see, you know, the present situation similar to what is happening with Japan 20 years ago. A lot of people were worried about the rising of Japan, selling a lot of products here in the United States, and in the end, Japan and the United States became close allies. So I think that you have to think a lot about that maybe the American government is very busy in other business and doesn't have time to think about that.

**MS. KAUFMAN PURCELL:** Yeah, they have time to think about China. No, it's a good question, and to me – I mean, I'll tell you what I think the answer is and see if you agree with it. I mean, it actually makes perfect sense to me, and your reference to Japan is also very relevant. I mean, I think you have to start – I mean, this is one case where I think the United States does know what it's doing. Now, whether it's going to work or not is another issue.

The idea is that China's course is not yet determined. You know, there are indications it could become a good member by our standards of the international community, et cetera, et cetera, and maybe even evolve in a more democratic way, or it could turn out to sort of cement its relationships with rogue states. They, you know, will become more dictatorial or become more hostile. It's not clear right now.

So the idea is this one of sort of embedding China in a variety of relationship systems, you know, whatever, doing what you can to reinforce a market economy, banking to a certain extent that a market economy, you know, liberalized – a more liberal aspects in an economy will then seep into the political system, and then increase demands for a more accountable, democratic government, et cetera, et cetera. It might work; it might not work. But I think the argument can be made – and I would make it – that it's worth a try.

And the same with Japan – you know, after the war – that was different; we occupied Japan, and we occupied Germany, et cetera, but for a variety of reasons, at different points in their development, countries are up for grabs, you know, and the course of their development is not a foregone conclusion. And so you try and do what you can to influence it, or if you have defeated them in war, you go in there and you restructure.

And I think that helps for me explain what you see as the paradox, and it looks paradoxical of the -- what the United States is doing. Perhaps I'm making it sound more coordinated than in truth it is, but much of what we do in our political system isn't that coordinated – (chuckles) – but it is based on a reasonable theory, or a series of theories that might work out, might partially work out, or might come back to plague us. You know, we don't know.

I just want to say one thing on a somewhat different thing. For those you are interested, the Center for Hemispheric Policy just finished a taskforce on China and Latin America, and we will begin distributing papers via e-mail – short papers starting in about a week or two. And if you would like to receive a paper or all of these papers, just leave me your e-mail and I would be happy to send them to you.

**MR.** : We'll stop now, but –

**MR. LEIKEN:** Could I say one thing?

**MR.** : Okay.

**MR. LEIKEN:** We focused on China, and this session was about China and Latin America, and I would just like to bring us back to Latin America because there is one point that hasn't been made, and I think it's an important one. Latin America, by many measures, is the most unequal region in the world. We have a situation now where Venezuela, in a number of ways – what worries me most is TeleSUR is, you know, going to develop a Latin American-wide television station that poor people are going to be listening to, and what they are going to be hearing – and it's partly with Chinese financing and technology – is an anti-American message. We have seen what that kind of thing can do in the Middle East.

I think, you know, we worry about China. Let's not forget the Latin American part of the equation because it is pretty disturbing, too.

**MR.** : Well, we will do that. We will all look forward to the mid-winter conference on that same subject. (Inaudible.)

**MS. KAUFMAN PURCELL:** No, no, we finished.

**MR.** : We have to have a follow-up --

**MS. KAUFMAN PURCELL:** We are just going to send papers.

**MR.** : -- a follow-up meeting. We know Karen Hughes is up to the challenge of expanding the portfolio to include TeleSur. We'll convene about 11:00 or so.

(End of panel one.)

**MR.** : (In progress) -- by Gabe Collins, and he is going to talk about -- it's been written out here -- China's resource quest in Latin America, Brazil, Argentina, Chile, and Bolivia. And then he's also going to talk later at lunch. But he is a young man, and can do the work of two. I'm not going to introduce his people individually, but then they can just come. Jaime Suchlicki is, I suppose, a colleague of Susan Kaufman's at the University of Miami at the International Center, but focusing more on Cuba and Cuban-American relations. And we've heard a lot about Venezuela, and so we're fortunate to have Pedro Burelli who is described here as a former member of the executive board of the Venezuelan oil company, may even have met Hugo Chavez -- as I certainly have not -- and may be able to give us some insight into it. So I'll just let them come up here in turn and they will follow the same procedure. They'll say what they have to say and we hope we'll have some time for questions, and then we'll have lunch.

**JAIME SUCHLICKI:** Thank you very much, and thank you for the invitation. First of all, the news from Cuba -- Fidel Castro is dying. The report we have is that he does have terminal cancer. Even if he survived the recent surgery, he lost 41 pounds. He probably will not come back to power in any significant capacity. Even if he comes back, he's going to be in a more figuratively position rather than actual control of power. So control of power has passed to his brother Raul. Succession has taken place smoothly in Cuba. Raul and the military, which runs 60 percent of the Cuban economy, is in control of Cuba. Raul probably will not make any significant changes except maybe throw some food at the population to satisfy the partial needs of the Cubans. But we're not going to see a Chinese model in Cuba, at least in the immediate future.

So that is basically what is happening in the island, and now about Cuba-Chinese relations. Well, the Cuban-Chinese relations took a jump or, as the Chinese call it, a great leap forward in 1960 when Fidel Castro was the first Latin American country to recognize Communist China. From 1960 to 1966, the relationship was one of competition between the Soviet Union and the Chinese, with the Soviet Union exerting greater influence in Cuba, and the Chinese moderate influence on Castro's position. By 1966, Castro realized that he couldn't count on the Chinese, that the weapons that he

needed were coming from the Soviet Union, and despite his unhappiness over the missile crisis and being slighted by the Soviet Union, he moved toward the Soviet camp. So the relationship ended with Mao calling Fidel Castro a little dictator in the Caribbean, and Castro calling Mao an old senile leader in China.

So that was the decline of Cuban-Chinese relations. And the re-emergence of bad relations occurred in 1989 just prior to the collapse of the Soviet Union during the period of perestroika and glasnost, which Fidel Castro disliked, and he even prohibited Russian publications entering Cuba talking about perestroika and glasnost. But at that time, following the Tiananmen Square, Cuban and Chinese relations begin to move closer to each other, and then became in full bloom after the collapse of the Soviet Union. Today, China is Cuba's second-largest trade partner, second to the Venezuelans. China provides Cuba significant amounts of products, and Cuba sells significant amounts of products to China. So there is a very, very close relationship; I'll get into it in a minute.

Now, the simple answer is – sorry, the simple question is why is Cuba interested in China? And I have five or six simple reasons to explain the interests of Cuba in China. Well, first of all, the Cuban leadership – both Fidel and Raul – see China as a counterweight to U.S. policies in the world, as a counterweight to U.S. influence in the world. So they see a possibility here of a big power checking or checkmating – or checking – the United States. China is also important because it has a seat in the United Nations and that seat helps prevent any actions of the United Nations on the part of the United States toward Cuba.

Economically, as I mentioned, China is the second-largest trading partner, and I'll give you two figures. In 2005, the value of trade between Cuba and China was 830 million (dollars). In the first six months of this year, the trade volume is 890 million, so there is a 70 to 80 percent increase in the first six months of trade between Cuba and China, which indicates the growing rapprochement, the growing relationship, the growing interest of China in Cuba.

China buys from Cuba nickel, which is very important for steel and other, buys cobalt, buys biotechnology, and invests in some of those industries in the island as well as in telecommunications. China has provided Cuba in the past year credits in the amount of \$600 million in Cuba's debt to China, and Cuba's debt to China has been postponed now for ten years.

China also is important in the modernization of the Cuban armed forces, providing spare parts and equipment for the Cuban military. Until recently, Russia was asking for cash for payments of Cuba or in goods. Now, as recent as last week, Russia provided Cuba \$350 million in credit to buy spare parts for the military in Russia. So Russia, as it has done in Venezuela, it is now entering full-fledged the area of re-supplying military equipment to two countries, Venezuela and Cuba, in trying to modernize those armed forces.

Now the other thing why China is important for Cuba is China has provided Cuba sophisticated electronic equipment to block the transmission of radio and TV Marti. So all of these antennas that are in the northern part of Cuba that we can see through satellite are showing that those are Chinese antennas using to block TV and Radio Marti. And finally, China has provided Cuba air defenses, sophisticated radar equipment, anti-aircraft equipment to, quote-unquote, “defend Cuba from a U.S. attack.”

Now, simple and – I think – it’s understandable why Cuba is so interested in China. Now the question is, why is China so interested in Cuba? Well, I’ve got five or six answers to that one, and maybe we all can come up with others. First of all, China is interested in Cuba politically, economically, and strategically. Those three areas are areas of Chinese interest with Cuba. First of all, it is a slap at the United States for Taiwan. So first, there is the Taiwan issue and the proximity to Taiwan to China, the proximity to Cuba to the United States has some reciprocity in the eyes of the Chinese.

The Chinese have established an electronic eavesdropping facility in Cuba. As a matter of fact, they have three of them. But the principal one is about 20 miles outside of Havana, in a town called Bejucal. The Chinese have capability to listen to our communications, to our conversations, both telephone conversations, computer transmission, and satellite transmission. So these three facilities are focusing on listening to both commercial and military communications within the United States and within the United States military. Also, the Chinese have taken over a base that the Russians had in Cuba, the Soviets had in Cuba, in Lourdes and have converted into a major cybernetic enterprise that is called Universidad de Ciencia Informaticas. So it’s a university completely outfitted by the Chinese and by Chinese computers, and with significant Chinese presence.

Now, for China, Cuba’s nickel – and as you know, Cuba has the fourth largest reserves of nickel in the world, so Cuba’s nickel is important for China. Cobalt – Cuba is an exporter of Cobalt, and recently Repsol, the Spanish oil enterprise have found significant deposit of petroleum off shore in the north coast of Cuba, in the same vein as the one from the Gulf of Mexico. So we have now reports of significant petroleum facilities in the northern oil-petroleum reserves in the northern part of Cuba, and Sinopec, the Chinese oil company, is interested in negotiating with Cuba for that kind of exploration.

The other points that Cuba is important for China is Cuba and its allies – and remember that Cuba, for the past 47 years, has been consistently an enemy of the United States, has created alliances with regimes that are anti-U.S. and groups that are anti-U.S. in the world. So Chinese interest is to get the support of Cuba at the United Nations throughout Latin America and other parts of the world for their own international objectives and their international positions.

And the final reason why maybe China is interested in Cuba is that Cuba can become, whether the U.S. embargo is lifted, or toward Latin America, as a distant economic outlet and a distant economic store to sell products in Latin America, and when



the embargo is lifted, into the United States. So Cuba is for all of these reasons very important I think in the Chinese view, and as we heard in the first panel, China doesn't do policy for four years, and doesn't change its policy every four years. It looks at the world in a longer-term vision.

Well, what is the future? Well, first of all, the growing Chinese involvement in Cuba is going to continue. Whether it's Raul Castro in power, or whether it's a successor regime, China has significant interest unless there is a democratic regime that emerges in Cuba and does not want this relationship with China. But given the nature of the transition in Cuba, which is going to be slow, difficult, long term, I think there will be a continuous Cuba-China relationship, and continuous support on the part of China toward Cuba.

Now, will Raul Castro – and we talked a little bit this morning about the model, the Chinese model. My answer is no, one, because Raul is no Deng Xiao Ping, second because if he begins to open up the economy and change toward the Chinese model, he will be rejecting and refusing the legitimacy that has been provided by being the brother of Fidel Castro and he cannot very well get up and reject that kind of a legitimacy and reject that Fidel Castro's legacy.

And third, I don't think that he will dare begin to open up the economy because this will unravel the elites that govern Cuba and may bring on the one hand a quick opening, on the one hand reaction in – the Cubans have observed the Perestroika and the opening in the Soviet Union, brought about the collapse of the Soviet Union. This is a lesson that they have learned and they have instilled in their leadership for many, many years. So I see a Raul regime wouldn't last very long because Raul is also ill and drinks a lot and so on, and 75 years old. He may not last too long. But if he does last, I think we're going to see a continuation of the present structures and so on.

Now, the question is what does this all mean to U.S. interests and U.S. policy? Well, given the problems in Iraq, Iran, the North Korean issue, the fact that the United States is dependent on the Chinese for their bonds and so on, I don't think anybody in Washington gets too excited when we talk about all of these things that the Chinese are doing in Cuba. I think as a matter – and I can tell you that my friends at the Pentagon tells me that, oh, these facilities, we can blow them up in two minutes if there is a confrontation with China.

The question is not one of military confrontation. The yuan is the erosion of American influence, American power, and the perception of American power by the Chinese and others in Latin America and in other parts of the world. And I think that this is what should give us pause. And I think Bob Leikin is correct. We should worry about this in the long term, what is the implication of a Latin America opposed to the United States for U.S. national interests, for the U.S. economy, and for our taxpayers because if petroleum is diverted – Latin American resources is diverted, and we don't have access to those resources, the cause of commodities will go up, our inflation will go up, and our taxpayers will pay. Thank you very much.

(Applause.)

**PEDRO BURELLI:** Good morning. I have been asked to talk about the relationship that seems to be attracting a great deal of attention. I mean, it's not just that Venezuela has become quite a noticeable country in the world, and particularly in the United States, but also that the Chinese-Venezuelan relationship is one that generates a tremendous amount of suspicion. When people look at the overall China-Latin American relationship even further, China is kind of growing international power.

The reason I think this is this so important because a rhetoric that surrounds this particular relationship, and the persistence – I mean, the insistence of Chavez visiting China and using that as a platform obviously makes for a lot of photo ops, a lot of headlines.

The fact is that while this relationship, which is full of potential and that the Chinese who do have that very long-term view cannot do anything but focus on a country that has probably the second-largest oil reserves in the world, the reality of it is much more surprising and sobering. This is a relationship that is full of miscommunications, frustrations, and disappointment on the Chinese side. And this might come as a surprise. But once you go deeper into what has happened, I'm not sure that the Chinese are that happy with a label of strategic relationship that Venezuela insisted on putting on this relationship, and the Chinese somewhat reluctantly agreed to.

The reasons for this are multiple, and I'm – you know, I will go into some of the background, but I will just say one quick thing, is that Confucianism and the Bolivarian revolution are actually polar opposites. And what has dominated China right now is that it, more than anything, you can discuss whether it's capitalism, whether it's socialism, it's a return to Confucianist values. And that is really the opposite in every sense, whether it's seeking harmony, whether it's seeking respect, whether it's looking at the long term. There is a number of issues that are at the fundamental root of Confucianism that have nothing to do with the way Hugo Chavez runs his government and the way he runs foreign policy. So there is an overriding issue that I think one has to keep in mind.

But let me, before I go into it, give you a sense of what the chronology of this relationship is because it is important. Venezuela established full diplomatic relations with China in 1974. It was a very non-traumatic event. Venezuela had never had diplomatic relations with Taiwan, so it was not an issue of breaking a relationship to enter other as condition – as a one-China policy would demand.

So it was a very natural evolution, relationship between that moment and Chavez's election – went through a period of, you know, nothing really happening – very small amount of trade, I think a real recognition of the distances involved, but also in the opportunities that we did have in Venezuela, a big role to play, which is temporary occasions in which Venezuela occupied the presidency of the Security Council. I think every Venezuelan ambassador who had that job said that they always found in China

tremendous support. And I think very few times did Venezuela and China diverge on any major issue. But it was not – there were no histrionics; there were no big photo-ops; it was just a very regular, traditional relationship.

What changed, and what changed dramatically was in 1997, a full year-and-a-half between before Hugo Chavez was elected as part of a opening – the opening of the oil sector. At that moment I was part of Petróleos board, we did a round of marginal field service contracts, and it was called the third round. That is how everybody in the oil industry knew it. And we invited a number of companies. We went around and let everybody know that we were doing this.

We received about 400 applications for information packages. We pre-qualified companies – about 200 companies were pre-qualified. A hundred and fifty of those were international, about 27 countries. And then something very interesting happened when we started bidding these fields. This was, like, closed-envelop bidding, is that the Chinese came in – Chinese Natural Petroleum Company, and really put a lot of money on the table. They put \$350 million bonus money in order to have the right to go in and invest in operating these fields under contract with Venezuela.

I must say that of those 20 fields, 18 were awarded. Two went to the Chinese. The Chinese bid on three others and lost. The Chinese were reported to have a billion dollars basically ready to be spent in this process. Not only was everybody surprised, but the Canadians who actually put their eyes – a couple of Canadian companies – on the fields that the Chinese ended up bidding with were quite surprised. And I think everybody – I mean, they were moving back to the border, and we sat around and we said, who are these Chinese people? Where did they come from? We have no – we had obviously pre-qualified them, but – among many.

But the interesting thing about that is that it was never preceded by any government-to-government conversations. They just showed up in Venezuela in a completely open and transparent bidding process in which they outbid some very, very big guns.

Now, this is very important, okay, because this preceded Chavez being in power, and it actually indicates something that people failed to focus on, is that Chinese involvement around the world, while it might at times be under the cover of a political state umbrella is growingly business-oriented, and profit-oriented. Many of the Chinese companies are now going out in the world and now publicly trade, either in the mainland stock exchanges, in the Hong Kong stock exchanges. These are companies that are coming to be world class, you know, and displaying abilities that people did not give them any credit for. So the massive change – I mean, the big amount – and everything everybody ever talks about oil really start in '97.

At that same time, China has become very interested in a product that Venezuela was producing out of its very heavy oil, which is called orimulsion. It is a special fuel in which it took its heavy oil, mixed it with oil, and it was used very well to fuel power

plants as a substitute of coal. So it wasn't necessarily a full competitor of oil in the regular sense, but is more of a replacement for coal. The Chinese became very interested in this technology and signed a very large contract. As a matter of fact, then started talking about the ability of taking over and building a second module to produce orimulsion.

So I just want to set that stage. And before I get to 1998, the year Chavez gets elected. A few weeks after he was elected, the Chinese ambassador visited him in his transition office, and invited him to China. Chavez, who had traveled a little around the world prior to this, takes up the opportunity and shows up in '99 in China. Already at that time, President Jiang, in his first meeting warned President Chavez in very kind terms, from the reports that have, he said, Hugo, don't fight against everybody; you're not going to win. So this is very early on.

Chavez had really not made a lot of noises about anything, but I think in the way that he approached – when he arrived, he did say something very similar to President Morales. He said, I have always been a Maoist. Mao is a great guy. He tried to explain to him that if he wanted to speak about Mao, he should also talk about Deng Xiaoping, and that it is much more relevant, that the people that he was talking to were much more successors to Deng than actually followers of Mao. He still kind of insisted, and has insisted on the Mao relationship, and has failed to understand the contradiction of talking to people about somebody who the Chinese define as having been 70 percent right, and 30 percent wrong.

So what happens then is that the Chinese get excited, and they suddenly look at the opportunity of a man who is throwing himself in their arms, and they decide to help. The first set of agreements involved building 20,000 homes – this was not by any means gifts; these were just soft loans from Chinese banks – and building or recovering a railroad line. I can tell you, of the 20,000 houses, 40 were built – 40, 4-0, and the railroad is still U.N.-built and unrepaired.

So what went on here? What happened here? And I think what really happens – you can take the bigger issue of China expanding in Latin America. I think China wants to do something in Latin America. I think China has a great deal to do in China. There are not that many people that they can afford to send out there. They have all of the engineers, all of the capital resources, all of the equipment manufacturers in their country working towards the expansion of China's infrastructure.

So some of the promises that they have failed to fulfill is because they really don't have the capability that they say that they have. That is one reason. The other is they think there is a huge cultural divide. I think it's common of all of Latin America, but it's particularly common in Venezuela for reasons that I'll discuss later.

Since that first trip, Chavez has made three more trips to Venezuela – to China. He has, like I said, struggled very hard to put the strategic tag on the relationship. Like I

said, the Chinese were very reluctant to do this; they have now agreed, but it's definitely not strategic in the sense that Brazil is strategic or that Chile is strategic.

Now, if we look at the opportunities or the challenges or what Chavez represents, I would see – and I would go elaborate on this, that China is actually a potential ally of the United States as it tries to control Chavez's ambition in the region and beyond, and not a competitor.

Let me actually stop for one second and go back and describe what is going on in Venezuela right now because I think that is also important. Mr. Chavez is into his eighth year of power. It has been a very divisive rule, a highly polarized, quite incompetent, full of corruption, and in a constant battle against real and perceived enemies.

Suddenly Mr. Chavez is facing for the first time a real challenge. There is a candidate out there that he did not expect that has unified the opposition that is campaigning like a real politician does. He is touching the flesh, kissing the kids, going around saying the right things, responding to the things that Chavez says, responding to the many lies that have been laid out, and I think Chavez is very scared. I think this is a challenge that he did not expect to have. The polls are beginning to show that Mr. Rosales, the unity candidate, is up 30 to 32 percent, and Chavez is now below 50 percent.

Actually, what happened in Brazil a couple of weeks ago, that kind of difference is one that you do not underestimate. They have a month-and-a-half more to go to the election, and I think a lot of bad news in front for Mr. Chavez.

So there is a big challenge here. And there is a lot of people who have come to depend on Chavez, or fear Chavez, salute to Chavez, who are wondering right now or beginning to wonder – I mean, just the BBC a couple of days ago, for the first time recognized, says maybe the Chavez reelection is not a foregone conclusion. Maybe something else is happening here.

Now, I don't think we should be very optimistic about Chavez not winning because even if he doesn't win, I think the system is rigged so he will win. But I think even if he does manage to pull in a fraudulent or at least suspicious victory, first, it won't be by a large margin, and I think it will be highly questioned, not only by people within Venezuela, but some people outside. So I think his ability to do what he wants to do and to pursue a revolution the way he wants it pursued are pretty much doomed.

Hugo Chavez, in every single polls, appears as having 50-percent support. Let's say – just take that as an average number. But every single poll shows the following, that 82 percent of the people are against the confrontation with the U.S. Eighty-one percent are against turning into a new Cuba. Seventy-nine percent oppose his constant giving of money to other countries.

So when you actually look at what he is doing and what he spends all of his time on, there is a huge rejection in every kind of polling, and even within people who say that

they are supportive of Chavez, and that would lead you to question where the original numbers come from in terms of voting. If you know the level of fear that exists in Venezuela, you wouldn't be surprised that people have no incentive right now of disclosing what their preferences are.

It is not going to be easy to dislodge Hugo Chavez because him and his cronies have run the country in a particular way that it's very difficult to imagine that they will lose power, or they will allow themselves to lose power. The consequences are too dire. So something will happen. And I'll tell you one thing: Hugo Chavez's desire to occupy a temporary seat in the U.N. Security Council had more to do with protection than with anything else. I think he thinks that if he occupies that seat, he'll somehow have two years in which he can do whatever he wants, and nobody will be able to stop him. So it is much more defensive than offensive, although he actually sounds pretty offensive.

So going back to why the Chinese relationship has soured so much. Like I said, the first thing is a huge cultural divide, a complete cultural divide. I cannot describe to you – and you only have to kind of spend time and have patience to look how convoluted and confused the Bolivarian creed is. It is completely, completely contradictory. You have one of the most neoliberal economic policies being applied under the guise of socialism of the 21<sup>st</sup> century. Venezuela imports 80 percent of what it consumes. It has basically – you know, the financial sector of Venezuela has never, ever made more money than it's made this last year with a monetary policy that has basically transferred resources from the central government to the pockets of financiers.

So you just sit around and say, how can this actually coexist with people who are seeking stable access to natural resources and commodities. It doesn't. They know very clear that this is not going to be a stable environment, that the constant fighting in Venezuela does not bode well any investment in Venezuela. And therefore you're looking at this huge potential – very interesting country, and saying, too bad; we are not going to put a lot of money in here, not now.

Two, following on that issue is this ideological quicksand Chavez presides over has one thing that looks like in common, which is a multipolar world. Their China, Russia, even France are very much aligned, and that some of them they thought it would be good to have a big-mouth guy push that same key.

But the difference is that while China wants to become an important player in a multipolar world, without bringing anybody down, Chavez wants to become an important player in a multipolar world by bringing down the United States.

Well, this is something that China won't put up with because it's something China cherishes – is the relationship with the United States. It's like a bad marriage, but one that you get used to, and you know how to work things out. It's not a great marriage, but you are not about to get divorced; you don't want a new wife. You figure out what the quirks are, and you each know how to play each other. So you're not going to let somebody else come in and say, dump her; I can find you something better.

I think that is where China is having a tremendous resistance here, that he is trying to drag China into an ideological battle that China does not want to go into. You know, Assistant Secretary Shannon, when he went to China, reported and came back, and was very open, saying, I don't see China wanting to join with Hugo Chavez in a confrontation with the U.S. I think any conversation you have with a Chinese official, they are very loud and clear that there are limits, there are red lines, and they are not about to cross them.

Third, there is a real problem here about incompetence. The Venezuelan government is absolutely and totally incompetent, and that makes it very difficult because you have no counter-party to negotiate a contract, to take a grievance. There are no institutions in which you defend your rights and go in and hold a position. So for Chinese, who come from a very structured society, with very diligent – extremely diligent bureaucracy who can get things done, and it's maybe one of the successes that they have had in attracting and maintaining investment in China, they don't find that in Venezuela. I think in every single contract, in every single thing that they are doing, they are having problems.

So the structural incompetence of Venezuela is in sharp contrast with the environment the Chinese like to operate in. And we'll talk a little bit about that in terms of what this implies in the long term.

But let me say something then. I mean, as a conclusion, at this stage of my presentation, I could say that there is probably more red smoke and red flags in this relationship. And you have to be very careful about not over reading the rhetoric that comes from these high-level meetings. I'll tell you something, most of these high-level meetings have been forced by Chavez. In 19 – in 2004, Mr. Chavez wanted to go to China, requested a visit. The Chinese did not want him. They offered him Christmas Day as the only availability thinking that as a Latin he would say no. He showed up in China, in Beijing on December the 24<sup>th</sup>, to the dismay of the Chinese.

So, you know, when somebody is willing to travel, has a plane to travel, has no controls, have no limit, doesn't have to ask for permission to a Congress, there is a lot of noise that somebody can make. When somebody picks up a plane, goes to China, goes to Vietnam, goes to Malaysia, goes Mali, you know, comes back to Caracas – the next day gets up and goes again to Asia, goes to – all seeking a little position for a two-year job in the Security Council, it actually shows that there are no controls in Venezuela, that this guy has overridden every single budgetary, political, or accountability level that exists there. That is a real threat for anybody trying to do business for Mr. Chavez.

Now, let me talk about oil because oil is something that I know pretty well and something that everybody focuses attention. Clearly oil is what this relationship is all about, but it's a potential of oil, not the reality of oil. China right now produces – China National Petroleum Company produces 19,000 barrels of oil, half of which is actually water. So, you actually cut it down, they are producing 8,000 barrels, which is sold to

Petróleos Venezuela, and Petróleos Venezuela sales. It is not making one penny of investments right now in workovers (?).

There is not a single dollar being spent in new drilling in these areas that they have. Why? Because China has been treated exactly the way that Exxon has been treated. There has been no preferential treatment. There is nothing that comes out of this strategic relationship. The Chinese National Petroleum Company has been forced to convert its existing operation into a joint venture, 80 percent of which will be owned by Petróleos of Venezuela. So you go from 100-percent-owned operation to an 80 percent Petróleos of Venezuela's own operation. Its employees will have to be – Venezuelan government employees, they will have to report to Venezuelan managers.

This is the same problem that got a few companies like Enni (ph) and Total (ph) to leave Venezuela. Exxon has never participated in this process, so they are not in there, but they will right now as they try to put their hands on the heavy oil projects also.

So the fact is that the Chinese – and I would dare say, having spoken to almost all of the companies that are operating in Venezuela, the Chinese are the most upset of all, maybe because they had the higher expectations, and that they thought that somehow had protected themselves from the down side through all of this talk and banter and signing of agreements.

So if you look at them right now, they can sign more pieces of paper and say they are going to do stuff in the Oronoco oil belt, but unless the terms and conditions for oil, investments in Venezuela change dramatically, not a penny will be spent in Venezuela.

To add insult to injury, a couple of weeks ago, the Venezuelan IRS announced that the China National Petroleum Company owed back taxes. But they didn't do it in private; they did it very publicly. And to everybody's surprise, the president of China National Petroleum Company went out public against the Venezuelan IRS, which is a very unusual thing. Anybody who has ever worked with the Chinese know what face-saving is, and face-saving means don't go out in public to make a statement unless you have basically exhausted every ability to solve it in private because what you say in private – you know, the humiliation that comes in public is something that is lasting. But they have come out pretty darn hard on this.

Now, in terms of the expansion on oil, Chavez went very rapidly from a hundred thousand barrels of oil – from zero last year – not a barrel last year, to 115,000 this year promising 500,000 by 2009, and a million barrels by 2012. That won't happen because Petróleos Venezuela, under Mr. Chavez, if he were to continue, is basically being run to the ground, and nothing will get them to levels of production in which they can commit those volumes.

So the Chinese have said something, and it was a very interesting piece which also – you know, the Chinese ambassador of Venezuela gave a – basically a two-page long interview to the main conservative opposition newspaper in Venezuela, El



Universal, in which a main headline was, “The Natural Market for Venezuelan Oil is the United States,” period. We will buy something, but not a lot. We would only build a refinery if Venezuela changes dramatically its oil policy and changes the way it actually conducts its affairs so that we can make the investments that are required. If not, essentially I think what he is saying, we don’t believe in this.

He was the one who led me to think about Confucianism because he sent a very strong message at the end of the interview – said, we seek harmony between man and nature, and between men themselves. This is actually the opposite of Mr. Chavez is displaying.

So my sense is, and in concluding, is China will not give up on Venezuela easily because of the natural resources that exist there. They will not support anybody, basically, as they (bond with ?) North America and democracy. But under the guise of stability and peace, you will see China having a lot more coordination and coincidence with the United States that you would have never thought. So the word to the United States is a great opportunity; run with it. The whole challenge of China could actually be unturned and reversed if at this particular moment China is treated as an ally and as a friend in dealing with somebody who is acting extremely strange, and damaging the interest of not only both China and the United States, but the entire region. Thank you.

(Applause.)

**GABE COLLINS (?)**: Let’s see if we can get this PowerPoint hooked up here. I’m going to be the one who breaks with everyone else and decides to use PowerPoint. Okay, a few introductory words, is first any opinions I express in here don’t represent any official government or DOD policies. And also another disclaimer is I’m a native West Texan, so if you start hearing words like strategery or anything like that, please feel free to call me on it and correct me, and guess with that, we’ll launch here. I would definitely like to thank the Hudson Institute for giving me the opportunity to present here. I think it’s a real honor. I have got some big shoes to fill here. We’ll see if we can follow up on these wonderful presentations that have been given so far.

Now, I think to provide some background, you know, I think a few of the presentations earlier in the day have done a good job of painting kind of the broad picture, you know, some of China’s interests in Latin America, but I think we also need to think from the Chinese perspective in that their main interest in Latin America does seem to – at least at this point in time seems to be natural resources. And I think this ties in with a lot of themes you see throughout the Chinese literature. Namely, that is securing economic input so they can drive the growth that they need to confront their own internal problems.

The latest numbers I have seen state that China needs to create 8 to 9 million new jobs each year just to handle new people coming into the work force, much less to handle unemployment that is created by restructuring some of the state-owned enterprises, which is still a very much unfinished task. And I think some of the basic themes that you can

derive from this is, as you see up here, something that threatens economic growth would probably be perceived as a threat to PRC national security, and that means a threat to their resource supplies.

But I think what it also means is that many of China's actions abroad are basically focused on, A, securing the resources they need to grow their economy, and, B, to focus toward creating a stable world that they can focus more on their internal problems, which I think are the first priority. I think some of these views that you occasionally see of, you know, Red China on the march I think are quite overplayed. I think they are much more focused on dealing with their internal issues.

But I think at the same time, given the importance of natural resources and other economic inputs to China that, you know, we do need to take into account the fact that if you threaten these core national interests, that it could cause friction between us and Japan and China, and some of the other large resource consumers in the world, just to give you an idea of some of the disparities that China is confronting here of – this shows the income disparity between basically the Eastern coastal provinces and the West and the inland.

Now, this is in Chinese renminbi. And so you basically divide those numbers by eight, and that will yield you a dollar figure. And I apologize for this figure being a little dated. I had some trouble finding a – I'm sure there is better ones out there. If anyone can suggest one I would appreciate it. But this gives you an idea the Chinese government still has a significant amount of work ahead of it with respect to economic development, and now getting back to Latin America, what are some of the key raw materials that the Chinese are interested in securing – food stuffs in the form of soybeans is a big one with Argentina and Brazil. Various metals. You can see Brazil again, and Chile as well. There is some fish products from Peru. There is timber from Brazil, and there is oil, which some of the regional oil producers would be Brazil, Columbia, Ecuador, and Venezuela. And we'll get a little more into that here in a minute.

Now, you will see where it's "pure opportunity," offset in quotation marks. I was trying to find a way to characterize how these countries perceived the relationship with China. And I think probably simplest way to put it is countries that are commodity exporters right now see China as a great opportunity. It's a huge market. Their demand for many of these products is growing very strongly, and it's – you know, maybe pure opportunity is taking a little far, but you get the general idea.

And one of the important things to note is that, as Professor Purcell noted earlier in her presentation is that both Argentina and Brazil have recognized China as market economies meaning that when Chinese goods come into these markets, it's much more difficult for these countries to apply any kind of anti-dumping regulations. And I think the long-run economic effects of that could be quite significant for them.

And just moving alphabetically down the list here, when you look at Bolivia, I think Bolivia and Venezuela both much more fit into the mold that they see China as an

ideological ally rightly or wrongly. I think the Chinese perceive things quite differently. And the Chinese are very interested in the resources, both in Venezuela and Bolivia. But the biggest problem is will they be able to invest there. Stability is a prerequisite if you're going to sink a billion dollars into developing a mine or an oil field, or the necessary infrastructure to get these products to market. And I think, you know, given the way things stand right now, that China is kind of spinning its wheels in its dealings with its two countries.

Now, Brazil is probably – that would be best characterized as the country that is the foundation of China's Latin American economic relationship. If you look at the trade figures, nearly one-third of China's total trade with Latin America last year was conducted with Brazil, a total of about \$15 billion. It's now Brazil's second-largest trade partner. And their interests in Brazil are fairly broad. They are interested in both natural resources and in tapping into the Brazilian market, which is the single-largest consumer market in Latin America.

And you can see that the cooperation is getting quite deep. They are going to create a joint natural resources agency, which is chaired by ministerial cabinet-level people on both sides. You can see some of the key commodities that will be traded. But if you also look a little bit further down, there is a lot of technical cooperation that is starting at Embraer and some of the Chinese airline companies have signed quite substantial deals to – for Brazil to build regional aircraft for China. I think the latest amount is a hundred aircraft for one Chinese airline alone.

And they are also cooperating on the Sino-Brazilian earth resources satellite project. And this is one that has significance on several levels. One level is that they are cooperating on an issue beyond natural resources, and tapping the consumer market. But another one is this could potentially help Chinese military modernization, a lot of things that their Navy, for example would be interested in, like, over the horizon, targeting – those capabilities could be developed as an offshoot of some of these aerospace products.

And another possibility is that there is a quite substantial amount of U.S.-Brazilian aerospace interaction and technology transfer, and this might provide the Chinese with kind of a backdoor access to some of our technologies that they might not otherwise have.

And I think when you get down to the bottom of the slide here, you see what sort of brings in the mixed-feelings side of the equation, and that is many of these Latin American countries that have the larger consumer markets, namely Brazil and Mexico, the relationship with China is not completely rosy because on one side you have sectors of your economy that do very well, your commodities sectors, but in many of the consumer-goods sectors, especially ones you recognize – China as a market economy – its goods have a distinct tendency to displace those produced within your own country to create joblessness and other problems.

Now, Chile, I think for the time being would also fit much more into the opportunity category. China is now Chile's third-largest trading partner. China drives a substantial amount, percentage of its copper imports from Chile. I think something that should be noted when you look at these different commodities and resources that the Chinese are interested in is some of them, for example, oil, with respect to Venezuela, they can obtain that from many other parts of the world. They can get it from Russia, from Africa, from the Middle East. But some of these commodities, copper, and I think especially the foodstuffs, the soybeans, those are – the sources of those are much fewer. Their basic options would either be Argentina, Brazil, or the United States.

And so I think those are areas where we could see the commodity relationship continue to grow quite rapidly, while some of these other relationships, such as the oil with Venezuela tend to stall a little bit.

Now, I think Peru is also another major Chinese trading partner in the region just to give you a quick overview here of some of the opportunities China sees there. And I think it's important to note the deep-water port. One of the other things, if you look at China's investment in the region, much of it is oriented toward building the infrastructure to get the good back to China. Both Peru and Ecuador are of great interest for that reason.

Now, I have a fair amount in here on Venezuela. I think we will sort of jump through that, A, because I don't want to get between you guys and lunch, and B, because Mr. Burelli has given a presentation that I don't believe I would be able to add a huge amount to.

I think one question we do need to address is many people in the U.S. think that an increased China role – Chinese role in Latin America will somehow suck commodities and other raw materials away from us. And I think this could – this is probably somewhat overplayed. There was a report released by the general accounting office this summer that painted some worst-case scenarios, the different price spikes that might be triggered in various Venezuelan oil embargo scenarios. But I think overall, assuming that Venezuela in the next few years is able to stabilize its internal situation, I think what you would likely see is Chinese companies may well become more active there. They would like to, but they will end up exporting most of their oil to the United States.

As I think an example, you can see here, if you look at their crude import mix, I think this paints the picture pretty vividly. You can see how the shared crude oil from the Latin American Western Hemisphere has actually contracted quite substantially over about the last decade. And you can see they are essentially – they are replacing it with oil from Russia and Africa. Those sources are much easier to develop in Venezuela's oil. They are easier to refine, and they don't run the same risk of damaging their relationship with Washington.

We'll skip over these here. And you can see – here is – this I think substantiates that point, and also fills out some of Mr. Burelli's points is that the vast majority of

Venezuelan oil, despite all of the smoke and fire coming from President Chavez, continues to be sold to the United States. And I think some barriers we should be conscious of is geographical separation and the higher transport cost that this has for commodities, and also the political dimension of geography I think is also quite important.

One thing you might use as sort of a basis for comparison is the struggle that has been going on in the last few years between the United States and Russia, for influence and for resources in Central Asia. It seems like the Russians are starting to gain the upper hand in that. And a big part of this is they both have stronger cultural links to the region, and they are also much closer. I think this is something we should take into account. Several of the speakers before mentioned the fact that cultural and historical links are really quite minimal between China and Latin America, and then finally, the Chinese have to balance their relationship with Washington as they get more involved in the region. I think these are things that we would do well to keep in mind.

And just a brief overview here, some of the – one factor that could create problems, as the Chinese do invest and become more involved in the region is there is two I think distinctly different ways of developing these natural resources. If you look, Western firms are typically private. They focus directly on project-related infrastructure. Most things are done at market rates. They tend to try to, at least to some extent, localize the workforce, hire those who live near the project. And the government will give diplomatic support but not necessarily preferential loans or any other help. And the Chinese tend to operate in a way that is almost a polar opposite.

Now that is changing, but when you look at some of these basic factors here, I think these are ones that have caused friction in certain Chinese operations overseas and I think we'll continue to do so, lest they change. So I think there has been a lot of discussion here on the Chinese economic development model, and it seems like their interests with Latin America would not be in promoting their own political system. Their main interest is stability, as we have seen with the Venezuelan case because stability facilitates development

But I would think maybe from the perspective of some of the governments in Latin America, especially those that may have a slightly more authoritarian inclination, or less democratic inclination is that if you look at India and China historically, the Chinese government has as a reputation for deciding a strategic direction and then getting things done, whereas in India, which has been democratic from the outset, sometimes special interests tend to derail larger development projects. I think this is something that may be of interest. So the way I would characterize it is its policy is strategic but not politicized.

And some concluding thoughts here is if the Chinese relationship with many of these Latin American countries continues to be based heavily on commodities, they may trade more with China, and even if that were to come at the expense of U.S. operators in the region, they would basically just be trading one type of dependency for another. The other slide mentioned they tend to import operations from China lock, stock, and barrel.

They bring Chinese workers, Chinese equipment. There is not necessarily a large number of benefits that trickle down to the local population. I think you could make the argument that because China doesn't have the proximity and cultural links that we do that there is less incentive to pursue what we might term sustainable development policies as they work in Latin America.

If you look at the numerical reality, our investment is still – in the region is still more than 50 times greater than theirs. And then, as we see with Venezuela and Bolivia, many of these Latin American countries actually need China more than China needs them. And I think this is something we should keep in mind before we overblow any potential Chinese threats that we perceive as coming from the region. I would be happy to answer any questions. Thank you for letting me present.

(Applause.)

**MR.** : Well, I think we can just continue the discussion we were having before since these presentations seem to fit in with that. And if anyone has a question, we have – here you ask a question – someone who has not yet asked a question. Ah, here is someone who has not yet asked a question –

**Q:** Evan Ellis (sp), Booze Allen Hamilton. First of all, I wanted to thank the panel – an excellent panel providing some very specific and thoughtful things.

I wanted to ask each of the panelist's thoughts on the dynamics of what is potentially a growing alien nation between Latin America and their expectation of China. I think as the panels have brought up very well, you have this in every dimension. Ideologically, you have a mismatch between people such as Evo Morales, who perhaps in his days is a student organizer.

Remember the China that broadcasts in Quechua to the Andean highland, which is very different than the China today. An investment – there was the expectation that China would bring billions of dollars to Latin America to replace the neglect that Latin America felt on behalf of the United States, but that has not materialized into deeds. And indeed, even in trade, the extent to which Latin America is defined (?) in many ways. The manufacturing penetration is in many ways damaging core industries that provide the engine of Latin America's future.

So as the relationship between China and Latin America matures, I would ask if the panelists would suggest what they see as how Latin America might react, how that alienation might play itself out if indeed it would.

**MR.** : Age before beauty. (Laughter.)

**MR. SUCHLICKI:** Well, in the case of Cuba, I still don't see that conflict between China and Cuba. I think the Cubans depend on the Chinese, although the things

have been rough, and some of the agreements, as you well know, have not gone as the Chinese expect and the Cuban expect.

Nobody who is here has mentioned Mexico. For example, Northern Mexico has suffered significantly from the exiles of the maquiladora that have gone to China. So I think that that is one country that I think will be very wary of the expansion of China and the exports of textile and the bringing of other industry. So I'm going to leave the Venezuelan case to –

**MR. BURELLI:** Well, I think this is nothing than what Latin America has done in the past to adjust to growing investment and trade from the U.S. and then from Europe and Japan. So I think it's not going to be different. I mean, the difference is that maybe the Chinese were overexcited as they started going out, and it was kind of an opportunity to flex their muscle after a lot of times of just being constrained within China. So it's a very big middle kingdom, very locked up.

As it comes out, I think, they over promise, but I don't think that over the long run they will under-deliver because what is happening is as you look at Chinese industry, and I think they point they are trying to make, as more and more of these companies become publicly traded, they start developing in the electronics front their own brands, their own things. They will see Latin America as a very, very interesting market, and one in which at some point they might have to have assembly operations in others in order to kind of justify their, you know, from a political point of view, their market share and their involvement.

So I am not sure they are going to pursue a very different path than those who have come conquering before, and it's going to be pretty much a wash. I'm not sure that anybody – I mean, what you are bringing is lower price – you know, if you take Hire (ph), for example, as a company – Hire wanted to create – put a very big refrigerator – another white line company in Venezuela, and they did about two years or three years of studies. This was under kind of a government suggestion that private companies can invest, and they rapidly ran to Brazil and set it up there.

So they have – so those kind of companies that develop their own brand, that have to support their own brands, and have to invest in developing, you know, invest in marketing – that new China which is about to emerge I think is a very interesting China, and it cannot compete by very different rules than the South Koreans or the Japanese or the Americans, for that matter.

**MR. COLLINS (?):** Yeah, I think those are very – I would build on these points and say that as we see the emergence of more of these consumer-oriented companies that are increasingly set – are in many cases completely independent of the state, I think it's much harder to tar them with the brush that you traditionally hear; oh, this company is just an arm of the government; that, you know, you will still hear that with some of the commodities sectors in Latin America, but I think with anywhere that there is a clear dove-tailing of interest (?) like, for example with the food – it's the soybean imports

where China has trouble sourcing these elsewhere, I think you'll see growth there, maybe you'll see some shaking out with some of these unstable places where the Chinese realize that they are not going to be able to invest profitably any time soon. They may direct that money to Russia, or Africa, or somewhere else. But I think the development of the consumer market will be probably the biggest dynamic to watch.

And I think one other thing to keep in mind is that even if the relationships with some of these countries – you know, say, Venezuela and Bolivia don't necessarily development well along economic lines, I think the Chinese, given their renewed interest in the U.N. and some of these other international organizations will still emphasize relations to the extent that having kind of a block of these countries that is friendly to China is a force multiplier in the U.N. that may be go beyond economic factors.

**MR.** : Anyone else?

**MR.** : There is a lady here.

**MR.** : Oh, well, you go first in the back here.

**MR.** : This lady over here.

**Q:** Hi. Marti Wayne (ph) from National Defense University.

I'm hoping you can maybe put some flesh on the idea of what China becoming a responsible stakeholder might be in Latin America specifically, and perhaps elsewhere. Thank you.

**MR. BURELLI:** Well, I think the first thing is – clearly the word, “stakeholder,” is one that created a lot of controversy because I think it's one of those translation problems and the Chinese never understood it when it was presented to them by Assistant Secretary or deputy Secretary of State Zoellicke. So stakeholder is not a clearly understood concept.

I do think that by virtue of what I said that at the end of the day, the Chinese, as they go out, will be imitating the behavior of others who have walked the path, that you will find them wanting to be responsible citizens, being very conscious of the cultural differences. I think there will also be much more rapid in change, just because of the nature of how Chinese business is being forced to change, and how quickly they adapt new forms, new technology, and stuff like that.

I wouldn't be surprised if they adapt, and they are probably even better probably than the Japanese were in some cases, not only because the Japanese have already done it and already adapted, and that's a model that they watch – I mean, people used to talk about Japan, Inc. I think Japan, Inc., still works probably with more discipline than China, Inc., will in the future because I think China has a little bit of chaotic element in it at the end of true capitalism in which, you know, if you let it run, the Chinese are very



resourceful and will find their way while the Japanese tend to wait for a direction from some higher body and take very much unison decisions. I mean, the Japanese companies abandon Venezuela in mass. They just kind of picked up and left at a particular point during Chavez's rules. And they said, this is not the place that we want to be in.

So I find the Chinese will be – you know, it's funny – just as an anecdote, I had a – my daughter just spent some time in Shanghai learning Mandarin and then she went to Japan. And what she said is, Dad, I think that the Chinese are really Latin. (Laughter.) And she was – she just felt totally oppressed in Tokyo and Nara, and the places that she spent in Japan. But she had a real sense that the Chinese had an attitude towards life that resembled more what she associated as being Latin than what the Japanese have.

So I don't have any doubt that the Chinese will adapt and become whatever word you want to use – partners, stakeholders, and all of that. You know, they also – (inaudible) – problems, and within that monolith that is the Chinese Communist Party, there are some people who want to go back, and there are some people who, when they look at somebody like Evo Morales and somebody like Chavez start getting excited about it, but I don't think those are the people who are running that country. They are there; you can't get rid of them, but they will not be determining how China expands internationally.

**MR.** : If I could add, and picking up on something that Pedro said about the dealing with one's wife. Perhaps it's rooted in personal experience, I don't know. But it reminded me of two things actually that the renowned Senator Johnson once said, first of all, on this very subject about how second marriages – about a witness to the triumph of hope over experience.

But here, you once said something – you said a man is no more innocently engaged than when he is out making money. Not that it's a harmless activity to be interested only in making money, but it is the least – it is the least harmful thing in which you will be compared to other kinds of things, as for example, the Chinese come and they want to make some money as distinct from saying, you know, we wish to bring you the new socialist utopia, or we wish to have the new socialist man, or we wish to do all of these other kinds of things.

So from this point of view, a lot, a lot of what we see in China, as much as we talk about the development of planning and strategy and so on, is precisely this. And to know about Chinese capitalism then and now, especially now, especially that has been practiced all over the world for centuries by Chinese people, even when it was suppressed in China during the time of the high Maoist ruler, this is indeed a very high – it is indeed a very wild and wooly, and kind of free wheeling, and lots of fun, and impulse-driven, and crazy, crazy, kind of thing, and in that respect, however, it does come up against its own – the own notion of Confucianism – well, this is a harmony because these are things you know from anybody – no matter Chinese cultural traditions. It is very hard to get your mind around these ideas that propel us, I would say.

Everybody pursues his own self-interest, determinedly, and yet somehow it comes out best for everybody – I mean, it’s a hard concept, if you think about it. Well, what if we have a political system. Well, you know, everyone has a PAC. Everyone tries to corrupt the system. Everyone succeeds in corrupting the system, but at the end of the day, somehow the public interest is served by this Madisonian process. But, it’s a hard idea, certainly in the Confucian tradition, or even a big chunk of our own.

The trick here I think, just with this point, is you have to – if you keep them involved in this sort of thing, the end – they could be up to much – you see, it could be I suppose a far more serious problem, as indeed it has in the past when they were really sort of serious about doing profoundly transformational things in the world, which they do not seem to be now.

**MR.** : Yeah, I would add a couple of things. Yeah, I think that that may be part of the appeal of the so-called Chinese models, that it’s kind of a no-strings-attached approach; they just say, okay, we want to do business; maybe we will talk politics at some point far down the line, but our concern here and now, even from the government level is doing business.

And I think that when you look at how their private companies – you know, Hire and Lenovo (ph), and some of these outfits are adapting, you know, they operate – the government sort of sets this stage maybe with some high-level diplomatic visits and other things in that category, and then the companies play freely on it. And I think that sometimes we maybe assign the government way too much control over its companies, that there may be much more separation than we think, and that I think sometimes we also assign the Chinese sort of ulterior motives that may not necessarily be there. And I think when you get into the stakeholder argument, that the stakeholder equation sort of flows two ways, so that one hand, there is things they could do to be perceived as more of a stakeholder, but I think whether or not we treat them as a true stakeholder could also have a pretty big influence – (cross talk).

**MR.** : Just so you know, every company, everyone in business, everyone in sort of big business – every company sort of wants the support and the help of the government – wants the diplomatic support, wants the subsidies, wants the no taxes, wants the high – wants all of these things on the one hand – very happy to have that – on the other hand, doesn’t want the government otherwise inhibiting –

**MR.** : Yeah, meddling in what you’re doing day to day.

**MR.** : – your business domestically or overseas. So the oil companies, here, for example, they want all of this stuff from the government. On the other hand, they don’t like the government telling, well, you can’t invest here, you can’t invest there, and so on. So it’s possible for both of these things to be true and one and the same time, as the state tries to bend enterprise to its own strategic pursuits – the cooperation, not cooperation, setting up all kinds of complex evasions is something of course the Chinese are just singularly brilliant at I think in hiding things from the government. That is sort of

what they have had to do for many, many centuries, and they are good at it. And they both operated well in sort of hostile environments.

**MR.** : But it is a complex set of interests; it's not just the monolithic top-down directive –

**MR.** : That is exactly right.

**MR.** : Okay, go get –

**MR. SUCHLICKI:** I don't know. What I'm hearing here is the U.S. is the wife of Chinese. The Latin Americas are the concubines – (laughter) – and the Taiwanese are going to get screwed. (Laughter.) And I'm listening correctly to the –

**MR.** : So far that has been the case.

**MR. SUCHLICKI:** All right, I just wanted to make sure I was listening –

**MR.** : The poor – (inaudible, cross talk, laughter) – the poor – what has happened to this poor Taiwan girl maybe during or after lunch. I don't know.

Now, does someone over here have any questions?

**MR.** : This lady over here. She was in the second row here. Raise your hand.

**MR.** : Do you have a question?

**Q:** Yes, thank you. I just –

**MR.** : Oh, please.

**Q:** Hi. Luis Ramirez (ph) with the – actually with the Department of Homeland Security.

I wanted to have you all follow up on the Mexico question. I know it was a country that wasn't covered, but I was wondering if you all could tell us more about the relationship with Mexico and China, and also elaborate on them as a trading partner. Thank you.

**MR.** : Do you have something –

**MR. SUCHLICKI:** Yeah, I think this is one of the most complex relationships. Mexico was a pain in the back and tried to stop and do everything to stop accession of China into the WTO so the relationship soured. I think once that was no longer a battle, you saw the first effect of losing jobs in the maquila.

But if you actually look at the two-pronged interest that China has in Latin America, one is the access to abundant natural resources and commodity, and the other is to leverage on the free-trade agreements that the U.S. is signing with Latin American countries, and use that as a standing ground to enter products. I think at the end of the day, you will find in the net-net, as it lets out, that some Mexican companies are actually going to China because they actually get better terms, better training, better technology, and some Chinese companies will start investing in Mexico because they will get the access that they want into the United States.

So once the dust settles, and I think with President Calderon coming in, and a continuation of pretty sober, level-headed economic thinking from a very young president, I'm pretty sure that if you ask this question in five years, these two countries will be doing – and would figure out a way to conquer the world together fairly well.

**MR.** : Let me just say also, that is quite right. I mean, a lot depends on what – how individually a company or a part of the country or so on benefits or does not benefit from these relations. So, for example, I mean, here in the United States, we think of conservative areas politically, but in fact, they are big boosters of trade with China and the United States because they sell a lot of agricultural goods and prices are high, and the two otherwise staunch republican senators from Idaho, they go around, and they – ah, you know – whereas other people say we are being – in other parts of the U.S. – you know, we are being hurt by this quite a lot and textile with it.

You know, and so it goes, and the kind of tugging and hauling that goes on inside the system – I mean, I dare say this is quite right, that when NAFTA came in, first, everyone feared, incidentally, the Japanese were then going to move into Mexico and take over the maquiladora, and then they would be flooded – then a whole series of other things – a whole series of other things have happened, and it's better – I don't know, it's supposedly better to manufacture stuff in China and ship it from there, from the United States to mainland Mexico. I don't know; it kind of works out that way. And it's always going to be that chaotic, I'm afraid.

Does anyone else have a – this young lady way back in the – way back in the corner there, and –

**Q:** Hi. I'm Judy. I'm from the Stimson Center, and the National Defense University.

**MR.** : Could you turn on the device there. It doesn't seem to be –

**MR.** : Pull it up to your mouth.

**Q:** Sorry. My name is Judy, and I'm from the Stimson Center and the National Defense University. And I have a question about the Shanghai Cooperation Organization. I'm not sure if this was discussed in the earlier panels, but what effect will

that organization and the member states have on China's relationship with Latin America?

**MR. SUCHLICKI:** I just think that it is just simply pushing the envelop on the multipolar world to the extent that you're willing to associate yourself with anybody just to push something then – you know, one could imagine that organization. It is really an odd grouping, and I think it might not last a couple of years. And it's – it was an attempt a couple of years for China to start flexing the muscle on this multipolar thing, but I think there is probably different arenas for them doing it. I think you will see China playing their card harder in the United Nations now with a secretary general from South Korea. I think they would like to get their word heard now that the thing shifts to – will have a nation focus.

So I think that is what China is going to play its role – the United Nations. I don't believe that the Shanghai organization – just because at the end of the day, they are very dissimilar and they are competitive countries, and I think the relationship between Russia and China will never be good. Those are countries that are running, like, completely at opposite ends. They are moving diametrically opposed, and in a way which is generating a level of envy in Russia, which is not healthy – okay, the Russians are about to just throw up their arms, and they just don't understand how the Chinese do it. They can't figure out a way to hold on to political power, and actually strengthen political power, and at the same time create an investment climate that is attractive.

And I'll give you an anecdote. You want to travel to China. Just show up at Wisconsin Avenue, the Chinese consulate, go there, pay some money, you get your visa, you get there, you get a form in the plane, you fill in – you don't have to tell them where you're staying or where you're going.

Try to go to Russia for a change. You know, you need an invitation; you have to pay you a lot of money to get it. They will give you a form in Russia to fill on the plane, and they want to know exactly what you're doing every minute that you're there. And you have to really search to find something in English. And it's that simple. I mean, it is that simple.

I try to explain – I do business in Russia, and I try to explain to the people in the Kremlin and I say, guys, if I sit down in the plane and you deliver to me a form in Russian, you know, I know that there is going to be a huge line in immigration because nobody is going to fill it right. Now, when you get on a plane going to China, you get perfectly, perfectly designed forms in which you know what they are asking you; there is enough space to fill it in; it's in English, and you just get in and out of China with a lot of ease. That is what the Russians don't understand.

So at some point, that kind of matching between two societies that have absolutely nothing in common and that are competitors at heart I think will dissolve, and that organization I think will be non-operative in the years to come.

**MR.** : Well, you know, the main act – I want to show proper respect to your question because the main axiom of paranoia is that everything is related to everything else, and there is nothing that is somehow not contingent.

I mean, from the Chinese point of view, there is an interest – there is an interest geopolitically in NGYs in Central Asia as there is – and the question of how you develop this, it requires lots of expensive infrastructure to bring stuff in the pipelines. You have to pay for it yourself; whereas you can use other people's – it brings – all of these things need to be figured out.

There is a fascinating – and let's use an academic term now, why not – there was a fascinating discourse in both Russia and China on the differences between the two systems and their adaptability both during and after the period of so-called communist descendants. And the Russians did spend quite a lot of time in the Gorbachev period trying to figure out how the Chinese had done this for the preceding 10 years somehow to do this because it started, after all, in China, about '78, '79. And they tried to figure this out – a whole study of these reforms. On the other hand, the Chinese are spending an awful lot of time trying to account for the collapse of the Soviet Union because that has lots of relevance also.

And in the mean time, for someone who does what I do, the very distinguished study of – tradition of study in Russia of China now in the – now that the Far East Academy is back – but most of the time they spend their time writing about this Chinese population that is going to ooze into the –

**MR.** : Eastern Siberia.

**MR.** : (Off mike.)

**MR.** : Into the – it used to be called the Soviet Far East or Russian Far East, Vladivostok or these places. And the idea that these areas, some of which were once owned, not so much by the Chinese, but by the Manchu Dynasty will somehow be reabsorbed into China by osmosis – and it scares the hell out of them because they are absolutely a yellow peril (?) people – (laughter). The Russians absolutely are, and talk to you at the drop of a hat about the Mongol yoke and the Tatar yoke, and all of this kind of stuff. So if you want to hear big support for Kaiser Wilhelm, and so on, that is actually talked about. And it's very fascinating. It is very easy to stoke from the point of view of American foreign policy, if there are any practitioners here who are interested as to why they should – Russians should be our friends.

Okay, another questions. Well, there is time – well, let's take this young lady here, and then we'll break for lunch, and then we'll – I guess we're going off in crazy directions anywhere.

**Q:** My name is Elen Kenge (ph). I am representing U.S. Coast Guard, international affairs, specifically Western Hemisphere.

Mr. Suchlicki, please excuse my pronunciation.

**MR. SUCHLICKI:** That is all right.

**Q:** You commented earlier briefly about the intelligence centers that China has set up on the Cuban island. Have you seen – a colleague of mine recently went on a tour of the Caribbean. Have you seen any influence of the Chinese military on countries such as Haiti, where it's still developing and –

**MR. SUCHLICKI:** Chinese influence on what?

**Q:** On Haiti.

**MR. SUCHLICKI:** Haiti?

**Q:** Mm-hmm.

**MR. SUCHLICKI:** No.

**MR. :** The Chinese have peacekeepers in the U.N. thing in Haiti. They have a couple of hundred – I know what you call them – policemen. And actually, they are doing this a lot now. They are being a good stakeholder and a cooperative international person. They have got – they contribute to these things. They have got a – for those of you who are interested in peace and stability in the Mid-East, they have got an engineer battalion that is either in Lebanon or on the way. They are part of the peacekeeping in Congo. They are doing exactly – in other words, what were you expecting – what this really means in Haiti – actually, I don't know.

**MR. SUCHLICKI:** No, in the Caribbean, the big influence I would say is Cuba and Venezuela.

**Q:** Okay.

**MR. BURELLI:** Okay. And I think the other thing where I have seen them is there is two countries in the Caribbean that they have spent some time in – again, natural resource base, which is Trinidad, and Tobago, and Jamaica, with bauxite, and stuff like that. So those are the two countries that we have touched, but I won't say that there is any military involvement; just kind of passing economic interests.

**MR. :** Yeah, I think military involvement would probably be something that could push them across the line with us.

**MR. :** Yeah, just one other thing to mention that we know, since you're interested in this stuff, that if you look at based on – reads in the newspapers, I know nothing at all about this, about Chinese intelligence practice – what is the term, craft –

trade crafts of various countries. They do work a lot almost exclusively through the Chinese – sort of overseas Chinese people, the people of Chinese – (inaudible).

And I don't know whether it's a fantastical notion or not, but there are these communities throughout Latin America, and there is a history of involvement with the nationalist government before and with the Chinese government, and so on and so forth. It goes back a very, very long time. And so it would not be surprising if through these means there were some – influence is not the right word, but sort of exercising sort of Chinese activity going on in some of these places. In some of the places, the communities are important. There is a very old community, Chinese community in Cuba. I don't know what it amounts to now –

**MR. SUCHLICKI:** Well, the Cuban and Chinese community split at the beginning of the revolution. Most of them left, and a small amount stayed. But I wouldn't worry about Haiti. Nobody cares about Haiti. (Laughter.)

**Q:** Well, sorry, just as a follow up, I wasn't – oh, is it okay.

**MR. :** Go ahead. We use presidential press conference rules, so you get one follow-up.

**Q:** I'm sorry. I wasn't referring just to Haiti but I meant as the Caribbean as a whole, which the panel has commented on, so thank you.

**MR. :** There is a follow-up here to this –

**Q:** This is just a follow-up – it's a link-back question to Dr. Suchlicki's presentation..

Dr. Suchlicki, you mentioned the former Russian base.

**MR. SUCHLICKI:** Lourdes.

**Q:** Lourdes, and the activities that were going on there. The Bejucal, is it –

**MR. SUCHLICKI:** Bejucal.

**Q:** Some of the activities that you might want to elaborate on perhaps on the radio broadcasts to Latin America in indigenous languages that may help to answer your question.

**MR. SUCHLICKI:** Well – (chuckles) – the Chinese have established all kinds of facilities in Cuba. Some of them are to broadcast in various – Quechua, Aymara, and other languages to Latin America. Also the satellite tracking station at Tierra Caribe – so they have a number of facilities there – tracks our satellite, tracks our telephone, computers, and all kind of communication. So it is a significant facility, and a cyber war



capability – cyber warfare capability in times of crisis. But the Pentagon is not too worried, so we should rest and pleased that the Chinese are coming with peace offerings and flowers, and we shouldn't worry. (Laughter.) The Pentagon is not worried; why should we worry?

**MR.** : All right, well, I think we – we can now have lunch.

(Applause.)

And thank all of the – I'm going to assume where it says on the schedule – (audio break).

(End of panel two.)

(Begin lunch and concluding session.)

**MR.** : This conference, as you have seen, is a work in progress. Some people leave, some people come. But we are fortunate that Dan Blumenthal, from the American Enterprise Institute, a think tank, another think tank with which we are in touch, and fraternal comradely relations, aside from the one in China that I mentioned. Dan, among other things, is a member of the U.S.-China – what is the formal title – Commission – Economic Security and Review Commission that was established by act of Congress, and has become a very important venue for discussion of many subjects related to China and its documents, and its data collection are – become a very useful primary source, too. And Gabe is going to be with us also.

**MR. COLLINS:** Yeah, I think at this point about half the audience --

**MR.** : No, they are stragglers. They are not true long marchers so the – so the hell with them. (Laughter.) There is a certain element that comes with the lunch and then bugs out. The hell with them.

**MR. COLLINS:** I should have served more – (inaudible, cross talk).

**MR.** : Let them not know the strategic significance of Taiwan, and if they will – it's their loss.

**MR. COLLINS:** You need to start serving beer at your lunches so everyone will stay.

**MR.** : Well, look at the mood of jollity we get without beer. You can imagine  
–

**MR. COLLINS:** Just imagine what you can do with beer.

**MR.** : You can imagine with it.

In any case, they apparently have worked out a joint presentation between the two of them, which is in part technological and in part human, and so I'll just turn it over to them, and when they're done, I'm sure there will be some time for questions, as well as we have had earlier in the day.

**DAN BLUMENTHAL:** Okay, well, thank you very much.

Gabe has the hard data. I guess we're going to have more of a conversation about China and Taiwan and Latin America. I apologize; I didn't – wasn't here for the morning, so I'm sure I'll be covering some common ground that you have heard already, but the – China and Taiwan I think have two very different priorities in Latin America. You have heard a lot in the morning about – I'm guess that you heard a lot about the PRC resource strategy, the go-out strategy, the need for energy and oil that is really driving China, propelling it around the world, including into resource-rich places in Latin America. I would argue that it's –

**MR. COLLINS:** No, no, no –

**MR. BLUMENTHAL:** Am I not following you around?

**MR. COLLINS:** No, no, I just sort of I think skipped ahead -- there we go.

**MR. BLUMENTHAL:** Whereas Taiwan is – Taiwan is still very much trying to maintain its recognition in the countries that already recognize it, mostly in Latin America. And in general, in terms of its diplomatic strategy around the world, it's to maintain the diplomatic recognition that of course of the 12 of the 24 countries that do recognize Taiwan reside in Latin America, as well as expand its international space, its international personality in other parts of the world.

And China has had a good deal of success in getting countries throughout the world and in Africa, and in the Pacific, and increasingly there is pressure in Latin America to get countries to de-recognize Taiwan. There are business interests in these countries that don't – that see their interests in China rather than Taiwan, even though historically this list of countries has recognized Taiwan. Taiwan has over the years provided these countries with a good deal of technical assistance in the areas of disaster relief and medical, and other types of humanitarian assistance, but, you know, China is kind of the looming force, with real magnetic attraction is putting a lot of pressure on those countries I think to change their recognition.

Just going through sort of the, you know, what I think China is doing, the PRC is doing in Latin America – I think we will probably have to – (chuckles) – you can probably complement what I'm saying with your slides afterwards, or if you want to jump in any time.

**MR. COLLINS:** Yeah, if you – actually, yeah, I mean, yeah, we can just jump in. I'm basically going to just – I'll occasionally have a figure up here that illustrates what we're talking about.

**MR. BLUMENTHAL:** Right, okay. So – right, so 1993 being the key turning point, where China really was going out and starting to look for – look for oil and energy around the world is to say Latin America is not a major supplier yet. It supplies about 3 percent of China's imports.

**MR. COLLINS:** Yeah. This is an uncoordinated – it's okay.

**MR. BLUMENTHAL:** But we are adaptable –

**MR. COLLINS:** As long as we get –

**MR. BLUMENTHAL:** Up from the last few years was about 1 percent, but still China is heavily relying Persian Gulf and African oil rather than Latin American oil. But other commodities, you know, in Brazil and in other places I think, the PRC is very interested in buying up, and also the PRC needs an export market. You know, one of its main goals is to continue to build up its economic prowess, its economic power, and it needs export markets. So it has been exporting its manufactured goods increasingly into the country as well.

You know, I would argue that China didn't have some sort of grand plan for Latin America, you know, sort of a grand strategy to take over, you know, American influence in Latin America. I would argue that it was first and foremost propelled by the need for resources and energy, and also to derecognize Taiwan, which is a very important part of Chinese foreign policy. I would argue, though, that it – you know, I would sort of make the speculation and proposition that China has propelled itself into Latin America and other parts of the world probably sooner than it had expected, sooner than it was ready to do so because of these economic interests.

And once they are in these countries, they see some strategic opportunity, but I don't think it – I don't really – I'm not of the view that there was a grand plan. I think that they look at the United States reaction to their presence in Latin America, and say, uh, you know, this is interesting. Maybe we can be in the United States backyard over the longer term. How does that feel to you? You know, you are in our backyard, now we are in your backyard. But still, military trade and military relationships are I think – are still limited.

There were some alarm bells raised recently by the commander of our SOUTHCOM saying that the Chinese were taking advantage of the fact that we had restrictions on Latin American officers training in the United States because of some ICC, article 98 issues, and the Chinese were sort of taking advantage of that, and more Latin American officers were training. In China there were some alarm bells in raised by DOD that some of the technologies, some of the surveillance and intelligence

technologies were finding their way into South America, and it was just something to be monitored.

But you know, I think that when it comes to America's sort of sworn adversaries in the region, Chavez, and so on, I think that China makes more of the relationship that China does. I think China still at this point doesn't want to get side crossways with the Americans. I do think that forward-thinking people in the United States defense community are starting to think about what the world would look like if China had real allies 20 years from now, 15 years from now in Latin America, in Venezuela, and if there was some sort of conflict between the United States and China. And that complicates things quite a bit obviously.

You know, if – now, you know, we all hear about the countries that China is developing relations with around the world – you know, the sort of rogue's gallery that we mentioned – you know, Iran and Sudan, and Venezuela. And right now it's more that these countries need China to play a card against the United States, and China needs them for resource reasons. But over time, I think forward-thinking people in our military are thinking, well, you know, what if this did turn into something; what if China did achieve its sort of power goals, and this did turn into something that China can use in a conflict with the United States. And, again, the world looks very different if all of the sudden China has real allies, real proxies, especially in Latin America obviously.

So I think that is something people are starting to think about a little bit more. But China – there is a lot of risks for China as well because, like I said, my feeling is that they have been propelled into these parts of the world sooner than they had wanted to or plan to, and now they have to play the international game. There is a lot of downside risks to that.

You know, Hu Jintao came into South and Latin America with a lot of promises of investment – under-performed. There is backlash, you know. There is talk of – as there is in Africa, why are you bringing Chinese projects that Latin American or African workers can do too. There is the question of protecting your investments, which China didn't have to think about before – you know, security risks. A lot of the trade goes through the Panama Canal, and there is talk of expanding the canal with the Chinese companies and other companies joining in, in a consortium to do so, but there is also risks of terrorism and so forth, that China now has to start thinking about because it has to play this game I think, again, sooner than it thought it would have of international power and international influence.

**MR. COLLINS:** I wonder if I should –

**MR. BLUMENTHAL:** Oh, please. Oh, I'm sorry.

**MR. COLLINS:** I would chip in on this, though. I think that the thing that we do have to be conscious of is a lot of this outward push in China is generated by internal concerns. They need to get these inputs. They need to sustain their economic growth.

But it's not motivated I don't think by some deep, dark strategy to undermine the U.S. in every part of the world they can. I think it's driven by – it's much more focused.

And, you know, there are some offsets, like, you know, well – I'm going to drive you guys crazy by skipping through these slides, but, you know, we have these points – now, the one thing, though, is a lot of these states that you get the resources from also happen to be ones that have either been sideways with the U.S. or currently very sideways, like, Iran, for example, and Sudan with the Darfur situation.

And I think because of this, China sometimes does get forced into fairly politicized situations that they would probably rather not be in, but that they are willing to deal with in order to secure the re-solicits they needed. I think that is what we see with Iran and Sudan. And I think we could be saying that to some extent with the fact that China now supports Venezuela's bid for one of the rotating U.N. Security Council seats, but I think their push is much more driven by the need to maintain the economic growth to solve their internal problems rather than something more sinister.

**MR. BLUMENTHAL:** I agree with that. I think that what happens once they are heavily invested in a place is there is the kind of feeling that as with great powers before, the United States, Germany, other countries – and there is a feeling that there are some opportunities now that we're here, but I think the initial drive is certainly based on – we need to go out and get resources. We need to go out and get energy. And I think they do sort of look at our reaction to things, particularly to Latin America, where we say, hey, this is not something you should be doing, and this is our backyard, and we say, well, you know, maybe there are some strategic benefits to developing other forms of relationships. But I think Gabe is absolutely right. The initial, the proximate cause is to go out and get resources.

**MR. COLLINS:** Yeah, you get into the swamps and then you realize that there are snakes and alligators there that you have to deal with.

**MR. BLUMENTHAL:** Right, there is snakes and alligators, but there are also – what are the opposite of snakes and alligators in the swamp – yeah, there are also some opportunities.

**MR. COLLINS:** Exactly.

**MR. BLUMENTHAL:** Getting the United States worked up about Chavez has some minor benefits, you know – you know – surveillance, technology. You know, there is a lot of interest in the Brazilian, satellite – in satellite trafficking network on the Chinese part, so there are, you know, sort of side benefits, but again – the Chinese are not at this point going to take the –

**MR. COLLINS:** They don't want to tweak Washington that much.

**MR. BLUMENTHAL:** The United States too much. I think they are going to push it to certain limits. You have seen an increase in visits by Latin American defense ministers to China and, as I said before, the kind of military education programs. And, you know, there could be some thinking along the lines of, let's see what kind of investment we can make over the next few years.

And, again, as with any rising power, success breeds more ambition, and you can get into a cycle of, well, we are doing pretty well here. Let's see if we can – where can we get more ambitious. It sort of starts to – and then, again, when you're dealing with a swamp, and you're dealing with the snakes in the swamp, you say, we have got to protect ourselves, and maybe we ought to start talking about different kinds of military capabilities.

**MR. COLLINS:** And they have implications in other spheres.

**MR. BLUMENTHAL:** Exactly. You're right. You know, we have interests everywhere in the world now. Maybe we need to project power. Maybe we need to talk more seriously about being able to project power, taking care of our own interests. That sort of dynamic takes place.

I would say on the Taiwan front, you know, the – my own personal opinion is that the Taiwanese are not going to win at this game of sort of dollar diplomacy with the Chinese. It's just – they are just too big and have too many resources to do so. I think Taiwan's diplomatic recognition is going to come from its international personality as a democracy and as a country that provides humanitarian help, and as a responsible entity in international affairs.

So far, the United States has not – they're going to need to lead them in that direction. There have been promises in joining in the community of democracy, which had a big Latin American component to it. There have been promises of the WHO and these sorts of things. So far, none of those have really been forthcoming, so you're seeing a dynamic in Taiwan where China is successfully cutting of diplomatic relations I think around the world because of its growth and power, and Taiwan is not – it's still very much hemmed in and now finding other ways to express its international personality through some of these institutions that I mentioned. And only the United States – will it be able to lead – to help with them that ultimately.

**MR. COLLINS:** Yeah, I mean, I'll go back toward a couple of the figures I was so eager to show earlier. I think our basic conclusions here are pretty similar, that the political aspects of China's interests in Latin America are fairly secular. They definitely take a back seat to the economic interests, and I think – I would argue that even before the need to sort of induced recognition switches there, that they would put a general increase in their global influence, the ability to get more people on board with them in the U.N., and some of these types of things. And I think that – you know, the economic aspects are the foundation of this whole operation in Latin America.

But, you know, there are political things we need to be aware of, but the Taiwan issue itself – I think China, Beijing feels that time is on its side – economic reality is on its side, and that they don't need to push this issue too hard. I think you could argue that they have the means now – if they really wanted to tomorrow engage in a full-scale dollar-diplomacy campaign, that Taiwan would be pretty hard pressed to keep pace with them. So I think that argues that they are pursuing much longer term – sort of fundamental interest than the recognition competition.

**MR. BLUMENTHAL:** I would also say that on the U.N. issue that Gabe mentioned, there have been support besides Venezuela – there has been support for Brazil – the tendency to – by China to the – and this also has to do with a Chinese-Japanese competition, geopolitical competition in the sense of Japan wants to ascend to the U.N. as well on the permanent five, and China does not want that. That is something that they see as a real constraint on their ability to be the predominant power in Asia if Japan is on the permanent five as well. So China will, you know, play the diplomatic game of kind of block Japan and promote its own – if there is going to be perm-five reform, it's going to promote its own countries, its own allies, its own friends besides Japan. So in that sense Latin America is a little bit of a – like other places in the world – a little bit of a competitive battleground for some of the competition. It's a pretty intense competition going on in Asia, in China and Taiwan and China and Japan as well.

**MR. COLLINS:** Exactly. No, I would agree with that. I think, like, if you look at the South Pacific, for example, China is very actively courting a lot of the islands. You see Tuvalu, Vanuatu and all of these other ones he has named that I'm probably butchering. But I think there their interest is much more political in isolated Taiwan, but I think that in Latin America, it's much more resource-driven. I put this slide up here just to give you an idea of kind of how we balance out compared to China with our trade with Latin America. You can get an idea of why they still think of us as the colossus of the North, and why China is still really nowhere close to the amount of trade and investment that we have in the region.

And this is actually a lot – quite a bit of this data comes from Chinese sources. They are certainly very aware of this.

**MR. :** Okay, well, you can have questions and comments – just the fact that – Brazil also wants this Latin American seat?

**MR. BLUMENTHAL:** It was the permanent –

**MR. COLLINS:** They want a permanent seat. But they are not in this round for the rotating seat now or –

**MR. BLUMENTHAL:** We want Guatemala and China wants Venezuela.

**MR. :** Well, why don't we want Brazil instead?

**MR. BLUMENTHAL:** I don't know –

**MR. COLLINS:** I don't know.

**MR. :** All right, well, we will ask John Bolton when he gets done with this career stuff, what this is all about.

Is there any questions now? Anyone who hasn't asked a question yet? The only people who are curious – oh, you have a question.

**Q:** (Off mike.)

**MR. BLUMENTHAL:** The U.S. doesn't really –

**MR. COLLINS:** I don't know –

**MR. BLUMENTHAL:** The U.S. doesn't do anything about it.

**MR. COLLINS:** We don't recognize them officially because of our –

**MR. BLUMENTHAL:** Yeah, yeah, right, because it would be hard for us to say you need to keep diplomatic recognition when we broke it ourselves in '79. So we don't do anything. I mean, the Chinese. We had an assistant-secretary-level meeting with the Chinese about Latin America, and they told us very strongly and very directly that they were going to try to get these countries to switch to our position, and I think we just said nothing. You know, I think that is – the concerns we brought up with China and Latin America are that we – the inter-American dialogue is based on a set of rules that we have come up with together based on good governance, with big markets – democracy. We don't want you messing with that, and they say we won't, you know. You know, we have raised some of these issues on military – the very limited military involvement, but the Taiwan issue, we don't do anything about that.

**MR. :** Yes. No, you in the front –

**Q:** (Off mike.)

**MR. COLLINS (?):** Yeah, although I think you have to be careful how you characterize that. I don't think they are necessarily choosing between one or the other because a lot of these countries like Mexico, Brazil, and Argentina, that they are getting the market economy status recognition from recognize the PRC – you know, they switched their recognition back between 1970 and 1980 in this case. So I think they are not necessarily having to choose between one or the other.

**MR. BLUMENTHAL:** I just think the Taiwan issue is so central to PRC.

**MR. COLLINS:** It is always there, but it's –



**MR. BLUMENTHAL:** Yeah, the CCP view of itself as righting historic wrongs, and even if we – we can all agree that maybe it's a waste of resources to try to do so. It's so essential to the sort of party ideology to the extent that it exists, that they are going to spend a lot of resources trying to switch people's recognition or even to try to get people to not let the Taiwanese travel there or what not. There is a lot of diplomatic capital spent on that issue.

**MR. :** Did you have – right here is a question.

**Q:** (Off mike.)

**MR. COLLINS:** Okay, the impression from the research we have done so far is the basic Taiwan policy – China sort of calls it dollar diplomacy – is rather dismissive of it. But the way it works is, like, let's say, when hurricane Mitch hit in 1998. The Taiwanese were the first to show up to Honduras and some of these other places with aid. And there is targeted aid packages and some of these types of deals. And I think the other thing that Taiwan kind of relies on that helps them is a good number of these Central American countries actually, because they are – you know, a lot of them are textile producers and what not, are actually quite worried about the Chinese coming in and basically displacing their internal production, sort of like what happened with the maquiladoras in Mexico when the Chinese came in. Essentially it put quite a few of them out of business.

**MR. :** All right, now we can go here. Your turn again.

**Q:** What are the numbers worldwide – (off mike). I assume that Latin America probably has a higher percentage of recognition.

**MR. COLLINS:** Like basically –

**MR. BLUMENTHAL:** Fifty-percent.

**MR. COLLINS:** Yeah, half of the country. It's basically the South Pacific in Latin America.

**MR. BLUMENTHAL:** Twenty-four countries recognize Taiwan. Twelve are in Latin America and Paraguay

**MR. COLLINS:** Exactly.

**MR. :** Behind you, yes. You, you, yes. Blue with stripes.

**Q:** (Off mike.) Is that going to affect the U.S.'s ability to rally troops, sort of – does the time line issue come to – (inaudible) – more than just a – (inaudible) – conflict. I was just wondering if you could comment on that. (Off mike.)

**MR. COLLINS:** Yeah, I mean, I think the biggest problem with Taiwan would be if there was to be a contingency of some type – would be motivating other countries in the region to, you know, allow you port access and allow you over flight or basing, some of these other rights if the U.S. were to intervene in some sort of contingency. You know, as far as being able to motivate our own troops, I have no idea.

**MR. BLUMENTHAL:** I think that the PRC – part of the de-recognition issue is the PRC wants to create a climate that basically says that Taiwan is an internal issue –

**MR. COLLINS:** They can apply this anti-cessation law and all these – where it literally is like a rouge province instead of, okay, you know, 90 percent of the world thinks it's a rouge province, but there are still 20 or 24 countries in the world that recognize it as a state.

**MR. BLUMENTHAL:** Yeah, they want to really sort of isolate the country – the preference is not to use force, but if you can really isolate the country and say it's a rouge province not recognized by anybody. In a crisis, you can't turn to the U.N. because it's an internal issue. You want to create a climate that makes, first, Taiwan very isolated, and then the United States very isolated, as Gabe said, both militarily, but also diplomatically in being able to intervene. The only sort of countervailing trend is Japan's increasing assertiveness, and increasing concern that Taiwan would be taken by force, but generally speaking, the Chinese strategy I think is to lay the groundwork to say that anything that happens is an internal matter that we need to take care of internally, no international – international intervention is against norms and Taiwan is our issue. And so I think that is what the – the derecognition is very much tied to that as well.

**MR. :** Anyone who has not asked a question before we get to someone who has asked one?

Oh, okay, go ahead and ask another one.

**Q:** Has the Chinese inroads in Central and South America had any mediating effect on the United States relations, government relations with these countries with regard to the drug trade, terrorism, particularly in the tri-state area, or any of those related activities that the United States government works on directly with countries in bilateral players with these countries.

**MR. BLUMENTHAL (?):** I'm certainly not a Latin America expert. What has happened around the world is that the United States over the last few years has woken up to the fact that China is in a lot of different parts of the world, whether it's Africa and the Middle East or Latin America – start to scratch its head and say what's going on here? Here is another power to contend with.

And I think some of these countries are the beneficiaries of the fact that there is competition so far in the sense that the United States now says – because a lot of the

advice that the United States government is given into how to deal with this China issue in Latin America is to pay more attention to Latin America, or you'll hear – you'll hear similar things in Asia. The trope – there is some truth to it, but I think it's probably overstated, is that we haven't been paying attention to Asia either, and so – you know, so – all of the sudden – now, again, Asian countries can skillfully play that card and say, look, the Chinese are all over the place; you guys need to be a little bit better – more concessionary on whatever the issue and pay more attention to us.

So I think at this point, since the competition between the United States and China is not so intense, countries can have the benefit of pulling on the U.S. sleeve and say, hey, you know, the Chinese are here; what are you going to do for us.

**Q:** Can I clarify something? Well, that is what I mentioned specifically was, for instance, is the Drug Enforcement Administration's work with Colombia bilateral international – (inaudible) – dealing with drug trade and its internal activities.

**MR. COLLINS:** I can't speak specifically to that, but my guess is, you know, they would certainly – they would either be indifferent or mildly supportive. I mean, the execute drug traffickers in their own country, and I think that is probably a pretty good barometer for their stance on the narcotics issue. And so I think – my suspicion with a lot of these is they would probably just rather not be involved with it. But that is not a question that we have looked into in detail.

**Q:** I didn't mean the Chinese practice?

**MR. COLLINS:** Oh, I see.

**Q:** Our relationship with Central America and South America –

**MR. COLLINS:** If they have relations with PRC, are they less likely to cooperate with us about –

**Q:** Exactly.

**MR. BLUMENTHAL:** The China card. If we attach a lot of strings to whatever we want to do, then the answer would be yes and would affect it, because I think that has a lot of appeal of what the Chinese do. You know, they are very bottom-line-business-oriented. They don't want to attach a lot of political strings or preconditions, at least from the outset. And so, yeah, I think in that sort of a – do you have a specific country in mind, or just in general?

**Q:** Columbia.

**MR. BLUMENTHAL:** Yeah, I mean, don't –

**MR. COLLINS:** Bolivia, I think the China card is played more but that is more because of the politics of Bolivia.

**MR. BLUMENTHAL:** Coca growers. (Scattered laughter.)

**MR. COLLINS:** Now, the Latin American countries in general benefited from Chinese involvement in the sense that we lifted our restrictions on international military training because of our concerns that the Chinese were making inroads. So in that sense, as I was saying, there is an ability to play – still an ability to play the U.S. and China off of each other for some of those smaller countries. And I guess what you don't like – get the United States to stop doing what you don't like them doing.

**MR. BLUMENTHAL:** Basically now if the U.S. were propose some sort of aid package that had these preconditions attached to it, they can say, we don't have to do that, whereas before, they didn't have a very flexible choice.

**MR. :** All right, last one.

**Q:** (Off mike.)

**MR. COLLINS:** I have seen things – some articles written on – people worry about the Chinese triads operating out of this tri-state area that someone mentioned earlier.

**MR. BLUMENTHAL:** Whenever you say tri-state – my wife is from New Jersey, so I – (laughter) – think you're talking about New Jersey and Pennsylvania, but –

**MR. COLLINS:** Well, I'm a Texan, so – (scattered laughter). I think out of all of these, the human smuggling -- that might actually be the biggest because I think that is something that goes on, and they come up through Mexico. Now, you may be more familiar – I'm not that familiar. I haven't read anything in Chinese about worries from their side, obviously, but I think those would be interesting –

**MR. BLUMENTHAL:** There have been worries by our own border state congressmen and senators that there have been illegal Chinese immigrants coming through. Many more in the last few years, but that is about all I'd say. I don't think the Chinese – basically they are trying to take them back and I don't see any Chinese concern particularly.

**MR. COLLINS:** I mean, I don't think it's a huge pipeline. I'm sure it happens, but, again, it's definitely it's a good question. It deserves –

**MR. :** All right. Well, we thank all of you who have come. And those who have already departed have missed the opportunity to be thanked. Also, those who participated in the panels have likewise missed the opportunity to be formerly thanked,

but I'm sure they will get a letter, a personal letter from Ambassador Darenblum thanking them for their participation.

So we hope some useful things have been learned from this discussion. And we thank you very much, and we look forward to doing it again.

(Applause.)

And now, poor Blumenthal must go work on the North Korean bomb test, or whatever.

**MR. BLUMENTHAL:** Yeah, exactly -- which may or may not be a bomb test. Who knows? It may or may not be a bomb test. I don't know. So there we are.

(END)