Recently Roberta Jacobson, Assistant Secretary of State for Western Hemisphere Affairs, declared that the U.S. does "not in any way see China as a threat." Xinhua cited Ms. Jacobson's comments at the Sixth China-US Sub-Dialogue on Latin America that the US sees more potential in partnerships with China in the region than adversity. Ms. Jacobson was largely referring to U.S.-China economic relations in a region of enormous potential for both countries.

Growth in trade between China and Latin America and the Caribbean (LAC) has expanded exponentially since President Hu Jintao's first visit to the region in 2004. In 2012, total trade between China and LAC countries reached U.S. $261.2 billion, only a quarter of US-LAC trade. Nevertheless, Latin America and the Caribbean have registered the fastest growing trade in exports to China. In fact, by 2009, China overtook the US as Brazil's second largest trading partner registering $56 billion in trade.

Beyond trade relations, however, China has embarked on a larger relationship with Latin American and the Caribbean to include increasing overseas investments that will help position it in the global marketplace.

Latin America FDI

Latin Americana and the Caribbean continue to be an attractive destination for foreign direct investment (FDI). According to the Economic Commission on Latin America and the Caribbean (ECLAC), in 2011 inward FDI in LAC countries hit a new high with total inflows of $153 billion. Additionally, there is a very high rate of reinvestment of earnings reflecting growing business opportunities in the region. The amount of FDI to the LAC countries represents 10% of global FDI.

Europe predominates as a source of FDI in the LAC countries, accounting for 40% of the total inflows concentrated in strategic sectors such as electric power and banking services (Santander, BBVA, HSBC, etc.), followed by high technology. The U.S. accounts for another 18% of regional inflows and is the second largest investor in the region after the combined European Union (EU), making it the largest single country investing in LAC. In 2011, total U.S. FDI in LAC amounted to $112 billion, a 40% increase over the previous year. Beyond providing the financial resources, FDI is also a major source of technology transfers helping to promote economic growth in host countries.

While China may not be an enemy or threat in the same way the Soviet Union once was, competition with the second largest economy in the world is not so unequivocal. In fact, for

American corporations the prospect of losing market share, access to natural resources and inexpensive labor in Latin America, "threat" might be a relative concept.

Nevertheless, over the past decade China has incrementally raised its presence in the form of overseas foreign direct investment in LAC. Growing from 1 to 9% of total FDI from 2008-2011, today China is the third largest investor in Latin America and the Caribbean. In fact, China has invested over $65 billion in the region. Other estimates report that by 2011 Latin America was the second largest recipient of Chinese overseas foreign direct investment (OFDI) after Hong Kong. Enrique Dussel Peters of Tufts University estimates that from 2000 to 2011, 11.41% of total Chinese FDI went to LAC. Additionally, loan credits have amounted to over $75 billion since 2005.

Some 90% of Chinese investments, however, are focused on the raw materials and commodities demanded to fuel an expanding economy. In Latin America the sectors that have benefitted from Chinese OFDI, 64.15% of investment has been concentrated on raw materials, an increase of over 80% since 2007. Raw materials make up 99.58% of public companies' investments, while 84.32% of private investment is concentrated in banks, services, and infrastructure, etc.

Energy and Infrastructure

The ECLAC report points to a significant investment shortfall in the power sector as in other infrastructure sectors in LAC. Seizing on the shortfall in infrastructure and power generating investment, Chinese companies have shown increasing interest in the energy sector.

According to Evan Ellis, a professor at the Center for Hemispheric Defense Studies in Washington, D.C., "Chinese companies are building hydroelectric facilities and transmission projects even in countries which do not diplomatically recognize their government."

In a recent article published in *Manzella Report*, Ellis reports that in Argentina, Gezhouba was awarded $4.7 billion to build two new hydroelectric facilities in Santa Cruz with a combined capacity of 1.74 GW. In Brazil, the Chinese State Grid is a key contractor for the 11.2 GW Belo Monte hydropower project. In Guyana, China Railway First Group was to build the 165 MW, $840 million Amaila Falls hydroelectric facility before the project ran into difficulties.

Ellis lists a host of other projects that include, for example, the $2.2 billion, 1.5 GW facility Coca Coda Sinclair (being built by the Chinese firm SinoHydro) in Ecuador.

The Chinese presence in the energy field, however, has not been without controversy from environmentalists, labor unions and others. Despite such challenges, Ellis argues, "Chinese companies continue to play a key role in the transformation of Latin America's power infrastructure, and will be a factor to consider as the United States builds new partnerships in this area." Such statements provide a concrete example of the potential partnership Ms. Jacobson commented on during the Sub-Dialogue on Latin America conference.

The Role of the SOEs

China's state-owned enterprises (SOEs} are given strategic missions to acquire particular resources, whether commodities, industrial or military equipment sometimes restricted from export. Even among Chinese decision-makers, the SOEs have been criticized for squandering capital and using subsidies doing little to encourage increased efficiency and innovation. They are a legacy of the old command economy.

The presence of Chinese SOE investments raises a number of concerns. According to a report conducted by Tufts University 87% of Chinese OFDI in Latin America comes from publicly-owned companies, which is 83.22% of Chinese public OFDI in total, with each transaction exceeding $1 billion. Chinese SOEs often raise questions about possible ties to the People's Liberation Army and other state institutions with ulterior motives in foreign lands. More importantly, given China's vast financial resources, SOEs play a role in strategic development decisions without regard to market conditions or operations in host countries. For example, Chinese iron ore production can be kept operating and drawing on valuable resources in Brazil despite market indicators suggesting better use of these resources elsewhere in the Brazilian economy.

Chinese SOE investments have caused concerns elsewhere. For instance, Chinese investment in Canada for 2012 reached $25 billion, with $15 billion going to the controversial purchase of Nexen Energy by a Chinese SOE. The Nexen deal prompted Prime Minister Stephen Harper to comment that, "When we say Canada is open for business, we do not mean that Canada is for sale to foreign governments." This sentiment indicates that while Chinese investments are welcome, SOEs may face greater scrutiny.

Avoiding the natural resources trap

Also, because nearly 90% of Chinese investments in Latin America have been in commodities and natural resources (for example, Peru's copper, Argentina's soya and Brazil's iron ore), there are major concerns the relationship risks specialization in primary products at the expense of manufacturing and other sectors. In spite of the over concentration on raw materials, however, China's search for opportunities beyond its need for raw materials shows promise.

One such opportunity is Brazil's large and growing internal market, which holds enormous potential for Chinese investments. In Brazil, for instance, the Foton Motor Corp. invested $300 million in an automobile plant in Bahia and China provided a credit line for $10bn to finance infrastructure and construction. Openings like this are not without risks since some Brazilians have already complained China is displacing them in industrial and manufacturing exports to LAC countries.

Many analysts see China's competitive advantage eroding as a result of increasing production costs at home leading to it look for investments abroad. For instance, while Mexico has expressed concern about industrial competition from Chinese manufacturing, rising Chinese labor costs are closing the gap with Mexico and creating new opportunities for cooperation. ECLAC economist Miguel Pérez Ludeña suggests such a narrowing gap in wages creates opportunities for Mexico to begin integrating itself into the production networks of Chinese companies.

The real opportunities are in software, IT and communications. In 2011 these sectors led FDI in LAC with a total of $36 billion. The bulk of EU FDI is concentrated in these sectors, with Telecom Italia and Spain's Telefónica investing $2.5 billion in Brazil and Chile creating fiber-optic networks and expanding wireless capability. Watching China's investments in these sectors may be an indicator of its future FDI strategy in Latin America.

China's investments in the Americas have given rise to closer examination of their composition, focus and the political and geopolitical implications of a major power other than the United States and the E.U. In the last decade millions of Latin Americans and Caribbean people have been lifted out of poverty. With some countries witnessing the expansion of the middle class. The robustness of the relationship with China has, in several cases, contributed mightily to improvement in economic performance and could promote a robust competition between investing nations.

Despite risks and challenges, China's economic presence in LAC countries augurs more opportunity for regional and global prosperity than would be possible without it. China's continued demand for commodities helped many LAC countries survive the financial crisis centered in Europe and the U.S. China's increasing FDI in energy and infrastructure can serve to make the region wealthier and thus provide more and better opportunities for U.S. trade and investments. In this respect a prudent U.S. strategy can see in China more potential partnership than adversity.

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