

Relaciones Internacionales: los Nuevos Horizontes

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Relaciones Internacionales: los Nuevos Horizontes



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China's Economic Development and the Relations between China and Latin America and the Caribbean*

Zheng Bingwen**

Ladies and Gentlemen,

It is a great honor for the delegation of the Chinese Academy of Social Sciences (CASS) to be present at the FLACSO Fiftieth Anniversary Meeting. We would like to take advantage of the opportunity to convey the most sincere gratitude for the invitation of FLACSO. Now, on behalf of Mr. Gao Quanli, Vice President of CASS and Chief of the CASS delegation, I would like to make a remark on China's economic development in the past three decades as well as the relations between China and Latin America and the Caribbean.

China's economic development

First of all, I would like to make a brief analysis of the achievement of China's economic development in the past three decades.

Economically China had made a remarkable performance in the past three decades. Since the reform and opening up to the outside world launched in 1978, China had been succeeded in assuring the economy a sustained development with a high growth rate. The average annual

* Discurso pronunciado en el marco del Congreso FLACSO 50 Años.

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growth rate in the period was above 9.7%, much higher than the world average. In the past five years, China enjoyed an especially rapid development, whose average annual GDP growth rate was above 10% for four consecutive years. In the first half of 2007, the GDP growth rate notably reached 11.5%. The GDP in 2006 totaled to 20.94 trillion yuan, ranking the fourth in the world. The fact has proved that China has risen to be an engine of the world economy.

China's foreign trade gained a development at an unprecedented rate in those years, which was viewed as the most important factor promoting economic growth. From 1978 to 2004, the foreign trade volume had increased by 55.90%. The average annual growth rate was 20.72%, 8.7 points higher the world average. The external trade volume was merely 20.6 billion U.S. dollars in 1978, which ranked China the 34th largest trader in the world. Then it jumped to 620.7 billion U.S. dollars in the 1990s and surpassed 1 trillion U.S. dollars in 2004. In 2006, China's foreign trade volume amounted to 1.76 trillion U.S. dollars and ranked as the third largest trader in the world.

China's economic growth was accompanied with low inflation and comparatively abundant employment. From 2003 to 2006, China managed to keep CPI stable, whose average annual increase rate was 2.1%. The GDP *per capita* has sharply risen from 181 U.S. dollars to 1 200 U.S. dollars and the population below the poverty line has decreased from 250 million to 26 million.

China attained a smooth and successful transition from a planned economy to a market economy. The reform process enabled market to play a fundamental role in resource allocation. China was about 69% a market economy in 2001 and 73.8% in 2003 measured by the internationally accepted standard, exceeding 60% as the threshold of a market economy. It has established the socialist market economy with public ownership as the mainstay and multi-types of sectors developing side by side. In the meantime, China was growing to be international and widening its involvement into the economic globalization. After the entry into WTO (World Trade Organization), China sought to establish a basic system of foreign trade in accord with the WTO rules by emending or stipulating over 3 000 laws and regulations.

Next, let's turn to the challenges for China's economy.

In 2007, the 29th year of the reform, China's economy continues to keep momentum and the annual GDP growth rate might reach 10%. However, a variety challenges are emerging:

First, China is facing tough issues in macro-economy.

- Overheated investment. Since 2003, the average annual growth rate of fixed assets investment reached 25%.
- Unbalanced international payment. As a result of the influx of FDI, large volume of trade surplus, and *hot money* brought by RMB's appreciation, China continues to maintain surplus in current and capital accounts. The Central Bank was pressured to promote monetary supply, which intensified the issue of fluidity surplus. Fluidity surplus is a strong incentive for booming stock market and real estate and leads to a sharp rise of asset price, which might be at the cost of China's future economic growth.
- Sharp rise of CPI. In the first half of 2007, China's CPI increased by 3.2% compared with the same period last year, the highest rise since 1997. CPI's food portion climbed 7.6%, which had quite strong negative impacts on people's daily life. Accelerated price hikes have inflicted inflationary pressure on China, which drive some analysts to be concerned that whether China is hereafter able to maintain high growth rate and low inflation rate simultaneously.

Second, China needs to resolve serious environment problems.

Rapid economic growth and large population are inflicting a heavy pressure on the eco-system. Now China is being stricken by the environmental pollution usually occurred in the middle and latter phases of industri-

alization process. Among the twenty most polluted cities listed by a World Bank report in 2001, sixteen of them are in China. Currently it is urgent for China to take firm actions to limit the industries with large energy consumption and heavy pollution and those of overproduction.

Third, China's potential for economic growth is greatly constricted by limited natural resources.

China is short of land and water resources, whose *per capita* area of cultivated farmland is less than half of the world average and whose *per capita* quantity of freshwater is merely one quarter of the world average. China tends to be increasingly dependent on imported energy resources and mineral, which constitutes a heavy threat to its ability of sustaining economic growth. In addition, China is obsessed by the widening gap between the rich and poor, the imbalanced development between different regions, and the hardship of developing rural area.

The relations between China and Latin America and the Caribbean

When meeting with Argentine President Raúl Ricardo Alfonsín on May 15, 1988, Mr. Deng Xiaoping pointed out that the 21st century will be an age of the Pacific as well as an age of Latin America and the Caribbean (LAC). In the following twenty years, China achieved sustained and rapid development at an unprecedented rate. In the meantime, Latin America and the Caribbean were lifted out of the Lost Decade and regained economic growth. In the past five years, the region was in a period of prosperity and economic growth.

Against the backdrop of economic globalization, both China and LAC view the other side as a strategic partner in economic development. They are managing to establish win-win cooperation based on mutual political trust, mutual collaboration in international affairs, and mutually beneficial economic cooperation. It is proved that the Chinese-LAC relations are in full blossom.

First, let's go to the latest progress of the Chinese-LAC relations in recent years. China and LAC enjoy a warm and stable relationship since the year of 2000.

Most of Chinese top leaders had paid a visit to LAC. In April, 2001, President Jiang Zeming finished a successful journey to six LAC countries. In November, 2004, President Hu Jintao attended the APEC summit held in Santiago, Chile, and paid an official visit to Chile, Brazil, Argentina and Cuba. In 2005, he was invited to visit another LAC country México.

In the meantime, China greeted the top leaders from LAC countries. Among them included Argentine President Fernando de la Rúa (September, 2000), Mexican President Vicente Fox Quesada (June 2001), Chilean President Ricardo Lagos (October, 2001), Cuban President Fidel Castro (February 2002), Ecuadorian President Lucio Gutiérrez (2003), Surinamese President Ronald Venetiaan (February 2004), Brazilian President Luiz Inácio Lula da Silva (May, 2004), Argentine President Néstor Kirchner (June 2004), Columbian President Álvaro Uribe (April 2005), and Peruvian President Alejandro Toledo (June 2005). It is especially noteworthy that Bolivian President-elect Evo Morales chose China as one of the destinations during his first global journey and Venezuelan President Hugo Chavez had paid four visits to China since he came into power in 1999.

China and LAC countries are seeking to boost their bilateral relations. China has set up the strategic partnership with Brazil in 1993, Mexico in 2003, and Argentina in 2004, the strategic partnership of common development with Venezuela in 2001, and the comprehensive partnership with Chile in 2004 and Perú in 2005.

Second, the Chinese-LAC economic and trade relations had attained rapid development in recent years.

Since 2000, both sides accelerated their trade relations. The trade volume sharply rose from 8.2 billion U.S. dollars to 70.2 billion U.S. dollars in

2006 and the share of Chinese-LAC trade in China's total foreign trade was up from 2.29% to 3.99%. They continue to keep the momentum in 2007. The trade volume in the first half reached 44 billion U.S. dollars, an increase of 44.9% compared with the same period last year. China has been widely regarded as an engine next to the United States, effectively promoting LAC's economic growth. Now it is the major export destination of many LAC countries. According to the statistics of the first quarter of 2007, China stood as Chile's largest export market and the third largest import market, Brazil's third largest export market and the second largest import market, Peru's second largest export and import markets, and Argentina's fourth largest export market and the third largest import market.

China and LAC are increasing investment in the other side. Economic development has enabled China to make a large-scale investment overseas in recent years. Its non-financial FDI in LAC totaled up to 882 million U.S. dollars in 2004, 651 million U.S. dollars in 2005, and 9.66 billion U.S. dollars in 2006. In 1997 LAC only received 10% of China's overall FDI. Later the share rapidly increased to 49% in 2004 and 60% in 2006. LAC has replaced Asia to be the largest recipient of China's FDI.

On the other hand, some LAC countries like Brazil and Mexico are interested in enlarging their investment in China. Some of major LAC banks tried to run business in China when China is opening up its financial industry. In 2006, Bank of Chile set up a representative office in Beijing. In the same year, BRADESCO, Brazil's largest private bank, declared to establish an office in China. The Mexico Foreign Trade Bank established its fourth office in Guangdong Province, China. In November, 2005, China conducted the FTA agreement with Chile.

Third, China seeks to develop bilateral relations with more LAC countries.

Continuous efforts had brought China a series of diplomatic breakthrough. It established diplomatic relations with Dominica in 2004 and Costa Rica in 2007 and restored diplomatic relations with Grenada in 2005. China and Nicaragua might advance their diplomatic relations

since the Ortega administration came into power in January, 2007. Some LAC countries had openly expressed their wish to boost relations with China.

Fourth, China yearns to enhance its relationship with LAC multilateral organizations and has achieved fruitful results.

It maintains ministerial dialogue with the Rio Group since 1990. It was accepted in 1994 by the Latin-American Free Trade Association as the first Asian observer. It established vice-ministerial dialogue mechanism with Mercosur in 1996. It launched the mechanism of political consultation and cooperation with the Andean Community in 2000. In 2004 it was accepted as an observer by the Latin American Parliament and then granted the status of permanent observer by the Organization of American States. An observer of the Inter-American Development Bank, China submitted its membership application in 1993. If it was accepted, China would be the third Asian member after Japan and Korea.

Some pending issues

There are some pending issues in the Chinese-LAC relations, which are worth of attention and further study.

First, there is the dispute between two parties over the anti-dumping measures against Chinese goods.

According to the WTO data, there are 26 countries who took anti-dumping measures against Chinese goods between 1995 and 2005. Many of them are LAC countries, including Argentina, Mexico, Peru, Brazil, Venezuela, Columbia, Trinidad and Tobago, Chile and Jamaica. In the period, there are 469 anti-dumping suits against Chinese goods. Among them, 116 suits were launched by LAC countries, 24.7% of the total. There are 338 anti-dumping cases against Chinese goods. Among them,

89 cases were conducted by LAC countries, 26.3% of the total. Although the Chinese-LAC trade volume accounts for 3% of China's foreign trade volume, China has been a major victim of LAC countries' anti-dumping measures.

Second, China and LAC need to make a joint effort to handle China's "problem products" and lower its negative influence.

In 2007 China was accused of exporting some products of inferior quality, which aroused a spate of safety concerns over Chinese products worldwide. Some LAC countries declared that they had seized China's "problem products". Later it was proved that many of accusations were not convincing. Further, in some cases, Chinese products were made a scapegoat of other people's wrongdoing. For example, it was reported that scores of Panamanian died from tainted Chinese chemicals. However, the investigation showed that those chemicals were originally labeled as for industrial use only, but the Panamanian traders altered the paperwork to make them end up in medicine. Therefore China should not be blamed for the case. Actually both China and LAC should promote their coordination to avoid any action of satanizing Chinese products and to maintain well balanced trade and economic cooperation between them.

Third, the influence of the United States on the Chinese-LAC relations is worth of attention.

The United States are quite concerned about China's growing economic linkage with LAC. The US congress had held six hearings to discuss the matter. Thomas A. Shannon, the U.S. Assistant Secretary of State for Western Hemisphere Affairs, paid a visit to China in April, 2005, to discuss LAC affairs with the Chinese counterparts. According to some U.S. analysts, China's involvement in the region might pose a future threat to the U.S. influence. Basically it can be regarded as another type of *China Threat* theory coined by the U.S. neo-conservative.

The Chinese-LAC economic cooperation is still on the initial stage. Since China's trade with and investment in the region are comparatively limited, it is impossible for China to challenge the United States interests. Currently LAC's trade with the United States accounts for over 50% of its overall foreign trade whereas its trade with China accounts for only 4%. In 2004, 49% of China's non-financial FDI flowed to LAC, which was equal to 2% of \$41 billion worth of FDI received by the region.

The trade with China has brought LAC with considerable trade surplus. According to Prof. Riordan Roett, Director of Western Hemisphere Studies at Johns Hopkins University, the trade surplus is a favorable factor of promoting the regional economic development. China's economic linkage with LAC should not be viewed as a threat to the United States because the prosperity and stability of the region will definitely benefit the United States.

The United States enjoys a leading position in LAC's foreign trade with the help of its economic and geographic advantages. In view of different export product structure, there is impossible to be tense economic competition between China and the United States in the region. The United States usually exports high-end product to the regional market while China's major export is low-end product. In regard to investment in LAC, China is far left behind by the United States. Actually its investment is directed at the field that the United States shows no interest. For example, China has invested in local infrastructure, which is usually not able to attract western investors' attention. In conclusion, it is baseless and unreasonable for the United States to be afraid of China's linkage with LAC.

Ladies and Gentlemen,

The Chinese Academy of Social Sciences (CASS) is under the State Council of China. As a prominent think tank, it plays a vital role in promoting China's economic, political and social development. The Institute of Latin American Studies, CASS, is the only Chinese institute specialized in LAC research. A significant bridge between China and LAC, it

hopes to do the most to help peoples deepen mutual understanding and cooperation.

It is a great pleasure for the CASS delegation to attend the FLACSO Fiftieth Anniversary Meeting. We wish to take advantage of the opportunity to enhance interactions between Chinese and Latin American scholars.

Now I should like to end my presentation with an earnest prayer for the great success of the meeting. Thank you.