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Ex-President Jiang Zemin (C)

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In a Fortnight

By L.C. Russell Hsiao

XI'S EUROPEAN TOUR: CHINA'S CENTRAL-EASTERN EUROPEAN STRATEGY REACHES FOR NEW HEIGHTS

Chinese Vice-President Xi Jinping departed for Europe on October 7 for a two-week long official visit spanning from Brussels in the West to Bucharest in the East. The five European countries include Belgium, Germany, Bulgaria, Hungary and Romania. This high-level trip by the Chinese leader most likely to succeed President Hu Jintao in 2013 may signal momentum behind a change in the Chinese leadership's attitude toward the Eastern European region, and mark the beginning of a new stage in their bilateral relations.

Vice-President Xi's European tour has been framed by the Chinese Foreign Ministry and official-media as a visit to consolidate and develop cooperation in economic relations between China and the five countries (Xinhua News Agency, October 1). While Xi's stopovers in Brussels and Berlin are no surprise given Western Europe's important position in the Chinese economy, more telling of China's evolving "go-out" investment strategy is Xi's visit to the Central and Eastern European countries. Xi's call to Hungary, Bulgaria and Romania against the recent backdrop of a massive \$1 billion Chinese loan to neighboring Moldova in August—which some analysts say signal an intensification of Beijing's strategy to diversify its estimated \$2 trillion foreign reserves—may be an indication that the Chinese are eager to accelerate their diversification strategy through the emerging countries in the region, and is sure to raise expectations. The Moldovan loan has apparently been in the works for some time; the plan was initially announced at a Chisinau Beijing videoconference in February (Moldova.org, February 6). Chisinau could not accept the loan at the time because it signed a memorandum with the IMF valid until April that restricted it

from taking out credits from China.

In the lead-up to Xi's visit, which will include a raft of economic forums, the Chinese media has been touting Bulgaria, Hungary and Romania as important commercial partners for China in the Central and Eastern European region (*Wen Wei Po* [Hong Kong], October 6). Data released by the General Administration of Customs of the Chinese government indicates that commercial trade between China and the region has been developing rapidly in recent years. China's total trade with the three countries was \$1.4 billion in 2000 and increased to \$12 billion in 2008, which represents an almost eight-fold increase. The share of total bilateral trade is divided by Bulgaria (~\$1.3 billion), Hungary (~\$7.5 billion), and Romania (~\$3.2 billion), which ranks these countries 5th, 2nd, and 4th respectively in China's overall trade in terms of countries in Central and Eastern Europe (*Wen Wei Po*, October 6).

According to Chinese government customs data, Belgium is China's seventh largest commercial partner in the European Union (E.U.). In 2008, commercial trade between China and Belgium was \$20.2 billion, which represents a 14.4 percent increase over the previous year. Belgium is the ninth largest source of foreign investment to China from the E.U. By August 2009, Belgium had direct investments in China worth over \$1 billion. From January–August 2009, Belgium's real investment in China increased by 85.8 percent year-over-year (*Wen Wei Po*, October 6).

Currently, Germany is China's largest commercial partner in Europe. In 2008, China-Germany commercial trade reached \$115 billion and accounts for about a quarter of total China-Europe commercial trade. Germany's investments in China reached \$1.6 billion, which also accounts for about a quarter of total E.U. investments in China. Chinese enterprises invested \$980 million in Germany, which accounts for 29 percent of China's total investments in the E.U. (*Wen Wei Po*, October 6).

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Jiang Zemin Casts Long Shadow over National Day Parade

By Willy Lam

While the extravaganza that marked the 60th birthday of the People's Republic of China (PRC) seems to have convinced the world of the economic and technological prowess of the fast-emerging quasi-superpower, fissures and

institutional malaise within the Chinese Communist Party (CCP) have also been laid bare. In an apparent attempt to stir up the patriotism of 1.3 billion Chinese, President Hu Jintao rolled out state-of-the-art missiles and jet fighters in the country's largest-ever military parade. The pomp and circumstance were also designed to mark the pinnacle of the career of the 67-year-old party General Secretary and Commander-in-Chief. For many spectators, however, the most memorable image of the October 1 gala was ex-president Jiang Zemin's re-emergence into the national limelight. The jovial face of the 83-year-old Jiang, who no longer holds any official position, appeared on CCTV's live broadcast of the show more than 20 times. In addition, as the "party and state leaders" made their appearance in the haloed rostrum of Tiananmen Square, Jiang was just one step behind Hu—and way ahead of the eight other serving members of the Politburo Standing Committee (PSC). In a manner that rendered inevitable Jiang's place as second in the pecking order, the *People's Daily* put two equally big pictures of Hu and Jiang on the front page in its October 2 edition (Deutsche Presse-Agentur, October 2; *Straits Times* [Singapore], October 2).

Why the sudden prominence for Jiang, who retired from his last significant post of chairman of the CCP Central Military Commission (CMC) in September 2004? Bao Tong, a liberal aide to late party chief Zhao Ziyang, surmised that the party leadership wanted to stress "the seamless continuation of policy from generation to generation." Indeed, part of the October 1 spectacle consisted of four larger-than-life picture placards—those of Mao Zedong, Deng Xiaoping, Jiang and Hu—being paraded in the Square and receiving thunderous cheers from onlookers. Yet, Hu seemed to resent being upstaged. He wore the sternest of expressions throughout the jubilee. Beijing-based Party veterans familiar with factional intrigues in the CCP have pointed out that while Jiang, who still heads the CCP's powerful Shanghai Faction, was forced to quit the CMC five years ago, he has not totally relinquished power. For example, Jiang maintains a well-appointed office in the August First Building in western Beijing, which houses the CMC Headquarters. Moreover, since most of the ten generals sitting on the CMC owed their promotion to Jiang, the octogenarian often had tête-à-têtes with his former underlings in his gigantic office (*Apple Daily* [Hong Kong], October 2; *Asiasentinel.com*, October 5).

Jiang Zemin, who headed the CMC from 1990 until 2004, began putting in more appearances in the August First Building after March of last year, when scores of riots began to rock the Tibet Autonomous Region (TAR) and four neighboring provinces (Far Eastern Economic Review, April 2008). Apart from advising CMC members on how to handle ethnic violence in Tibet and Xinjiang, Jiang

apparently played a role in supervising the reconstruction of Sichuan after it was devastated by an earthquake on May 12. This became known thanks to a long article written by People's Liberation Army (PLA) Chief of the General Staff General Chen Bingde on the army's contributions to disaster relief in Sichuan. General Chen's piece cited five occasions when he and his colleagues sought the instructions of "[CMC] Chairman Hu and a CMC leader." "We are determined to use all means—and to spare no efforts—to implement the instructions of Chairman Hu and the CMC leader," Chen wrote in the *People's Daily* late last year (*People's Daily*, December 8, 2008). This unnamed "CMC leader" was in all probability Jiang, who had taken good care of Chen's career since the latter's days as Commander of the Nanjing Military Region in the mid-1990s. In 1995 and 1996, General Chen was the field commander of the provocative anti-Taiwan war games that were masterminded by then-CMC Chairman Jiang.

There is reason to believe that the Jiang Zemin factor was behind Hu's decision immediately after the July 5 bloodbath in Urumqi, Xinjiang to cancel his appearance in the Group of Eight (G-8) conference in Italy and to scurry back to China. This was apparently to forestall efforts by Jiang to persuade CMC generals—as well as PSC members—that Hu's policies in Tibet and Xinjiang were going nowhere. Apart from criticizing Hu's strategies regarding ethnic minorities, Jiang is said to be unhappy with how his successor has promoted scores of Communist Youth League (CYL) alumna to top party and government posts. Moreover, Shanghai Faction stalwarts have, from behind the scenes, decried the scandals surrounding the businesses run by the children of several CYL Faction stalwarts (*Apple Daily*, October 5; *TheMalaysianInsider.com*, October 4).

The resurgence of Jiang's influence testifies to the nation's institutional sclerosis—which is the result of the stoppage of all political reforms. At stake is the orderly progression of generational change in the CCP's top echelons. The much-noted failure of Vice-President Xi Jinping to be inducted into the CMC at the Fourth Plenary Session of the CCP last month is widely believed to be due to Hu's determination to hang on to the commander-in-chief's slot beyond the 18th CCP Congress (See "CCP 17th Central Committee Plenum Skips Xi Jinping and Inner-Party Democracy," *China Brief*, September 24). This is despite the fact that in an apparent effort to improve his ties with Hu, Xi asked his wife, famous performing artist Peng Liyuan, to sing a specially commissioned song—"The Scientific Outlook on Development Promotes Harmony"—at the National Day concert. (The "scientific outlook on development" is a key policy initiative of President Hu and Premier Wen Jiabao.) At the 16th Party Congress of 2002, Jiang set the

precedent of retiring from the posts of party chief and state president—in favor of Hu—but hung on to the post of CMC chairmanship. Given that his long-standing political foe has refused to fade into the sunset, Hu now has even more of an urgency to tighten his grip on military power beyond the 18th Party Congress. After all, the head of the CYL Clique has to ensure that when he leaves the Politburo and its PSC in 2012, enough of his protégés and cronies can be appointed to the supreme council (*Apple Daily*, September 21; *Ming Pao* [Hong Kong], October 2).

Given the CCP leadership's preoccupation with factional intrigue as well as socio-political stability, it is perhaps not surprising that President Hu's October 1 message contained precious little on the future directions of political or institutional reform. This is despite the fact that after noting how "only socialism can save China," Hu, who was the sole leader wearing a Mao tunic, reiterated, "only reform and opening up can ensure the development of China, socialism and Marxism." Yet what Hu meant by "reform and opening up" had nothing to do with norms and values taken for granted worldwide. Said renowned artist and social critic Ai Weiwei, one of the designers of Beijing's Bird's Nest Olympics Stadium, "The party has been in power for 60 years, but their propaganda is still the same—so poor and sad." In the run-up to the celebrations, a host of dissidents were forced to leave Beijing or kept under 24-hour surveillance. The authorities also banned famed historian Xiao Jiansheng's *Chinese Civilization Revisited*, even though the book had little to say about present-day politics. Several moderate intellectuals were not even allowed to leave China to attend seminars held in Hong Kong to mark the PRC's 60th birthday (BBC News, September 28; AFP, October 1; Xinhua News Agency, October 1).

In an apparent attempt to bolster his credentials as a worthy successor of the Great Helmsman, President Hu made sure that Mao-related themes and slogans dominated the festivities. A "Mao Zedong Platoon" stole the limelight during the "parade of the masses" the morning of October 1. Consisting partly of students from Tsinghua University, Hu's alma mater, this super-patriotic group held high a placard that proclaimed "Long live Mao Zedong Thought." It was the first time in recent memory that this Cultural Revolution-era mantra was given such national prominence (*Ming Pao*, October 5; *Chinareviewnews.com* [Hong Kong], September 28). Moreover, the official media was replete with stories about Mao's family members. For example, Mao Xinyu, 39, who is Mao Zedong's grandson and a Vice-Director of the War Theory and Strategic Studies Department of the PLA Academy of Military Sciences, is set to be made the country's youngest major-general next year. Senior Colonel Mao also told domestic journalists that he hoped his grandfather's birthday would become a national

holiday to mark his gargantuan contributions (*New York Times*, September 28; *China Daily*, September 29).

For quite a number of liberal intellectuals and party members, however, the most thought-provoking image from last week's parade was that of former premier Zhu Rongji. The camera caught the 81-year-old Zhu standing silently at the Tiananmen Square rostrum together with two fellow former PSC members, Song Ping, a former mentor of President Hu's, and Wei Jianxing, who used to be in charge of the CCP's anti-graft watchdog. Unlike almost all CCP dignitaries, who were putting on red ties, Zhu wore a black cravat—in addition to a pair of dark glasses and a poker face. Unlike Jiang, Zhu faded totally out of the limelight the moment he ceased to be head of government in March 2003. Speculation that he is not exactly happy with either Jiang or Hu seems to have been confirmed when he recently published *Zhu Rongji in Press Conference*, an anthology of his media interviews, which became an instant bestseller. Several provincial newspapers as well as bloggers have cited one of Zhu's best-known sayings, "My only hope is that after retirement, the people will say 'he is a Mr. Clean'—and I'll be satisfied" (Chinaelections.org, September 24; China News Service, September 6). Given the opacity of Chinese politics, whatever went through Zhu's mind on October 1, or what message Jiang wanted to send with his high-profile reappearance—may only be revealed by posterity.

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Obama's China Trip: Forging Middle Class Ties

By Cheng Li and Jordan Lee

Last April, in a press conference capping his first one hundred days in office, President Obama remarked that the "ship of state" is an ocean liner, not a speedboat," and that even a small shift in direction could have far-reaching consequences even a decade or two later [1]. When the President travels to Beijing next month on his maiden China trip, it may serve the President's purposes

to come up with a modern analogy befitting the Chinese regime. While President Obama is doing his utmost to steer the lumbering U.S.S. America in a slightly new direction, the Chinese leadership is performing a delicate balancing act, seeking to harness the powerful social forces below without letting them escape their control.

Among the many forces shaping China's course of development, none will prove more significant in the long run than the emergence of a Chinese middle class. China's ongoing economic transition from that of a relatively poor developing nation to a middle class country like the United States could have wide-ranging implications for every domain of Chinese life, especially for the country's economy, politics, internal social cohesion and environment. From the party's perspective, of course, an economically aspirant population can be a double-edged sword. The Chinese Communist Party (CCP) seems well aware that in other countries (e.g. South Korea, Indonesia) the middle classes have been known to push the envelope politically in favor of democratization. Yet the more important historical lesson for the party, ingrained over three decades of incremental reform, is that markets are here to stay and that only broadly shared prosperity can ensure social stability.

The challenge for U.S.-China relations is to prevent both sides from losing sight of their common aspirations, some lofty and others mundane. There are still many sticking points in the relationship—the Taiwan issue, ethnic tensions in Tibet and Xinjiang, religious freedom, trade disputes, environmental degradation, and overall U.S. unease with the prospect of a non-liberal, non-democratic superpower, among others—but areas of mutual interest and common opportunity are more numerous. The list includes global economic recovery, anti-terrorism and non-proliferation, and a wide range of regional and global strategic issues. Even climate change, certain to be near the top of the agenda during Obama's visit, is a global challenge that the two sides are beginning to consider as an opportunity for cooperation. Moreover, in each of these areas, an increasingly diverse and pluralistic Chinese middle class may play a larger role in the policymaking process, both from within the party and through the application of external pressure. Fundamentally, 21st century China's national aspiration—the construction of a *xiaokang shehui* (a reasonably well-off society), or what might be called a middle class nation—is a vision of historical progress not far from the American dream.

FORECASTING THE GROWTH OF CHINA'S MIDDLE CLASS

Lest we forget, it was only eight years ago this summer, in July 2001, that Jiang Zemin proposed the formal

admittance of capitalists into the party. By 2007, within the span of a single U.S. presidency, the percentage of China's private entrepreneurs with CCP membership had soared to 37.8 percent (from an unofficial 13 percent in the late 1990s) [2]. Given that the party's current membership is roughly 76 million, a mere 5 to 6 percent of China's general population, private entrepreneurs already appear to be dramatically overrepresented [3]. For a nominally Communist country whose political structure still resembles Cuba's and Vietnam's, these are counterintuitive numbers.

Estimates vary widely on the exact size and composition of today's Chinese middle class, but the consensus view is that it does exist and that it is expanding at a rapid clip. Among Western analysts, opinions tend to fall along a spectrum, the optimistic extreme marked by a strain of wishful thinking focused on China's massive emerging consumer market, and the pessimistic one marked by ideological dogma or a gloomy sort of myopia. Emblematic of the former are analyses like a 2006 report by the McKinsey Global Institute, a research unit of McKinsey & Company, which forecasted 100 million middle class households in China by 2009 (45 percent of the urban population) and 520-612 million by 2025 (over 76 percent of the urban population) [4]. In recent years other firms and banks, including Merrill Lynch (2006) [5], HSBC and Master Card (2007), and the Deutsche Bank Research team (2009) [7], have made similarly upbeat, if usually more modest, predictions. These studies define the middle class according to income and tend to adopt best-case scenario models.

At the pessimistic end of the spectrum lie the more skeptical assessments of the Chinese middle class. Some Western analysts beholden to ideological biases simply refuse to accept that Communist China could produce a middle class structurally similar to its Western peers. In their estimation, economic freedom goes hand in hand with political freedom, and any definition of political freedom includes multiple parties and free elections. Others adopt a more sophisticated, if equally pessimistic, view that the true beneficiaries of the China boom have been the entrenched party elite—those able to translate political capital into economic capital. It is through an unholy alliance of wealth and power, what the Chinese sociologist Sun Liping calls a “wicked coalition,” that a small, well-connected minority gets rich while the average citizen suffers [8]. Lang Xianping, a U.S.-educated, Hong Kong-based economist known as Larry Lang on his popular talk show, has lent his voice to these popular frustrations by coining the term “black collar class,” a social stratum of urbanites who dress in black, drive black luxury sedans, have hidden incomes and ties to criminal elements, live secret lives with mistresses, and generally operate in an opaque manner [9].

At each extreme there is a grain of truth, but the stories of rampant corruption, in all of their gory detail, risk clouding out the reform period's more mundane achievements. China's emerging middle class is a complex mosaic of groups and individuals, some undoubtedly the clients of political patrons, but the overwhelming majority are the spitting image of self-made success. According to several recent surveys of the middle class conducted by well-regarded Chinese sociologists, a significant proportion of rural and urban private entrepreneurs came from peasant backgrounds and/or received very little education. A Chinese Academy of Social Sciences (CASS) survey conducted by Lu Xueyi and others found that 69 percent of the entrepreneurs in rural areas came from peasant backgrounds, and 54 percent were themselves former peasants [10]. In the late 1990s two studies of private entrepreneurs in Shanghai found that a majority of entrepreneurs—83 percent in one study and 44 percent in the other—received *at most* a middle school education [11]. Corruption and issues of fairness and opportunity are certainly among the country's most serious problems, but unlike in the Russian case China's market transition has avoided a wholesale transfer of wealth and power to a small oligarchy.

U.S.-CHINA RELATIONS: FORGING MIDDLE CLASS TIES

In the context of the global financial crisis, China's domestic consumption has taken on new meaning. With the U.S. economy still bleeding jobs and the U.S. savings rate inching upward, the entire world is hoping that China might fill the demand vacuum and lead a global economic recovery. Just as the highly acquisitive U.S. middle class fueled global growth for many years, it stands to reason that a burgeoning Chinese middle class could help to catalyze economic recovery and lay the groundwork for a more balanced global economy in the future. In his address to the U.N. General Assembly last month Chinese President Hu Jintao reiterated the PRC's commitment to raising China's domestic demand, and highlighted the importance of its domestic consumption [12]. Beyond helping to drive the world economy, a universal consideration, this development would clearly be of commercial interest to U.S. corporations.

On the many issues likely to define the 21st century—a global fight against climate change, increasing worldwide demand for dwindling natural resources, and an ever more complex and interconnected global economy—China will need to play an increasingly proactive and constructive leadership role. Given the enormous environmental costs of the American middle class lifestyle, the Chinese should implement smart policies to ensure that its middle class develops in a more sustainable fashion. The U.S. should

keep in mind that China's ability to play this role, to truly become a "responsible stakeholder" in the international order, will depend on its evolving domestic circumstances. Perhaps the most serious threat to social stability in China today—the yawning gap between the rich and poor—might dissipate as a middle class takes shape in between. As for the prospect of political change, whether or not the party relinquishes its "leading role" in society, an economically comfortable Chinese population is certain to demand greater voice and an acceleration of improvements in governance already under way.

CONCLUSION

Focusing on the middle class may be a way to find more common ground in U.S.-China relations. As mundane as it may be to promote the bourgeois way of life, commodious living is, as Thomas Hobbes observed centuries ago, a common aspiration that transcends our cultural and political differences. Moreover, a deeper understanding of the true motive force of China's rise—an ancient civilization's yearning to provide for its people and flourish once again—may dispel some of the alarmist views of a rising China. In the coming years, as the United States and China are called on to collaborate more frequently, leaders on both sides would do well to keep the shared aspirations of their people in mind.

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NOTES

1. "Barack Obama news conference -- the full transcript," *Los Angeles Times*, April 29, 2009, <http://latimesblogs.latimes.com/washington/2009/04/barack-obama-news-conference-text.html>.
2. The CCP had been recruiting private entrepreneurs unofficially since the 1980s. Bruce Dickson and Jie Chen, "Allies of the State: Democratic Support and Regime Support among China's Private Entrepreneurs," *The China Quarterly*, Vol. 196, (December 2008).
3. "Xin zhongguo chengli 60 nian lai zhongguo gongchandang dangyuan zengjia 16 bei zongshu jin 7600 wan ming," [Total Membership in the Chinese Communist Party has increased 16-fold in the 60 Years since its Founding and Approaches 76 million], June 30, 2009, <http://cpc.people.com.cn/GB/64093/64387/9569767.html>.
4. McKinsey Global Institute, "From 'Made in China' to 'Sold in China': The Rise of the Chinese Urban Consumer," November 2006, http://www.mckinsey.com/mgi/publications/china_consumer/index.asp.

5. Merrill Lynch, *China Consumer Brands Participation Certificate*, (Singapore: April 2008).

6. See http://www.singtaonet.com/chinafin/200712/t20071210_688541.html.

7. Steffen Dyck, Syetarn Hansakul, and Rachna Saxena, Deutsche Bank Research, *Current Issues Asia*, "Emerging Asia's Middle Class A Force to be Reckoned with," August 21, 2009. http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000245808.PDF.

8. *Zhongguo xinwen zhoukan* [China Newsweek], January 13, 2006; *Liaowang* [Outlook], December 5, 2005; also see www.chinesenewsnet.com, December 12, 2005.

9. See http://www.chnqiang.com/article/2009/0516/article_83019_2.shtml.

10. Lu Xueyi and others, "Woguo shiyou qiye de jingying zhuangkuang yu siyou qiye zhu de qunti tezhen" [Operational Conditions of Private Enterprises in China and the Group Characteristics of Private Entrepreneurs], *Zhongguo shehui kexue* [Social Sciences in China], no. 4 (1994): 70.

11. Chen Baorong, "Jiushi niandai Shanghai geti siying jingji fazhan yanjiu" [Study of the Development of the Private Economy in Shanghai during the 1990s], working paper, Shanghai Academy of Social Sciences, 1994; and Zhu Guanglei, *Dangdai zhongguo shehui gejieceng fenxi* [Analysis of Social Strata in China], (Tianjin: Renmin chubanshe, 1998), p. 376.

12. "Chinese president addresses UN General Assembly, meets Russian, S Korean presidents," *Xinhua News*, September 24, 2009, http://news.xinhuanet.com/english/2009-09/24/content_12106467.htm.

War Talk: Perceptual Gaps in "Chindia" Relations

By Mohan Malik

Until 2005, Chinese public perceptions of India were generally benign, even bordering on benign neglect. Yet, a radical change in Chinese public attitudes toward India has noticeably taken place since then and it can be attributed in part to an increasing number of Chinese strategic experts, bloggers, retired diplomats, and even officially sanctioned websites and PLA-linked think tanks ratcheting up an "India threat" scenario. Beginning in early 2006, some strategic journals and pro-Beijing Hong Kong media published commentaries discussing the possibilities of a "partial border war" to "teach India a lesson" again. The Tibetan riots of March 2008—which refocused the world's attention on Tibet as China was preparing for Olympic glory—were a major catalyst [1].

As in the past, Beijing laid the responsibility for the Tibetan unrest on exiled Tibetan spiritual leader, the Dalai Lama, and India. The Chinese media and strategic journals raised their anti-India rhetoric, calling New Delhi “arrogant” and warning it not to “misjudge the situation as it did in 1962,” and to “stay away from a path of confrontation” [2]. Accusing the Indian government of “walking today along the old road of resisting China,” the PLA leadership, through an article posted on the website of the China Institute of International Strategic Studies—a think tank set up by the General Staff Department’s 2nd department—cautioned that India should “not requite kindness with ingratitude” [3]. Public reminders from the Communist Party’s media of China’s decisive victory over India in the 1962 war spiked during 2008-09 (*C3S Paper*, No. 288, June 12). Many of the commentaries and web postings seem to be penned by “insiders” as they display intimate knowledge of military operations, logistics, terrain, ORBAT (order of battle: number, location and strengths of army divisions) and a solid understanding of China-India border talks and history. A common thread found in the assessments is an aim to capture the lost lands and crush India for daring to compete with China [4].

“INDIA THREAT THEORY”

Not surprisingly, the 2008 survey by the Pew Research Center’s Pew Global Attitudes Project saw a dramatic increase in the number of Chinese—24 percent—ranking India as an “enemy” (Pew Global Attitudes Project, July 22, 2008). The relentless Chinese print and electronic media campaign against India permitted and therefore sanctioned by the Chinese government censors—unusual in its sarcasm and ridicule of Indian aspirations of becoming a global power—has had a negative impact on large sections of Chinese public opinion and has added to the existing prejudices against India. In June 2009, an online poll conducted by *Global Times*, an offshoot of *People’s Daily*, showed that 90 percent of respondents believed India, more than any other country, threatened China’s security (*Global Times*, June 11). All top four “Most Commented” opinion pieces on *People’s Daily Online* in 2009 were on India—written mostly in jingoistic tone and highly critical of Indian foreign policy and defense posture (*Global Times*, June 11; *People’s Daily Online*, June 19; August 12; September 15). With most Chinese now perceiving India as their main enemy—nearly 50 years after they fought a border war—India has effectively replaced Japan as Beijing’s new chimera. An article on the PRC’s 60th anniversary in *Sunday Times* found that “[n]ot everyone in Beijing speaks in the silky language of the foreign ministry. Curiously, the enemy most often spoken of is India. Interestingly, the censors permit alarmingly frank discussion on the Internet of the merits of another war against India to secure the

Tibetan plateau” (*The Sunday Times*, September 27). In June 2009, *People’s Daily’s* leading strategic expert warned that a fresh border dispute between China and India could “plunge the two neighbors again into a ‘partial military action’” (*People’s Daily Online*, June 19).

Always wary of China, the Indian media (especially TV channels) did not take long to join the battle of sensationalizing alleged Chinese incursions and in hyping “the China threat” (*BBC News*, September 16). One reason Beijing’s leaders have long regarded India’s democracy with contempt is because of its media, which is also partly blamed for the 1962 War. An article entitled “Unmasking China,” by an Indian defense analyst who argued that China would launch an attack on India by 2012 to divert the attention of its people from “unprecedented internal dissent, growing unemployment and financial problems” and to achieve multiple strategic objectives vis-à-vis India drew sharp rebuke from the Chinese [5]. Strategic and political analysts voice concern over what they perceive as an aggressive anti-China campaign by the Indian media over disputed borders, Tibet, unfair trade practices, terrorism and nuclear issues. According to Hu Shisheng, an expert at the China Institutes of Contemporary International Relations, which is affiliated with the Ministry of State Security (the Chinese government’s intelligence arm): “Most Indian elite are hostile to China due to the hype of the ‘China threat theory’ in Indian media, even though senior officials of the two countries have quite a good relationship” (*Global Times*, August 20). From the Chinese perspective, Indian media’s negative portrayal of China bolsters the credibility of hawkish arguments, which state that China and its allies harbor hostile intent towards India. Media in India is also accused of calibrating to “curry favor with the Western anti-China forces by presenting their readers with biased information and fabricated stories about China” (*People’s Daily Online*, June 19). This further deepens the perceptual gap, and fuels the national discontent against China among ordinary Indians.

WILL HISTORY REPEAT ITSELF?

Is the war talk merely the media’s creation? Longtime China-watchers do not think so. D. S. Rajan opines: “China is speaking in two voices. Beijing’s diplomatic interlocutors have always shown understanding during their dealings with their Indian counterparts, but its selected media is pouring venom on India” (*Sify.com*, August 10). The Chinese government tolerates and perhaps encourages this nationalistic outpouring to pressure New Delhi to comply with its demands and desist from balancing China by tilting toward Washington and Tokyo.

With the war in “Chindia” media raging on, some

commentators have drawn parallels to the situation in 2008-09 and in the pre-1962 period. China-India frictions are growing and the potential for conflict remains high. In a replay of events of 1958 when the PLA launched an “all out war” against the Tibetan rebels following the Lhasa uprising that culminated in the 1962 War, Beijing is now engaged, by its own admission, in a “life and death struggle” over Tibet and launched a vilification campaign against the Dalai Lama. India is again under greater Chinese pressure to proscribe his supporters’ activities. The security clampdown in Tibet since the March 2008 Tibetan uprising parallels the Chinese crackdown in Tibet from 1959-1962. The Chinese media claims that the Dalai Lama and his supporters in India send saboteurs and terrorists into Tibet. Many Chinese see the latest unrest in Tibet as instigated by the Indian government at the behest of the Americans, which uses the Tibetan government-in-exile to destabilize the Chinese hold on Tibet and open the door to Indian expansion (CIIS, March 26, 2008).

In addition, “the present pattern of cross-frontier incursions and other border incidents, as well as new force deployments and mutual recriminations, is redolent of the situation that prevailed before the 1962 war” (*Far Eastern Economic Review*, September 2009). India’s plans to bolster its defenses to counter aggressive patrolling and incursions across the LAC by PLA’s border guards are being labeled a “new forward policy” in the Chinese media. The Chinese Ministry of National Defense spokesperson, however, denies carrying out “provocative actions” along the India-China border, saying that Chinese border patrols strictly abide by the relevant agreements on the Line of Actual Control (LAC) (*C3S Paper*, No. 354, September 10). As they did from 1958-1959, the military forces of both sides are once again pushing into remote and previously (for the most part) unoccupied mountainous frontier regions. Even the rhetoric sounds familiar. One commentary claimed that while accusing the Chinese troops of carrying out incursions into the borders, India was actually trying to change the Sino-Indian border status quo. It said that the ghost of 1962 has not been exorcised from the memories of a small, but influential, category of retired Indian generals and diplomats, who still harbor ambitions of “giving it back to the Chinese.” Refuting the Indian defense analyst’s warning of a Chinese attack by 2012, a noted journalist for a Chinese newspaper, Chen Xiaochen, went on to caution India against “deploy[ing] more troops in the border area, similar to its Forward Policy 50 years ago,” and wondered whether “India’s ‘New Forward Policy,’ as the old one did 50 years ago, [would] trigger a ‘2012 war?’” [6].

According to one China-watcher, the 1962 War, ostensibly fallout from a contentious boundary dispute, was in reality the interim finale of an intense rivalry, with the purpose

of cutting India down to size. This is corroborated in an authoritative biography of Nehru with a quote from a Chinese official who explained that the prime objective of the 1962 war was to demolish India’s “arrogance” and “illusions of grandeur” and that China “had taught India a lesson and, if necessary, they would teach her a lesson again and again.” Apparently, according to Gumaste, “the emphasis on ‘again and again’ indicates that China may not be averse to using a military option in the future” [7]. More importantly, just as Nehru insisted on treating the McMahon Line as an “established fact” in the pre-war period, the Singh government is now insisting that “Arunachal Pradesh as an integral part of India” is a truth (“Arunachal can’t be parted with at any cost” (*Times of India*, September 30)).

Militarily, the PLA generals believe that India’s military remains inferior to the Chinese in combat, equipment, logistics and war-fighting capability. Should an action-reaction cycle escalate, the PLA is better-placed to control the levers of escalation. One Hong Kong commentary concluded that “in the short term, India does not have the ability ... to launch a war against China ... This implies that in a conflict with China, India will be the one to suffer the most” (*Zhongguo Tongxun She*, August 4).

Last but not least, India is perceived as the weakest link in what Beijing sees as an evolving anti-China coalition of democratic and maritime powers (the U.S.-Japan-Australia-India), which is inimical to China’s growth. Beijing’s general assessment of the United States as being overextended militarily with wars in Iraq and Afghanistan, and weakened economically following the financial crisis, has imbued Chinese policymakers with the confidence to be more assertive on the international stage in ways that are inconsistent with Indian interests. With the coming to power of “China-friendly” leaders in Tokyo, Canberra and Taipei, the current regional and international environment would seem conducive to coercive diplomacy vis-à-vis India as none of the major players would come to India’s support in the event of a confrontation in the near future. Apparently, some Chinese strategic thinkers feel that a limited war with India would send a resounding message to those who are again courting and counting on India as a balancer or counterweight to China in the 21st century [8]. Historically, rising powers have chosen to attack the most vulnerable or weaker power (“easy prey”) in order to effect a shattering blow to the rival coalition. After all, a coalition is only as strong as its weakest link. As an old Chinese saying goes, “Kill the chicken to scare the monkey” (*shaji jinghou*)—kill the weaker enemy to scare the stronger enemy.

Having said that, there are several striking dissimilarities

as well, the most important being that today's China and India are nuclear-armed nations with enormous stakes in maintaining peace and responsibilities in building a post-American world order. For Beijing, a hard-line approach to India could backfire and drive India and its other Asian neighbors into stronger opposition to China and into deeper alignment with Washington and Tokyo, culminating in the emergence of an Asian NATO. Moreover, India is no pushover militarily. Unlike the PLA that has not seen combat since the Vietnam War of 1979, India has a battle-hardened and experienced military. If Beijing is determined to gain the lost territory in Arunachal Pradesh, India is equally determined not to see a replay of the 1962 War by losing large chunks of territory. In the near future, the India-China border will continue to be characterized by incursions, tensions and skirmishes, interspersed with endless border talks. As China's power grows, China might be tempted at some point in the future to give a crushing blow to India's great power aspirations by occupying Tawang and giving India's military a bloody nose, as they have done in 1962, so that it need not worry about the "India challenge" for another half of a century. Instead of challenging China, Indian leaders will then be much more deferential in dealing with China. The demonstrative effect of a short and swift victory over India would buttress the need for other countries in Asia, especially U.S. friends and allies, to accommodate China's growing power by aligning with, rather than against China.

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[The views are the author's own and do not reflect the policy or position of the Asia-Pacific Center for Security Studies.]

NOTES

1. It was the most significant eruption of the Tibet issue since 1959. Earlier uprisings (e.g. 1988) were not on the same scale and did not have the same international impact.
2. Zhanlue, "Zhenggao Indu zhengfu: Buyao yiyuan baode," ["A Warning to the Indian Government: Don't Return Evil For Good"], CIIS, March 26, 2008, <http://str.chinaiiss.org/content/2008-3-26/26211952.shtml>.
3. Lai Yuan, "Injun zai zhongyin bianji...", March 16, 2008, <http://www.warchina.com/n53470c41.aspx>; D. S. Rajan,

"China: Military Media Attacks on India-A Tibet issue fall out?" March 28, 2008, *Saag.org*, Paper no. 2650, <http://str.chinaiiss.org/content/2008-3-26/26211952.shtml>.

4. On 7 ways to destroy India, see "India wants to compete with China, we have many ways to destroy it" ["Indu xiang he zhongguo dou, women zhengkua ta you duozhong banfa"],

<http://www.armssky.com/BbsJunshi/bbsgaojing/200811/11653.html>.

5. Bharat Verma, "Unmasking China," *Indian Defence Review*, Vol. 24, No. 3, July-September 2009, <http://www.indiandefencereview.com/2009/08/unmasking-china.html>.

6. Chen Xiaochen, "Illusion of 'China's Attack on India Before 2012,'" July 17, 2009, <http://www.chinastakes.com/2009/7/illusion-of-chinas-attack-on-india-before-2012.html>. The Indian media claims that unlike in the 1950s, it is now China that is engaged in a "new forward policy" in order to "provoke India into retaliatory action" which could then be justified to take military action.

7. S. Gopal, *Jawaharlal Nehru: A Biography* (Oxford University Press, 1979) cited in Vivek Gumaste, "India and China: It was a stab from the front," *Rediff.com*, August 25, 2009, <http://news.rediff.com/slide-show/2009/aug/25/slide-show-1-a-stab-from-the-front.htm>.

8. "Zhongguo yi ge xiao dong zuo jiu chai san le suowei 'da Indu lianbang'" ["China can dismember the so-called 'Great Indian Federation' with one small stroke"], www.iiss.cn, August 8, 2009.

Strategic Implications of Chinese Aid and Investment in Latin America

By R. Evan Ellis

Since 2008, the People's Republic of China (PRC) has moved forward with a series of large aid and investment deals, indicating that the PRC is raising its stake in Latin America to a new level [1]. The impact of China's expanding commitment in Latin America extends far beyond the PRC's immediate goals of securing access to Latin American markets and reliable sources of primary products at favorable prices. The implications of this trend can be understood in terms of four overlapping effects: (1) the interaction is transforming the physical, economic, educational and social structure of the region; (2) it is enabling the survival and spread of regimes oriented against the United States, Western-style democracy and economic models; (3) it is enabling the emergence of Brazil as a regional powerbroker; and (4) it is undermining the United States as a source of political and economic influence in the region, as well as U.S. options for regional engagement. While China is transforming Latin America

through such effects, however, this does not imply that they are deliberate, primary objectives of Chinese foreign policy toward the region.

The mechanism by which Latin America's expanding relationship with the PRC is transforming the region has as much to do with expectations by Latin American investors of future business with China. Inspired by expectations of selling to, or importing from China, Latin Americans are investing to improve their infrastructure, including the expansion and modernization of Pacific ports such as Ensenada, Buenaventura, Manta, Callao and Iquique, among others. The desire to facilitate commerce with China has also breathed new life into contemplated but long unfunded infrastructure projects, connecting the continent to its Pacific coast, including the Manta-Manaus corridor, inter-oceanic corridors to Paita and Ilo in Peru, and the bi-oceanic corridor connecting São Paulo in southern Brazil with the Chilean port of Iquique.

Beyond physical infrastructure, the belief held by students in the region that China is the wave of the future has driven the establishment of China-oriented programs throughout Latin American universities, as well as a wealth of offerings for learning Mandarin, from private institutes to university language programs, including the establishment of 18 officially sanctioned Confucius Institutes in the region.

Chinese engagement is also shaping the politics of the region. One such impact is the contribution of Chinese aid and investment in the survival of the "caudillo socialist block" (Venezuela, Ecuador and Bolivia). The PRC has been extremely cautious to avoid associating itself with the anti-U.S. proclamations of leaders such as Hugo Chavez in Venezuela. Nonetheless, the PRC benefits from the policies of these regimes insofar as their disruption of relationships with Western companies, and the personalistic character of their regimes creates opportunities for Chinese companies to gain access to their resources and deepen penetration of their markets.

The principal example of how China has enabled "caudillo socialism" in the region is its relationship with the Hugo Chavez regime in Venezuela. As Chavez has consolidated control of the petroleum industry and other sectors of the Venezuelan economy, China has played an increasingly important role in buying Venezuelan oil, working the oilfields and loaning money to the Chavez regime. Over the past two years, China Development Bank has loaned \$8 billion to Venezuela, to be repaid in future oil deliveries, and is currently negotiating an additional loan of up to \$4 billion. Although initially intended for Venezuelan infrastructure projects, these funds arguably helped the Chavez regime to meet its internal and external

commitments when oil prices fell from \$140 per barrel to less than \$40. China National Petroleum Company (CNPC) has expanded its Venezuelan oil operations while Western companies have pulled out, and in September 2009 announced its intention to invest an additional \$16 billion (*El Universal* [Venezuela], September 17).

In Ecuador, like Venezuela, China has helped to maintain the solvency of that country's anti-U.S. regime, issuing a \$1 billion loan, which helped the government of Rafael Correa to manage a liquidity crisis associated with the repayment of foreign debt obligations (*El Universo* [Ecuador], July 23), as well as a \$2 billion 1.5 Gigawatt hydroelectric plant, 90 percent self-financed by the Chinese company that performs the work (*El Universo*, September 12). The Chinese consortium Andes Petroleum is a key investor in Ecuador's oil sector, and has become increasingly important as other companies have pulled out in response to the Correa regime's move to force them to re-negotiate the terms of their concessions. Even in Bolivia, where the Chinese have proceeded cautiously, the state petroleum company YPF is pursuing a strategic partnership with CNPC for the investment and technical expertise that it requires to maintain Bolivian gas production (*La Razon* [Bolivia], November 5, 2008).

In addition to contributions as a resource provider and customer, China is also playing an expanding role as an alternative provider of technology and military goods. China has helped Venezuela to create a factory to assemble drilling rigs to develop its oil, as well as other joint ventures for producing cars and cell phones. The PRC has also launched a telecommunication satellite for Venezuela in 2008, and has become an important telecom infrastructure provider. In addition, the PRC sells the country increasingly sophisticated military end items, including air surveillance radars and military aircraft [2].

Ecuador and Bolivia have followed Venezuela's lead with respect to military purchases from the PRC. Ecuador, which had previously leased two MA-60 transport aircraft from the Chinese in 2007, is negotiating to purchase four more (*El Universo*, August 23), as well as taking delivery of two Chinese radars for evaluation, and purchasing four more, to be delivered by the first quarter of 2011 (*El Universo*, August 23). Bolivia, which previously received trucks, small boats and night vision goggles from the PRC, is now working with them to launch a satellite (*Los Tiempos* [Bolivia], July 22) and purchasing six K-8 aircraft for counter-narcotics missions after being denied access to U.S. and European planes (*El Universo*, October 2).

In addition to providing resources, technical support and military goods that have contributed to the survival

of the “caudillo socialist block,” the PRC has also been contributing to Brazil’s ascendancy as a regional power broker. Brazilian economic performance has been driven, in part, by its export-oriented iron and soy industries, for which China is a key customer. Indeed, the global recession emphasized and magnified the importance of China to Brazil. While Brazilian exports to the United States fell 37.8 percent in the first quarter of 2009, exports to the PRC increased by 62.7 percent (*La Jornada* [Nicaragua], May 4) thanks in part to a Chinese stimulus package that included \$740 billion in infrastructure projects (*Brazzil Magazine* [Brazil], January 15), thus maintaining high levels of Chinese demand for factor inputs such as iron, purchased from Brazilian suppliers such as CVRD. Consequently, in the first half of 2009, China became Brazil’s number one export destination (Xinhua News Agency [China], April 3). China has also emerged as a key financier as Brazil reaches out for the \$174 billion that it requires to develop newly discovered deepwater oil reserves in the Campos and Santos basins. In discussing a \$10 billion loan from China Development Bank to Brazil (*La Nacion* [Argentina], May 28), the president of Petrobras, Sergio Gabrielli, noted, “There isn’t [*sic*] someone in the U.S. government that we can sit down with and have the kinds of discussions we’re having with the Chinese” (*The Wall Street Journal*, May 18).

The PRC is also an increasingly important partner in technology transfer for Brazil. The two nations are pursuing a range of important joint ventures, including joint production of mid-sized business jets, the China-Brazil Earth Research Satellite (CBERS) program and other space cooperation programs (Xinhua News Agency, May 19).

Brazil’s expanding trade with China is also giving Brasilia reasons to become more interested in the affairs of its neighbors. In cities such as Manaus in the interior of Brazil, the economics of importing factory inputs from the PRC is greatly facilitated by routes linking the Brazilian Amazon to Pacific ports. Projects currently underway include highway corridors from the Amazon River over the Andes Mountains to the Peruvian ports of Paita and Ilo, as well as a possible multimodal corridor linking the Brazilian city of Manaus, with its free trade zone, to the Ecuadorian port of Manta. In a similar fashion, Brazil’s growing commerce with China also heightens its stake in the trade policy and political stability of its pacific neighbors, as well as major infrastructure projects affecting the economics of that trade such as the expansion of the Panama Canal.

In addition to sustaining the caudillo socialist block and contributing to the rise of Brazil, in a broader sense, Chinese investment and aid in Latin America is undermining the primacy of the United States’ role as an economic and social

actor in the region. This can be seen in the re-orientation of Latin America’s trade structure away from the United States, Latin American efforts to either please or avoid offending China, and in the declining power of the United States as a “reference model” for economic development and democracy.

With respect to trade structure, PRC financial deals to facilitate commerce, such as the \$10.2 billion debt swap with Argentina in March 2009 (*La Nacion*, March 31), represent an expanding challenge to the primacy of the dollar as an international reserve currency (*Nacion* [Costa Rica], March 31). Brazilian President Lula explicitly argued for working with China to move away from the dollar during his trip to China in May 2009 (Xinhua News Agency, May 22).

Even before such challenges to the primacy of the dollar, however, the lure of China as a market was arguably one factor that helped to permanently derail the proposed “Free Trade Area of the Americas.” Chinese bilateral free trade agreements (FTAs) with Chile and Peru, and FTA negotiations with Costa Rica can have the effect of moving the region away from a structure of trade relationships and incentives focusing the region on the United States, to a world in which Latin American states are more independent global actors. At the individual country level, such influence can be seen in Chile, the foreign economic policy of which focuses on positioning the country as a gateway between Asia and Latin America. A similar enthusiasm can be seen in Peru, which hosted the 2008 Asia-Pacific Economic Cooperation (APEC) summit, and in which the PRC has made important investment commitments in the oil and gas sector, purchases of fishing fleets and fishmeal processing facilities, and mines in Toromochó, Rio Blanco and Marañón. It is also evidenced in the desire of countries such as Colombia and Costa Rica to tie themselves more closely to the Pacific economic community by joining APEC.

In the realm of what has been called “soft power,” the United States is also losing influence in the region where U.S. initiatives conflict with Latin America’s desires to maintain a positive relationship with the PRC for economic reasons. The decision by the Ecuadorian regime of Rafael Correa not to renew the agreement giving the U.S. access to Manta was a necessary step in inviting the Chinese to develop the airport into a hub for trans-pacific flights, even though the two were probably never explicitly connected by the Chinese. In the future, as Latin American regimes contemplate whether to allow potentially intrusive cooperation with U.S. law enforcement in areas such as counternarcotics, telecommunications, or banking, the impact of such cooperation on attracting investment from

partners such as the Chinese will cast a growing shadow over their decisions.

The desire of Latin American leaders to court, please, or avoid offending the PRC, is becoming increasingly evident. When Costa Rican President Oscar Arias switched his country's diplomatic recognition from Taiwan to the PRC in May 2007, a key factor was his belief that the emergence of the PRC as a global power made being on the "right side" of the China/Taiwan issue in Costa Rica's interest [3]. The importance that Latin American leaders place on China can be discerned by the number of its presidents who have led delegations to the PRC in recent years: in addition to the six trips to China by Hugo Chavez (*La Estrella* [Panama], April 6) and multiple trips by Rafael Correa and Evo Morales, virtually all the rest, including President Lula of Brazil, Alvaro Uribe, Felipe Calderon, Tabaré Vázquez, and Oscar Arias.

To date, the PRC has limited its attempts to exert influence over its Latin American partners to areas tied to core Chinese interests, such as their recognition of Taiwan or Tibet, the opening of their markets to Chinese goods, and favorable or neutral positions with respect to China in forums such as the Inter-American Development Bank and the World Trade Organization. As China sinks more investment in Latin America, and becomes more dependent on the region as a market and a source of supply, it is logical that China would seek to motivate Latin American leaders to protect these interests. Although it is difficult to imagine the PRC demanding that a Latin American state not cooperate with the United States on police and security matters, it is increasingly easy to imagine that such a state might think twice, if it believes that a U.S. presence could jeopardize a major PRC purchase or investment in the country.

Finally, in the world of ideas in Latin America, the rise of China can become a powerful force in derailing the U.S. political, economic, and human rights agenda in the region. The ability demonstrated by the PRC to sustain growth rates in excess of 10 percent and recover rapidly from the global recession, by contrast to the United States, which precipitated the financial crisis and continues to contract, sends a powerful message to Latin American states that U.S.-style political pluralism may not be necessary for development, and in some circumstances, may be detrimental to it.

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1. Analysts have generally acknowledged that Chinese aid and investment in Latin America is relatively small, compared to comparable investments by the United States and the European Union. Cumulative aid from China to Latin America from 2002 through 2007 was less than \$25 billion, compared to \$620 billion from the European Union and \$340 billion from the United States over the same period. Thomas Lum, et. al. *China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia*. Congressional Research Service. Doc. No. 7-5700. R40361. www.crs.gov. February 25, 2009. Nonetheless, such figures overlook both the order-of-magnitude increase in Chinese aid to Latin America that occurred in 2008, as well as the disproportionate impact that Chinese aid has on the region because of the hopes of attracting even more such aid from the PRC as an emerging market and rising power.
2. China has sold Venezuela 18 K-8 aircraft, which are designated as trainers, but which can be given combat capability by outfitting them with missiles and other munitions. Venezuela is also exploring the purchase of a more advanced type of trainer from the PRC, the L-15.
3. Based on a series of interviews with Costa Rican government leaders in January 2008. See R. Evan Ellis *China in Latin America: The What's and Wherefores*. Lynne Rienner Publishers, 1989.
