

Opening Statement
Chairman Dan Burton
Subcommittee on the Western Hemisphere
Committee on International Relations
Title: “China’s Influence in the Western Hemisphere”
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Today the Subcommittee will look at the influence of China in the western hemisphere and the power it projects into the region in terms of political, diplomatic, economic, and security issues. At the end of the day we hope to have a clearer understanding of China’s ambitions in the western hemisphere, and hopefully we will be able to draw some conclusions about the policy implications for the United States of China’s growing presence in our backyard.

I thank our witnesses for joining us today, and I also want to thank my good friend Bob Menendez and his staff for their excellent support in preparing for this hearing.

When I served as Chairman of the Subcommittee on the Western Hemisphere from 1995-1997 there was little discussion about the opportunities and threats China could pose in the Western Hemisphere. Clearly, things have changed since then. Particularly over the last few years, Communist China has moved aggressively into Latin America with billions of dollars of investments, trade agreements and massive infrastructure development projects.

The last hearing held by this Committee examined the state of democracy in Latin America and we heard some disturbing testimony regarding signs that a few governments in the region have begun moving backwards towards totalitarian or authoritarian rule. There is no doubt that several of our neighbors in this hemisphere face considerable challenges to their maturing democracies. Persistent poverty, violent guerrilla conflicts, non-democratic leaders, drug trafficking, corruption, terrorist infiltration and increasing crime are making it difficult for many in the region to see the value of democracy.

Weak legal systems, lax enforcement of labor standards, and an immature institutionalization of the respect for human rights are fertile ground for Beijing’s agenda and China is definitely exploiting this opening.

Latin America is an attractive destination for China as it is an area of the world that is rich in mineral resources, commodities and particularly energy sources.

As the world's second-largest consumer of oil, China is a leading competitor of the United States in the search for oil, gas and minerals in Central and Southeast Asia, the Middle East, Africa and now Latin America.

China alone accounts for 40 percent of the global growth in oil demand in the last four years, according to the United States Energy Department, and its national consumption is projected to rise to 12.8 million barrels a day from 5.56 million barrels now over the next 20 years. Most of that oil will need to be imported. The United States by comparison now uses 20.4 million barrels a day, with nearly 12 million barrels of it imported.

As we all know, oil is a finite resource and the competition to exploit it a zero-sum game. The more global oil the Chinese gobble up the less oil available to flow into American power plants, commercial trucks and home heating systems. We have already seen the effect at the gas pump as gas prices move ever higher, squeezing economic growth.

With the largest oil reserves outside the Middle East, and a president who says that his country needs to diversify its energy business beyond the United States, Venezuela has emerged as an obvious contender for Beijing's attention. China has also signed accords with Peru and is now exploring projects in Bolivia and Colombia. Furthermore, China is also interested in developing the Canadian tar sands, where estimates of recoverable heavy oil range from 175 Billion to 1.6 Trillion barrels.

Oil is by no means the only industry in Latin America receiving a huge influx of Chinese money. In November 2004, China's President Hu Jintao visited Brazil, Argentina, Chile and Cuba. By the end of his trip, some 400 agreements and business deals had been signed.

In Argentina, Chinese state-owned enterprises are due to invest nearly \$20 Billion in the coming decade in mines, railroads, and other infrastructure projects. Last year alone, Chinese state-owned enterprises (SOEs) pumped \$1.04 Billion into the region, accounting for 36.5% of Latin America's foreign direct investment (FDI). Yet even this impressive figure pales in comparison with what President Hu and his delegation pledged in future support. By 2015, the Chinese intend for their investments in the region to top \$100 Billion.

But what China gives with one hand, it expects to receive with the other. In other words, there is a cost to pay for Chinese assistance, and that cost is diplomatic and economic.

After President Hu Jintao's visit, Argentina, Brazil and Chile recognized China as a "market economy," a status that precludes anti-dumping tariffs. Yet, China continues to pirate intellectual property; produce counterfeit goods; and dump these and other products into markets in this hemisphere; and engage in currency manipulation. The virtual flood of Chinese exports is eating away at local industries in Central and South America, and here in the United States.

These unfair Chinese trade policies and practices have exacerbated trade deficits across the region. According to the U.S. Census' Federal Trade Bureau, in 2004 the United States' trade deficit with China reached nearly \$162 Billion. That is the largest trade deficit we have with any single nation on earth and 1/6th of our total trade deficit. Canada and Mexico have also been subjected to China's unfair trade policies and practices - Canada's trade deficit with China grew from \$1.2 billion in 1995 to \$13.8 billion in 2003; and Mexico's trade deficit with China grew 57.7% in one year from October 2003 to October 2004.

The United States has the most dynamic and powerful economy in the world and yet even our economy and industries are being staggered by the massive trade imbalance with China. It is not hard to imagine the impact this un-level playing field is having on the economies of the smaller countries of Latin America.

I have long urged the Administration to take a more hard-line approach to China's unfair trading practices and I am pleased that some success has been achieved on the question of China's artificially devalued currency, the Yuan. While the Chinese have acknowledged in recent months that they will need to eventually let the Yuan float openly on the world currency markets they have not set a timetable for doing so. Clearly, we have more work to do and I urge President Bush and the Administration to continue to keep the issue of Chinese trade practices on the International agenda.

I would also caution our friends throughout Latin America about granting China full market economy status. I think it is clear that China's state subsidies, its currency peg, and poor labor rights conditions disqualify China from truly deserving "market economy" status. Consequently, granting China full market economy status would be in my view a grave error in judgment.

China's return on its investments in Latin America goes beyond securing China's dominant trade position. China is lending support to the nations of Latin America and expects in kind support from them in multilateral world forums. China wants Latin America's votes at the United Nations and other forums to counterbalance U.S. influence, particularly on the sensitive subject of Taiwan. In the past twelve months, Grenada and Dominica officially de-recognized "Taiwan" and Mercosur (Argentina, Brazil, and Uruguay) is pressuring Paraguay to do the same. Some observers expect that Haiti may soon follow.

Consequently, the influence of Chinese money combined with the rise of leftist, socialist and populist presidents in Venezuela, Brazil, Argentina and other Latin American countries, has given China a rare opportunity to get support for its proposals to change the UN voting system and to shield itself from international criticism on issues like political persecution, religious freedom, the occupation of Tibet and its deplorable human rights

practices more broadly. And the Chinese are taking full advantage as evidenced by the recent passage of the Anti-Secession Law.

The problem of Taiwan may seem a world away from Latin America but make no mistake, China's rising political influence and economic expansion in Latin America means that the repercussions of any confrontation over Taiwan can and will be felt right here at home. In fact, in recent congressional testimony, CIA Chief Porter Goss said that while terrorism remains the top priority, he intends to move more resources towards emerging threats and he specifically cited instability in Africa and Latin America, and pointed to growing concerns about China's military buildup.

Just last month, China announced a 12.6% rise in official defense spending to \$30 Billion dollars, a figure some experts believe to be well below actual defense spending. These weapons aren't staying in mainland China either. China has been aggressively exporting weapons technology and its transfers of Portable Air Defense Systems (MANPADS) and Surface to Air Missiles (SAMS) are of particular concern. Since 1990, China has sold some 240 SAMS to Latin America, some of which have the potential to fall into the hands of narco-terrorists. In addition, in 2000, China reportedly made three shipments of weapons and military-grade, dual-use explosives to Cuba, a known State-sponsor of terrorism.

The rise of China has been spectacular and the country is on her way to attaining great power status. With great power comes great responsibility though, and I believe that as a sovereign state, China has an obligation to conduct its affairs with sound and just policies, both within its territorial boundaries and outwardly. So far China's power status has been largely based upon its staggering rate of economic growth.

In time we will see whether a human-rights-abusing communist state can sustain a development program which prioritizes the eradication of poverty but places little if any emphasis on political freedoms. Whether it can or not will have a profound effect on the sustainable growth of China, the political stability there, and the nature of power that the PRC projects abroad. The question then becomes if China's priority is economic development, will Beijing pursue a foreign policy that places high priority on stabilizing the international environment or will it seek to offset the status quo, and displace traditional trade frameworks and alliances, in order to create strategic openings?

The traditional goals of U.S. policy in Latin America have always included promoting political stability, promoting democracy, increasing access to markets, and preventing the rise of a hegemonic power. Until we know the definitive answer to this question of whether China will play by the rules of fair trade, and engage responsibly on trans-national issues, I believe we should be cautious and view the rise of Chinese power as something to be counterbalanced or contained, and perhaps go so far as to consider China's actions in Latin America as the movement of a hegemonic power into our hemisphere.

I believe China's rising economic, political and military influence in the Western Hemisphere poses serious challenges to the United States in the years ahead, and if we are not careful, Beijing's influence could easily unravel the region's hard-won, U.S.-backed reforms to fight against corruption, human rights abuses, increase government transparency and combat intellectual property violations. We must work in earnest to prevent this from happening.

As Chairman of the Subcommittee, with the support of Ranking Minority Member Mr. Menendez, I intend to pursue an aggressive agenda of oversight and investigation with the ultimate goal of promoting American foreign policy proposals that strengthen democracy, equitable growth, prosperity and mutual cooperation in our hemisphere, and I look forward to hearing the thoughts and suggestions of our witnesses.