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Regional Implications of China's Quest for Energy in Latin America

Maite J. Iturre · Carmen Amado Mendes

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Abstract This paper analyses the Chinese quest for energy resources in Latin America, arguing that the strengthening of relations in this sector can only be explained by a conjunction of interests on both sides. Looking at the presence of Chinese national oil companies in the regional energy sector, we show that China's incursion has allowed the region to shift its traditional energy partners, introducing a factor of change into economic and political relations with geopolitical implications for the regional arena.

Keywords China · Energy · Foreign policy · Latin America · Oil

Introduction

The importance of the People's Republic of China (PRC) as an international actor today is unquestionable. Its emergence goes well beyond the economic field. In addition to its prominence in commercial terms, China has consolidated its military power and actively developed diplomatic relations with Asian, African and Latin American countries, as well as strategic partnerships in Europe. Since the implementation of Deng Xiaoping's reforms in the late 1970s and early 1980s, there have been regular mutual visits between Chinese and Latin American leaders, followed by growing bilateral trade. China's imports from and exports to Latin

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M. J. Iturre (✉)
Facultad de Ciencias Sociales y de la Comunicación, University of the Basque Country, Apdo. 644, E 48080 Bilbao, Spain
e-mail: maite.iturre@ehu.es

C. Amado Mendes
Faculdade de Economia, Gab. 210, Universidade de Coimbra, Av. Dias da Silva, 165, 3004-512 Coimbra, Portugal
e-mail: carmen.mendes@fe.uc.pt

America, continuously increasing since the 1990s, have reached unprecedented figures from 2002 onwards. The Chinese diplomacy has been more active than ever in the region, especially from that year on, as a consequence of the change of priorities in United States foreign policy away from its traditional 'backyard', due to the impact of the terrorist attacks of 2001 and the launch of the war against international terrorism.

The PRC pursues a double objective in the region: first, it aims at getting Latin American countries which continue to maintain diplomatic ties with Taiwan to switch their recognition over to the Mainland, while strengthening ties with those who have already done so; second, it seeks natural resources to feed the growing needs of its economy. Hence, owing to its great market potential and based on the principle of non-interference in other states' internal affairs, so far Chinese leaders have been welcomed in the region.

This paper argues that China's domestic priority of maintaining the present rate of economic growth makes the PRC increasingly dependent on Latin American energy resources. Thus, we focus on the relationship between China and some Latin American countries in the energy sector. Questioning if this relationship can be considered as mutually beneficial, the paper analyses China's main interests in the region and evaluates Latin America's reasons for welcoming this new Chinese diplomacy, suggesting the consequences for regional geopolitics.

The Chinese Approach to Latin America

This section looks at how China's external policy, conditioned by internal priorities, namely political stability, economic growth and regional security, has drawn attention to Latin America, a region previously almost ignored. Internal political stability, a major concern of the Chinese government, is maintained through the use of nationalism (as an instrument promoting the national unity) and continuing economic growth, which, internally, has served as a source of legitimacy for the Chinese Communist Party, both because the population's standard of living has improved substantially and because it is a source of national pride, and thus feeds nationalism (48, p. 54). Externally, this growth is the basis for the emergence of China as an international great power (53, p. 82).

Thus, the priority of maintaining the present rates of economic growth makes the PRC increasingly dependent on foreign resources, namely from Central Asia, Africa and Latin America. In this sense, the objectives leading Chinese politics towards Latin America derive directly from the priorities of foreign policy. Leaving aside here the concern about regional security, China seeks the strengthening of the state by maintaining its economic growth and promoting nationalism, and therefore defends territory integrity and, at the same time, tries to achieve a greater relevance in the international scene [34]. The goal of strengthening the state is translated into the necessity of maintaining the political regime, which is undoubtedly linked to economic development. Therefore, it is urgent to secure suppliers of raw materials and markets for its products; Latin America offers China both.

To feed its vertiginous growth China relies on imports: it buys from other countries 30% of the oil it consumes, 45% of the iron, 44% of other non-ferrous minerals and a very high proportion of agricultural products. Thus, it has become the main world consumer of copper, tin, zinc, platinum, steel and iron. It occupies the second place in the ranks of world consumption for oil, aluminium, lead and soya; third for nickel; and fourth for gold (44, p. 17). In this context, Latin America appears as an interesting area for China, since it is an important producer of these key products essential for satisfying China's internal needs. This region is extremely rich in natural resources. At the same time, it produces several commodities which are facing a huge increase in demand in China. Moreover, in some sectors, the region represents an interesting market for Chinese exports. These factors have lead to a rapprochement between China and the countries of the region in order for China to establish commercial and political ties.

While in 1990 the countries of Latin America and the Caribbean sold to China just 0.7% of their exports, in 2005 they sold to China 3% of the exported total, becoming its main supplier of soya, nickel, iron, copper, fishmeal and other primary products. However, the regional distribution is uneven: while Mercosur sold 6.3% of its exports to China, for Chile the number was 11% and for Peru and Cuba, 10% [8]. For China, purchases in Latin America are also very relevant. The Asian country buys 60% of the soya produced in the region (mainly from Brazil and Argentina), 80% of the fishmeal (from Peru and Chile), 69% of the remains of poultry (from Argentina and Brazil) and 45% of the wines and grapes (from Chile). This fact shows not only the comparative advantages of the region but also the potential of the Chinese market for Latin American producers.

Hence, not surprisingly, similar to the Chinese white paper on Africa published in 2006, a white paper on Latin America and the Caribbean was released in 2008 by Beijing, identifying political, economic, cultural/social and security/judicial cooperation as the four major dimensions of its involvement in the region [27].

Beijing has been using trade, official development assistance (ODA) and foreign direct investment (FDI) as instruments to strengthen bilateral relations with its suppliers of natural resources in Latin America. As mentioned above, bilateral trade has achieved unprecedented levels in recent years. China refers to ODA as assistance to developing countries and provides different types of aid than that usually framed by ODA, mainly building infrastructure in areas of Chinese interests. Regarding FDI, from January to November 2004, Beijing invested in the region around $889 million, representing a 49.3% share of the total Chinese foreign direct investment [10]. These investments are mainly in agriculture and in industries related to raw materials, as well as in the building of infrastructure.

The growing number of Chinese high-level visits to Latin American countries also reflects the importance that Beijing has given this region, attempting to secure long-term access to energy resources. During his first visit to Latin America in November 2004, President Hu Jintao passed through Argentina, Brazil, Chile and Cuba; in 2005 he visited Mexico; and in 2008 Cuba, Costa Rica and Peru. Other examples of these high-level exchanges are the visits to China of the Brazilian President Lula da Silva in May 2004, celebrating the 30th anniversary of bilateral relations, and of President Hugo Chavez in September 2008, signing agreements involving the import of Chinese military equipment in exchange for an increase in Venezuela's oil exports to China.

Regarding the search for natural resources, there is no doubt that energy is one of the most important sectors China has focused on its approach to the Latin

American economy, since it is a crucial area to ensure economic growth, as we will analyse next.

China's Internal Needs and the Quest for Energy

Since the late 1990s, Beijing has been reframing its foreign policy according to its domestic priorities, namely economic growth [38], and one of its greatest internal challenges lies in the fact that its natural resources are insufficient (54, p. 21). As early as 1993, China began to import oil when consumption surpassed local production for the first time. As the second largest oil consumer after the United States since 2003 [24], China's fuel demand is increasing rapidly. Although coal—of which China has important reserves—represents 70% of Chinese consumption and oil only 20% [24], the need for the latter is growing quickly. This is not only due to industrial development but also to the fact that oil is the main fuel used for transportation—a sector whose share of total oil consumption is growing fast [45]. In the 1996–2006 period, the length of China's highways grew at an average of 11.3% per year, while over the same period passenger miles travelled and ton-miles of highway freight travel showed annual increases of 7.5 and 6.9% respectively. Moreover, estimates point out that Chinese fuel consumption for the 2006–2030 period should increase by 4.8% per year for passenger transportation and 5.2% per year for freight transportation [26].

According to the International Energy Agency, despite the impact of the credit crisis on world economic growth prospects, the overall trends pointed out the previous year remain broadly unchanged [31]. Thus, China's sheer market size and stronger economic growth prospects are still bound to increase energy demand towards 2030, dwarfing all other countries and regions. In fact, it is forecast that for the Reference Scenario 2007–2030, China will be responsible for 43% of the global oil demand increase, which will belong entirely to the non-OECD countries [30]. The Chinese dependence on this region will grow, at least as long as it doesn't develop its own refining capacity to allow for processing other types of oil (52, p. 183). The PRC will be, in 2030, the second largest energy consumer, only preceded by the OECD countries combined. As for trade, interregional oil trade is expected to increase sharply in the period 2005–2030, increasing the gap between local production and demand in all regions. Following these estimates, the main increase in net exports will take place in the Middle East, while all transition economies, namely in Africa and Latin America, will also export more oil. Meanwhile, imports to China and India will increase [29].

Historically, China has sought self-sufficiency. Hence, since the 1950s, it has carried out a policy of intensive prospecting of its own reserves, both of gas and of oil. In the 1980s, it followed the same trend, but this time partially opened its oil sector to foreign investment, with the objective of guaranteeing a steady production level. The Chinese State Planning Commission admitted in 1986 that the country would lose its self-sufficiency in oil [5]. Consequently, since the 1990s, the Chinese national oil companies (NOCs) have headed towards other regions in search of the valued resource. Indeed, since China is not energy self-sufficient, the Chinese authorities aim at diversifying the supplies in order to achieve a bigger cushion in case of any significant shock in the Middle East, its main supplier.

As a matter of fact, between 1998 and 2003, about 60% of the Chinese crude imports originated in the Middle East. However, due to the instability in the region and the increasing American presence after the launch of the 'War on Terror', Beijing diversified its energy supply, approaching other areas such as Central Asia, Africa and Latin America [28]. Thus, by 2008, although the Middle East remained the largest source of China's oil imports, its share had declined. According to FACTS Global Energy cited by the EIA, in 2008 about 50% came from that region, and about 20% came from Africa. Russia and Kazakhstan were the origin of about 10% of Chinese oil imports and Latin America, the origin of about 3.5% [25].

Nevertheless, this aim of diversification of suppliers may also be explained by other factors. First, supply derived from the Persian Gulf must cross the Indian Ocean, passing through the trouble spots of the Strait of Malacca and the South China Sea. Second, the PRC currently depends on foreign oil ships as it aims to develop its own fleet. Moreover, in case of conflict with Taiwan, an international blockade may be enforced on China [2]. All these factors have encouraged the search for new energy sources.

Despite the growing importance of energy issues for Chinese domestic and foreign policy agendas, it must be said that the country's energy sector has not been effectively managed so far. As Downs points out [7], the multiplicity of energy-related agencies, the lack of a leading authority and the scarcity of funding have frustrated the formulation, implementation and enforcement of energy policies. However, this situation contrasts with the activism of China's state-owned energy companies. These NOCs are powerful and quite autonomous actors[1] that, in practice, lead major energy projects and policies. This holds true especially with regard to overseas investments. Thus, despite the launch of a new National Energy Administration in July 2008 as an attempt to set up an effective national-level energy institution to act as the key energy regulator for the country and the recent announcement of the establishment of a new government agency, the National Energy Commission, to take charge of the country's energy policy [20], China's demand for energy resources within the international realm can be better assessed by looking at the activities of its NOCs abroad.

In this regard, to contribute to guaranteeing China's energy security, the Chinese companies decided to explore regions of the world which until now have been almost completely ignored as energy suppliers. Thus, in Africa, China's presence is noticeable in Sudan, Libya, Equatorial Guinea, Congo, Gabon, San Tome and Prince and Angola, which became its main oil supplier, even surpassing Saudi Arabia [43]. A similar situation has taken place in Latin America, which will be analysed in more detail in the next section.

The Chinese Presence in the Latin American Energy Sector

The previous section argued that in order to find energetic resources to feed its economic growth, China has been showing an increasing interest in establishing

[1] According to Downs, 'their influence stems from their full and vice ministerial ranking, membership of key executives in the Central Committee of the Chinese Communist Party (CCP), industry expertise, internationally listed subsidiaries, and profitability'. See (7, p. 42).

trade relations with Latin America. Why? Proven oil reserves data show that 62% of the total is situated in the Middle East, while Africa, the former USSR, and Latin America together with the Caribbean account for 10% each. Given the fact that, as mentioned above, most Chinese oil imports come from the Middle East, it is clear that the strategy of diversifying suppliers should focus especially on each of these three regions [31].

Within the Latin American region, oil reserves are unevenly distributed. Venezuela is the best endowed country, with 71% of the proven reserves. Mexico and Brazil follow with a share of 10% each, whereas Ecuador and Argentina have 4 and 2% respectively. Other countries account for less than 1% each. Mexico and Venezuela (with 32 and 31% of the total) are the main producers of the region, followed by Brazil with a 17% share. Both countries are also the main exporters: Venezuela exports 40% of the regional total while Mexico accounts for 35%. Ecuador and Colombia follow, with 7 and 6% respectively. Especially significant is the fact that the main owners, producers and exporters of oil show negative levels of oil dependency. In Venezuela (−216.99%), Mexico (−134.22%), Ecuador (−247.73%) and Colombia (−147.14%) oil production significantly exceeds consumption, allowing important exports [33].

These figures clearly show the main targets of Chinese investments in the Latin American energy sector, traditionally oriented to supply the United States and, to a much lesser extent, Europe. Thus, this section will not carry out an exhaustive analysis of all these investments since this would exceed the scope of this paper by far. Instead, it will review some recent and significant facts that highlight the importance that the main Chinese NOCs are acquiring in Latin American countries.

The China National Off-Shore Oil Corporation (CNOOC), the China National Petroleum Company (CNPC)[2] and the China Petroleum and Chemical Corporation (Sinopec) have started to strengthen their presence in the regional energy sector. They focus both on prospecting for and exploiting resources and on the acquisition of high-level technology. CNPC, the most important Chinese NOC and the one that has achieved the largest international reach, being ranked as the world's fifth top oil company surpassing BP and Shell [40], is also the main Chinese energy company in Latin America.

Although the first Chinese incursion in the energy sector in Latin America goes back to 1994, when a subsidiary company of CNPC purchased the oilfield of Talara, in Peru [3], the Chinese presence in Latin America has become increasingly noticeable in recent years. Within the energy sector, this presence is restricted almost exclusively to the oil sector,[3] being concentrated in countries such as Venezuela, Ecuador, Peru and Mexico. Brazil, although not traditionally an oil exporter, has also been one of the targets of the Chinese energy diversification policy: it is one of the world's main bioethanol producers and its NOC, Petrobras, is one of the main energy companies of the region. Moreover, promising oil discoveries in deep waters may boost Brazil's oil exports.

[2] CNPC has an 88% stake in its subsidiary PetroChina, through which it holds an important amount of assets overseas.

[3] This is because, as mentioned above, while China experiences an increasing need for oil to satisfy its consumption, it is rich in coal and has a low gas consumption. In addition, in the case of gas, liquified natural gas remains an expensive option.

In China's approach to the Latin American oil market, there is no doubt that Venezuela is the most coveted piece. As proof of this, among other data, is the fact that CNPC's American division has been located in that country since 1997. At present, CNPC is operating two oilfields: the Caracoles oilfield, located in El Tigre, in the state of Anzoategui (in the Orinoco zone), with a size of 257 km^2; and the Intercampo oilfield, located in Ciudad Ojeda, in the state of Zulia (Maracaibo Lake). In August 2006, as a result of a governmental decision, the operation of these oilfields was transformed into a joint venture company between PDVSA[4] and CNPC, with the latter holding a 25% share. According to this company, since it took over these two old oilfields, peak production has increased from 700 tons per day to 5,500 tons per day [3].

In fact, the Chavez era has given rise to numerous agreements and joint actions between the Venezuelan NOC and different Chinese companies of the sector as part of the work of the South American country to reduce the proportion of its oil exports that goes to the United States. To this end, in 2007 the Venezuelan press announced an agreement reached by the Venezuelan and Chinese governments to set up mixed companies between CNPC and PDVSA. One of these companies, Petrozuamo S.A., would develop Venezuelan oilfield test drillings. Another would take care of the development of the Junin 4 Block's oil production and the third one of the extension of the MPE3 Block, the production of which would be sent to the Chinese market. In addition, a company would be constituted to carry out well maintenance and another one dedicated to crude oil sea transport, which is, as mentioned above, one of the main factors affecting the security of the Chinese supply. Further, Chino Venezolana de Taladros S.A. was created by an agreement between PDVSA and the Chinese Company of Technology and Oil Development. In all of these CNPC-PDVSA mixed companies, in Venezuela 40% of the capital belongs to the Chinese and 60% to the Venezuelan company and vice versa in China.

Moreover, the construction of three refineries in China with a refining capacity of 800,000 barrels per day is planned. The agreement takes into consideration CNPC interests in participating in the gas sector to contribute to the Venezuelan domestic supply, as well as participating in the assessment of projects in the petrochemical area.[5] The creation of a joint fund to invest in non-oil related plans was also agreed upon.

On the occasion of the sixth official visit of Venezuelan President Hugo Chavez to China, a new oil supply agreement was signed. According to this, Venezuela will have to increase its exports to the Asian nation in order to fulfil by 2013 the goal of exporting to China 1 million barrels per day (currently, it exports 380,000 barrels per day). Furthermore, to diminish the proportion of oil exports that goes to the United States as quickly as possible, the Venezuelan leader has stated his interest in trying to reach that level by 2010 [18].

Much more recently, President Chavez and Zhang Ping, Chairman of the Chinese National Development and Reform Commission, signed several agree-

[4] PDVSA (Petróleos de Venezuela S.A.) is a state-owned company, recently ranked in fifth place by the report *The Energy Intelligence Top 100: Ranking the World's Oil Companies 2008*, carried out by the specialized publication *Petroleum Intelligence Weekly*. See [17].

[5] News appeared in the Venezuelan press, week of March 23rd, 2007.

ments that strengthen the 'energy union' between the two countries [42]. Among the oil-related agreements, one to set up a mixed company between CNPC and PDVSA to develop the Cabruta refinery that will refine oil from the Junin Block 8 is especially relevant. It is another Sino-Venezuelan mixed company, Sinopec, in collaboration with PDVSA, that is going to develop this block. In addition, CNOOC agreed to help the Venezuelan government carry out quantification and reserves certification research of the Orinoco Oil Belt's Boyaca 3 Block [23]. Two memorandums of agreement were signed in order to carry out off-shore drilling in deep waters and to allow China's Development Bank to finance the hydrocarbon sector projects. In parallel, a mixed Chinese-Venezuelan commission was established with the aim of undertaking the cooperation programmes established by both nations in several other agreements [41].

Hence, all evidence points to the strengthening of Chinese-Venezuelan relations in the energy sector in the coming years as long as the mutual interest—the diversification of oil imports for China and of exports for Venezuela—persists. Undoubtedly, this constitutes the cornerstone of the 'strategic alliance' established by the two nations.

The presence of Chinese NOCs in Latin America is also evident in Ecuador, although only more recently. In fact, it began in August 2003, when CNPC bought shares of the Lumbaqui Oil company in the oil Block 15 in Amazonia. Andes Petroleum, owned 55% by CNPC and 45% by Sinopec, bought exploitation rights to Block 11 (2003), Shiripuno and Tarapoa Block 14 (2004). In 2005, these two Chinese NOCs purchased all of the oil and gas pipeline assets of the Encana Canadian company in the country, and in February 2006 CNPC took over those assets, boosting production and operation progress. Moreover, in that year, four exploration wells and six appraisal wells were completed by this Chinese NOC. CNPC also takes part in the business of renting to Petroecuador bits and drilling equipment through its subsidiary company, Sinopec. In 2007, CNPC had four drilling and workover crews and one logging crew operating in the country [3]. In addition, Petroecuador, the Ecuadorian NOC, has promoted a strategic alliance with Sinopec, and the NOCs Enap (Chile) and Petrobras (Brazil) to boost the exploitation of the Ishpingo-Tambococha-Tiputuni (ITT) oilfield, situated in the Amazonian region and with estimated oil reserves of 1,000 million barrels [1, 12].[6]

As mentioned above, Peru was the first point of disembarkation for Chinese NOCs in Latin America, in 1993. The Block 6/7 Project in the Talara Oilfield was the first overseas oilfield development project operated by CNPC. Since then, the investments of CNPC and its subsidiaries have only grown bigger. For instance, in July 2003 CNPC signed a cooperation agreement with Pluspetrol on Block 1-AB/8, owning a 45% stake. Although technical problems limited this block's production, the improvement of production management resulted in an improvement of recovery speed. In fact, in 2007, CNPC's subsidiary CNPC International (Peru) Ltd. effectively controlled the rate of water-cut increase problems, speeding up production by re-injecting wastewater [3]. A short while afterwards, the company

[6] It is well worth noting that all these blocks, both the ones already explored by CNPC and those of the ITT Project, are situated in environmentally sensitive areas where indigenous communities live. Therefore, there is a heated debate about developing oil exploration activities in the zone. See [1].

signed a memorandum of understanding with the Peruvian Energy and Mines Ministry in order to increase cooperation in crude oil and natural gas prospecting and exploitation as well as in the petrochemical and refining industry.

Finally, one of the most recent investments became a reality in December 2005, when CNPC signed two new exploitation contracts with Petroperu, covering Blocks 111 and 113, with an approximate surface of 15,200 km² in the southwest of Peru. Recently, preliminary preparation for the exploration in the two blocks began [3]. More recently, it was reported that CNPC and Sinopec bid between $1.5 billion and $2.5 billion for Petro-Tech Peruana. This company, which is a subsidiary of the Offshore International Group, a privately owned American oil and gas company based in Houston, made Peru's first offshore oil discovery in 2008 and has also found natural gas, but may lack the resources to develop two oil and gas fields [14].

Still in the Andean region, Sinopec and the Indian ONGC acquired Omimex in September 2006, a company with oil and gas operations exclusively in Colombia [11]. In Bolivia, the country with the second-largest natural gas reserves in South America, Chinese interests have been more diversified. In December 2004, the Bolivian government, on behalf of state-owned YPFB and Sinopec's subsidiary Shengli Oilfield International Oil Exploit, signed a broad agreement comprising eight projects in the exploration, exploitation, transportation, refinery and residential connections areas [39].

In Mexico, the Chinese presence in the sector is not as noticeable as in the other South American countries mentioned above. Nevertheless, CNPC is a contractor to Pemex by means of its affiliate Great Wall Drilling Company (GWDC). In April 2007, the two companies signed a new contract, allowing the Chinese company to operate two drilling towers of the Mexican company near Villahermosa, Tabasco. After more than half a decade of successfully operating non-stop without significant incidents or interruptions, GWDC was congratulated by Pemex. GWDC signed an extension agreement with the Drilling and Exploration Department of the Mexican company to continue working in the south of the country through the end of 2009 [15].

Regarding Brazil, the solvency and importance of its NOC have attracted the Chinese companies. In fact, several contracts have been signed between the Chinese NOCs and Petrobras. In May 2004, the latter signed a strategic agreement of cooperation with Sinopec during the inauguration of the Brazilian company's representative office in China. In February 2005, a memorandum of understanding with CNPC was signed, with the aim of developing joint business with Petrobras. This cooperation between the Brazilian and the Chinese NOCs also covers the integrated activities of the oil sector, including refining, pipeline building, and the prospecting and production of oil resources, both in-shore and off-shore, in Brazil, China or other places of the world.

Moreover, recently, the Chinese press made known that Sinopec had spoken to bankers in Beijing and Hong Kong about a possible bid for a stake in the Spanish oil company Repsol-YPF, which among other important assets has stakes in ultra-deep off-shore blocks in Brazil's Santos Basin, where potentially gigantic discoveries were made during 2008 [6]. Within this framework, in April 2006 Petrobras signed a contract with Sinopec to build the Cabiunas-Vitoria (Gascav) pipeline, which was successfully finished in 2007 and began to work in February 2008 [13]. This stretch is the first part of Gasene, a network which will supply natural gas to the south-eastern and north-eastern regions of the country with the aim of increasing the supply and the transport fuel capacity. Another example of this Sino-Brazilian cooperation is that, since 2004, Petrobras has been exploiting oil with Sinopec both in the East China Sea and off the Brazilian shores [9]. In addition, in November 2009, Petrobras signed an agreement with the China Development Bank to receive $10 billion over a ten year period, while it committed to supply Unipec Asia (a subsidiary company of Sinopec) with 150,000 barrels the first year and 200,000 barrels per year after that during the same period [19]. In the field of alternative energies, China has also showed a great interest in the Brazilian development of bioethanol, thereby promoting scientific exchanges in this domain. Very recently, Petrobras and Petrochina signed a memorandum of understanding for the development of research to assess the technical and economic feasibility of developing joint projects to export ethanol from Brazil to China [22]. In total, all this evidence points to the fact that current Chinese-Brazilian relations in the energy sector are clearly experiencing a positive period.

Apart from the investments in the above-mentioned countries, the Chinese NOCs have also begun to operate in other places that did not sound so interesting at first. An example of this can be found in the acquisition by CNOOC from Repsol-YPF of a share of 30% in several oil and gas blocks in Cuba in 2005. In November 2007, GWDC discovered oil and gas flows in the well COJIMAR-100, located 12 km from Havana. These flows have an estimated daily yield of more than 400 tonnes and are situated in the 1,510 m deep K2cp-m layer, which up to that moment was not believed to have oil or gas [4].

Although Chinese investments in the Latin American energy sector have mainly targeted upstream activities, downstream initiatives have also begun to be developed at a good pace, as the aforementioned deals with Petrobras and PDVSA show. However, there is another example which is well worth noting due to its political significance. In an official visit to the PRC in October 2007, Costa Rican president Arias signed an agreement with CNPC to build a refinery in the Central American country. The idea of such an infrastructure had been launched by Mexican president Fox, within the framework of the Puebla Panama Plan [36], but Pemex's decreasing oil imports as well as political conditions prevented its execution. Thus, this first agreement gave rise to a second one on the occasion of President Hu Jintao's visit to Costa Rica last November. This new 25-year deal between CNPC and Recope (Refinadora Costarricense de Petróleo) is two-sided. First, the joint venture is to help modernize and expand the Moin refinery, increasing its annual oil refining capability to 3 million tonnes from the current 1.2 million tonnes and contributing to product quality and pollution reduction. Second, both companies are to launch feasibility studies on a new refinery with a proposed annual crude processing capability of 10 million tonnes [51].

The ongoing trade and investments relations established in the energy sector between China and different Latin American countries show an evident conjunction of interests on both sides. However, there are two factors that should be taken into consideration with regard to the relations established between the countries, especially in the oil sector, since they constitute a limitation for them. One is the distance factor and the other, the characteristics of most Latin American oil.

While the security of shipping lanes is not a major concern for the Latin America–China route[7] and while the ongoing enlargement of the Panama Canal is bound to facilitate oil imports from Venezuela and Brazil, distance remains a hurdle from an economic viewpoint. In fact, the high cost of freight makes it more interesting for Chinese NOCs to foster investments than to prioritise imports. In addition, as most oil imported from Venezuela is of a heavy type, it requires a special refining process. To cope with the increasing share of this kind of oil imports—not only from Venezuela but also from other regions—and to improve overall refining capacity, Chinese NOCs are involved in a number of projects to build refining facilities, as well as in the acquisition of stakes in refineries abroad [25].

While neither factor has hindered the intensification of relations between Beijing and Latin American countries, it is undeniable that any improvement in those factors would allow further developing the potential of Sino-Latin American relations.

Lights and Shadows of an Uneven Relation

Conditioned by strong national interests, China's foreign policy is craftily implemented through a *soft power*[8] strategy: the Chinese leaders use trade, foreign investment, tourism, education and economic aid, mainly in developing countries. This strategy has been combined with the slogan of win-win relationships. The 2007 White Paper on Energy reiterates the idea of 'cooperation for mutual benefit' and of 'intensifying mutually beneficial cooperation in energy exploration and utilization':

> China works sincerely and pragmatically with international energy organizations and other countries on the principle of equality, mutual benefit and win-win to improve the mechanism, expand the fields of cooperation and safeguard international energy security and stability. [...] To ensure world energy security, it is imperative to strengthen dialogue and cooperation between energy exporting countries and energy consuming countries, as well as between energy consuming countries [46].

As in its trade relations, another instrument used by China in its search for energy resources overseas is the use of the principle of non-interference in the internal affairs of other states and the policy of no-strings attached. From the Chinese perspective, its incursion in Central America holds another dimension: along with its energy diplomacy, Beijing has political aims, namely to ensure the commitment of foreign countries to the one-China principle. In this sense, the strengthening of relations with those countries that already recognise the PRC is also used as a lure for those that have not yet done so. As a matter of fact, since the split of the two Chinas in 1949, Latin America has been the battlefield used by the PRC and the Republic of China in Taiwan for recognition as the legitimate representative of China. In this dispute for international recognition, we should note that most of the states recognising Taipei are located in Latin America. Therefore, both the PRC and

[7] Apart from the concerns about terrorism and piracy already existing with regard to sensitive straits such as the Straits of Malacca, by which China-bound tankers travel. On this topic, see for example [2].

[8] Soft power implies the ability to influence through persuasion rather than through coercion, i.e. using all activities which are not within the scope of security, whether it is humanitarian aid, culture, bilateral and multilateral diplomacy and economic investment. See (35, p. 1).

Taiwan take advantage of the underdevelopment of the region to provide aid and credit in exchange for diplomatic recognition. Moreover, Beijing's pragmatic approach to these countries may be seen, in a larger picture, as a structural response to the international division of power, aiming at achieving a higher position in the world hierarchy, challenging the current unipolar order based on the hegemony of the United States.

Other reasons for the incursion of China in the Latin American area can be found both in the countries of the region and in the United States. On the one hand, most of the Latin American countries have lost confidence in neoliberal formulas. Instead, criticisms of the Washington Consensus have strengthened and spread as a result of the serious social consequences derived from the implementation of neoliberal policies during the 1990s. The rise of the left in many Latin American countries[9] in recent years has led not only to disapproval of the neoliberal legacy, but also to the search for alternatives which might offer more autonomy from the United States.

Many countries in Latin America share positive images of the PRC, tending to see it as a friendlier partner than the West, and they admire the Chinese development model. Therefore, some regional leaders have adopted strategies focused on establishing commercial ties with Beijing as a way of diversifying exports and reducing dependency on the United States. As a result, China's incursion has allowed the region to begin shifting its traditional energy partners—mainly the United States, and to a lesser extent, Europe—introducing a factor of change in economic and political relations.

Furthermore, the Chinese NOCs in Latin America chose the local NOCs as partners, launching partnerships at the expense of the private energy companies which controlled the oil sector before. With regard to this issue, Paul Isbell comments that:

> The simple idea that Chinese NOCs—possibly alongside, or in tandem with, Russian NOCs—might be able to replace private international energy firms in the development of energy resources in the Andean countries has been an indirect stimulus to the renewed nationalisation trend evident today in Venezuela and Bolivia (and to some extent Ecuador) which has private international energy firms rethinking the logic of their activities, and even their presence, in these countries [32].

Even though we do not share this interpretation of the presence of the Chinese NOCs as a boosting factor of recent nationalization processes in South America, we do admit that it has helped them. In fact, the development of relations between state-owned or at least state-controlled companies allows negotiations and agreements involving not only strictly energy-related topics but also other areas of cooperation. Moreover, while this process of nationalization has put off some international oil companies from carrying on or setting up business in the region, it has enhanced the opportunities of Chinese NOCs. Thus, taking into account that American-owned

[9] Although of different ideological backgrounds and orientations, in the past decade, the countries of the region have evidently leaned towards the left with the investiture of Chavez in Venezuela in 1999, Lula in Brazil in 2003, Kirchner and afterwards his wife, Fernandez de Kirchner, in Argentina in 2003 and 2007 respectively, Tabare Vazquez in Uruguay in 2005, Morales in Bolivia and Bachellet in Chile in 2006, Correa in Ecuador and Ortega in Nicaragua in 2007 and Lugo in Paraguay in 2008.

private companies are being replaced by local NOCs controlled by governments that are looking for autonomy from the United States, it is necessary to look at how Washington understands these dynamics.

In this sense, an interesting example can be found in a 2006 hearing before the Committee on Foreign Relations of the U.S. Senate on energy security in Latin America. Among other general considerations, it pointed out China's role as a power player on the side of the state industries of the region. China's state-to-state business deals were considered to 'reinforce the region's tradition of centralized decision making and anti-competitive practices'. Furthermore, concern was raised about Chinese participation in off-shore oil exploration in Cuba [50].

In fact, we are facing a transition period from alliances of private energy companies and governments which are sympathetic to the United States to alliances of Chinese NOCs and governments that criticise the United States. In this regard, the political evolution of the diverse Latin American states will be a key factor: as long as governments critical towards the United States remain in office, their links with China are likely to be strengthened at all levels−including the energy link.

Furthermore, since the investiture of President George W. Bush and the terrorist attacks of September 11, 2001, the United States has launched a global war against terrorism which has moved Latin America down on the list of foreign policy priorities. Although the recent change of president in the United States seems to be conducive to a change in the approach to the southern neighbours, as recently hinted during the Summit of the Americas held in Trinidad and Tobago,[10] it is still early to comment on how it will be shaped.

The two above-mentioned reasons allow us to conclude that the geopolitical dynamics at the beginning of the 21st century created a framework favourable for China's incursion as a Latin American commercial and sometimes political partner: the region is willing to diversify its international relations while the United States has been distracted with other matters, observing expectantly the cautious but constant Chinese advance.

This situation would not have been possible without the consent of the local rulers. Eager to abandon the shadow of the United States and the neoliberal recipes which have had such severe economic and social consequences, Latin American political leaders have welcomed the 'Beijing Consensus'[11] without seriously considering the negative impact.

There is much evidence of this positive attitude towards the Asian rising power. Some examples from the main countries of the region may be illustrative of it. In his visit of April 2009 to China, Venezuelan president Chavez showed his satisfaction with the evolution of bilateral relations and the 'building of a new geopolitical world order'. In his opinion, Chinese measures against the economic crisis have been 'very positive for the world' [16] and constitute an important step in the process towards a multipolar world. Therefore, from this viewpoint, Venezuela and China's relations are considered to be a strategic alliance [21]. Brazil has also labelled its relations

[10] With regard to this, see for instance [37] and [47].

[11] The 'Beijing Consensus' defends a development model that contradicts the idea of political liberalization or economic reforms as fundamental pre-conditions for longer-term development. Instead, economic growth is stimulated through trade and investment in infrastructure and social institutions (49, p. 15).

with Beijing a ‘strategic alliance’. Having begun with former Brazilian president Cardoso, the relations between the two nations have been strengthening during Lula’s two administrations, especially since Hu Jintao’s visit to Brazil in 2004. In 2009, both countries agreed to further this strategic association, in order to better cope with the crisis and to push towards a multipolar world order. Being both members of the ‘BRIC’ group, they certainly share great interests in the reconfiguration of the international order and may obtain important gains by acting jointly on the world scene.

However, from the point of view of some political sectors in Latin American countries, in spite of being an important commercial partner, China is in many senses behaving as a new ‘conqueror’. In fact, leaving aside the specific case of energy resources, trade with the region is eminently asymmetric and competition has begun to take place with some countries in specific sectors. In addition, China has displaced the region as the main FDI recipient. Thus, what at a first glance—and in the official speeches—may seem to constitute South-South cooperation is increasingly following the pattern of North-South relations. Beijing uses the slogan of South-South cooperation as an alternative to Western aid in Latin America, challenging the Western political and cultural hegemony in the world. As China has grown as an economic power, the relationship has evolved to show a clear attempt by Beijing to export its development model to its Latin American partners, counter-balancing the models promoted by the United States and the Bretton Woods institutions, which have not led to the expected results in Latin American countries.

China has been presented as a model to follow, but no steps have been taken to try to imitate it. Former schemes of economic dependence are being reproduced, impeding the possibility of taking advantage of the Chinese presence to blaze a trail towards development. Consequently, the next years will be crucial for concluding whether China has helped Latin America to redirect the course of its development or, instead, has confined it to underdevelopment.

Conclusion

The fact that maintaining the rates of economic growth is one of China’s main domestic priorities has resulted in a strengthening of the quest for natural resources, especially energy, all over the world. This has led to the development and reinforcement of links with some geopolitical regions traditionally seen as marginal, which have become areas of vital strategic importance for Chinese interests. One of these regions is Latin America, where Chinese investments in the energy sector are increasingly important. Although at present they continue to be mainly concentrated in the oil sector, steps are being taken in the gas market as well, and this trend may be consolidated during the coming years. In fact, the so-called South-South cooperation is increasingly more visible.

This paper argued that two main factors led to the growing Chinese influence in Latin America: first is the fact that China needs oil and the countries in the region want to attract foreign investment. Second, the distraction of Washington and its obsession with the fight against terrorism after 2001 allowed other actors to find space in a region traditionally considered to be the American backyard. At present, as demonstrated by the energy sector, the increased Chinese presence in Latin America is allowing the region to experience important economic growth, which has helped to reactivate and/or boost some national economies. In addition, it has given many countries a bigger political and economic leeway with regard to those who had been their traditional partners so far. Thus, it has contributed to their insertion into the international system.

However, it is undeniable that, at the same time, this uneven relation between China and Latin America is beginning to be perceived as detrimental to many countries. The asymmetry of trade relations and the scarce attempts by Latin American countries to forge ahead on a new development path seem to be hinting at a 'death foretold'. In this sense, the energy sector constitutes a good example of how the economic attractiveness both for Chinese investors and local governments may perpetuate economic dependence if not correctly tackled. So far, China is doing better than the countries of the region, even though local rulers understand this as being to their countries' own benefit. It is still early to assert how the balance is tilting, but there are good reasons to suspect that the trade-off in material and political gains may be about to break down.

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