

LSE GLOBAL SOUTH UNIT

WORKING PAPER SERIES

Working Paper No. 1/2014.

Strategies and Counter-strategies: China in the Andean Region of South America.

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ABSTRACT.

By employing a comparative method that analyzes China's increasing presence in different Latin America countries, this study explores key features and implications of Beijing's approach towards this region. Colombia, Ecuador and Peru are used as case studies to evaluate China's diplomatic rhetoric and the degree to which trade and investment realities live up to the goals proclaimed. Each of the countries examined seeks a more balanced relationship with external actors and recognizes China's increased presence in the domestic political economy. Beijing seeks to distinguish itself as a soft power and "South-South" partner, and yet its ability to maintain this stance is complicated by the inevitable asymmetry that a rising China implies. The paper argues that China's economic involvement in terms of trade, aid, loans and investment is indisputably important, but just one opportunity amongst many for these countries to achieve the political and economic goals that they have set for themselves.

JEL Classification: F23, F63, 012, 019, 054, Q33, Q56.

Keywords: China relations with South America, neoliberal economics, win-win, South-South cooperation, Washington Consensus, FDI.

INTRODUCTION.

We employ a comparative case study method to analyze some of the implications of China's increasing presence in Latin America (LAC). Our departure point is "The China Policy Paper on Latin America" (China, 2008), which emphasized win-win rhetoric to characterize the rapidly growing political and economic ties between China and Latin America in the 2000s. The content of the Policy Paper, along with policies, principles and pledges laid out over the past decade by Chinese officials concerning the China-Latin America relationship, is examined against the unfolding outcomes of China's growing involvement in three Andean countries in the South American region: Ecuador, Colombia and Peru.¹ Through these case studies we shall also address three specific themes: the extent to which growing ties with China seem to be transforming the development strategy of each country, whether a stronger relationship with China has afforded the receiving countries greater flexibility and pragmatism in the design and execution of economic policy, and the effect that the longstanding relationships of each country with the United States are seeing upon the deepening Chinese presence.

PERSPECTIVES AND METHODOLOGY.

Data in this field presents challenges when looking at trade, aid, loans and investment. This is due not only to the dearth of independently verifiable data but also to China's particular view of its relationship with the developing world and the resulting categorisation of money flows. China self-identifies as a developing nation, and its engagement with Latin America is more complex than a realist interpretation of the world tends to give credit for:² in line with Varrall (2013) and the Chinese government's Eight Principles for Economic Aid and Technical Assistance (China, 1964), we argue that China's development assistance is founded on a distinctive worldview that underscores genuine goodwill and principles of mutually beneficial development, and has prioritized experimental approaches toward assisting in the construction of "ideal and modern societies." Moreover, China's recent success in defusing conflict along its own borders where dialogue and a more regionally-sensitive

1. Bolivia has been omitted from this study of Andean countries due its relatively much smaller GDP, population size, and inward FDI volume, which would generate certain distortions in comparative numbers.

2. A number of authors have presented arguments challenging the offensive realism of Kenneth Waltz and John Mearsheimer (for instance Pashakhanlou 2013). More explicitly embedding our argument in this discourse is beyond the scope of this paper.

role are evident as illustrated in the examples provided by Economy and Levi in their recent analysis of China's resource quest, indicates that cooperation is preferred (in line with the behaviour of a rational state actor) and that new methods of forestalling conflict are necessary and therefore likely.

The implications are that the language and the goals laid out in official Chinese speeches and policy papers are not mere rhetoric, but firmly held and internalized (see for instance Song, 2012). Effective analysis of these attitudes should come in part from case studies that examine what Chinese cooperation means on the ground in countries where it is heavily investing. This is not to say that these approaches are always preferred to Western modalities or that there are not contingent and external factors that will undermine such intentions, but it does mean that the worldview of Chinese actors tasked with engaging developing countries can generate misinterpretation and confusion, with the overlapping of aid and investment statistics being just one example of this problem. Another critical issue that may arise is the reliance on leadership from partners abroad whose policies may appear complementary to the PRC's vision but may be unpopular or problematic from other vantage points.

That said, by empirically tracking China's participation in the Andean region we can gain greater insights. While the values laid out in the Policy Paper are important to consider from the Chinese perspective and approach, what of the Andean experience and perspectives?

We focus on these three Andean countries because they share similar endowment factors and have close trade and investment ties with the United States, as well as rapidly growing ties with China. At the same time, the cases diverge in terms of economic policy choice, with Peru and Colombia both pro-market countries that are members of the Pacific Alliance and negotiators for the Trans-Pacific Partnership. The embrace of free trade agreements in Colombia and Peru has resulted in remarkably open economies, although many critics of neoliberalism question how much this benefits these countries and their respective populations. Ecuador, by contrast, claims to have moved away from neoliberalism and actually shuns FTAs, but critics of the current government, including former allies such as ex-ministers Alberto Acosta

(Energy and Mining) and Fausto Ortiz (Finance), question if this is more rhetorical than factual due to such constraints as its historical reliance on foreign capital, highlighting the recent dependence on Chinese loans due to the willingness to break with traditional lenders such as the IMF and World Bank, by defaulting on its sovereign debt. Regardless of economic policy preferences, we suggest that China's trade, aid and investment in these countries has given them greater room to manoeuvre in the management of their respective political economies.

An analysis of case studies within the Andean sub-region of South America allows us to gain insights into three dynamic economic cases, all rich in natural resources but with distinct development strategies. It further allows for a view of different sectors within those countries where China is having a profound effect: mining in Peru, petroleum and electricity generation in Ecuador, and various commodities in Colombia, as well as a significant manufacturing sector. Finally, by looking at these different sectors in LAC, we can disaggregate China and understand the considerations of actors from various companies that sometimes even compete with one another (González-Vicente, 2013; Fornés & Butt Philip, 2012).

CHINA'S EXPECTATIONS IN THE ANDEAN REGION.

China has looked to LAC from much the same perspective it has engaged with Southeast Asia and Africa: as offering a wealth of opportunities for the world's fastest-rising economic power and help for some chronically underdeveloped nations in these regions. The Andean sub-region holds rich deposits of oil, gas and minerals, but its geographical location renders it a logical gateway for Chinese products into the region, as well as regional exports back to China and the Asia Pacific region. Reciprocally, political leaders and economic actors in the Andean sub-region have been eager for their countries to play this role, most notably Chile and, more recently, Peru (Narins, 2012; Myers, 2012; Chen, 2011).

It is in this region where China first sought a major investment in an iron mine in the early 1990s. The PRC's relations with Peru have been strong ever since the Andean nation became the second country in South America after Chile to recognize the PRC in November 1971, shortly after the PRC gained its seat at the United Nations in

October 1971. The Hierro Peru mine was purchased by China's state-owned Shougang Company in 1992. Ecuador's ties with China stand out for the loans-for-oil and other lending that ranks it among China's biggest borrowers within Latin America. Beyond trade, Colombia's relationship with China has been less pronounced (Creutzfeldt, 2012; Ellis, 2014), although both sides are exploring the negotiation of a bilateral free trade agreement.

Peru's Shougang deal reflected a desire to diversify primary exporting partners. While Peru has apparently sought diversification in Chinese investments, away from primary commodities and into more higher-value production, a review of Chinese investments there today falls short of its expectations. Today, the Ecuadorian loans indicate that China is willing to be innovative in acquiring resources. These loans are part of a symbiotic bilateral strategy to advance mining, crude extraction, refinement and delivery and a general upgrade of infrastructure in the small, but remarkably endowed country, while allowing for an ambitious public spending scheme. It is worth noting that this relationship is dominated by large-scale projects and loans, and that there is a certain peculiarity due to the Ecuadorian government's close involvement in these projects accompanied by a crowding out of investors from other countries.

It has become a commonplace desire throughout the region to attract more investment and diversity in Chinese ventures, while China has indicated it will be looking to invest significant sums in the short and medium term. One study estimates that China's FDI outflows could reach as high as US\$1-2 trillion by 2020 (Rosen & Hanemann, 2012), and Latin America should be well positioned to capture a healthy portion of those funds. Optimism is tempered by those cautioning against the resource curse, or Dutch Disease, but it is unclear what could be done to effectively circumvent the economic and geographic realities that lead developing countries down this path.

Another looming question is, to what extent are Chinese corporate activities, in fact, an extension of Beijing's foreign policy strategy? China's energy security is a national priority and its huge foreign currency reserves, coupled with state ownership of the energy and infrastructure firms, make a strong case for a national agenda. However, it may be more useful to consider the interdependence of national interests and

state-owned firms in priority sectors in China as not being so dissimilar from the United States: while clearly governed by different concerns, “national interests” were also cited by the US Congress in 2005 in its decision to prevent the takeover of Unocal by CNOOC.

CHINA’S TRADE WITH THE SUB-REGION.

Overall, trade with China has become especially important for the region as a whole and for the Andean sub-region in particular. While Peru, Ecuador and Colombia are all still dependent on the US market, China does seek to offer something of an alternative. As the second largest importer of fuel and minerals, China is increasing its presence in the Andean region. Peru leads the way with China as its most important partner of the three in bilateral trade (with aggregate figures doubling since the two governments signed a free trade agreement in 2009). Colombia has a more diverse industry with a strong manufacturing base, and heavily depends on the US market, with China accounting for only 3.6 percent of exports. When it comes to trade, Ecuador is not a priority for China in terms of volume, yet China sees considerable potential here and has taken an active role in the country when it comes to investment and loans for oil.

Overall, China’s gains in imports between 2000 and 2009 have occurred while the US has either declined in significance (Peru and Colombia) or remained static (Ecuador). Ecuador has increasingly relied on intra-regional destinations for its goods, while China and the United States have become slightly less important as export markets. Over the same period, Colombia has sent moderately more of its exports to the Asia Pacific, China and the EU, while seeing a slight decline in its exports to LAC and a move toward decreasing its dependency on the US market.

CHINESE AID TO THE SUB-REGION.

Chinese aid to LAC has also been a subject of great speculation, although the withholding of some information and a view of aid and investment that diverges significantly from traditional Western methodology is partly to blame for the discrepancies. For our purposes, we define aid as any assistance coming from China that may be classified as concessional loans or otherwise designed to improve

infrastructure or assist in the delivery of basic services to recipient countries. As mentioned earlier, it is not entirely clear how much China gives and where it invests (Stallings, 2013; Dussel Peters, 2012). The idea that cooperation is a key element of its relationship with other developing countries is steeped in a tradition that has been briefly touched upon above. To dismiss the rhetoric and conceptions put across by Chinese development actors and commentators is disingenuous and reaffirms common misconceptions, as Varrall elaborates on in her work on Chinese development experts (2013).

By reminding ourselves of these Chinese perspectives, we can see how Official Development Assistance (ODA) as defined by the OECD, does not allow for some types of “cooperation” between China and LAC to be understood as ODA. As Stallings (2013) points out, much of the flows that arrive in LAC and certainly those funds that reach Ecuador and Peru are not so easily defined. Bräutigam (2011) has questioned the accuracy of the China Development Bank’s label as a development bank, yet it appears that the Chinese government has maintained this label and the bank’s terms for loans to developing countries even in the face of criticism. We must rely on the data available with the understanding that it overlaps frequently and inconveniently.

In terms of loans, Peru maintains a fairly even spread from the IDB, World Bank, China and the US. Peru has received significant amounts of ODA from the United States in recent years. Chinese loans are a relatively new source of finance and, at roughly 22 percent, make up more than double the ODA coming from the US and closing in on the larger amounts from the IDB and World Bank, which account for roughly a third of the total from major sources of lending.

Colombia has borrowed mainly from the World Bank and the IDB, while loans coming in from the US are less significant and follow the pattern across the region. In other words, they are based on peace and security,³ while democracy, human rights, and

3. Although military aid cannot strictly be considered ODA, some peace and security initiatives, such as those related to the US-funded Plan Colombia, have sometimes been categorized as ODA. See the OECD “ODA Casebook on Conflict, Peace & Security Activities” 2007, www.oecd.org/dac/incaf/39967978.pdf.

governance, and education and social services are minor in comparison. Loans from China are negligible.

Ecuador's credit line received a much needed boost from China after it defaulted on \$3.2 billion of foreign debt in 2008 following a government audit that found domestic laws had been violated, in addition to US Securities and Exchange Commission regulations and general principles of international law (Watkins & Anders, 2008). This came amidst a rejection of neoliberal policies and a reduced role in the drug interdiction scheme, which was the basis for US development assistance and preferential treatment in trade agreements. A significant feature of Chinese loans to Ecuador is that they are based on oil (loans-for-oil), with China purchasing the oil on the spot market rather than locking in advantageous prices (Gallagher, Irwin & Koleski, 2012).

CHINA'S INVESTMENTS IN THE ANDEAN SUB-REGION.

When it comes to investment, the data is, again, problematic, mainly due to the fact that China does not publish this information. For our purposes, investment will qualify regardless of being private (FDI) or public. China typically distributes its investment through various SOEs, which causes confusion and may be considered awkward for various reasons (Dussel Peters, 2012), although it looks and behaves like typical investment coming from private foreign firms. As mentioned earlier, there is the problem of a conceptual overlap between Chinese lending and investing.

Peru had been a major destination for Chinese investment, but that trend slowed down after 2010. Chinese investments in Peru have primarily gone toward copper and steel concessions; overall, Chinese investment stock in Peru was US\$796.48 million in 2012, a 3.5 percent share of total FDI stock in the country. Mining is also the leading recipient of FDI in Peru, accounting for nearly 24 percent of capital stock at the end of 2012 (ProInversion, 2014).

Colombia's FDI from China is only a fraction of a percent of investment coming into the region; here, too, the published figures diverge. According to the Banco de la República, the accumulated figure for Chinese investment between 2000 and 2012 was

US\$155 million, less than 1% of inward FDI. The total given by the Chinese Embassy in Bogota stands at US\$2.3 billion. Our research suggests Chinese capital interests in Colombia being over US\$ 3 billion. This reflects those assets acquired by Chinese SOEs in the hydrocarbon sector, which were previously owned by other transnational corporations, and reinvestments by Chinese companies with strong sales growth in the country.

Ecuador did not receive much investment from China until around 2009 and has since then been receiving flows that largely go to hydroelectric projects, the oil sector and copper mines. Most recently, initial finance agreements were reached with the Industrial and Commercial Bank of China (ICBC) for a 30 percent share in the Pacific Refinery at Manta, which will reportedly satisfy Ecuador's petroleum needs and allow for oil exports to China and Asia (La Refinería del Pacífico, 2013).

CHINA'S IMPACT ON DEVELOPMENT IN THE ANDEAN REGION.

Having signed FTAs with the United States, neither Peru nor Colombia is willing or able to turn away from Washington along the lines of a more combative Ecuador, although all three countries are clearly seeking to diversify their economic and diplomatic relations. China is a natural partner, due to the structural complementarity of factor endowments between China and all three countries. The question remains, however, as to the ability of these countries and the civil societies of which they are comprised, to work compatibly with Chinese companies and other PRC representatives on the ground in the context of ongoing investments and development projects.

For China to effectively carry out its stated aims in the Andean region, it will have to learn how to better broker with the increasingly organized and cohesive grassroots networks that have sprung to life around the complex extraction and related infrastructure projects that China is promoting. One important example of this is the movement to preserve not only indigenous groups but the extraordinarily biodiverse forests they have called home for millennia, including the Ecuadorian group Yasunidos and the Shuar people in the south of the country mobilizing against Chinese-led mining projects. It must also realistically assess the risks and navigate the regulatory frameworks now evolving within those governments. Economic considerations weigh heavily in government decisions, even when such decisions imply betrayals of trust and

ideals that helped garner electoral support for national politicians. While citizen concerns may not be their top priority, Chinese firms must learn to balance their commercial and strategic interests with responsibilities and social realities rarely experienced at home. The question remains as to whether Chinese firms can carry off complex negotiations and societal intermediation as they seek to deepen their presence in the Andean region. An optimistic vision could even see China playing a positive role in reshaping the nature of these extractive realities and what they mean for the local communities affected by this behaviour.

Still, the weak record of foreign extractive firms in Peru has been linked to the government's own lax approach to regulation, as exemplified by the dual role of the Ministry of Energy and Mines (MINEM) as a promoter of mining and enforcer of environmental regulations. Sanborn notes that fears about the behaviour of Chinese firms are often generated by their multinational competitors and a media eager to sensationalize what a rising China means and that diligent oversight is necessary to smoothen the process (Sanborn & Torres, 2009, 351). As an interview with the Coordinator for Corporate Affairs for Chinalco in Lima, Peru revealed, Chinese firms regularly claim to be moving toward socially responsible action. There appears to be a learning curve, as this company's Toromocho copper mine project has benefited from the negative lessons of the Shougang iron mine, hiring Western executives to deal with the concerns of the surrounding communities (Irwin & Gallagher, 2013, 227).

The learning curve required of Chinese enterprises is still quite steep, however. Although many manufacturing and trading firms in Colombia rely on imports from China, the perception persists that Chinese industry, along with the political and social structures it represents, constitutes a threat to the status quo. This perception has led to anti-Chinese demonstrations reminiscent of those in small towns in Mexico, though less violently articulated (Hearn, 2012). While some joint ventures have succeeded in adapting to local conditions and maintaining a low profile, the new Chinese owners (Sinochem) of Emerald Industries in Colombia succeeded in quickly offending the local population, leading to poor press and popular resentment.

In Ecuador, the government is increasingly interested in challenging the role of multinationals, using enhanced centralization and oversight to benefit as many civic groups as possible. Despite these efforts, there are battles brewing over oil and mineral concessions around the country and the perception among opposition groups and international observers is that Ecuador is merely replacing its dependency on Western multinationals and primary commodities with Chinese firms. There may be some truth to these allegations, but in our interviews with activists, government officials, and international critics of the Correa administration, we have found that the specific dangers presented by Chinese companies are often exaggerated and there is a similar pattern of sensationalism at work as that highlighted by Sanborn in Peru (2009).

Moreover, the build-up in foreign exchange reserves and primary budget surpluses that have emerged as a result has allowed these countries to launch social programs and poverty reduction initiatives. There is, in other words, something in this for everyone, including China, although it is incumbent on all stakeholders in this new evolving China-LAC scenario to carry their weight and act accordingly.

CONCLUSION.

This paper illustrates ways in which China's engagement with the countries of the Andean region coincides with that of the larger LAC emerging economies, and how it differs. The nature of China's evolving ties with the three Andean countries discussed here fits with the general South American themes of economic complementarities in factor endowments and China's voracious appetite for natural resources to spur its high growth model. The differences lie mainly in the composition of state-society relations in the Andean region where civic groups, social movements, and indigenous communities have all been recognized as formidable actors on the national political stage. This aspect of China-Andean relations is less pronounced in larger more industrialized Latin American countries like Argentina, Brazil and Mexico. The Andean angle thus adds a new twist to China's heightened interest in extracting primary commodities from the LAC region.

In short, Chinese investors and officials, who have not had their feet held closely to the fire on their own authoritarian home turf, are now being contested. Interestingly, some

Chinese companies operating in these countries have adopted the Western practice of donating to local governments for schools or hospitals, but this contribution to local social capital has not earned them much credit (Parish Flannery, 2013). Some scholars have argued that Chinese firms may be at a disadvantage precisely because of their lack of experience with societal intermediation on the home front, while others argue that this is changing (Alden & Hughes, 2009). If we take China's 2008 Policy Paper at its word, the PRC leadership maintains that it will ensure the livelihood of people in partnering countries by "complying with local laws and regulations, and adhering to fair, transparent public works project contracts, making a commitment to and fulfilling the necessary social responsibility to protect the legitimate rights and interests of local employees, paying attention to environmental resource protection, caring for and supporting the local community."

It remains to be seen whether the lofty goals of a new internationalism embedded in recent Chinese history can genuinely be achieved given the strength and scale of the Chinese economy with its inherent asymmetry and the power of market demands. However, such pronouncements should not be overlooked or discarded, as China's dependence on massive primary commodity imports from LAC promises to become a permanent feature of China-LAC relations for years to come. China has every incentive to make the relationship work, even if it must do considerably more to bring it up to true international standards.

Certain unsavoury realities persist about the nature of resource extraction and the problems it invariably creates. The leadership required to navigate a nation's way through the price fluctuations, abundance, corruption, environmental problems, indigenous rights, resistance from civil society and difficulty involved in institution building may lie beyond the realm of possibilities of any one country. It does appear, however, that the purported principles of China's aid, trade, and investment with the developing world are sincere and offer an opportunity to the leaders of twenty-first-century South America to set in motion processes and structures that can help cure the social and environmental ills of the resource curse, leading the way to long-term sustainable development.

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