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# Latin America Facing China

South-South Relations beyond  
the Washington Consensus

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# 8 Bolivia and China

Indirect Relations in a Global Market  
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Since the mid 1990s, Asia has rapidly risen as an important trade zone for Bolivia, with Japan as Bolivia's primary Asian export destination. For a long time, Bolivia's trade and investment relations with China remained remarkably low compared to other Latin American countries. While Bolivia and China have had diplomatic relations since 1985, it is only since 2003 that their bilateral economic relations have become a priority for the two governments. This showed most clearly in January 2006, when Evo Morales visited China shortly before his inauguration as president. At this occasion, the Bolivian president-elect met with President Hu Jintao and State Councillor Tang Jiaxuan and expressed Bolivia's interest in investments by Chinese state companies, especially in the hydrocarbon and mining sector. As it is China's policy to diversify its sources of raw material imports, Chinese investments in Bolivian mining and hydrocarbons can indeed be expected to expand. Generally, the trend of trade with China becoming increasingly important to Bolivia is likely to continue in the near future due to China's growing influence in the world economy and the intensified Sino-Bolivian relations.

China has shown a remarkable level of economic development over the past few decades, which is partly related to changes in global production structures. With its enormous and relatively young population, China has an abundance of cheap labour. These characteristics became particularly relevant when the global crisis of Fordist production gave way to a globalisation of industrial production based on sub-contracting. This sub-contracting enabled multinational companies to both lower labour costs and raise productivity, thereby increasing their profits. Initially, Chinese industrial production was concentrated in basic segments such as clothes and food production, but increasingly more complex processes such as machinery production and chemical industry have become based in China as well. China's insertion into global productions structures has also been the result of its adoption of economic principles of capital accumulation and capitalist exploitation. Although China's economic structure still has a high level of production of basic manufactures compared to industrialised countries, the shift from agriculture to industrial production and services in the distribution of Chinese GDP in the last thirty years shows that China has gone through a fast economic

transformation. Still, the working conditions to which its large workforce are subjected to are extreme: low wages and long working days, which indirectly puts pressure on lowering wages internationally and exacerbates the negative elements of capitalist accumulation.

The rapid development of China's productive base has raised its demand of raw material to such an extent that it has become the world's largest importing country of raw materials. Between 2000 and 2004, China was the first consumer of metallic minerals such as steel (31 per cent), tin (23 per cent), copper (13 per cent), lead (21 per cent) and zinc (19 per cent) (CEPAL 2006). As global raw material supply was insufficient to accompany the growing demand to which China was an important contributor, prices started to rise. Another effect of China's industrial development is the transfer of production from the United States to China, which affects global capital flows and contributes to unbalanced US production and consumption. As the decrease of China's productive apparatus has been compensated by the United States with monetary mechanisms, China has exported its inflation and indirectly added to the rise of international prices on raw material.

This chapter assesses the ways in which the rise of China has affected the Bolivian economy. In the first part, Bolivia's economic insertion into the world economy will be assessed. Bolivia has a long history of economic dependency, mainly exporting raw materials: first silver and tin, and more recently gas. The Development Plan of the government of President Morales was announced as a break with this history and the start of a new stage in Bolivia's development. We will critically analyse Bolivia's economic development and the possibilities of this Development Plan to meet its aims. The second part will study Bolivia's recent relations with China and other Asian countries. Since Bolivia exports raw materials and China requires vast volumes of these materials, their economic relations have gained importance. We will look into these recent trends and discuss the likelihood of these relations to be widened and deepened in the near future.

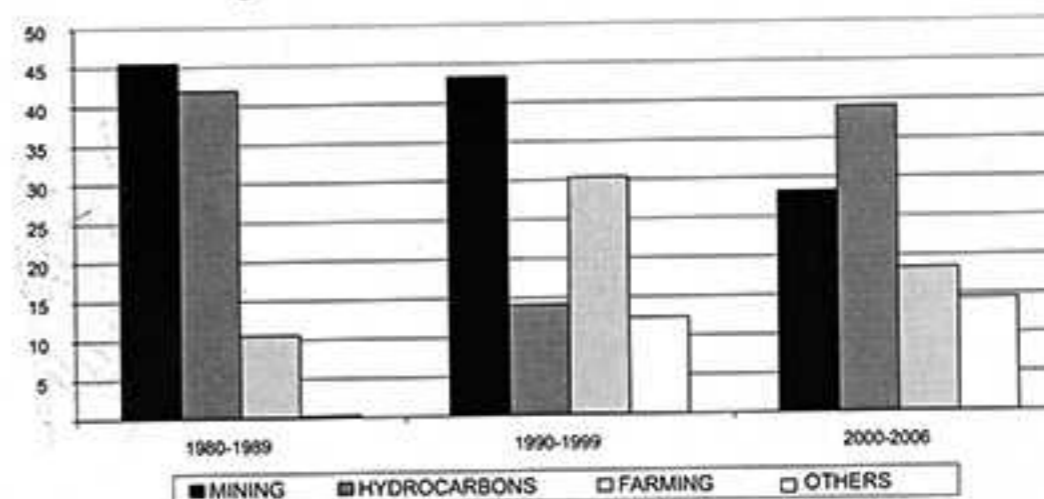
### Bolivia's Economy and Morales' Development Plan

Within the global system of capitalist production, Bolivia has not been able to achieve a satisfying economic development. Bolivia's role is limited to the supply of natural resources, and as an exporter of a few commodities, it is highly dependent on the world market. Bolivia's insertion into the global economy may be characterised as an umbilical relation in which most of the production processes in its national economy are subordinated to the world market. The perverse effects of producing a limited number of raw materials

are primarily due to the accumulation system and conditions created by the industrialised countries (CEDLA 2007a).

Until 1985, the insertion of Bolivia into the world economy was based on the mining enclave of silver and tin. From then onward, coinciding with the beginning of the neoliberal period, this insertion became based on the production of other commodities such as natural gas, poly-metallic concentrates and soy (CEDLA 2007b). As shown in Figure 8.1, mining and hydrocarbons dominate in the Bolivian export production. In 2006, 48 per cent of its exports consisted of hydrocarbons (\$1,671 million), 25 per cent of mining (\$1,060 million) and 18 per cent of non-traditional primary products (\$767 million), such as soy, soy oil, chestnuts, wood, clothing and jewellery.

Figure 8.1. Bolivia's Export Sectors, 1980-2006 (%)



Source: Energy Information Administration (2009); Espinaza (2009); Noticias EFE (2009).

Contrary to the claims that the neoliberal policies imposed in 1985 would diversify Bolivia's export model through the expansion of manufacturing, the result of its economic opening was an ongoing dependence on the primary sector. In combination with the precarious internal economic situation, this dependency on the primary sector for export became a source of profound social and political unrest. From 2000 onward, it gave way to massive popular mobilisation against the neoliberal economic model. Social movements demanded that natural resources be used to benefit the Bolivian people at large, in particular by means of the nationalisation of natural gas, which is Bolivia's main hydrocarbon.

The democratic government of President Evo Morales, which resulted out of Bolivia's political crisis and is to govern from 2006 to 2010, is the trustee of those aspirations of its people. In its plans, this government has suggested that it will part from the neoliberal policies and the primary export model. Instead, it aims to introduce an Andean capitalism based on harmonic

relations between the small 'communitarian' property holders and the large monopolist property holders. With respect to the extraction of hydrocarbons and other minerals, there is thus an important new orientation of economic policies under Morales.

### *Mining Sector and Policy Reform*

As several Latin American countries benefited from the commodity boom and the revenues from increased exports to China, it is interesting to look also into Bolivia's mining sector. For centuries, extractive activities have been central to Bolivia's economic development and its insertion into global markets. Under the new international economic circumstances it is important to see what benefits, if any, this sector has received.

The internal structure of the Bolivian mining sector is complex and involves various actors. First of all, there is a small number of large companies (labelled as 'medium-sized' mining) producing 62 per cent of the total value of mining production.<sup>1</sup> These companies, with global capital, have access to high technology and can invest in large projects based on capital-intensive extraction. Due to this capital-intensive nature of production, in 2006 they employed barely 12 per cent of the 60,000 workers in the mining sector. Second, there is a group of small capitalist mining companies representing 24 per cent of total production. Their operations are more labour-intensive and have low productivity, employing 8 per cent of the sector's workers in 2006. Third, there is a group of cooperatives representing 12 per cent of total production. As this sector of cooperative mining employs 70 per cent of all miners, it is socially very important. The cooperatives were created after the state enterprise *Corporación Minera de Bolivia (COMIBOL)* ceased most of its operations; in order to avoid the social load of having to fire 25,000 workers in the crisis decade of the 1980s, the government gave marginal deposits to these workers. Lastly, the state is in charge of Bolivia's largest tin mine, the Huanuni deposit. In the Huanuni mine, the state company produces 2 per cent of the total mining production with labour-intensive methods and 5,000 workers (7 per cent in 2006). These workers successfully stopped the government from granting the deposit to a private enterprise, and prevented the implementation of the policy of eliminating cooperatives in that zone (CEDLA 2007a).

The cooperative mining sector is very heterogeneous. On the one extreme, there are cases, known as the 'most developed', in which the cooperative relations have disappeared and a few landlords exploit the salaried work force. On the other extreme are the most precarious cases, where the cooperative relations still exist. Apart from former workers of the state mining enterprise, small and impoverished rural owners have also moved into this last sector.

These workers have little chance of finding work elsewhere as they lack the knowledge of the high technologies used in modern mining, or in other economic sectors. Whereas the 'developed ones' rather seek alliances with private capital, these small owners demand government policies to improve the situation of cooperative mines through access to credit and markets. Meanwhile, the mainly rural communities that surround the mining deposits have been suffering from Bolivia's crisis of small-scale agriculture and demand a share of the mines, work in the mines, or both (rent and work).

Even after centuries of extraction, Bolivia still has a high mining potential, especially if modern extraction and concentration methods were to be applied in its poly-metallic deposits of zinc, silver, lead and tin. In addition, there are gold alluvial deposits in the Amazon region of the country, and there is the iron ore deposit of El Mutún, with 40 billion tonne reserves of medium-grade (51 per cent) iron ores. However, due to its complex structure, Bolivia's mining sector tends to react slowly to opportunities, such as the latest rise in international prices. As a consequence, these higher prices caused higher export values, but production volumes actually went down. Between 2000 and 2004, Bolivia was the fourth tin producer at world level (5.6 per cent), the eleventh silver producer (2.3 per cent) and the thirteenth zinc producer (1.6 per cent), but this position could be improved (Sánchez-Albavera and Lardé 2006).

The government of President Evo Morales presented a peacemaking policy plan on Bolivia's complex mining sector, claiming to favour all of the different actors: it does not want to affect the transnational enterprise's property; it aims to improve the conditions of the cooperative and rural miners; it grants a more prominent role to the state enterprise; and it aims to increase the public sector revenues from mining activities. This policy is a reaction to the Mining Code of 1997, which served to liberalise the entry of foreign capital in the sector, similar to neoliberal reforms in neighbouring countries such as Chile and Peru. This code eliminated the estatal mining sector and transformed state company COMIBOL into an administrative entity. In addition, it provided conditions to ease and attract direct foreign investment; it eased the fiscal system; and it introduced a low tax (1 to 7 per cent of the gross production value). To change this policy, the National Development Plan of Morales' government contemplates four pillars for the mining sector: first, strategic state control of Bolivia's resources through a new formation of COMIBOL, including a recovery of deposits that were privatised; second, expanding Bolivia's mining potential by making a geological assessment of the territory and promoting foreign investment; third, diversifying mining activities and raising the added value of production; and fourth, support for small and cooperative mining.

Evidently, the aim of a strategic recovery of natural resources by the state is contradictory to the aim of promoting foreign direct investment (by private companies), but in practice, Morales' government has done more to strengthen foreign investment than to convert mining into a strategic sector for the state. For example, it has signed a contract with the Indian multinational company Jindal Steel and Power for the extraction of the El Mutún iron deposits, and has given the Canadian multinational Atlas Precious Metals control of the Karachipampa poly-metallurgical operations. Meanwhile, the so-called nationalisations of the tin deposits of Huanuni and the metallurgical plant of Vinto were made because the government was forced to do so – the private companies operating there did not comply with the contractual requirements, and the workers effectively mobilised against the entry of another private company. Indigenous rural communities that have protested against mining activities, claiming ownership of the natural resources in their territory, have been presented with plans for a redistribution of mining revenues, assigning a percentage of the revenues to these communities. This solution leaves the Mining Code intact, which rules that mining is the most important economic activity and that the sub-soil belongs to the state, and not to the communities, but which may be expropriated if the mining interests would require this.

The government of Evo Morales also planned to raise the tax rates on mining. Initially, it presented a plan to increase the Complementary Mining Tax to 20 per cent (from 7 per cent), and to create an additional 12.5 per cent net profits tax for mining companies. However, due to pressure from the workers of cooperative mines, the reform was limited to establishing the 12.5 per cent tax on net profits above a certain amount. Taken together, the government of Morales basically follows the previously established mining policy that favours foreign capital. Nevertheless, since this government emerged from a profound political crisis, it is forced to make some accommodations toward Bolivia's impoverished masses, like providing support to the small-scale production of the people of the cooperatives, and sharing some of the mining revenues with the local communities.

#### *Hydrocarbon Sector and Policy Reform*

Considering Latin America's energy crisis and China's need for energy, the rich hydrocarbon resources of Bolivia are already of regional importance (especially for Brazil) and may become of international importance in the future. Until 1996, Bolivia's hydrocarbon sector was dominated by the state-owned company Yacimientos Petrolíferos Fiscales Bolivianos (YPFB), which controlled both upstream (exploration, extraction and transport) and downstream (refining) operations. The privatisation of YPFB started in the up-

stream operations, although only partly: the Bolivian state kept 50 per cent of the shares, while a private company could buy the other 50 per cent in exchange for handling the operations. In the exploration and extraction, two companies were created: Chaco S.A., which was bought by British Petroleum; and Andina S.A., which was bought by the Spanish Repsol YPF. For the transport of the resources through pipelines Transredes S.A. was created, which was funded by US investors. Later on, in 1999, downstream operations were privatised by selling Bolivia's two main refineries to the Brazilian enterprise Petrobras.

Parallel to these privatisations, a new hydrocarbons law was adopted in 1996. It stated that foreign companies could be the owners of Bolivian hydrocarbons from the deposits onward, thereby violating Article 139 of the Constitution that holds that 'no concession or contract can bestow the property of the hydrocarbon deposits' (*Gaceta Oficial* 2004). The new law lowered the royalties from 50 to 18 per cent of the hydrocarbon production. It also stated that YPFB should sign production contracts with private sector parties, instead of being involved in production operations itself. In addition, the law established that, in the internal market, international prices should be applied, and it eased exports by ending the preference for producing for the internal market.

During Bolivia's political crisis of 2003, which gave way to the resignation of President Gonzalo Sánchez de Lozada, the Bolivian people identified hydrocarbons as the main sector that could solve the country's economic crisis caused by neoliberal policies. Nationalisation of Bolivia's gas was hoisted as a rebel flag. The subsequent process of reformulating Bolivia's hydrocarbons policy took some time. In 2004, under President Carlos Mesa (who had been Vice President under Sánchez de Lozada), there was a binding referendum on the future of the country's natural gas reserves in which a large majority agreed that the state should recover ownership over all hydrocarbons. This was followed by a debate in the Congress about a new law based on the referendum's outcome. In 2005, the new Hydrocarbons Law was approved by the Congress, and this whole reform process was concluded in November 2006, under the presidency of Evo Morales, with the signing of new contracts with the private investors.

The new law recovers the state's ownership of the hydrocarbons at the wellhead, which means that they belong to the Bolivian state as soon as they have come to the surface. However, after they have been measured and made suitable for transport through pipelines, they are handed over to private companies. For many Bolivians, this measure is not the nationalisation that was expected: it only means that the state has obtained better control of the hydrocarbons that are extracted. Regarding taxation, the new Hydrocarbons

Law returned to the level of 50 per cent royalties that had existed before the privatisation, and it created a 32 per cent direct tax over the production of hydrocarbons. It also enabled YPF to again participate in productive activities, but only in such a way that it does not compete with the transnational companies that appropriated its patrimony during the privatisation. Finally, the law did not bring a change to the domination of export over the development of an internal market, nor to the application of international prices in the internal market.

President Evo Morales, who came into office after the new Hydrocarbons Law had been approved, tried to show that he went beyond this law when on 1 May 2006, he presented a decree that establishes the nationalisation of Bolivia's gas. This decree raises the tax and royalty level for private companies operating in Bolivia's two largest natural gas fields from 50 to 82 per cent. However, the decree character was transitory (six months) and was rather meant to force the companies in question to sign new contracts in accordance with the new law. The contracts that these companies signed in November 2006 were subject to the law and not to the decree, establishing mechanisms so that the companies were to pay only 50 per cent tax and royalties while favouring intensive extraction and export.<sup>2</sup>

The nationalisation decree has also changed the execution of hydrocarbon policies for the internal market. It assigns YPF to take control over the production, transport, refining, storage, distribution, commercialisation and industrialisation activities. Accordingly, the state carries the burden of attending exclusively to the internal market, which would be very favourable if the whole of the economy was not ordered along free market principles (CEDLA 2006). Regarding the internal market, in Bolivia there is a permanent risk of not having sufficient fuel, despite the fact that it has one of the largest reserves of natural gas in South America. In view of the limited amount of natural gas available for the generation of electricity, the government has started a programme on domestic energy saving. Bolivia may even have to import liquefied petroleum gas (LPG) in the near future because there is not enough capacity in Bolivia's refineries. Meanwhile, diesel has already been imported at international prices from Venezuela.

Although the new Hydrocarbons Law has been implemented, transnational companies still control the hydrocarbons' production and export, and they continue to put the government under pressure for better deals (CEDLA 2006). These powerful transnational companies are Petrobras from Brazil, Repsol from Spain and Total from France. Despite the generally known fact that Latin America's Southern Cone region is facing a latent energy crisis since the start of this century, these companies have not made any efforts to deal with this crisis. In 2006, the governments of Bolivia (which supplies natural gas to Brazil, Argentina and Chile) and Argentina signed a long-term

(twenty years) natural gas supply agreement, thereby assuming the political risk of gas extraction. Yet the transnational companies have not invested in solutions for the region's energy crisis.

In the end, the so-called nationalisation of hydrocarbons has been little more than a media stunt of Evo Morales' government. While the transnational companies continue to control the hydrocarbons extraction in Bolivia, the government's gain is limited to spending some extra fiscal income from natural gas exports on social assistance, such as bonuses for the elderly and children. The proposal presented in the National Development Plan to 'recover national sovereignty over the hydrocarbon resources, reinstall YPF as the main agent of the productive chain, and thereby assume the state's power to decide over volume and price' (Ministerio de Planificación y Desarrollo 2006, translation by the author) has thus not materialised.

### **Bolivia's Economic Relations with China and Asia**

Following the global tendency of forming trade blocs, in the 1990s, Bolivia developed a dynamic foreign policy of signing trade agreements with various blocs and countries from around the world in order to open markets for its exports. Bolivia already took part in the Andean Community (CAN), and initiated processes to establish free trade agreements with Mexico and with the Southern Common Market (MERCOSUR). It established bilateral agreements with Chile and Cuba, and received unilateral preferential treatment from the United States and the European Union.

MERCOSUR and the CAN are Bolivia's main trade regions in Latin America (see Table 8.1). The Andean Community is an economic integration agreement between Bolivia, Colombia, Ecuador and Peru, while Venezuela ended its membership in 2006 to enter MERCOSUR. The CAN members apply low tariffs on most imports from the other members (with the exception of petroleum and its derivatives). The CAN also aims at a common agricultural policy and seeks integration with other blocs and countries. As shown in Table 8.1, in 2006, the CAN represented almost 10 per cent of Bolivia's exports as well as imports. This Andean market is important for Bolivia's soy export sector, but the free trade agreement between Colombia and the United States may cause Colombia to import more US soy. Similarly, the cooperation agreement between CAN and MERCOSUR is a threat to Bolivian soy production, as it cannot compete with Brazil and Argentina due to bad production conditions. MERCOSUR is a regional trade agreement between Brazil, Argentina, Uruguay and Paraguay, and its new member Venezuela. Like the other CAN members and Chile, Bolivia is an associate member. MERCOSUR is Bolivia's primary trading partner: 52 per cent of its exports go there, predominantly natural gas to Brazil and Argentina.

Table 8.1. Main Trade Regions of Bolivia, 1996 and 2006 (%)

Regions	1996		2006	
	Export	Import	Export	Import
MERCOSUR	14.59	20.04	52.14	39.57
Asia	0.32	13.65	9.87	15.39
CAN	20.12	8.75	9.78	9.37
US	25.01	28.09	9.74	12.15
EU	24.50	14.56	5.82	8.63
Total (\$ millions)	1,307.00	1,634.00	4,245.00	2,804.00

Source: INE (2007, elaborated by Centro de Estudios para el Desarrollo Laboral y Agrario, La Paz).

At a bilateral level, Venezuela and Chile are important Latin American trade partners. In 1993, Chile and Bolivia signed an agreement on fixed trade tariffs, and a list of 115 Bolivian and 200 Chilean products that could be imported tax-free. More recently, Bolivia and Venezuela, together with Cuba, might form an anti-imperialist trade bloc, as has been proclaimed in various political speeches. From the moment that Evo Morales assumed the presidency, Venezuela has assisted his government in education and health programmes. However, Venezuela has made no investments in Bolivia, despite the announcement of an alliance between their state petroleum companies to invest in hydrocarbons to support nationalisation.

The importance of the United States and the European Union for Bolivia's trade has significantly decreased: while in 1996 nearly half of Bolivia's total exports were directed to these regions, in 2006 it was only 16.5 per cent (see Table 8.1). The United States established the Andean Trade Preference Act to apply no import tariffs on most goods from Bolivia, Ecuador, Peru and Colombia in exchange for the eradication of coca cultivation. As a large share of Bolivia's exports of manufactures is directed to the United States, a suspension of this act would seriously affect this sector. Although the European Union is not one of its major export destinations, Bolivia benefits from the EU trade preference system that applies low tariffs on imports from the least developed countries.

Asia is the region that in the few last years has become of great importance to Bolivia. As Table 8.1 shows, Bolivia's export growth to Asia was especially spectacular from 0.32 per cent in 1996 to 9.87 per cent in 2006, while its imports increased from 13.65 to 15.39 per cent in the same year. As a result, Asia has become Bolivia's second most important trade region. Within that region, most of Bolivia's bilateral trade is with three countries: Japan, Korea and China, respectively. Japan is by far Bolivia's largest Asian trade partner. In 2006, Bolivian exports to Japan valued \$378 million, representing 77 per

cent of its exports to Asia (see also Table 8.2). South Korea followed with \$66 million (13 per cent), and China came third with \$35 million (7 per cent). Of Bolivia's exports to the three countries, 99 per cent corresponded to minerals: 93 per cent zinc, silver and lead concentrates exported to Japan and South Korea, and 6 per cent tin exported to China. Japan is also Bolivia's main source of Asian imports. In 2006, Bolivia's imports from Japan valued at \$222 million (45 per cent of total Asian imports), followed by China with \$102 million (21 per cent) and South Korea with \$22 million (4 per cent). These are mostly manufactured products, in particular machinery and transport equipment, textiles and shoes, chemical products and plastics (INE 2007).

Table 8.2. Bolivian Exports to Selected Asian Countries, 2006 (in US\$ millions)

<b>Japan</b>	<b>377.9</b>
Common metal minerals and their concentrates	330.5
Precious metal minerals and their concentrates (except gold)	34.2
Other products	13.2
<b>South Korea</b>	<b>48.8</b>
Precious metal mineral and their concentrates (except gold)	34.9
Common metal minerals and their concentrates	11.2
Other products	2.7
<b>China</b>	<b>35.5</b>
Common metal minerals and its concentrates	17.2
Labour wood and wood beams for train rails	8.7
Other products	9.6

Source: INE (2007)

While trade with Asia has rapidly increased, the region has not yet become an important source of foreign direct investment (FDI) in Bolivia. Of the \$7.5 billion FDI in Bolivia over the period 1996–2005, only 1 per cent was Asian. Korea was the main source with \$79 million; Japan contributed only \$4 million. Although being the third Asian country in trade with Bolivia, China practically did not have registered direct investments in Bolivia: in 2000, 2004 and 2005, Chinese FDI was approximately \$40,000 annually (INE 2008). This shows that so far there has not been a direct relation between China's need for raw material and making investments in Bolivia. This was about to change in 2005, when their two governments were to start talks about Chinese investments and a bilateral free trade agreement, but these talks were then cancelled because of the political unrest in Bolivia. Still, in

2006, when President-Elect Evo Morales visited China and met President Hu Jintao, he invited Chinese companies to come and invest in Bolivia's key economic sectors: hydrocarbons, mining and agriculture.

There are two recent projects of Chinese investment in Bolivia. The first is an agreement for a joint venture between the Chinese company Shengli and YPFB and the Bolivian Ministry of Hydrocarbons, in which Shengli would invest almost \$2 billion in the assessment, extraction and processing of petroleum and natural gas in the north of the La Paz region (Ministerio de Minería e Hidrocarburos 2005). The second is a project of the governments of the two countries to invest in the elaboration of a geological map of Bolivia. In January 2008, the Department of Exploration and Development of Geological Resources and Minerals of China (Depgeomin) signed a treaty with the National Mine Geology and Technical Service of Bolivia (Sergeotecmin), in which they agreed that Depgeomin will invest \$60 million in the elaboration of 70 per cent of Bolivia's geological map (*El Diario* 9 January 2008). Both projects are important because they could raise Bolivia's development of hydrocarbon and mining resources, in which China would then have a preference in the extraction, thereby giving a boost to Chinese investments in Bolivia.

## Conclusions

There is an interesting recent link between Bolivia and China in the large investment by an Indian transnational company in the iron mine of El Mutún. In 2006, the Bolivian Congress granted a forty-year concession to Jindal Steel and Power for the extraction of half of Mutún's iron deposits, which is one of the largest deposits in South America. With \$2.3 billion, Jindal is making the largest investment ever by an Indian company in the region. An analysis of international iron markets shows that the deposits of El Mutún will especially serve to satisfy China's increased demand for steel. The global steel industry is highly concentrated. Historically, its development was closely linked to that of the heavy industry of industrialised countries, and it was highly protected, with the whole production chain of steel (from the deposits to the steel machinery production) being integrated as much as is possible. However, since the 1970s, these industries faced stagnation as the technological evolution improved the efficiency of iron use and gave way to substitute materials. In addition, in the 1990s, the steel industry in the former socialist countries (in particular Russia and Ukraine) reoriented their production toward the global market, thereby increasing the production surplus.

This long-term crisis of the steel industry ended with the rapid development of China's economy and its demand for iron. As China came to con-

sume more iron than any other country, global supply became insufficient and the international price significantly increased. So far, Latin America's primary iron producing country, Brazil, has been the main beneficiary of China's appetite for iron (Poveda and Guachalla 2006). China's largest steel producer, the state-owned company Boasteel, has thus been seeking deals with large mining multinationals, such as Brazil's state-owned company Vale. As the Bolivian mine of El Mutún is located near the border with Brazil, and Brazil has a dominant position in the regional and global iron, Jindal will have to relate to this market in order to produce and to be a competitor, for instance, in the construction of all of the new infrastructure in Bolivia. In short, the large foreign investment in the deposit of El Mutún will contribute to meet the Chinese iron demand, thereby linking China's industrial development to Bolivia's iron exports and public sector revenues.

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## Notes

1. This percentage is an average of the period from 2000 to 2007 based on various reports of the Vice Ministry of Mining and Metallurgy.
2. Companies can recover up to 50 per cent of the costs of total production, including all kinds of costs that are not related to the proper activities of extraction. In addition, a formula establishes that in cases of higher production, the additional taxation levels are lower, which encourages massive export.

# 9 Central America between Two Dragons

## Relations with the Two Chinas

*Gabriel Aguilera Peralta*

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The countries of Central America are an important group among the nations that still hold diplomatic relations with Taiwan Province of the Republic of China, also known as the Republic of China, or simply Taiwan.<sup>1</sup> Even though this is economically unfavourable to Central America, the governments of the Isthmus have maintained their policy of recognising Taiwan and fostering the political and economic links with Taiwan instead of establishing bonds with the People's Republic of China. This occurs on a bilateral as well as multilateral level within the framework of Central American integration initiatives. The reasons for this pro-Taiwan policy are complex and include historical antecedents, political motives and the cooperation programmes from Taiwan. However, the decision of Costa Rica to establish relations with the People's Republic of China (PRC) may be a first step in the process of reviewing Central America's policy toward the two Chinas.

In general, we can define foreign policy as the public policy developed by a state for its relations with other states or actors in the international arena. The purpose of foreign policy is to reach objectives based on national interests while it is framed in a broad ideological vision of the world. There are usually three central elements in every foreign policy: the principles that guide it, the interests that are intended to be satisfied and the objectives that are to be reached. The case studied in this chapter, which is the relations of Central America with Taiwan and the PRC, allows us to assess these elements and understand their dynamics from a historical perspective of half a century.

### A Brotherhood from the Cold War

Until 1949, when the revolution in China triumphed, the Central American countries had relations with the Republic of China. However, in general those bonds were merely formal due to the international political situation, communication technologies, the relatively minor Chinese immigration to Central America and the limitations of the countries' foreign policies at that time. Their consular and diplomatic relations had, in most cases, been established in the 1930s and the 1940s, respectively.

After World War II and the triumph of the revolution led by Mao Zedong, China's nationalistic government moved to the island of Taiwan. As allies of