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## China Shadow Follows Obama in Latin Trip

By JOHN LYONS in São Paulo and LAURA MECKLER in Washington

President Barack Obama begins a four-day Latin American tour Saturday with the aim of re-establishing U.S. leadership in the hemisphere at a time when China's clout is rising fast from Santiago to São Paulo.

The trouble is, Mr. Obama, who meets with Brazil's new President Dilma Rousseff Saturday in Brasilia and will also visit Chile and El Salvador, brings little to offer the region in key areas from trade to immigration reform.

Mr. Obama will have trouble checking China in a region the U.S. has long considered—to many Latin Americans' chagrin—its backyard.

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White House officials say the U.S isn't facing off economically with China in Latin America. They cast the trip as a bid create U.S. jobs by linking more closely to fast-growing markets like Brazil. But the president's large entourage—including four cabinet members— and the trip's timing amid a pressing budget debate and multiple international crises underscores an awareness in the White House the U.S. has lost ground there as Latin leaders turn East for economic opportunity.

"It's very much in the United States' interest, in the hemisphere's interest, for us to signal that we're committed to the region and that we not...cede...our own hemisphere, which is incredibly important to us," said Ben Rhodes, the White House deputy national security adviser for strategic communications.

China's fast-growing economy has helped transform Brazil into a rising global star. Once known more as a sunny beach destination with a volatile currency, Brazil is now the world's seventh-largest economy and boasts a strong, steady real, thanks largely to a decade of soaring exports of iron ore, soy and other goods to China. Last year, China surpassed the U.S. as the biggest buyer of Brazilian goods. China also eclipses the U.S. in trade in Argentina and Chile.

Suddenly, the U.S. is seeking out Brazil in important global debates. U.S. Treasury Secretary Timothy Geithner, who is traveling with Mr. Obama, flew to Brasilia last month to lobby for support in persuading China to let its currency appreciate, a move Mr. Geithner says is essential for putting the global economy on sound footing. Chinese officials are doing the same: pressing Brazil to criticize the U.S. for letting the dollar weaken. So far, Brazil has not taken a side, preferring to criticize both countries' currency policies.

"The courtship of Brazil by the U.S. and the other great power, China, is quickly becoming an important theme in international economics," said Eswar Prashad, a Cornell University economist and former head of the China program at the International Monetary Fund.

The U.S. is still by far the biggest source of foreign investment in the region, and local units of U.S. companies from Caterpillar to Colgate-Palmolive have a far bigger share of the Latin American economy than

Chinese firms. What's more, Mexico still sees China more as a competitor in manufacturing than an economic partner.

But after Latin leaders for decades bent over backwards to meet U.S. demands for access to U.S. markets and investment, China is rebalancing the equation. These days, commodity-rich countries such as Brazil, Chile, Argentina and Peru that export to China are less motivated to please Washington.

"The Chinese are newcomers to the region but they are gaining experience fast and should not be underestimated," said Anthony Root, a partner at the law firm Milbank, Tweed, Hadley & McCoy who helped China negotiate the purchase of power grids in Brazil.

Brazil, for instance, didn't like the terms of a U.S.-proposed hemispheric free trade pact and blocked it in 2005. Brazil also helped derail a U.S.-proposed global trade deal at the World Trade Organization. Brazil has also criticized U.S. use of Colombian military bases. Signaling Brazil's global ambitions, the country teamed with Turkey last year in a failed bid to head off U.S.-backed sanctions against Iran's nuclear program.

Mr. Obama's trip marks an effort to reverse the trend by forging a warmer relationship. The first black U.S. president is immensely popular in Brazil, which shares a history of slavery with the U.S., Mr. Obama plans to visit a poor Rio de Janeiro shanty town and make a major speech. Meantime, Ms. Rousseff, a former Marxist guerrilla in her third month in office, has signaled a desire for a less contentious U.S. relationship.

"It's a bit of a paradox because of her radical past, but [Ms. Rousseff] appears to be free from the ideological bias and the elements of anti-Americanism that badly affected the relationship during the Lula years," said Roberto Abdenur, a former Brazilian ambassador to the U.S.

Mr. Obama may succeed in putting the U.S. on friendlier terms with Brazil, but deepening the economic relationship may be a tougher gambit. U.S. officials say they want more access to Brazil's economy for U.S. exports. But Mr. Obama isn't likely to get far, considering the U.S. restricts imports of Brazilian steel, beef, orange juice, sugar and other goods in order to protect U.S. industries.

Mexico, which has been lobbying for immigration reform for years, also wants Washington's help in stopping the flow of assault weapons and guns that end up in the hands of Mexican drug cartels, fueling violence south of the border. But there has been little progress on both issues owing to political disagreements in the U.S. Congress.

"The president really has significant challenges to deliver on the issues that matter most to Latin America," said Ted Piccone, who covered the region on President Bill Clinton's National Security Council and is now deputy director for foreign policy at the Brookings Institution in Washington. "These issues run smack into very difficult domestic concerns here in the United States."

In Chile, a copper rich economy which has free trade with both the U.S. and China, Mr. Obama plans a major speech on the importance of the U.S.-Latin American relationship. In El Salvador, where the political descendants of an anti-U.S. 1980s rebel group recently came to power via the ballot box, Mr. Obama's visit will also be mainly about symbolism: Burying the past.

Mr. Obama is likely to unveil a \$1 billion credit line to finance U.S. companies working on Brazilian infrastructure, including preparations for the 2016 Olympic Games in Rio, U.S. officials say. By contrast,

China's state-owned banks are unleashing much larger sums directly to Latin American firms and governments in a strategy to gain access to key Latin industries.

China has used its deep pockets to secure Latin oil supplies. Last year, China promised to lend oil-rich Venezuela \$20 billion as part of a deal to give Chinese firms access to its vast fields. In 2009, China lent Brazil \$10 billion in exchange for future oil shipments.

A decade ago, Latin America and China barely traded. But that changed as China's need for raw materials led it to seek new markets such as Brazil, the world's biggest iron ore exporter, and Chile, the world's biggest copper producer. Between 2000 and 2008, trade between Latin America and China grew at an astonishing 31% annual rate, while China snapped up oil, mining and other commodity assets from Venezuela to Argentina.

Coincidentally, a generation of leaders skeptical of the U.S. came to power in countries like Brazil who were eager to diversify trade ties and assert independence. Meantime, pro-U.S. leaders in countries like Mexico began complaining that Washington was neglecting the region as it became engrossed in wars in Iraq and Afghanistan.

Two countries that Mr. Obama won't visit this time, Panama and Colombia, are telling. Both countries are among the region's closest U.S. allies. The U.S. backs Colombia with anti-drug aid. Panama, which was essentially created by the U.S. as part of canal building efforts, uses the U.S. dollar as its currency. But free-trade agreements negotiated under former President George W. Bush haven't even been submitted to Congress yet. Rather than turn up empty handed, Mr. Obama is avoiding both nations altogether.

China, meanwhile, is drawing up plans with Colombia to build an alternative to the Panama Canal that would link ports on the Atlantic and Pacific coasts by rail. The plan calls for Colombia to send raw materials to China and in return receive goods for assembly and export. China is Colombia's second biggest trade partner after the U.S.

China is also amassing regional trade deals. China's 2005 free trade agreement with Chile was its first-ever with a non-Asian country. In 2009, China signed a similar pact with Peru—where leaders have been hoping in vain for a similar deal with the U.S. for years—and made a deal with Costa Rica last year.

China has focused mainly on trade, rather than investment. But recent deals show that's changing. Chinese firms bought more than \$11 billion in assets in Argentina since November, including business units from Occidental Petrochemical Corp. and British Petroleum. China has spent a similar amount in Brazil purchasing oil rights and a \$1.8 billion purchase of seven Brazilian power grids.

—Paulo Prada in Sao Paulo and Ken Parks in Buenos Aires contributed to this article.

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