

Chinese Engagement in Latin America
in the Context of Strategic Competition with the United States

R. Evan Ellis, PhD

Latin America Research Professor

Strategic Studies Institute

US Army War College

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Commissioner Kamphausen, Commissioner Lewis, distinguished members of the US-China Economic and Security Review Commission, thank you for the opportunity to share my work and views with you today regarding strategic competition between the People’s Republic of China (PRC) and the United States. My testimony is based principally on my research and engagements over the past sixteen years on PRC activities in Latin America and the Caribbean.

While I am currently employed as Latin America Research Professor at the Strategic Studies Institute at the US Army War College, my views are wholly my own, and do not necessarily represent those of my institution or the US government.

PRC global engagement, including the examples in Latin America and the Caribbean I will address today, principally seeks to benefit China. Nonetheless, that engagement is inherently a competition because it threatens the position of the United States, our security and prosperity, and the democratic values, rights, institutions and laws on which we depend. Those threats, while mostly based in economic activities, are nonetheless strategic for the U.S. They include:

- (1) A predatory PRC economic advance, achieved through a mercantilist strategy that involves state coordination, unfair practices, and technology theft. This strategy actively seeks to propel Chinese companies to the top of value-added chains, dominating critical sectors, and in control of resources, markets and global wealth flows, at the expense of the US and others.
- (2) The use of economic incentives and threats, plus other forms of coercion, as PRC power grows, to silence criticism and cause governments to behave in ways that benefit it, undermining democratic institutions and discourse and the competitive position of US and partner companies.
- (3) Trade with, loans to, investment in, and other forms of economic and other support to anti-US regimes, indirectly enabling their criminal activities and contributions to regional instability.

- (4) The deployment of communication, technical and security architectures that potentially give the PRC access to data on partner nation leaders, companies, and citizens, compromising their ability to make sovereign decisions to protect and advance their interests.
- (5) Through providing an alternative to commerce, loans and investment from the West, making governments of the region less inclined to support the US on political, commercial, or security issues, or to stand up for rule of law, democracy or human rights, particularly where it might offend the PRC; and
- (6) Through security engagement that strengthens the capabilities of the PRC, including the quality of its weapons systems, the capability of its forces, and their ability to operate globally against the US in a future conflict, even in our own hemisphere.

In Latin America, the PRC has rapidly expanded its position and influence in the past two decades through trade, loans, and investments. China's trade with the region has grown from \$12 billion in 2000 to \$278 billion in 2017.¹ Its policy banks have made more than \$137 billion in loans to the region,² eclipsing the Interamerican Development Bank and World Bank; Chinese companies have invested over \$122 billion in the region between 2000 and 2018, with all but \$16 billion of that coming after 2010.³ The vast majority of those investments have involved acquiring control over commodities or building and dominating the infrastructure to assess commodities and markets. Indeed of that \$122 billion in investments, \$73 billion (60%) have been in the commodities sector, and another \$37 billion in services such as construction.⁴

Although the PRC calls its engagements as "win-win," they are better characterized as "China First," letting the U.S. and the region bear the consequences and pick up the pieces.

A few examples illustrate the damage China is doing through its engagement:

In Venezuela, from 2008 through present, Chinese banks provided over \$62 billion in loans to the leftist populist regimes of Hugo Chavez and Nicholas Maduro,⁵ propping them up as their regimes expropriated western companies, fomented subversive and criminal activities in the region, dismantled democracy in the country, and so mismanaged the economy that over 5 million Venezuelans have fled. The PRC has recuperated all but about \$19 billion of what it loaned by controlling the pumping of the Venezuelan oil used to repay itself.⁶ Nonetheless, because the PRC turned a blind eye to the corrupt Venezuelan counterparts who authorized the work, including abandoned infrastructure projects, car and electronics factories that produced products few products, and purchasing appliances for political supporters, the country has almost nothing to show for what it spent.

In Ecuador, the populist anti-US government of Rafael Correa incurred more than \$6 billion in debt to China⁷ for infrastructure projects with numerous defects such as the Coca Coda Sinclair hydroelectric facility,⁸ in the process signing commitments with the

Chinese that obligated delivery of 90% of the country's petroleum through 2024 on questionable terms.⁹ Ecuador's current president Lenin Moreno attempted, but was unable to restructure that debt and petroleum commitment.¹⁰

In Jamaica, in exchange for building a \$600 million highway from Kingston to the tourist destination Ochos Rios on the north of the island, the government ceded the rights to land whose commercial value, once the highway was built, was vastly greater than the cost to build the road.¹¹

In the Bahamas, developer Sarkis Izmirlian lost his investment when the fate of the \$4.2 billion Baha Mar resort, bankrupted by the poor performance of Chinese developer China Construction Americas,¹² was settled in a Hong Kong court thanks to the fine print in the contract,¹³ and Macau-based Chow Tai Fook enterprises swept in to buy the distressed asset.¹⁴

In Costa Rica, the Chinese oil company CNPC attempted to use its own subsidiary HQCEC for a study required for the Costa Rican government to move forward on the \$1.3 billion Recope refinery,¹⁵ including incurring a loan from the PRC to finance work by Chinese companies.

In Argentina, in 2010, China reacted to anti-dumping measures against its products by the Argentine Congress by suspending the purchase of \$2 billion in Argentine soy oil, eventually obliging the government to commit to the purchase of \$10 billion in train infrastructure projects,¹⁶ before resuming purchases.¹⁷

In the Dominican Republic, El Salvador and Panama, the PRC obliged the government to abandon diplomatic recognition of Taiwan and recognize the People's Republic of China, with the promises of significant Chinese investment and projects. Almost none of the \$3 billion in projects promised to the Dominican Republic¹⁸ have been realized.¹⁹

In Panama, the government of Nicolas Cortizo, has suspended or cancelled multiple Chinese projects agreed to by his predecessor, including an economically questionable \$4.1 billion high speed train from Panama City to David,²⁰ a cross-country electric transmission line, a fourth bridge over the Panama Canal, and a major new port project in Colon, whose developer was arrested in June 2020 for illegal investment practices.²¹

China has also sold a growing array of surveillance systems to the region.²² Within the framework of the 2017 PRC National Security law,²³ the Chinese government can oblige Chinese companies to turn over data passing through these architectures, potentially allowing them to compromise leaders or gain leverage in commercial and political interactions.²⁴ Notable examples of these architectures include ECU-911 in Ecuador, which now includes 4,300 cameras and 16 regional response centers,²⁵ and BOL-110 in Bolivia, which has recently been used to monitor people infected with Covid-19.²⁶ Other examples include a system installed in the Colon Free Trade zone in Panama,²⁷ a border monitoring system in Uruguay,²⁸ and one in the Argentine province of Jujuy²⁹

Chinese security engagement in the region, while modest to date, plays an important role in helping the PLA develop technical and support capabilities, knowledge and relationships that enable it to operate in an increasingly global fashion, as acknowledged in the May 2015 PLA Defense Strategy White Paper.³⁰ This includes helping the PRC to operate effectively in the Western Hemisphere, if China decides to do so, in the context of a future conflict with the US. While PRC weapons sales in the past 5 years were a modest \$615 million, donations are far greater.³¹

Chinese military transactions with the leftist populist regime in Venezuela include K-8 light jets³² Y-12 and Y-8 military transports,³³ JYL-1 air defense radars,³⁴ and long-range JY-27A radars, delivered just last year.³⁵ They also include armored vehicles for the Bolivarian National Guard, used to crush dissent,³⁶ and used this January, to help lock Venezuela's interim President Juan Guaido and his supporters out of the National Assembly.³⁷

Bolivia's military transactions with China include numerous military trucks and vehicles, 31 armored cars,³⁸ and six Harbin H-425 helicopters³⁹ (leading to the arrest of the Bolivian general involved in the transaction for corruption).⁴⁰

Ecuador's military transactions include 10,000 AK-47 assault rifles,⁴¹ and 709 military vehicles.⁴²

Peru has acquired Chinese military trucks as well as Type-90B Multiple Rocket Launch Vehicles.⁴³ 27 were ultimately delivered, although as in Bolivia, the government later opened a corruption investigation into the contract.⁴⁴

In Argentina, the prior leftist populist government of Christina Fernandez was negotiating the purchase of 20 Chinese FC-1 fighters,⁴⁵ which would have been the most advanced Chinese military aircraft sold to the region,⁴⁶ as well as five P-18 OPVs and a number of armored vehicles.⁴⁷ Similar purchases from the PRC are again possible now that Christina Fernandez has returned to power as Vice President.

In the Caribbean, in 2014 The Trinidad and Tobago defense force acquired a Chinese Offshore Patrol Vessel (OPV).⁴⁸ The Chinese have donated vehicles to the Guyana Defense Force,⁴⁹ and at least \$1.1 million in equipment to the Jamaica Defense Force.⁵⁰

Beyond Latin American militaries, the PRC has also used sales and donations of security equipment to strengthen its ties with Latin American police forces, building connections and goodwill potentially useful in protecting the interests of Chinese companies and personnel operating in the recipient nations. Examples include a \$2.6 million in vehicles donated to the Guyana Police Force in 2017,⁵¹ and 200 motorcycles to donated to the Trinidad and Tobago police service in 2019.⁵² The PRC also donated a \$20.7 million building for the Costa Rica police academy, inaugurated in 2017.⁵³ In 2018, Argentina imported Chinese armored vehicles to provide security for the G-20 summit in Buenos Aires.⁵⁴

The PRC has been actively engaged in visiting Latin American military institutions and bringing the region's military personnel to China, in the process creating opportunities for its government to obtain information and develop relationships useful for future operations in Latin America, as well as evaluating and potentially compromising those personnel. Notable examples include PLA participation in the elite "Lancers" special operations training course in Tolemaida, Colombia,⁵⁵ in courses of the Brazilian jungle warfare school near Manaus,⁵⁶ and institutional visits to both Colombia's Peacekeeping institute and Brazil's well-respected counterpart, CCECOPAB.⁵⁷

Latin American and Caribbean militaries send their officers to China's National Defense University to Command and General Staff schools,⁵⁸ and in fewer numbers, have sent cadets to participate in the 5-year long program of the PLA Military Academy.⁵⁹

Beyond such visits and exchanges, Chinese military forces regularly conduct operational missions to the Latin America and the Caribbean, useful if needed for future activities in the region. The Chinese hospital ship Peace Arc has deployed to the region three times, in 2011, 2015, and 2018-2019, each longer and more sophisticated than the previous one. Chinese military forces also maintained a constant presence in Haiti, as part of the MINUSTAH peacekeeping force from 2004 through 2012.

Having detailed the nature of the current Chinese challenge in Latin America and the Caribbean with specific examples, the balance of my testimony addresses the specific questions put to me by the Commission for the preparation of this testimony:

1. Understanding Beijing's Approach and Motivations
2. The Question of PRC Deference to the United States
3. The Impact of Covid-19
4. Strengths and Weaknesses of PRC Engagement
5. Recommendations for Congressional Action

Understanding Beijing's Approach and Motivations

The overarching objectives of the PRC, in its global engagement, are expressed candidly, although diplomatically, in its official documents, including "Made in China 2025,"⁶⁰ as well as in the rhetoric of President Xi, such as his "China dream" speech.⁶¹ The implication, if not the words, of those documents and statements, is that the PRC is actively working to reshape the global economic order, to establish for itself a privileged position at the center, and to accumulate wealth and power through trade, finance, investments and global commercial operations. Its 2013 official launch of the "Belt and Road Initiative" as a cornerstone for that strategy and its global marketing⁶² highlights how China's current ambitions and strategy are rooted in past dynastic periods when China was relatively powerful and unified, situated in a world system that functioned to its advantage, in which the "Silk Road,"⁶³ and for a time, Zheng He's "treasure fleet,"⁶⁴ facilitated tribute from, and exchange with, the "barbarian periphery" for the enrichment of the imperial center (中国 Zhōngguó).

Today, the focus of the PRC is to advance the position of its companies, both at home and in global markets, as the principal tools for generating wealth for the Chinese people and power for the Chinese state.⁶⁵ Through those enterprises as its tools, the PRC approach is fundamentally neomercantilistic,⁶⁶ It uses its companies to build and dominate the infrastructure and associated overseas operations and markets that enable that generation of transfer of wealth.⁶⁷ This includes, in Latin America and elsewhere, controlling the agricultural operations that feed the Chinese people and the petroleum and minerals that feed the PRC commercial machine. It includes control of key ports, sea and air logistics routes, as well as electricity generation and transmission, telecommunications, banking and other “soft” infrastructure instrumental for the system to function.

In Latin America, the primary tool of the PRC in this advance has been its enormous financial resources, which it has leveraged to buy assets and commercial operations in the region, rather than investing in existing ones that it controls there. Indeed, seventy-five percent of PRC investment in the region during the period has been through mergers and acquisitions.⁶⁸

Dominating leading technologies, and being competitive in others, as outlined in Made in China 2025,⁶⁹ is a necessary enabler to achieve Chinese strategic objectives. Developing and appropriating such technology is not only important for its companies to occupy dominant positions and realize a substantial portion of the value added in supply chains. It also supports construction of a strong Chinese state, secure from external challenges,⁷⁰ and internal challenges to the hegemony of the Chinese Communist Party.⁷¹ To protect the PRC from those who it fears might resist its ambitions, the PRC has continued to substantially expand defense spending, even during the Covid-19 crisis,⁷² building capabilities that include not only anti-access weapons and systems, and the militarization of reefs in the South and East China Seas,⁷³ but also constructing a Navy⁷⁴ that is projected to be twice the size of that of the US by 2030.⁷⁵

In order to ensure that the international multilateral order is conducive to its ambitions, the PRC is further seeking leverage in global institutions. Examples include its membership in the Interamerican Development Bank since 2009 (to include the IDBs agreement to hold its 2019 annual meeting in the PRC, and China’s associated interference with who the organization sent there in representation of Venezuela),⁷⁶ its active role in the Economic Commission on Latin America and the Caribbean (ECLAC), and the now infamous leverage it built within the World Health Organization, allowing it to persuade the organization to delay the sharing of important information about Covid-19.⁷⁷

In individual countries, working through both its companies and government channels, the Chinese state advances its position by coopting partners into contracts, relationships, and other activities disproportionately beneficial to the PRC. This ultimately facilitates access to the markets and resources of those partners.⁷⁸ It uses its diplomatic tools and hopes for future trade, investment, and loans from the PRC, as well as nurturing local business and political leaders and bureaucrats through people-to-people diplomacy⁷⁹ to facilitate approval of acquisitions, contracts and other access,

thus enabling clusters of its companies to achieve strategically important positions in key sectors. Reciprocally, it leverages the fear of lost access to the Chinese market, investments, loans, and trips to the PRC for key businessmen, academics and think tank figures, journalists and others to mute local discourse critical of the PRC, its system, and the operations of its companies. For example, when the Australian government called for an investigation into the causes of Covid-19,⁸⁰ China threatened to boycott Australian products. It also threatened to cancel Chinese investment in British infrastructure projects including a nuclear reactor and a high-speed train if the later blocked Huawei from participating in construction of the nation's 5G telecommunications infrastructure.⁸¹

In its global maneuverings, the PRC is not competing with the United States so much as pursuing its self-centered objectives while anticipating US pushback, and working in political, economic, institutional arenas to undermine the US ability to do so.⁸²

China has a right to prosperity and security. It is the predatory manner in which its current government is pursuing those objectives, combined with the scale of the transformation unfolding through that pursuit in our interdependent world that makes its rise so disruptive to the current global order, and so threatening to the United States. The PRC government and its companies consistently disregard, and in the process undermine, structures, norms, and institutions that have been fundamental to the global economic and political system since the Second World War. These include rule of law, respect for intellectual property, democracy, freedom of expression, and the rights of individual persons and states. The PRC may not seek to impose a Soviet-style model of governance on the world. Nonetheless, the way in which it systematically helps its companies to steal technology⁸³ and achieve lopsided business deals⁸⁴ suppresses dissent within its borders, imprisons minority populations like the Uighurs,⁸⁵ and bullies its neighbors to impose its claims in the South and East China seas⁸⁶ does not bode well for the less powerful in a world where the PRC is even richer and stronger.

In general, the PRC uses the lure of access to its massive market and resources, including loans and investments, to tempt business and political leaders to explore deals they would not otherwise consider.⁸⁷ It leverages its government's ability, through administrative, legal and Communist Party mechanisms to coordinate the activities of its State Owned Enterprises (SOEs), financial institutions, and other entities to offer partners political-commercial-financial package deals that Western companies and governments find difficult to compete with. This often includes the promise of rapid financing and execution without the fiscal or policy conditionality often associated with lenders such as the International Monetary Fund. China's package deals, by contrast, typically oblige its partners to relax procedural requirements such as transparent, competitive public bidding, privileging Chinese subcontractors and labor, and exempting them, formally or *de facto*, from certain labor, environmental and other requirements. The best known examples in Latin America are the lines of credit that the PRC provided to leftist populist governments in Venezuela⁸⁸ and Ecuador,⁸⁹ for work to be performed by Chinese companies and workers, to be repaid through parallel contracts for the delivery of those nations' oil.

China's pursuit of objectives is helped by its substantial and growing "soft power." That influence is very different, however, from US "soft power," which is based more on value alignment: the affinity felt by people in the region for the US people and culture, or their belief that concepts of democracy, human rights, or free markets espoused by the United States are useful guides for their own countries—even if they do not care for certain rhetoric or actions by the US government.⁹⁰ By contrast, Chinese "soft power" often coexists with a deep distrust for the PRC government and its businessmen; it involves the belief, or hope by local politicians and businessmen that they can "manage the risks," and benefit their government, company, and/or personally through engaging the Chinese.⁹¹

The PRC exploitation of soft power in Latin America, in practical terms, means that its companies enter the country through a type of "civil war": A portion of the established businesspeople fear the enormous resources of the Chinese will demolish their cozy, closed world of doing business, and thus use every legal, political, and personal tool available to keep the Chinese out. Other businessmen seek to offer their local knowledge and access as partners to the Chinese in what they hope will be lucrative relationships leveraging the Chinese company's perceived access to financing, production capabilities, and other resources. The administrative and legal battle in 2015 over the proposed Dragon Mart wholesale-retail complex in Quintana Roo, between China-affiliated developer Juan Carlos Lopez and those who opposed the project, illustrates such dynamics.⁹²

Beyond the lure of profit from Chinese companies as partners, or access to the Chinese market, PRC soft power also involves substantial "people-to-people" diplomacy. Hanban's forty-six Confucius Institutes and five Confucius Classrooms in Latin America and the Caribbean⁹³ play an important role in this regard.⁹⁴ Even more important are the thousands of students from the region who connect with the Chinese government and receive scholarships to study in the PRC each year through Hanban and these institutes. They incur debts of gratitude, positive socialization into the Chinese authoritarian system, and enduring ties to Chinese academic and government officials, which they retain when they return home with their unique and prized knowledge of China and the Mandarin language to assume leadership positions on China issues in their governments, leading academic institutions, or as businessmen dealing with the PRC and its companies. Indeed, the current generation of Latin American officials responsible for negotiating their government's interests with the PRC, gained their "China expertise" in the PRC under such programs, raising questions about their ability to best represent the sovereign interest of their countries against the country who allowed them to obtain their expertise.

In addition to such scholarships shaping the future leaders of the region, PRC people-to-people diplomacy includes Latin American government, party, and military officials, scientists, influential think tank leaders, academics, journalists and other elites brought to China and wined-and-dined on luxurious trips. While there have been some cases of scientists and other academics giving their Chinese hosts sensitive technical and business information,⁹⁵ the adverse effects in most cases are more subtle but equally troubling. While only a portion may become spies or propagandists for China, for the

others, their desire not to be ungrateful to their hosts and their hopes of receiving future invitations may lead them to temper their criticism of the PRC and the behavior of its companies.

Beyond such individual level activities, the PRC is also becoming increasingly aggressive in using access to its markets to intimidate governments, companies and organizations. In Argentina, China's April 2010 cut-off of purchases of soy oil as a reprisal for anti-dumping measures adopted by the Argentine Congress⁹⁶ ultimately led Foreign Minister Timmerman and even President Fernandez de Kirchner to race to China to make amends. The government ultimately agreed to commit to over \$10 billion in Chinese infrastructure projects in the country before the PRC finally resumed purchases of Argentine soy.⁹⁷ More recent cases include China's suspension of business with the US National Basketball Association franchise Houston Rockets, costing the team over \$450 million in lost revenues, after its general manager dared to make a twitter post in support of Hong Kong protesters.⁹⁸ Most recently, when the Australian government indicated it might investigate China's role in the spread of the Coronavirus, the PRC retaliated by suspending imports of Australian beef.⁹⁹

In short, the PRC is increasingly using coercion by denying access to its markets and resources to buy compliance or at least silence from governments, businesses, and individuals.

Deference to the United States in its “Backyard”

The PRC has traditionally avoided directly challenging the United States through rhetoric, military, and political initiatives involving territories close to the United States that it perceives as the US “sphere of influence.” In this regard, the Communist Chinese government gives some de facto weight to the “Monroe Doctrine,” even after the Obama administration renounced US adherence to the doctrine.¹⁰⁰ Yet, such caution only applies in a limited fashion to economic and cultural engagement. The PRC openly indicated its intention to pursue significant engagement with the region across a broad range of areas in its 2008 and 2016 policy “white papers” toward Latin America and the Caribbean,¹⁰¹ as well as in the 2015-2019 and 2019-2021 China-CELAC plan.¹⁰² As noted previously, China has increasingly done so through its diplomatic activities in the region, expanding trade and loans, active involvement in multilateral bodies such as the Interamerican Development Bank,¹⁰³ CELAC¹⁰⁴ and the BRICS forum,¹⁰⁵ and in establishing nine formal “Strategic Partnerships” with countries in the region.¹⁰⁶

The PRC has generally avoided associating itself with anti-US rhetoric or actions of leftist populist regimes in the region such as Venezuela, Nicaragua, and previously Ecuador and Bolivia. In recent years, however, it has publicly taken positions in support of such regimes on issues central to US policy in the region, including recognizing and providing continuing assistance to the illegitimate Maduro government in Venezuela.¹⁰⁷

The PRC has also been increasingly willing to conduct military¹⁰⁸ and law enforcement engagement¹⁰⁹ and expand political ties, including in the Caribbean, to include establishment of diplomatic relations and aggressive forward movement with new

projects in Panama, El Salvador and the Dominican Republic. Its new generation of ambassadors in these and other countries in the region, sometimes referred to as “wolf warrior” diplomats,¹¹⁰ are increasingly outspoken¹¹¹ in challenging the US as they advance the PRC position.¹¹²

In general, over the past two decades, the PRC has tended to become more assertive when its advances do not meet resistance, but also to temporarily pause or adjust course in the face of strong US reactions, such as that which occurred following El Salvador’s establishment of diplomatic relations with the PRC.¹¹³

Such nuances notwithstanding, the expansion of Chinese wealth and power and the confidence of the PRC’s current generation of leadership under President Xi has led it to behave more assertively in all parts of the globe. China may see the shift in US posture toward multilateral institutions and trade agreements that has occurred under the Trump Administration and the Administration’s increased willingness to challenge its traditional allies from the European Union, Japan, and Mexico as an opportunity for it to position itself more assertively in a global leadership role. Similarly, the PRC may see opportunities arising from Covid-19 to expand its strategic position, through both medical diplomacy and advances in supply chains, strategic acquisitions, and loans to distressed governments while the West remains economically weakened and politically distracted by its own Covid-19 related difficulties.¹¹⁴

The Impact of COVID-19

The COVID-19 pandemic has not changed the PRC’s global objectives or strategy but gives it an unprecedented opportunity to advance in achieving them.¹¹⁵ With the help of the government’s authoritarian controls over its population to impose and enforce quarantines, enormous financial reserves, and levers over the economy, the PRC is emerging from the crisis (although certainly weakened) ahead of most Western countries.¹¹⁶

The pandemic and its health, economic, and other effects will likely persist and continue to debilitate the United States and Europe for some time.¹¹⁷ The interaction between partial economic re-openings and the time required to develop, test, and mass-produce a vaccine will extend this process. In Latin America and other less developed parts of the world, the situation is likely to be far worse.¹¹⁸ Less capable public healthcare systems, large informal sectors, vulnerable small and medium enterprises, and limits on the ability of governments to borrow money to protect vulnerable populations and economic sectors¹¹⁹ will place pressure on economies as they suffer from diminished investment and demand from Western countries for their exports.

The PRC does face continued risk of new outbreaks, such as have occurred in Shulan and Wuhan,¹²⁰ the possibility of graver than anticipated economic problems due to weak demand from its customers,¹²¹ the impact of a financial crisis in the West on PRC global holdings, and the vulnerability of China’s enormous public and private sector debt.¹²² Such risks notwithstanding, the prospect for the PRC to emerge from the crisis ahead of the West appear relatively good.

With the Chinese economy projected to show growth for 2020,¹²³ a financial meltdown notwithstanding, PRC-based companies will be well positioned to greatly strengthen their global presence. They will have options to expand positions in global supply chains as local competitors are shut down or bankrupted. Chinese companies will also likely have options to buy assets in strategic sectors that distressed Western companies are seeking to sell off, as they did after the 2008 crisis.¹²⁴

China will also have opportunities to offer desperate Western governments financing deals with conditions they previously would have rejected.¹²⁵ A current example in Latin America is Argentina, which on May 22 entered into technical default on payments of its sovereign bonds,¹²⁶ raising a significant risk that it will be excluded from Western capital markets just as it needs to expand spending to combat Covid-19 and the economic and other effects of the disease. The PRC is already deeply embedded in the Argentine economy, from \$18.7 billion in currency swap agreements,¹²⁷ to ICBC's ownership of Standard Bank,¹²⁸ to the large exports of soy, soy oil and other agricultural projects.¹²⁹ China's significant role, with intimate ties to an array of influential Argentine business figures, includes numerous infrastructure projects financed by PRC-based banks and worked by Chinese companies. Leading examples include the revitalization and extension of the Belgrano Cargas rail network,¹³⁰ metro systems in Buenos Aires and Cordoba, and two hydroelectric projects on the Santa Cruz river.¹³¹ It also includes expansion of the Atucha III nuclear complex,¹³² a significant stake by the PRC-based company Gangfeng in the development of lithium reserves in the north,¹³³ the deep space radar communications facility in Bajada de Agrio,¹³⁴ and China's presence in at least two astronomical observatories.¹³⁵

With the combination of dire need, existing relationships, and political will it would be logical for the current left-oriented Argentine government of Alberto and Cristina Fernandez to turn to the PRC for loans and investment in the present crisis.¹³⁶ As the crisis deepens across the region, however, Argentina is only one of many countries who will likely face such choices.

Strengths and Weaknesses of PRC Engagement

PRC strengths in engaging with Latin America include the perceived attractiveness of access to its market, in combination with the ability of its government to oblige Western firms to partner with PRC-based firms or otherwise expose their technologies and processes to be appropriated in exchange for that access. The PRC further benefits from perceptions by would-be partners, only partially accurate, of its agility to quickly invest or loan money in their countries, without fiscal or political conditions.¹³⁷ The PRC also benefits from the mechanisms available to its government to coordinate with companies and financial institutions across multiple sectors to edge out competitors by offering large package deals.

Those same tools also help the Chinese state to coordinate and impose controls across its own society to weather debilitating shocks, from the 2008 financial crisis, to the COVID-19 response, to the suppression of dissent. Although such coordination does not ensure that the Chinese government will make wise policy decisions, it increases its

likelihood of weathering the chaotic forces of such shocks, as well as the consequences of any bad decisions it makes in managing them.

As COVID-19 makes global publics increasingly sensitive to the dangers of the interconnected global order, their perception of China's authoritarian state-led capitalism becomes important. Rightly or wrongly, such perceptions will influence the alignments and political choices of a world which is, itself, fundamentally rethinking the most important functions of the State, and the balance between security and liberty in an interconnected world whose dangers have been brought to the fore by the pandemic.

The PRC's strength does not come simply from being an authoritarian command economy. Rather, it has been relatively successful in combining direction-giving through rules, monitoring, and implied sanctions, with guidance and incentives that prompt initiative by a myriad of state and semi-private actors in the desired direction. The PRC is able to support favored Chinese companies to pursue market advantage in desired sectors while handicapping their Western competitors, obliging partnerships between those competitors and local Chinese firms, and using those partnerships to systematically steal their technology and transfer it to their Chinese counterparts.¹³⁸

Another example of China's integration of centralized command and decentralized execution is its "people-to-people" diplomacy. Between 2019 and 2021, China committed to bringing 6,000 Latin American students, government, business, media and other leaders to the PRC on scholarships.¹³⁹ PRC people-to-people diplomacy involves not only official paid trips to China by its government, but also a labyrinth of Chinese universities, private institutions, and other sponsors of travel for individual academics, businessmen, and other targeted persons. It is a part of the challenge of China, whose scope and impact is enormous, but is little understood in the public discourse about Chinese influence and activities.

The PRC also arguably has advantages in the fusion of communication, computational, and other technologies for societal control. It is arguably the quantity of resources, together with researchers at home and abroad and stolen technology that give it an edge in areas such as artificial intelligence and 5G networks. In addition, it is China's ability to trample privacy and other individual rights, together with unrestricted access to the physical and genetic characteristics, financial, and other attributes of a vast population has allowed it to develop integrated surveillance and social control systems such as those using "social credit" algorithms.

China's weaknesses are as numerous as its strengths, but that does not imply that the PRC will collapse under its own internal contradictions and relieve us of the responsibility to address the challenges that the PRC presents to the West and to the security and strategic position of the United States globally. Of course, the PRC system has significant structural defects to include its education and healthcare system, its enormous government and private sector debt overhang, and sources of discontent including severe pollution, mistreated minority populations, and other issues. China's authoritarian system, bolstered by a culture of deference to authority, permits the mobilization of resources. But as seen repeatedly during periods such as the Cultural

Revolution, that system does not always permit effective mobilization of resistance to bad or extreme policies in time to prevent them from wreaking havoc on the country and the broader region or world.

In China's engagement abroad, many of its enterprises have had difficulties in reconciling the exigencies of the business style and expectations of headquarters bureaucracies with the requirements and sensitivities in the countries where they operate. That tension contributed to conflicts centered on Chinese mining operations in Las Bambas (Peru), El Mirador (Ecuador), and construction projects by China Railway Road and others in Bolivia.¹⁴⁰

China's "medical diplomacy" accompanying the COVID-19 crisis shows the ability and willingness of the state to mobilize resources to advance the Chinese narrative. Its offer of \$2 billion to fund the World Health Organization at the time that the United States has suspended aid to the organization highlights the magnitude of what it is willing to do, and the ongoing risk for US leadership in multilateral bodies.¹⁴¹ Nonetheless, the clumsiness China's medical diplomacy, with defective tests¹⁴² and ventilators,¹⁴³ as well as other missteps such as the attempt to charge the Italian government for equipment which Italy had previously donated to it,¹⁴⁴ suggests that its ability to win hearts and minds in the region may be limited.

One of China's important shortcomings arguably comes from its authoritarian system.¹⁴⁵ It has such complete control over the narrative and means of communication within its borders that it is handicapped in understanding how it is seen critically abroad. The PRC is selling itself to a world that deeply fears and distrusts it, even as those other governments and businesspersons hope to profit from commerce with China.

Recommendations for Congressional Action

In my judgement, Congressional action is one necessary part of a whole-of-government solution, which also must be coordinated with our global partners who are also affected by China's reshaping of the global order to its benefit. I see benefits in, and respectfully recommend Congressional action in the following areas:

Studies and Hearings. Congress should continue to employ its institutional capabilities, resources, and actions to generate and focus public attention on Chinese activities globally, the challenge they present to the United States and prosperity, good governance, democracy, freedom of expression and human rights in our partner nations. Hearings by this body, and by committees and subcommittees of the House and Senate involving both government officials and independent scholars are useful in highlighting to a broad, high-level audience viable responses through our government, the private sector, and international partners. Such hearings also publicly emphasize to our partners our attention to and concern about these issues. For the same reason, I recommend the continued production of publicly releasable studies and reports by this committee, as well as by Congressional Research Service (CRS) and other US government organizations. As someone who has used the published reports of this Committee, CRS, and Congressional hearing transcripts in my own work, I can affirm

they are important as authoritative, accessible references contributing to the public discussion on the challenge of the PRC.

Foreign Investment Review. I recommend Congress continue to support the maintenance, improvement and strengthening of the Committee on Foreign Investment in the United States (CFIUS) process for the review of transactions by the PRC and other actors involving US-based companies. CFIUS will likely play an increasingly important role as PRC attempts to acquire the assets of distressed Western companies increase in the coming later stages of the COVID-19 crisis.¹⁴⁶ Congress should also make funds available through the Executive Branch for bolstering CFIUS-like mechanisms among US partners, and sharing associated best practices for the same reason. Such reviews by both the US and our partners, when objectively applied by knowledgeable decisionmakers with good information, are a useful vehicle for insulating against the more threatening aspects of China's advance without advocating a position unpalatable to our partners and unrealistic to enforce that countries simply should not do business with the PRC.

Help Partners Strengthen Governance. I respectfully advocate full funding for US State Department-led programs to help our partners fight corruption, advance transparency, and strengthen mechanisms for governance and rule of law. Such engagement is one of our most effective tools to inoculate them against the most threatening aspects of China's advance in a way that is productive to our long-term relationship with the populations and governments of the region.¹⁴⁷ Chinese deals with the former Varela government in Panama to build a high-speed train into the countryside and a cruise ship port on the Pacific side illustrate how the PRC exploits a lack of transparency and solid analysis by the host government for deals which disproportionately benefit the Chinese companies and the local elites who agree to their terms.¹⁴⁸ Failure of governments to hold the PRC-based companies doing the work to labor, environmental, and other regulations makes matters worse.¹⁴⁹

When the United States helps our partners combat corruption and improve planning, evaluation, and enforcement, we ensure alternatives to Chinese proposals receive fair consideration, and that the country gets the most out of contracting with the Chinese when they do while appreciating the United States for the help.

Less corrupt, well-governed partners are also less vulnerable to populist leaders who turn against Western companies and governments and bring in the Chinese as an alternative. Each of the leftist populist leaders who have come to power in the Western Hemisphere in the past two decades, Hugo Chaves in Venezuela, Rafael Correa in Ecuador, and Evo Morales in Bolivia, have opened the door to non-transparent and ultimately disastrous projects with the Chinese. All came to power campaigning against the corruption and poor governance of established elites, even if each subsequently made their country far more corrupt and less well governed.

Private-Sector-Led Development. I recommend continued support for initiatives such as *America Crece* and the Development Finance Corporation, harnessing the resources of the private sector to help our partners achieve sustainable growth within a framework

of transparency, good governance, and the rule of law. Such programs provide an alternative to PRC offerings that not only disproportionately benefit the Chinese, but also ultimately reduce incentives for partners to maintain a framework of democratic accountability, respect for rights, and rule of law in the process of securing often ephemeral benefits.

Congress and the Administration should ensure such programs are agile and not overly encumbered by rules, facilitating their ability to realistically lever private sector funds in a timely fashion (a challenge made more difficult by the Covid-19 pandemic). It is also important that they be available not just in low-income countries, but also in those with higher GDPs (which are equally, if not more targeted by the PRC), including the small island nations of the Caribbean.

While private-sector-led development is strategically the best path ahead, the poor current economic prospects¹⁵⁰ and political risk in the region¹⁵¹ associated with the pandemic will limit the willingness of the private sector to invest. In the near term, it is particularly important to maintain full funding for non-reimbursable programs such as USAID's Clear Choice. While such foreign aid can never compete in magnitude with the PRC self-interested loans and investment deals, it provides a stopgap while private sector investment is depressed. At the same time, it showcases a positive side of the United States that our partners can believe in, contrasting with their persistent distrust of the PRC for its previously noted predatory commercial practices, their politics of bullying with a smile, as well as their responsibility for the coronavirus.¹⁵²

Push back on Chinese Technology. I recommend Congressional support for economic incentives that support or reward partners choosing non-Chinese technology solutions in critical sectors, as well as laws backed by authority to sanction entities subject to US jurisdiction who support or participate in projects with Chinese partners and technology in these areas. Such areas include but should not necessarily be limited to 5G and other telecommunication architectures,¹⁵³ and surveillance and control architectures such as those in "smart cities" initiatives.¹⁵⁴

Outside these sensitive sectors, the United States should advocate for a level playing field rather than obligating partners not to do business with China. Nonetheless, in some sectors, a PRC presence in projects or technical architectures presents a significant potential vulnerability to the sovereignty of the partner, and by extension, its long-term relationship with the United States. This risk demands employment of the full weight of available diplomatic, economic, financial, and other instruments to dissuade partners from allowing the Chinese in. In the context of China's 2017 National Security Law,¹⁵⁵ as noted previously, a Chinese presence in sensitive communications and technical architectures within our partner nations gives the PRC the opportunity to oblige its companies, such as Huawei, to collect and turn over sensitive personal, financial, technical and other data on partner decisionmakers, companies, or state organizations and processes. Such information potentially gives the PRC access to personal, commercial, and technical information providing them leverage over decision-makers or insights into technologies and decisions.¹⁵⁶

Working With Like-minded Partners and Multilateral Fora. Finally, I recommend Congressional support for financial and other incentives to partners who work with the US to provide alternatives to Chinese financing and commercial solutions. There are circumstances in which there is not a US company that presents a viable alternative in the space, but a Japanese, Korean, Indian, or European company may do so.

I further recommend Congressional support for sustained US engagement in multilateral forums such as the United Nations, International Monetary Fund, Organization of American States, Interamerican Development Bank, World Health Organization, and others, to prevent the PRC from dominating such spaces, however flawed those organizations may be.

We must not cede to Chinese lobbying the power to influence what the reports say, who gets loans, what issues are criticized or excluded from criticism by the international community, or myriad other decisions that shape our strategic position in the financial, legal, and political dimensions of the international order.

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