China's Diplomatic and Political Approach in Latin America and the Caribbean

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Chairman Bartholomew, Commissioner Scissors, 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 China's diplomatic and political approach in Latin America and the Caribbean. My testimony is based principally on my research and engagements over the past seventeen years on PRC activities in the region.

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.

Chinese Objectives and Implications

It is not necessary to show malevolent PRC intentions with respect to its activities in Latin America and the Caribbean to conclude that the current and long-term implications of that engagement are grave for prosperity, democracy, and liberties in the region, as well as the security and strategic position of the United States.

In Latin America, as in other parts of the world, the Chinese state is pursuing a principally economically-oriented strategy which, at its core, seeks to capture value added and orchestrate global flows of wealth primarily beneficial to itself.[1] It leads and supports these efforts through employing State Owned Enterprises as the principal repository of value and capability, using the Chinese State's ability to coordinate deals across sectors, regulation of the Chinese market, and through the contributions of the Chinese intelligence services.

The focus of Chinese efforts and the details of its engagement differ across regions according to the resources, market, and other opportunities offered by individual partners. This includes the nature of the partner government, its historic relationship to the PRC, and its distance from China or proximity to the United States. In general, however, China's pursuits in Latin America and the Caribbean are remarkably consistent with what it seeks globally: secure sources of commodities and foodstuffs, reliable access to markets for its goods and services (particularly in strategic, high value-added sectors), strategic technologies and related capabilities.

Understanding the centrality of the PRC's focus on its own economic benefit in the hierarchy of its priorities in Latin America and elsewhere, and how its political, institutional, security and other engagements support those economic objectives, is key to correctly assessing and responding to the China challenge.[2]

The challenge posed by the PRC is different, yet in many ways greater, than that posed by the Soviet Union during the Cold War. In that prior era, the Soviet Union sought to impose a political model on states under its influence, often subsidizing them economically to sustain them. By contrast, the PRC has generally not, in Latin America or elsewhere, significantly burdened itself economically to maintain its allies in power. Even where it has made seemingly poor loan and investment choices, as I will discuss later, the PRC has done so in conjunction with strong mechanisms for ensuring that it gets paid.[3]

Of course, the PRC also pursues some important objectives in the region not strictly subordinate to its economic interests. These include the diplomatic isolation of Taiwan, and the neutralization of criticism of, or resistance to, what it regards as "red line" domestic and other security policies,[4] including its campaign against Uighurs in Xinjiang, its crushing of democracy and autonomy in Hong Kong, and its assertion of maritime claims in the South and East China Seas, including its transformation and militarization of disputed reefs and shoals in the region.

Overview of Chinese Activities of Concern

The Covid-19 pandemic has highlighted China's willingness to exploit the needs and hopes of Latin American and Caribbean governments, businesspeople, and populations to advance its economic and other interests to the detriment of the region and the United States.

In the global struggle against the Covid-19 pandemic, whereas the United States has committed $4 billion to the World Health Organization Covax facility to help those in need obtain vaccine,[5] the PRC has principally *sold* its vaccinations to the region, rather than donating them, including offering a $1 billion loan to help the region buy China-made vaccines,[6] just as it provides loans so that the region can buy its other goods and construction services. In the Dominican Republic, Chinese companies charged that country $19 million for one million doses of the Sinovac, although they then donated another 50,000 doses.[7] A Dominican colleague with whom I spoke about the matter put the matter in perspective by calling the Chinese gift the "ñapa," the token small free item that Dominican merchants sometimes "throw in" to thank their clients for their business.[8]

Of greater concern, the PRC has used dire need for vaccines in the region to pursue its economic and political objectives there in other sectors. In Brazil[9] and the Dominican Republic,[10] the PRC has used expedited access to its vaccines to oblige those governments to reverse prior decisions excluding the Chinese telecommunications company Huawei from their 5G networks. In Paraguay, the PRC attempted, unsuccessfully, to use access to its vaccine to induce that country's government to abandon diplomatic recognition of its long-time ally Taiwan.[11]

The PRC's expanding economic presence in the region, and the influence it generates, is widely recognized. China's principal two policy banks, China Export Import Bank and China Development Bank alone have made $136 billion dollars in loans to the region since 2005.[12] Its companies have put $160 billion dollars into operations in the region since 2001, mostly through mergers and acquisitions, but also through some greenfield projects and other non-financial direct investment.[13] All but $16 billion of that Chinese money has arrived since 2010.[14] PRC-Latin America bilateral trade reached $330 billion dollars in 2019,[15] an 18-fold increase since the PRC was admitted to the World Trade Organization in 2001.

PRC military activities in the region, although secondary to its economic engagement, are not trivial. They include sales of K-8 combat aircraft to Venezuela[16] and Bolivia,[17] and now the possibility that the Argentine government of Alberto and Cristina Fernandez will buy the Chinese JF-17,[18] which would be the most capable fighter the PRC has ever sold to the region.

PRC arms deals in the region also include selling an offshore patrol vessel to Trinidad and Tobago,[19] selling JYL-1 air defense radars [20] and long-range JY-27A radars to Venezuela,[21] and providing armored vehicles to Venezuela, Bolivia, Argentina, and Ecuador. It also includes selling and donating Y-8 and Y-12 military transport aircraft[22] as well as sometimes selling, sometimes donating trucks and cars, construction equipment, motorcycles, and other assets to both militaries and police forces in the region.[23]

Beyond arms, PLA activities in the region include a combat exercises with Chile in 2013,[24] multi-stop visits of increasing length and sophistication by its hospital ship "Peace Arc" in 2011, 2015, and 2018-2019, deployment of military police to Haiti for eight years (from 2004-2012), and regular institutional visits, including participation by Chinese People's Liberation Army (PLA) members in Colombia's elite "Lanceros" special operations course in Tolemaida,[25] Brazil's Jungle Warfare school in Manaus,[26] and Brazil's military Peacekeeping institute, CCECOPAB.[27]

In the telecommunications sector, the Chinese firm Huawei is positioned to play a significant role in 5G as governments and commercial providers roll out those networks, with major auctions taking place this year. In addition, both Huawei and ZTE play a major role supplying phones and other telecommunication devices to the region, as well as building wireless and fiber optic networks, surveillance architectures and smart cities.[28]

Such presence by Chinese companies in these telecommunications architectures raises particular risks for both the US and our partners, since the PRC's 2017 National Security Law obliges its companies to turn over data in their systems to the Chinese State if the State asks it to do so,[29] thus giving the PRC important opportunities to capture and exploit such data. The data at risk includes not only military "secrets," but sensitive data of Latin American companies and about government functionaries in the region, that could be used to help PRC-based companies obtain the technologies of others, secure an unfair advantage for winning contracts, or even to gain leverage over

Latin American officials through their personal information, opening the door to obligating those officials to help China in future commercial and other matters.

With respect to space, the Chinese radar facility in Neuquén, Argentina[30] is operated by PLA military personnel, with limited access to the site by the Argentine government.[31] Beyond the radar, the PRC and its SOE Great Wall Industrial Corporation have helped to develop and launch 8 satellites for the region: 5 for Brazil under the CBERS program (the most recent of which was launched from China in 2019), 3 for Venezuela,[32] including the VRSS-2 (launched in 2017 as the Venezuelan economy was in a state of collapse),[33] the Tupac Katari, launched for Bolivia in 2013,[34] and even a microsat for Ecuador, destroyed by space debris shortly after the Chinese put it into orbit.[35] Equally important, although often overlooked, the PRC played a significant role in the construction of the space ground control architectures of both Venezuela and Bolivia and the training of their Space personnel, giving China's government potential access to the imaging and other data captured by, or transmitted through those satellites.

The PRC has also courted both Argentina and Chile for the development and launch of satellites, including unsuccessful attempt to participate in Argentina's ARSAT program,[36] and to employ Chinese Beidou satellites[37] to replace Chile's aging U.S.-developed FASAT-C constellation.[38]

Implications for the U.S. and the Region

The collective, long-term result of China's pursuit of its economic objectives and supporting activities in the political, institutional, security, and informational spheres is evolution toward a region ever more economically dependent on the PRC, with ever fewer democratic regimes, increasingly less disposed to cooperate with the United States on shared interests regarding security, rule of law and good governance, democracy and human rights. Over the long term, such impacts cumulatively threaten to move the region toward a state in which freedom of expression and political choice is increasingly constrained (as it is in the PRC itself today) to those expressions and activities in which the PRC and issues about which it is sensitive are not critically discussed.

China's presence, and the transformation of the region which its activities in the region are advancing, also gives it more options to leverage Latin America and the Caribbean in its battle to bend global economic, financial and political institutions to its advantage. This includes struggles over the setting of norms in technical bodies, details of the management of the global financial system,[39] to blocking the rallying international opinion or sanctions against the PRC, or conversely, giving China an enhanced ability to rally such opinion or against the United States in future international disputes.[40]

At the extreme, China's expanding influence gives it real options to operate in the region in the context of a future conflict with the PRC, including obtaining intelligence, acting against U.S. deployment and sustainment activities, creating crises in the region that distract US decisionmakers from the conflict in Asia, or even putting the US homeland at risk by conducting military operations from the bases and facilities of partners in the region, even without the provocation or expense of establishing formal basing agreements in advance.

The mechanisms of the threat presented by the PRC through Latin America and the Caribbean are complex, and often subtle. Correspondingly, I offer the following observations about the nature and dynamics of the threat:

China and anti-U.S. Populism. *China as an incubator for anti-US leftist populism, which in turn opens the door for a broader Chinese advance. The* regimes of Hugo Chavez in Venezuela, Rafael Correa in Ecuador, and Evo Morales in Bolivia each initially came to power for reasons not directly related to Chinese activities in the region. Each of those populist leaders exploited widespread disillusionment with the performance of prior democratic governments to mobilize supporters to achieve office through initially democratic means. Yet once in power, PRC loans and other resources were important to their survival as they consolidated power, changing rules to decrease transparency and otherwise undermine democratic institutions and move against the press, business interests and other bases of opposition. Such Chinese support included an estimated $18.4 billion in Chinese loans to Ecuador after Rafael Correa's government defaulted on loans from the International Monetary Fund, $62.2 billion to Venezuela, $17.1 billion to the Christina Fernandez government in Argentina, and $3.4 billion to the Evo Morales government in Bolivia.[41]

These Chinese populist governments, in turn, have been the principal partners for the PRC in the region not only for non-transparent government-to-government infrastructure projects, but also for military engagement with the PLA, space activities, and questionable technology partnerships. Populist regimes in Venezuela, Bolivia and Ecuador were the first purchasers of major Chinese-made military end items in the region, including Venezuela's previously noted purchase of Chinese K-8 fighters[42] and JYL-1 and JY-27A air defense radars.[43] Other key military sales pioneered by the PRC with populist regimes included Chinese Y-8 and Y-12 military transport aircraft. They also included and a range of armored vehicles, including the VN-1s and others used by the Maduro regime to repress democratic protests[44] and to block de jure Venezuelan President Juan Guaido and other elected members of the Venezuelan National Assembly from access to the legislative building to which they had been elected.[45]

The MAS regime of Evo Morales in Bolivia substantially recapitalized its Armed Forces with Chinese equipment including 31 armored vehicles,[46] six K-8 fighter-interceptors, and six Harbin H-425 helicopters,[47] with the later leading to the arrest of the Bolivian general involved in the transaction for corruption.[48]

Rafael Correa's government, for its part, ordered 709 Chinese military vehicles[49] and 10,000 Chinese-made assault rifles,[50] although it was the government of his successor, Evo Morales, who took delivery on them.

The Argentine regime of Christina Fernandez was the first in the region to consider the purchase of 20 Chinese FC-1/JF-17 fighter,[51] which would have been the most capable combat aircraft sold in the region, as well as 5 PRC-made PC-1 offshore patrol vessels, and a number of armored vehicles.[52] The current regime of Alberto Fernandez and Cristina Fernandez, as noted previously, is again considering the purchase of the JF-17.[53]

In space, it was the Venezuelan regime of Hugo Chavez that was the first in the region to procure a Chinese-built and launched satellite, the Venesat-1,[54] followed by two others, VRSS-1[55] and VRSS-2.[56] Similarly, it was the Evo Morales regime in Bolivia that contracted for the previously mentioned Chinese construction and launch of the Tupac Katari satellite.[57] In Argentina, it was the leftist populist regime of Christina Fernandez which committed to the PRC's previously mentioned construction and operation of a deep space radar facility on Argentine soil, in Bajada de Agrio, Neuquén.[58]

It has been leftist populist regimes which have hosted China's building of the first national surveillance systems in the region, including the ECU-911 national emergency response system in Ecuador,[59] and BOL-110 in Bolivia. It was the Chavista regime in Venezuela that contracted the Chinese firm ZTE to implement the "fatherland identity card" system,[60] a prototype version of China's social credit system, subsequently used in voting, the rationing of scarce food and supplies (the "CLAP boxes"),[61] and most recently, in the distribution of Chinese and Russian Covid-19 vaccines.[62] The Chinese company CEIEC also helped the Maduro regime to use electronic techniques to spy on the de jure Guaido government and other "opposition" politicians and was sanctioned for doing so in 2020 by the U.S. Treasury Department.[63]

As the PRC continues to develop and export its electronic control capabilities, including surveillance systems, prototype social credit systems, and the technology for implementing and administering a digital currency (which it is due to be implemented in prototype form in the PRC this year),[64] such efforts potentially create a dangerous reinforcing cycle of exporting "digital authoritarianism." Specifically, the PRC helps friendly authoritarian regimes implement a version of surveillance and control technologies in their country. Those friendly regimes are willing to accept the greatly expanded power it gives the PRC for espionage and other leverage over them, in exchange for the benefits such technologies afford them to increase control over their own populations. Such friendly authoritarian regimes also have greater latitude than democratic counterparts to implement Chinese surveillance and control technologies, owing to the regimes' relative insulation from privacy and other concerns. The enhanced survival of populist regimes with the help of such technologies, in turn, facilitates their continuing work to spread their populist revolutions elsewhere in the region, using the resources provided through their commercial engagement with the same PRC.

There is a misperception that the PRC's generous loan packages to politically aligned but corruption-riddled leftist populist regimes pursuing unsustainable policies has been merely a naïve choice that has backfired on it, saddling China and its companies with unserviceable debts and reputational costs.[65] The experience of PRC-based companies and banks with these regimes has certainly fallen far short of expectations. I have personally spoken to Chinese managers and other personnel in PRC-based companies who have expressed their frustrations with their experience in Venezuela. Nonetheless, the PRC and its companies been far more effective than is commonly recognized in ensuring that they get paid, even if the project or transaction produces little or no value for the populist partner. A common practice by the PRC in anti-U.S. populist regimes whose actions have cut them off from Western capital markets, is for the PRC to tie its loans to parallel contracts for the delivery of the nation's commodities, with Chinese companies used to extract the commodities used to repay the loan.[66] Using such vehicles, the PRC has extracted oil to repay all but $19 billion[67] of the more than $62.2 billion it has lent to Venezuela.[68] Moreover, China has implemented such "loans for oil" contracts not only in Venezuela, but also in Ecuador, where they have been documented in detail by journalist Federico Villareal's books *Ecuador, Made in China*,[69] and *El Fereado Petrolero* ["the oil holiday"].[70]

Also in Ecuador, Rafael Correa's $2.2 billion contract with Chinese companies to build the problem and defect ridden Coca Coda Sinclair hydroelectric facility[71] was documented by the New York Times in a story very appropriately titled, "It Doesn't Matter if Ecuador Can Afford This Dam. China Still Gets Paid."[72]

Another excellent, if little known example is a $1 billion loan to the Corporación Venezolana de Guayana (CVG) obliging the future delivery to China of over $4.1 billion worth of Venezuelan gold. When the Chinese money was used for other purposes and gold production was inadequate, the Maduro government was still obliged to divert a significant portion of CVG's collapsing output to repay the loan, as well as giving other Chinese companies compensatory contracts in other sectors.[73]

An unprecedented, detailed study of 100 Chinese debt contracts by the Center for Global Development highlights how the PRC includes an array of self-serving mechanisms to not only make it prohibitively costly for its populist partners to default, but imposing de facto political conditions on them in exchange for the credit.[74] These include obliging the debtor to maintain accounts in Chinese banks, potentially subject to seizure by the Chinese government. They also include cross-default clauses, such as the one that prevented the Mauricio Macri government in Argentina from stopping the questionable Santa Cruz river hydroelectric projects committed to by his populist predecessor Christina Fernandez.[75] Such clauses give the Chinese creditor the right to call in the full loan if the specified conditions are triggered, precipitating a potential liquidity, financial, and political crisis in the country that received the loan. Importantly, such clauses give the lender the right to call in the loan not only if the recipient defaults on a related Chinese project, but also in a range of other circumstances, such as if the recipient expropriates Chinese companies in an entirely different sector, breaks diplomatic relations, or takes other actions offensive to the PRC.[76]

PRC Soft Power. China's soft power in the region is a powerful instrument in advancing the PRC position, undermining US attempts to resist China's advance, and undercutting democracy and US policy objectives in the region in general.

China's soft power in the region is different from that of the U.S., which tends to be based more on an alignment of values, thinking, or an affinity for the US and its culture.[77] Chinese soft power, by contrast, is rooted more in hopes for benefit, the complimentary fear of its denial,[78] and the related dynamics of China's "people-to-people diplomacy."[79] As such, polls that show affinity in the region toward the U.S., or mistrust of the Chinese,[80] are not inconsistent with China's soft power.

In the business realm, Chinese soft power includes not only hopes for access to the Chinese market, but aspirations to contract or otherwise partner with PRC-based firms and businesspersons for projects in one's own country. Not only do the region's private businesspersons hope to benefit from such partnerships, but Latin American government functionaries sometimes also hope for commercial benefits, understanding that important supporting contracts can be channeled to their family and friends.[81]

In the domain of "cultural soft power," the 39 Chinese "Confucius Institutes" in Latin America and the Caribbean (now renamed "Centers for Language Education and Cooperation" because of negative perceptions of them as tools of the Chinese state),[82] serve as vehicles for the Chinese government to identify Latin American youth with the interest and aptitude to learn Mandarin Chinese, to bring them to the PRC on Hanban scholarships,[83] in order to evaluate and favorably shape the orientation of the next generation of the region's technocrats. These Latin Americans, educated in the PRC with the residual influence of Chinese indoctrination and a debt of gratitude to the PRC government for their scholarships, increasingly shape their government's positions toward, and perhaps negotiations with, the PRC. In the 17 years I have followed these issue, I have personally met a significant number of such Latin American functionaries, educated in the PRC with the help of Hanban scholarships. In terms of the macro numbers, the PRC government committed to bringing 6,000 students from Latin America to the PRC on such scholarships for the period 2019-2021 alone. [84]

Beyond Latin American students, the PRC and affiliated academic and quasi-private organizations also regularly brings Latin American politicians, government functionaries, journalists, and think tank professionals to the PRC as part of its people-to-people diplomacy, generally at Chinese government expense, although sometimes also sponsored by PRC-based academic institutions or quasi-private foundations. As with colleagues who studied in China on Hanban scholarships, I have personally known many colleagues who have engaged in such trips.

Such trips to China, of course, inculcate good will and potentially provide Chinese intelligence the opportunity to evaluate or compromise their guests. Often they include the opportunity to interact with senior Chinese officials, academics, or businesspeople. While such largess may not convert the recipients into pro-PRC propagandists, the expectation of more invitations in the future, as noted previously, the desire not to be "ungrateful," or the fear of losing access to such important information sources often leads recipients to self-censure their subsequent remarks about China on topics of sensitivity to its government, such as Xinjiang, Hong Kong, Tibet, or its military island building in the South and East China Seas.

For Latin American societies, the collective effect of such "self-censure," by those in the position to know best about the China challenge and its nature, is to stifle critical discussion, truncating the organization of efforts in the region to effectively push back against the PRC.

From the U.S. perspective, an additional negative impact of the multiple forms of Chinese soft power I have discussed, is to inhibit the efforts of US leaders to caution against engagement with China.[85] Often, under the influence of hopes for benefit from China or fear of jeopardizing it, the region's elites politely listen to US warnings, then take their projects with the PRC forward anyway, convincing themselves that they can manage the risk. Some in the region convince themselves that US warnings are merely reflect a "dispute between great powers"[86] over the region. Convincing themselves of that argument is seductive and self-serving because imagining themselves as the "morally neutral" party in the middle of a struggle between the US and China relieves those elites of the responsibility to their own people to weigh the very different risks that engagement with the PRC and its companies, versus Western ones, present.

The Challenge of China's Focus on "Connectivity." The PRC advance in Latin America and the Caribbean can be understood in terms of a mutually reinforcing dynamic between three areas of focus: pursuit of secure sources of supply for commodities and foodstuffs, access to markets for high-value added goods and services, and a strategic position in building and operating the physical and other infrastructure connecting and enabling the functionality of the economies of the region.

Chinese advances in Latin American commodity sectors have been well documented. They include extraction of petroleum and mining products, timber,[87] both regulated[88] and illegal, unregulated and unreported fishing (IUU)[89] activities, and agrologistics operations such as those of Nidera and Noble in the region.[90] They also include a significant and growing Chinese position in the mining of lithium and other rare earth elements, including the $4.1 billion, 25% interest by the PRC-based company Tianqi in the SQM lithium operation in Chile,[91] majority ownership by China's Ganfeng of the Cauchari-Olaroz mine in Argentina,[92] a new Gangfeng-operated lithium field in Mexico's Sonora desert,[93] activities by Xinjiang TBEA in the Uyuni salt flats in Bolivia,[94] a $1.5 billion stake in two Brazilian niobium mines (one mine owned by China Molibdenum Corporation,[95] and an important minority interest by a Chinese consortium in CBMM).[96]

China's extension of its 2013 "Belt and Road" initiative[97] to Latin America[98] with the inclusion of Panama in November 2017,[99] and its more recent focus on the "Digital Silk Road"[100] highlights PRC attention to *connectivity* at the heart of its economic pursuits in Latin America, as elsewhere. Currently 19 Latin American countries have signed on to the initiative,[101] with Argentina expected to join during an upcoming state visit to the PRC.[102] China's increasing role in such connectivity includes not only construction and operation of ports and physical infrastructure, but also electrical generation, transmission and distribution infrastructure, telecommunications infrastructure, eCommerce and banking. Together, this dominance of "connectivity" gives the PRC an ever greater strategic position in the underpinnings of the region's economies, thus affording it tremendous leverage to advance its political and economic interests there.

With respect to physical connectivity, PRC-based companies are involved in the operation an expansion of an increasing number of ports across the region. In his own testimony to the U.S. Congress, Commander of U.S. Southern Command Admiral Craig Faller noted that the PRC has 40 ongoing port operations or port projects in progress in the region.[103] These include seven port operations by PRC-based Hutchison Port Holdings in Mexico, three in Panama, three in the Bahamas and one in Buenos Aires, Argentina.[104] Chinese companies are also involved in four important port projects in Brazil, including the proposed São Luis megaport.[105] China Minmetals, with China Railway Road and other partners, are building the new $3 billion Chancay mineral port in Peru,[106] while China Harbour is contracted to DP World for the $1 billion Posorja port project in Ecuador.[107] China Merchant Port Holdings recently acquired full ownership of the Port of Kingston, Jamaica.[108] There is also potential for Chinese advances in ports in other areas, such as the port of La Union, El Salvador,[109] Manzanillo, Dominican Republic,[110] and Berbice, Guyana.[111]

Chinese companies have long used government-to-government contracting vehicles for their work on road and rail infrastructure in the region, particularly in friendly populist states such as Ecuador and Bolivia, or small states such as Jamaica with the Jamaica Development Infrastructure Project (JDIP) and the Major Development Infrastructure Project (MDIP).[112] In addition, they are currently experiencing increasing success in winning projects from more strongly institutionalized and bureaucratically capable governments through the use of Public Private Partnership (PPP) contracts. High profile examples include the China Harbour-Xi'an Metro consortium winning a $4.5 billion contract[113] to build the Bogota metro,[114] as well as the Chilean government's award to China Harbour's of a segment of that nation's Highway 5 from Chillan to Talca.[115] Because PPP projects involve *operating* the infrastructure, as well as building it, they have the added benefit of enhancing PRC opportunities for influence and learning.

Beyond roads, rail connections and ports, Chinese infrastructure projects in the region also include the building and operation of riverine infrastructure. Leading examples include a project to dredge key rivers in the Peruvian amazon making them usable by large ships,[116] as well as the likely victory by Shanghai Dredging of a contract to deepen the Paraguay-Parana river corridor and operate it as a toll route.[117] The latter would give the PRC influence over the strategic river route used by five South American nations for their agricultural exports.[118]

Beyond physical infrastructure, Chinese companies are playing an increasingly important role in the generation, transmission and distribution of electricity in the region, particularly with respect to clean energy. They have built six hydroelectric facilities in Ecuador,[119] three in Bolivia,[120] Patuca III[121] and the ill-fated Aqua Zarca project[122] in Honduras. They also own the Chaglla facility in Peru,[123] among others.[124] PRC-based firms are also involved in an array of wind and solar projects in the region, including the Cauchari photovoltaic complex in Jujuy Argentina,[125] the region's largest such facility, and a just-announced $1 billion, 1.1 Gigawatt solar project in Brazil.[126]

In nuclear energy, China National Nuclear Corporation has been chosen to build its Hualong-1 nuclear reactor in the Atucha nuclear complex in Argentina,[127] and is seeking to build a nuclear reactor in the Angra complex in Brazil as well.[128]

Chinese companies State Grid, China Three Gorges, and State Power Industrial Corporation (SPIC) have invested tens of billions of dollars in acquiring electrical transmission infrastructure in Brazil since 2010. In Peru, Yangtze Power's $3.6 billion acquisition of Luz del Sur from Sempra Energy[129] gives Chinese companies control over half of power generation in the greater Lima area. In Chile, that government's March 2021 approval of State Grid's acquisition of Compañía General de Electricidad (CGE) from Spain's Naturgy, following on prior Chinese acquisitions of Transelec, Atiaia, Pacific Hydro, and Chilquinta,[130] gives PRC-based companies control over 57% of Chile's electricity generation.[131]

In finance and ecommerce, Chinese banks have gone beyond lending for government-to-government projects, and increasingly play a role in facilitating trade transactions with the PRC, and even to some degree branch banking in Brazil, Argentina, Chile and elsewhere. E-commerce platforms like Alibaba are also gaining momentum in the region,[132] as well as ride sharing service by Didi Chuxing.[133] The later currently offers service in Mexico,[134] Brazil,[135] Colombia,[136] Chile,[137] and the Dominican Republic.[138] Importantly, Didi has enormous potential political impact due to the nature of its business, employing more Latin Americans per dollar invested than any other major Chinese initiative. As illustrated by Didi's linkage to "smart cities" initiatives in Mexico,[139] Didi's advance in the region, combined with the financial, positional, and other information collected on its clients, also presents a largely unrealized intelligence risk in the region on a scale similar to that presented by Huawei.

Beyond the implicit intelligence threats, China's dominance of each type of connectivity described in the prior paragraphs gives it important opportunities to promote the interests of its own companies. Its potential to do so is similar to the way in which Microsoft's domination of the Windows Operating System, or Google's browser, has given each enormous power to promote their own related software and services.

China's government has a long track record of leveraging its strategic advantages across sectors to promote its interests. Thus even if the PRC itself and its companies are not yet clear on how to develop and exploit the opportunities afforded through its growing multidimensional strategic position in physical, electrical, financial and other connectivity in the region, its ability to identify and pursue was to do so in the future should not be dismissed.

PRC Engagement With/through Multilateral Institutions. China works with and through multilateral institutions in different ways as part of its engagement strategy, as a compliment to its bilateral national and company-level engagement. The PRC has increasingly sought a "role at the table" with multilateral institutions such as the Interamerican Development Bank (IDB) which it joined in 2009 as a voting member,[140] as well as with the United Nations Economic Commission on Latin America and the Caribbean (ECLAC), with which it is very engaged across a range of institutional activities. The PRC seeks both to observe and shape the dynamics of these organizations with respect to the agendas of their forums,[141] their analysis[142] and other Chinese interests. In some cases, such as the recent China-IDB collaboration on loan funds.[143] The PRC works with those institutions to advance its own objectives within the framework of multilateralism.

With respect to multilateral forums, although the PRC has been an active observer at the Organization of American States (OAS) since 2004[144] and has modestly supported its activities,[145] China has preferred to principally engage with the region through the weakly institutionalized Community of Latin American and Caribbean States (CELAC).[146] CELAC, due to the lack of a permanent secretariat and the absence of the United States, is arguably more malleable than the OAS for the PRC to advance its multilateral agenda to the region. As with FOCAC in Africa,[147] and the 17+1 forum in Europe,[148] China's use of CELAC to advance its position, rather than as a forum for "bargaining collectively" with the region, is illustrated by the 2015-2019 and 2019-2021 "China-CELAC Plans,"[149] both of which strongly reflected the language and content of PRC initiatives toward the region.

Finally, the PRC has used sub-regional organizations such as CARICOM,[150] and trans-regional organizations such as the BRICS[151] for individual strategic objectives.

CARICOM has complimented CELAC facilitating PRC to engagement with countries with which it does not have formal diplomatic relations, since five of the nine states in the hemisphere that do not diplomatically recognize the PRC are members of the organization.[152]

The BRICS forum, for its part, has helped the PRC to promote its projects through institutions such as the BRICS Bank[153] and otherwise advance its agenda[154] under the guise of multilateralism, as well as engaging with Brazil in a manner that appeals to the latter's self-image as a global actor.[155]

Taiwan. PRC attempts to persuade the nine Latin American and Caribbean countries that recognize Taiwan to switch diplomatic recognition to the PRC derive from a domestic security imperative that is transcends PRC pursuit of its economic interests. Nonetheless, such diplomatic changes, where successful, also support PRC economic objectives and related political and institutional influence efforts.[156]

An examination of recent diplomatic changes by Costa Rica (2007),[157] Panama (2017),[158] the Dominican Republic (2018)[159] and El Salvador (2018)[160] shows that in each case, the change was associated with a dramatic expansion in PRC opportunities for influence and economic penetration.[161] In each case, diplomatic recognition of the PRC was accompanied by the signing of generally non-transparent MOUs which opened partner markets to Chinese companies in sectors from construction, telecommunications, electricity, and banking, among others. Reciprocally, commercial elites of the nation establishing relations, who traveled to the PRC as part of the first "post-recognition" state visit, were commonly associated with sectors included in such

MOUs, benefitting from the deals, including fitosanitary agreements for the export of fruit or coffee, or possibilities for commercial partnerships within the PRC.

In commerce, the countries establishing relations evidenced a common pattern, with a temporary jump in exports to the PRC in the year following recognition, followed by a fall, while imports from the PRC by the country continued to rise.[162]

While Taiwan provided relatively good support to its partners during the Covid-19 pandemic,[163] and while the previously mentioned April 2020 PRC attempt to change Paraguay's diplomatic posture through vaccine diplomacy was unsuccessful,[164] over the long term, as a recent ECLAC study highlights, the pandemic has left the Taiwan-recognizing states (among others) economically and fiscally strained,[165] and thus more vulnerable to PRC pressures and inducements. Any number of further crises or political changes could be decisive in precipitating another state recognizing Taiwan to change to the PRC. Examples of such dynamics threatening change include difficulties arising from the April 2021 eruption of the Soufriere volcano in St. Vincent,[166] a possible new regime in Haiti arising from that nation's ongoing political-constitutional crisis,[167] to the election of a leftist populist government with a President from the Libre party in Honduras in November 2021, or alternatively, a right-of-center President strongly tied to narcotrafficking groups, and who wishes to reduce vulnerability to the anti-corruption and judicial pressures of the United States.[168]

Further diplomatic changes from Taiwan to the PRC in the Western Hemisphere (and elsewhere in the world) would not only facilitate expanded PRC economic and other influence there but could prove strategically destabilizing in Asia. As the number of states diplomatically recognizing Taiwan goes to zero, the risk of the PRC using economic, military or other coercion to resolve the matter as an "internal Chinese affair," with a miscalculation precipitating a possible war in Asia, rises.[169]

The Impact of Covid-19. The Covid-19 pandemic increases China's leverage and the opportunity for it to expand its presence and influence in Latin America and the Caribbean,[170] albeit, with the prospect of expanded difficulties for, and pushback against, the PRC and its companies.[171]

During the Covid-19 pandemic, the PRC sold or donated $230 million in medical or other goods to 28 countries in the region to help combat the spread and effects of the virus,[172] although the example of the high rate of false negatives of the Covid-19 antibody tests it sold Peru,[173] and the low efficacy of the Sinovac vaccine,[174] illustrates that such assistance has not been without problems.

As noted previously, China's position as a vaccine supplier, in the context of Latin America's significant need, has given it opportunities to advance its position with respect to 5G, diplomatic recognition, and its other commercial and political objectives.

China successful reactivation of its economy, with 8.1% GDP growth expected in 2021,[175] while the economy of the European Union continues to stagnate[176] and that of the U.S. follows a slower recovery,[177] increases the relative importance of PRC demand four Latin American commodities such as Brazilian soy,[178] Salvadoran sugar,[179] Ecuadoran shrimp,[180] and Chilean copper,[181] among others.

The weakened economic conditions and fiscal conditions of Latin American economies make them more susceptible to PRC offers of loans, investment, vaccines, and other help, on terms that many previously would have objected.

The renewed spread of leftist populist regimes in the region increases the number of receptive partners for PRC assistance, and probably their need, if those governments forgo western assistance and their actions dissuade private sector investment. Examples of the trend to the left include the consolidation of power by the Maduro dictatorship in Venezuela[182] and Miguel Diaz Canel in Cuba,[183] the return of Evo Morales' MAS party in Bolivia under that nation's new President Luis Arce,[184] and the radicalization of the leftist Peronist regime of Alberto and Cristina Fernandez in Argentina.[185] The trend to the left could further deepen the prospect of populist Pedro Castillo winning the June 2021 second round of Peru's presidential elections.[186] Possible victories by leftist candidates in Honduras' November 2021 elections,[187] in Colombia's May 2022 elections,[188] and Brazil's October 2022 elections,[189] give the PRC even more opportunities to expand its commercial and other influence in the region in the near future.

As Latin America economically recovers from COVID-19 in late 2021 and early 2022, it is also possible that European and other Western companies will seek to sell off assets in poorly performing markets like Latin America and the Caribbean to shore up their positions globally, as some did after the 2008 financial crisis. As then, such a post-Pandemic asset selloff by Western companies of their interests in Latin America will set the stage for PRC-based companies with backing from the Chinese state and access to PRC financing, to expand their position in the region through acquisitions.[190]

As a cautionary note, the Chinese advances that I have described, including the expanded physical presence of PRC-based companies, will occur in the context of a Latin America with higher rates of poverty, crime, desperation, and social unrest,[191] meaning that such an expanded presence will likely generate unprecedented new challenges for both new and established PRC-based companies operating across the region. Such problems and pushback will give the US and like-minded governments both imperatives and opportunities to act.

Recommendations

Based on the nature of the challenge presented by China's advance, as well as considerations regarding US relationships with the Latin America and Caribbean governments involved, I recommend the following for an effective US response:[192]

First, to the extent possible, the US should avoid attempting to explicitly block Latin American and Caribbean states from economically engaging with the PRC. Doing so would be both ineffective, and likely counterproductive. It would fuel historically-based resentment in the region over US interference with the "sovereignty" of its government's decisions, while contributing to impressions that the US was prejudicing the region's development to further its own security interests.

As the overall "strategic concept" for the US pushback against malevolent PRC advances in the region, our government should pursue a well-resourced, thoughtful, integrated effort, in coordination with allies, focused not on blocking the region's relationship with China, but instead, helping the region to engage with it and its companies in a safe, fair, fashion that allows the region to get the most out of those interactions. In keeping with this principle, the focus of the US approach should not be to inhibit the region's engagement with the PRC (except in select sectors which I will discuss). Rather, the US should focus on strengthening transparency and rule of law, and the institutional capabilities of Latin American and Caribbean governments for dealing with the PRC and its companies on a level playing field, in an open fashion. Such a focus will allow Latin America and Caribbean governments to pursue the benefits of trade with and investment from Chinese companies, in a way that best advances both the region's interests and US equities, while inoculating our neighbors in their engagement, against the more predatory aspects of engagement with the PRC.

The tools involved in pursuing such a strategy are familiar. They include expanded and enhanced DoD Security Assistance programs, USAID, and State Department-led programs, supported by other US government agencies, to fortify planning, analysis, enforcement and other capabilities in regional government, as well as support for anti-corruption efforts and associated legal and institutional reforms and training. They also include expanded efforts to channel more responsible private sector funds to the region via entities such as the Development Finance Corporation, among others. Doing so effectively, however, should be complimented by larger, more stable program budgets, to support coherent planning and execution. The US should also rethink some of the conditions imposed on US government programs which decrease their flexibility and effectiveness. At the programmatic level, it will also require greater coordination across agencies in program planning, and creative thinking about how traditional capabilities such as DoD Civil Affairs and Psychological Operations, or USAID-funded programs are used.

As I noted previously, in select sensitive areas such as telecommunications, smart cities, and some kinds of ecommerce where domination of the network by untrusted Chinese suppliers would put at risk the ability of the government to make confidential, sovereign decisions, or put the ability of private investors to protect their intellectual property at risk, the US should use its resources, in coordination with partners in the region, and where appropriate, with like-minded European and Asian governments, to restrict Chinese initiatives. Doing so should involve communicating clearly why the US will not be able to provide certain types of cooperation and support over such untrusted networks. It should also involve educating partners regarding how allowing such network vulnerabilities will also inhibit private investment in the country, where corporations cannot be secure in the confidentiality of their operations and intellectual property from those who would use that information against them for commercial purposes. Effective US pushback in such sensitive areas, however, also necessitates that the US applies greater resources and coordinates with partners to provide viable alternatives to the Chinese solutions we ask them not to choose.

The U.S. must improve its public diplomacy and other communication efforts to persuade Latin American and Caribbean partners to follow principles of transparency and rule of law. This includes not only more effectively making the intellectual case partner nation leaders, but also engaging with their citizens. Such messaging should focus not only on "bad behaviors" by the PRC and their companies, but also the particular importance, when dealing with the Chinese, of openness, effective planning, and open competition. Latin American populations understand well the propensity of some of their elites, when given the opportunity, to accept deals that benefit themselves and their foreign partners at the expense of the country. The US needs better messaging to Latin American publics that motivate and empower them to resist when their elites pursue non-transparent self-serving deals with the Chinese that provide only superficial, short-term benefits, while leaving the country more indebted, more corrupt, with the wealth of the country and the engine for generating it more in the hands of Chinese companies and cooperative local elites.

As a component of more effective messaging, U.S. government organizations, in partnerships with think tanks and other academic and professional entities, should increase funding for programs to collect publicly shareable empirical data on the behavior of PRC-based firms, vis-à-vis their Western counterparts, including their contract performance, relations with local governments and communities, and adherence to local labor, environmental and other laws. Similarly, we should expand efforts to collect, analyze, and communicate data on the impact of deepening engagement of countries in the region with the PRC, on their development, political and institutional health. We should combine such expanded data collection with more effective, coordinated, and well-targeted public diplomacy to communicate the results, including through entities such as the U.S. State Department Global Public Affairs, and Global Engagement Center, among others.

Beyond specific PRC-focused activities, it is imperative that the US do better in maintaining attention to, and resources for the region. In that regard, we must do more to leverage the power of the private sector, including private investment to the region, complimented by targeted government assistance, in order to demonstrate that following the principles of transparency, democracy, and the rule of law pays off over the long run for the success of the government, and the well-being of its people. Doing so not only provides an alternative the more predatory and threatening subsets of Chinese deals, but it is necessary for the credibility of our messages about the transparency and rule of law that limit the PRC's advance, and helps prevent the region from turning to populist solutions that throw the door open to the worst of China's proposals and ambitions.

Finally, in our foreign policy, we need to think more about tradeoffs between short-term imperatives and long-term objectives. There are many corrupt, anti-democratic, or otherwise offensive behaviors to be found among governments in the region that the U.S. should not tolerate and should work to change. But we must think more strategically about when, how, and how hard we push back, so that in sanctioning US friends for bad behaviors, we do not merely drive them into consolidating authoritarian regimes which are even more isolated from the West and dependent on the Chinese, whose money empowers those regimes to be as corrupt or despotic as the want, so long as their dealings economically benefit the Chinese and do not challenge PRC interests.

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