

# **Testimony before the U.S.-China Economic and Security Review Commission**

**Hearing on “China in Latin America and the Caribbean”**

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Thursday, May 20, 2021

Co-Chairs, Chairman Carolyn Bartholomew and Commissioner Derek Scissors, thank you for inviting me to appear before you today to discuss China's Economic Engagement in Latin America and the Caribbean. I have been asked to comment on the objectives of Latin American and Caribbean national governments and subnational governments regarding relations with China, on how Latin American and Caribbean governments and the public perceive China's presence in the region, and on how has COVID-19 impacted regional perceptions of China. I respond to these three topics based on evidence gathered during my research and provide policy recommendations for Congressional action.

### **Objectives for Latin American and Caribbean national governments and subnational governments regarding relations with China**

There are two major periods that are important for governments in regard to their relations and objectives with China. The first period is pre-2017, and the other post-2017.

#### *Pre-2017 period*

I would argue that between 2001 and 2017, governments were focused on cultivating strong relations with China, especially when they were interested in attracting investments and credits that they no longer received from the US. This required learning how to engage with Chinese companies, banks, and diplomats. Learning was a key objective from governments in this period. For example, they were focused in understanding the difference between private and state-owned Chinese companies, between policy banks and the "big four", or understanding how large Chinese state-owned enterprises (especially those under the wing of SASAC) behave in public biddings compared to its western counterparts. There was a great effort on the part of national and sub-national governments to train people who spoke Mandarin, who had lived in China, and who knew how to negotiate with Chinese counterparts. Despite this effort, I would argue that almost all governments, to this day, are far behind in having a technocratic staff that knows how to engage with Chinese counterparts.

Since 2001, the United States gradually ceased to be seen by governments as the sole provider of global public goods in the region. In this period, China replaced the United States in the provision of many of these goods, such as credit to finance infrastructure, investment, and scientific and technological cooperation. Recent scholarship would refer to this phenomenon as "goods substitution"<sup>1</sup>. My work shows that during this period China filled a vacuum left by the United States in the region, so that many governments saw in China an alternative source of public goods that the United States had historically provided.<sup>2</sup>

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<sup>1</sup> Andersen, M. S., Cooley, A., & Nexon, D. H. (Eds.). (2021). *Undermining American Hegemony: Goods Substitution in World Politics*. Cambridge University Press.

<sup>2</sup> See Urdinez, F., Mouron, F., Schenoni, L. L., & de Oliveira, A. J. (2016). Chinese economic statecraft and US hegemony in Latin America: an empirical analysis, 2003–2014. *Latin American Politics and Society*,

However, in this period there was room for maneuvering, in the sense that countries could have very good relations with both China and the U.S. without one conditioning the other. This, coupled with the commodity boom, allowed local governments to deepen economic ties with China at a relatively low geopolitical cost.

The national governments that were more successful in attracting Chinese investment and credit in the pre-2017 period were those under less hegemonic influence from U.S. China was accommodating its behaviour to the changing strategic environment in Latin America, avoiding engaging with those countries in which the United States had a vested interest. The governments seeking to detach from the Washington Consensus –and thus weakening the influence of Western-led institutions, such as the IMF or the World Bank—were those which received more capital from China, such as Argentina, Brazil, and Venezuela.

### *Post 2017 period*

From 2017 onwards, with the foreign policy shift made by US when Donald Trump assumed the presidency, the relationship of national and subnational governments with China changed. The relations with China ceased to be free of geopolitical costs, as they began to incorporate the strategic calculation of how the United States would react to certain agendas. During the Trump administration, the US government –which for more than 15 years passively watched as China deepened its ties with Latin America—suddenly tried to contain these ties with a mix of positive incentives (e.g., the TAIPEI act or the creation of the Development Finance Corporation) and negative incentives (e.g., openly threatening the governments that negotiated 5G infrastructure with Huawei).

Meanwhile, China's strategy to the region gradually went from accommodation to contesting the United States' interest in the region, further affecting the foreign policy of Latin America by employing economic statecraft. The empirical evidence from analysing U.S. hegemonic influence, the One China Policy response<sup>3</sup>, and the effect of strategic partnerships<sup>4</sup>, suggests that since 2017 China put forth a contesting policy by actively engaging with pro-Chinese domestic constituencies. This was coupled with more assertive Chinese

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58(4), 3-30 and Rodrigues, P., Urdinez, F., & de Oliveira, A. (2019). Measuring international engagement: systemic and domestic factors in Brazilian foreign policy from 1998 to 2014. *Foreign Policy Analysis*, 15(3), 370-391.

<sup>3</sup> Long, T., & Urdinez, F. (2021). Status at the margins: why Paraguay recognizes Taiwan and Shuns China. *Foreign Policy Analysis*, 17(1), oraa002.

<sup>4</sup> Strüver, G. (2017). China's Partnership Diplomacy: International Alignment Based on Interests or Ideology. *The Chinese Journal of International Politics*, 10(1), 31-65.

ambassadors, ready to criticize politicians who dared to speak out on Hong Kong, Taiwan, or ethnic minorities.<sup>5</sup>

In this period, it has become evident that pro-Chinese domestic constituencies are emerging within countries whose interests run counter to those of anti-Chinese domestic constituencies. These constituencies are not merely divided along ideological lines, but mainly along economic lines. For example, in a recent paper that studies whether localized trade shocks from China influence Brazilians' views on integration with the country, we find great heterogeneity across the country, depending on the comparative advantages of each municipality. For example, legislators representing localities hurt by import shocks tend to hold negative views about economic ties with China, while legislators who benefit from exports do not hold a positive view.<sup>6</sup>

I would argue that the Chinese approach to the Latin American and Caribbean region during the Covid-19 pandemic has made this strategy of targeting pro-China domestic constituencies more evident.<sup>7</sup> In a case study of the Chilean-China relations during the pandemic, I show evidence that pro-Chinese domestic constituencies were a key variable in understanding Chile's success in attracting China's "mask diplomacy" donations.<sup>8</sup> In another recent study between February 11 and June 20, 2020 of the "mask diplomacy" in 33 countries in the region, we find that, donations made by China's central government, Chinese companies, cities and foundations, although seemingly uncoordinated, were strongly affected by two political determinants, namely the recipient's partnership status with China and the One China Policy.

### **Perceptions of problems generated by China's activities in the region**

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<sup>5</sup> CNN Chile (2019, August 4). "Xu Bu, embajador de China, insiste en críticas a Jaime Bellolio: 'Ha difamado y calumniado gravemente a nuestro país'". Accessible at [https://www.cnnchile.com/pais/embajador-china-jaime-bellolio-difamado\\_20190904/](https://www.cnnchile.com/pais/embajador-china-jaime-bellolio-difamado_20190904/) and Abrantes, T. (2018, March 16). "A República Popular da China não gostou desta viagem de Bolsonaro". *Exame*. Accessible at: <https://exame.com/brasil/a-republica-popular-da-china-nao-gostou-desta-viagem-de-bolsonaro/>

<sup>6</sup> Campello, D., & Urdinez, F. (2021). Voter and Legislator Responses to Localized Trade Shocks from China in Brazil. *Comparative Political Studies*, 54(7), 1131-1162.

<sup>7</sup> "China's Foreign Aid Political Drivers: Lessons from a Novel Dataset of Mask Diplomacy in Latin America During the COVID-19 Pandemic", forthcoming in *Journal of Current Chinese Affairs*: [https://www.researchgate.net/publication/344035590\\_China's\\_Foreign\\_Aid\\_Political\\_Drivers\\_Lessons\\_from\\_a\\_Novel\\_Dataset\\_of\\_Mask\\_Diplomacy\\_in\\_Latin\\_America\\_During\\_the\\_COVID-19\\_Pandemic](https://www.researchgate.net/publication/344035590_China's_Foreign_Aid_Political_Drivers_Lessons_from_a_Novel_Dataset_of_Mask_Diplomacy_in_Latin_America_During_the_COVID-19_Pandemic)

<sup>8</sup> Urdinez, F. (2021). *China's Improvised Mask Diplomacy in Chile*. Carnegie Endowment for International Peace. Accessible at: <https://carnegieendowment.org/2021/04/06/china-s-improvised-mask-diplomacy-in-chile-pub-84251>

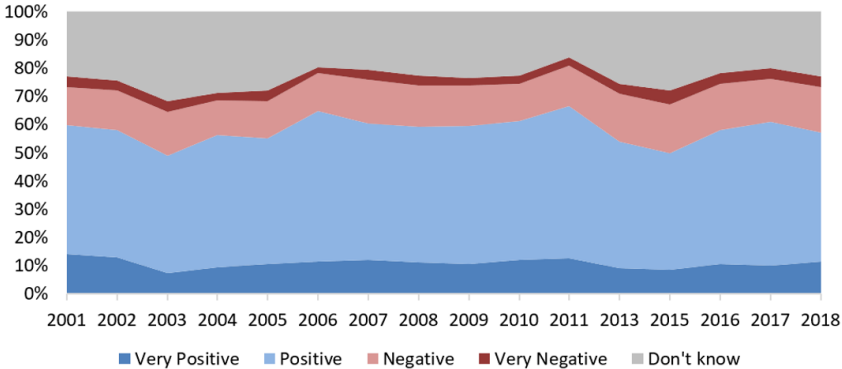
I believe that in the period between 2001 and 2017 the main concern of national governments towards China was the deepening of excessive economic dependence and the risk of re-primarisation of economies. These effects have been well documented in the recent work of Carol Wise<sup>9</sup> and Rhys Jenkins<sup>10</sup>, as well as in previous work by Kevin Gallagher and Roberto Porzecanski<sup>11</sup>. This phenomenon is so strong, that Stallings has suggested that it reproduced a center-periphery pattern as described by the dependency theory.<sup>12</sup>

Since the beginning of the Trump administration, however, I think a new concern has been that the U.S.-China rivalry has generated a perception that governments should 'pick a side'. This idea assumes that deepening relations with one country necessarily implies having to distance oneself from the other. This concern did not arise spontaneously, but was conveyed by the U.S. government, I believe, as a strategy to contain China's advance in the region.

**Public opinion towards China**

When looking at averages for the period between 2001 and 2017, opinion towards China has been mostly favourable and very stable over time. According to data from Latinobarometer<sup>13</sup>, negative opinion towards China has remained between 10% and 15% over this period (Figure 1).

**Figure 1. Public opinion towards China in 18 Latin American and Caribbean countries**



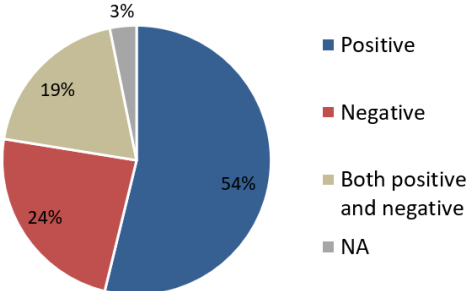
Note: Based on surveys in 18 countries, over 18 years, with an average of 20,000 respondents per year.

<sup>9</sup> Wise, C. (2020). *Dragonomics*. Yale University Press.  
<sup>10</sup> Jenkins, R. (2018). *How China is reshaping the global economy: Development impacts in Africa and Latin America*. Oxford University Press.  
<sup>11</sup> Gallagher, K., & Porzecanski, R. (2010). *The dragon in the room*. Stanford University Press.  
<sup>12</sup> Stallings, B. (2020). *Dependency in the Twenty-First Century?: The Political Economy of China-Latin America Relations*. Cambridge University Press.

<sup>13</sup> Latinobarometer Project. Accessible at <https://www.latinobarometro.org/lat.jsp>

However, Latin Americans differentiate between China’s rise as an economic phenomenon and China’s rise as a geopolitical phenomenon. For example, in 2018, The Americas and the World<sup>14</sup> project asked, “In your opinion, if China's economy were to grow to be as large as that of the United States, do you think this would be positive, negative or equally positive and negative for the world?” A majority (54%) responded that this would be positive (Figure 2).

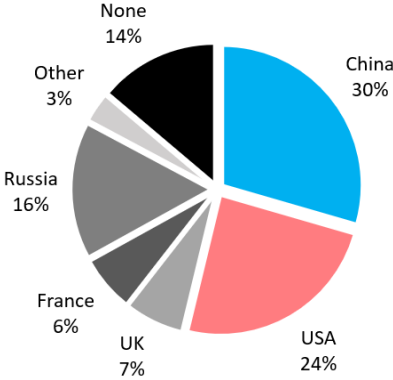
**Figure 2. Latin Americans’ views on China’s economic rise**



*Note:* N=5629. Countries: Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, and Peru. Year: 2018.

At the same time, in the same survey, respondents were asked which country in the world they trusted the least to maintain peace in the world. China was the country of choice (30%), ahead of the U.S. (24%) and Russia (16%) (Figure 3).

**Figure 3. Latin Americans’ opinion on which country poses the greatest risk to world peace**



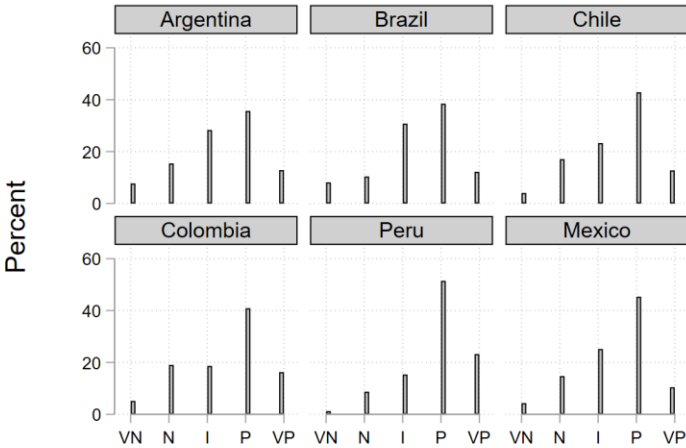
*Note:* N=5629. Countries: Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, and Peru. Year: 2018.

Thus, Latin Americans distinguish, on the one hand, the economic benefits of China’s rise from its political risks. This differentiation between, the benefits of China’s economic

<sup>14</sup> Las Americas y el Mundo. Accessible at <https://www.lasamericasyelmundo.cide.edu/>

growth in the region (its role as goods substitute), and the political risks that China’s hegemonic rise could produce, has been accentuated in surveys that I have conducted in 2020 and 2021. An online survey conducted in May 2021 shows that a majority of respondents welcome the fact that Chinese companies have been among the main investors in the region over the past ten years (Figure 4).

**Figure 4. “What do you think of the fact that Chinese companies have been among the largest investors in Latin America in the past ten years?”**



Note: N= 1586, May 2021. VN=“very negative”, N=“negative”, I=“indifferent”, P=“positive”, VP=“very positive”.

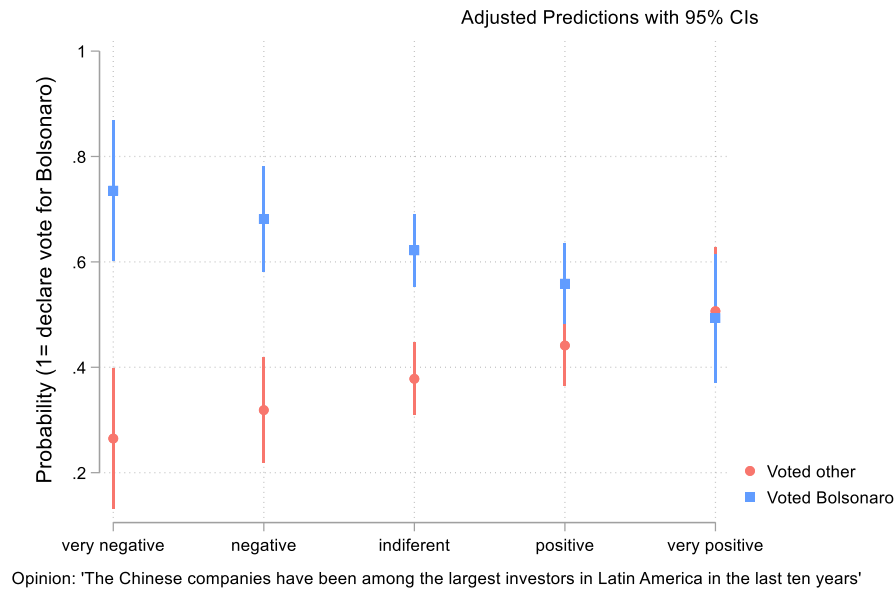
However, within each country there are huge variations depending on how much the individual considers China a threat. For example, in Brazil, we can see that this response varies enormously depending on whether the person declares having voted for Jair Bolsonaro or for another candidate (Figure 5). Recall that the election of Jair Bolsonaro in 2018 offers a unique opportunity to study the effects of voters’ growing fear of the “China Threat”, present in the rhetoric among right-wing populist politicians who blame many of the ills of economic globalization on China. During his presidential campaign, Bolsonaro accused China of “buying Brazil”<sup>15</sup> and the acquisition of a niobium mine by a Chinese firm became one of the emblems of his campaign.<sup>16</sup> Bolsonaro’s “China threat” rhetoric was not only a campaign strategy but, arguably, also part of his foreign policy afterwards<sup>17</sup>.

<sup>15</sup> Reuters. (2018). “A China está comprando o Brasil”, repete Bolsonaro em discurso a empresários em SP. *Noticias Agrícolas*. Retrieved from <https://www.noticiasagricolas.com.br/noticias/politica-economia/215899-a-china-esta-comprando-o-brasil-repete-bolsonaro-em-discurso-a-empresarios-em-sp.html#.W74QyPIRepo>

<sup>16</sup> Pierry, F. (2018). Bolsonaro teme o avanço chinês no Brasil. Ele está certo? *Gazeta do Povo*. Retrieved from <https://www.gazetadopovo.com.br/eleicoes/2018/bolsonaro-teme-o-avanco-chines-no-brasil-ele-esta-certo-4jhllfsj7jaowe4tfsm3e83e>

<sup>17</sup> During his campaign Bolsonaro visited Taiwan, breaking the tacit rule of the One-China policy, generating a harsh diplomatic response from China. Anecdotal evidence of hostility towards China

**Figure 5. Predicted probability of electoral support for Bolsonaro on opinion towards Chinese FDI in Brazil**



Note: N= 221, May 2021.

In conclusion, I believe that China is viewed very positively when it comes to its economic effects on the region. However, in recent years, respondents show that this positive view does not automatically translate into believing that China is a desirable country to deepen political relations with.

*The impact of COVID-19 on the perceptions of China in Latin America*

Finally, I would like to share a few findings from a survey panel on a sample of 2,850 Latin Americans in May 2020 and May 2021. While the evidence is preliminary, as it is still undergoing a blind peer review, I think the results are useful in shedding light on the effects of COVID-19 on the perceptions of China in Latin America.

In this survey, people were asked what was the first thing that came to mind when a country was mentioned. In May 2020, in all surveyed countries the word "virus" or "COVID 19" was the most frequent word associated to China (Figure 6).

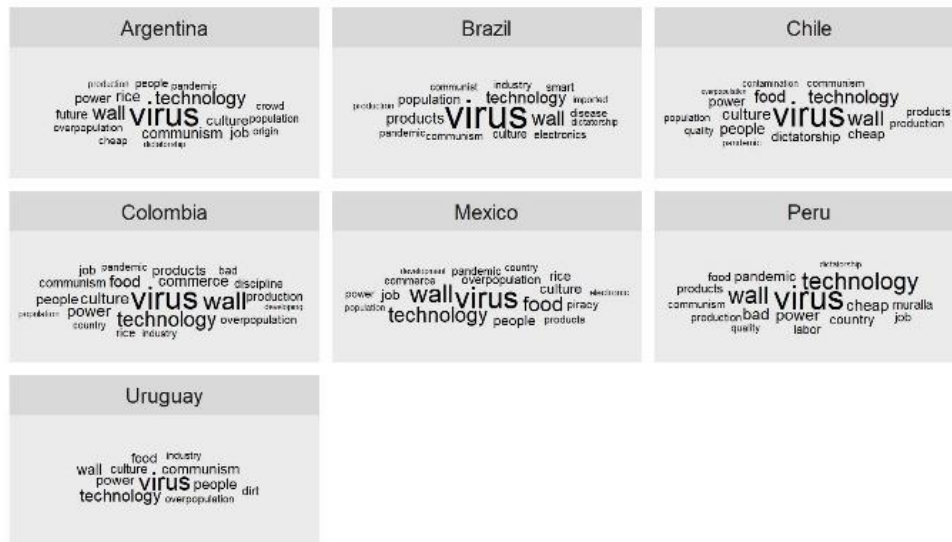
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continued after he was elected, even when the business associations demanded a more pragmatic stance towards the country's main economic partner. After he became elected president, Bolsonaro appointed as Foreign Affairs minister the openly Sinophobic diplomat Ernesto Araújo, who, for instance, declared in 2020 that the COVID-19 pandemic was a global communist conspiracy led by China to state a New Global Order.



**Figure 6. First word that came to mind when China was mentioned in 2020, by country**

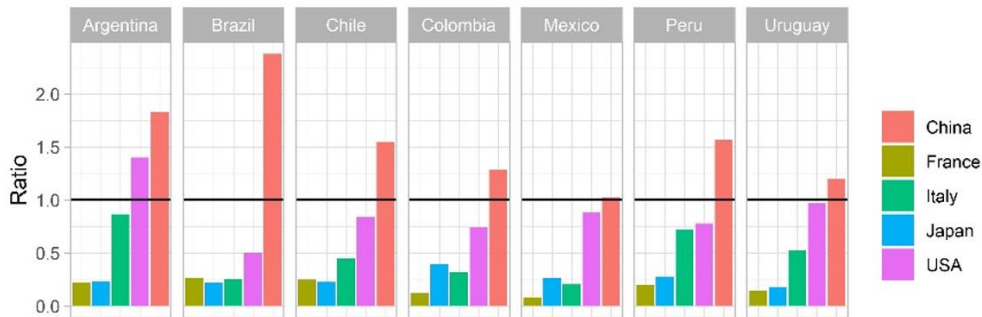
Write the first thing that comes to mind when you think of China



Note: Survey carried out in May 2020. N=2850.

Through a sentiment text analysis, in which a positive or negative emotion is assigned to each word, we can see that compared to "gut reactions" towards other countries, the ratio of negative to positive words towards China is higher than 1 (Figure 6). In other words, it was more frequent for a person to refer to China using a term that evoked a negative emotion than one that evoked a positive emotion.

**Figure 6. Ratio of negative to positive sentiments, by country.**



Note: N= 3162. Year: 2020. Analysis done using *tidytext* in R, with the "NRC" dictionary.

What is surprising, moreover, is that the association of China with COVID-19 has persisted over time, as when we repeated the survey in May 2021 in a sample of 1,900 individuals who had responded to the survey in 2020, the words most frequently used to refer to China

were still those related to the pandemic (see Figure 7)<sup>18</sup>. In my opinion, the reputational damage that the pandemic has done to China in Latin America is enormous.

**Figure 7. First word that came to mind when China was mentioned in 2021**

Write the first thing that comes to mind when you think of each of these countries: China



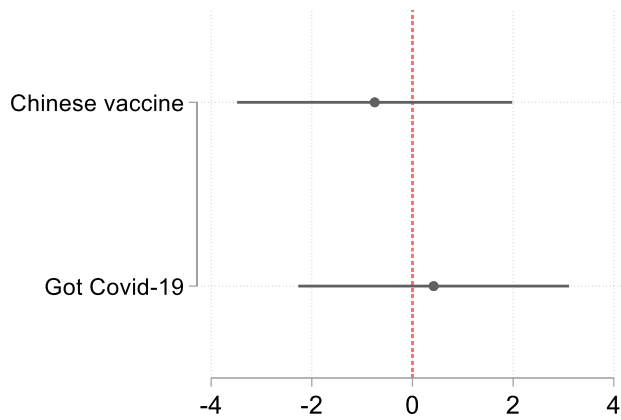
*Note:* Survey carried out in May 2021. N=1900.

What is the effect of the Chinese vaccine on opinion towards China? Are those who have had Covid-19 more likely to rate China negatively? Results show that those individuals that had COVID-19 or received a Chinese vaccine (from Sinovac or Sinopharm) were not relevant factors that significantly changed the score given to China (from 1 to 100, with 100 being very positive) between May 2020 and May 2021 (Figures 8a). When we look at the variation between countries, this result holds true for all countries (Figure 8b). Again, more tests need to be done to confirm this data, but it serves as preliminary evidence that the pandemic has negatively affected China’s image in the region, and that this remains the case, even among those who received a vaccine from a Chinese laboratory.

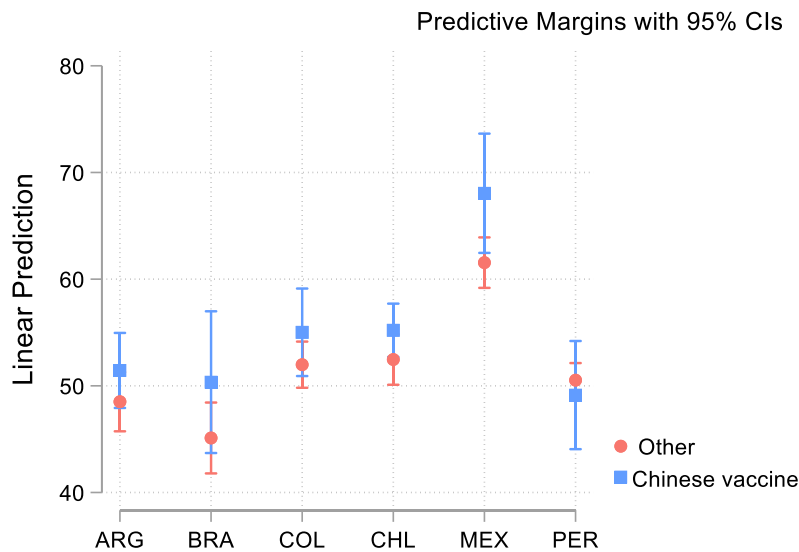
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<sup>18</sup> In this figure I am aggregating the responses from all countries.

**Figure 8a. One-year change in the appraisal of China among those who got Covid-19 and who got a Chinese vaccine**



**Figure 8b. One-year change in the appraisal of China among those who got Covid-19 and who got a Chinese vaccine, by country**



**Policy recommendations**

The United States’ government should understand that its greater cultural and geographic proximity to Latin America and the Caribbean, are not sufficient reasons to maintain its hegemonic influence over the region. Hence, in order to regain part of the role it had before 2001, the U.S. should offer the public goods it once did. China has done an excellent job in filling the vacuum left by the U.S. using its economic statecraft. The United States should

emulate this strategy by offering infrastructure financing, humanitarian assistance, scientific cooperation agreements, trade agreements (i.e. TPP), among others. As argued by Cooley et al. the U.S. should bear in mind that “goods substitution, [...] constitutes one of the major threats to contemporary international order. Although states may not always intend to “hollow out” liberal order, asset substitution often undermines its rules and norms. It does so *with* or *without* directly challenging the power-position of the hegemon”.<sup>19</sup>

In addition, I suggest that the U.S. ends the policy of forcing countries to "pick a side", as seen in the State Department’s attitude towards the possibility of Huawei being chosen to deploy 5G technology. This strengthens China’s position in the region, as it is the one currently offering more public goods.

Finally, for the remainder of 2021 and 2022, there is an urgent need to end economic nationalism during the pandemic. For example, for the U.S. to have surplus vaccines and use them to vaccinate tourists<sup>20</sup>, instead of sending them to countries that do not have enough stock, shows a serious lack of hemispheric leadership regarding the importance of global public goods provision. The same could be said of the United States’ attitude regarding the provision of inputs such as masks and gloves, which generated unease even in other developed countries<sup>21</sup>. However, the U.S. support for the release of vaccine patents is a positive sign in this direction.

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<sup>19</sup> Cooley, A., Nexon, D. H., de Carvalho, B., & Leira, H. (2015). *Undermining Hegemony?: Building a Framework for Goods Substitution*. Norwegian Institute for International Affairs (NUPI), p. 1.

<sup>20</sup> Honan, K. (2021, May 6). “New York City to Offer Covid-19 Vaccines to Tourists.” *The Wall Street Journal*. Accessible at <https://www.wsj.com/articles/new-york-city-to-offer-covid-19-vaccine-jabs-to-tourists-11620335843> and Aaron Leibowitz, A, and Tavel, J. (2021, April 27). “North Miami Beach Apologizes After Mayor’s Vaccine Invite Ripples Across Latin America”. *The Miami Herald*. Accessible at: <https://www.miamiherald.com/news/local/community/miami-dade/north-miami/article250953699.html>

<sup>21</sup> BBC News (2020, April 4). “Coronavirus: US accused of ‘piracy’ over mask ‘confiscation’”. Accessible at <https://www.bbc.com/news/world-52161995>