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China's Strategic Approach in Latin America and the Caribbean
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I would like to thank the Hearing Co-Chairs, Chairman Carolyn Bartholomew and Commissioner Derek Scissors, and the other esteemed committee members for the opportunity to testify on China's approach at present to engagement with Latin America and Caribbean (LAC).

The China-LAC relationship has evolved considerably since Chinese companies and banks began engaging the region more extensively in the mid-1990s. Trade in goods still underpins many of China's relationships in the region, but Chinese actors are also increasingly active across a wider range industries—whether in the development of smart cities, in the provision of high-tech and other services, and in renewable energy, among other areas.. Chinese diplomatic and quasi-diplomatic outreach in LAC has also expanded considerably, no doubt boosted by the Belt and Road Initiative's (BRI) continued focus on people-to-people connectivity.

The nature of China's evolving engagement with LAC is of considerable interest at this particular juncture in the relationship, given the many economic and political challenges that the region will face in a post-Covid-19 environment. On the one hand, Chinese trade in goods has yet again propped up South American governments—this time amid Covid-19-related economic turmoil. China will probably also play an important role as an investor in the region at a moment when LAC nations will struggle to attract much-needed capital. But more Chinese investment in sectors where China already has a considerable footprint, such as electricity transmission, has prompted some debates in parts of the region about national security and sovereignty. Chinese investment in the region's digital infrastructure is quite likely post-Covid-19, and will ideally boost economic recovery in parts of the region, but some of China's investments in this space have the potential to erode already fragile democratic institutions.

The following are some observations of the nature and effects of China's recent engagement with the LAC region, based on findings from Inter-American Dialogue analysis and other recent findings on the topic. I also offer some thoughts on prospects for future Chinese activity in the region, and some recommendations for a US government response, bearing in mind the interests and concerns of regional stakeholders.

1. China's approach to engagement with the Latin American and Caribbean (LAC) region is characterized by considerable opportunism and flexibility, with Chinese

companies, banks, and diplomats identifying and pursuing economic and political ties wherever and however possible—but also taking into account the various political, social, and regulatory obstacles that they’ve encountered in the region in recent years.

At the onset of enhanced relations in the mid-1990s, Chinese companies and banks necessarily focused their attention on those LAC countries with an ideological affinity toward China, that were in considerable need of Chinese finance, or where ties were facilitated by China’s allies in the region. Following investments by China’s national oil companies in the country in the late 1990s, former China Development Bank Chairman, Chen Yuan, saw an occasion for enhanced engagement with Venezuela, through tied, oil-backed loans. Chen’s initial encounter with Hugo Chavez was also facilitated by Cuba’s Fidel Castro.¹

But over the past two decades, Chinese entities have demonstrated an ability to engage with most every country in LAC, by employing different strategies in different settings. In some cases, deals are still identified and struck according to the preferences of LAC presidents and other political leaders. China’s negotiations with the FMLN in advance of El Salvador’s 2019 presidential election are a prominent example.

In other instances, China has sought to bypass central government inefficiencies by engaging more extensively at provincial/state level. This is true of Argentina, where China Eximbank determined to lend to the government of Jujuy province rather than to Buenos Aires in support of a sizeable solar project, having noted effects of political transition in the country on other Chinese infrastructure projects.² And, in November 2019, China’s Ambassador to Mexico, Zhu Qingqiao, explained to Yan Qifa, CEO of China-Latin America Cooperation Fund, that Mexican President Andrés Manuel López Obrador’s efforts to achieve a “fourth transformation” had “led the federal government become more conservative, financial support to tighten, privatization projects to be blocked, and forced suspensions or reorganizations of existing deals.” In the current Mexican political environment, the ambassador suggested engagement at the local rather than central government level.³

Chinese companies are also increasingly active in those countries that require public tenders for infrastructure and other projects. They have successfully bid on numerous energy, electricity transmission, transport infrastructure, and other deals, whether alone, in consortium with other Chinese companies, or in partnership with international firms.

¹ “Chen Yuan: Witnessing the glory of the country’s 40 years of financial reform,” Sina Financial-We Media Comprehensive, 6 May 2019, <https://finance.sina.com.cn/money/bank/yhpl/2019-05-06/doc-ihvhiqax6946842.shtml>.

² Margaret Myers, “Going Local: An Assessment of China’s Administrative-Level Activity in Latin America and the Caribbean,” *Inter-American Dialogue*, December 2020, <https://www.thedialogue.org/wp-content/uploads/2020/12/Going-Local-Chinas-Administrative-Level-Activity-in-LAC.pdf>

³ “Yan Qifa, CEO of China-Latin America Cooperation Fund, met with Zhu Qingqiao, ambassador to Mexico,” CLAC Fund web site, November 18, 2019, <http://www.clacfund.com.cn/common/index.aspx?nodeid=34&page=ContentPage&contentid=323>

So, rather than the sort of bullish, one-size-fits-all approach often employed at the onset of enhanced engagement, which former Chinese Academy of Social Sciences scholar Sun Hongbo described years ago as “swarming,” China has, over time, applied an increasingly diversified approach to engagement with the region. As a result, Chinese activity in Chile, for instance, where China competes actively and openly in public tenders, varies considerably from Chinese engagement with Venezuela, where decisions have often been made in direct consort with Maduro.

Also, as concerns China’s apparent opportunism in LAC—academic studies have found that China views weak US influence as an opportunity to engage the region more extensively. Urdinez, et al., found evidence in 2016 that China’s state-influenced actors engaged more extensively in countries where US influence was relatively weak. It may be the case, they posit, that LAC’s interest in economic diversification is driving Chinese engagement, or that Chinese investors are simply following a path of least resistance in LAC. They believe, however, that China views a weakening US position in the region as an opportunity to contest US hegemony through economic statecraft, whether in support of economic or foreign policy ends.⁴

Others argue that China’s overseas engagement is intended to balance power politics in parts of the world where the US plays a relatively dominant role. In their study of Chinese engagement with MENA, Ghiselli and Giuffrida (2020) suggest that China has adopted a strategy of offshore balancing, using both diplomatic and economic means to undermine the position of the US. By leveraging “a strong economy, its permanent seat in the UN Security Council, and the fluidity of the regional geopolitical landscape,” China maximizes the effectiveness of its own actions while also minimizing the risk that the US and other powers could pose to Chinese interests.⁵

A review of China’s investment, trade, and financial activity in LAC and of China’s economic policy priorities suggests that China’s activity in the LAC region is still mostly motivated by China’s own growth-related objectives, as well as Beijing’s food and energy security calculus. Even so, there is plenty to suggest that China’s economic activity throughout the region—especially extensive trade—is already “balancing” US and other interests in LAC, whether intentionally or not. Competing interests affect not only the US and other external actors, of course, but also LAC governments, which have lamented the need to increasingly choose between Chinese engagement and US interests.

2. China’s diplomatic outreach in LAC is increasingly wide reaching, but with varying degrees of impact.

China has pursued what I call a “multi-tiered” approach to diplomatic engagement with the region, to generate new pathways and opportunities for commercial deal making and

⁴ Urdinez, Francisco ; Mouron, Fernando ; Schenoni, Luis L ; de Oliveira, Amâncio J “Chinese Economic Statecraft and U.S. Hegemony in Latin America: An Empirical Analysis,” 2003-2014 Latin American politics and society, 2016-12, Vol.58 (4), p.3-30.

⁵ Andrea Ghiselli & Maria Grazia Erika Giuffrida (2020), “China as an Offshore Balancer in the Middle East and North Africa,” *TheRUSI Journal*, 165:7, 10-20.

political exchange. In addition to engagement at the regional level, through platforms such as the China-CELAC Forum, and a continued focus on bilateral engagement, activity is also increasingly evident at the local level in LAC.

At present, an extensive array of Chinese actors—commercial and public sector, central government-affiliated and provincial—is engaging with LAC localities when and where opportunities present themselves, though generally with these actors’ own missions and China’s broader economic and political directives in mind. Chinese embassies and the China Council for the Promotion of International Trade (CCPIT) have worked hard to identify investment opportunities for Chinese companies and LAC public and private sector leaders with an interest in stronger ties to China. The Chinese People’s Association for Friendship with Foreign Countries (CPAFFC) has developed so-called “twinning” relationships across the entire region, pairing Chinese and LAC cities and provinces in often-productive partnerships. The Overseas Chinese Affairs Office (OCAO), which was absorbed by the United Front Work Department in 2018, worked for over a decade with overseas Chinese communities to shape views of China and enable investment and commercial exchange. Companies themselves are also increasingly active at the subnational level, often through local offices.⁶

Despite growing, multi-tiered outreach, the effects of China’s diplomatic engagement vary quite considerably on a case-by-case basis. Engagement at the regional level, whether through the China-CELAC Forum, and institution of China’s own design, the Organization of American States (OAS), or the Inter-American Development Bank (IDB) hasn’t been as clearly impactful as in Africa, for example, where China engages through FOCAC and in cooperation with the African Union. Some Chinese scholars have suggested that the effectiveness of the China-CELAC Forum is limited by the region’s age-old difficulties with multilateralism. Wang Huizhi of the China Institute of International Studies (CIIS) noted in 2018 that the Forum is restrained by “diversified appeals for overall cooperation with China and their lack of coordination.”⁷ Engagement through regional institutions nevertheless yields some benefits for China, as well as for LAC nations, presumably. Having a front-row seat in regional organizations is instructive, considering that all grapple in some form with LAC’s rapidly evolving political and economic landscape. Debate in these institutions, even on internal policy, sheds light on countries’ policy priorities and diplomatic dispositions.⁸ China has also worked through regional institutions in recent years to highlight its own development concepts, including 19th Party Congress highlights and BRI-related commitments.

The effectiveness of China’s bilateral outreach in LAC depends in large part on the interests and political proclivities of individual LAC governments, though most have

⁶ Margaret Myers, “Going Local: An Assessment of China’s Administrative-Level Activity in Latin America and the Caribbean,” *Inter-American Dialogue*, December 2020, <https://www.thedialogue.org/wp-content/uploads/2020/12/Going-Local-Chinas-Administrative-Level-Activity-in-LAC.pdf>

⁷ Huizhi Wang, “Achievements, Problems and Prospects of the China-CELAC Forum,” *Contemporary World*, 2018(09), <https://www.cnki.net/kcms/doi/10.19422/j.cnki.ddsj.2018.09.012.html>

⁸ Margaret Myers, “China’s Regional Engagement Goals in Latin America,” *Carnegie-Tsinghua Center for Global Policy*, May 7, 2020, <https://carnegietsinghua.org/2020/05/07/china-s-regional-engagement-goals-in-latin-america-pub-81723>

been inclined to maintain strong ties Beijing, with trade relations often front of mind. Even in Brazil, where President Jair Bolsonaro has openly condemned Chinese activity, bilateral relations remain more or less on track. The two countries held the sixth meeting of the China-Brazil High-Level Coordination and Cooperation Committee (COSBAN) in 2019, seeking opportunities for enhanced bilateral cooperation. Brazil will also apparently allow Huawei to participate in its upcoming 5G auctions, but could restrict the use of Huawei infrastructure to non-government networks.⁹

In some limited cases, bilateral relations have suffered somewhat from political transitions (see Macri's decision to halt payment for the Nestor Kirchner and Jorge Cepernic dams) and local opposition, or else limited by relatively stringent environmental and social standards, as appears to be the case of Costa Rica. Costa Rica hasn't done much in the way of deal making with China since cutting ties with Taiwan in 2010, and since corruption allegations surfaced in relation to the China-involved Recope refinery project.¹⁰ US efforts have also affected specific Chinese deals in LAC. The most prominent example was Huawei's 2020 loss of the Chile's Pacific cable contract to Japanese company NEC.

The success of China's local-level commercial diplomacy also varies quite considerably. A comparison between Chinese actors' 5-year-long, highly productive outreach to Jujuy province in Argentina, and a 10-year-long, relatively unproductive engagement with the Coquimbo region in Chile is illustrative. Despite dozens of visits and a decade-long Coquimbo-Henan regional "twinning" arrangement, very little in the way of concrete deal making has materialized between China and Coquimbo, aside from some academic partnerships and joint research opportunities. Jujuy-China engagement, on the other hand, resulted in a massive solar project, cooperation on big data, deals with ZTE, and joint exploration of lithium reserves.¹¹ The reasons for the relative lack of activity in Coquimbo are unclear, but may be related to limited political will in Coquimbo, or to the rather considerable extent of central government decision-making authority in Chile, as compared to Argentina or Brazil. Despite variation in outcomes, Chinese government entities, quasi-governmental organizations and companies are likely to continue prioritizing local-level engagement, based on a belief that "shaping the external environment" through the cultivation of networks of friendly contacts will create key opportunities for Chinese actors in the future, whether in the commercial or political realms.¹²

⁹ Leo Schwartz, "Brazil needs vaccines. It also needs Huawei." *Rest of World*, March 25, 2021, <https://restofworld.org/2021/brazil-needs-vaccines-it-also-needs-huawei/>

¹⁰ Margaret Myers and Isabel Bernhard, "Weighing the Effects of Taiwan-China Competition in Latin America and the Caribbean," *Inter-American Dialogue*, July 29, 2019, <https://www.thedialogue.org/analysis/weighing-the-effects-of-taiwan-china-competition-in-latin-america-and-the-caribbean/>

¹¹ Margaret Myers, "Going Local: An Assessment of China's Administrative-Level Activity in Latin America and the Caribbean," *Inter-American Dialogue*, December 2020, <https://www.thedialogue.org/wp-content/uploads/2020/12/Going-Local-Chinas-Administrative-Level-Activity-in-LAC.pdf>

¹² Margaret Myers, "Going Local: An Assessment of China's Administrative-Level Activity in Latin America and the Caribbean," *Inter-American Dialogue*, December 2020, <https://www.thedialogue.org/wp-content/uploads/2020/12/Going-Local-Chinas-Administrative-Level-Activity-in-LAC.pdf>

3. There is also wide variation in project-level outcomes, whether in terms of profit, pushback, support of China’s economic and strategic objectives, or as concerns their economic and social impact.

Some Chinese projects have been exceedingly profitable. China’s Shougang, a mining company operating in Peru, is expanding its operations in the country as a result of its economic successes. Shougang was criticized in Peruvian and other media outlets for its mishandling of labor relations, and has recently been scrutinized by Peru’s environmental authorities, but Chinese mining companies in Peru have tended to view Shougang as something of a success story, given its relatively high profit levels, according to interviews conducted by the Inter-American Dialogue. Other projects have been less profitable and even abandoned, in certain instances. China’s failed train project in Venezuela is one example. Some of China’s most dominant companies in LAC, such as Huawei, also struggled to make a profit in their early operations. According to an interview I conducted with a former Huawei official, the company failed to turn a profit in LAC for nearly ten years, but remained committed over that period to establishing a dominant market presence in parts of the region—probably with some support from the Chinese government.

Some Chinese investments, especially acquisitions, have advanced without much fanfare. Others face considerable criticism, whether as a result of labor-related problems, environmental impact, concerns about monopolistic activity or national security, or other matters. Local environmental groups have in some cases put a stop to China-backed infrastructure projects that have the potential to transform the region’s delicate ecosystems. Peruvian civil society and local communities have at least temporarily suspended Sinohydro’s dredging project in Peru. The project would have altered the dynamics of the affected rivers and their capacity to sustain lakes in natural parks like the Pacaya Samiria.¹³ Others have expressed concern about the environmentally sensitive nature of LAC exports, noting the importance of environmental safeguards that meet the needs of their development strategies.¹⁴

In certain cases, Chinese companies have continued to struggle to meet the region’s ambitious environmental and labor standards, leading to occasional social conflict or environmental damage. This is especially the case where enforcement by national governments is lacking. It remains to be seen whether China’s government-level commitments to sustainability will indeed translate to firm-level activity in LAC and other regions.

Other Chinese interests have been opposed on the basis of national security-related concerns. The former Salvadoran government’s plans to provide China with a concession

¹³ “Hidrovia Amazónica: cuestionado proyecto atrapado por problemas con el estudio de impacto ambiental,” *Mongabay*, January 29, 2020, <https://es.mongabay.com/2020/01/hidrovia-amazonica-estudio-de-impacto-ambiental/>

¹⁴ Rebecca Ray, “The Panda’s Pawprint: The environmental impact of the China-led re-primarization in Latin America and the Caribbean,” GEGI Working Paper, Boston University, October 2016, https://www.bu.edu/gdp/files/2017/07/Panda.Final_.pdf

for the development of a special economic zone along the country's coast was firmly opposed by the political opposition in El Salvador and by the US government. Chile's recent approval of Chinese company State Grid's acquisition of CGE, the country's largest electricity distributor, for \$3 billion, also generated some heated debate about Chile's dependence on China. As Chilean journalist Iván Weissman noted, State Grid already controls Chilquinta, so that after the purchase of CGE, it will control electricity supply for 57 percent of the country. He added, "China's power over Chile will make it difficult to effectively regulate these natural monopolies. China is by far the main destination for Chilean exports and it would seem difficult to think that, in the event of a conflict, the Chilean state could confront the Asian giant."¹⁵ Noting Yangtze Power's ownership of electricity generation and distribution assets, Peru issued anti-trust legislation to limiting the company's ability to buy and sell from itself.

The extent to which Chinese investments support China's strategic and economic objectives also varies on a case-by-case basis. It is often difficult to discern whether shareholder interests, government objectives, or some combination thereof are motivating specific instances of Chinese investment in LAC. Certain private Chinese companies, such as Didi, are mostly looking to expand their presence in LAC, and have seemingly done so according to market-based principles. But many recent investments are also in industries—telecommunications, artificial intelligence, automation, renewable energy, and electricity transmission, for example—that were promoted by the Chinese government in the midst of Covid-19, and which feature prominently in descriptions of BRI priorities.

Resource acquisition and the development of infrastructure that facilitates trade in raw materials has also been a clear objective of certain Chinese companies and banks for many years, pre-dating the BRI's extension to the LAC region in 2018. Indeed, China's focus on ports development and acquisition is mostly aimed at facilitating the transport of primary commodities to China or international markets. Lithium exploration and mining has also been a clear objective of Chinese companies, with several deals struck in the past four years. China currently dominates the lithium-ion battery supply chain.

In addition, some investments are clearly aimed at achieving China's enduring political objectives in LAC. China continues to use donations and infrastructure and other investment to entice Taiwan allies, for example. It did so successfully Panama, the Dominican Republic, and El Salvador in 2017 and 2018.

4. The appeal of Chinese economic engagement—and even of China's approach to governance—will probably grow in LAC in the coming years.

China's importance to LAC economies is well established. China is the largest export market for South American goods and the second-largest export market for LAC overall.

¹⁵ Iván Weissman, "La amenaza geopolítica de la compra de CGE por parte del Estado chino y el desafío para la Fiscalía Nacional Económica," *El Mostrador*, November 23, 2020, <https://www.elmostrador.cl/el-semanal/2020/11/23/la-amenaza-geopolitica-de-la-compra-de-cge-por-parte-del-estado-chino-y-el-desafio-para-la-fiscalia-nacional-economica/>

China's sovereign lending to the region is rapidly declining, but Chinese investors have developed an occasionally-dominant presence in some of the region's key sectors, and Chinese commercial banks continue to support both Chinese investors and LAC state-owned enterprises from industries where China maintains commercial and strategic interest. China's regional funds are also increasingly active in the provision of private equity finance, though in limited quantities to date.

It is unclear how China will view the region's investment environments post-Covid-19. Much depends on developments in China's BRI policy and the availability of capital in China, among other factors. But it is possible that China will see strategic opportunity in a recovering LAC, even as others decide to cut their losses. Many have indeed predicted that Chinese acquisitions of transport infrastructure, energy, and other assets will grow in the coming months and years. The low price point of some Chinese exports, including of the high-tech variety, will also be increasingly attractive to LAC governments post-Covid-19. In the absence of more affordable alternatives, China's offerings will be the only economically viable options for some in the region.

Whether China's economic presence considerably expands or not, LAC nations with already-extensive economic ties to China will continue to weigh their own economic interests vis-à-vis China against US concerns about Chinese influence in the region. Even where strong economic ties are not yet established, pro-China policy is frequently adopted based on an assumption that stronger ties to China's government or companies will result in immediate economic gains. This includes among some diaspora communities in the region. The University of Melbourne's Adrian Hearn has found that specific political objectives are closely intertwined with Chinese commercial and cultural goals in Mexico. According to Hearn, in 2001, China established the 'Chinese Peaceful Pro-unification Alliance of Baja California. "...[T]he state's three Chinese associations (Tijuana, Mexicali, and Ensenada) immediately joined, adopting Mandarin Chinese [rather than the Cantonese that was used in most cases] as their operating language, as a condition of entry."¹⁶ Community leaders viewed the language adjustment, and an additional request that all Chinese associations break linkages with Taiwan, as a necessary compromise to secure continued support from the Chinese MOFA.

This is not to say that audiences in LAC do not share concerns about Chinese influence. There are indeed those in the region who worry about Chinese engagement—though many are concerned about outside influence from any major economic partner. There are also some specific examples of China using economic and other leverage to achieve certain objectives or shape certain narratives in the region, whether vis-à-vis Taiwan, in reference to Hong Kong, regarding the efficacy of Chinese Covid-19 vaccines, or in trade disputes, for instance. But unless the region sees numerous, concrete examples of Chinese coercion or retaliation in LAC, or of Huawei interference in LAC domestic or regional affairs, for example, LAC governments will avoid making decisions that could

¹⁶ Hearn, Adrian H., "China's Social Engagement Programs in Latin America," *Journal of Iberian and Latin American Research*, 2013, Vol.19, No.2, 239–250.

strain their bilateral ties to China or negatively impact local industry. The reality is that many in LAC view China as less coercive or demanding than the US.

Also, assuming continued erosion of democratic governance across in the region, it is quite probable that some LAC governments will view China's approach to governance, along with its views on human rights and internet governance, as increasingly attractive. Three Caribbean countries—all democracies—supported China's Hong Kong Security Law in the United Nations Human Rights Council, alongside Cuba, Nicaragua, and Venezuela. It is indeed possible, as Harvard's Stephen Walt has noted, that LAC might want some of China's rules, or be interested in world order that is "safe for autocracy," as Jessica Chen Weiss describes it.¹⁷ In just the past few days, Honduran President Juan Orlando Hernández Alvarado has publicly considered stronger ties to China, to first of all discourage US condemnation of his corrupt dealings, but also noting, if indirectly, China's tendency to look the other way on such matters.

4. China will play an important role in the region's economic recovery, but Chinese engagement could hasten democratic backsliding.

Democracy is vulnerable, as we've seen, to China's particular approach to overseas engagement. In LAC, the possibility of no-strings-attached Chinese financing and investment has led some governments to relieve themselves of the burdensome regulations and democratic oversight generally encouraged in the West and required by many international financial institutions. Decisions to erode existing standards are made by recipient governments, of course, and not by Beijing. But these decisions are often made with tacit support from China, which defers to the interests of host governments. And the trade-offs of hurried, non-transparent deal making are numerous, ranging from heightened corruption and labor problems to steep environmental costs.

Additionally, democratic principles are potentially weakened by some of China's cutting-edge technologies. The surveillance systems that China has sold to several countries in the region are in many cases politically innocuous, and helpful to crime-ridden communities. But with added accessories, they have the capacity to increase social control and affect political outcomes. Governments will of course leverage technologies consistent with the values or political models that they decide to pursue. But with these technologies and other elements of China's playbook close at hand, LAC leaders with authoritarian leanings can easily dismantle democratic fundamentals. The challenge for LAC nations is to adopt new Chinese technologies while also accounting for these risks, and to ensure a policy environment that promotes a degree of technology transfer and data sovereignty.

Also, for some in LAC and other regions, the very example of China's development experience has created something of a permissive environment for leaders with

¹⁷ Stephen M. Walt, The World Might Want China's Rules, *Foreign Policy*, May 4, 2021, https://foreignpolicy.com/2021/05/04/the-world-might-want-chinas-rules/?utm_source=PostUp&utm_medium=email&utm_campaign=32785&utm_term=Flashpoints%20OC&?tpcc=32785

authoritarian leanings. China's experience with centralized economic and political governance—much like Nicaragua's pre-April 2018 and in other LAC countries at different points in history—demonstrates that economic growth and even innovation can happen while maintaining a considerable degree of political control. In the case of China, though, the scale of achievement is greater, and Beijing's foreign outreach has included the exportation of key elements of its governance model.

Positive views of China's self-termed “democratic dictatorship” are of course strengthened by the very public failings of the US and other democracies in recent years to sufficiently address the needs of their populations, whether in the context of Covid-19 or otherwise. These only feed growing global disillusionment with what are perceived by constituencies across the developed and developing worlds to be stagnant and unresponsive democratic processes.

Recommendations for US Policymakers

1. Promote US leadership in LAC's post-pandemic recovery.

The US has a critical role to play in ensuring LAC's sustainable recovery from the Covid-19 pandemic. This is important not only for LAC's economic, social, and political stability, but also in pursuit of hemispheric security and sustainability. A robust US response would also underscore US commitment to the region's well being, at a moment when China is sometimes viewed as more supportive of the region's development-related interests.

In addition to increasing vaccine cooperation and streamlining broader Covid-related assistance to LAC, the US can significantly boost the region's economic resilience and create opportunities for private sector engagement by helping to mobilize capital and through targeted financial assistance. With countries throughout the region in recession, regional multilateral development banks undercapitalized, and concerns about debt levels mounting beyond what can be resolved through tax reform and reasonable short-term growth prospects, external financing from the US Development Finance Corporation (DFC), for example, is a necessary part of a regional response to the pandemic. The DFC might aim, for instance, to support the use of creditor resources for guarantees that will be encouraging of US and other private sector investment. Tying these resources to the sustainable development goals will also do much to ensure high-quality investment and advance regional prospects. It might also help to address some of the root causes of democratic backsliding across the LAC region. Engaging US-based and other diaspora communities in the dispensation of remittances will also be critical to the region's recovery.

The US also has an important role to play in mobilizing shareholder support for multilateral development bank intervention. Encouraging Chinese investment *through* the IDB and other multilateral development banks is also advisable, ensuring that Chinese actors adopt stringent safeguards.

2. Identify and cooperate on areas of mutual concern.

It is a mistake to assume that US concerns about Chinese influence, whether economic or otherwise, will necessarily resonate with LAC audiences. Concerns about Huawei and the possibility of Chinese surveillance are not shared by most in LAC, for instance. If anything, US efforts to warn LAC governments and citizens about possible telecoms-based espionage are perceived by many in the region as hypocritical.

Nor is broad US condemnation of Chinese economic and other practices an effective communication strategy. As it stands, many in LAC continue to view China as a willing and able economic partner, and have worked hard to encourage Chinese participation in key infrastructure and other projects. This is the case not only among long-time allies such as Venezuela, for instance, but across the entire region. Chile's leading politicians actively encouraged Chinese telecommunications firm Huawei's investment in their undersea cable project. China will be viewed as an even more important economic partner as the region's emerges from the Covid-19 crisis.

US-LAC cooperation and public messaging should instead focus on those areas where US and LAC interests intersect vis-à-vis China, and where cooperative action can ensure best outcomes. Questions about Chinese investment and national security are of growing interest in parts of the region, for example. A Peruvian energy sector businessman noted in November 2019 that Peru is "moving from privatization to nationalization, and not in favor of the Peruvian state but of the Chinese one."¹⁸ The president of the Chilean Chamber of Deputies' economic committee echoed those concerns a year later, writing that Chinese companies "are not private" but rather shell companies "of the Chinese state and the Communist Party." Similar concerns were articulated in Chile after the government's approval of China's purchase of Chilean electricity company CGE.

Corruption is another issue that is of grave concern to many in the region. US efforts to work with LAC governments and civil society to ensure transparent and fair procurement and other processes will be increasingly critical in the coming years, not only in an effort to "even the playing field" for US and other investors, but also to ensure best outcomes for LAC communities. Environmental concerns, whether related to Amazon deforestation or illegal fishing, are also shared by many across the hemisphere and are an area in which US and LAC governments might cooperate to prevent further ecological degradation. China has articulated a commitment to greening the BRI, but Chinese companies have yet to demonstrate that they will adhere to consistently high standards when operating across the region.

3. Compete on economic terms rather than ideological ones.

¹⁸ César Gutierrez Peña, Superconcentración china en el mercado energético peruano, *Expreso*, November 19, 2019, <https://www.expreso.com.pe/opinion/superconcentracion-china-en-el-mercado-energetico-peruano/>

Many LAC nations indeed share certain democratic and other values with the US. But when considering whether to promote Chinese trade and investment or heed US warnings about Chinese influence, LAC government decisions will increasingly be based on economic interests rather than values-based ones. The US cannot rely on shared values to sustain key partnerships. Indeed, US interests in LAC—including vis-à-vis China—are best served by strengthening US-LAC economic ties rather than highlighting China's flaws. As China approaches the region with extensive investments and attractive, cooperation-based policy, the US must take a similar approach to the region, focusing on areas in which the US can make a real difference and has a distinct advantage. It is important to note, however, that many of the region's investments interests are not market-based, but instead preference-based. The US should encourage enhanced private sector engagement in LAC, but China will continue to have an advantage in the area of preference-based project development.

At the same time, the US should use regional platforms and forums for open discussion with LAC governments on the need to preserve democratic institutions at a moment when democratic norms are under attack in much of the region. The discussion should also focus on the sorts of electoral and institutional reforms of interest to many across the hemisphere, and which may indeed be critical to ensuring a sustainable and timely post-Covid-19 recovery. LAC nations would also benefit from the development of non-partisan or bi-partisan government offices that could look at development issues from an apolitical and medium-run perspective. The US can certainly help to provide technical assistance in the development of these bodies.