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"China in Latin America and the Caribbean."

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Avoiding Strategic Insolvency in Our Shared Neighborhood: Competing Effectively in Latin America and the Caribbean

Chairman Bartholomew, Commissioner Scissors, and esteemed members of the U.S.-China Economic and Security Review Commission: Thank you for the opportunity to testify on the immensely important topic of "China in Latin America and the Caribbean." The mostly democratic character of our Hemisphere; the deeply embedded cultural, linguistic, geographic, and historical links the region shares with the United States; and the largely integrated nature of the regional economy have brought the U.S. immeasurable strategic advantages as it pursued global influence in other regions of the world.

Since at least the end of the Cold War, the U.S. has enjoyed a mostly pacific shared neighborhood comprised of middle-income, developing democracies. However, the last decade has witnessed the rise and return of strategic rivals to Latin America and the Caribbean (LAC)—principally, the People's Republic of China. The serious challenge posed by China's multi-faceted engagement in LAC means that the U.S. can no longer take for granted everything from the sizable influence it historically enjoyed in LAC to the continued democratic character of the region. Perhaps more than any other issue, managing China's relationship with LAC, and warding off its more corrosive elements, will determine the trajectory of U.S.-Latin American relations in the 21st century.

The Return of Rivals

Strategic rivals in LAC arrive in recurring historical intervals. For two decades after the Cold War, American policymakers acted on the conventional wisdom that strategic rivalry was a phenomenon that played out in far more distant lands—certainly not something to fret about in our shared neighborhood. Often, they were right. Strategic competition was a phenomenon observed in other theaters. This translated into a migration of scarce diplomatic and economic resources away from LAC and toward priority regions. Beginning in the last decade, however, China's engagement with LAC has called into question this strategic axiom by first challenging, and now threatening, core American interests in the region. Just as the U.S. has ramped up its competition with China in theaters close to its shores, China has demonstrated that it, too, can project power and influence into the U.S. shared neighborhood.

Chinese presence and strategy in LAC have highlighted an important, if obvious, reality—the LAC paradox. The paradox refers to the outsize importance LAC possesses on America's prosperity and security, despite perennially underfunding initiatives in the region. The region's democratic character and the fact that many of LAC's security challenges feature a significant law enforcement element have further diminished the geopolitical salience of LAC. Yet challenges and threats to core U.S. interests in our shared neighborhood are a greater concern than their equivalents in other regions further afield.

While the costs of U.S. inattention to LAC were once negligible, they are rapidly mounting.

China Descends Southwards

China's rise has made Beijing the greatest global challenge to American interests, and LAC is no exception. To increase its own influence and options in the region, while creating potential vulnerabilities for the U.S. in its shared neighborhood, China engages governments and supports political models in the region that are hostile to American interests, while also courting traditional U.S. allies to erode those relationships over time.

Economic Engagement

The core of China's engagement with LAC is economic. For roughly a generation, Beijing has been leveraging its massive domestic market and vast financial resources to draw countries in LAC closer and pull them away from the U.S. On a regionwide scale, China is now the second-largest trade partner behind the U.S. The U.S. still maintains a lead in this metric, but China's gains have cut into this advantage. Between 2000 and 2018, the percentage of Latin American exports destined for the U.S. dropped from 58 to 43 percent while it increased from 1.1 to 12.4 percent with respect to China. However, these figures fail to tell the entire story.

When discounting Mexico, the second-largest overall trade partner for the U.S., China has already surpassed the U.S. as the largest destination country for LAC's exports. China has made strides in several strategic countries. Importantly, China has linked itself closely with the largest economic power in LAC—Brazil. Beijing has become Brazil's most important commercial partner, overshadowing the U.S.-Brazil commercial relationship by a factor of two.

Beyond bilateral trade flows, Chinese finance is another powerful economic tool of its engagement with LAC. Many countries in LAC see the Chinese as attractive sources of finance, specifically for the lack of conditionality attached to their loans, such as environmental impact standards or anti-corruption benchmarks.³ Between 2005 and 2020, China's investment and construction contracts in the Hemisphere (including the United States) totaled over \$440 billion.⁴

As a principal platform for projecting economic power and improving its geopolitical position, China uses its Belt and Road Initiative (BRI). Launched in 2013, BRI has morphed into one of the most ambitious development programs in history (although the gap between ambition and reality is often yawning). According to Chinese officials, its rapid growth in Latin America represents a "natural extension of the 21st Century Maritime Silk Road." Thus far, 18 countries in Latin America have signed onto BRI—including some of the most prosperous countries in the region, such as Chile.⁶

While BRI is attractive to recipient nations because it purports to address real infrastructure needs and other development shortfalls, in other regions of the world, BRI has been a source of economic leverage for extracting costly political concessions. Perhaps most prominently, when Sri Lanka fell into arrears on its Chinese loans (loans other sources had declined due to risk), it was left with no other option than to turn over the Hambantota Port, plus thousands of acres of land surrounding it, to the Chinese for a term of 99 years.⁷

There is the distinct possibility that China may use the same tactic of economic leverage to obtain strategic footholds in LAC, taking advantage of high debt burdens owed by small island nations

in the Caribbean. Without creative intervention from the U.S. and multilateral financing institutions, the acute debt crisis that could be the legacy of COVID-19 may provide further openings for predatory Chinese financing throughout the region—on terms that are manifestly exploitative and unacceptable under more normal circumstances. During the pandemic, China has furnished some \$200 million of assistance to the region, as well as vaccines, but faulty PCR tests and personal protective equipment, combined with the low efficacy of the Sinovac vaccine, demonstrates that not all engagement is earning the country credibility in the eyes of LAC's citizens.⁸

Relatedly, China also pursues the goal of using its economic power in LAC to erode what modest diplomatic support Taiwan still enjoys. LAC continues to be Taiwan's largest regional block of recognition, with nine of the fifteen countries that formally recognize Taiwan located in the region. However, China has started to reverse this bastion of Taiwanese diplomatic recognition. Through its economic power and outright coercion, China has recently persuaded Panama (2017), the Dominican Republic (2018), and El Salvador (2018) to change their diplomatic recognition from Taipei to Beijing. Most recently, it has pressured Paraguay, Taiwan's only ally in South America that has been buffeted by COVID-19 and lacks access to vaccines, to switch its diplomatic recognition. It

Technology Sharing

Technology is another arrow in the quiver of Chinese influence in Latin America. Huawei, the sprawling Chinese telecommunications company, is one of the market leaders of mobile devices in LAC. Huawei is a top contender for critical upcoming 5G auctions in Brazil, Chile, and Mexico. Despite the company's insistence that it is independent of the Chinese state, Chinese law requires Chinese entities to "support, assist and cooperate with state intelligence work." The U.S. has responded with a campaign to dissuade countries in LAC from adopting Chinese technology, warning countries keen to adopt Huawei equipment that it would make information sharing and collaboration with the United States difficult if not impossible. U.S. lawmakers have also introduced legislation to restrict intelligence sharing with countries that use Huawei equipment in their 5G networks, LAC countries included. Washington has offered economic incentives to turn the tide away from Chinese companies. For example, the U.S. offered Brazil, an erstwhile member of the "Clean Network," generous terms of finance to purchase 5G equipment from European sources. 15

Military Collaboration

Military collaboration is a growing aspect of Chinese activity in LAC. Arms sales, military training, and technical military support allow China to build key strategic partnerships with the armed forces of LAC. The Chinese have sold equipment to military and police forces from countries historically opposed to the United States—such as Venezuela and Cuba—as well as close American partners like Colombia and Chile. The People's Liberation Army (PLA) has a burgeoning presence in the region, which it maintains through training and visits, permitting it greater familiarity with countries' operational frameworks and preparedness, as well as their strategic doctrine and training routines. ¹⁶ China has also focused on ongoing training of the region's military officers at PRC institutions of military education, which should familiarize and educate the upper brass (and future upper brass) in Chinese military doctrine. ¹⁷

More ominously, the PLA is rapidly building new dual-use infrastructure or acquiring access to existing dual-use infrastructure that can enhance its military capabilities in the region. Of top concern are China's several dozen agreements to build or expand deep-water ports in the region. China's construction of a space station operated by the PLA in Neuquén Province, Argentina, without Argentinian oversight is another major dual-use asset. While the Chinese claim that this installation is for peaceful space exploration, the base has obvious dual-use potential as a tool for espionage—or worse. China does not permit the Argentines to come near the facility. 18 Likewise, China's growing partnership with Panama may eventually result in preferential access to the Panama Canal, facilitating the movement of goods and people in and out of LAC. Loss of control over the Panama Canal as an asset would inflict a symbolic as well as strategic blow to the U.S., since two-thirds of all cargo containers to and from the U.S. transit the Panama Canal.¹⁹ In sum, control of these strategic assets could represent a privileged position over many of the assets that enable the functioning of regional economies as well as militaries. Fortunately, China has yet to establish permanent military bases in LAC, which reduces its ability to operate in LAC without significant assistance from countries.²⁰ The Chinese leadership likely envisages a military presence in LAC as something unattainable in the near-term, but potentially as a long-term goal to be pursued.

Party-to-Party Training, United Front Work, and People-to-People Exchanges

China has expanded its network of Confucius Institutes in 20 countries across the region, including small island states where the U.S. has no diplomatic presence to check the narrative being spun. In theory, these institutes teach Chinese language and run cultural programming, but they have also featured a strong propaganda element.²¹ China has offered free cultural trips to Beijing and other places to young people from LAC to gain clout with future political and economic elites. "The aim of such efforts," according to one author, "is for these visitors to return home with a fundamentally benign idea of the nature of the Chinese regime." China retains robust outreach to Latin America's think tank and academic network, too. Through the China-CELAC Forum, it brings together academics, political leaders, diplomats, and journalists to tout the Chinese miracle.

China also leverages less visible forms of engagement, namely, party-to-party engagement through the International Liaison Department (ILD) of the Chinese Communist Party. The ILD is a CCP institution that builds relationships with political parties in LAC. Its focus on long-term relationship building and on ideology are noteworthy because it is tasked with "telling the China story well." While the ILD's contacts with political parties in LAC are less extensive than in other regions, between 2002 and 2017, the ILD held nearly 300 meetings with 74 different political parties in 26 countries in LAC. In some cases, the ILD was the channel through which the CCP engaged political parties in countries that do not recognize it diplomatically. The ILD does not appear to be formally involved in China's deal-making process in LAC, but it does appear to play an important role in lubricating the process by which deals are forged. It is no coincidence, for instance, that ILD meetings with mainstream political parties—including ruling political parties—in Panama and Colombia occurred directly before the announcement of deals related to the Panama Canal and the Bogotá metro system.²⁴

Exporting Authoritarianism

The nexus between many facets of China's engagement in LAC is its effort to export its political model through repressive technology. Authoritarian governments in LAC—most notably

Venezuela, Nicaragua, and Cuba—see China's political model, a combination of semi-market economy and repressive government control, as one to be emulated. The CCP thwarts opposition attempts at political transition and regime change by the export of its technology.²⁵

Perhaps most nefariously, China has exported a suite of repressive surveillance technology to Venezuela. In 2016, for instance, President Nicolás Maduro rolled out what has become a key tool in maintaining his social control—the so-called *Carnet de la Patria* ("fatherland card"), an ID card developed and sold by ZTE Corporation. The card serves to monitor citizens' social, political, and economic behavior, patterned on China's social credit system at home, and is required to access social services and benefits. In a new development, only Venezuelans with a "fatherland card" can access scarce COVID-19 vaccines, rewarding political allies with lifesaving medicines and vaccines and punishing political opposition, in a move that contravenes all epidemiological advice.

In other parts of the region, China exports its "smart city" initiatives, which integrates facial recognition technology with traditional surveillance techniques. Argentina and Ecuador have been recipients of such technology transfers. In general, the region's persistent physical security challenges—it represents eight percent of the world but nearly one-third of global homicides—and the important political issue it represents to many citizens of LAC will ensure continued interest in this "smart city" surveillance technology.²⁷

China's track record in exporting technology-driven surveillance tools makes it the supplier of choice for many governments in the region.²⁸ In addition to technology, China has also sold military hardware to several countries, which has assisted in the repression of opposition and citizen protests.²⁹ Chinese surveillance technology could play a key role in assisting democratic backsliding in the region. A hemisphere in which China is increasingly influential may be a hemisphere in which the democratic nature of the region recedes and the tenets of the Inter-American Democratic Charter fade into irrelevance.

Soft Power Influence

Beyond these activities, China is working to grow its soft power influence in LAC. The Chinese are applying soft power capabilities to make their burgeoning influence seem less threatening.³⁰ Converting the COVID-19 pandemic from a liability into an asset through vaccine diplomacy is China's latest soft power play in the Hemisphere. Even in Brazil, whose president Jair Bolsonaro campaigned against China's influence in the country, has been left with no other option than to acquire China's Sinovac vaccine, lest Brazil be stranded without options.³¹ Although Chinese officials claim that Beijing "never seeks geopolitical goals and economic interests" in exchange for vaccines, this does not seem to be the case.³² Shortly after initial talks on the possibility of Brazil receiving vaccines from China, Brazil announced the rules for its 5G auction, which allowed Huawei to participate—reversing earlier comments by government officials that seemed to favor barring the Chinese company and committing Brazil to the United States' "Clean Network" initiative.³³ China also slowed its vaccine delivery schedule following a diplomatic row between Federal Deputy Eduardo Bolsonaro, the president's son, and Chinese ambassador to Brazil, Yang Wanming.

A longer-standing soft power tool of the Chinese government is the use of state-controlled media outlets. *Xinhua*, *The People's Daily*, and *China Radio International* (CRI) all provide daily Spanish and Portuguese reporting. Similarly, China Central Television (CCTV) has a free, online 24-hour channel in Spanish, CGTN en Español. This latter station often attracts top commentators, including scholars from U.S. think tanks. The magazine *China Today* also operates multiple websites in Spanish and even sells print copies in certain countries. These outlets have a robust social media presence in Spanish—including on sites China bans in its own country. In a worrisome amplification of Chinese state propaganda, local news agencies often republish or cite these Chinese sources.³⁴

As a result, China has managed to maintain a reasonably popular image in LAC. According to recent polls from Pew Research, 50% of respondents in Mexico, 51% of respondents in Brazil, and 47% of respondents in Argentina have a favorable view of China. In all three countries surveyed, these numbers far outpaced China's unfavorable figures. While it is hardly the case that the average Mexican, Brazilian, or Argentine is in favor of China's political model, there is something appealing (in the abstract) about Chinese state capabilities to citizens of countries suffering weak and corrupted state institutions often incapable of large, nationwide efforts to mobilize significant resources.

Democratic Backsliding as the Chinese Entrée: The Case of Venezuela

Starting in 1998, Venezuela sought to diversify its economic relationships, especially with respect to its oil exports. Asia was a natural counter to the U.S. for President Hugo Chávez. From Beijing's perspective, Venezuela made an ideal partner—endowed with untold minerals and rich in raw materials, including the largest proven oil reserves in the world. As president, Chávez visited China more than any other Latin American leader.³⁶

Between 2007 and 2017, China showered Venezuela with investment. Leveraging loans as collateral, Beijing furnished Caracas with some \$64 billion in loans over a decade, funding a range of projects that dovetailed with Chávez's domestic political project, including housing, infrastructure, satellites, mining, and even a railway company.³⁷ Venezuela represents 45 percent of China's total development lending to Latin America since 2005.³⁸ These percentages have stayed relatively consistent during the COVID-19 pandemic, during which China has lent over \$200 million in medical assistance to the region. More than \$100 million has gone to Venezuela, as of February 2021.³⁹

Chávez's successor, Nicolás Maduro, has not managed to attract Chinese investment in the same quantities as his predecessor. While Maduro did travel to Beijing in 2018 to sign a suite of 28 bilateral agreements, receiving \$5 billion in loans to revive Venezuela's moribund oil production, Maduro's pleas for favorable deals throughout the country's record-setting political and economic crisis have fallen largely on deaf ears. 40 China has declined to open significant new lines of credit in the Maduro era, instead evincing a preference for renewing existing lines of credit and offering relief for loans in arrears by readjusting payment timelines. China has remained active in oil-processing joint ventures and the Belt and Road Initiative. Fearing U.S. sanctions, China has continued to import Venezuelan oil, mostly using Malaysia as a waystation to mask the critical lifeline it provides Caracas, as well as engaging in ship-to-ship transfers on the open sea. 41

China's support for the Maduro regime has also come in other notable forms. Its diplomatic cover has prevented the Maduro regime from sinking to "pariah status," while its presence on the United Nations Security Council, among other bodies, has stymied investigations and prosecutions into systematic human rights abuses that likely rise to the level of crimes against humanity. In a deeply tragic moment, and with China's explicit backing, the Maduro regime even secured a seat on the United Nations Human Rights Council in 2019, joining a group that includes many of the main antagonists in Venezuela's ruin: China, Russia, and Cuba. 42

Why Has China Focused so Many Resources and so Much Attention on Venezuela?

Regime type is an important part of the answer. As the clear case of an erstwhile democracy turned autocratic regime that is—at least after its December 2020 sham legislative elections—now considered a consolidated dictatorship, Venezuela provides China's leadership with a more predictable, pro-China partner in the region. China occasionally struggles to understand the dynamics of decision-making in LAC democracies, while Venezuela offers a more relatable political model. Secondly, for China, so long as Venezuela remains in the throes of a significant political crisis over its constitutional leadership, Venezuela at a standstill, and therefore a major liability for the U.S. and the region writ-large, is still better than a Venezuela undergoing an uncertain political transition—possibly, a return to democracy. Given the macro context of an increasing U.S.-China rivalry, China is unlikely to work productively toward a political transition in Venezuela that would strengthen Washington's position in the region (and potentially compromise the repayment of its many loans).

China's warm relationship with Venezuela and its consequences point to another, more fundamental point—its presence in LAC has sometimes contributed to political instability and accelerated democratic backsliding. It has also exacerbated preexisting political tensions in LAC societies, contributed to graft and corruption, and compounded governance questions for many countries throughout the region.

In some cases, China's presence has facilitated the consolidation of anti-American, populist regimes. Beyond the obvious cases of Venezuela and Cuba, the return of the MAS Party in Bolivia under President Luis Arce (Evo Morales' chosen successor) and the increasingly radical Peronist administration governing Argentina afford strategic openings for China in all dimensions of its engagement with LAC. And there are likely to be further strategic openings on the horizon—the radical Pedro Castillo, currently leading in the polls, could emerge victorious in Peru's presidential elections next month, early polling shows former guerrilla Gustavo Petro leading Colombia's presidential elections in 2022, and, of course, the potential return of Luiz Inácio 'Lula' da Silva to the Brazilian presidency next year all augur poorly for the presence of pro-U.S. governments in the region.

Policy Recommendations for the U.S. Congress

Commit to Developing and Implementing a New Concept of Strategic Denial. Since the founding of the republic, the U.S. has conducted foreign policy with respect to LAC through the lens of strategic denial—preventing powerful rivals from achieving strategic footholds in Latin America or otherwise significantly impairing U.S. influence and security in the region. Through

various periods in American history, the nature and severity of the challenges to that objective have varied over time, as have the urgency and methods of the American response. The U.S. should update a concept of strategic denial to fit the region's new realities and China's presence and activities. Strategic denial must grapple with and provide alternatives to the region's economic, military, and diplomatic reliance on China, with a focus on areas such as 5G telecommunications, strengthening governance and transparency standards (in development and other projects), and curtailing the more predatory aspects of China's advance. Key to formulating this new grand strategy will be defending American interests against China while not appearing to overtly block LAC from the economic advantages that investments from Beijing can occasionally offer. In sum, the U.S. cannot make regional engagement all about China...even if it is indeed all about China.

Identify Select Sectors for Competition and Catalogue Chinese Activities in LAC. As stated, the U.S. will not gain from a strategy overtly focused on blocking China's engagement with LAC. Rather, it must bolster the region's ability to engage with LAC on non-exploitative, fairer terms. There are some sectors, however, which are too important to core U.S. interests and the long-term prosperity of the region. The U.S. should single out these sensitive areas where Chinese dominance risks the region's prosperity, democracy, and successful collaboration with the U.S.—seeking to block or at least circumscribe these activities/trades in conjunction with allies in other regions. The sectors that will likely fall under this category include telecommunications, certain technology transfers, and importantly, possibly dual-use infrastructure that could have military application in certain future scenarios. To assist U.S. policymakers in making these determinations, the federal government should require an official report on the extent and scope of Chinese activities in LAC. 43

Bring Ideology Back. Quite simply, the only way the U.S. will compete and outpace China's burgeoning influence in LAC is with a more attractive vision for our shared Hemisphere. We should not shy away from the fact that this is occasionally a competition over ideology as much as it is about economic, military, diplomatic, and political influence. The U.S. must afford LAC countries that do not feel directly threatened by China's presence a reason to care about it by emphasizing the shared values with its neighbors and partners in the region. In a recent article, two China scholars reflect on how the Cold War "was a struggle to ensure that the world reflected the norms and values of a democratic coalition rather than its authoritarian rivals. For similar reasons, shared principles are critical to forging robust international coalitions today."44 For LAC, these shared principles and aspirations are anchored unequivocally in its regional constitution of sorts the Inter-American Democratic Charter. There is the potential for the charter to fulfill the promise it has thus far failed to fulfill—that is, to serve as a positive and inspirational document committing the Hemisphere to become a bastion of democracy oriented around political and economic principles that align more closely with the U.S. than with China. Bringing ideology back to the fore would also be consonant with historical formulations of strategic denial, which had strong ideological components, as the core concept guiding U.S. policy in LAC.

Prioritize Governance. Governance deficits abounded throughout LAC prior to the pandemic. The COVID-19 pandemic has laid bare governance deficits in an even more apparent way. In part, poor governance explains the shockingly low levels of satisfaction with democracy in the region and provides critical openings for China. Of course, the U.S. should also prioritize economic development and security assistance, but often governance has been an underemphasized facet of

U.S. assistance to the region. 45 The rule of law and the ability of governments to provide the most basic of services should be fundamental goals of U.S. assistance to LAC. Governance should also encompass a focus on building institutional strength, in order to afford LAC the opportunity to engage with China on fairer terms that are in both its interests and the core interests of the U.S. Importantly, the U.S. will have to decide how hard to pursue governments experiencing a decline in the quality of their governance or outright democratic backsliding. Pushing too hard may incur the downside risk of leaving a wide-open door for China. For instance, after U.S. criticism of his recent moves to interfere with judicial independence, El Salvador's President Nayib Bukele ratified a 2019 deal for investment in various infrastructure projects in the country "without conditions," a reference aimed at Washington's good governance conditions. 46

Prepare Now for Post-Pandemic Vulnerabilities. Many of the long-term challenges that predate the pandemic in LAC—systemic corruption, poor institutional design, weak governance, and the lack of consolidated democratic principles and practices—have again come to the fore during the pandemic and will continue after the pandemic has subsided. However, China's desire to aggressively leverage the pandemic to its advantage make this a particularly vulnerable moment for LAC. The case for greater U.S. engagement with LAC as it exits the pandemic and looks to its shared neighborhood for renewal has never been stronger. For too long, the region has suffered from the same American shortsightedness: lack of time, attention, and resources. Renewed U.S. engagement must include so-called "vaccine diplomacy" with vaccines that are far more effective than China's (ineffective) Sinovac vaccine.⁴⁷

Leverage the U.S. International Development Finance Corporation (DFC) and the Inter-American Development Bank (IDB). The US should take advantage of both the DFC and the IDB to push back on China's gains in LAC over the past decade. Recognizing the importance of LAC, the U.S. Congress ought to consider a requirement that a fixed percentage of DFC lending be pegged to the Americas. The US should pair this requirement with a push for a much-needed capital increase at the IDB. 48 Under the right set of incentives and lending requirements, the DFC, the IDB, and round of matching private financing could bring nearly a quarter of a trillion dollars over a five-year period to the table—serious development assistance and investment firepower. Such a combination would reduce the strategic vacuum China currently encounters when seeking to expand its One Belt, One Road Initiative and engage in debilitating debt-trap financing, with all its attendant consequences for the region and core U.S. interests. However, executing this strategy properly will require those who harbor misgivings about the election for the IDB presidency to be forward-looking and see the IDB president as a potential ally. Perhaps more importantly, it will require recommitting the DFC to its original purpose—i.e., serving as an alternative, transparent, and more reliable source of private-sector led investments than those offered by China. It is imperative that the U.S. reward countries for undertaking reforms in the interest of greater rule-oflaw, transparency, and anti-corruption efforts that will ultimately stymic China's advance in the region.

NOTES

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