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Renminbi Diplomacy? The Limits of China's Influence on Latin America's Domestic Politics

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ABOUT THE ORDER FROM CHAOS PROJECT

In the two decades following the end of the Cold War, the world experienced an era characterized by declining war and rising prosperity. The absence of serious geopolitical competition created opportunities for increased interdependence and global cooperation. In recent years, however, several and possibly fundamental challenges to that new order have arisen—the collapse of order and the descent into violence in the Middle East; the Russian challenge to the European security order; and increasing geopolitical tensions in Asia being among the foremost of these. At this pivotal juncture, U.S. leadership is critical, and the task ahead is urgent and complex. The next U.S. president will need to adapt and protect the liberal international order as a means of continuing to provide stability and prosperity; develop a strategy that encourages cooperation not competition among willing powers; and, if necessary, contain or constrain actors seeking to undermine those goals.

In response to these changing global dynamics, the Foreign Policy Program at Brookings has established the Order from Chaos Project. With incisive analysis, new strategies, and innovative policies, the Foreign Policy Program and its scholars have embarked on a two-year project with three core purposes:

- To analyze the dynamics in the international system that are creating stresses, challenges, and a breakdown of order.
- To define U.S. interests in this new era and develop specific strategies for promoting a revitalized rules-based, liberal international order.
- To provide policy recommendations on how to develop the necessary tools of statecraft (military, economic, diplomatic, and social) and how to redesign the architecture of the international order.

The Order from Chaos Project strives to engage and influence the policy debate as the United States moves toward the 2016 election and as the next president takes office.

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Renminbi Diplomacy? The Limits of China's Influence on Latin America's Domestic Politics

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China's trade, investment, and loans to Latin America have grown remarkably since 2000. From almost negligible amounts, trade with China now constitutes approximately 13 percent of the region's total global trade. By 2013, loans from Chinese policy banks had exceeded those provided by the region's traditional multilateral partners, the World Bank, and Inter-American Development Bank. This shift can largely be attributed to China's rapid growth, which created a demand for imports of commodities, particularly energy, food, and minerals. As Latin America had these products in abundance, exports to China contributed to nearly a decade of above-average growth in the region between 2003 and 2011.[1]

Latin American political leaders have by and large responded enthusiastically to the combination of trade, investment, and loans China offers, seeing it as a contribution to the region's development. Above-average growth, particularly among South America's commodity exporters, powered a great expansion of the middle class and significant reductions in poverty in the region.[2] Moreover, China's great expertise in building and financing large-scale infrastructure is a particular boon for a region that consistently underinvests in this aspect of its economic development.

China has responded to opportunities in Latin America with more than trade and investment. Seeking to develop strategic relationships with key

[1] Kevin Gallagher, *The China Triangle: Latin America's China Boom and the Fate of the Washington Consensus* (New York: Oxford University Press, 2016).
[2] Enrique Dussel Peters, "Recent China-LAC Trade Relations: Implications for Inequality," *Geopolitics, History and International Relations* 5, no. 2 (2013): 44-71.

countries and emphasizing the principle of South-South solidarity,[3] the country has expanded its diplomatic representation, military exchanges, and cultural presence in the region. This multifaceted approach has enabled China to become an alternative to traditional Western sources of investment, trade, and technology, thereby providing new options (and greater autonomy) for Latin American states.

However, the growth of China's economic role in the region has also drawn criticism. Strong competition from Chinese manufacturers has hit Latin America's industrial sector hard. For those who see industrialization as a path to economic development, this has led to charges that trade with China is leading to the reprimarization of Latin America's economy.[4] The rapid increase in China's footprint has raised concerns that it could pressure Latin American countries to erode gains made on labor, environmental, and human rights in order to promote a more favorable business environment for its companies. Many Chinese infrastructure and mining projects take place in rural areas or within areas valued by indigenous groups, further raising concern over the weakening of the rights and protections of these communities.[5] Others have raised the concern that China's influence over Latin American governments may have negative geopolitical consequences for the United States, possibly even posing a national security threat.[6] Even if China does not officially pressure Latin American governments, China's trade and investment in countries with weak governance indicators may indirectly enable those governments to continue to implement suboptimal policies beyond what their own domestic resources would otherwise allow.

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[3] Robert Evan Ellis, *China in Latin America: The Whats and Wherefores* (Boulder: Lynne Rienner Publishers, 2009); Juan Tokatlian, "A View from Latin America," in *China's Expansion into the Western Hemisphere: Implications for Latin America and the United States*, ed. Riordan Roett and Guadalupe Paz (Washington, DC: Brookings Institution Press, 2008), 59-89.

[4] Mauricio Mesquita Moreira, "Fear of China: Is There a Future for Manufacturing in Latin America?" *World Development* 35, no. 3 (2007): 355-376. Kevin Gallagher and Roberto Porzecanski, *The Dragon in the Room: China and the Future of Latin American Industrialization* (Stanford: Stanford University Press, 2010).

[5] Amos Irwin and Kevin P. Gallagher, "Chinese Mining in Latin America: A Comparative Perspective," *The Journal of Environment & Development* 22, no. 2 (June 2013): 207–34, doi:10.1177/1070496513489983.

[6] Peter Hakim, "Is Washington Losing Latin America?" *Foreign Affairs* 85, no.1 (2006): 39-53. Stephen Johnson, "Balancing China's Growing Influence in Latin America," *Heritage Foundation Backgrounder* 1888 (2005): 1-6. R. Evan Ellis, *US National Security Implications of Chinese Involvement in Latin America*(Army War College Strategic Studies Institute, 2005). Ilan Berman, "U.S. Disengagement from Latin America: Compromised Security and Economic Interests" (testimony before the US House of Representatives Foreign Relations Committee Subcommittee on the Western Hemisphere, March 25, 2014).

This paper assesses how economic relations between China and Latin America affect China's ability to influence domestic policy in the countries of the Western Hemisphere. It finds that the scope for Chinese leverage on Latin American governments is limited. For most countries in the region, China's trade, investment, and loans are not large enough to enable Chinese authorities to directly pressure Latin American counterparts into changing domestic policy. However, there are a small number of countries that are vulnerable to China because they lack alternative sources of foreign direct investment (FDI) and have limited access to international capital markets. For this set of countries, China is the only game in town, and that is a source of leverage. But more broadly, relations with China indirectly affect the domestic political economy of its main trading partners in the region. By contributing to a decade of above average economic growth, particularly in South America, economic relationships with China enabled governments in the region to pursue their preferred policies more aggressively. In countries with good governance indicators, the results tended to be positive. In countries with weak governance indicators, results were primarily negative. This latter effect is compounded by the concentration of Chinese policy bank loans in countries with weak governance indicators.

This paper will proceed in three parts. First, it will examine the actual scope of Chinese trade, investment, and loans with Latin America, identifying countries where these links are particularly strong or have grown particularly quickly. Logically, the political effects of economic relations with China should be strongest in those countries where such ties are greatest relative to such factors as total trade, total investment, and total lending. Second, the paper will examine the mechanisms by which China could potentially pressure Latin American partners to change domestic policy. Third, it will consider the indirect effects of China's economic relations on the domestic politics of its economic partners. The conclusion weighs these different effects in turn and argues that even if China enables governments or actors that erode democracy, human rights, labor, and environmental gains, these are choices made by Latin Americans themselves (or some of them) rather than the consequence of direct Chinese pressure.

"The United States still trades nearly four times as much with Latin America as China."

How significant is China's economic relationship with Latin America?

China's trade, investment, and lending relationships with Latin America, particularly with commodity exporters, have grown steeply since 2000. This has lent impetus to the perception that China is out-competing the region's traditional economic partners, such as North America and Europe. Both of these regions have ceded ground (as a percentage of the total volume of trade, investment, and lending) within the overall distribution of Latin America's economic relations with the rest of the world. Overall, the United States still trades nearly four times as much with Latin America as China, but this figure includes the voluminous trade between the United States and Mexico. If South America is considered separately, trade with China is similar as a percentage of total trade as trade with the United States, Europe, and the rest of the world. This shift in Latin America's pattern of trade is inevitable with the appearance of a new entrant, China, in these markets.

China's relative weight as a trading partner for the region varies considerably across the states in the hemisphere, and for many, China's role still remains limited. Table 1 below compares the relative percentage of a given country's trade with China and the United States. The value of U.S. trade (in current U.S. dollars and exchange rates) is subtracted from that of China to provide a single numerical indicator of the relative weight of each country's trade. If the figure on Table 1 is positive (further indicated in shades of gold), it shows that the country traded more with China than with the United States. Conversely, if trade with the United States still outweighs trade with China, then the indicator in Table 1 is negative (further indicated in shades of blue). The larger the number, the greater the difference in relative trade volumes between the two countries.

As Table 1 shows, Argentina, Brazil, Chile, Cuba, Paraguay, Peru, and Uruguay all traded more with China than with the United States in 2014. This makes sense because these are the large South American commodity exporters and, in the case of Cuba, reflects restrictions on U.S. trade with the island. But the only country where the gap was more than 10 points in favor of China is Paraguay. In most cases where China's trade volume exceeds that of the United States, it does so by single digits. This suggests that while trade with China is important, China is by no means the dominant trading partner for the region.

Table 1: Percentage of country's merchandise trade (PCMT) with United States subtracted from PCMT with China (Current Dollars and Exchange Rates)

Country	2000	2002	2004	2006	2008	2010	2012	2014
Paraguay	3%	5%	8%	14%	18%	18%	12%	10%
Chile	-13%	-11%	-4%	-6%	-2%	8%	3%	7%
Uruguay	-5%	-3%	-8%	-4%	3%	3%	6%	9%
Brazil	-21%	-20%	-14%	-9%	-4%	3%	4%	4%
Argentina	-11%	-9%	-5%	-2%	1%	3%	2%	2%
Peru	-20%	-15%	-16%	-11%	-6%	-2%	1%	1%
Bolivia (Plurinational)	-21%	-12%	-12%	-7%	-4%	-4%	-5%	-4%
Venezuela	-52%	-48%	-51%	-40%	-26%	-6%	-3%	NA
Panama	-34%	-35%	-48%	1%	-4%	-7%	-14%	-15%
Suriname	-12%	-11%	-9%	-7%	-7%	-11%	-14%	-21%
Guyana	-33%	-28%	-21%	-18%	-18%	-17%	-17%	-19%
Nicaragua	-28%	-26%	-22%	-22%	-21%	-18%	-24%	-23%
Colombia	-41%	-36%	-31%	-28%	-27%	-25%	-19%	-13%
Antigua and Barbuda	-46%	NA	NA	-39%	NA	-25%	-28%	-27%
Saint Vincent and the Grenadines	-28%	-34%	-32%	-26%	-30%	-25%	-29%	NA
Ecuador	-31%	-28%	-25%	-34%	-27%	-25%	-29%	-26%
Honduras	-47%	-42%	-37%	-44%	NA	-32%	-36%	-34%
Guatemala	-38%	-40%	-36%	-33%	-33%	-32%	-34%	-32%
Dominica	-29%	-29%	-28%	-26%	-32%	-33%	-29%	NA
Dominican Republic	NA	-63%	-59%	-54%	-40%	-34%	-35%	-36%
Jamaica	-42%	-37%	-31%	-28%	-36%	-35%	-34%	-33%
Costa Rica	-50%	-49%	-40%	-31%	-30%	-35%	-39%	NA
Barbados	-33%	-36%	-37%	-30%	-30%	-36%	-27%	-25%
El Salvador	-20%	-18%	-17%	-37%	-35%	-37%	-36%	-37%
Trinidad and Tobago	-41%	-41%	-54%	-47%	-37%	-40%	NA	NA
Belize	-51%	-34%	-36%	-36%	-31%	-40%	-24%	-25%
Aruba	-44%	-48%	-51%	-47%	-48%	-44%	-41%	-50%
Mexico	-79%	-72%	-68%	-62%	-58%	-56%	-55%	-55%
Saint Kitts and Nevis	-58%	-54%	-60%	-62%	-63%	-67%	NA	NA
Bermuda	NA	NA	NA	-70%	-70%	-71%	-68%	-70%
Bahamas	-86%	-89%	-86%	-85%	-84%	-88%	-83%	-85%
Turks and Caicos Islands	-98%	-99%	-98%	-99%	-99%	NA	-76%	NA

Key: % by which trade is greater with China or USA

China	USA
6-10	21-40
11-15	41-60
15-20	60-100

Note: Greater trade with the United States is indicated by negative numbers (further emphasized by shades of blue) and greater trade with China is indicated by positive numbers (further emphasized by shades of gold).

Source: United Nations Comtrade Database (http://comtrade.un.org/), calculations by author.

China's role in foreign direct investment in the region (both greenfield and mergers and acquisitions) is also growing compared to Latin America's traditional investment partners. Table 2 provides information on the percentage of total FDI stock owned by Chinese entities in a given country in each year, using current U.S. dollars and exchange rates. The outsized role of China in the Cayman Islands and British Virgin Islands reflects their status as a tax haven destination for Chinese capital outflows rather than large-scale Chinese FDI in those countries. Suriname and Guyana, which have not been traditional FDI destinations in the region, have seen the proportion of Chinese FDI in relation to total FDI stock grow quite quickly. But among the region's large economies, Chinese investment has been most rapid and significant in the cases of Ecuador and Venezuela (which, as we will see, are large scale recipients of loans as well). Chinese investors have a more modest footprint across the rest of the region.

Where China truly has an outsized economic impact on the region is in loans made by its official policy banks, principally the China Development Bank and the Export-Import Bank of China. One frequently cited statistic is that China now lends more to Latin America and the Caribbean on an

Table 2: Percentage of total FDI stock sourced from China (2006-2014) (calculated at current U.S. dollars and current exchange rates)

Latin America	2006	2007	2008	2009	2010	2011	2012	2013	2014
Cayman Islands	23.1%	19.8%	19.5%	10.9%	12.9%	14.6%	19.3%	25.1%	23.6%
Guyana	0.8%	5.5%	4.9%	9.4%	10.3%	6.7%	6.5%	11.0%	12.6%
Virgin Island, British	8.4%	7.5%	7.5%	8.1%	9.8%	9.9%	8.5%	7.5%	9.6%
Suriname	–	–	–	–	–	10.6%	5.3%	11.1%	9.3%
Venezuela	0.2%	0.3%	0.4%	0.8%	1.2%	1.2%	5.1%	7.2%	8.3%
Ecuador	0.4%	0.5%	0.8%	0.9%	1.1%	0.8%	3.1%	7.3%	6.5%
Trinidad and Tobago	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.9%
St. Vincent and Grenadines	1.8%	2.2%	2.9%	1.9%	2.8%	2.6%	2.4%	2.2%	2.1%
Grenada	0.5%	0.8%	0.7%	0.6%	1.1%	1.1%	1.1%	1.0%	1.6%
Argentina	0.0%	0.2%	0.2%	0.2%	0.2%	0.4%	0.9%	1.5%	1.6%
Jamaica	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.6%	0.6%	1.4%
Bolivia	0.4%	0.4%	0.5%	0.9%	0.9%	0.9%	`1.8%	1.1%	1.2%
Peru	0.6%	0.5%	0.6%	0.8%	1.5%	1.6%	1.2%	1.2%	1.1%

Source: Statistics from China's Ministry of Commerce and the United Nation Conference on Trade and Development, calculations by author.

annual basis than the Inter-American Development Bank and the World Bank combined, two of the region's traditional sources of policy bank lending.[7] Table 3 provides a breakdown by country of China's loans to the region. It is notable that almost all lending (95 percent) has thus far been concentrated on just four countries: Venezuela, Ecuador, Argentina, and Brazil. Half of this lending has been destined for Venezuela alone.

In Table 3, we can see the relative proportion of Chinese financing as a proportion of total external financing in Latin America. Only countries that are significant recipients of Chinese policy bank loans are included. Also included is data on Chinese loans as a proportion of general government external financing since Chinese policy bank loans are typically made directly to the government in the recipient country. China is the dominant source of loans to Venezuela, Ecuador, and Trinidad and Tobago. Both Bolivia and Argentina stand out as large recipients, most notably of general government debt.

Table 3: Chinese policy bank loans to Latin American states

Country	Total loans from China in $USD millions (2015)	Chinese loans as a % of total external debt (2015)	Chinese loans as a % of general government external debt (2015)
Argentina	15,300	10.41	20.76
Bahamas	99	0.56	4.3*
Barbados	170	3.79	n/a
Bolivia (Plurinational State of)	1,600	19.45	26.87*
Brazil	21,800	3.06	9.78
Costa Rica	395	2.03	7.64
Ecuador	15,200	**60.73**	88.72
Guyana	130	5.64	n/a
Mexico	1,000	0.24	0.49
Peru	50	0.08	0.31
Trinidad and Tobago	2,600	**53.29**	n/a
Venezuela	65,000	**59.36**	n/a

*Alternative statistic used in calculation: Chinese policy bank loans as a percentage of public sector external debt

Sources: On China Policy Bank loans, see Kevin P. Gallagher and Margaret Myers, "China-Latin America Finance Database," Inter-American Dialogue, Washington D.C., 2014. Data for external debt drawn from Joint External Debt Hub (http://www.jedh.org/).

[7] Kevin Gallagher, Amos Irwin, and Katherine Koleski, "The New Banks in Town: Chinese Finance in Latin America," (Inter-American Dialogue, February 2012).

Taken together, these statistics on trade, investment, and lending confirm that while China's economic role in Latin America has grown rapidly since the beginning of the century, it is by no means the dominant economic partner for the entire region, but rather for a small subset of countries that are particularly dependent on trade, investment, and loans associated with China.

Under what circumstances is China able to directly influence public policy in Latin America?

In its official declarations, China makes it very clear that is has no interest in directly influencing the domestic politics of Latin American states. Instead, it frames its relations with the region in terms of "South-South" solidarity, aligning with its official support for non-intervention in politics of other countries. In its November 2008 policy paper on relations with Latin America, the Chinese government focused on consultation, cooperation, mutual respect, and finding "win-win" solutions to foster mutual development.[8]

But Latin America has historically experienced efforts by other trade and investment partners to translate economic power into political influence. The rise of China raises the question of whether it will follow in the footsteps of the United Kingdom in the 19th century and the United States in the 20th century and attempt to shape the region's politics and policies.[9]

There are at least two mechanisms by which China could achieve direct influence over government policy in Latin America. The first would be to use economic assistance to "buy" favorable policy changes in Latin American countries. The second would be to use economic leverage to compel Latin American countries to change policy. However, a survey of the evidence of China's efforts to buy influence through foreign assistance shows limited impact. Additionally, only a few countries are actually vulnerable to Chinese economic leverage, largely the result of circumstances of their own making.

[8] "China's Policy Paper on Latin America and the Caribbean," *China View*, November 11, 2008, http://news.xinhuanet.com/english/2008-11/05/content_10351493_3.htm.
[9] Peter Smith, *Talons of the Eagle: Dynamics of US-Latin American Relations* (New York: Oxford University Press, 1996).

China's efforts to buy influence through official development assistance (ODA) in Latin America remain modest in comparison to other dimensions of the economic relationship, and ODA tends to focus on the smallest and weakest states. Views of China's foreign assistance to Latin America range widely because there is considerable disagreement on what "counts" as foreign aid. The percentage of China's aid that meets the OECD definition for official development assistance is quite low. However, if funds that fall in to the category of "other official flows" are included, such as loans made at concessional rates, Chinese assistance looks quite high. In 2011, the State Council (the pinnacle of China's government bureaucracy) published a white paper that indicated that China had provided 256 billion yuan in foreign assistance ($37.48 billion at the average 2009 exchange rate) to the entire world to date, and that in 2009, 12.7 percent of China's foreign aid funds were directed to Latin America.[10] Reports of higher levels of Chinese aid to Latin America tend to conflate traditional ODA with loans made by policy banks. While some policy bank loans are made at concessional rates, most are made at commercial rates and are considered as a separate category in this paper. With this in mind, it is clear that the remaining portion of China's assistance that meets traditional definitions of ODA is quite low in proportion to other official flows from policy banks, from foreign direct investment and from trade.[11]

China's ability to use economic leverage vis-à-vis Latin American countries should be greater because the trade, investment, and lending flows greatly exceed the amount of ODA provided that might "buy" the favor of Latin American counterparts. But even here China faces challenges. Most contemporary theories of economic coercion are based on game theoretical analyses of the expected costs to the source country (termed "sender" in the literature) of threatening and implementing sanctions, and to the target country of acquiescing to or resisting sanctions. For economic coercion to work, Daniel Drezner argues that sender and target countries consider two kinds of costs when making these decisions: economic costs and reputational costs.[12] Sanctions that are more costly for the target than for the

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[10] "China's Foreign Aid," Information Office of the State Council, Beijing, China, April 2011, http://www.unicef.org/eapro/China_White_Paper_on_Foreign_Aid.full_text.pdf.

[11] Jonathan Weston, Caitlin Campbell, and Katherine Koleski, "China's Foreign Assistance in Review: Implications for the United States," U.S.-China Economic and Security Review Commission Staff Research Backgrounder, Washington D.C., September 1, 2011.

[12] Daniel Drezner, *The Sanctions Paradox: Economic Statecraft and International Relations* (Cambridge, UK: Cambridge University Press, 1999).

sender are likely to be more credible to the target. But costs also depend on the availability of alternatives. For both target and sender countries, the availability of alternative destinations for their trade, alternative sources or destinations for foreign direct investment, and alternative sources of capital reduce the costs associated with bilateral economic coercion. The threat by the sender to withhold trade, investments, or loans is less effective when the target has access to alternatives with similar cost-benefit profiles. This is why effective sanctions regimes often involve the sender coordinating the imposition of sanctions on the target across a large number of states. Coordinated multilateral sanctions are more effective because they decrease the range of substitutes available to the target country.[13]

On the reputational front, target countries that expect a conflictive future relationship with the sender will place a high value on a reputation for "toughness" (resisting) so as to dissuade future threats of coercion from the sender country. However, in relationships which are generally not conflictive, target countries facing high economic costs from threatened coercion are more likely to comply rather than pay the cost of sanctions. Since they do not expect future conflict, if the costs of going along with the sender country's requests are lower than the expected costs of resisting the sanction, they comply.[14]

The answer for why we do not observe cases of overt Chinese economic coercion in Latin America may very well be that such coercion threats are resolved short of formal sanctions. In other words, both the sender and the target can calculate the costs of sanctions and come to a mutually beneficial arrangement before sanctions are implemented, and as rational actors, the assumption is that they will proceed to do so.[15] This mutual desire for both target and sender to avoid such overt use of economic leverage may obscure China's use of leverage.[16]

[13] Daniel W. Drezner, "Bad Debts: Assessing China's Financial Influence in Great Power Politics," *International Security* 34, no. 2 (2009): 7–45.

[14] Op. Cit.

[15] Daniel W. Drezner, "The Hidden Hand of Economic Coercion," *International Organization* 57, no. 03 (August 2003): 643-659, doi:10.1017/S0020818303573052.

[16] Robert A. Pape, "Why Economic Sanctions Still Do Not Work," *International Security* 23, no. 1 (1998): 66-77.

China's economic leverage in Latin America in practice

My survey of the available evidence finds very few cases where overt use of China's economic leverage to achieve shifts in domestic policy can be detected. This is because even if China wanted to economically coerce a Latin American counterpart, there are few countries in the region that are vulnerable to such an action. This is not because countries in the region are concerned about suffering reputational costs—the prospects of a conflictive long-term relationship with China are quite low. Rather, most countries in the region have, and have had, access to alternatives to trade, investment, and loans from China. The countries most dependent on trade with China (Chile, Paraguay, and Uruguay as shown in Table 1) largely export commodities such as copper, soy, and beef for which there is a global market. If China switched its purchases to alternative foreign suppliers of these commodities, there would still be the same level of overall global demand for copper, soy, and beef, which would presumably mean that Chile, Paraguay, and Uruguay would export their products to someone else. Similarly, Chinese foreign investment is not of a sufficient scale to make China the dominant investment partner in most countries in the region, as Table 2 illustrates. Chinese lending to the region is, by and large, made at rates that are competitive with those provided by multilateral banks and international capital markets.[17] In the absence of loans from Chinese policy banks, most countries in the region can (and do) access capital from multilaterals and Wall Street. And finally, it is difficult to envision a scenario in which China could lead a coordinated international effort to cut off a target in Latin America from access to these alternatives. This weakens the credibility of any potential Chinese attempt to leverage its economic relationship to compel policy change in Latin American target states.

There are a few countries in the region where finding alternatives to an economic relationship with China would be difficult or disruptive. In addition, some countries in which the trade relationship with China has expanded very rapidly may also fall into the vulnerable category.[18]

"There are a few countries in the region where finding alternatives to an economic relationship with China would be difficult or disruptive."

[17] Deborah Braütingam, "Using official Chinese development aid to support investment," *East Asia Forum*, July 9, 2012, http://www.eastasiaforum.org/2012/07/09/using-official-development-aid-to-support-investment/; David Dollar does note the compliance cost of adhering to the standards set by international financial institution is much higher than that for Chinese policy banks . David Dollar, "China's Investments in Latin America" (paper prepared for presentation at the 2016 Annual Meeting of the Latin American Studies Association, New York, NY, May 27, 2016).

For countries to be vulnerable to Chinese use of FDI flows as leverage, this relationship would have to be relatively large or have grown quite rapidly in recent years. And finally, China's policy bank loans stand out as potential instruments of economic coercion simply because China has become such an outsized player relative to other policy bank lenders. For countries to be vulnerable, they would need to lack access to other sources of lending.

Table 4 identifies the countries in Latin America that fall into the top quintile of potential vulnerability on trade, investment, and debt in 2014, drawing on data from Tables 1, 2, and 3. If China is able to use its economic leverage to influence Latin America, we should observe this effect most strongly in the countries where such a relationship is closest (i.e. the top quintile).

Table 4: Potential vulnerability to Chinese economic leverage

Country	Top quintile in trade	Top quintile in investment	Top quintile in debt
Argentina	X		X
Bolivia			X
Brazil	X		
Chile	X		
Ecuador		X	X
Guyana		X	
Paraguay	X		
Peru	X		
Surinam		X	
Trinidad and Tobago		X	X
Uruguay	X		
St. Vincent and the Grenadines		X	
Venezuela		X	X

The following discussion examines whether these potentially vulnerable countries show evidence of changes in domestic policy specifically to benefit China, to the detriment of its sovereignty or its citizens. In other words, we look for evidence of "win-lose" scenarios across the range of possible vulnerabilities.

[18] Barbara Kotschwar, "China's Economic Influence in Latin America," *Asian Economic Policy Review* 9, no. 2 (2014) 202–222, doi:10.1111/aepr.12062.

Trade vulnerability: High levels of trade on their own do not appear to be a particularly strong predictor of change in domestic policy to favor China. Venezuela is the most obvious case where government policy specifically favored trade with China. Beginning in 2007, Venezuela committed to repaying loans from Chinese policy banks with its dominant export product, crude oil. Loan disbursements were managed through the China-Venezuela Joint Funds Agreement, and China had the dominant voice in this joint agreement. The practical result was that much of the loans provided by Chinese policy banks were used to finance imports from China into Venezuela, including large amounts of consumer goods.[19] But Venezuela is vulnerable to Chinese leverage on multiple dimensions, so it is not possible to attribute this effect to the trade relationship alone, nor is China Venezuela's largest trading partner (the United States remains Venezuela's largest trading partner). We were not able to find reports of policy changes designed to benefit solely China in other Latin American countries whose only vulnerability is on the trade front. In fact, most of the evidence appears to point in the other direction.[20] Chile, one of the countries with the highest level of dependence on trade with China, exhibits no shifts in domestic policy designed to specifically favor Chinese investors.[21]

Investment vulnerability: There is more evidence of Chinese influence in foreign direct investment, particularly greenfield investments, which has often been documented via written agreements or changes in local rules or laws. We systematically examined media reporting in English and in regional languages using Lexis-Nexis on major Chinese investments in Latin America using data provided by the American Enterprise Institute/Heritage China Global Investment Tracker for the period of 2006 to 2015 (which coincides with the largest expansion of Chinese FDI in Latin America). After reviewing the 192 investments listed in this database, we found a very limited set of cases in which China received special treatment

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[19] Robert Evan Ellis, *China in Latin America: The Whats and Wherefores* (Boulder: Lynne Rienner Publishers, 2009), 110.

[20] "Brazil tightens land acquisition by foreigners: 'Speculators and sovereign funds,'" Mercopress, March 17, 2011, http://en.mercopress.com/2011/03/17/brazil-tightens-land-acquisition-by-foreigners-speculators-and-sovereign-funds.

[21] Theodore Piccone, "China and Latin America: Geopolitical Implications of Growing Economic and Trade Ties" (presentation at Annual Meeting of the Latin American Studies Association, New York, NY, May 27, 2016).

for its investments in Latin America.[22] We cross-referenced our findings with the scholarly literature on China's role in Latin America to identify further cases.

We find that China's influence is most evident in decisions about sourcing labor, materials, and selecting contractors. The most widely reported example of influence has been the use of Chinese labor by Chinese companies in substitution for local labor. These conditions effectively modify local labor and immigration regimes, granting China a particularly privileged role in comparison with other foreign investors. Argentina, Ecuador, and Venezuela all have put such exceptional labor regimes in place as part of financial agreements with China.[23] Guyana and Suriname, both of which have experienced rapid growth in Chinese investment, have also experienced large migration flows of Chinese labor to work on infrastructure and construction projects.[24] Trinidad and Tobago, Jamaica, and Costa Rica all received infrastructure investment from China for projects such as hospitals and stadiums on the condition that Chinese labor would be employed as well.[25] Because these agreements are sovereignty diminishing for the Latin American partner, it is difficult to see why a Latin American leader would accept such a deal unless the alternative (the denial of a loan or investment commitment) was even more costly.

It also appears quite common for Chinese investments or projects built with Chinese policy bank funding to have a "buy China" requirement when it comes to the selection of contractors and suppliers. This was the

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[22] Derek Scissors, "China Global Investment Tracker," (database) American Enterprise Institute & The Heritage Foundation, Washington D.C., 2016. Additional data collection by Joshua Glover and Harold Trinkunas to verify whether China received favorable treatment on labor regulations, contracting awards, or land acquisition. Data drawn from media reporting in Lexis-Nexis and cross-verified using Google News search engine. Searches conducted in English and in local languages where available.

[23] Dulce Maria Rodriguez, "Trabajadores chinos laboran hasta 14 horas diarias en Misión Vivienda," *El Nacional*, January 9, 2013, http://www.el-nacional.com/economia/Trabajadores-laboran-diarias-Mision-Vivienda_0_114589737.html; "El Nuevo convenio con China permite eludir licitaciones y habilita la llegada de trabajadores orientales," *Infobae*, December 29, 2014, http://www.infobae.com/2014/12/29/1617871-el-nuevo-convenio-china-permite-eludir-licitaciones-y-habilita-la-llegada-trabajadores-orientales; Thalía Flores, "China pisa fuerte en Ecuador, pero con claroscuros," *ABC Internacional*, January 13, 2016, http://www.abc.es/internacional/abci-china-pisa-fuerte-ecuador-pero-claroscuros-201601130136_noticia.html.

[24] R. Evan Ellis, "Suriname and the Chinese: Timber, Migration, and Less-Told Stories of Globalization," *SAIS Review of International Affairs* 32, no. 2 (2012): 85-97; Kevin Edmonds, "Guyana: Colonialism with Chinese Characteristics," *NACLA* June 26, 2013, https://nacla.org/blog/2013/6/26/guyana-colonialism-chinese-characteristics.

[25] R. Evan Ellis, *China on the Ground in Latin America* (New York: Palgrave Macmillan US, 2014), 51–53, http://link.springer.com/10.1057/9781137439772.

case with the Coca Codo Sinclair hydroelectric plant in Ecuador, where SinoHidro received an exception to local rules requiring an Ecuadorean partner.[26] Argentina received $7.5 billion in loans for the construction of hydroelectric plants and railways, but also on the condition of employing Chinese suppliers and construction companies.[27] Similar conditions were placed on the massive loans to Venezuela, which required the use of Chinese suppliers and contractors for the construction of railways and the creation of a new airline.[28] Chinese investors were given preferential treatment in the process of awarding a contract for a high speed railway in Mexico, although in this case, corruption rather than leverage appears to be the main motivation for the special treatment.[29] By contrast, while negative behavior of Chinese companies in Peru's mining sector is often discussed in the literature, there appears to be no systematic favoring of such companies over other foreign investors.[30]

Occasionally, investment deals with China provide privileged access to land to Chinese companies. In the case of Argentina under President Cristina Fernández de Kirchner, favorable concessions to China included a free, 50-year lease of land for a space monitoring station under conditions that only allowed Argentina access to use of the facility 10 percent of the time (although the terms of this deal were subsequently revised under the Macri administration in 2016).[31] In Jamaica, the China Harbour Engineering Company received a 50-year concession and access to land alongside a $730 million highway to enable it to build additional projects. This project imported 1,000 Chinese laborers.[32] Another widely reported example can be found in Nicaragua's decision to provide unusually generous terms to acquire the use of land for a Chinese-led effort to build an inter-oceanic

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[26] R. Evan Ellis, "Chinese Soft Power in Latin America: A Case Study," *Joint Forces Quarterly* 60, no. 1 (2011): 85–91.
[27] Enrique Dussel Peters, "China's Evolving Role in Latin America: Can It Be a Win-Win?" (Atlantic Council, September 16, 2015).
[28] Ellis, *China in Latin America*, 110.
[29] Nathan Vanderklippe Praet, "CHINA: Cancelled rail contract weighs on Mexico at summit." *Globe and Mail* (Canada), November 11, 2014, http://www.theglobeandmail.com/report-on-business/international-business/cancelled-crcc-contract-weighs-on-mexico-at-summit/article21525964/
[30] Theodore Moran, Barbara R. Kotschwar, and Julia Muir, "Chinese Investment in Latin American Resources: The Good, the Bad, and the Ugly," *Peterson Institute for International Economics Working Paper*, no. 12–13 (2012), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2007277; Irwin and Gallagher, "Chinese Mining in Latin America."
[31] Martín Dinatale, "China aceptó cambios en los contratos que acordó con Cristina Kirchner," *La Nación* (Buenos Aires), May 20, 2016, http://www.lanacion.com.ar/1900603-china-acepto-cambios-en-los-contratos-que-acordo-con-cristina-kirchner.
[32] Roee Ruttenberg, "$730M Chinese-built highway opens in Jamaica," CCTV America, March 23, 2016, http://www.cctv-america.com/2016/03/23/730m-chinese-built-highway-opens-in-jamaica.

canal, although this project has not advanced beyond the earliest planning stages.[33]

Finance vulnerability: There are a small number of Latin American states that have lacked ready access to international capital markets, and for these countries, China has been an important alternative. Argentina, following a default on international local obligations in 2002, had limited access to capital markets until a settlement was reached with bondholders in 2016.[34] Ecuador was in a similar position from 2008, when it defaulted on international debt obligations, until 2014 when it re-entered markets.[35] After Venezuela's economy entered crisis in 2013, its sovereign and Petróleos de Venezuela, S.A. (PDVSA) bonds were considered so risky that the government was effectively priced out of international capital markets unless it was willing to pay exorbitant interest rates.[36] The fourth of the major recipients of Chinese policy loans, Brazil, has seen its international credit downgraded to junk bond status, raising the cost of borrowing, but it still has some access to international capital markets, large foreign reserves, and the ability to borrow in domestic markets that limit its vulnerability in this case.[37]

When it comes to lending, China explicitly claims that there are no conditions on its policy loans. And a review of the process by which Chinese policy banks and regulatory agencies set standards and approve loans shows an emphasis on using local systems (in the recipient state) to address issues related to labor and environmental standards. This is consistent with China's declared policy on respect of sovereignty. Yet China does impose conditions on project execution designed to favor Chinese companies and Chinese nationals. The most obvious is the requirement to use Chinese

[33] Ellis, *China on the Ground in Latin America*; The Nicaragua canal project, highly popular with Nicaraguan voters, likely helped President Ortega win re-election, and it may have provided opportunities for corrupt self-enrichment. But as of the writing of this paper, it has not produced concrete infrastructure improvements in Nicaragua.

[34] Aldo Caliari, "Where the Argentine Debt Case Stands Now, and Why It Still Matters," *NACLA*, April 6, 2015, https://nacla.org/news/2015/04/06/where-argentine-debt-case-stands-now-and-why-it-still-matters.

[35] "Fool me once," *Economist*, June 10, 2014, http://www.economist.com/blogs/americasview/2014/06/ecuador-and-capital-markets.

[36] Sebastian Boyd," "Venezuela's Descent into World's Riskiest Sovereign Credit: Q&A," *Bloomberg*, February 10, 2016, http://www.bloomberg.com/news/articles/2016-02-10/venezuela-s-descent-into-world-s-riskiest-sovereign-credit-q-a.

[37] Jonathan Watts, "Brazil: Moody's Becomes Third Rating Agency to Label Country's Debt Junk," *Guardian* (UK), February 24, 2016, http://www.theguardian.com/world/2016/feb/24/brazil-debt-junk-rating-moodys.

companies to build projects for which Chinese loans are provided.[38] Similar to how Argentina, Ecuador, and Venezuela have made changes in labor laws and regulations to accommodate China, these countries have also changed their contracting regulations to allow direct award by their executive branch to Chinese companies, bypassing existing regulatory frameworks. In addition, although it is only one data point, China has apparently insisted that Venezuela use new loan tranches to increase oil and mining output rather than as general budgetary support, which is how the Venezuelan government had initially used Chinese funds.[39] Thus far, Venezuela's oil production continues to decline amidst a general economic crisis, highlighting the limits of Chinese influence, even in the Latin American state most vulnerable to its leverage.[40]

Latin America pushes back

In reviewing evidence of Chinese leverage, it is also clear that many Latin American states are wary of China. In particular, several Latin American countries have passed legislation restricting China's ability to acquire land, particularly for agricultural purposes. This includes countries and leaders otherwise willing to accept Chinese conditions, such as Argentina under President Cristina Fernández de Kirchner. China's efforts to invest in financial sectors in the region have been heavily scrutinized, particularly in Peru and in Argentina. Efforts to invest in mining and energy have also run into resistance from the private sector in the region, who are very critical of the government-to-government nature of such transactions. And the use of Chinese labor has repeatedly drawn objections from civil society and opposition parties across the region.[41] Even in relatively small states, such as Bahamas, Costa Rica, and Guyana, Chinese projects have failed to reach completion due to push back from opposition parties and disagreements with local partners.

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[38] Kevin P. Gallagher, *The China Triangle: Latin America's China Boom and the Fate of the Washington Consensus* (New York: Oxford University Press, 2015).

[39] Andrés Rojas Jiménez, "China's Loans to Venezuela: a new diplomatic relationship for an oil country" (presentation to 'China's Effect on Latin American Standards' roundtable, Inter-American Dialogue, Washington DC, January 27, 2016).

[40] Matt Egan, "Why Venezuela's oil production plunged to a 13-year low," *CNN Money,* July 12, 2016, http://money.cnn.com/2016/07/12/investing/venezuela-crisis-oil-production-plunges/.

[41] Ellis, *China on the Ground in Latin America*, 132–149.

"Chinese investment and lending, particularly in combination, appear to have the most direct impact on policy outcomes in Latin America."

In sum, if we review the list of potentially vulnerable countries in Table 4 and the evidence of special treatment for China in trade, investment, and financing, there does appear to be a relationship. Chinese investment and lending, particularly in combination, appear to have the most direct impact on policy outcomes in Latin America. Five of six countries in the top quintile for investment from China and six out of six countries in the top quintile for loans from China have entered into agreements that provide China with special treatment. Trade appears to have the weakest effect, with only Argentina in the top quintile exhibiting evidence of special treatment for China. So the overall evidence for Chinese special treatment is concentrated on the most vulnerable countries. It is those governments that have had few alternatives for external financing—Ecuador under President Correa, Argentina under President Fernández de Kirchner, and Venezuela under Presidents Chávez and Maduro—or small, heavily indebted states in the Caribbean with weak access to international capital markets where we see the greatest evidence of special treatment.

Does China's economic relationship with Latin America indirectly affect domestic politics?

But what about the potential indirect effects of China's economic relationship with Latin America? The surge in trade between China and Latin America after 2000 made a significant contribution to the decade of above-average economic growth that the region experienced, especially in South America. The expansion of foreign direct investment, initially in mining and energy and in infrastructure construction, further contributed to the region's economic prosperity. Although China has not included Latin America in its vaunted "One Belt, One Road" initiative for transport infrastructure, the logic of recent Chinese investments and loans across the region is much the same: use Chinese capital to utilize surplus capacity in China through infrastructure construction abroad.[42]

In the long run, Chinese trade may have a "behind the scenes" effect on domestic politics in Latin American states by empowering domestic actors who are the principal beneficiaries of trade with China, primarily mining

[42] David Dollar, "China's Rise as a Regional and Global Power: AIIB and the 'One Belt, One Road'," *Horizons* no. 4 (Summer 2015): 162-172.

interests (until the downturn in Chinese demand in recent years) and agricultural interests. However, we should be mindful that this effect is quite new, and China (unlike the United States) so far lacks the extensive set of relationships with domestic political actors that would allow it to indirectly influence policy. In addition, Latin American manufacturers and industrial unions have complained bitterly of unfair competition from Chinese imports and trade barriers impeding Latin American manufacturers from supplying Chinese markets. Chinese mining in particular has also produced backlash from indigenous organizations and their supporters in civil society. These outcomes were not China's intention, but are the natural consequence of China's dynamic competitive advantage and relatively recent entry into these markets. Nevertheless, these discontented actors form an important political counterweight to any emerging pro-China elements in civil and political society.[43]

China's investment decisions do not appear to be particularly ideological or oriented towards good governance conditions, as David Dollar documents. It cooperates with governments that are more economically liberal in orientation such as Chile and Peru in addition to maintaining strong ties to left-leaning governments in countries such as Ecuador and Venezuela. But because of its indifference to governance indicators, China is overrepresented in countries with weak governance.[44] To be clear, weak governance in Venezuela and strong governance in Chile (for example) are a product of local structures, institutions, and policy choices, not a consequence of Chinese policies. Poor policy choices in Argentina, Ecuador, and Venezuela had the effect of cutting these countries off from alternative sources of capital and investment. And these choices preceded the growth in the relationship with China. In effect, the leaders of these countries made themselves more vulnerable to Chinese pressure because they chased away alternatives that might have given them options (and leverage) vis-à-vis China.

The availability of Chinese policy loans to finance construction activities by Chinese firms gave Latin American governments new capabilities to

[43] Mauricio Mesquita Moreira, "Fear of China: Is There a Future for Manufacturing in Latin America?" *World Development* 35, no. 3 (2007): 355-376. Kevin Gallagher and Roberto Porzecanski, *The Dragon in the Room: China and the Future of Latin American Industrialization* (Stanford: Stanford University Press, 2010). Irwin and Gallagher, "Chinese Mining in Latin America."

[44] David Dollar, "China as a Global Investor," Asia Working Group Paper No. 4, Brookings Institution, Washington, D.C., May 2016.

address the persistent underinvestment in infrastructure. And in the countries that were the largest recipients of Chinese policy bank loans—Argentina, Brazil, Ecuador, and Venezuela—this large injection of capital with minimal conditionality gave these governments the ability to pursue policies that they would never have been able to afford otherwise. But this does not mean that the recipients of China's largesse made wise policy choices; Argentina, Brazil, and Venezuela are all facing economic difficulties of their own making because Chinese loans enabled local governments to delay making needed economic adjustment to compensate for the end of the commodity super-cycle in 2011 to 2012.

Chinese loans have had an impact on the region's politics by further enabling the region's chief executives to act independently relative to other branches of government. China's loans tend to focus on government-to-government agreements or on state-owned enterprises, and negotiations for both are handled by the executive branch. And we have seen the region's presidents, especially in Argentina, Ecuador, and Venezuela, use Chinese funding to evade the scrutiny and control of legislatures and judiciaries. In a region already characterized by hyperpresidentialism, China is indirectly eroding the checks and balances on executive power. It also may be contributing to deepening corruption, a problem that both China and many of the region's states share. Already, a major corruption scandal in Mexico over a plan to build a Chinese-backed train has helped to derail the presidency of Enrique Peña Nieto.[45]

China has essentially acted as an enabler for the region's governments. Because its trade, investment, and lending has affected countries characterized by both good and poor governance environments, China has enabled both consolidated democracies in countries such as Chile and Uruguay, and corrupt and increasingly authoritarian populist governments in Ecuador and Venezuela. In the case of Venezuela, Chinese financial support was a component of an all-out effort by the United Socialist Party of Venezuela to use government resources to support President Chávez's, and then President Maduro's, narrow electoral victories in 2012 and 2013.[46]

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[45] Maria Elena Navas, "México: el tren bala, la mansión presidencial y el enojo de China," BBC Mundo, November 11, 2014, http://www.bbc.com/mundo/noticias/2014/11/141111_mexico_china_reaccion_cancelacion_tren_men.

[46] Daniel Wallis, "Venezuela's post-Chavez oil policy to focus on China, Russia," *Reuters*, March 15, 2013, http://www.reuters.com/article/venezuela-election-oil-idUSL1N0C69N220130315.

But China is more than just an enabler for the region's governments. The more salient the Latin America-China relationship becomes, the more China emerges as a risk for the region as a whole. The slowing of China's economy after 2012 and its rebalancing towards consumption has had a negative follow-on effect on South America's commodity exporters. Slowing economies have undermined the political fortunes of incumbent parties across the region. Populist parties in Argentina, Bolivia, and Venezuela have lost elections. The party of Peruvian President Ollanta Humala lost all of its seats in the legislature in its 2016 elections. Brazilian President Dilma Rousseff was impeached and removed in August of 2016. There is a wave of anti-incumbent sentiment in Latin America as voters hold politicians accountable for poor performance. And in part, poor performance reflects changes in China's economy that some Latin American states are not prepared to absorb.[47]

"The more salient the Latin America-China relationship becomes, the more China emerges as a risk for the region as a whole."

Conclusion

Has China's economic relationship with Latin America grown rapidly since 2000? Yes, and as many have argued, there is great complementarity between the two regions. China needs the commodities Latin America produces. Latin America needs the manufacturing products China produces. Chinese finance and infrastructure investment capabilities are very strong, and its domestic market for such is saturated. Latin America needs both capital and infrastructure, which China is very good at building.

That there is a growing political and diplomatic relationship between China and Latin America is a natural and predictable consequence of denser economic ties. China does not need to exert leverage over or buy support from Latin American states in order to enter into political and economic agreements that are truly "win-win."

Do China's expanded economic ties give it the ability to pressure Latin American states to alter domestic policy and politics? Here, the evidence is more circumspect. As the discussion in this paper suggests, China's ability

[47] Marina Jimenez, "As Peru Votes, Latin America's 'Pink Tide' Appears to be Over," *Toronto Star*, April 9, 2016, https://www.thestar.com/news/world/2016/04/09/as-peru-votes-latin-americas-pink-tide-appears-to-be-over.html.

to use economic coercion versus target countries in Latin America is circumscribed. Not only does it violate its declared policy of non-interference and respect for sovereignty, but only a limited number of countries are particularly vulnerable to overt Chinese efforts to influence policy. The few cases that were or are most vulnerable (Argentina under Fernández, Ecuador under Correa, Venezuela under Maduro) lacked or lack alternatives—often due to self-inflicted wounds from poor domestic policy choices. In the Caribbean cases, these are small states, often already quite indebted, with limited access to additional loans from international capital markets and limited ability to comply with conditions established by multilateral banks. And here, we do see that China has achieved policy changes to labor regulations, land tenure regulations, and/or contracting regulations for its own benefit. This is different from China's behavior in countries where labor, environmental, and indigenous rights may be poorly enforced, such as Peru, but there is no particular pattern of exceptional treatment for China.[48] But even in the vulnerable countries, the policy changes are quite narrow and technical in nature, designed to give China a competitive advantage economically rather than achieve broader political change.

China's relative indifference to poor governance countries may change as Latin America's politics evolve over the coming years. Many of its major investment and lending partners have entered varying stages of political and economic crisis. This may lead China to reconsider the risks associated with investing in countries with weak governance indicators. And there is in fact evidence that Chinese policy banks are paying greater attention to this issue. The evolution of Chinese thinking on this set of issues is worth further study, particularly as it relates to a broader set of goals for the region and for the evolution of China's soft power in Latin America.[49]

We should also be skeptical about China's ability to influence the "behind the border" political economy of Latin American countries. Undoubtedly, some domestic actors in Latin America gain an advantage from relations with China. These may be leftist political parties, populist presidents in search of resources, or economic sectors that benefit from trade with China. But the counterpart to this is the emergence of sectors elsewhere in

[48] Barbara Kotschwar, Theodore Moran, and Julia Muir, "Do Chinese Mining Companies Exploit More?" *Americas Quarterly* (Fall 2011), http://americasquarterly.org/do-chinese-mining-companies-exploit-more.

[49] Kotschwar, "China's Economic Influence in Latin America," 217.

the economy—such as manufacturing and industrial labor unions, civil society groups concerned with human and labor rights, and indigenous organizations—that are quite critical of China. And it will take decades for China to accumulate the dense network of economic, social, and political ties that traditional trading partners (Europe and North America) have with the region.

What are the implications for the United States?

First, U.S. policymakers should be skeptical of the threat-based narrative that China is competing with or excluding U.S. influence from the region. The United States remains a very important economic partner for many Latin American countries. China's growing relations with the region is a logical outcome of the economic complementarity between the two sides, particularly during the period when China's appetite for commodities was growing rapidly. That denser political and diplomatic ties followed in the wake of stronger economic relations is perfectly predictable and consistent with the region's previous history.

Second, the ability of China to influence policy and politics is limited to a small number of vulnerable countries. As the case of Argentina after the 2015 presidential election shows, this vulnerability can be erased quite quickly through domestic policy changes.

Third, even if the United States decided it needed to compete with China for additional influence in the region, it lacks the policy instruments that China has developed in the form of large policy banks and state-owned enterprises. The U.S. Export-Import Bank is not an equivalent to these, and by and large, the United States has decided that such functions belong in the hands of multilateral institutions and the private sector. There is no conceivable political coalition in the United States that would decide otherwise in the foreseeable future.

Finally, the United States should focus on those policy domains where it continues to have an advantage over China. It should focus on defending democratic institutions in the hemisphere so that voters have the power to change bad policy themselves, as occurred in Argentina.[50] Despite backsliding in a small number of countries, the United States and Latin America still share a commitment to democracy, something that China does not.

And the United States should focus on expanding trade ties through treaties such as the Trans-Pacific Partnership (TPP) and through redoubling its efforts on trade facilitation in the Americas. The TPP and trade facilitation efforts, because they also have an effect on local regulatory environments and on good governance, can have a more powerful and direct effect on domestic political economy than trade and investment from China. In addition, Latin America's economic elites, particularly in the industrial sector, understand that non-tariff barriers in China will prevent them from accessing the Chinese market on the same terms as in the United States. When it comes to manufacturing and services, the United States will remain the more attractive trading partner for much of Latin America in the coming decade.

[50] Simon Romero and Jonathan Gilbert, "In Rebuke to Kirchner, Argentines Elect Opposition Leader Mauricio Macri as President," *New York Times*, November 22, 2015. http://www.nytimes.com/2015/11/23/world/americas/argentina-president-election-mauricio-macri.html?_r=0.

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