GLOBAL CHINA
ASSESSING CHINA'S GROWING ROLE IN THE WORLD

CHINA AND LATIN AMERICA: A PRAGMATIC EMBRACE

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EXECUTIVE SUMMARY

China's maturing relationship with the diverse nations of Latin America and the Caribbean (LAC), driven primarily by economic security interests, is facing new challenges as the struggling region copes with an intensifying wave of economic, public security, and public health crises. Eager to find new paths out of their chronic underdevelopment, the region's governments largely welcomed Beijing's entry into the hemisphere in the mid-2000s. The honeymoon of this first decade of growth, mainly in trade and investment ties, has morphed, however, into a more pragmatic embrace circumscribed by a mix of both popular and elite skepticism of the benefits of getting too close to Beijing. Concerns regarding China's political, environmental, labor, and commercial practices, and their effects on certain constituencies in the region, are generating a pushback in some countries. Overall, however, the benefits of closer ties to China still seem to outweigh the costs and, given limited options amidst a serious economic downturn, LAC countries are likely to continue to invest in stronger relations with Beijing.

The United States, meanwhile, has woken up to the long-term threat China poses to its own longstanding role as the leading power in the region. Bipartisan views are converging on the need for a more robust response to China's rise both globally and regionally. Although the Trump administration has failed to leverage these trends by setting the proper tone or substance for policies that would help swing relations back toward Washington, the deep roots of U.S.-Latin American relationships could nurture a revival of ties built on a consensus around democracy and human rights, fair trade, and more equitable and sustainable development. Regardless of who wins the presidential election in November, the United States should ramp up a more generous and sophisticated approach to its hemispheric partners so as not to cede more ground to China.

INTRODUCTION

Since it burst on the scene over a decade ago, China's budding relationship with the LAC region has entered a more complicated stage as both sides test the costs and benefits of a tighter embrace. In economic terms, China has risen in the region from a near non-entity in 2000 to a clear heavyweight in terms of trade and investment. For a region perpetually struggling to reach economic growth rates that would lift millions of its citizens out of poverty, China's self-proclaimed "win-win" economic statecraft offers the LAC region an important route to expand its reach into global supply chains and finance new infrastructure and energy systems.

As LAC's dependency on China grows, however, tensions and contradictions are mounting, forcing both sides to navigate more troubled domestic and international waters. The United States, in particular, has ramped up a campaign to compete more directly with Beijing on several fronts, including in its hemisphere. The COVID-19 pandemic has seriously exacerbated these tensions, though China's own economic downturn may limit its options to exploit the situation, at least for now. Nonetheless, the region's governments are increasingly desperate for capital and may become more flexible in their dealings with Beijing, if it decides to continue its push into the region against economic headwinds.

> **"With China confronting its own economic and reputational troubles... now is the time for the United States to make a concerted push...in its hemisphere.**

For Washington, China's expanding influence in its southern neighborhood has presented a substantial dilemma: should it try to match China's new activism by offering new and improved policies that would tie the region's most important countries to its model of democratic capitalism? Or should the United States accept China's new role as an important economic partner for the LAC's 32 countries and look for other ways to regain influence, for example, by solidifying its close political, cultural, and familial ties? Given the varied typology of the region's political regimes, and its current fragmentation, the answers will depend to some extent on which country one is discussing. A combination of improved economic and trade policies with enhanced political and diplomatic ties is also a viable approach. But with China confronting its own economic and reputational troubles, and Washington more united than ever to challenge its global rise, now is the time for the United States to make a concerted push for reviving its strategic partnerships and investments in its hemisphere.

CHINA'S AFFAIR WITH LATIN AMERICA AND THE CARIBBEAN

After the Cold War, as ideological and military conflict with communist Soviet Union and China subsided, the United States embarked on a comprehensive strategy to cement market economies, free trade, and representative democracy in its own hemisphere. As political winds changed direction in the region, however, consensus around this path, particularly around free trade, broke down, opening a wider path for a rising China to gain a foothold. More recently, with the ascent of Donald Trump's nationalist, protectionist, and anti-immigrant agenda, China looked even better as a viable partner in the eyes of many Latin American leaders.

As part of a wider strategy of expanding their country's international economic and political engagement, Beijing's leaders began targeting the LAC region in the 2000s as a natural window of opportunity for advancing their global ambitions. China's core interests in the region are straightforward: it seeks primarily to secure the energy, metals, and food inputs it needs to fuel its robust economy and growing middle class, and to expand export markets for its excess capacity in both heavy and retail manufactured goods. Secondarily, it sees the region as a zone of competition with its diplomatic rival, Taiwan (Republic of China), which retains recognition and support from some sympathetic LAC governments.[1] Third, it looks to compete with the United States in its own neighborhood in part to reciprocate, at least symbolically, Washington's longstanding security presence in China's geographic orbit, but also to accomplish its broader goals of rising to the top of the international food chain. And finally, Beijing wants to support ideological and other friendly fellow travelers such as the Nicolás Maduro regime in Venezuela and the entrenched post-Castro leadership in communist Cuba, though this policy has its limits. The overarching goal driving these interests is the Chinese Communist Party's obsession with preserving power, which requires high rates of economic growth to continue its quest to reduce poverty and build a "Chinese dream" of middle-class security.

To advance these core interests, China's top leaders began making a series of high-level visits to the region followed by issuance of a comprehensive LAC policy in 2008, packaged under the banner of peaceful coexistence, mutual respect, South-South solidarity, and protection of national sovereignty, along with huge increases in trade, loans, and investment.[2] Not surprisingly, this approach was well received throughout the region.[3] An updated version of the regional policy, released in November 2016, builds on these themes, promising a "comprehensive and cooperative partnership of equality, mutual benefit and common development."[4] A new "1+3+6" formula for building closer trade, investment, and financial ties emphasized such priorities as energy, agriculture, infrastructure, and information technology.[5] The partnership, organized through the Community of Latin American and Caribbean States (CELAC, a grouping which excludes the United States), includes a wide range of initiatives, fora, and exchanges covering, for example, science and technology, agriculture, political parties, youth, think tanks, and legal experts.

Such a broad range of relationships between communist China and Latin America represents a stunning sea change in the regional landscape, where the United States, with Europe a distant second, was the dominant player for decades. The main driver, however, is economic. It was not so long ago when China was literally absent from economic life in Latin America and the Caribbean. In 2000, China's volume of trade with the region amounted to $12 billion; by 2019, it had reached almost $315 billion.[6] It is now the primary trade partner for Brazil, Chile, Uruguay, Peru, and Argentina. Chinese state policy loans to LAC governments exceeded $140 billion since 2005;[7] prior to 2008, they had never reached $1 billion a year. In 2015, bilateral loans from Chinese banks exceeded the loan commitments of the World Bank and the Inter-American Development Bank combined.[8]

More recently, the traditional character of Chinese-LAC economic relations has evolved toward a broader mix of instruments and relationships. While Chinese policy banks have slowed down their investment over the last four years, the overall economic relationship remains strong when taking into account other measures. Chinese greenfield investments, for example, in which Chinese state-owned and private enterprises establish their own commercial entities in the region with greater control over hiring, capital investment, and business strategy, reached a record $12 billion in 2019 alone.[9] Chinese companies have shifted from investing solely in extractive sectors to service and infrastructure as well, e.g., in electricity, internet, railway, and port projects. A growing number of LAC countries have signed up to China's signature Belt and Road Initiative (BRI)[10] and, as in the case of Ecuador, Bolivia, Brazil, Chile, and Peru, joined the Asian Infrastructure Investment Bank.

Despite some diversification, at the heart of this intensifying relationship is the same traditional model followed by most LAC countries for decades: LAC sells China raw materials like oil, metals, and foodstuffs, while China sells LAC manufactured goods and technical services like engineering and information technology. In order for this arrangement to prosper, China is shifting more of its investments toward overcoming Latin America's major transportation challenges and logistics gaps. China's underwriting of bridges, railroads, ports, and energy generation projects are strategically aimed at facilitating a more efficient flow of goods between two distant trading partners. Recent examples include a $2.3 billion investment by China Ocean Shipping Company, a Chinese state-owned enterprise, in a shipping port in Peru; $3.9 billion in construction contracts to build a major highway and modernize railroads in Argentina; and a $3.45 billion deal by China's State Grid Corporation to buy a controlling stake in Brazil's third biggest electric utility.[11] Mexico's integrated supply chains with the United States and Canada, reinforced by the renegotiation of the North American Free Trade Agreement (NAFTA) as the United States-Mexico-Canada Agreement, have made it attractive to Chinese investments in automobile assembly.[12]

As China has expanded and shifted its economic activities in the region, it has continued to find partners who, for the most part, are eager to diversify their trade and financial dependence away from the United States, the International Monetary Fund (IMF), and other large international economic and trade institutions led by Washington. Many LAC governments have chafed at some of the onerous conditions imposed by these multilateral banks and the harmful effects they have had on their political fortunes. Riots over increases in cooking fuel prices in Ecuador and privatization of water supplies in Bolivia, which were cast as fiscal austerity measures required to meet strict IMF loan conditions, are manifestations of a larger antipathy toward Western influence and conditionality.

As these countries have struggled to maintain creditworthiness to borrow on international markets, they have been more willing to turn to China, even as Beijing's terms have hardened, especially for debt-ridden countries like Venezuela. Although full transparency of contract terms is lacking, there are some reports that Chinese loans must be repaid in raw materials, e.g., barrels of oil from cash-strapped Venezuela and Ecuador.[13] Concerns are growing of debt traps in which Chinese banks are extending unsustainable credit to low-income states as a way to gain control of important strategic assets upon default.[14] On the trade front, as cheap Chinese exports flood LAC markets, manufacturers increasingly are complaining that China has not fulfilled its promise to open its own domestic markets to LAC goods and services, raising real concerns regarding trade imbalances and dependency.[15] Meanwhile, in countries like Mexico and Cuba, hopes for generating revenue from increased Chinese tourist travel have collapsed in the wake of the COVID-19 pandemic. And Chinese bids to play a bigger role in the region's telecommunications and e-commerce space, such as Huawei's bid to win major concessions on 5G networks, are raising red flags around national security, surveillance, and privacy.

FROM HAPPY HONEYMOON TO BUMPY MARRIAGE

The positive effects of China's amped-up economic activity in the LAC region — booming exports of iron ore from Brazil, soy crops from Argentina, and metals from Chile, and new bridges, tunnels, and football stadiums sprinkled from Dominica to Bolivia — are substantial. Nonetheless, tensions over China's role are growing at different levels of LAC societies. Elites are divided between those who have benefited from the relationship, and those, like Brazilian manufacturers, who have been hit hard by cheap Chinese imports. In addition to debt sustainability concerns noted above, China's commercial behavior — stipulations to use Chinese companies, labor, or equipment as a condition of financing, and a general lack of transparency — has sparked significant controversies with labor unions, local communities, and environmental movements. The China-backed Rosita dam project, for example, was suspended in Bolivia due to opposition from indigenous communities,[16] while the Hidrovia Amazonica project in Peru was delayed due to allegations of bribery and corruption.[17] Chinese investment in coal mining in Colombia has propped up an industry in areas with worse health, education, and governance outcomes.[18]

Public opinion is also split: some complain that China's deep pockets have enriched the upper class, further worsening inequality, while others see Beijing as a positive counterweight to the United States. In a recent Pew Research Center poll taken in Brazil, Argentina, and Mexico, favorable views of China easily prevailed over negative views, particularly when it came to the positive effects of Chinese economic growth on their countries, where ratings improved markedly since 2014.[19] Views split on whether Chinese investment was good or bad, with Brazilians and Mexicans notably more positive and Argentines more negative by a margin of 47% vs. 43%. On the question of Chinese military growth, 59% of those questioned in Argentina viewed Chinese military growth as bad, up 20 points since 2007, while Mexicans were more positive. Layered through this dynamic is the unmistakable impact of Chinese propaganda, training of journalists and foreign officials, professional and student exchanges and language courses, and use of sophisticated technology to convey a more positive impression of Chinese influence.[20]

> **"The outsized role China has assumed in the region's economic development has spilled over into its politics.**

Not surprisingly, the outsized role China has assumed in the region's economic development has spilled over into its politics. As candidates on the campaign trail, political leaders such as Jair Bolsonaro of Brazil, Nayib Bukele of El Salvador, and Mauricio Macri of Argentina exploited populist anger and skepticism toward China and promised a tougher approach toward Beijing.[21] Once in power, all three leaders, highly vulnerable due to weak economic forecasts and powerful business constituencies, reversed course and found ways to accommodate China and its own domestic powerbrokers.[22] Although the COVID-19 pandemic has scrambled this calculus at the rhetorical level, for example in Brazil,[23] most governments in the region recognize that they cannot climb out of the impending severe recession without China's largesse. Many are eagerly welcoming donations of medical supplies and other assistance from China and hoping for sustained support in the years to come.[24]

When it comes to marshaling a regional or subregional response to China's increasingly assertive diplomacy in the LAC region, there are few signs of any coherent strategy. Over the last decade, the region has largely fragmented along heterodox political lines and no regional hegemon has emerged to unify its parts for or against China. Brazil and Venezuela once aspired to this role through the Union of South American Nations

(UNASUR) and Bolivarian Alliance for the Peoples of Our America (ALBA) — but both, for different reasons, largely collapsed as power brokers or turned inward, as has Mexico under President Andrés Manuel López Obrador more recently. The Pacific Alliance, a loose grouping of four Latin American democratic states (Chile, Colombia, Mexico, and Peru) committed to integration based on more open trading regimes and stronger rules for transparency, labor, and environmental protection, offers some limited promise as a counterweight to China's state-led model but its influence remains to be seen. Mercosur, the Southern Cone common market, meanwhile, has pinned its hopes (pre-COVID-19) on a free trade accord with the European Union, while Brussels also has stepped up its regional activities in Venezuela, Colombia, and Cuba, and on a few priority items like climate change. Russia remains a player, mainly on energy and security matters with its closest partners (Venezuela and Cuba), and acts in a complementary if more explicitly anti-U.S. fashion to China. The bottom line, however, is that the strategic field is mainly clear for more direct U.S.-China competition.

IMPLICATIONS FOR THE UNITED STATES

After decades of interventionist and hegemonic behavior in the region, the United States after the Cold War shifted to playing a more benign, pro-reform role, supporting civilian democratic control of once dominant Latin American militaries, opening space for a more diverse civil society, and investing in environmentally-friendly development. The Clinton administration championed an ambitious hemisphere-wide agenda to unify the region around representative liberal democracy, free trade and market economies as the path to sustainable development. The Bush administration, after the 9/11 attacks, adopted a more onerous national security and counterterrorism approach to the region but also kept faith with robust funding for development assistance.

The Obama administration, saddled with a major migration crisis from the Northern Triangle, nonetheless made important progress toward a middle course, notably on rapprochement with Cuba and facilitating a major peace agreement in Colombia. This included negotiation of the Trans-Pacific Partnership (TPP), an upgraded trade arrangement incorporating several Latin American countries and designed to rival China's rise in the region. In sum, the United States in 2016 retained outsized, if declining, influence in what was becoming a more multipolar world.

Today, comparatively speaking, the current state of U.S.-LAC relations looks remarkably bleak. After three years of the Trump administration, the United States is practically displaced, largely absent, or has reverted to type as the threatening hegemon, prompting major declines in LAC favorable opinions toward Washington and a renewal of "Yanqui go home" antagonism. Trump has dramatically reversed course on a host of well-established policies from trade (withdrawal from TPP, for example) and migration to climate change and development assistance. His administration reclaimed and expanded strong-arm tactics and punitive sanctions against leftist regimes in Venezuela, Bolivia, and Cuba, and revived the interventionist rhetoric of the Monroe Doctrine of two centuries ago. While Congress has stepped in to ameliorate some of the damage, for example on development aid and renegotiation of NAFTA, the blow to the U.S. image is real. In the face of China's assertive commercial and soft power diplomacy, these hardball tactics are playing directly into the hands of Beijing and anti-U.S. constituencies in the LAC region. In the COVID-19 response, China seems to have done a better job in rushing medical supplies to more states in showy displays of solidarity and friendship (except, of course, to countries that still recognize Taiwan).[25]

As voters in the United States head to the polls later this year, it will be offered a stark choice on many issues, including how to handle relations with its closest neighbors. Trump's Republican Party has doubled down throughout his presidency on protectionism, anti-immigrant policies, and pushback against socialism (read Venezuela and Cuba), which carry real electoral appeal, particularly in the vote-rich swing state of Florida. This approach is likely to continue into Trump's second term if he is re-elected.

The Democrats, on the other hand, appear determined to restore or build upon many of the Obama-era policies that most affect the region, including softer treatment of migrants and refugees, support for clean energy, and new funding for anti-corruption, judicial reform, and other rule of law challenges that plague the region.[26] Trump's Democratic challenger, former

Vice President Joe Biden, has called for returning to the constructive engagement policies the Obama White House forged toward Cuba and "getting out of the business of regime change" regarding Venezuela, two countries closely aligned with China. As for taking on China's rise in the region more directly, Biden lays more blame on Washington than Beijing: "It is the current absence of American leadership in the Western Hemisphere that is the primary threat to U.S. national security. Russia and China can't match our extraordinary ties and common history with the people of Latin America and the Caribbean. They should be on notice that Trump's incompetence and neglect in [the region] will end on Day 1 of my administration."[27]

This more pragmatic approach by a future Biden administration to challenging China's rise in the hemisphere implicitly acknowledges that even pro-U.S. governments in the region have come to depend on Beijing for important trade and investment deals. It also should recognize that while Washington can help rally private sector engagement and development aid to the region, it is unlikely on its own to match Beijing's level of economic statecraft, with or without a pandemic-induced recession.

That said, the United States does have natural geographic, cultural, familial, security, educational, and historic ties to its neighbors that give it a distinct advantage over China. Now is the time to raise its ambitions with a high-level and comprehensive strategy toward the region. The trick will be to offer positive alternatives to a China-centric political and economic model without cornering LAC governments into a "us or them" proposition, one that it may lose in several important countries. The bipolar world has arrived at the U.S. doorstep — it can build walls and threaten sanctions, or it can find ways to help LAC governments address their countries' deep problems, with or without China. Either way, it will take many years of sustained investment and deft diplomacy to move current trends in favor of the United States. Given the worsening public health and economic conditions currently prevailing in the region, a more urgent and generous U.S. response should now be a matter of high national security concern for Washington.

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