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## China's Engagement with Latin America and the Caribbean

As the People's Republic of China (PRC) has increased its engagement with Latin America and the Caribbean over nearly 20 years, U.S. policymakers have raised questions regarding potential implications for U.S. interests in the region. China's engagement with the region has grown significantly since 2001, particularly in terms of diplomatic and economic ties. This growth reflects China's increasing global "soft power" efforts worldwide. A succession of Chinese leaders and other officials have visited the region to court governments. In turn, regional leaders and officials have been frequent visitors to China. The PRC has signed a variety of bilateral partnership agreements with several countries in the region, including "strategic partnerships" with Argentina, Brazil, Chile, Costa Rica, Ecuador, Mexico, Peru, Uruguay and Venezuela.

### Diplomacy

Beijing's diplomatic overtures in Latin America underpin China's economic activities and help it to institutionalize its engagement in the region and garner support in international fora. Some analysts argue that China's activities in the region reflect a global strategy to reduce U.S. dominance, although they do not aim to challenge the United States directly or militarily. China's diplomatic efforts include being an observer at the Organization of American States, a member of the Inter-American Development Bank and the Caribbean Development Bank, and an active participant in the Asia Pacific Economic Cooperation forum.

PRC President Xi Jinping participated in a January 2015 forum in Beijing with leaders and foreign ministers of the Community of Latin American and Caribbean States (CELAC), a region-wide organization that excludes the United States and Canada. At the forum, China and CELAC countries agreed to a five-year cooperation plan covering politics, security, trade, investment, finance, infrastructure, energy, resources, industry, agriculture, science, and people-to-people exchanges. At a second China-CELAC ministerial held in January 2018, both sides agreed to an updated cooperation plan extending through 2021. China also invited Latin American countries to participate in its Belt and Road Initiative (BRI), which is focused on infrastructure development in various regions around the world. Currently 16 Latin American and Caribbean countries are participating in the BRI.

A 2016 PRC government policy paper on Latin America and the Caribbean stated that China seeks to strengthen cooperation on the basis of "equality and mutual benefit" in several key areas, including exchanges and dialogues, trade and investment, agriculture, energy, infrastructure, manufacturing, and technological innovation. The paper states that China will "actively carry out military exchanges

and cooperation with Latin American and Caribbean countries" but also emphasizes that China "does not target or exclude any third party."

Another apparent goal of Beijing in the region is to isolate Taiwan by attempting to lure away Latin American and Caribbean countries that still maintain diplomatic relations with Taiwan, also known as the "Republic of China." At this juncture, 9 countries in the region (out of 16 countries worldwide) recognize Taiwan, while the remaining 24 countries in the region recognize the PRC. Although competition between China and Taiwan for friends in the region through offers of economic assistance, also known as "checkbook diplomacy," had been waning for about a decade, in 2017 and 2018, Panama, the Dominican Republic, and El Salvador switched recognition to China.

### Economic Relations

China's economic goals in the region include securing access to raw materials (such as oil and various ores and minerals) and agricultural goods (especially soybeans); establishing new markets for Chinese goods, including high value-added products; and partnering with Latin American firms to access and develop technology. China also has sought to secure investment opportunities in Latin America for its infrastructure firms and to reduce excess capacity in steel, cement, and other related commodities.

Total China-Latin America trade increased from \$17 billion in 2002 to almost \$306 billion in 2018. In 2015, PRC President Xi set a goal of increasing total China-Latin America trade to \$500 billion in 10 years. China's imports from Latin America and the Caribbean amounted to almost \$158 billion in 2018, accounting for almost 7.5% of China's overall imports; China's exports to the region in 2018 amounted to \$148 billion, accounting for 5.9% of China's total exports. China has become the top trading partner of Brazil, Chile, Peru, and Uruguay. Major Chinese imports from the region in 2018 were primarily natural resources, including ores (29%), soybeans (19%), petroleum (19%), and copper (8%). Major PRC exports to Latin America included electrical machinery and equipment (21%); machinery and mechanical appliances (15%); motor vehicles and parts (7%); and a wide array of industrial and consumer products.

In the aftermath of U.S. withdrawal from the proposed Trans-Pacific Partnership (TPP) free trade agreement in January 2017, China participated in a meeting with the remaining 11 TPP signatories (including Chile, Mexico, and Peru) regarding future trade integration in the Asia Pacific region. Although the remaining TPP signatories have concluded their own trade agreement without the United States, all three Latin American signatories to the

TPP also have expressed interest in moving forward with further trade integration with China.

The cumulative stock of Chinese foreign direct investment (FDI) in Latin America and the Caribbean reached over \$200 billion in 2017, according to PRC figures cited in a 2018 Brookings report (note these figures include flows to territories with large offshore financial sectors and may not reflect the final destinations of the FDI). According to a 2017 Atlantic Council report, China's FDI in Latin America traditionally was focused on the extractive sector, but now more than half of its investment is in service sectors such as transport, finance, electricity, information and communications technology, and alternative energy.

Chinese banks (China Development Bank and China Export-Import Bank) have become the largest lenders in Latin America. Accumulated loans have surpassed \$140 billion (2005-2018); Venezuela, Brazil, Ecuador, and Argentina are the top recipients of that lending (see **Table 1**). For Venezuela and Ecuador, much of the financing has been provided through loans-for-oil deals. In recent years, China's banks provided more financing to the region than was provided by the World Bank and the Inter-American Development Bank combined. A significant amount of the lending has been for infrastructure projects, as well as for oil and gas and mining projects. Such loans typically have less stringent terms, do not impose policy conditions, and have less rigorous environmental guidelines compared to the loans of major international financial institutions.

**Table 1. China: Financing in Latin America, 2005-2018**

Country	Amount (U.S. billions)
Venezuela	\$67.2
Brazil	\$28.9
Ecuador	\$18.4
Argentina	\$16.9
Trinidad and Tobago	\$2.6
Bolivia	\$2.5
Jamaica	\$2.1
Mexico	\$1.0
Other Countries	\$1.3
<b>Total</b>	<b>\$141.3</b>

**Source:** Gallagher, Kevin P. and Margaret Myers, "China-Latin America Finance Database," Inter-American Dialogue, 2019.

According to the Inter-American Dialogue, Chinese companies and banks have shown interest in some 150 transportation infrastructure projects in the region since 2002, with about half in some phase of construction.

## U.S. Policy Concerns and Considerations

Under the George W. Bush and Obama Administrations, U.S. officials, while recognizing concerns about China's influence, generally viewed China's engagement positively as a contributor to the region's economic growth. The overarching goal of U.S. policy was for China to contribute economically to the region in a transparent fashion, following international rules and complying with local or international labor and environmental standards. From 2006

to 2015, the United States and China held seven bilateral consultations on Latin America.

The Trump Administration has viewed China's engagement in Latin America with more suspicion. Its 2017 National Security Strategy states that "China seeks to pull the region into its orbit through state-led investments and loans" and expresses concern about China's support for "the dictatorship in Venezuela." In an October 2018 trip to the region, Secretary of State Mike Pompeo expressed concerns about China's "predatory economic activity" in Latin America. The U.S. Southern Command's 2019 posture statement expressed concern that China is expanding its influence in the hemisphere, often at the expense of U.S. interests. It maintained that in the future, China's investments in port infrastructure in the hemisphere could potentially enhance its global operational posture, and expressed special concern about China's infrastructure investments associated with the Panama Canal.

Over the past decade, PRC arms sales to Latin America have grown modestly; Chinese conventional weapons make up 3% of the combined North and South American arms import market. Nevertheless PRC defense sales and assistance to the region have expanded from small arms to more sophisticated equipment and weapons, including radars, armored personnel carriers, multiple rocket launch vehicles, combat aircraft, and military ships. Venezuela has been the largest buyer of PRC arms in the region, but other significant clients have included Bolivia, Ecuador, and Peru.

U.S. warnings about China have been met with skepticism in the region and among some regional experts. Panamanian President Juan Carlos Varela called on the United States to respect his country's sovereign decisions. Some analysts contend that China's primary interest and influence in the region remain largely economic, and that the possibility of the PRC creating a sphere of influence in Latin America remains small. Some argue that China's appeal is limited due to deep political, social, and cultural differences and language barriers. Some observers argue that recent U.S. disengagement in the region, marked by such actions as withdrawal from the TPP and efforts to reduce U.S. foreign aid, coupled with growing U.S. trade frictions with China and some Latin American countries, may encourage greater PRC-Latin American cooperation.

Some analysts have concerns about the potential harmful effects of China's economic engagement on the region's development. They maintain that some countries have amassed unsustainable levels of debt owed to the PRC and that their economies risk becoming less competitive in manufacturing and agricultural technologies and more dependent upon commodities exports to China and elsewhere. Some argue that PRC support extends a lifeline to leaders with poor records of governance and can exacerbate corruption. Furthermore, although some Chinese companies have improved their conduct in the region, many still do not adhere to international environmental, labor, and safety standards.

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