HEARING ON CHINA IN LATIN AMERICA AND THE CARIBBEAN

HEARING

BEFORE THE

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

ONE HUNDRED SEVENTEENTH CONGRESS
FIRST SESSION

THURSDAY, MAY 20, 2021

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WASHINGTON: 2021

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The Commission's full charter and statutory mandate are available online at: https://www.uscc.gov/charter.

CONTENTS

THURSDAY, MAY 20, 2021

HEARING ON CHINA IN LATIN AMERICA AND THE CARIBBEAN

Panel I: China's Strategic Approach in Latin America and the Caribbean

Panel II: China's Economic Engagement in Latin America and the Caribbean

Panel III: China's Military and Security Activities in Latin America and the Caribbean

Panel IV: Case Studies

QUESTIONS FOR THE RECORD

CHINA IN LATIN AMERICA AND THE CARIBBEAN

THURSDAY, MAY 20, 2021

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

Washington, D.C.

The Commission met in Room 210 of Cannon House Office Building, Washington, DC and via videoconference at 9:30 a.m., Chairman Carolyn Bartholomew and Commissioner Derek Scissors (Hearing Co-Chairs) presiding.

OPENING STATEMENT OF CHAIRMAN CAROLYN BARTHOLOMEW HEARING CO-CHAIR

CHAIRMAN BARTHOLOMEW: We'll call this hearing to order.

Good morning and welcome to the fifth hearing of the U.S. China Economic and Security Review Commission's 2021 Annual Report cycle. Thank you all for joining us, and thank you to our witnesses for the effort they have put into their testimonies and for traveling here.

I would like to thank Chairman Yarmuth of the House Budget Committee, as well as Jose Guillen, Laura Santos, and Sheila McDowell, for allowing us the use of their hearing room. And I'd also like to thank the House Recording Studio and Doug Massengale and Regina Schmitt, in particular, for their assistance livestreaming this event.

This is the first time the Commission has held a full hearing on China's strategic aims in Latin America and the Caribbean. Last year, the Commission held a hearing on China's strategic aims in Africa, a continent which China identifies as a template for its so-called "community of common human destiny," and where it has steadily increased its economic presence and geopolitical influence.

Over the past decade, China has similarly expanded its previously low profile and mainly economic presence in Latin America and the Caribbean. Whereas, China once avoided openly assertive activities in the region that might alarm the United States, it is now actively working to convert its strong economic ties into diplomatic and political leverage. China has become a visible, active participant in the political and security spheres and has cultivated relationships with a range of actors throughout the region.

China has made Latin American and Caribbean countries a particular focus of its diplomacy in recent years. Between 2014 and 2020, General Secretary of the Chinese Communist Party Xi Jinping visited the region even more frequently than he visited Africa. China has involved itself in the affairs of important regional groups, such as the Organization of American States, the Inter-American Development Bank, and the Community of Latin American and Caribbean States, a regional organization that excludes the United States.

Over the past year, China's diplomats in the region have gone into overdrive in an effort to reverse the public relations disaster of the COVID-19 pandemic, while simultaneously spreading disinformation about the United States. Beijing now seeks to use access to Chinese vaccines as levers to extract favors from Latin American and Caribbean governments, despite questions about the vaccine's effectiveness.

Politically, Beijing aims to create a network of government connections in Latin American and Caribbean countries who will tow the Chinese Communist Party line on issues such as Hong Kong and Xinjiang and who view China's state-led authoritarian system as a model to emulate. It actively courts Latin American and Caribbean civil servants, legislators, and party leaders from across the political spectrum by inviting them to trainings and all-expenses-paid trips to China.

Another important aim of these activities is the elimination of diplomatic space for Taiwan. Following pressure from Beijing, Panama switched recognition to the PRC in 2017, followed by the Dominican Republic and El Salvador in 2018. Taiwan's nine remaining diplomatic partners in Latin America and the Caribbean, its most in any region of the world, continue to be targets of similar pressure.

China is still exporting elements of technologically-enabled authoritarianism to the region such as the Chinese surveillance technologies enabling the repression of the people of Venezuela. Argentina, Brazil, Ecuador, Guyana, and Dominica have also adopted Chinese surveillance technologies to various extents.

Meanwhile, the People's Liberation Army seeks to strengthen relationships with regional militaries through training, exchanges, and arms sales, while simultaneously improving its own power projection capabilities. It also operates a space-tracking station in Argentina's Patagonia region, giving China's military a potential foothold in the Western Hemisphere.

Through bilateral and multilateral space-related cooperation with countries such as Argentina, Brazil, Venezuela, and Peru, China hopes to not only expand markets for its space technology, but also develop its own technological and military capabilities.

The importance of understanding China's intentions in Latin America and the Caribbean, a region so close to the United States, is great. In today's hearing, we look forward to exploring the implications of China's growing presence and influence in this vital region.

Before we begin our first panel, I would like to welcome our newest member, Kim Glas, and thank the Commission staff, particularly Sierra Janik and Taylore Roth, for their work on this hearing.

I'll turn the floor over to my colleague and Co-Chair for this hearing, Commissioner Derek Scissors.

Derek?

PREPARED STATEMENT OF CHAIRMAN CAROLYN BARTHOLOMEW HEARING CO-CHAIR

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Before we begin with our first panel, I would like to welcome our newest member, Kim Glas and thank the Commission staff, particularly Sierra Janik and Taylore Roth, for their work on this hearing. Now I will turn the floor over to my colleague and co-chair for this hearing, Commissioner Derek Scissors.

OPENING STATEMENT OF COMMISSIONER DEREK SCISSORS
HEARING CO-CHAIR

COMMISSIONER SCISSORS: Thanks, Carolyn.

This is my first time co-chairing. So, please assume that if something goes wrong, I did it.

For that reason, I'm still virtual. I just got my second shot, and I do not want the legacy of my first co-chaired hearing to be sick or to make anyone else sick.

I echo Carolyn in saying thank you to all those responsible for making the hearing possible. You have the never-ending task of trying to make these hearings Commissioner-proof.

And to our witnesses, we appreciate your work to make policy better, and Members of Congress will as well.

I'm trying to focus on economic events, though I don't think they're actually that important. China has worked to diversify its resource dependence for more than a decade, with Latin America and the Caribbean as a component of that. I deliberately omitted the word "vital," or anything to that effect.

Using 2019 Chinese trade data, Brazil, with oil, soy, and iron oil, is a major supplier. The next largest regional supplier is Chile, which shows volume about on par with South Africa and less than half that of Malaysia. It's not just that Latin America and the Caribbean mostly supply China with commodities; most of Latin America and the Caribbean only supply China with one to two commodities. Brazil also dominates in receiving Chinese investment, with Peru second. That foreshadows rising copper exports from Peru.

As with China's resource diversification efforts elsewhere in the world, infrastructure building is part and parcel for both transportation and more reliable power generation. Venezuela was the early leader in the region here. It has been replaced by Argentina.

It's worth noting that China's global investment in construction was declining pre-COVID from a roughly 2017 peak, and some countries in the region and elsewhere may not see the post-COVID surge of investment in construction financed by China that they are anticipating.

China's global pattern, extending to Latin America and the Caribbean, is to curry favor with governments with seemingly unrelated offers of support; for example, digital and surveillance technology transfer. It's my view that resource extraction remains the primary driver of Chinese interest in Latin America and the Caribbean, but, to be blunt, I'm not sure this matters much to the United States. We're not in competition for those resources.

It's the associated, largely non-commercial actions that have enough scope and importance to matter to the region, but also to U.S. policy. One set of these actions is found in COVID diplomacy. The region's population is at about 650 million, while the latest on vaccine doses is barely 130 million. Only the U.S. and China can fill that gap in anything close to a timely fashion, and U.S. vaccine quality is superior. But China's COVID diplomacy and other regional initiatives will likely rise and fall on their own merits with only secondary U.S. involvement.

Despite Latin America and the Caribbean being in our backyard, and all those statements we make all the time, a compelling case for greater U.S. involvement in the region to counter China has not been made, in my opinion. There are a few conspicuous exceptions, of course, but, region-wide, the U.S. challenge right now appears to be to limit Chinese influence to the extent possible, but allocating few resources of our own.

This hearing is a chance to make the case to do more than that. I look forward to hearing from our witnesses.

Thank you.

PANEL I INTRODUCTION BY CHAIRMAN CAROLYN BARTHOLOMEW

CHAIRMAN BARTHOLOMEW: Thank you very much.

I'll introduce the first panel. Before I do that, I just want to note for them that, while masks are required in this room, if you're speaking, you can remove your masks.

Our first panel will examine China's overall strategy for engagement with Latin American and Caribbean countries; identify Beijing's main objectives and strategies, and consider their implications for countries in the region, as well as the United States.

First, we welcome back Dr. Evan Ellis, Research Professor of Latin American Studies at the U.S. Army War College, Strategic Studies Institute, who last testified before the Commission at our June 2020 hearing, "The Chinese View of Strategic Competition with the United States." Dr. Ellis previously served on the Secretary of State's policy planning staff with responsibility for Latin America and the Caribbean, as well as international narcotics and law enforcement issues. And he has published over 280 works. Dr. Ellis will address China's core objectives for engagement with Latin American and Caribbean countries.

Next, we will hear from Ms. Margaret Myers, Director of the Asia and Latin American Program at the Inter-American Dialogue. Ms. Myers published extensively on China's relations with the Latin America and Caribbean region and testified before the House Committee on Foreign Affairs on the China-Latin America relationship. Ms. Myers will address China's evolving economic and diplomatic engagement with the region.

Finally, we welcome Dr. Ryan Berg, Senior Fellow at the Center for Strategic and International Studies, Americas Program. Dr. Berg is also an Adjunct Professor at the Catholic University of America and Visiting Research Fellow at the University of Oxford's Changing Character of War Program. His current research focuses on U.S.-Latin America relations, authoritarian regimes, armed conflict, strategic competition, and trade and development issues. Dr. Berg will address China's political influence activities in the region and their implications for regional governance and U.S. interests.

I'd like to remind our witnesses to please keep your remarks as close as you can to seven minutes to leave time for the following question-and-answer sessions, and your full statement will be put into the record.

Dr. Ellis, we'll begin with you.

OPENING STATEMENT OF R. EVAN ELLIS, RESEARCH PROFESSOR OF LATIN AMERICAN STUDIES, U.S. ARMY WAR COLLEGE STRATEGIC STUDIES INSTITUTE

DR. ELLIS: Chairman Bartholomew, Commissioner Scissors, distinguished Commissioner Members, thank you for this opportunity. I will summarize my written remarks.

We don't need to show malevolent PRC intentions or that PRC has made Latin America the most priority region to recognize that PRC engagement in Latin America is very harmful to the region's prosperity, democracy, and the strategic position of the United States. As elsewhere, the Chinese state is pursuing a mostly economic-focused engagement, although, nonetheless, strategic to orchestrate flows of wealth, principally to its own benefit.

China's pursuit in Latin America and the Caribbean are a subset of, in my opinion, consistent with, what it seeks globally -- reliable access to commodities and food stuffs, but also markets and technology.

During the Cold War, the Soviet Union sought to impose a political model, often subsidizing its allies to sustain them. The PRC has not. Even where it has made seemingly risky loans to populous parties like Venezuela, it has used strong mechanisms to ensure that it gets paid.

China is, without trying to be, an incubator for anti-U.S. leftist populism, extending loans and other support, as populist regimes consolidate power and undermine democratic institutions in this region intimately connected with the United States. In turn, populist governments have been the region's principal partners with respect to not only infrastructure projects and resources, but also military, space, and technology activities of concern.

Venezuela, for example, bought the first Chinese fighters and radars in the region. Argentina may soon buy the JF-17 or another fighter, the most advanced Chinese fighters sold in the region to date.

In space, Venezuela's Hugo Chavez was the first in the region to procure a Chinese satellite, as you know, Commissioner, the Venesat-1, while Argentina's Cristina Fernandez de Kirchner allowed the PLA to build and operate, as you acknowledged, the well-known deep space radar in Neuquen.

Populist regimes also hosted the first Chinese national surveillance systems in the region, ECU-911 in Ecuador and BOL-110 in Bolivia. Venezuela, as you noted, contracted ZTE to implement the Fatherland Identity Card used to administer scarce food and supplies, and now, in the distribution of scarce COVID-19 vaccines.

These cases also illustrate what you alluded to, China's growing export of digital authoritarianism, providing technologies that help its allied populist regimes to monitor the population, to ration goods, and to stay in power; thus, contributing to China's continued access to their commodities and markets.

A key Chinese influence tool is its people-to-people diplomacy. The region's 39 Confucius Institutes help to recruit those with interest in and aptitude for Mandarin to study in China. Then, grateful for the Hanban Scholarships that secured their careers, these youth in Latin America are now becoming the technocrats charged with pursuing their countries' interests before China.

Beyond students, the PRC regularly brings Latin American politicians, journalists, and virtually all of the region's key China-oriented think tank professionals to the country, motivating them, of course, to self-censure later what they then publicly write and say about China, lest they lose their future access and trips.

China seeks leverage by investing in Latin American connectivity. It has signed up 19 Latin American countries for One Belt, One Road; has 40 port projects in the region, and increasingly operates, not just builds, roads and public transits through public-private partnerships.

Chinese companies are pursuing the strategic riverine infrastructure, including the contract for the Paraguay Parana River Corridor used by five South American nations for their agricultural exports.

Chinese companies are playing an increasingly important role in electricity infrastructure, are involved in more than 15 hydroelectric projects across the region, mega-solar projects in Argentina and Brazil near Azul, and a Hualong-1 nuclear reactor in Argentina.

In Brazil, Chinese companies have invested tens of billions of dollars -- billions -- in electricity transmission. In Peru, Yangtze Power manages half of Lima's power. In Chile, after five different acquisitions, Chinese companies control 57 percent of electricity distribution nationally.

In telecommunications, Huawei, a key provider of the region's commercial networks, is now positioned to play a major role in 5G.

The risk is not just military, but PRC access to data to help its companies win commercial bids, to obtain technology, and to compromise Latin American decisionmakers.

In e-commerce, an important overlooked phenomenon, is the advance of the Chinese ride share company, Didi Chuxing, whose app captures the movement and credit cards of millions of Latin Americans who use it.

With respect to multilateral forums, China uses CELAC in Latin America rather than the OAS because CELAC's lack of a permanent bureaucracy and the absence of the U.S. makes it easier for China, through it, to broadcast its agenda to the region.

For the PRC, recognition of Taiwan in the region is an issue that involves, but goes beyond economics, nine of the 14 states recognizing the ROC are in the region. Changes to the PRC, including Panama in 2017 and the Dominican Republican and El Salvador in 2018, opened those countries for Chinese businesses and influence, including through multiple non-transparent MOUs.

COVID-19, of course, increases PRC leverage and opportunity to expand its presence, albeit with greater difficulties. China has used vaccine access to induce Brazil and the Dominican Republic to reverse prior commitments to exclude Huawei from its 5G networks. In Paraguay, China attempted to persuade the Abdo Benitez's government to abandon Taiwan for vaccine. And now, in Honduras, President Juan Orlando Hernandez now promises to open a trade office in mainland China in order to get vaccines.

As occurred after the 2008 global financial crisis, it is also likely that very soon Western companies, including those from Europe, will begin to sell assets in weakly performing Latin American markets, positioning the Chinese companies to further expand there.

I recommend the following for the principles of the U.S. response:

First, do not attempt to explicitly block Latin Americans from working with China. I believe that it will fuel resentment and will likely not be effective. I believe we should focus, instead, on transparency, the rule of law, and helping strengthen institutions to inoculate the region from more predatory Chinese gambits; thus, positioning the U.S. as a helpful, concerned neighbor rather than perceived as a jealous hegemon; leveraging the private sector, and perhaps under the Development Finance Corporation, wherever possible, as a complement to USAID and other state-led initiatives.

In areas that create strategic vulnerabilities like telecommunications and smart cities, we should push back, working with like-minded partners, when possible, to provide commercially viable alternatives.

In public diplomacy, we need to focus more on the region's vulnerability to being sold out by their own elites, when those elites engage with China in non-transparent projects not part of prior locally made national development plans.

Expand data collection on Chinese company performance in the region and make it available to U.S. senior leaders in ways relevant to the partners that they are addressing.

And think through strategic tradeoffs, where we should push back against bad partner behaviors and where to refrain to avoid driving partners into a worse situation, where they are freed by PRC money to be as corrupt as they wish as long as they deliver their nation's goods to China.

Thank you. I look forward to your questions.

PREPARED STATEMENT OF R. EVAN ELLIS, RESEARCH PROFESSOR OF LATIN AMERICAN STUDIES, U.S. ARMY WAR COLLEGE STRATEGIC STUDIES INSTITUTE

China's Diplomatic and Political Approach in Latin America and the Caribbean

R. Evan Ellis, PhD

Latin America Research Professor

Strategic Studies Institute

US Army War College

Testimony before the US-China Economic and Security Review Commission"

May 20, 2021

Chairman Bartholomew, Commissioner Scissors, distinguished members of the US-China Economic and Security Review Commission, thank you for the opportunity to share my work and views with you today regarding China's diplomatic and political approach in Latin America and the Caribbean. My testimony is based principally on my research and engagements over the past seventeen years on PRC activities in the region.

While I am currently employed as Latin America Research Professor at the Strategic Studies Institute at the US Army War College, my views are wholly my own, and do not necessarily represent those of my institution or the US government.

Chinese Objectives and Implications

It is not necessary to show malevolent PRC intentions with respect to its activities in Latin America and the Caribbean to conclude that the current and long-term implications of that engagement are grave for prosperity, democracy, and liberties in the region, as well as the security and strategic position of the United States.

In Latin America, as in other parts of the world, the Chinese state is pursuing a principally economically-oriented strategy which, at its core, seeks to capture value added and orchestrate global flows of wealth primarily beneficial to itself.[1] It leads and supports these efforts through employing State Owned Enterprises as the principal repository of value and capability, using the Chinese State's ability to coordinate deals across sectors, regulation of the Chinese market, and through the contributions of the Chinese intelligence services.

The focus of Chinese efforts and the details of its engagement differ across regions according to the resources, market, and other opportunities offered by individual partners. This includes the nature of the partner government, its historic relationship to the PRC, and its distance from China or proximity to the United States. In general, however, China's pursuits in Latin America and the Caribbean are remarkably consistent with what it seeks globally: secure sources of commodities and foodstuffs, reliable access to markets for its goods and services (particularly in strategic, high value-added sectors), strategic technologies and related capabilities.

Understanding the centrality of the PRC's focus on its own economic benefit in the hierarchy of its priorities in Latin America and elsewhere, and how its political, institutional, security and other engagements support those economic objectives, is key to correctly assessing and responding to the China challenge.[2]

The challenge posed by the PRC is different, yet in many ways greater, than that posed by the Soviet Union during the Cold War. In that prior era, the Soviet Union sought to impose a political model on states under its influence, often subsidizing them economically to sustain them. By contrast, the PRC has generally not, in Latin America or elsewhere, significantly burdened itself economically to maintain its allies in power. Even where it has made seemingly poor loan and investment choices, as I will discuss later, the PRC has done so in conjunction with strong mechanisms for ensuring that it gets paid.[3]

Of course, the PRC also pursues some important objectives in the region not strictly subordinate to its economic interests. These include the diplomatic isolation of Taiwan, and the neutralization of criticism of, or resistance to, what it regards as "red line" domestic and other security policies,[4] including its campaign against Uighurs in Xinjiang, its crushing of democracy and autonomy in Hong Kong, and its assertion of maritime claims in the South and East China Seas, including its transformation and militarization of disputed reefs and shoals in the region.

Overview of Chinese Activities of Concern

The Covid-19 pandemic has highlighted China's willingness to exploit the needs and hopes of Latin American and Caribbean governments, businesspeople, and populations to advance its economic and other interests to the detriment of the region and the United States.

In the global struggle against the Covid-19 pandemic, whereas the United States has committed $4 billion to the World Health Organization Covax facility to help those in need obtain vaccine,[5] the PRC has principally *sold* its vaccinations to the region, rather than donating them, including offering a $1 billion loan to help the region buy China-made vaccines,[6] just as it provides loans so that the region can buy its other goods and construction services. In the Dominican Republic, Chinese companies charged that country $19 million for one million doses of the Sinovac, although they then donated another 50,000 doses.[7] A Dominican colleague with whom I spoke about the matter put the matter in perspective by calling the Chinese gift the "ñapa," the token small free item that Dominican merchants sometimes "throw in" to thank their clients for their business.[8]

Of greater concern, the PRC has used dire need for vaccines in the region to pursue its economic and political objectives there in other sectors. In Brazil[9] and the Dominican Republic,[10] the PRC has used expedited access to its vaccines to oblige those governments to reverse prior decisions excluding the Chinese telecommunications company Huawei from their 5G networks. In Paraguay, the PRC attempted, unsuccessfully, to use access to its vaccine to induce that country's government to abandon diplomatic recognition of its long-time ally Taiwan.[11]

The PRC's expanding economic presence in the region, and the influence it generates, is widely recognized. China's principal two policy banks, China Export Import Bank and China Development Bank alone have made $136 billion dollars in loans to the region since 2005.[12] Its companies have put $160 billion dollars into operations in the region since 2001, mostly through mergers and acquisitions, but also through some greenfield projects and other non-financial direct investment.[13] All but $16 billion of that Chinese money has arrived since 2010.[14] PRC-Latin America bilateral trade reached $330 billion dollars in 2019,[15] an 18-fold increase since the PRC was admitted to the World Trade Organization in 2001.

PRC military activities in the region, although secondary to its economic engagement, are not trivial. They include sales of K-8 combat aircraft to Venezuela[16] and Bolivia,[17] and now the possibility that the Argentine government of Alberto and Cristina Fernandez will buy the Chinese JF-17,[18] which would be the most capable fighter the PRC has ever sold to the region.

PRC arms deals in the region also include selling an offshore patrol vessel to Trinidad and Tobago,[19] selling JYL-1 air defense radars [20] and long-range JY-27A radars to Venezuela,[21] and providing armored vehicles to Venezuela, Bolivia, Argentina, and Ecuador. It also includes selling and donating Y-8 and Y-12 military transport aircraft[22] as well as sometimes selling, sometimes donating trucks and cars, construction equipment, motorcycles, and other assets to both militaries and police forces in the region.[23]

Beyond arms, PLA activities in the region include a combat exercises with Chile in 2013,[24] multi-stop visits of increasing length and sophistication by its hospital ship "Peace Arc" in 2011, 2015, and 2018-2019, deployment of military police to Haiti for eight years (from 2004-2012), and regular institutional visits, including participation by Chinese People's Liberation Army (PLA) members in Colombia's elite "Lanceros" special operations course in Tolemaida,[25] Brazil's Jungle Warfare school in Manaus,[26] and Brazil's military Peacekeeping institute, CCECOPAB.[27]

In the telecommunications sector, the Chinese firm Huawei is positioned to play a significant role in 5G as governments and commercial providers roll out those networks, with major auctions taking place this year. In addition, both Huawei and ZTE play a major role supplying phones and other telecommunication devices to the region, as well as building wireless and fiber optic networks, surveillance architectures and smart cities.[28]

Such presence by Chinese companies in these telecommunications architectures raises particular risks for both the US and our partners, since the PRC's 2017 National Security Law obliges its companies to turn over data in their systems to the Chinese State if the State asks it to do so,[29] thus giving the PRC important opportunities to capture and exploit such data. The data at risk includes not only military "secrets," but sensitive data of Latin American companies and about government functionaries in the region, that could be used to help PRC-based companies obtain the technologies of others, secure an unfair advantage for winning contracts, or even to gain leverage over

Latin American officials through their personal information, opening the door to obligating those officials to help China in future commercial and other matters.

With respect to space, the Chinese radar facility in Neuquén, Argentina[30] is operated by PLA military personnel, with limited access to the site by the Argentine government.[31] Beyond the radar, the PRC and its SOE Great Wall Industrial Corporation have helped to develop and launch 8 satellites for the region: 5 for Brazil under the CBERS program (the most recent of which was launched from China in 2019), 3 for Venezuela,[32] including the VRSS-2 (launched in 2017 as the Venezuelan economy was in a state of collapse),[33] the Tupac Katari, launched for Bolivia in 2013,[34] and even a microsat for Ecuador, destroyed by space debris shortly after the Chinese put it into orbit.[35] Equally important, although often overlooked, the PRC played a significant role in the construction of the space ground control architectures of both Venezuela and Bolivia and the training of their Space personnel, giving China's government potential access to the imaging and other data captured by, or transmitted through those satellites.

The PRC has also courted both Argentina and Chile for the development and launch of satellites, including unsuccessful attempt to participate in Argentina's ARSAT program,[36] and to employ Chinese Beidou satellites[37] to replace Chile's aging U.S.-developed FASAT-C constellation.[38]

Implications for the U.S. and the Region

The collective, long-term result of China's pursuit of its economic objectives and supporting activities in the political, institutional, security, and informational spheres is evolution toward a region ever more economically dependent on the PRC, with ever fewer democratic regimes, increasingly less disposed to cooperate with the United States on shared interests regarding security, rule of law and good governance, democracy and human rights. Over the long term, such impacts cumulatively threaten to move the region toward a state in which freedom of expression and political choice is increasingly constrained (as it is in the PRC itself today) to those expressions and activities in which the PRC and issues about which it is sensitive are not critically discussed.

China's presence, and the transformation of the region which its activities in the region are advancing, also gives it more options to leverage Latin America and the Caribbean in its battle to bend global economic, financial and political institutions to its advantage. This includes struggles over the setting of norms in technical bodies, details of the management of the global financial system,[39] to blocking the rallying international opinion or sanctions against the PRC, or conversely, giving China an enhanced ability to rally such opinion or against the United States in future international disputes.[40]

At the extreme, China's expanding influence gives it real options to operate in the region in the context of a future conflict with the PRC, including obtaining intelligence, acting against U.S. deployment and sustainment activities, creating crises in the region that distract US decisionmakers from the conflict in Asia, or even putting the US homeland at risk by conducting military operations from the bases and facilities of partners in the region, even without the provocation or expense of establishing formal basing agreements in advance.

The mechanisms of the threat presented by the PRC through Latin America and the Caribbean are complex, and often subtle. Correspondingly, I offer the following observations about the nature and dynamics of the threat:

China and anti-U.S. Populism. *China as an incubator for anti-US leftist populism, which in turn opens the door for a broader Chinese advance. The* regimes of Hugo Chavez in Venezuela, Rafael Correa in Ecuador, and Evo Morales in Bolivia each initially came to power for reasons not directly related to Chinese activities in the region. Each of those populist leaders exploited widespread disillusionment with the performance of prior democratic governments to mobilize supporters to achieve office through initially democratic means. Yet once in power, PRC loans and other resources were important to their survival as they consolidated power, changing rules to decrease transparency and otherwise undermine democratic institutions and move against the press, business interests and other bases of opposition. Such Chinese support included an estimated $18.4 billion in Chinese loans to Ecuador after Rafael Correa's government defaulted on loans from the International Monetary Fund, $62.2 billion to Venezuela, $17.1 billion to the Christina Fernandez government in Argentina, and $3.4 billion to the Evo Morales government in Bolivia.[41]

These Chinese populist governments, in turn, have been the principal partners for the PRC in the region not only for non-transparent government-to-government infrastructure projects, but also for military engagement with the PLA, space activities, and questionable technology partnerships. Populist regimes in Venezuela, Bolivia and Ecuador were the first purchasers of major Chinese-made military end items in the region, including Venezuela's previously noted purchase of Chinese K-8 fighters[42] and JYL-1 and JY-27A air defense radars.[43] Other key military sales pioneered by the PRC with populist regimes included Chinese Y-8 and Y-12 military transport aircraft. They also included and a range of armored vehicles, including the VN-1s and others used by the Maduro regime to repress democratic protests[44] and to block de jure Venezuelan President Juan Guaido and other elected members of the Venezuelan National Assembly from access to the legislative building to which they had been elected.[45]

The MAS regime of Evo Morales in Bolivia substantially recapitalized its Armed Forces with Chinese equipment including 31 armored vehicles,[46] six K-8 fighter-interceptors, and six Harbin H-425 helicopters,[47] with the later leading to the arrest of the Bolivian general involved in the transaction for corruption.[48]

Rafael Correa's government, for its part, ordered 709 Chinese military vehicles[49] and 10,000 Chinese-made assault rifles,[50] although it was the government of his successor, Evo Morales, who took delivery on them.

The Argentine regime of Christina Fernandez was the first in the region to consider the purchase of 20 Chinese FC-1/JF-17 fighter,[51] which would have been the most capable combat aircraft sold in the region, as well as 5 PRC-made PC-1 offshore patrol vessels, and a number of armored vehicles.[52] The current regime of Alberto Fernandez and Cristina Fernandez, as noted previously, is again considering the purchase of the JF-17.[53]

In space, it was the Venezuelan regime of Hugo Chavez that was the first in the region to procure a Chinese-built and launched satellite, the Venesat-1,[54] followed by two others, VRSS-1[55] and VRSS-2.[56] Similarly, it was the Evo Morales regime in Bolivia that contracted for the previously mentioned Chinese construction and launch of the Tupac Katari satellite.[57] In Argentina, it was the leftist populist regime of Christina Fernandez which committed to the PRC's previously mentioned construction and operation of a deep space radar facility on Argentine soil, in Bajada de Agrio, Neuquén.[58]

It has been leftist populist regimes which have hosted China's building of the first national surveillance systems in the region, including the ECU-911 national emergency response system in Ecuador,[59] and BOL-110 in Bolivia. It was the Chavista regime in Venezuela that contracted the Chinese firm ZTE to implement the "fatherland identity card" system,[60] a prototype version of China's social credit system, subsequently used in voting, the rationing of scarce food and supplies (the "CLAP boxes"),[61] and most recently, in the distribution of Chinese and Russian Covid-19 vaccines.[62] The Chinese company CEIEC also helped the Maduro regime to use electronic techniques to spy on the de jure Guaido government and other "opposition" politicians and was sanctioned for doing so in 2020 by the U.S. Treasury Department.[63]

As the PRC continues to develop and export its electronic control capabilities, including surveillance systems, prototype social credit systems, and the technology for implementing and administering a digital currency (which it is due to be implemented in prototype form in the PRC this year),[64] such efforts potentially create a dangerous reinforcing cycle of exporting "digital authoritarianism." Specifically, the PRC helps friendly authoritarian regimes implement a version of surveillance and control technologies in their country. Those friendly regimes are willing to accept the greatly expanded power it gives the PRC for espionage and other leverage over them, in exchange for the benefits such technologies afford them to increase control over their own populations. Such friendly authoritarian regimes also have greater latitude than democratic counterparts to implement Chinese surveillance and control technologies, owing to the regimes' relative insulation from privacy and other concerns. The enhanced survival of populist regimes with the help of such technologies, in turn, facilitates their continuing work to spread their populist revolutions elsewhere in the region, using the resources provided through their commercial engagement with the same PRC.

There is a misperception that the PRC's generous loan packages to politically aligned but corruption-riddled leftist populist regimes pursuing unsustainable policies has been merely a naïve choice that has backfired on it, saddling China and its companies with unserviceable debts and reputational costs.[65] The experience of PRC-based companies and banks with these regimes has certainly fallen far short of expectations. I have personally spoken to Chinese managers and other personnel in PRC-based companies who have expressed their frustrations with their experience in Venezuela. Nonetheless, the PRC and its companies been far more effective than is commonly recognized in ensuring that they get paid, even if the project or transaction produces little or no value for the populist partner. A common practice by the PRC in anti-U.S. populist regimes whose actions have cut them off from Western capital markets, is for the PRC to tie its loans to parallel contracts for the delivery of the nation's commodities, with Chinese companies used to extract the commodities used to repay the loan.[66] Using such vehicles, the PRC has extracted oil to repay all but $19 billion[67] of the more than $62.2 billion it has lent to Venezuela.[68] Moreover, China has implemented such "loans for oil" contracts not only in Venezuela, but also in Ecuador, where they have been documented in detail by journalist Federico Villareal's books *Ecuador, Made in China*,[69] and *El Fereado Petrolero* ["the oil holiday"].[70]

Also in Ecuador, Rafael Correa's $2.2 billion contract with Chinese companies to build the problem and defect ridden Coca Coda Sinclair hydroelectric facility[71] was documented by the New York Times in a story very appropriately titled, "It Doesn't Matter if Ecuador Can Afford This Dam. China Still Gets Paid."[72]

Another excellent, if little known example is a $1 billion loan to the Corporación Venezolana de Guayana (CVG) obliging the future delivery to China of over $4.1 billion worth of Venezuelan gold. When the Chinese money was used for other purposes and gold production was inadequate, the Maduro government was still obliged to divert a significant portion of CVG's collapsing output to repay the loan, as well as giving other Chinese companies compensatory contracts in other sectors.[73]

An unprecedented, detailed study of 100 Chinese debt contracts by the Center for Global Development highlights how the PRC includes an array of self-serving mechanisms to not only make it prohibitively costly for its populist partners to default, but imposing de facto political conditions on them in exchange for the credit.[74] These include obliging the debtor to maintain accounts in Chinese banks, potentially subject to seizure by the Chinese government. They also include cross-default clauses, such as the one that prevented the Mauricio Macri government in Argentina from stopping the questionable Santa Cruz river hydroelectric projects committed to by his populist predecessor Christina Fernandez.[75] Such clauses give the Chinese creditor the right to call in the full loan if the specified conditions are triggered, precipitating a potential liquidity, financial, and political crisis in the country that received the loan. Importantly, such clauses give the lender the right to call in the loan not only if the recipient defaults on a related Chinese project, but also in a range of other circumstances, such as if the recipient expropriates Chinese companies in an entirely different sector, breaks diplomatic relations, or takes other actions offensive to the PRC.[76]

PRC Soft Power. China's soft power in the region is a powerful instrument in advancing the PRC position, undermining US attempts to resist China's advance, and undercutting democracy and US policy objectives in the region in general.

China's soft power in the region is different from that of the U.S., which tends to be based more on an alignment of values, thinking, or an affinity for the US and its culture.[77] Chinese soft power, by contrast, is rooted more in hopes for benefit, the complimentary fear of its denial,[78] and the related dynamics of China's "people-to-people diplomacy."[79] As such, polls that show affinity in the region toward the U.S., or mistrust of the Chinese,[80] are not inconsistent with China's soft power.

In the business realm, Chinese soft power includes not only hopes for access to the Chinese market, but aspirations to contract or otherwise partner with PRC-based firms and businesspersons for projects in one's own country. Not only do the region's private businesspersons hope to benefit from such partnerships, but Latin American government functionaries sometimes also hope for commercial benefits, understanding that important supporting contracts can be channeled to their family and friends.[81]

In the domain of "cultural soft power," the 39 Chinese "Confucius Institutes" in Latin America and the Caribbean (now renamed "Centers for Language Education and Cooperation" because of negative perceptions of them as tools of the Chinese state),[82] serve as vehicles for the Chinese government to identify Latin American youth with the interest and aptitude to learn Mandarin Chinese, to bring them to the PRC on Hanban scholarships,[83] in order to evaluate and favorably shape the orientation of the next generation of the region's technocrats. These Latin Americans, educated in the PRC with the residual influence of Chinese indoctrination and a debt of gratitude to the PRC government for their scholarships, increasingly shape their government's positions toward, and perhaps negotiations with, the PRC. In the 17 years I have followed these issue, I have personally met a significant number of such Latin American functionaries, educated in the PRC with the help of Hanban scholarships. In terms of the macro numbers, the PRC government committed to bringing 6,000 students from Latin America to the PRC on such scholarships for the period 2019-2021 alone.[84]

Beyond Latin American students, the PRC and affiliated academic and quasi-private organizations also regularly brings Latin American politicians, government functionaries, journalists, and think tank professionals to the PRC as part of its people-to-people diplomacy, generally at Chinese government expense, although sometimes also sponsored by PRC-based academic institutions or quasi-private foundations. As with colleagues who studied in China on Hanban scholarships, I have personally known many colleagues who have engaged in such trips.

Such trips to China, of course, inculcate good will and potentially provide Chinese intelligence the opportunity to evaluate or compromise their guests. Often they include the opportunity to interact with senior Chinese officials, academics, or businesspeople. While such largess may not convert the recipients into pro-PRC propagandists, the expectation of more invitations in the future, as noted previously, the desire not to be "ungrateful," or the fear of losing access to such important information sources often leads recipients to self-censure their subsequent remarks about China on topics of sensitivity to its government, such as Xinjiang, Hong Kong, Tibet, or its military island building in the South and East China Seas.

For Latin American societies, the collective effect of such "self-censure," by those in the position to know best about the China challenge and its nature, is to stifle critical discussion, truncating the organization of efforts in the region to effectively push back against the PRC.

From the U.S. perspective, an additional negative impact of the multiple forms of Chinese soft power I have discussed, is to inhibit the efforts of US leaders to caution against engagement with China.[85] Often, under the influence of hopes for benefit from China or fear of jeopardizing it, the region's elites politely listen to US warnings, then take their projects with the PRC forward anyway, convincing themselves that they can manage the risk. Some in the region convince themselves that US warnings are merely reflect a "dispute between great powers"[86] over the region. Convincing themselves of that argument is seductive and self-serving because imagining themselves as the "morally neutral" party in the middle of a struggle between the US and China relieves those elites of the responsibility to their own people to weigh the very different risks that engagement with the PRC and its companies, versus Western ones, present.

The Challenge of China's Focus on "Connectivity." The PRC advance in Latin America and the Caribbean can be understood in terms of a mutually reinforcing dynamic between three areas of focus: pursuit of secure sources of supply for commodities and foodstuffs, access to markets for high-value added goods and services, and a strategic position in building and operating the physical and other infrastructure connecting and enabling the functionality of the economies of the region.

Chinese advances in Latin American commodity sectors have been well documented. They include extraction of petroleum and mining products, timber,[87] both regulated[88] and illegal, unregulated and unreported fishing (IUU)[89] activities, and agrologistics operations such as those of Nidera and Noble in the region.[90] They also include a significant and growing Chinese position in the mining of lithium and other rare earth elements, including the $4.1 billion, 25% interest by the PRC-based company Tianqi in the SQM lithium operation in Chile,[91] majority ownership by China's Ganfeng of the Cauchari-Olaroz mine in Argentina,[92] a new Gangfeng-operated lithium field in Mexico's Sonora desert,[93] activities by Xinjiang TBEA in the Uyuni salt flats in Bolivia,[94] a $1.5 billion stake in two Brazilian niobium mines (one mine owned by China Molibdenum Corporation,[95] and an important minority interest by a Chinese consortium in CBMM).[96]

China's extension of its 2013 "Belt and Road" initiative[97] to Latin America[98] with the inclusion of Panama in November 2017,[99] and its more recent focus on the "Digital Silk Road"[100] highlights PRC attention to *connectivity* at the heart of its economic pursuits in Latin America, as elsewhere. Currently 19 Latin American countries have signed on to the initiative,[101] with Argentina expected to join during an upcoming state visit to the PRC.[102] China's increasing role in such connectivity includes not only construction and operation of ports and physical infrastructure, but also electrical generation, transmission and distribution infrastructure, telecommunications infrastructure, eCommerce and banking. Together, this dominance of "connectivity" gives the PRC an ever greater strategic position in the underpinnings of the region's economies, thus affording it tremendous leverage to advance its political and economic interests there.

With respect to physical connectivity, PRC-based companies are involved in the operation an expansion of an increasing number of ports across the region. In his own testimony to the U.S. Congress, Commander of U.S. Southern Command Admiral Craig Faller noted that the PRC has 40 ongoing port operations or port projects in progress in the region.[103] These include seven port operations by PRC-based Hutchison Port Holdings in Mexico, three in Panama, three in the Bahamas and one in Buenos Aires, Argentina.[104] Chinese companies are also involved in four important port projects in Brazil, including the proposed São Luis megaport.[105] China Minmetals, with China Railway Road and other partners, are building the new $3 billion Chancay mineral port in Peru,[106] while China Harbour is contracted to DP World for the $1 billion Posorja port project in Ecuador.[107] China Merchant Port Holdings recently acquired full ownership of the Port of Kingston, Jamaica.[108] There is also potential for Chinese advances in ports in other areas, such as the port of La Union, El Salvador,[109] Manzanillo, Dominican Republic,[110] and Berbice, Guyana.[111]

Chinese companies have long used government-to-government contracting vehicles for their work on road and rail infrastructure in the region, particularly in friendly populist states such as Ecuador and Bolivia, or small states such as Jamaica with the Jamaica Development Infrastructure Project (JDIP) and the Major Development Infrastructure Project (MDIP).[112] In addition, they are currently experiencing increasing success in winning projects from more strongly institutionalized and bureaucratically capable governments through the use of Public Private Partnership (PPP) contracts. High profile examples include the China Harbour-Xi'an Metro consortium winning a $4.5 billion contract[113] to build the Bogota metro,[114] as well as the Chilean government's award to China Harbour's of a segment of that nation's Highway 5 from Chillan to Talca.[115] Because PPP projects involve *operating* the infrastructure, as well as building it, they have the added benefit of enhancing PRC opportunities for influence and learning.

Beyond roads, rail connections and ports, Chinese infrastructure projects in the region also include the building and operation of riverine infrastructure. Leading examples include a project to dredge key rivers in the Peruvian amazon making them usable by large ships,[116] as well as the likely victory by Shanghai Dredging of a contract to deepen the Paraguay-Parana river corridor and operate it as a toll route.[117] The latter would give the PRC influence over the strategic river route used by five South American nations for their agricultural exports.[118]

Beyond physical infrastructure, Chinese companies are playing an increasingly important role in the generation, transmission and distribution of electricity in the region, particularly with respect to clean energy. They have built six hydroelectric facilities in Ecuador,[119] three in Bolivia,[120] Patuca III[121] and the ill-fated Aqua Zarca project[122] in Honduras. They also own the Chaglla facility in Peru,[123] among others.[124] PRC-based firms are also involved in an array of wind and solar projects in the region, including the Cauchari photovoltaic complex in Jujuy Argentina,[125] the region's largest such facility, and a just-announced $1 billion, 1.1 Gigawatt solar project in Brazil.[126]

In nuclear energy, China National Nuclear Corporation has been chosen to build its Hualong-1 nuclear reactor in the Atucha nuclear complex in Argentina,[127] and is seeking to build a nuclear reactor in the Angra complex in Brazil as well.[128]

Chinese companies State Grid, China Three Gorges, and State Power Industrial Corporation (SPIC) have invested tens of billions of dollars in acquiring electrical transmission infrastructure in Brazil since 2010. In Peru, Yangtze Power's $3.6 billion acquisition of Luz del Sur from Sempra Energy[129] gives Chinese companies control over half of power generation in the greater Lima area. In Chile, that government's March 2021 approval of State Grid's acquisition of Compañía General de Electricidad (CGE) from Spain's Naturgy, following on prior Chinese acquisitions of Transelec, Atiaia, Pacific Hydro, and Chilquinta,[130] gives PRC-based companies control over 57% of Chile's electricity generation.[131]

In finance and ecommerce, Chinese banks have gone beyond lending for government-to-government projects, and increasingly play a role in facilitating trade transactions with the PRC, and even to some degree branch banking in Brazil, Argentina, Chile and elsewhere. E-commerce platforms like Alibaba are also gaining momentum in the region,[132] as well as ride sharing service by Didi Chuxing.[133] The later currently offers service in Mexico,[134] Brazil,[135] Colombia,[136] Chile,[137] and the Dominican Republic.[138] Importantly, Didi has enormous potential political impact due to the nature of its business, employing more Latin Americans per dollar invested than any other major Chinese initiative. As illustrated by Didi's linkage to "smart cities" initiatives in Mexico,[139] Didi's advance in the region, combined with the financial, positional, and other information collected on its clients, also presents a largely unrealized intelligence risk in the region on a scale similar to that presented by Huawei.

Beyond the implicit intelligence threats, China's dominance of each type of connectivity described in the prior paragraphs gives it important opportunities to promote the interests of its own companies. Its potential to do so is similar to the way in which Microsoft's domination of the Windows Operating System, or Google's browser, has given each enormous power to promote their own related software and services.

China's government has a long track record of leveraging its strategic advantages across sectors to promote its interests. Thus even if the PRC itself and its companies are not yet clear on how to develop and exploit the opportunities afforded through its growing multidimensional strategic position in physical, electrical, financial and other connectivity in the region, its ability to identify and pursue was to do so in the future should not be dismissed.

PRC Engagement With/through Multilateral Institutions. China works with and through multilateral institutions in different ways as part of its engagement strategy, as a compliment to its bilateral national and company-level engagement. The PRC has increasingly sought a "role at the table" with multilateral institutions such as the Interamerican Development Bank (IDB) which it joined in 2009 as a voting member,[140] as well as with the United Nations Economic Commission on Latin America and the Caribbean (ECLAC), with which it is very engaged across a range of institutional activities. The PRC seeks both to observe and shape the dynamics of these organizations with respect to the agendas of their forums,[141] their analysis[142] and other Chinese interests. In some cases, such as the recent China-IDB collaboration on loan funds.[143] The PRC works with those institutions to advance its own objectives within the framework of multilateralism.

With respect to multilateral forums, although the PRC has been an active observer at the Organization of American States (OAS) since 2004[144] and has modestly supported its activities,[145] China has preferred to principally engage with the region through the weakly institutionalized Community of Latin American and Caribbean States (CELAC).[146] CELAC, due to the lack of a permanent secretariat and the absence of the United States, is arguably more malleable than the OAS for the PRC to advance its multilateral agenda to the region. As with FOCAC in Africa,[147] and the 17+1 forum in Europe,[148] China's use of CELAC to advance its position, rather than as a forum for "bargaining collectively" with the region, is illustrated by the 2015-2019 and 2019-2021 "China-CELAC Plans,"[149] both of which strongly reflected the language and content of PRC initiatives toward the region.

Finally, the PRC has used sub-regional organizations such as CARICOM,[150] and trans-regional organizations such as the BRICS[151] for individual strategic objectives.

CARICOM has complimented CELAC facilitating PRC to engagement with countries with which it does not have formal diplomatic relations, since five of the nine states in the hemisphere that do not diplomatically recognize the PRC are members of the organization.[152]

The BRICS forum, for its part, has helped the PRC to promote its projects through institutions such as the BRICS Bank[153] and otherwise advance its agenda[154] under the guise of multilateralism, as well as engaging with Brazil in a manner that appeals to the latter's self-image as a global actor.[155]

Taiwan. PRC attempts to persuade the nine Latin American and Caribbean countries that recognize Taiwan to switch diplomatic recognition to the PRC derive from a domestic security imperative that is transcends PRC pursuit of its economic interests. Nonetheless, such diplomatic changes, where successful, also support PRC economic objectives and related political and institutional influence efforts.[156]

An examination of recent diplomatic changes by Costa Rica (2007),[157] Panama (2017),[158] the Dominican Republic (2018)[159] and El Salvador (2018)[160] shows that in each case, the change was associated with a dramatic expansion in PRC opportunities for influence and economic penetration.[161] In each case, diplomatic recognition of the PRC was accompanied by the signing of generally non-transparent MOUs which opened partner markets to Chinese companies in sectors from construction, telecommunications, electricity, and banking, among others. Reciprocally, commercial elites of the nation establishing relations, who traveled to the PRC as part of the first "post-recognition" state visit, were commonly associated with sectors included in such

MOUs, benefitting from the deals, including fitosanitary agreements for the export of fruit or coffee, or possibilities for commercial partnerships within the PRC.

In commerce, the countries establishing relations evidenced a common pattern, with a temporary jump in exports to the PRC in the year following recognition, followed by a fall, while imports from the PRC by the country continued to rise.[162]

While Taiwan provided relatively good support to its partners during the Covid-19 pandemic,[163] and while the previously mentioned April 2020 PRC attempt to change Paraguay's diplomatic posture through vaccine diplomacy was unsuccessful,[164] over the long term, as a recent ECLAC study highlights, the pandemic has left the Taiwan-recognizing states (among others) economically and fiscally strained,[165] and thus more vulnerable to PRC pressures and inducements. Any number of further crises or political changes could be decisive in precipitating another state recognizing Taiwan to change to the PRC. Examples of such dynamics threatening change include difficulties arising from the April 2021 eruption of the Soufriere volcano in St. Vincent,[166] a possible new regime in Haiti arising from that nation's ongoing political-constitutional crisis,[167] to the election of a leftist populist government with a President from the Libre party in Honduras in November 2021, or alternatively, a right-of-center President strongly tied to narcotrafficking groups, and who wishes to reduce vulnerability to the anti-corruption and judicial pressures of the United States.[168]

Further diplomatic changes from Taiwan to the PRC in the Western Hemisphere (and elsewhere in the world) would not only facilitate expanded PRC economic and other influence there but could prove strategically destabilizing in Asia. As the number of states diplomatically recognizing Taiwan goes to zero, the risk of the PRC using economic, military or other coercion to resolve the matter as an "internal Chinese affair," with a miscalculation precipitating a possible war in Asia, rises.[169]

The Impact of Covid-19. The Covid-19 pandemic increases China's leverage and the opportunity for it to expand its presence and influence in Latin America and the Caribbean,[170] albeit, with the prospect of expanded difficulties for, and pushback against, the PRC and its companies.[171]

During the Covid-19 pandemic, the PRC sold or donated $230 million in medical or other goods to 28 countries in the region to help combat the spread and effects of the virus,[172] although the example of the high rate of false negatives of the Covid-19 antibody tests it sold Peru,[173] and the low efficacy of the Sinovac vaccine,[174] illustrates that such assistance has not been without problems.

As noted previously, China's position as a vaccine supplier, in the context of Latin America's significant need, has given it opportunities to advance its position with respect to 5G, diplomatic recognition, and its other commercial and political objectives.

China successful reactivation of its economy, with 8.1% GDP growth expected in 2021,[175] while the economy of the European Union continues to stagnate[176] and that of the U.S. follows a slower recovery,[177] increases the relative importance of PRC demand four Latin American commodities such as Brazilian soy,[178] Salvadoran sugar,[179] Ecuadoran shrimp,[180] and Chilean copper,[181] among others.

The weakened economic conditions and fiscal conditions of Latin American economies make them more susceptible to PRC offers of loans, investment, vaccines, and other help, on terms that many previously would have objected.

The renewed spread of leftist populist regimes in the region increases the number of receptive partners for PRC assistance, and probably their need, if those governments forgo western assistance and their actions dissuade private sector investment. Examples of the trend to the left include the consolidation of power by the Maduro dictatorship in Venezuela[182] and Miguel Diaz Canel in Cuba,[183] the return of Evo Morales' MAS party in Bolivia under that nation's new President Luis Arce,[184] and the radicalization of the leftist Peronist regime of Alberto and Cristina Fernandez in Argentina.[185] The trend to the left could further deepen the prospect of populist Pedro Castillo winning the June 2021 second round of Peru's presidential elections.[186] Possible victories by leftist candidates in Honduras' November 2021 elections,[187] in Colombia's May 2022 elections,[188] and Brazil's October 2022 elections,[189] give the PRC even more opportunities to expand its commercial and other influence in the region in the near future.

As Latin America economically recovers from COVID-19 in late 2021 and early 2022, it is also possible that European and other Western companies will seek to sell off assets in poorly performing markets like Latin America and the Caribbean to shore up their positions globally, as some did after the 2008 financial crisis. As then, such a post-Pandemic asset selloff by Western companies of their interests in Latin America will set the stage for PRC-based companies with backing from the Chinese state and access to PRC financing, to expand their position in the region through acquisitions.[190]

As a cautionary note, the Chinese advances that I have described, including the expanded physical presence of PRC-based companies, will occur in the context of a Latin America with higher rates of poverty, crime, desperation, and social unrest,[191] meaning that such an expanded presence will likely generate unprecedented new challenges for both new and established PRC-based companies operating across the region. Such problems and pushback will give the US and like-minded governments both imperatives and opportunities to act.

Recommendations

Based on the nature of the challenge presented by China's advance, as well as considerations regarding US relationships with the Latin America and Caribbean governments involved, I recommend the following for an effective US response:[192]

First, to the extent possible, the US should avoid attempting to explicitly block Latin American and Caribbean states from economically engaging with the PRC. Doing so would be both ineffective, and likely counterproductive. It would fuel historically-based resentment in the region over US interference with the "sovereignty" of its government's decisions, while contributing to impressions that the US was prejudicing the region's development to further its own security interests.

As the overall "strategic concept" for the US pushback against malevolent PRC advances in the region, our government should pursue a well-resourced, thoughtful, integrated effort, in coordination with allies, focused not on blocking the region's relationship with China, but instead, helping the region to engage with it and its companies in a safe, fair, fashion that allows the region to get the most out of those interactions. In keeping with this principle, the focus of the US approach should not be to inhibit the region's engagement with the PRC (except in select sectors which I will discuss). Rather, the US should focus on strengthening transparency and rule of law, and the institutional capabilities of Latin American and Caribbean governments for dealing with the PRC and its companies on a level playing field, in an open fashion. Such a focus will allow Latin America and Caribbean governments to pursue the benefits of trade with and investment from Chinese companies, in a way that best advances both the region's interests and US equities, while inoculating our neighbors in their engagement, against the more predatory aspects of engagement with the PRC.

The tools involved in pursuing such a strategy are familiar. They include expanded and enhanced DoD Security Assistance programs, USAID, and State Department-led programs, supported by other US government agencies, to fortify planning, analysis, enforcement and other capabilities in regional government, as well as support for anti-corruption efforts and associated legal and institutional reforms and training. They also include expanded efforts to channel more responsible private sector funds to the region via entities such as the Development Finance Corporation, among others. Doing so effectively, however, should be complimented by larger, more stable program budgets, to support coherent planning and execution. The US should also rethink some of the conditions imposed on US government programs which decrease their flexibility and effectiveness. At the programmatic level, it will also require greater coordination across agencies in program planning, and creative thinking about how traditional capabilities such as DoD Civil Affairs and Psychological Operations, or USAID-funded programs are used.

As I noted previously, in select sensitive areas such as telecommunications, smart cities, and some kinds of ecommerce where domination of the network by untrusted Chinese suppliers would put at risk the ability of the government to make confidential, sovereign decisions, or put the ability of private investors to protect their intellectual property at risk, the US should use its resources, in coordination with partners in the region, and where appropriate, with like-minded European and Asian governments, to restrict Chinese initiatives. Doing so should involve communicating clearly why the US will not be able to provide certain types of cooperation and support over such untrusted networks. It should also involve educating partners regarding how allowing such network vulnerabilities will also inhibit private investment in the country, where corporations cannot be secure in the confidentiality of their operations and intellectual property from those who would use that information against them for commercial purposes. Effective US pushback in such sensitive areas, however, also necessitates that the US applies greater resources and coordinates with partners to provide viable alternatives to the Chinese solutions we ask them not to choose.

The U.S. must improve its public diplomacy and other communication efforts to persuade Latin American and Caribbean partners to follow principles of transparency and rule of law. This includes not only more effectively making the intellectual case partner nation leaders, but also engaging with their citizens. Such messaging should focus not only on "bad behaviors" by the PRC and their companies, but also the particular importance, when dealing with the Chinese, of openness, effective planning, and open competition. Latin American populations understand well the propensity of some of their elites, when given the opportunity, to accept deals that benefit themselves and their foreign partners at the expense of the country. The US needs better messaging to Latin American publics that motivate and empower them to resist when their elites pursue non-transparent self-serving deals with the Chinese that provide only superficial, short-term benefits, while leaving the country more indebted, more corrupt, with the wealth of the country and the engine for generating it more in the hands of Chinese companies and cooperative local elites.

As a component of more effective messaging, U.S. government organizations, in partnerships with think tanks and other academic and professional entities, should increase funding for programs to collect publicly shareable empirical data on the behavior of PRC-based firms, vis-à-vis their Western counterparts, including their contract performance, relations with local governments and communities, and adherence to local labor, environmental and other laws. Similarly, we should expand efforts to collect, analyze, and communicate data on the impact of deepening engagement of countries in the region with the PRC, on their development, political and institutional health. We should combine such expanded data collection with more effective, coordinated, and well-targeted public diplomacy to communicate the results, including through entities such as the U.S. State Department Global Public Affairs, and Global Engagement Center, among others.

Beyond specific PRC-focused activities, it is imperative that the US do better in maintaining attention to, and resources for the region. In that regard, we must do more to leverage the power of the private sector, including private investment to the region, complimented by targeted government assistance, in order to demonstrate that following the principles of transparency, democracy, and the rule of law pays off over the long run for the success of the government, and the well-being of its people. Doing so not only provides an alternative the more predatory and threatening subsets of Chinese deals, but it is necessary for the credibility of our messages about the transparency and rule of law that limit the PRC's advance, and helps prevent the region from turning to populist solutions that throw the door open to the worst of China's proposals and ambitions.

Finally, in our foreign policy, we need to think more about tradeoffs between short-term imperatives and long-term objectives. There are many corrupt, anti-democratic, or otherwise offensive behaviors to be found among governments in the region that the U.S. should not tolerate and should work to change. But we must think more strategically about when, how, and how hard we push back, so that in sanctioning US friends for bad behaviors, we do not merely drive them into consolidating authoritarian regimes which are even more isolated from the West and dependent on the Chinese, whose money empowers those regimes to be as corrupt or despotic as the want, so long as their dealings economically benefit the Chinese and do not challenge PRC interests.

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OPENING STATEMENT OF MARGARET MYERS, DIRECTOR OF ASIA AND LATIN AMERICA PROGRAM, INTER-AMERICAN DIALOGUE

CHAIRMAN BARTHOLOMEW: Thank you very much.

Ms. Myers?

MS. MYERS: Good morning. I would like to thank hearing Co-Chairs Chairman Bartholomew and Commissioner Scissors, as well as the other Commission members and staff, for the opportunity to testify today.

Let me just start out by saying that I see this moment, this COVID-19 era and its aftermath, as a likely turning point in the China-Latin America relationship. Despite some very public missteps by China in the region and concerns about the quality of Chinese products that have been delivered to the region in relation to COVID-19 in recent months, and, indeed, a decline in Chinese sovereign lending to the region for five years now, it is quite probable that China's targeted outreach over the next year, or the past year, whether in response to COVID-19 specifically or through ongoing support for infrastructure and other projects, will do much to solidify and deepen China's ties to the region.

It is also probable that Chinese companies will be comparatively well-positioned to invest in Latin America and the Caribbean in the coming months and years -- certainly, by acquiring assets and sectors, mining, oil and gas, energy infrastructure that have been of interest to China for two decades now, but also in those areas where China is rapidly expanding its footprint, such as in the delivery of technological solutions at the national, provincial, and municipal levels.

And then, there are the extensive and often very productive local, municipal, and provincial-level ties that Chinese governmental, quasi-governmental, commercial, and other actors have been building for years in some cases, and which I think could be increasingly impactful post-COVID-19. In just the past few weeks alone, we've seen a slew of new projects announced in Argentina, in particular, but also in other parts of the region. This includes China Machinery Engineering Corporation's investment in a train car production facility in Santa Fe, Argentina; the approval of phases 4 and 5 of Argentina's Cauchari Solar Project, and talk of a China-financed gas pipeline running from the Vaca Muerta shale field in Argentina to Brazil; discussion of a possible trade deal with Uruguay, and Mercosur has also reemerged, and the Inter-American Development Bank China Fund will support a project in El Salvador, reportedly. And then, there are, of course, many other examples of project development in recent weeks as well.

Although I agree with Commissioner Scissors that, although resource acquisition is, indeed, a primary objective for China, has been for so many years now, some Chinese engagement will be quite supportive of the region's recovery. This is a moment when Latin America and the Caribbean will need assistance and infusions of capital more than ever and from a wide range of sources.

But there is also much at stake as China engages even more extensively with the region, and not just as concerns U.S. interests. As we know, China's track record is mixed in Latin America and the Caribbean. There is considerable variation in Chinese companies' commitment to quality and sustainability when both selecting and developing projects; also, varying commitment to consultation with local communities and other stakeholders, and to avoiding corrupt activities.

China's activity is also known to undermine critical democratic institutions, even providing some governments, as we've noted, right, with tools intended to limit freedom of expression in the name of stability. And this is a very grave concern at a moment when the region's democratic fundamentals are under siege from within in many cases.

As Chairman Bartholomew has also noted, there is evidence of China converting its economic ties to political leverage, plenty of that happening, and especially evident in this COVID-19 era regarding the distribution of Chinese vaccines.

A U.S. engagement, right, at this phase, whether related to China or not, will be very important in the coming years, as the region possibly embraces China with greater enthusiasm. But, in crafting this approach, it will be critical to also bear in mind certain lessons learned from our previous efforts.

First of all, we should not assume that U.S. concerns about Chinese influence, whether economic or otherwise, are necessarily held by Latin American and Caribbean audiences, including in those countries with strong ties to the U.S. We've seen a relative surge in activity in Colombia in just the past year or so, a little more than that.

Concerns about Huawei and the possibility of Chinese surveillance are also not shared by most, right -- certainly, by some, but not by most -- in the Latin American and Caribbean region.

Second -- and this is a related point -- the broad U.S. condemnation of Chinese activity and other practices in Latin America has not been an effective communication strategy. U.S. cooperation and public messaging vis-a-vis China should, instead, focus on those areas where U.S. and Latin American interests frequently intersect and where cooperation can, indeed, improve conditions on the ground.

China's monopolistic activity in sectors with security implications comes to mind, for example. It's an issue that struck a chord in Chile in recent weeks, where there is corruption, of course, which is of much concern among audiences in the region and a regional problem from which China has benefitted on many occasions.

Or there's the issue of ecological degradation, whether as a result of illicit Chinese activity or China's demand for certain primary commodities. This issue -- corruption, too, of course -- is of greater concern to some governments in the region than others, but is one of paramount and, certainly, existential importance to segments of the population, and to where U.S.-Latin America cooperation can do much to improve outcomes and even create economic opportunity.

And finally, many Latin American and Caribbean nations, indeed, share certain democratic values and other values, right, with the U.S. But, when considering when to promote Chinese trade and investment or heed U.S. warnings about Chinese influence, the region's decisions will increasingly be based on economic interests rather than values-based ones. The U.S. cannot rely on shared values to sustain key partnerships, or even just on security cooperation. U.S. interests in the region, including as concerns competition with China, are best served by strengthening and reinforcing U.S. economic ties to the region.

And so, I would argue that, in addition to doing things like donating more vaccines, obviously, to Latin America and the Caribbean; working in countries to strengthen democratic institutions and accountability mechanisms, as Evan referenced; highlighting those instances of disconnect between Chinese policy and action; investing in American innovation, right, which has been a priority of late, and making sure our own house is in order, as the pandemic prompts comparisons between U.S. and Chinese models of governance, it will be absolutely critical that the U.S. plays a central role, in cooperation with partner nations, in ensuring the region's sustainable economic recovery from the COVID-19 pandemic. This is crucial not only for the region's economic, social, and political stability, but also in pursuit of hemispheric security and democracy.

We can compete more effectively by reinforcing trade ties, for example; investing in sectors that will boost trade connectivity by mobilizing capital and through targeted financial assistance; creating opportunities for private sector engagement in support of the SDGs, very importantly, and a robust U.S. response, and really a new vision, frankly, for hemispheric cooperation is also important to underscore U.S. commitment to Latin America's stability and well-being at a moment when, frankly, China is often viewed in Latin America as quite supportive of the region's development-related interests.

And I'll stop there, as my time comes to an end, and very much look forward to follow-on discussion. Thank you very much.

PREPARED STATEMENT OF MARGARET MYERS, DIRECTOR OF ASIA AND LATIN AMERICA PROGRAM, INTER-AMERICAN DIALOGUE

HEARING BEFORE THE UNITED STATES-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

China's Strategic Approach in Latin America and the Caribbean
May 20, 2021

Margaret Myers
Director, Asia and Latin America Program
Inter-American Dialogue

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

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

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

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

1. China's approach to engagement with the Latin American and Caribbean (LAC) region is characterized by considerable opportunism and flexibility, with Chinese companies, banks, and diplomats identifying and pursuing economic and political ties wherever and however possible—but also taking into account the various political, social, and regulatory obstacles that they've encountered in the region in recent years.

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

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

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

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

[1] "Chen Yuan: Witnessing the glory of the country's 40 years of financial reform," Sina Financial-We Media Comprehensive, 6 May 2019, https://finance.sina.com.cn/money/bank/yhpl/2019-05-06/doc-ihvhiqax6946842.shtml.
[2] Margaret Myers, "Going Local: An Assessment of China's Administrative-Level Activity in Latin America and the Caribbean," Inter-American Dialogue, December 2020, https://www.thedialogue.org/wp-content/uploads/2020/12/Going-Local-Chinas-Administrative-Level-Activity-in-LAC.pdf
[3] "Yan Qifa, CEO of China-Latin America Cooperation Fund, met with Zhu Qingqiao, ambassador to Mexico," CLAC Fund web site, November 18, 2019, http://www.clacfund.com.cn/common/index.aspx?nodeid=34&page=ContentPage&contentid=323

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

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

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

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

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

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

[4] Urdinez, Francisco ; Mouron, Fernando ; Schenoni, Luis L ; de Oliveira, Amâncio J "Chinese Economic Statecraft and U.S. Hegemony in Latin America: An Empirical Analysis," 2003-2014 Latin American politics and society, 2016-12, Vol.58 (4), p.3-30.
[5] Andrea Ghiselli & Maria Grazia Erika Giuffrida (2020), "China as an Offshore Balancer in the Middle East and North Africa," The RUSI Journal, 165:7, 10-20.

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

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

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

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

[6] Margaret Myers, "Going Local: An Assessment of China's Administrative-Level Activity in Latin America and the Caribbean," Inter-American Dialogue, December 2020, https://www.thedialogue.org/wp-content/uploads/2020/12/Going-Local-Chinas-Administrative-Level-Activity-in-LAC.pdf
[7] Huizhi Wang, "Achievements, Problems and Prospects of the China-CELAC Forum," Contemporary World, 2018(09), https://www.cnki.net/kcms/doi/10.19422/j.cnki.ddsj.2018.09.012.html
[8] Margaret Myers, "China's Regional Engagement Goals in Latin America," Carnegie-Tsinghua Center for Global Policy, May 7, 2020, https://carnegietsinghua.org/2020/05/07/china-s-regional-engagement-goals-in-latin-america-pub-81723

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

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

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

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

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

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

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

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

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

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

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

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

[13] "Hidrovía Amazónica: cuestionado proyecto entrampado por problemas con el estudio de impacto ambiental," *Mongabay*, January 29, 2020, https://es.mongabay.com/2020/01/hidrovia-amazonica-estudio-de-impacto-ambiental/

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Recommendations for US Policymakers

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

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

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

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

2. **Identify and cooperate on areas of mutual concern.**

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

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

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

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

3. **Compete on economic terms rather than ideological ones.**

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

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

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

OPENING STATEMENT OF RYAN BERG, SENIOR FELLOW, AMERICAS PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

CHAIRMAN BARTHOLOMEW: Thank you very much, Ms. Myers.

Dr. Berg?

DR. BERG: Chairman Bartholomew, Commissioner Scissors, and esteemed Members of the U.S.-China Economic and Security Review Commission, thank you for the opportunity to testify on the immensely important topic of China in Latin America and the Caribbean.

The mostly democratic character of our hemisphere; the deeply embedded cultural, linguistic, geographic, and historical links the region shares with the United States, and the largely integrated nature of the regional economy have brought the U.S. immeasurable strategic advantages as it pursued global influence in other regions of the world. These distinct advantages, borne of our shared neighborhood, are also under threat, given China's engagement with the region.

For two decades after the Cold War, American policymakers acted on the conventional wisdom that strategic rivalry was a phenomenon that played out in far more distant regions. Often, they were right. Beginning in the last decade, however, China's engagement with the region has called into question this strategic axiom by, first, challenging, and now threatening, these core American interests.

The serious challenge posed by China's multifaceted engagement with Latin America and the Caribbean means that the U.S. can no longer take for granted everything from the sizable influence it historically enjoyed within the region to the continued democratic character of the region. Perhaps more than any other issue, managing China's relationship with Latin America and the Caribbean, and warding off some of its most corrosive elements, will determine the trajectory of U.S.-Latin America relations over the course of the 21st century.

I'm going to skip over the economic portion of my testimony today, because I feel as though that's been covered sufficiently by the two other witnesses, and jump forward to the technology component, which is a significant arrow in the quiver of Chinese influence in Latin America.

Huawei is one of the market leaders of mobile devices in Latin America and the Caribbean. It is a top contender for critical upcoming 5G elections in Brazil, Chile, and Mexico. Washington has offered economic incentives to turn the tide away from Chinese companies. For example, the U.S. offered Brazil, an erstwhile member of the CLEAN Network, generous terms of finance to purchase 5G equipment from European sources. Unfortunately, Brazil reversed its initial decision on Huawei under Chinese pressure for vaccines.

Military collaboration is a growing aspect of Chinese activity in Latin America and the Caribbean. Arms sales, military training, and technical military support allow China to build key strategic partnerships with armed forces in the region. The People's Liberation Army has a burgeoning presence which it maintains through training and visits, permitting it greater familiarity with countries' operational frameworks, as well as preparedness levels, as well as familiarity with their strategic doctrine. China has also focused on ongoing training of the region's military officers at PRC institutions of military education, which should familiarize and educate the upper brass, and future upper brass, in Chinese military doctrine.

The PLA is rapidly building new dual-use infrastructure or acquiring access to existing dual-use infrastructure that can enhance its military capabilities in the region. Of top concern are several dozen agreements that China has to build or expand deep water ports in Latin America and the Caribbean, as well as the space station that Chairwoman Bartholomew mentioned, operated without an Argentine oversight in the Nuequen Province in Patagonia.

A major concern for the future would be any type of preferential access China could secure to the Panama Canal, which would be both a strategic nightmare as well as containing significant symbolic importance to the United States.

China has exported a suite of repressive surveillance technology to countries in the region. In 2006, for instance, Venezuelan President Nicolas Maduro rolled out what has become a key tool in maintaining his social control, the so-called Carnet de la Patria, or Father Card, an ID card developed and sold by ZTE Corporation. The card serves to monitor citizens' social, political, and economic behavior and is required to access social services and benefits, including, most recently, vaccines during the pandemic.

In other parts of the region, China exports its smart city initiatives, which integrates facial recognition technology with traditional surveillance equipment. Argentina and Ecuador have been recipients of such technology transfers in the past.

In general, the region's persistent physical security challenges -- it represents about 8 percent of the world's population, but nearly one-third of the world's homicides -- and the important political issue that security represents, I think will ensure continued interest in China's smart city surveillance technology for years to come.

China also leverages less visible forms of engagement; namely, party-to-party engagement through the International Liaison Department of the Chinese Communist Party. While the ILD's contacts with political parties in Latin America and the Caribbean are less extensive than they are in other regions, still, between 2002 and 2017, the ILD held nearly 300 meetings with 74 different political parties in 26 countries in the region. In some cases, the ILD was the channel through which the CCP engaged political parties in countries that do not recognize it diplomatically. The ILD does not appear to be formally involved in China's economic dealmaking process in the region, but it does appear to play some role, perhaps an important role, in lubricating the process by which deals are forged.

Policy recommendations for the United States Congress:

First and foremost, commit to developing and implementing a new concept of strategic denial. Since the founding of the Republic, the U.S. has conducted foreign policy with respect to the region through the lens of strategic denial; that is to say, preventing rivals from achieving strategic footholds in Latin America or otherwise significantly impairing the U.S. influence and security stemming from the region. The U.S. must update this framework for the 21st century.

Key to formulating a new strategy will be defending American interests against China while not appearing to overtly block Latin America and the Caribbean from economic advantages that investments from Beijing can occasionally offer. In sum, the U.S. cannot make regional engagement all about China, even if it is, indeed, all about China.

Second, identify select sectors for competition and catalog Chinese activities in Latin America and the Caribbean. The U.S. will not gain from a strategy overtly focused on blocking Chinese engagement. Rather, it must bolster the region's ability to engage with China on non-exploitative, fairer terms. There are some sectors, however, which are simply too important to core U.S. interests and long-term prosperity, as well as the prosperity of the region. And these sectors likely include telecommunications, certain technology transfers, and these dual-use infrastructure assets that could have military application in future scenarios.

To assist U.S. policymakers in making these determinations, the federal government should require an official report on the extent and scope of Chinese activities in Latin America and the Caribbean, as one piece of legislation currently before the House does.

Third, prioritize governance and prepare now for post-pandemic vulnerabilities. Governance deficits abounded throughout Latin America and the Caribbean prior to the pandemic, but the COVID-19 pandemic has really laid bare governance deficits in an even more transparent way. In part, poor governance helps to explain the shockingly low levels of satisfaction with democracy in the region and provides critical openings for China. The rule of law and the ability of governments to provide the most basic of services should be fundamental goals of U.S. assistance.

Governance should also encompass a focus on building institutional strength in order to afford Latin America and the Caribbean the opportunity to engage with China on fairer terms that are in both its interests as well as the core interests of the United States. China's desire to aggressively leverage the pandemic to its advantage make this a particularly vulnerable moment for Latin America and the Caribbean.

I'll stop there. Thank you very much, and I look forward to answering the Commission's questions.

PREPARED STATEMENT OF RYAN BERG, SENIOR FELLOW, AMERICAS PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

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Statement before the
U.S.-China Economic and Security Review Commission

"China in Latin America and the Caribbean."

A Testimony by:

Ryan C. Berg, PhD

Senior Fellow, Americas Program, CSIS

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Cannon House Office Building, Room 210

1616 RHODE ISLAND AVENUE NW
WASHINGTON, DC 20036
TEL. (202) 887.0200
FAX (202) 775.3199

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

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

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

The Return of Rivals

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

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

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

China Descends Southwards

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

Economic Engagement

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

When discounting Mexico, the second-largest overall trade partner for the U.S., China has already surpassed the U.S. as the largest destination country for LAC's exports.[1] China has made strides in several strategic countries. Importantly, China has linked itself closely with the largest economic power in LAC—Brazil. Beijing has become Brazil's most important commercial partner, overshadowing the U.S.-Brazil commercial relationship by a factor of two.[2]

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

As a principal platform for projecting economic power and improving its geopolitical position, China uses its Belt and Road Initiative (BRI). Launched in 2013, BRI has morphed into one of the most ambitious development programs in history (although the gap between ambition and reality is often yawning). According to Chinese officials, its rapid growth in Latin America represents a "natural extension of the 21st Century Maritime Silk Road."[5] Thus far, 18 countries in Latin America have signed onto BRI—including some of the most prosperous countries in the region, such as Chile.[6]

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

There is the distinct possibility that China may use the same tactic of economic leverage to obtain strategic footholds in LAC, taking advantage of high debt burdens owed by small island nations in the Caribbean. Without creative intervention from the U.S. and multilateral financing institutions, the acute debt crisis that could be the legacy of COVID-19 may provide further openings for predatory Chinese financing throughout the region—on terms that are manifestly exploitative and unacceptable under more normal circumstances. During the pandemic, China has furnished some $200 million of assistance to the region, as well as vaccines, but faulty PCR tests and personal protective equipment, combined with the low efficacy of the Sinovac vaccine, demonstrates that not all engagement is earning the country credibility in the eyes of LAC's citizens.[8]

Relatedly, China also pursues the goal of using its economic power in LAC to erode what modest diplomatic support Taiwan still enjoys. LAC continues to be Taiwan's largest regional block of recognition, with nine of the fifteen countries that formally recognize Taiwan located in the region.[9] However, China has started to reverse this bastion of Taiwanese diplomatic recognition. Through its economic power and outright coercion, China has recently persuaded Panama (2017), the Dominican Republic (2018), and El Salvador (2018) to change their diplomatic recognition from Taipei to Beijing.[10] Most recently, it has pressured Paraguay, Taiwan's only ally in South America that has been buffeted by COVID-19 and lacks access to vaccines, to switch its diplomatic recognition.[11]

Technology Sharing

Technology is another arrow in the quiver of Chinese influence in Latin America. Huawei, the sprawling Chinese telecommunications company, is one of the market leaders of mobile devices in LAC. Huawei is a top contender for critical upcoming 5G auctions in Brazil, Chile, and Mexico. Despite the company's insistence that it is independent of the Chinese state, Chinese law requires Chinese entities to "support, assist and cooperate with state intelligence work."[12] The U.S. has responded with a campaign to dissuade countries in LAC from adopting Chinese technology, warning countries keen to adopt Huawei equipment that it would make information sharing and collaboration with the United States difficult if not impossible.[13] U.S. lawmakers have also introduced legislation to restrict intelligence sharing with countries that use Huawei equipment in their 5G networks, LAC countries included.[14] Washington has offered economic incentives to turn the tide away from Chinese companies. For example, the U.S. offered Brazil, an erstwhile member of the "Clean Network," generous terms of finance to purchase 5G equipment from European sources.[15]

Military Collaboration

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

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

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

China has expanded its network of Confucius Institutes in 20 countries across the region, including small island states where the U.S. has no diplomatic presence to check the narrative being spun. In theory, these institutes teach Chinese language and run cultural programming, but they have also featured a strong propaganda element.[21] China has offered free cultural trips to Beijing and other places to young people from LAC to gain clout with future political and economic elites. "The aim of such efforts," according to one author, "is for these visitors to return home with a fundamentally benign idea of the nature of the Chinese regime."[22] China retains robust outreach to Latin America's think tank and academic network, too. Through the China-CELAC Forum, it brings together academics, political leaders, diplomats, and journalists to tout the Chinese miracle.

China also leverages less visible forms of engagement, namely, party-to-party engagement through the International Liaison Department (ILD) of the Chinese Communist Party. The ILD is a CCP institution that builds relationships with political parties in LAC. Its focus on long-term relationship building and on ideology are noteworthy because it is tasked with "telling the China story well." While the ILD's contacts with political parties in LAC are less extensive than in other regions, between 2002 and 2017, the ILD held nearly 300 meetings with 74 different political parties in 26 countries in LAC. In some cases, the ILD was the channel through which the CCP engaged political parties in countries that do not recognize it diplomatically.[23] The ILD does not appear to be formally involved in China's deal-making process in LAC, but it does appear to play an important role in lubricating the process by which deals are forged. It is no coincidence, for instance, that ILD meetings with mainstream political parties—including ruling political parties—in Panama and Colombia occurred directly before the announcement of deals related to the Panama Canal and the Bogotá metro system.[24]

Exporting Authoritarianism

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

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

Perhaps most nefariously, China has exported a suite of repressive surveillance technology to Venezuela. In 2016, for instance, President Nicolás Maduro rolled out what has become a key tool in maintaining his social control—the so-called *Carnet de la Patria* ("fatherland card"), an ID card developed and sold by ZTE Corporation.[26] The card serves to monitor citizens' social, political, and economic behavior, patterned on China's social credit system at home, and is required to access social services and benefits. In a new development, only Venezuelans with a "fatherland card" can access scarce COVID-19 vaccines, rewarding political allies with lifesaving medicines and vaccines and punishing political opposition, in a move that contravenes all epidemiological advice.

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

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

Soft Power Influence

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

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

As a result, China has managed to maintain a reasonably popular image in LAC. According to recent polls from Pew Research, 50% of respondents in Mexico, 51% of respondents in Brazil, and 47% of respondents in Argentina have a favorable view of China. In all three countries surveyed, these numbers far outpaced China's unfavorable figures.[35] While it is hardly the case that the average Mexican, Brazilian, or Argentine is in favor of China's political model, there is something appealing (in the abstract) about Chinese state capabilities to citizens of countries suffering weak and corrupted state institutions often incapable of large, nationwide efforts to mobilize significant resources.

Democratic Backsliding as the Chinese Entrée: The Case of Venezuela

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

Between 2007 and 2017, China showered Venezuela with investment. Leveraging loans as collateral, Beijing furnished Caracas with some $64 billion in loans over a decade, funding a range of projects that dovetailed with Chávez's domestic political project, including housing, infrastructure, satellites, mining, and even a railway company.[37] Venezuela represents 45 percent of China's total development lending to Latin America since 2005.[38] These percentages have stayed relatively consistent during the COVID-19 pandemic, during which China has lent over $200 million in medical assistance to the region. More than $100 million has gone to Venezuela, as of February 2021.[39]

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

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

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

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

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

Policy Recommendations for the U.S. Congress

Commit to Developing and Implementing a New Concept of Strategic Denial. Since the founding of the republic, the U.S. has conducted foreign policy with respect to LAC through the lens of strategic denial—preventing powerful rivals from achieving strategic footholds in Latin America or otherwise significantly impairing U.S. influence and security in the region. Through various periods in American history, the nature and severity of the challenges to that objective have varied over time, as have the urgency and methods of the American response. The U.S. should update a concept of strategic denial to fit the region's new realities and China's presence and activities. Strategic denial must grapple with and provide alternatives to the region's economic, military, and diplomatic reliance on China, with a focus on areas such as 5G telecommunications, strengthening governance and transparency standards (in development and other projects), and curtailing the more predatory aspects of China's advance. Key to formulating this new grand strategy will be defending American interests against China while not appearing to overtly block LAC from the economic advantages that investments from Beijing can occasionally offer. *In sum, the U.S. cannot make regional engagement all about China…even if it is indeed all about China.*

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

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

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

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

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

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

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PANEL I QUESTION AND ANSWER

CHAIRMAN BARTHOLOMEW: Thank you very much.

I should have warned my colleagues at the beginning, we're going to go alphabetically for questioners, as we have been doing.

So, I'm going to start with Commissioner Borochoff.

COMMISSIONER BOROCHOFF: Thank you for the warning.

First, I want to say thank you to all of you. And, Dr. Ellis, I enjoyed when you were here last year and have been following what you write throughout the year. So, I feel like what you spoke about today, it's been building to that, and I enjoyed it a lot, just from a factual viewpoint.

All three of you alluded to the fact that, to a great extent, we're not really talking about the net effect on our own economy; we're talking about the result of us losing the hearts and minds of Latin America, and that is of great concern to every American, for obvious reasons. They're in our backyard. And the folks from Latin America -- it's not a big secret -- have been slowly, but surely becoming an integral part of our society. Either legally or illegally, they're part of America now.

So, we have legitimate concerns, and you have brought them up, that perhaps I think what I'm discerning from what you said is that people down there in those areas don't respect democracy the way they used to. They don't feel the warm and fuzzy feeling about America that we sort of feel about them. And maybe we've sent some wrong messages over the last few decades.

So, my question is, several of you mentioned that we needed to strengthen the rule of law down there. And I'd like to know specifically if you had an idea as to how you would do that. I'd like you to each just give me a quick answer on what would you do, one thing.

And then, the other thing I'd like to know is, if there's time -- and if not, I'll ask it later -- what mechanism do the Chinese use specifically to collect on their debts?

So, whoever wants to go first, jump in.

DR. ELLIS: Commissioner, thank you very much for your words. You raise many absolutely important points. To me, the most critical point -- and I also agree with Commissioner Scissors -- that it's not about competing for Latin American resources. I think one of the difficulties is making a correct and accurate assessment of the nature of the threat and the ways in which they are transmitted to us.

So, Sir as you rightfully point out, one of the things that worries me, the economic dimension tends to be, first of all, because we are intimately dependent on supply chains that connect to Latin America. We have extensive investments in Latin America. So, when conditions are bad in Latin America, that directly affects us. And as we saw when COVID began to shut down some of the connections that we have with Mexico, how that impacted even defense supply chains, as well as others.

In addition, as you also rightfully pointed out, sir, when conditions go bad in the region, as well as when it's good, that directly impacts us through flows of migration, through disease flows, through national security, through drug flows such as the fentanyl that killed 80,000-plus Americans last year.

And so, the thing that worries me most about China is the way in which China's self-seeking economic engagement is indirectly having these effects on the region. That was why I chose in my testimony to focus, first of all, on the mechanism of populism, because I see this nefarious cycle. It's not that China is looking to promote client states, but in the course of seeking its own benefits, China is nurturing the conditions that bring these about.

And we've seen this again and again. We saw it with the Hugo Chavez. We saw it with Rafael Correa in Ecuador. We saw it Evo Morales in Bolivia. We're seeing it with Cristina Fernandez and Alberto in Argentina, et cetera, et cetera. It's a time-tested cycle.

And so, indeed -- and I think my fellow panelists agree on this as well -- it's somewhat counterproductive to say, okay, don't deal with China. That message has not worked well in the past.

But, sir, I think you go right to the core of it. What does it mean? To me, it's transparency, because insisting on transparency through our economic leverage and through our policy makes it more difficult for Latin American leaders to, basically, sign corrupt self-serving deals with Chinese companies that ultimately undermine our position.

In addition, talking about rule of law, I believe that there are governance-strengthening mechanisms, one, to help better planning in Latin America. So, for example, the previous government in Panama, Juan Carlos Varela, he was going to spend $4.1 billion of the Panamanian people's money for a train that wasn't even in Panama 2030, their national plan.

So, you have to stick with a plan if you want Latin American companies to develop. You have to have technically competent adjudication processes. So, for example, when Costa Rica signed up for Route 32 improvements by the Chinese, they didn't include certain things like guardrails and sidebars. And so, oftentimes, when you have apples to apples, you find that the Chinese offering is not good. And on the back end, it's enforcement of local laws. And so, that has to do with, as my colleague pointed out, environmental compliance and other things.

The difficulty is that the types of things that we do, there are many things that we move in the right direction. Whether it's USAID programs or State Department-led programs or DoD programs in support of the security sector, there are things that we need to do more consistently with stops and starts in funding. There are things that we need to do with respect to thinking better how we do some of the programs on a broader scale.

So, we do some very good work in anti-corruption fights through pushing back on, for example, Colombian Action Plan polygraph testing, but we need to work in conjunction with local partners, who also change some underlying rules, but keep, basically, the corrupt officials just from being pushed to another part of the police or judicial system.

In short, there are a broad number of answers to how you do the anti-corruption fight and government strength things. We do some of it right now, but we need to do it better and we need to do it more consistently on a broader scale. This is really important.

COMMISSIONER BOROCHOFF: Thank you.

CHAIRMAN BARTHOLOMEW: Ms. Myers, Dr. Berg, do you have anything that you wanted to add briefly?

MS. MYERS: Thanks. Yes. Just very briefly, I mean, on the issue of rule of law, there's work ongoing at the embassy level, which I think is absolutely critical to try to ensure a sufficient degree of transparency and procurement processes to strengthen those institutions that are responsible for accountability, whether within the government itself, or we may be talking about media, trainings for the media on what precisely is happening in the region and what China's interest might be.

Also, work with civil society, which is much stronger, obviously, in some countries than others, but, nevertheless, a critical component of this. And civil society has been absolutely critical in performing this accountability function, and I think will continue to be, and in many cases has sort of reversed the course of certain Chinese deals. So, a very, very important, I think, line of work.

Regarding your question about debt repayment, you know, the debt situation in Latin America is very different than in other parts of the world. And so, for Latin Americans generally, this notion of debt-trap diplomacy doesn't resonate. In most cases -- Venezuela is an extreme outlier, obviously, right? -- but in the case of Argentina, in the case of Brazil, there have been fairly structured and on-time repayments of debt, with some exceptions. In Ecuador and Venezuela, what China has done on multiple occasions now is to extend the timeline for debt repayment, so to offer some accommodation to those countries that have particularly difficult moments. Whether that will continue or not is another question, but there have not been examples of seizure of assets or something of that nature.

CHAIRMAN BARTHOLOMEW: Dr. Berg?

DR. BERG: Yes, I'll just say, very briefly, on the strengthening institutions and rule-of-law front, the Inter-American Democratic Charter can be a huge boon for us here. We have to remember that Latin America and the Caribbean is the only region of the world, 34 of the 35 countries -- everyone but Cuba -- have pledged to not only uphold the rule of law, but to offer representative democracy as a right to their citizens, right?

So, this is a region of the world that is uniquely committed to this type of political system. And there are a number of things that we can do to help the OAS, as the main enforcement body, or the Inter-American Democratic Charter, to build out the so-called Inter-American System, which includes human rights institutions, which includes a number of monitoring mechanisms.

We also do a number of things with judicial strengthening through our security cooperation with the United States. We see that as sort of two sides, opposite sides of the same coin. And so, if you look at what we've done to help Mexico, for example, entirely reform its judiciary system as an effort to get after some of the levels of impunity in the country, that's another thing to look at in terms of ways to look at building rule of law and tying it to other issues with which it intersects in the region.

CHAIRMAN BARTHOLOMEW: Thank you very much.

I was very generous with the time there. It's not going to be so generous going forward.

Commissioner Fiedler?

COMMISSIONER FIEDLER: Thank you.

On the corruption question, is the corruption individual leadership directed corruption or is it a combination of that plus funding political parties as a result of the corruption? In other words, using corruption to fund the political party? Whoever wants to answer first.

DR. ELLIS: Sir, I'll try to be more brief.

But it's all of the above, sir. As Dr. Berg alluded to, there is the International Liaison Department engagement directly with parties, party trips. So, it's interesting the degree to which the number of Chilean congressmen, for example, who have been over to China on China trips and the relative absence of criticism within the Chilean congress about China.

But, in addition to that, it's many deals, not in every country, but deals where the son-in-law of the brother of the president gets the intermediation contract for signing the deal -- so, those type of things where leaders directly benefit through family and friends.

This was an issue, of course, in Ecuador with many of the cronies affiliated with Rafael Correa that the next government of Lenin Morino was trying to sort out.

It goes to the individual level of the sidebar benefits of individual businessmen. It goes to the Latin American business consultants who get the trips to China; the Latin American journalists who get the trips to China, who then are selectively silent on --

COMMISSIONER FIEDLER: Let me stop you for a second because I want to burrow down on it a little bit.

So, if there's a principal leader who's corrupt and he gets a $20 million payment, the question is, is he divvying a whole lot of that out, keeping all the 20 for himself, or is he giving it to other folks in the party that he runs or participates in? So, in other words, it's shared corruption? The individual politician is corrupt, but, then, he pays off a bunch of other people.

DR. ELLIS: What I've seen, sir, is --

COMMISSIONER FIEDLER: Is that phenomenon occurring in Latin America?

DR. ELLIS: I have not personally seen that so much as the family and friends beneficiaries of different contracts. There are two excellent books by Fernando Villavicencio, Ecuador Made in China, and a second one, taking a detailed look at the way in which oil intermediation contracts and things during the Rafael Correa government filtered out to friends and cronies of the president. I don't know how it was --

COMMISSIONER FIEDLER: I think that Ms. Myers has an answer.

MS. MYERS: Sure, and I don't know that I have one that's much more detailed than Evan's.

But what I've seen in digging deep into this, including ILD engagement with specific parties across the entire region, we most recently did a very in-depth study on ILD-PRI, Mexico, ties. And what we see in almost all cases -- and, of course, this is very difficult to determine unless you're a fly on the wall -- is that it's targeted toward individuals, specific individuals. And it needn't be particularly high-level individuals. I mean, a lot of distribution of PPE was given directly to those in customs agencies, for example, who will be in a position to be able to make decisions that are favorable for China in the coming years, maybe not immediately, maybe in the longer term.

So, that said, there is extensive, extensive effort to bring entire members, right, or sort of leadership of political parties to China for ongoing discussion, to take them on trips around, and to try to court them and curry their favor.

But, yes, these gains from this corrupt activity are distributed equally among or to various members of political parties is unclear.

COMMISSIONER FIEDLER: Okay. Dr. Berg?

DR. BERG: Just very quickly, Commissioner, to build on Ms. Myers' point, it's unclear exactly what role the ILD plays in sort of Chinese economic dealmaking. But, as I mentioned in my opening remarks, I think that it's clear that there is some sort of role. I think, obviously, the opacity is baked in here.

But it's no coincidence that, when we look at significant deals in the region, take a steadfast U.S. partner like Colombia, a project that's talked about for something like 75 years, the Bogota Metro System, the fact that there were meetings between ILD and ruling party officials in Colombia not too long before a Chinese company won that bid I think is no coincidence. And so, what happened in those meetings is obviously much less clear, but the fact that the ILD is involved in some kind of process for dealmaking I think is --

COMMISSIONER FIEDLER: I know we're slightly over time, but is that money coming to Miami?

MS. MYERS: I haven't seen any evidence of that. That would be worth looking into.

COMMISSIONER FIEDLER: There's a whole lot of Latin money that's coming into Miami, corrupt money.

DR. BERG: I think a lot of it, Commissioner, tends to be Venezuelan in origin, as kleptocratic individuals trying to park their money in places like Miami after having gotten rich with PDVSA and other institutions in Venezuela.

So, as Ms. Myers and Mr. Ellis mentioned in their testimony, Venezuela is just a case unto itself --

COMMISSIONER FIEDLER: Yes.

DR. BERG: -- in terms of its size and scope.

CHAIRMAN BARTHOLOMEW: All right. Thank you.

We're going to go to Commissioner Glas next.

COMMISSIONER GLAS: Thank you so much.

I really appreciate all of your testimonies.

Ms. Myers, you talked in your testimony about some of the environmental degradation associated with the projects that the Chinese have invested in a public-private partnership. And it sort of struck me in your testimony that, what could the U.S. Government as a whole do? What is your perspective on the coordination between IDB, EXIM, State Department, Defense Department to offer sort of an alternative of how investment should be done or how the U.S. Government -- what's your sense of coordination, given the fact that this is on the nightly news about Latin America, and specifically, more recently, about the Northern Triangle?

And then, the second question I have for some of you is, you all talked about the COVID response from the Chinese is really leveraging more additional influence on the region as a whole. Could you contrast that with your perspective on the U.S. response to the region?

Thanks.

MS. MYERS: And I assume the first question was specifically about ecological degradation. Yes, so, I mean, I think it's my understanding at least that the DFC -- and you all would have a much better sense of this than I do -- is still very much determining how best to focus its resources geographically, but also thematically, and in terms of specific projects, aside from those that have already been approved and are underway.

And as I mentioned in my testimony, I think this is a moment really, and it can't be an institution-specific thing, but, rather, as we tend to say, a whole-of-government initiative and with considerable, broad support to come up with a new strategy, a new truly coordinated strategy, something really quite extensive, to be a core sort of participant in not just Latin America, but the hemisphere's overall recovery.

And to do this, we need not only invest with China in mind, but with U.S. strengths in mind and, also, Latin American interests, development-related interests in mind, and specifically the sustainable development goals. So, I do not know how much coordination is ongoing or whether these conversations are already underway. But, to the extent that the IDB, EXIM, the DFC can coordinate on some sort of plan of action, right, that works to convene or to attract sufficient finance, to target investment and finance in a way that can perhaps provide guarantees that will attract more in the way of private sector investment, things of this nature, but with these SDGs in mind, and not just environmental SDGs -- that's usually the one, the sustainability has been the one that's been of greatest focus -- but the wide range of other SDGs, many of which are much more important to Latin America at this particular phase.

So, I don't have a particular strategy in mind, but my sense is that this is a pivotal moment and one in which the U.S. can really step up to the plate and have a much more extensive impact in terms of the region's overall recovery.

I'll leave the other question to --

DR. ELLIS: And specifically on the COVID response, yes, it's important to differentiate between the pre-vaccine and vaccine. Pre-vaccine, I think the Chinese, according to SOUTHCOM, gave approximately $230 million in aid to various different types, although the vast majority of them was actually sold, and not donated. The U.S. actually gave far more in that period.

And secondarily with the vaccine, it was ironic, of course, the Biden Administration has committed a total of about $4 billion to the COVAX facility, to which we receive very little credit. And that's actually far more than what the Chinese and the Russians, and supposedly now that the Cubans, have given.

And, of course, with the recent announcement that's there's going to be even more to come, again, it eclipses what the Chinese have done, but the Chinese have made every delivery to an airport tarmac into a photo op. You know, the president comes out and the boxes roll off with Chinese flags on them. And so, the Chinese, unfortunately, have done a much better job marketing, and they've done a much better job in the early phases in getting the production levels up.

And so, unfortunately, Chile had to rely on Chinese vaccine. Eighty-five percent of vaccines administered to date in Chile are Chinese; 82 percent in El Salvador; 75 percent in our ally Colombia, and 75 percent in Uruguay have been Chinese.

At the end of the day, I have full confidence that the number of Western, more reliable vaccines will be much greater. And also as alluded to, the efficacy of the U.S. vaccines are far higher. Indeed, there was one estimate that, depending on how you define "efficacy," one dose Sinovac efficacy was 3 percent; two doses, it was 50 percent in Chile, which meant that Chile was able to vaccinate 80 percent of its population with the Chinese vaccine, and yet, the virus continued to spread. Something similar has happened in Colombia.

So, I think, at the end of the day, if the U.S. gets its marketing game up better, and I think when the U.S. vaccines begin to come, we need to get that message out better.

Thank you.

CHAIRMAN BARTHOLOMEW: Dr. Berg, very quickly.

DR. BERG: Thank you.

I won't add too much to what Ms. Myers and Mr. Ellis have said already, other than there's a real cost-effectiveness to potentially getting more vaccines to the region. And in particular, I'd like to point out that we would be dealing with a number of partner institutions that do bring high levels of competence to the table. Take a country like Brazil, which has dealt with infectious diseases for a number of years and has made significant advances in that field. And so, partnering with these countries, we would be partnering with very capable and able public health authorities. So, there could be a real bang for the buck here, in addition to the public health benefits of sharing the hemisphere and confronting an infectious disease together.

CHAIRMAN BARTHOLOMEW: Thanks very much.

Commissioner Goodwin?

COMMISSIONER GOODWIN: Thank you, Madam Chair.

And thank you to the witnesses for your time and great testimony today.

So, how do we compete with China? Should we, as Dr. Berg suggests, bring ideology back? Should we, Dr. Ellis, as you suggest, demonstrate the value and the power of our example? This is often said of -- transparency, the rule of law, and democracy. Or do those values resonate?

And, Ms. Myers, if I understood your testimony, I think you were skeptical about whether they still resonate in Latin America and the Caribbean, and as a result, we should focus our competition perhaps exclusively on economic terms.

So, I'd like to just hear a reaction from the panel on the tension between those two assertions.

DR. ELLIS: Sir, I believe it is important that the U.S. continue to leverage its soft power and value alignment. But the second piece of my point about strengthening governance was not so much people go with the U.S. because they agree with the U.S. -- now that's been important in the past -- but, also, what I see is that the strengthening of transparency and the strengthening of governance, whether you agree with the U.S. or not, it forces China to compete on a level playing field. And the U.S. and European solutions are the best in the world, if they can be competed against on a level playing field and not having local elites do questionable side deals that benefit the Chinese companies.

But I also believe, especially as my colleagues I think also have concurred with me, that in select areas like 5G and telecommunications, where getting the Chinese in the architecture would so fundamentally compromise corporate secrets, corporate decisionmaking, and individual Latin American decisions, that there are some areas where we have to push back and not just say a level playing field. But, if we do so, we have to work with European partners; we have to work with other partners, whether it's Ericsson or Nokia, or others, to provide commercially viable solutions if we ask them not to go with the Chinese.

MS. MYERS: Thank you for the question.

I don't want to give the impression that Latin American countries don't care about democratic values or that this isn't important, but, when push comes to shove, right, and especially in the post-COVID-19 economic environment, decisions are going to be made based on economic interests rather than often sort of values-based judgments, or a sense that alignment with the U.S. based on values simply won't supersede economic interests.

And so, what does one do in that case? Yes, I mean, we can continue to talk about values and their importance. And I think, as I mentioned before, and Dr. Ellis mentioned just now, it will be critical to work on building capacity, right, at the government level, but also throughout society to ensure that there is something of an even playing field in countries that are willing to cooperate with us on that sort of activity; and to ensure that, even if there is not, that there are institutions there or organizations or entities that are able to monitor effectively what is happening and to call out unfortunate behavior before it has a very deleterious effect. And so, I mean, these are absolutely critical things.

We also need to protect our advantage in sectors where we still have one, right, where we are still really quite dominant, and services is a big place. We also need to look very hard at what it is that is providing China with so much economic leverage in the region. In some cases, it has a lot of economic leverage, mostly because these countries depend heavily on China as an export market for one or two primary commodities, right? That tends to be the most important point.

In other cases, it has economic leverage simply because countries feel that, if they align themselves with China, they will have economic benefit. That's not always true. And I think it behooves us to point out those instances where that has not happened to turn out to be the case, right, including in Central America among those countries that have recently cut ties with Taiwan. There are some cases where, had they stayed with Taiwan, they may have received more money than had they cut, had they decided to cut ties, than cutting ties, right?

And then, I mean, with this sort of trade dynamic in mind, and just how much leverage it really provides China in terms of, you know, or influence it provides China potentially, directly or indirectly over government-level decisionmaking, we need to think about really fortifying our own trade ties, right, and investing in ways that create these really critical trade linkages. Because trade more than investment, as Commissioner Scissors noted, and others, is really what is giving China so much of this advantage.

DR. BERG: Thanks for the question, Commissioner.

I said in my written testimony I think we have to bring values back into this, but I don't think that values are necessarily the only terms on which we engage with the region, but I think that they're an important one. And I also think, as I mentioned in a previous answer about the Inter-American Democratic Charter, they're kind of the basis or the anchor for that value-based engagement, but, again, not the only terms on which we engage.

Bringing ideology --

COMMISSIONER GOODWIN: I'm sorry to interrupt, but does it resonate?

DR. BERG: I think that there's a mistake that is made with some analysts when they look at actual governments and say, okay, these governments aren't responding to the values-based engagement as opposed to publics. There's still a lot of support among publics for democracy, for human rights, for transparency. And it actually causes publics occasionally to overreach in the region. We've seen the election of populists who are promising sort of radical change in that direction, and they've sort of overcompensated in some important ways.

But, look, it's not the only terms on which we engage, but, on the other hand, we can't say that we're going to have a values-based engagement, and then, not engage in a family and friends policy, so to speak, for COVID-19 relief and assistance, right? We have to pair it with other things; otherwise, it will fail to resonate and sound hollow.

CHAIRMAN BARTHOLOMEW: Thanks very much.

Commissioner Kamphausen?

COMMISSIONER KAMPHAUSEN: Thank you very much.

Thanks to our panelists. Dr. Ellis, it's good to see you again.

The first question is for Ms. Myers. In your written testimony, you talked about a CASS scholar has called a "swarming" approach on the part of China to Latin America, which is a huge and diverse region. And I worry sometimes that we tend to generalize about the region. And there's a beginning of a taxonomy in your approach as to how China interacts with the region.

You say, for instance, that "weak U.S. influence" -- and I assume that means at a country level -- provides an opportunity for China to engage with the region or the particular country.

What would you say are some of the other factors that shape the Chinese approach to individual countries, as opposed to the region writ large? What are some of those factors? Maybe it's commodities sales, as you've --

MS. MYERS: Certainly, yes. I mean, and you're absolutely right, it's very critical to note that neither is China monolithic and there's considerable diversity and heterogeneity in the region as well.

So, yes, I mean, there are a wide range of factors. Economic, right, related to China's own development, economic development goals, right; to the evolution of the Belt and Road Initiative, what it prioritizes at any given phase, and certainly, it's a very evolving and fluid concept, in my mind at least, to local conditions and the extent of Chinese ties in certain countries; the extent to which China is able to strike deals and has developed sufficient networks to be able to engage more extensively.

My belief, I mean, for my 10 years at the Dialogue, I have held this same belief, that most everything that China is doing in Latin America is, indeed, economically motivated, but, even if it is economically motivated, it still has extensive political implications in many cases.

What is it precisely that is motivating China in the economic or sort of strategic economic sense? It's, I mean, still the "going out" strategy, right? Resource acquisition, market acquisition, now for an increasingly high-value-added set of goods, right; tech, rather than shoes, for example, and opportunities to internationalizing and make its companies more competitive. Those things still strike me as very much motivating and account for so much of what China is doing in the region at present.

In addition to that, there is, of course, the Belt and Road Initiative, which encompasses, I think, those three tenets of the "going out" strategy, but also takes into account some of the structural challenges that China is facing at home and looks to invest overseas in infrastructure and other things that will help to address some of those structural challenges, whether it's overcapacity in steel production; you know, a need to seek employment for certain types of companies; diversifying or internationalizing the renminbi; achieving transport security, all these sorts of other things that certainly factor into Chinese decisionmaking.

But, yes, now it's -- I've always described China's approach as very opportunistic, and, indeed, also very flexible, right, with China pursuing opportunities really wherever it can without really any regard for a country's politics, ideology, and however, striking deals in those countries where it is easier to make them happen.

COMMISSIONER KAMPHAUSEN: Thank you.

Dr. Berg, a quick question. You talk about Chinese military engagement with countries in the region. I'd be interested to hear your thoughts -- and maybe we can follow up in a question for the record -- but I'd be interested in your thoughts as to what end is this engagement being pursued. Is it as a complement to everything is about the economics, as Ms. Myers has said? Are there other longer-term aspirations? I'd ask you to speculate a little bit there.

DR. BERG: Sure. Thanks. I'll put on my geopolitical forecasting hat here, because I see geopolitical goals as well.

Ms. Myers mentioned that she thinks that the terms of the engagement are mostly economic. I would agree with that, but I see, also, occasionally some geopolitical goals. And that's where the military engagement comes in.

Take a country like Argentina, for example. Ms. Myers had a great piece, a great report a while back, on China's strategy of going local. She mentioned it again in her opening statement. And I think that's exactly right. The Chinese are very adept at integrating and having discussions/dialogs with local-level officials in a region like Patagonia, where cities might be comprised of about 5,000 people.

The space station, as we have mentioned, is already there. But, as an example of something that they could move for in the future, which I think would be strategically very significant and potentially catastrophic, is the Strait of Magellan, right? There is the Strait of Magellan there. If the Chinese managed to sort of build a base that was sufficient enough to cut off access, that strait is large enough to sail an aircraft carrier; whereas, the Panama Canal, to my understanding, is not. And so, that would have significant military implications and could be something that the Chinese would be in a position to do at some point in the future, if they built up enough local goodwill to build that underlying foundation.

CHAIRMAN BARTHOLOMEW: All right. Time is up.

Commissioner Scissors, my Co-Chair for the hearing.

COMMISSIONER SCISSORS: Thanks.

I have a question for Ryan. So, take your mask back off, Ryan.

China often makes offers to win the goodwill of whoever is in charge, to make its true goals or underlying goals easier to realize. With regard to Chinese surveillance equipment and similar technology, in particular, we know recipient regimes can gain. Has China gained anything beyond goodwill from providing such products in Latin America and the Caribbean? In other words, is surveillance equipment and similar technology a tool to get what they really want, or is the Chinese side getting something out of it beyond that?

DR. BERG: Right. So, it's clear what the regimes in question, like Ecuador or Argentina, are getting. Ecuador, I think, is a good case to look at. So, a number of surveillance technology transfers under previous President Rafael Correa has significant anti-American as well as authoritarian tendencies. And so, it was clear from his perspective what he was getting. From the Chinese perspective, I think helping him consolidate his control on a domestic level led to greater deal flow.

Ecuador is a largely indebted country to China. We have seen how Ecuador's range of strategic maneuverability has been restricted because of its extensive debt to China. And so, I think the original foray was, of course, the surveillance technology transfer, but, then, there were further economic deals that were leveraged out of helping Rafael Correa solidify or consolidate his domestic control.

COMMISSIONER SCISSORS: Thanks. I have a question for Margaret. I appreciate the brevity because it allows me to ask a question to Margaret.

I'm sorry to pound this issue at you, Margaret, but I happen to agree with you up to a point. You said the U.S. should compete on economic terms, and I fully understand why. I just don't think that's realistic. We don't have demand for Latin America and Caribbean resources. It's not a rich region. Our profit margins generally need to be wider than competing Chinese firms. So, it's not as attractive to us as a market as it is to China.

I agree with you that this is the best single way -- and, of course, we would use multiple ways -- but this is the best single way to approach Latin America and the Caribbean. I just don't think it's realistic on the American side. Can you convince me otherwise? I would like you to. Please try to convince me otherwise.

(Laughter.)

MS. MYERS: I mean, our market is such that we're never going to generate the sort of demand for Latin American commodities, right, that China has, and therefore, cannot overcome, right, the extent of China's leverage over countries in this particular sense.

But what we can do is to, I think, reinforce, strengthen, revisit some of our trade agreements, perhaps generate others. I don't know that there's enough political will to do that at present, but, you know, to think critically about how we can invest to really promote trade integration across the region, because this will be, I mean, first of all, promoting of growth, right, which is absolutely critical in this next phase. We could be entering into a moment of extreme instability across the hemisphere if we do not do something of this nature, sort of China aside.

But, no, I mean, you're right. You're right. Nor can we compete on infrastructure, frankly, right? That's not a sort of rational objective. We can do some work in that space, right, and we can do work that is of higher quality and, indeed, better aligned with the region's development objectives. And then, we need to think really, really hard about what our advantages are and where we can focus to make a real difference, especially in those countries that continue to be our closest allies, but where China is, indeed, establishing day by day a stronger presence, and Colombia is one of those.

So, no, I mean, I worry, too, Derek, that we don't have a ton of options on the table for ourselves as concerns trade or any sort of other form of economic engagement, but there are, I think, small things that can be done that, first of all, will help in terms of competitiveness with China, but, more importantly, will help to ensure a secure region that is safer for democracy and democratic principles, looking ahead.

And then, just on the other point, I mean, I think data is what's driving so much of this, especially AI-based engagement and surveillance technology. It's a need, right, to gather data on Latin American faces, right, especially for facial recognition technologies and for other sorts of technologies that require Latin America-specific data. And, indeed, I think this is a major motivator for what much of what China is doing in the region.

But I hope to speak with you more in-depth about possible opportunities for economic collaboration with the region that could be, indeed, influential.

COMMISSIONER SCISSORS: Thank you.

CHAIRMAN BARTHOLOMEW: All right. Commissioner Talent?

COMMISSIONER TALENT: Thank you, and thanks to the three of you.

I'm going to ask Ms. Myers and Dr. Berg about what I think is an apparent inconsistency between the two of them. If somebody asked about this in the last 10 minutes while I was gone, I'll just look at the record. I had to go. Commissioner Kamphausen gets very surly when he doesn't have his coffee. So, I went down and got him some.

Ms. Myers, you say we need -- or, no, excuse me -- Dr. Berg, you say we need to bring ideology back in dealing with Latin and South America. And, Ms. Myers, you say we need to compete on economic terms rather than ideological ones. So, I'd like for the two of you to either debate that or tell us that you're actually saying the same thing, but in different ways.

And then, the second thing, I'm going to probe a little bit. And maybe, Dr. Ellis, or whoever wants to chime in on this. You mentioned before that, if I understood you correctly, that we're probably going to end up providing more vaccines to the region than China does, and they're better vaccines, but nobody is going to know about what we're doing. Whereas, every time they brought some aid in, there were local stories all over.

Now this is so frustrating to me, and I think it's frustrating to everybody who has ever sat on this side of the dais or ever worked on the Commission. This, it's PR 101. So, we talk about the Congress has to do more. And I'll just ask as an American here, why don't we just like tell our ambassadors, "Look, when we do something good for this country, we want it all over the press, okay? And you know what? If you can't do that, we'll get an ambassador who can do that."? This is not for this Administration or the last one or the one before. This has been going on for years. It's PR 101. We've got a bunch of vaccines coming into the country. Make a big deal about it.

So, those of you who know the State Department better -- and again, maybe it's not them; maybe it's some other -- why don't we do this better than we do it? And if we did that, if we just talked about what we and other international organizations in which the United States -- it's like the IMF, or whatever -- what we're doing in the region, how much of the problem would that solve? My guess is it would be a big step forward.

So, end of rant. I do want to hear whether the two of you really disagree or not, and if so, you know, debate; have it out.

MS. MYERS: You know, I think we probably don't disagree all that much. But my point is that, you know, what I hear a lot of folks say here in D.C. and across the entire country, that Latin American nations, Latin American governments/leaders, would always prefer to work with the U.S., if they could. And I'm not so convinced that that's always the case anymore.

I wish, I hope -- and I think in many cases it is, especially in certain countries where we have very, very strong ties, and where much of the leadership, much of the elite, is well-aligned with the U.S. and has, in fact, studied here, but it's not always the case, especially when you look at the local level certainly, right, but also the further we get from the U.S., it tends to be less the case.

And so, yes, I mean, it's true that we share a lot of values. There are commitments to democratic freedoms, to democracy. There are those who remember what it was like to not have democratic governments and worry deeply about a transition back to that. But what I want to emphasize is that we cannot rest on our laurels, just assuming that these shared values will maintain very strong ties and prevent more in the way of engagement from China or more in the way of Chinese influence in certain countries.

So, that's more the point than anything else; and that, post-COVID-19, countries are going to be in a position where, in fact, they are going to be downgrading their standards most likely to attract more in the way of investment, especially from China, because they'll be knocking at the door in many cases.

So, I agree entirely with Ryan about the need to reemphasize some of these points, to have critical dialogs with the region about democratic governments, about the strength of our democratic institutions, how to fortify those, to reinvigorate the Democratic Charter through the Organization of American States and other international, or, rather, regional organizations.

But, yes, I mean, there needs to be more than just a sort of values-based judgment here.

DR. BERG: Great. So, I don't know if we disagree entirely, but we have admitted throughout the course of this conversation that the U.S. -- and as Commissioner Scissors rightly said, and as my colleague, Ms. Myers, agreed -- the United States is not going to compete dollar for dollar with China in Latin America. It has to be more strategic than that.

So, what are the terms of engagement? And going back to this, the historical grand strategy of the United States towards the region, which, again, has brought it tremendous strategic benefits in other parts of the world by having a sort of tidy, prosperous, democratic neighborhood, is one that emphasizes shared values and the mutually beneficial terms of cooperation. So, if not competitive on the terms of engagement with China in region, then what are the terms of engagement?

And so, I would like to see more explicitly a discussion of sort of democracy and the hemisphere of democracies in our posture towards the region. I mean, look, we could have the Congress vote for a capital increase at the Inter-American Development Bank, which I think is much needed. We could even have a certain percentage of DFC lending pegged to the Americas, with matching private financing. I've seen some studies that have said we could have a quarter of a trillion dollars over a five-year window put into the Latin America space. That still isn't going to compete necessarily if China wants to throw everything that it has at the region.

And so, what are the terms of engagement, not exclusive terms of engagement? But I think some of the important terms of engagement is that value-based level.

COMMISSIONER TALENT: We can hold until the second round, if there is one, for the other question. Or maybe somebody could work the answer in, in response to a different Commissioner.

Thank you.

CHAIRMAN BARTHOLOMEW: And/or put questions in the record, too.

Commissioner Wessel?

COMMISSIONER WESSEL: So, Jim, do you want to have them answer your question during my time, is that what I understood?

(Laughter.)

COMMISSIONER TALENT: Yes. No, I don't.

COMMISSIONER WESSEL: Thank you all for being here.

Let me, if I can, bring this back to sort of, I think, what Congress is most focused on, which is the impact of China's activities and their impact on U.S. voters -- workers, farmers, et cetera. You know, for me, I see that Latin America has somewhat been a political or economic shock absorber, let's say, in terms of China's activities with the U.S.

So, we had trade disputes and China decided they would buy less U.S. soy and buy more Brazilian soy. We saw that's been interrupted; that China co-opt Chilean lithium commodities for their use. We've learned of China's efforts to claim biodiversity assets throughout the region, to try and fuel biosynthetic and new efforts.

And right now, on our border, we see plans by China to invest greater sums in Mexico, likely in the automotive area, and some other industrial areas, which will limit growth of U.S. jobs here in the U.S.; will subvert in some ways our bilateral challenges with China, as they use Mexico as a transshipment or development point for their products.

So, what do you see the prospects are for the American worker, the American farmer, vis-a-vis Latin America and the Caribbean, and what Congress should be looking at? I agree, we all agree, in terms of democracy, corruption, shared values, et cetera. But, again, the American worker is wondering what's happening to their paychecks and what's going to be on that table that weekend.

Ms. Myers, do you want to start?

MS. MYERS: That's a tough question. So, yes, in looking at sort of U.S. -- and so, I think the rest of the question is, you know, we see so much more Chinese investment in sectors in Latin America that will potentially make them more competitive, and then, have implications for U.S. workers. I think that is frequently, well, yes, especially in the case of Mexico, we're seeing a lot of investment in auto manufacturing, but so often it's sort of intermediary production, production of parts for companies that are already well-established. That is a problem because they're producing them at lower cost sometimes than American producers.

COMMISSIONER WESSEL: And they're producing parts --

MS. MYERS: Right, they're producing parts that American producers may very well --

COMMISSIONER WESSEL: -- that we used to make, yes.

MS. MYERS: -- be producing. And so, yes, there is some displacement, especially in that particular sector. I mean, we've seen effects on agricultural markets and on sort of growth in exportation of soy from Brazil, for example, at the expense of soy exports from the United States to China. That, though, was mostly the result of U.S.-China trade policy, rather than Chinese investment in the region.

So, I think, yes, there are clear challenges here. I mean, it would be critical, I think, to do -- and maybe this has already been done by trade associations and industry associations, and others -- but a sort of sector-by-sector investment, or rather, investigation to determine just how much Chinese investment specifically in these areas is helping to develop more in the way of capacity in Latin America, and as a result, affecting opportunities for U.S. industry and other types of other economic sectors.

I don't have the answer across the board. There are plenty of anecdotal examples, certainly, of this happening and a lot of concern among U.S. companies. You know, articulated in most every conversation that I have with a U.S. company, there is a lot of concern about not only Chinese competition, right, in its own right, but Chinese investment and whether that will lead to more in the way of competition for U.S. producers of various sorts.

What I would say is that, you know, again, targeted investment, right, and supply chain development, to the extent that we're able to do that, would do much, I think, to create opportunities for sort of two-way trade and for more in the way, and indeed, perhaps even upgrade some industry here in the United States and in Latin America as a result.

COMMISSIONER WESSEL: Thank you. I see my time has expired. If the other two witnesses might be able to respond for the record, I'd appreciate it.

CHAIRMAN BARTHOLOMEW: All right. Commissioner Wong?

COMMISSIONER WONG: Thank you to all the panelists.

I just want to maybe step back a little bit. When countries determine their global strategies and grand strategies, there's a question of the prioritization. One way to do that is to identify priority region, rank them, and then, figure out how much political bandwidth, policy bandwidth, and resources towards those specific regions. And there are tradeoffs that we have to weigh -- the cost of competing in certain regions as well as the potential for benefits, as well as the relative threat from our adversaries in those regions.

So, my question, or there are really two in this for all of you, is, where do you think China or Beijing ranks Latin America in its overall global strategy? And correspondingly, where should the United States rank Latin America vis-a-vis other areas of competition?

DR. ELLIS: So, you pose an excellent question. First of all, let me say that I believe that Beijing's ranking is varied. I think there are certain areas -- certainly, it places a strategic priority and presence in the Caribbean for the same reason that it does not want significant U.S. influence in its own first island chain region. But, at the same time, it's very cautious because it recognizes that area is the U.S. near abroad.

I believe, though, that the United States needs to place significantly more priority on Latin America than we currently do. In my judgment, whatever Beijing's priority is, or level of caution, to me, there is no other region in which the conditions of the region economically directly affect the United States. It directly affects the United States through immigration flows, through security, through drugs, through the position of our companies.

And indeed, if I could leverage off of my answer to make a little bit of the case for your colleague, one of the things that I also see is that U.S. companies, we used to live in a time where, I would say, U.S. prosperity is premised on the idea of which U.S. companies had significant portions of value-added, had relatively secure supply chains. That was good for U.S. workers and quality U.S. jobs. We had relatively secure logistics chains coming through places like the Caribbean and the Panama Canal. We had a relatively secure region in terms of migration and drugs and no major threat actors, and at least the ability to cooperate with our security partners, if that was not the case.

So, what I fundamentally believe, why I believe that we need to prioritize Latin America -- and I believe this also answers the Commissioner's question -- is that China's involvement, even though not deliberately, is putting all of those things at risk. It's putting the position of the U.S. companies' primacy as the realizer of value-added. As the Chinese presence advances in the region, it's putting U.S. supply chains at risk in the region. It's putting the security of logistics in terms of the quality of governance, in terms of, also, the positions of the Chinese logistics companies and port operation companies in places like the Caribbean, in places like Panama. It's putting at risk the region through that populist cycle I talked about before, which helps to drive migration.

It undercuts our partners' willingness to cooperate with us. We've long seen this with Venezuela, with Ecuador, with Bolivia, with Argentina, who rejected a U.S. Coast Guard cutter as they turned it to Argentina.

So, to the degree to which we need our partners to cooperate with us on matters like drugs, not allowing threat actors in, all of those things are put into jeopardy as Chinese influence, even if it's about economic advances. And that's, I believe, why we really need to put a lot of priority on this.

Thank you, sir.

COMMISSIONER WONG: Thanks.

Ms. Myers?

MS. MYERS: I mean, I think one way to look at it, Latin America is not a high priority for China in terms of its overall foreign policy agenda. And we know this for a number of reasons, but one is that Latin America was the very last region -- it's also the furthest region, right? -- to be included in the Belt and Road Initiative in 2018, after the Arctic, which gives you a sense of where it falls in terms of foreign policy priorities.

Nevertheless, it's very important to China for a series of reasons; namely, commodities, you know, natural resources, as a market, especially for tech now, right? I mean, this is a very, very promising market for a wide range of sort of technological applications, and in a number of other ways.

But, yes, I mean, in terms of rankings, it's not as a high priority. I agree entirely with Evan. I would just add that, I mean, in addition to all of that, the Latin American region as a whole, right, is our most important trade partner. It's our largest trade partner. And so, I think it's, I mean, yet another reason that we need to focus very, very heavily on fortifying these ties and ensuring that the Latin American region maintains a prominent presence in our overall foreign policy objectives.

COMMISSIONER WONG: Ten seconds, Dr. Berg.

DR. BERG: Right. Thanks, Commissioner.

Look, I don't think China has had to place Latin America or rank it very highly in its foreign policy to still have the measurable level of influence it's had, because we've mostly been absent from our own shared neighborhood. So, that's the first thing I'll say, is we have this sense that it's not a priority area for China, but would it become more of a priority area if we were to start competing stiffly, to present stiff competition to them?

Second is there's a Latin America paradox here. This is the most important region for our prosperity, for our shared security. It's the clearest vector for any sort of threats that are going to come to the United States. And yet, we systematically underinvest in Latin America decade after decade and year-in and year-out.

And so, I'm a Latin Americanist. We're all Latin Americanists. I think that we share that bias. We think that the region should get more priority because we study it. So, I recognize the bias, but I also think there are good strategic reasons to raise the level of the strategic priority that Latin America has.

COMMISSIONER WONG: Thank you.

CHAIRMAN BARTHOLOMEW: Thank you.

My turn. COVID aside, which is a very difficult thing to do, of course, because it's changed the dynamic, I mean, China was becoming more active in Latin America resources, but other things. And for the longest time, we were told, well, you know, they don't want to do anything much in our backyard because they don't want to get us upset about it. And that no longer seems to be a factor.

So, I just wonder, what has changed? What do you think is the reason that they are willing to expand their presence?

DR. ELLIS: Commissioner, I believe that it's really a function of three things. It's expanding Chinese wealth and power; it's the changing nature of the new Chinese regime, and it's Chinese global obligations.

So, one of the things that I've seen in the 17 years that I've followed this is, as Chinese GDP expands, as Chinese capabilities expand, they become more and more bold. So, you saw the evolution, for example, in Africa of kind of counter-piracy operations off of Somalia, and then, the base in Djibouti, the commitment of peacekeeping forces there.

In the South China Sea, you saw, again, as Chinese power expands, the increasing assertiveness within the nine-dash line, with the militarization of islands.

And the same thing with Latin America, under Hu Jintao, it was, again, there was a lot of caution to China's weak high capabilities. But, as China has expanded throughout the world, I think you see a great hubris, but it's complemented by the fact that China perceives itself as having greater capabilities. It has greater economic leverage, as the experience of its companies expand there; as, frankly, the needs of its companies expand there.

And, of course, you'll complement that by President Xi. Again, this is a new type of regime -- again, the indefinite extension of his period in office, the consolidation of power, the going after of opponents, and really talking. And so, what we've seen with the new wolf warrior generation of diplomats is kind of a reflection of not just the imperatives on the ground, but a willingness to take those greater chances.

And frankly, technologies have evolved, things like, again, the smart cities technologies, things like Huawei, trying to set standards in those areas where China sees itself as having a possibility to lock in benefits. That wasn't as clear a decade ago. And I think, as my colleagues have pointed out, China figures things out and adapts, and goes after things that work. I think, in recent years, it's identified a series of things that work.

And one last thing that has actually changed also is the truce with Taiwan is now off. So, with the flips of Panama and El Salvador and the Dominican Republic, I think we see again nine of the 14 countries that engage Taiwan are in the region. And so, the region is strategically important to fight that fight as well, and they perceive that it's now valid and this is a good time to do it.

CHAIRMAN BARTHOLOMEW: Ms. Myers?

MS. MYERS: Thank you.

In the academic literature, there are three sort of prevailing narratives that describe this phenomenon or offer some explanation, potentially, for this phenomenon.

And one is that this is relatively passive. You know, it's something that China is doing. China sees opportunity. It's wanting to follow a path of least resistance, and it happens to see that there is perhaps less of a U.S. role or commitment to engagement with the Latin American region, and therefore, there is this interest in engaging more extensively, for whatever reason, be it commercial, political, or otherwise.

Another is that this is motivated by Latin America and the Caribbean, right? Noting the opportunity, potentially, that China offers, that Latin American governments, at various administrative levels, are seeking out Chinese engagement, bringing China to the region. I mean, there's plenty of evidence that this is, indeed, all co-produced, right? It's not simply China imposing its will on Latin America, but, also, the other way around.

The third is that China, just as Evan described, China has so many interests in the region at present, not in Latin America, but globally, that it is incumbent upon China at this point in time to invest in ways strategically to exert, you know, to develop this sort of leverage in order to be able to protect its interests. And so, it is doing so very strategically in Latin America as well; and that, indeed, it has something of a mandate under this new leadership, under Xi Jinping.

CHAIRMAN BARTHOLOMEW: Dr. Berg, anything to add?

DR. BERG: Sure. Just real quickly, I think I'll give three reasons.

The first is U.S. disinterest, or a perception thereof, that the U.S. at least for 20 years during the War on Terror and other major foreign policy objectives that we had, looking way behind Latin America and the Caribbean. So, U.S. disinterest leaving a door open for Chinese influence.

The second is regimes, the rise of regimes, with which I think it is quite familiar with dealing. I think that's something that hasn't received enough attention in this hearing. We've barely uttered the word "Venezuela". And there's no coincidence in my mind that 45 percent of Chinese lending to the region has gone to that regime. And over time, that regime has become one, I think, with which China is more familiar and more comfortable engaging. We've all see all China is sometimes clumsy engaging with democracies and understanding their dynamics.

But I also think that there is an important element of agency here on the part of populations in the region, as Margaret rightly noted. There is a desire to engage with China and to try to shield their countries from some of the most corrosive elements of that engagement, but also to get the benefits of that potential engagement.

And that's why I think that we need a strategy not for preventing engagement in the region with China, but for basically deciding what are those strategic areas where engagement is something that the United States would not countenance and should seek to block, and what are those many areas where the United States should not expend resources.

Thanks.

CHAIRMAN BARTHOLOMEW: Wonderful. Thank you. Thank you very much. Thank you to all of our witnesses, actually.

We've got two minutes left, but I think, for my colleagues, if you have other questions -- if you guys are willing to answer them if we put them into the record -- we'll stop here.

And we're going to take a 10-minute break. So, we'll be back here at 11:20.

Thank you again. This was really interesting, setting the framework for us for our hearing. We appreciate it. Thanks.

(Whereupon, at 11:09 a.m., the foregoing matter went off the record and went back on the record at 11:23 a.m.)

PANEL II INTRODUCTION BY COMMISSIONER DEREK SCISSORS

COMMISSIONER SCISSORS: This panel will focus on Chinese economic engagement with, and competition with, or lack of competition with, the U.S. and Latin America and the Caribbean. This will include issues pertaining to COVID-19 which may be crucial.

Our witnesses are, first, Dr. Rebecca Ray. Among other things, at Boston University's Global Development Policy Center, she leads China's overseas development finance database. She will address Chinese economic engagement and the effect on regional development.

Mr. Mitch Hayes will go next. Mr. Hayes is the founder of "The China Signal" and "Mundo" newsletters, both of which are relevant to today's topic. He will focus on China's COVID-19 diplomacy in Latin America and the Caribbean.

Third up is Dr. Francisco Urdinez from the Politics Institute of the Pontifical Catholic University in Chile. His research focuses on Brazil and China. Today, he will address regional perceptions of Chinese engagement.

We appreciate all of you participating. Your full written statements will be in the record. You have seven minutes for your spoken statements.

Dr. Ray, please lead us off.

OPENING STATEMENT OF REBECCA RAY, SENIOR ACADEMIC RESEARCHER, BOSTON UNIVERSITY GLOBAL DEVELOPMENT POLICY CENTER

DR. RAY: Thank you for that introduction.

To the Chairs Scissors and Bartholomew, to the Commission, good morning.

My name is Rebecca Ray. I'm a development economist and a Senior Researcher at Boston University's Global Development Policy Center. For eight years, I've studied China's economic engagement with Latin America and the Caribbean with an interdisciplinary team at BU, as well as partners and academic institutions across Latin America.

Thank you for the opportunity to share this work with you today. I hope our findings can help you plot a way forward for the United States.

Let me start by stating simply, China's in Latin America and the Caribbean to stay. Having this new external business partner as a supplement to the traditional partnerships with the U.S. has been an economic lifeline for the region. It's why Latin America and the Caribbean didn't have an economic catastrophe during our financial crisis of 2008-2009. So, that's why regional leaders across the ideological spectrum, from Brazil's right-wing President Bolsonaro to Ecuador's left-wing President Correa, and every ideological stance in between, has welcomed the opportunity to do more and more business with this new external partner.

However, this new relationship has brought serious challenges, particularly in environmental and social governance. Those complications created an opportunity, if not a responsibility, for the U.S. to lead by example, providing institutional support and better opportunities for the region through smart, instructive, and pragmatic leadership.

Latin America and the Caribbean's relationship with China can be understood through two gaps, an infrastructure investment gap on the one hand, and an institutional gap on the other hand. This infrastructure investment gap underpins the relationship.

For decades, the region has had unsatisfied demands for investment and finance, particularly in infrastructure development. The Inter-American Development Bank, the IDB, estimates that the region's infrastructure gap amounts to $150 billion a year. That is three times as much as every multilateral development bank combined approved in the region last year in every sector combined.

This infrastructure gap is one of the reasons why the region has never successfully fully industrialized. So, when China arose as a global manufacturing center, Latin American and Caribbean manufacturers couldn't compete and they receded. In their place, commodities producers arose to fill the new demand for raw materials coming from China's growing cities. And Latin American and Caribbean governments were happy to field interest in financing investment in the region's infrastructure to get those commodities to port, and then, ultimately, on to China.

So, a China boom emerged in the region, concentrated in these two sectors, raw materials and infrastructure. Unfortunately, these two sectors are endemically linked to widespread environmental damage and social conflicts throughout the region.

A few years ago, our BU team, with colleagues across Latin America, researched these problems in-depth in eight different countries for the book China and Sustainable Development in Latin America. We found no evidence that Chinese individual investors performed significantly worse on environmental or social aspects than their Western peers. They're just heavily concentrated in these high-risk sectors that need particularly strong support and oversight from national governments.

And this brings us to the second gap, the institutional gap. Now, on paper, Latin America and the Caribbean have developed some of the world's most ambitious social and environmental protections, culminating in the Escazu Agreement, which came into force just last month. But, unfortunately, the national institutions tasked with overseeing those protections -- the labor ministries, environment ministries, cultural ministries, and others -- they're young institutions. They're usually understaffed, often under-resourced, and sometimes under-supported by their own presidents who are focused on filling that infrastructure investment gap, first and foremost.

Nor has China been an active partner in environmental and social governance, because they don't have the due diligence steps to screen and oversee outbound investment and finance projects, like multilateral development banks do.

So, as a result, an institutional gap has opened up between what governments have promised on paper in these social and environmental protections and what they have been able to provide in practice. And that gap, that divergence, has sparked social conflict across Latin America and the Caribbean, from labor disputes to environmental disputes, like land use or competition for water. In the wake of the China boom, we have seen these conflicts arise throughout the region. But these two gaps in infrastructure and institutions create an opportunity for the U.S. to respond with smart, instructive, and pragmatic leadership.

Smart leadership means recognizing that U.S. investors can help fill that infrastructure gap. We can provide better opportunities for Latin America and the Caribbean, and for U.S. firms, through supporting environmentally sustainable, socially inclusive infrastructure development in the region.

Increasing this type of support through the U.S. Development Finance Corporation is an important step, and so is supporting the capital increase at the Inter-American Development Bank, at the IDB. That proposal will boost lending capacity at the IDB by about $8 billion in new projects every year that U.S. firms can bid on in the region.

Constructive leadership means recognizing that our national institutions can help fill Latin America and the Caribbean's institutional gap. The Department of Labor, the Environmental Protection Agency, they have long histories of working with their peers overseas to build their institutional capacity through workshops and even direct grants. Scaling up this kind of support has never been more important. We can set a floor under environmental and social performance in the region, so our firms aren't outcompeted by other companies who are cutting corners.

And finally, pragmatic leadership means drawing China into closer cooperation with regional bodies where the U.S. has leadership, like the IDB. Unfortunately, I've seen current proposed legislation in the Senate that conditions U.S. support for that capital increase on marginalizing China's role at the IDB, or encouraging Latin American and Caribbean countries to stop doing business with China. Our research shows that approach is unrealistic and counterproductive.

China's in the region to stay. So, it's better to draw China in, to encourage them to channel their energy and their capital through the IDB, and participate deeply there in an institution with U.S. leadership, with high labor and environmental standards, and where our firms can compete for projects. That's better for Latin America and the Caribbean, and it's better for the U.S. Government and our firms.

Thank you. I look forward to the discussion.

PREPARED STATEMENT OF REBECCA RAY, SENIOR ACADEMIC RESEARCHER, BOSTON UNIVERSITY GLOBAL DEVELOPMENT POLICY CENTER

Testimony before the U.S.-China Economic and Security Review Commission
China in Latin America and the Caribbean

Dr. Rebecca Ray[1]
Senior Academic Researcher, Boston University Global Development Policy Center
May 20, 2021

Thank you for the opportunity to testify before the commission on the topic of China's role in Latin America and the Caribbean (LAC), and appropriate US responses. Together with an interdisciplinary team of colleagues at Boston University and academic institutions across Latin America, I have spent most of the last decade studying Latin America's "China boom" and the lessons it holds for economic development, sustainability, and governance. I hope my contributions will help the Commission plot a path forward for smart, pragmatic, and constructive engagement.

Introduction

LAC demand for Chinese investment, finance, and trade is here to stay. China is now the top trading partner for South America and the second for Latin America as a whole. Regional governments across the ideological spectrum have readily embraced the opportunity to do business with *both* China and the US, rather than just one or the other. In fact, doing business with *both* external actors has been crucial to Latin American economies. For example, this diversification of economic relationships was instrumental in buoying the region during the US financial crisis of 2008-2009, and it will be crucial in rebuilding the region after the crisis year of 2020. Furthermore, Chinese firms are not directly threatening US business interests in the region, because they tend to specialize in different commodities than US firms. Thus, any attempts to sideline China in the region will not help US businesses but will hurt LAC economically, which has come to depend on a diverse array of external partners.

That said, opportunities for US constructive engagement abound. The China-LAC relationship has brought new challenges on both economic and governance fronts, which the US can help address:

- Economically, the heavy importance of commodities has brought renewed **economic vulnerability** to swings in global commodity prices and slowed the region's progress toward its industrialization goals.
- Environmentally and socially, this concentration in commodities as well as infrastructure has brought governance challenges to the region. In particular, these sectors are endemically linked to **environmental degradation** and **social conflict** in the LAC region.

[1] I would like to thank Kevin P. Gallagher, Amanda Pareja Villegas, and Jake Werner for helpful comments. All errors remain my own.

- Furthermore, China's stance of deferring environmental and social **governance** of international investment projects has enabled high-risk projects to move forward with little oversight and has created pressure on regional regulatory authorities to relax their standards to expedite new potential investment.

In these areas, the US has an opportunity to lead by example, help strengthen the region, and bolster our international economic and diplomatic relations. Specifically, US action is needed in 3 fronts:

- **Increasing finance and investment support for infrastructure** development, to better meet the region's ongoing demand for connectivity and support the region's long-term industrialization goals
- **Stronger collaboration with China in regional fora** such as the Inter-American Development Bank to encourage China to channel its capital and technology through regionally governed bodies with high-level environmental and social standards.
- **Boosting international cooperation in institutional capacity building** with Latin American regulatory agencies to reduce demand for high-risk investments and improve oversight of both commodity and infrastructure development

The Rise of China as a Supplement to LAC-US Economic Relations

Since the turn of this century, China has skyrocketed in importance as an economic partner for Latin American and Caribbean economies. For the last decade, it has been the top export market for South America, and the second export market behind the US for the LAC region as a whole. As Figure 1 shows, China now buys over 10% of LAC goods, including over 20% of the region's agricultural goods and over one fourth of the region's mineral goods. In terms of investment, in the last decade, China has been the second largest source of new foreign direct investment projects (known as greenfield FDI), behind the US, and the third largest source of FDI through mergers and acquisitions (known as M&As), behind the US and Canada.[2]

This new partnership has brought much needed revenue to the region. It also brings geographic diversification of the region's partnerships, which can help LAC weather global economic boom and bust cycles. For example, LAC survived the US' 2008-2009 economic downturn relatively unscathed, with GDP falling by only two percent over the course of 2009. Such resilience in the face of a US recession is unusual in LAC history and was largely due to being able to continue working with China on trade, investment, and finance.[3] Overall, doing business with partners in multiple global regions – particularly when those partners' economic cycles do not line up with each other – can bolster developing economies against downturns in one or another partners' economies.

For this reason, LAC governments across the ideological spectrum have treated China and the United States as supplemental partnerships, rather than exclusive substitutes for one another.

[2] Ray, Albright, and Wang (2021).
[3] Bárcena et al (2015).

Two examples show this trend starkly: Ecuador's left-wing president Rafael Correa and Brazil's right-wing President Jair Bolsonaro. After it partially defaulted on its government bonds in 2008, Ecuador was effectively excluded from western sovereign bond markets until 2014. In the interim, the country covered its financing needs largely through credit from China.[4] But as Figure 2 shows, once it returned to the bond markets in 2014, those bond markets accounted for most of the new debt taken on through the end of Correa's tenure in mid-2017, at which point the portfolio had reached a greater balance among multilateral, bilateral, and other forms of credit (including bonds). Given the possibility, he opted to pursue a pragmatic approach of using both western and Chinese finance.

Jair Bolsonaro staked out a more skeptical approach to China during his presidential campaign, complaining that "China is not buying from Brazil, but buying Brazil [itself]" and making a visit to Taiwan.[5] However, during his tenure, Brazilian trade with China has continued to boom. Despite President Bolsonaro's rhetoric, his policy and tone toward China became more pragmatic, including sending his Minister of Agriculture, Livestock and Supply, Teresa Cristina, to China just a few months after Bolsonaro took office. This balanced approach, recognizing the importance of continuing to do business with both the US and China, has paid off in a continued trade and investment boom.[6]

Challenges Brought by the LAC-China Relationship

Notwithstanding the crucial economic gains that came with this new relationship, the "China boom" has also brought significant challenges to the region because of its heavy concentration in raw commodities and infrastructure. These challenges fall into three broad categories: economic fragility from a shift back to raw materials, environmental damage from booms in sectors that are closely tied to pollution and natural resource misuse, and social conflicts related to the economic and environmental problems.

Economic challenges

Economically, the heavy concentration of Chinese trade and investment interests in the region has brought a retreat from the LAC region's long-term goals of industrialization. This trend is due to several factors, as documented thoroughly by scholars.[7] Briefly, these factors are: China's skyrocketing demand for raw commodities from LAC, LAC imports of Chinese manufactured goods, and LAC manufacturers' inability to compete with their Chinese peers in export markets such as the US.

[4] Gallagher, Irwin, and Koleski (2012).
[5] Frenkel, 2018; Saraiva and Costa Silva (2019).
[6] Stuenkel (2019).
[7] Including Bittencourt et al (2012); Gallagher and Porzecanski (2010); Jenkins (2015): Jenkins and Dussel (2009); and Koleski and Blivas (2018), among many others.

China's demand for LAC raw materials has created a regional commodities boom, both in terms of the quantity demanded and in terms of world agricultural and minerals prices. As Figure 3 shows, China's demand for LAC commodities stands in stark contrast with what LAC exports to the rest of the world. The vast majority – over 90% – of goods exported from LAC to China in the last five years are in raw or processed commodities, with essentially no technological inputs. In comparison, about half – 51% – of what LAC exports to the rest of the world are manufactured goods, the vast majority of which involve medium or high levels of technology. So LAC's "China boom" is not simply due to the arrival of a new export market but new demand that sharply diverged from LAC's more-balanced export basket to the rest of the world.

Secondly, the rise of China as the "factory of the world" has meant an import boom of Chinese goods, not only in LAC but worldwide, hurting local manufacturers. China's rapid labor productivity growth in the manufacturing sector during the first decade of this century (shown in Figure 4) was more than three times that of LAC overall. It outpaced that of traditional regional manufacturing centers such as Argentina, Brazil, and Mexico by even more. As it did elsewhere in the world, local manufacturing gave way to imports from China. Third, LAC lost market share in other export markets like the US for their manufactured goods. Economic threat analysis shows that most LAC manufactured goods faced substantial threats from Chinese competition in third markets.[8]

Why have LAC manufacturers struggled to compete, further complicating the region's path toward industrialization? In part, the answer lies in the trade and investment agreements that LAC countries have signed with the US. In the 1990s, the region shifted away from enacting further regional integration to build LAC value chains and toward further integration with the United States, through NAFTA, DR-CAFTA, bilateral investment treaties with the US, and the negotiations for the Free Trade Area of the Americas [9] Scholars broadly agree that this shift – and the requirements of the agreements themselves – limited policy space for LAC governments to enact local contact requirements, industrial policy and other industrialization strategies.[10] As a result, the region's fledging progress toward industrialization stalled, leaving it more vulnerable to new competition from China.

Another important part of the answer lies in infrastructure. Regional infrastructure needs have long outpaced the supply of infrastructure finance and investment from western and multilateral sources, creating a stubborn obstacle to industrialization. Facing this severe connectivity deficit, LAC countries have struggled to form the regional supply chains that were crucial to the industrialization of East Asian economies.[11] In fact, LAC is among the least well-connected regions in the world: in 2019, LAC's intra-regional trade was less than 15% of total exports, above only Oceania.[12]

[8] Gallagher and Porzecanski (2010).
[9] Bértola and Ocampo (2012); Malamud and Gardini (2012).
[10] See for example Frederick and Gereffi (2011); Kuwayama (2009); Moreno-Bird, Santamaría, Rivas Valdivia, and (2005).
[11] See for example Amsden (2001); Wade (1990).
[12] UNCTAD (2020).

Making matters worse, aging and incomplete infrastructure networks raise the cost of exporting goods to external partners like the US. Research by multilateral development banks (MDBs), including the Inter-American Development Bank (IDB) and the World Bank, finds that these logistics costs have significantly eroded LAC competitiveness on international markets.[13] IDB researchers estimate that a regional "infrastructure gap" of approximately 2.5 percent of regional GDP, or $150 billion per year.[14] World Bank researchers, analyzing the effectiveness of regional infrastructure services, find that transportation needs are particularly underserved.[15] In contrast, annual reports from multilateral development banks active in LAC (World Bank, International Finance Corporation, CAF - the Development Bank of Latin America, IDB and its private-sector investment arm IDB Invest) show total approvals in all sectors combined of just $50 billion in 2020.

As regional demand has so dramatically outpaced western investors and lenders' appetite to support new infrastructure projects, the region has turned to China. As Figure 5 shows, Chinese foreign direct investment (FDI) in LAC has been heavily concentrated in infrastructure, much more so than other countries' investment in the region. Over 60% of new (greenfield) Chinese FDI projects in LAC over the last decade have been in the infrastructure sector, as have roughly half of Chinese mergers and acquisitions (M&As) in the same time period.

This infrastructure-driven Chinese investment and finance boom in LAC has brought an additional economic challenge for the region: market concentration. Regardless of the source, any concentrated influx from one country or just a handful of firms may ultimately give outsized market power to a handful of actors. Concerns have recently arisen regarding China's market share in a few sectors of LAC investment and finance, in particular the electricity market in Peru and sovereign debt markets in a few South American countries. However, on a regional level, these concerns do not appear to be borne out by the evidence.

In Peru, concerns have arisen over the last few years as the China Three Gorges Corporation (CTG) expanded its holdings in the nation's electricity market. However, the oversight steps taken by regulatory authorities give early indications that the government has sufficient institutional capacity to appropriately regulate foreign investors and hold them accountable. In 2016, CTG signed a contract with government investment promoter ProInversión to develop the 206MW San Gabán III hydropower plant. Three years later, in 2019, the collapse of Brazilian infrastructure firm Odebrecht led to the sale of its 456MW Chaglla hydropower plant in Peru, which CTG purchased. Finally, US-based Sempra Energy sold off its South American holdings, including selling a majority stake in one of Peru's largest electricity distributors, Luz del Sur, to CTG for over $4 billion. Given CTG's participation in both energy generation and distribution, concerns arose over the possibility of self-dealing and price-fixing, and the sale was initially put on hold. The Ministry of Energy and Mines recommended that the sale be permitted, on the

[13] See for example Mesquita Moreira, Volpe, and Blyde (2008); Gonzalez, Guasch, and Serebrisky (2007).
[14] Cavallo and Powell (2019).
[15] Fay et al (2017).

condition that the newly acquired Luz del Sur be required to purchase power through a transparent bidding process to avoid collusion, and the sale was completed in 2020.[16] This chapter gives hopeful signs for the capacity of Peruvian energy regulators to oversee a significant investment influx. However, as described below, environmental and social risks have not always been met as effectively, in Peru or elsewhere in the region.

More broadly, the regional growth of Chinese state finance – mostly through China's two policy banks that operate abroad, the China Development Bank (CDB) and the Export-Import Bank of China (ExImBank) – have raised concern of a "debt trap" or otherwise outsized market power by a few lenders. However, the evidence has not borne out these concerns on a regional level. The idea of Chinese "debt trap diplomacy" arose after the 2017 Sri Lankan sale of its failing Hambantota port to a Chinese firm to pay off other debts.[17] Although the details of this particular example did not constitute a traditional "debt trap" (in which a creditor lends with the expectation that the borrower will default, allowing the creditor to seize the underlying asset), the case raised concerns among observers that perhaps debt traps would come to characterize Chinese lending more generally. However, recent research has created a broad consensus that no such pattern has emerged.[18]

Figure 6 explores Chinese state finance to LAC governments since the last regional economic peak in 2008, in conjunction with the region's overall public debt burdens. It shows total loan commitments from CDB and ExImBank to each country, as well as each country's total outstanding public and publicly guaranteed (PPG) debt as a share of GDP in 2019. Among all of the countries represented in Figure 6, only Venezuela stands out as having extremely high debt exposure to China and an overall high debt burden. If China were operating under a "debt trap" framework, the crisis year of 2020 would have been an opportune moment to seize the assets underlying China's financing in Venezuela, including oil and mining interests. Instead, China has reacted to Venezuela's inability to repay these loans with what economist Stephen Kaplan labels "patient capital."[19] Successive rounds of renegotiations have given Venezuela breathing room rather than giving China oil wells. A similar pattern has emerged in Ecuador, which Figure 6 shows is the second-highest recipient of Chinese finance in the region (although to a much lesser extent than China). Last year Ecuador successfully suspended nearly $900 million in debt repayments to China.[20]

Environmental challenges

The rise of China as an economic partner for LAC has brought a boom in commodities and infrastructure development. While infrastructure development is sorely needed in the region and at least some commodity development will continue to be necessary, these sectors are

[16] Ray and Batista Barbosa (2020).
[17] For more on the "debt trap" framework, its origins, and use, see Brautigam (2020).
[18] See for example Kaplan and Penfold (2019); Kratz, Feng, and Wright (2019); Ray, Albright, and Wang (2021)
[19] Kaplan (2018).
[20] Ray, Albright, and Wang (2021).

historically associated with environmental and social risk, and the "China boom" has been no different. While Chinese investors have shown themselves willing to meet high standards where they are enforced, regional governments have faced internal pressure to relax those standards in order to facilitate as much of this new investment as possible. Thus, the environmental damage from the China-based commodity boom reflects regional institutional weaknesses.[21]

In the LAC region – and particularly in Amazon basin countries – the economic sectors most heavily associated with driving climate change are those that cause deforestation: agriculture and minerals production. As mentioned above, the rise in those sectors has been driven primarily by Chinese demand. Figure 7 explores this more closely in the Amazonian case. Two sectors are most closely associated with Amazonian deforestation: beef and soy. As Figure 7 shows, all of the increase in global demand for these two products from Amazon basin countries in the last decade has been due to Chinese demand. This trend grew even more accentuated during the US-China trade dispute of the last few years, as Chinese tariffs on US agricultural goods made South American substitutes more attractive for the Chinese market (Ray, Albright, and Wang, 2021). Across the entire LAC region, this trend holds. During the early-2000s commodity boom, LAC exports to China were associated with 16% more net greenhouse gas emissions (including the effect of deforestation), per dollar, than regional exports to the rest of the world.[22]

Local environmental damage can also have significant impacts on affected communities' daily lives. Heavy water use and contamination, for example, is an endemic problem with large-scale agriculture, mining, and oil and gas wells in LAC. In this regard, the impact of China's demand for commodities is even more stark: during the early-2000s commodity boom, LAC goods going to China were associated with 280% more water used or contaminated, per dollar, than other regional exports.[23] These environmental, and social challenges are also seen in the impacts of Chinese investment activity. My research with colleagues at Boston University and at academic institutions from across Latin America shows that Chinese investment is often associated with significant environmental degradation and social conflict.[24]

Notably, we do not find evidence that Chinese investors have performed worse on average than their Western peers. In fact, where Latin American regulatory authorities are willing to set and enforce high-level social and environmental business standards, we find that Chinese investors are willing to comply, sometimes more so than their western peers. This willingness to meet exacting national requirements stems from the heavy presence of Chinese state-owned enterprises, who do not need to meet quarterly profit targets (and thus do not face as many incentives to cut corners) but do have an incentive to support bilateral governmental relations.

[21] Ray et al (2017).
[22] Ray, 2017.
[23] *Ibid*.
[24] Ray et al (2017).

Unfortunately, national governments have not always been willing or able to set and enforce appropriate regulatory frameworks during this commodity boom. Although the region has some of the world's most ambitious environmental laws and protections, our research shows that regulators faced intense pressure to set aside or weaken these frameworks during the commodity boom, in order to facilitate as much new investment as possible. These pressures intensified as commodity prices cooled and governments faced incentives to replace falling minerals royalties with new investments.[25] This tendency to abandon high standards is particularly unfortunate given that those high standards did not represent obstacles to Chinese investment, as mentioned above. In other words, institutional weakness led to unnecessary and harmful erosion of environmental governance.

Similar trends emerge in Chinese infrastructure finance in LAC. Recent research on infrastructure finance in the Andes and Amazon basin, comparing Chinese finance to multilateral and western development finance institutions (DFIs), finds that institutional weaknesses block the effectiveness of the region's environmental governance frameworks, and that the Chinese finance boom has exacerbated this problem.[26] Over the last decade, Chinese infrastructure finance has grown not only in number but also in geographic scope, shifting into more sensitive territories including high-biodiversity areas in the Amazon basin and indigenous territories. Chinese DFIs are open to this type of support because they do not enforce their own environmental and social standards. Instead, they rely on borrowing nations' "country systems" of regulations and enforcement mechanisms.

In some cases, my co-authors and I have found evidence that Latin American presidents have sought financing from China for infrastructure projects that were too environmentally or socially risky to secure financing from multilateral or western bilateral sources. For example, Ecuador's Coca-Codo Sinclair dam received financing from China ExImBank after the Inter-American Development Bank declined to support it. Bolivia's controversial Rositas dam project has a similar history, as do several highway projects in the Bolivian Amazon. Thus, where Latin American governments lack adequate protections or institutional capacity to enforce them, Chinese finance has enabled the pursuit of projects that would not be permissible otherwise.

The "China boom" has presented a test of LAC's ambitious environmental governance framework. Chinese investors have shown themselves willing to meet high standards, but China does not offer any additional support or oversight of Chinese overseas finance or investment projects. LAC governments may impose their own standards, but must bear sole responsibility for maintaining and implementing them. Unfortunately, the region's institutions have not always been up to the task.

[25] Ballón et al (2017).
[26] Ray et al (2020).

Social challenges

The economic and environmental challenges discussed above create tension between regional governments' stated goals and the outcomes that they are able to deliver. Political scientist Carol Wise describes the existence of an "institutional resource curse" in the LAC region's history, which combines an active, developmentalist state with "grabber-friendly" stances toward particularly powerful investors, creating high hopes that are often not met.[27] The "China boom" has exacerbated this longstanding situation, as governments have eagerly sought new investment and finance but less actively regulated it.

The conflicts that have emerged in the wake of the China boom have often been triggered by weak economic and environmental governance. They may take the form of labor disputes (for example, the use of Chinese workers or a lack of understanding of traditional Latin American labor practices), competition over natural resources (for example, water or air pollution from oil wells or mines), or the domestic pushes to roll back governance standards in general in order to expedite as much investment as possible from this new partner.[28]

Labor relations have had a central place as a driver in Latin American economic policy, in commodity production as well as manufacturing contexts.[29] Whether in the factories of Mexico and Brazil, the mines of Chile and Peru, or the oil wells of Ecuador and Venezuela, labor unions have become politically powerful actors and labor customs have become important cultural traditions. Chinese labor relations are entirely different, potentially causing significant transition challenges for Chinese investors. In this context, well-developed and well-resourced institutions are crucial for host country governments to adequately communicate and enforce local labor law.

Unfortunately, as with environmental governance, our research has found a pattern of LAC institutions that have an inability or hesitancy to intervene in this regard. Case study evidence from Peruvian copper mining, Mexican manufacturing, and Ecuadorean infrastructure construction show repeated examples of labor and sectoral ministries struggling to meet the challenge of anticipating and mitigating labor conflicts in this context.[30] Whether the conflict stems from investors' resistance to negotiating with workers' unions (in the case of the Shaugang mine in Peru), their expectations that local workers would be amenable to work schedules typical in Chinese factories (in the case of the Golden Dragon copper tubing factory in Mexico), or delinquency in maintaining safe working conditions (in the case of the Coca-Codo Sinclair dam in Ecuador), it is clear that these conditions call for institutional strengthening among LAC labor ministries.

[27] Wise (2020).
[28] Ray et al (2017); Ballón et al (2017).
[29] See for example Bergquist (1986); Bértola and Ocampo (2012); Murillo and Schrank (2005).
[30] Ray et al (2017).

Compounding these weaknesses, additional case study evidence from Latin American scholars documenting the Ecuadorean Coca-Codo Sinclair dam, as well as from the Cherry automotive group in Uruguay and China State Grid Corporation in Brazil show a tendency for Chinese investors to decline to use locally-produced inputs, disrupting existing local supply chains and creating opportunity costs for local businesses.[31] Stronger management and planning from sectoral and economy ministries can help address these concerns before new investments arrive, rather than having to mitigate conflicts as they arise.

Another important source of social conflict surrounding Chinese investment in LAC has been environmental damage, and local governments' unwillingness to uphold the ambitious protections written into their laws and regulations. Frequent triggers of these conflicts have been water use and contamination by mineral and agricultural investors, which directly harms local livelihoods (especially in farming and fishing) as well as local public health.

These conflicts are not new to the China boom. Indeed, they have characterized large-scale agriculture and mineral investment in the region for decades. However, in the early years of the China-driven commodity boom, Latin American governments enacted highly ambitious environmental protections, which promised stakeholders a greater voice in new project planning and greater accountability for environmental damage. For example, Ecuador's 2008 constitution is noteworthy as the first in the world to give rights to nature itself, effectively allowing any person or group to represent nature in court by bringing legal action against polluters. Governments around the region have signed onto International Labour Organisation Convention 169, committing to give indigenous communities meaningful say over activities that affect their traditional lands and water. The China boom provided the first major test of these new regulatory frameworks.

Across Latin America, examples have emerged of national institutions unable or unwilling to enforce these new frameworks, and in some cases, relaxing them in the hopes of attracting greater Chinese investment.[32] China's reliance on "country systems" of national regulations, rather than employing its own standards on overseas Chinese investment and finance projects, means that local institutional weakness can become widespread environmental harm, triggering significant social conflict.

This pattern has become so widespread that it became part of China's 2008 Universal Period Review (UPR) at the United Nations Human Rights Council (UNHRC). As part of that process, a group of 20 Latin American civil society organizations – from Argentina, Bolivia, Brazil, Ecuador, and Peru – submitted a report alleging a pattern of environmental harm by Chinese investors that constituted human rights abuses.[33] Conclusions from this report were incorporated into 346 UNHRC recommendations for in China.[34] Notably, China accepted 284 of these

[31] Dussel Peters (2014).
[32] Ballón et al (2017); Ray et al (2017).
[33] FIDH (2018).
[34] UNHCR (2018).

recommendations, but the extent to which they are implemented will depend on institutional capacity and political will on the part of both China and LAC national governments.[35]

A pragmatic, constructive, and smart role for the US

LAC's development challenges have always been significant, but this year they are especially so. According to IMF estimates, LAC suffered a greater economic downturn than any other world region in 2012: a loss of 7% of GDP.[36] Given the monumental challenge of rebuilding the region's economy after the crisis year of 2020, it is unrealistic to expect LAC governments to turn away from the possibility of Chinese investment and finance. However, by inviting China and regional governments into closer collaboration, the US can pursue a policy path that is *pragmatic, constructive, and smart*.

A pragmatic US foreign policy will recognize the power of multilateral bodies to benefit LAC countries as well as US interests. *Closer engagement with China through regional bodies* can channel Chinese capital and technology through governance institutions that have deep histories of developing and employing strict environmental and social standards. Any efforts to sideline China from regional bodies are likely to backfire as long as the regional demand for infrastructure and investment continues. On the contrary, IDB has a history of overseeing special funds designated for particular uses and supported by particular member countries, such as the 2012 establishment of the IDB-China ExImBank Equity Investment Platform, and the 2013 establishment of the China Co-Financing Fund for Latin America and the Caribbean, funded by the IDB and the People's Bank of China and overseen by the IDB.[37] These funds use Chinese as well as IDB funds to support LAC projects that are open to construction bids by firms from any member country, including the US. Thus, the US can support its own firms abroad and support regional efforts for high-quality infrastructure development by initiating a stronger – not weaker – collaboration with China at the IDB.

A constructive US foreign policy will recognize the importance of two long-term regional deficits in Latin America: institutional capacity and policy space to pursue industrialization. First, evidence from LAC's China boom shows a need to invest in *institutional capacity building* for managing the China boom and dampening pressure for weakening standards or seeking financing for high-risk projects from China or any other external source. US agencies have a history of collaborating with their international peers through training and resource sharing. For example, the Environmental Protection Agency participates in the regional Latin American Network for Environmental Enforcement and Compliance, which hosts workshops with regulatory agencies across the region. The Department of Labor's Bureau of International Labor Affairs is active in institutional capacity building collaboration with its peers throughout the region, including through targeted grantmaking. A significant increase in funding and outreach for this type of activity can help draw a line under existing environmental and social governance

[35] Koop and Soutar (2019).
[36] IMF (2021).
[37] IDB (2012, 2013).

standards in LAC, manage the new influx of Chinese investment and finance, and discourage the pursuit of particularly high-risk finance projects.

A second area of constructive foreign policy in the region is to revisit the long-term barriers to industrialization that are built into US trade and investment agreements with the region. Just as bipartisan cooperation in the US Congress produced revisions to NAFTA that strengthened labor and environmental protections, other regional trading agreements can be re-examined to give more policy space to Latin American countries to enact the industrial policies necessary to develop regional value chains.

Finally, a smart US foreign policy will recognize that Latin American demand for investment in general, and infrastructure investment in particular, is far greater than what western partners have been interested in or capable of fulfilling. The resulting regional infrastructure gap has left the region unable to fully industrialize and eager for new infrastructure investment projects, even those that may not meet the environmental and social standards of MDBs. It is thanks to this local demand that Chinese finance and investment has powered a new wave of infrastructure in the region. The US can engage in this environment by *supporting calls for a capital increase at the Inter-American Development Bank*[38] as well as a *renewed commitment for infrastructure support* through the U.S. Development Finance Corporation. The US has an opportunity to *lead by example* in opening a path for a new generation of sustainable and inclusive infrastructure development that stands in contrast to the environmental damage and social conflict seen during the recent China boom. *A smart foreign policy will not let that opportunity go unused.*

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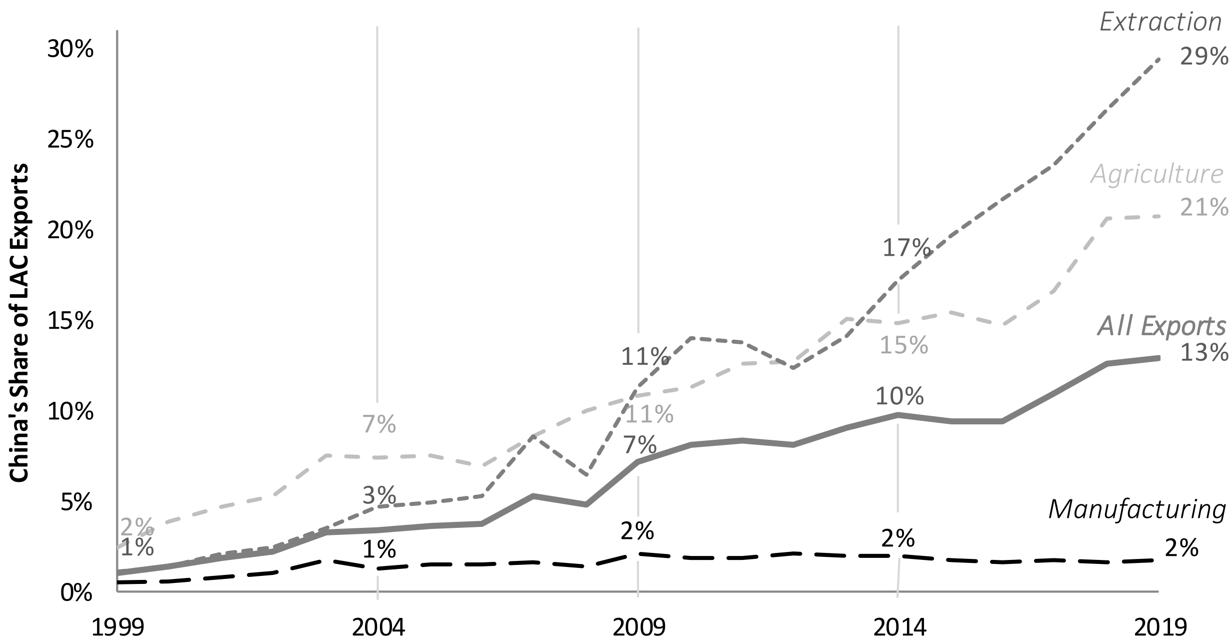
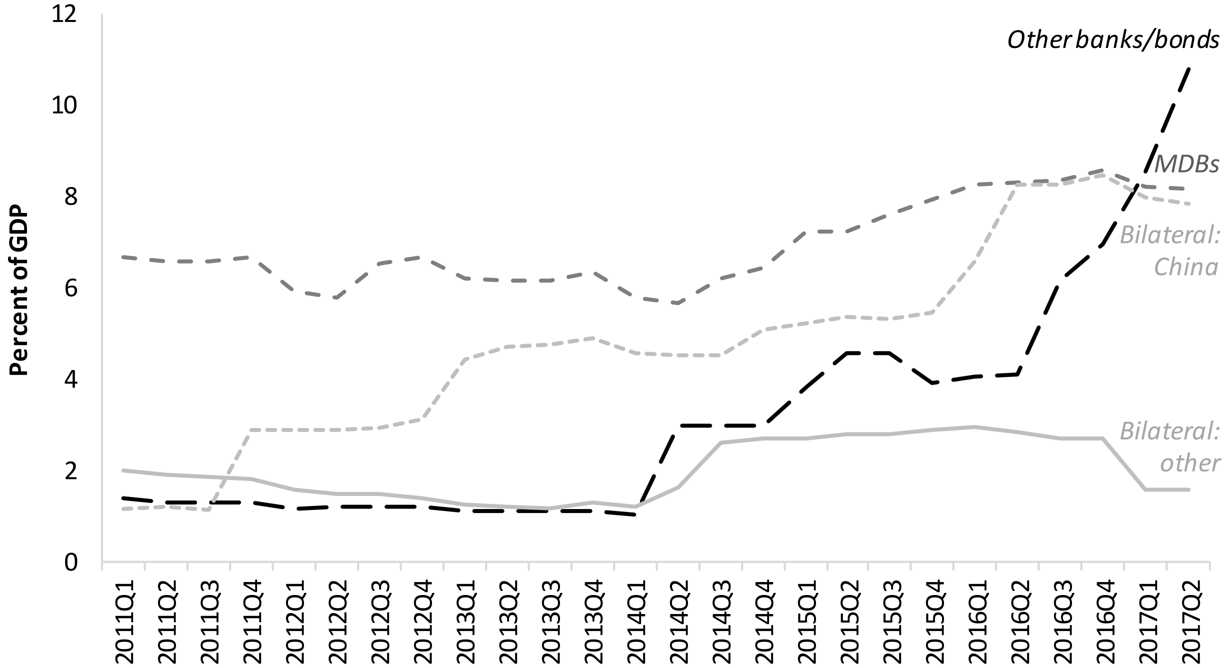
FIGURES

Figure 1. China's share of LAC exports of goods, by sector



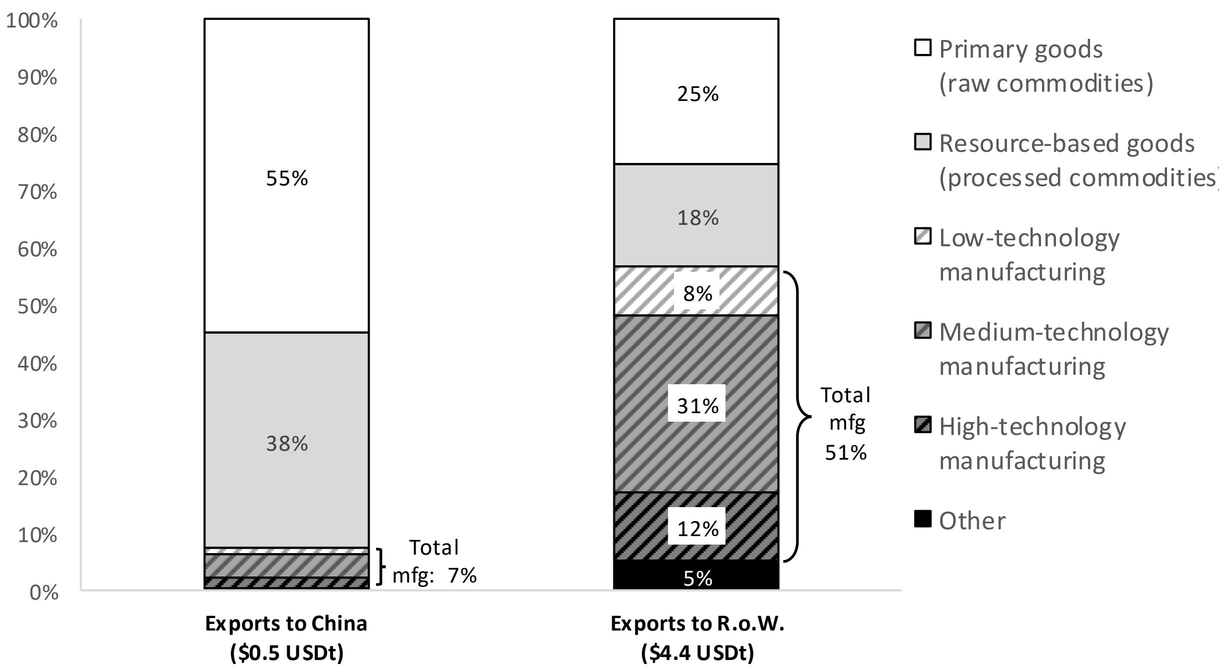
Source: Author calculations from UN Comtrade (2020).

Figure 2. Ecuador's external public debt by source, 2011-2017



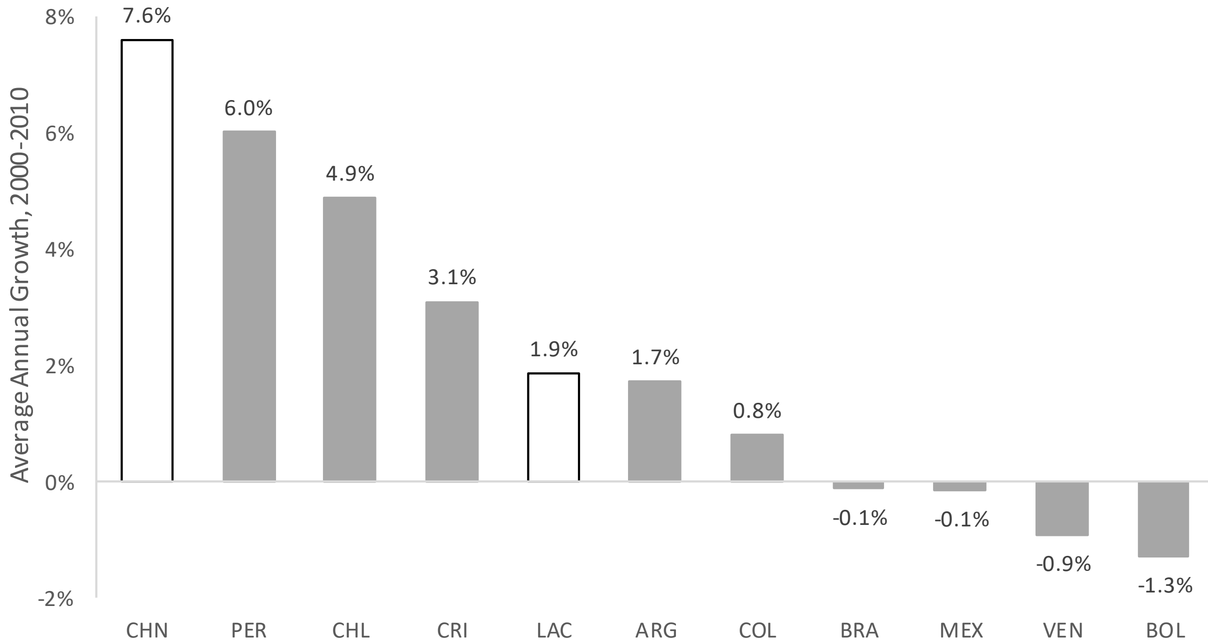
Source: Author calculations from Ministerio de Economía y Finanzas (2020).

Figure 3. LAC exports by technology level and export market, 2015-2019



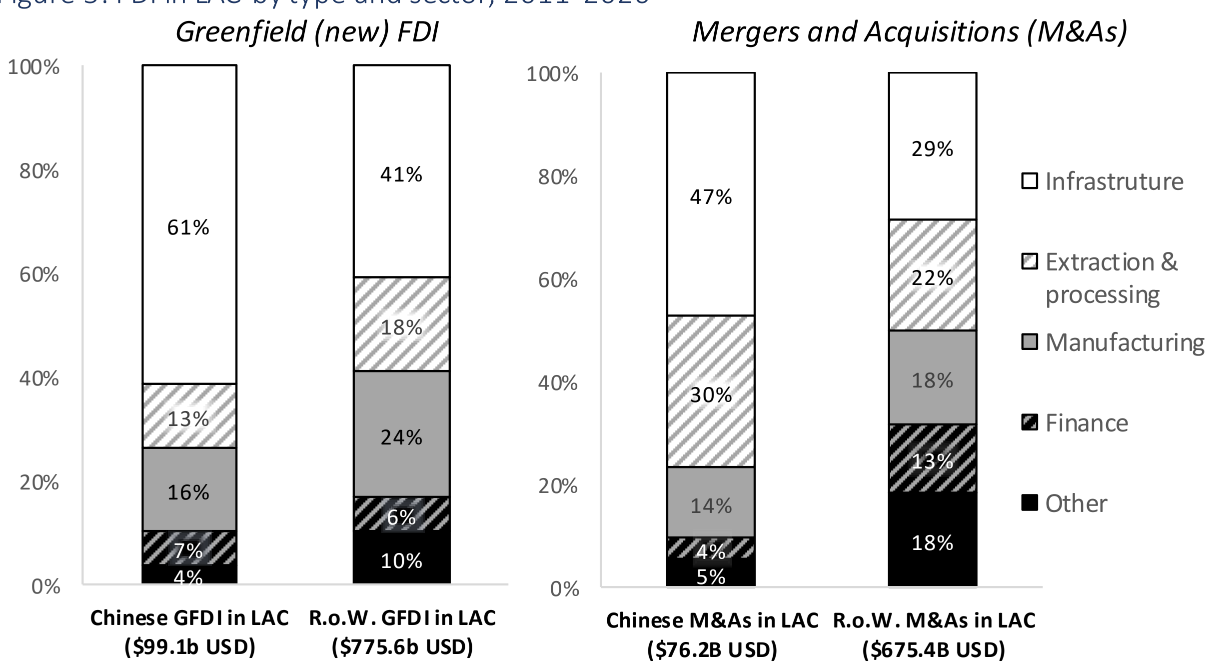
Source: Author calculation based on UN Comtrade (2021). Technology classifications taken from Lall (2000).

Figure 4: Real Manufacturing Value Added Growth per Manufacturing Employee, 2000-2010



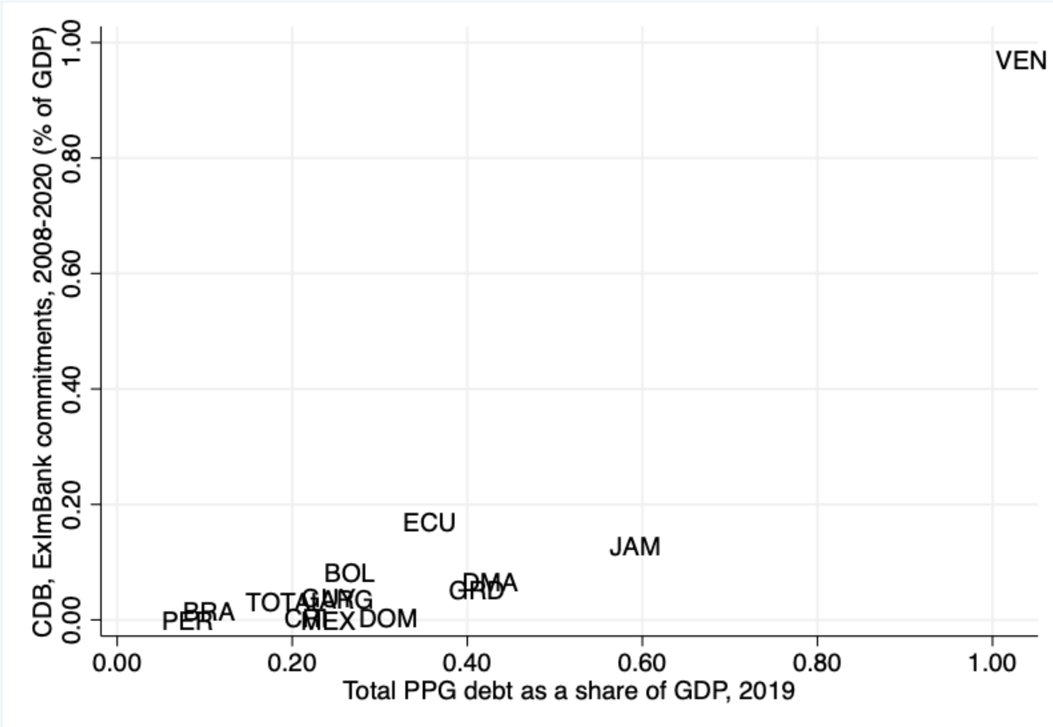
Source: Author calculation based on Timmer, de Vries, and de Vries (2015). Note: LAC figure is calculated as the weighted average of the nine LAC countries included.

Figure 5: FDI in LAC by type and sector, 2011-2020



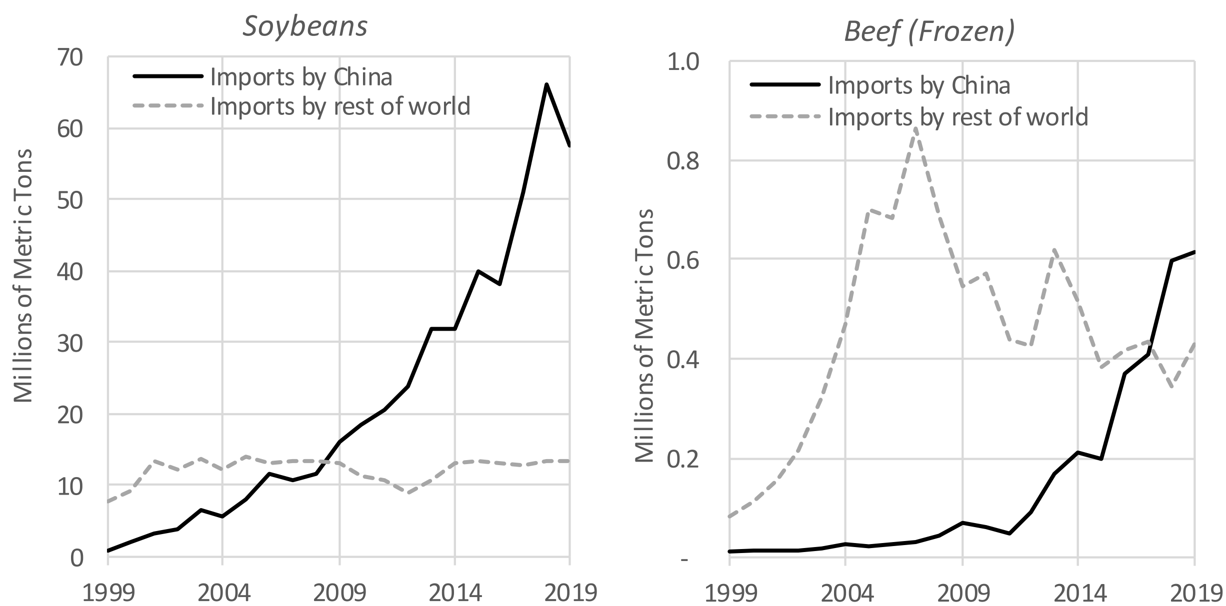
Source: Author calculation from FDIMarkets and DeaLogic data.

Figure 6. Total PPG debt exposure and total Chinese policy bank finance commitments since 2008, as a share of GDP



Source: Ray, Albright, and Wang (2021).

Figure 7. World demand for deforestation-linked commodities from Amazon-basin countries



Source: Author calculation from UN Comtrade database (HS commodities 1201 and 0202). Note: These figures show trade data from the import side rather than the export side to compensate for incomplete regional export data. However, they exclude (negligible) imports by Egypt, which demonstrate irregularities.

OPENING STATEMENT OF MITCH HAYES, FOUNDER, "THE CHINA SIGNAL" AND "MUNDO"

COMMISSIONER SCISSORS: Thank you, Dr. Ray.

Mr. Hayes?

MR. HAYES: Good morning and thank you very much to the Commission for allowing me to testify today.

I write a weekly newsletter called "The China Signal," which analyzes China's growing involvement in Latin America.

Now I see the defining characteristics of the China-Latin American relationship as one of economic necessity and political validation. And we've heard that in different words from the previous panel as well. I discuss these aspects in more detail in my written testimony, but I here, for this verbal statement, I'll try to focus on China's COVID-19 diplomacy in the region.

So, what does that look like? I would say the COVID-19 pandemic hasn't altered these defining characteristics of the China-Latin America relationship. However, the pandemic's deep shock to the region's public health, its economies, its social stability has drastically increased the domestic political pressure on Latin America's leaders as social and economic stability. And this is driving China's COVID-19 diplomacy, which I would divide into three phases.

First of all, a phase of mask diplomacy, vaccine diplomacy, and what we're starting to see now is a phase at consolidation. I see the regional objectives through these phases to be characterized as follows:

One, to generate favorable views of China's international pandemic leadership.

Two, to build commercial relationships between China's pharma companies and local pharmaceutical firms that can evolve to broader commercial activities.

Three, to increase scientific collaboration.

Four, to note where there are supply chain dependencies between China and their Latin American partners in vaccine inputs, and using it at times as a punitive sharp power tool, if necessary.

And fifth, to opportunistically foster domestic political pressure on Taiwan's regional allies, which we've heard discussed as well.

I think Beijing's methods to achieve is largely opportunistic, but it's important to realize that they're equally driven by growing outreach from Latin America's leaders as it is from China's own approaches itself.

So, looking at phase 1, mask diplomacy, I see China's initial response to the pandemic was largely to provide personal protective equipment. This was driven partly by Beijing, provincial governments, China's businesses, universities, and foundations, as my fellow panelist, Francisco Urdinez, which you'll hear from next, notes in his own excellent research.

The channels of China's mask diplomacy in the region vary greatly through these, and they really correlate with the depth of the bilateral relationships across these actors. I think it's important that these efforts can be characterized as an exercise of soft power diplomacy certainly, but it was really largely in defense of their damaged reputation through the region as a result of the pandemic.

Going to phase 2, vaccine diplomacy, which really started to emerge in the middle of last year, I think a number of factors saw China's vaccines dominate Latin America's inoculation drive in the first months of 2021. This included, along with an anticipated delivery of vaccines through the COVAX program, the U.S.'s decision not to export vaccines to the region, with the exception of Mexico; uncertainty of the side effects of the AstraZeneca vaccine; growing political pressure for leaders in the region to secure any vaccine, and increased connections and understanding of the procuring China's vaccines. So, I'll briefly touch on a few examples, and my written testimony provides some more details on this.

In Colombia , we've seen steps taken by the Duque Administration to leverage U.S.-China's strategic competition. During the pandemic we could see their own objectives, their comments on Beijing's human rights records. After additional lots of Sinovac vaccines were secured, that provided President Xi Jinping with an unprecedented platform and a video addressed to the Colombian people.

In Brazil, we've seen how the allure of vaccines can provide policy shifts to appease Beijing in what appeared to be reversal to allow Huawei to participate in the country's upcoming 5G option, following an agreement for China's vaccines.

In Uruguay, we have seen leaders lever their connections and procurement experiences with Sinovac to facilitate a donation of 50,000 vaccines for the Copa America Football Tournament upcoming.

In other instances, we've also seen Beijing's soft power to have some sharp edges to it as well. In Brazil, at the moment we're seeing this, when Sinovac production at Sao Paulo's Butantan Institute appeared to have been delayed following critical remarks from Brazil's President and Economic Minister.

In Paraguay, Honduras, and Guyana, we've seen coercion and opportunism over Taiwan.

Combined, I think China's COVID-19 diplomacy so far has helped to normalize Chinese presence beyond trade and investment in the region and improved in some cases public perceptions. In this sense, it's best to view Beijing's soft power in the region as iterative and really reverberates off the region's material needs at the moment.

Deeper engagement, as has been noted as well, I [don't think, with Beijing is not necessarily a preference of many of Latin America's leaders, but, given the circumstances of which they are in, they are left with few alternatives.

And now, we're at phase 3, with efforts to consolidate their diplomatic gains in the region. And I see this really, the future of their efforts to consolidate, depending on a few factors here.

One is Beijing's ability to secure long-term vaccine production in the region. Recently, we've seen this with Sinopharm and Sinovac hoping to consolidate and expand their productive capacity in the region via local partnerships in Argentina and Chile, respectively.

Two, the perceived success of countries in the region who rely heavily on Chinese vaccines.

Three, perceptions of the evolving efficacy of Chinese vaccines. And it's important to note this against available alternatives to them.

And fourth, the ongoing risk of scandals and misuse involving Chinese vaccines. And again, I elaborate on these in my written testimony.

So, to conclude with some recommendations, I think in order to counter some of the more malign aspects of China's COVID-19 diplomacy I would make the following suggestions:

One, to release some of the surplus vaccines held by the U.S. for distribution throughout Latin America.

Two, to continue the White House's push to temporarily waive intellectual property rights for COVID-19 vaccines by the World Trade Organization. This is a complex issue; I understand that, but it does have geopolitical advantages to it.

Three, to empower the United States, U.S. embassies, in conjunction with the U.S. Commercial Service to broker deeper relationships between U.S. pharma firms and local manufacturers in the region.

Four, to make U.S. aid more tangible and heavily promote success stories. And we've heard, again, that in the first panel.

Five, to support U.S. financial and tech companies to enter Latin America to facilitate private capital and American entrepreneurialism in the region.

Six, to liberalize U.S. visa rules, so that more of Latin America's middle class can visit the United States. And this includes trips to the United States for vaccine tourism, which we're starting to see a lot more.

And finally, to sponsor and promote investigative journalism that highlights Beijing's malign influence in the region. However, I really stress, this only will be effective if the U.S. Government is supplying vaccines, investment, economic development -- alternatives, in other words -- as detailed in the above recommendations.

Thank you.

PREPARED STATEMENT OF MITCH HAYES, FOUNDER, "THE CHINA SIGNAL" AND "MUNDO"

Testimony before the U.S.-China Economic and Security Review Commission

Mitch Hayes – Political Risk Advisor & Founder of The China Signal

May 20, 2021

Hearing on China in Latin America and the Caribbean

Introduction

Good morning and thank you to the Commission for inviting me to testify today. It's an honour. I write a weekly newsletter called The China Signal, which analyses China's growing involvement in Latin America. I have intentionally referred to it as the China *Signal* to present to my readers what is consequential, and what they should be monitoring, against a background of noise.

I see the defining characteristics of the China-Latin America relationship as one of *economic necessity* and *political validation*. From Beijing's perspective, this has long centred on securing traditional natural resources from the region to fuel China's economic growth. This is grounded in the Chinese Communist Party (CCP) retaining political control, which they see to be anchored in providing reliable domestic economic growth, fostering a strong sense of national identity – linked to the identity of the Chinese Communist Party, and providing a relatively comfortable and healthy living environment.

Economic necessity

Beijing's interest in Latin America has been growing since the early 2000s, and particularly since the 2008 global financial crisis. When Beijing looks at Latin America, they have been particularly attracted to the continent's commodities, ranging from Chilean copper; Brazilian grains, beef, and iron ore; and Venezuelan oil.

As the world transitions to cleaner fuels and technologies, China is increasingly looking beyond these traditional commodities to the region's potential in areas such as critical minerals required for electric vehicles. China does have large known reserves of critical and rare earth minerals. Yet extracting these without proper safeguards and environmental regulations can cause heavy environmental damage in the area, and long-term public health consequences for local communities. By partnering with countries rich in these resources such as Argentina, Bolivia, and Chile, they're able to offshore some of that environmental cost, and with it, some domestic political risk.

Political validation

The region serves Beijing's political objectives too. Firstly, as a region beset with high rates of poverty, Latin America is susceptible to the CCP's narrative of economic development. Under certain governments in the region, Beijing's method of promoting economic growth under authoritarian political control is particularly appealing. The attraction of China's political-economic model is enabled by the short history between China and Latin America. With little historical interaction, there is limited first-hand experience of Beijing's economic and political coercion, compared to longer histories elsewhere.

Secondly, Latin America and the Caribbean is home to 9 of the 15 countries that recognise Taiwan at the expense of Beijing. Beijing maintains a long-term interest in reunification with Taiwan, and peeling off Taiwan's diplomatic supporters is key to that. The region, therefore, is highly relevant to those aims.

Latin America's perspective

For Latin America, China serves the region's hunger for economic development, and as an actor to validate and further the region's leaders' own political objectives.

Latin America has a real need for infrastructure. Beijing has shown itself to be a willing investor, independent of whether countries are members of its Belt and Road Initiative. They've also stepped in to meet a demand for urban planning with bus fleets, metro lines, car sharing platforms such as DiDi that compete with Uber, and even controversial "smart city" surveillance technology.

With a growing middle class – prior to the pandemic – the region is an enormous market for Chinese technology and products, much of which is offered at lower price points than U.S. competitors. China has tried to position itself as an alternative funder and provider of technology to the United States. This not only meets growing consumer demand and satiates the region's demand for infrastructure investment, but it creates space for political ends.

For countries such as Argentina, Ecuador, and at a more extreme end Venezuela, engaging with China provides an alternative against what they often portray as an overbearing United States with a checkered regional history. Other countries such as Brazil and Colombia are leveraging China's growing interests in the region against a backdrop of U.S.-China "strategic competition" to bid up assistance and commitments from the United States.

The remainder of this testimony will focus on the impact of the COVID-19 pandemic on China-Latin America relations, with a particular focus on China's diplomacy during this period.

The COVID-19 pandemic

The COVID-19 pandemic hasn't altered the defining characteristics of the China-Latin America relationship, nor Beijing's strategic economic and political objectives. However, the pandemic's deep shock to the region's public health, its economies, and social stability has drastically increased the domestic political pressure on Latin America's leaders for social and economic stability. This stability hinges on the region's ability to arrest the horrific toll of the pandemic on its citizens. Consequently, Beijing's broader strategy hasn't changed, but its tactics have evolved to current macroeconomic conditions in both China and Latin America, to China's maturing economic footprint in the region, and to a more complex geopolitical operating environment.

Broadly speaking, the COVID-19 pandemic is accelerating the region's pre-existing economic trends with China, and normalising Beijing's presence in the region beyond what was previously a narrow trade and investment relationship.

As some of my fellow colleagues testifying today have found through their own excellent research, regional exports to China increased relative to other export destinations in 2020, driven by Beijing's efforts to stimulate its own economic recovery. China's official lending to the region was non-existent in 2020[1], driven by Beijing's domestic economic focus, coupled with poor local economic conditions and supply chain disruptions in Latin America. Although Beijing's official lending is expected to rebound, 2020 appears to signal a maturation of China's presence in Latin America, as China's specialised regional funds, commercial lenders, and co-financing arrangements evolve to supply capital.[2]

Yet China's regional diplomacy accelerated in response to the pandemic via a blend of private actors with a regional presence, and the Chinese state. I will focus on China's pandemic diplomacy for the remainder of my testimony.

[1] China-Latin America Economic Bulletin, 2021 | Global Development Policy Center – February 22, 2021

[2] Shifting Gears: Chinese Finance in LAC, 2020 - The Dialogue – February 22, 2021

China's COVID-19 diplomacy

China's COVID-19 diplomacy can be divided into three phases. Initially it was "mask diplomacy" triggered by an urgency to defend Beijing's deteriorating reputation, followed by "vaccine diplomacy", characterised by agile opportunism. Currently, we are seeing the beginning of a third phase, with efforts to consolidate vaccine relationships and production in the region, as COVID-19 slowly evolves from a public health crisis to a manageable burden.

The evolving objectives of Beijing's COVID-19 diplomacy in the region can be characterised as follows:

- Generate favourable views of China's leadership in fighting the pandemic, both to Latin American governments and their citizens
- Leverage the health emergency of the pandemic to cement commercial relationships between Chinese pharmaceutical companies and local pharmaceutical firms, manufacturers, and distributors that can evolve to broader commercial activities
- Increase scientific collaboration amongst the region's academic and scientific communities for ongoing research and development
- Normalise China's presence in Latin American society beyond trade and investment
- Note supply chain dependencies between China and their Latin American partners for vaccine inputs, using it as a punitive "sharp power" tool if necessary
- Opportunistically advance Beijing's broader foreign policy objectives, such as fostering domestic political pressure on Taiwan's regional allies to form a closer relationship with Beijing

As some select examples demonstrate in the following sections, Beijing's methods to achieve this are largely opportunistic, and are equally driven by growing outreach from Latin American leaders as it is from China's approaches. In cohort with Beijing, the blend of state-owned enterprises and Chinese private firms conscious of Beijing's attention add a layer of distance and "plausible deniability" to some of Beijing's sharper objectives.

Phase I: "Mask diplomacy"

China's initial response to the pandemic in the region was to provide Personal Protective Equipment, nicknamed by the media as "mask diplomacy". This was driven partly by Beijing, China's provincial governments, Chinese businesses with commercial interests in the region, universities and foundations. As my fellow panellist Francisco Urdinez notes in his research[3], the channels of China's mask diplomacy in the region varied greatly, correlating with the depth of China's political relationship, commercial presence, university and people-to-people ties.

These efforts can be characterised as an exercise of "soft power diplomacy", where Chinese diplomats and businesses staged donation ceremonies, and rarely missed a photo opportunity with local officials receiving donations. However, Beijing's efforts were largely a defensive response to their damaged reputation through the region. Many people I spoke to in the region during this period lamented Beijing's tardy response in controlling the virus within China, and their reluctance to notify international authorities of the initial outbreak in a timely manner. This form of public diplomacy is "damage control", and not necessarily reputation building.

Phase II – "Vaccine diplomacy"

By mid 2020, China's pandemic engagement with the region began to evolve to vaccine provision. As one of the first vaccines available at scale, China's Sinovac, Sinopharm and CanSino vaccines were in high demand, alongside direct offers from western and Russian pharmaceutical firms, and vaccines through the World Health Organisation's Covax mechanism.[4]

A number of factors saw China's vaccines dominate Latin America's inoculation drive in the first months of 2021. This includes a longer than anticipated delivery of vaccines through the Covax program, the United States' decision not to export vaccines to the region (with the exception of Mexico), uncertainty over the side-effects of the AstraZeneca vaccine, and a growing network effect through the region as political pressure for *any* vaccine escalated, and connections and understanding of procuring Chinese vaccines grew.

[3] China's Improvised Mask Diplomacy in Chile - Carnegie Endowment for International Peace – April 6, 2021
[4] Timeline: Tracking Latin America's Road to Vaccination | AS/COA – May 17, 2021

Select examples of China's strategic successes

Colombia – leveraging U.S.-China strategic competition to pursue their own objectives

Despite Colombia's strong relationship with the United States, steps to secure the perceived benefits of deeper engagement with China are being taken at their face value, and as a signal to the United States for greater attention. Under a crushing pandemic toll and rising social and political pressure, the Colombian government's actions aren't driven by ideology, but as a rational response to their immediate needs and interests.

Following a phone call on February 25[5] between President Xi Jinping and President Iván Duque when additional shipments of Sinovac vaccines were secured, Colombia's Ambassador to the United Nations in Geneva Alicia Arango caught the attention of observers for praising Beijing's human rights record.[6] Ambassador Arango's comments were made on March 15 during a meeting of the United Nations Human Rights Council. On March 20 following the arrival of the third batch of Sinovac vaccines, President Duque allowed President Xi Jinping to deliver a recorded address to the Colombian people[7], shown on news networks and promoted through President Duque's social media channels.

These actions, taken by one of the United States' strongest partners in the region reflects three things:

1. Material necessities and political self-interests trump preferences, especially in a pandemic environment. Colombian President Iván Duque was under significant political pressure to procure vaccines earlier this year, as it became apparent that the WHO's Covax vaccine program was moving slowly, putting Colombia well behind the region's vaccine roll-out. China was available to provide vaccines quickly.
2. While the U.S.-Colombia relationship isn't in doubt, it is undergoing a frosty patch in the first months of the Biden Administration, following perceptions that the Duque Administration overtly campaigned in favour of Donald Trump's re-election in the 2020 presidential elections.

[5] Xi Jinping Speaks with Colombian President Ivan Duque on the Phone – February 25, 2021

[6] Colombia aplaude los avances en derechos humanos de China - Gobierno - Política - ELTIEMPO.COM – March 24, 2021

[7] Xi Jinping Delivers Video Speech to Colombian People – March 21, 2021

3. Despite the strong Colombia-U.S. bi-lateral history, even Colombia is following a rational hedging strategy, playing the U.S.-China rivalry to get what the country needs. The most pressing priority remains securing a rapid and adequate supplies of vaccines, but in the medium term it will increasingly transition to foreign investment to drive economic development.

Brazil – the allure of vaccines weighs on domestic politics

The unconventional steps Brazil's Bolsonaro administration took to secure Chinese vaccines demonstrates the creativity and desperation present in many Latin American countries. The government's reversal of 5G auction regulations to allow Huawei's participation shortly after the successful procurement of Chinese vaccines shows a willingness of Latin American governments to make concessions in Beijing's favour.

According to reporting from the New York Times[8], Brazil's communications minister Fábio Faria met with Huawei executives in Beijing in February. At that meeting, he asked Huawei executives for assistance in procuring vaccines. Two weeks later, Brazilian authorities announced 5G auction rules, reversing their initial suggestions that Huawei would be barred from participating. With the 5G auction scheduled to occur in June, this doesn't guarantee Huawei's participation in the network. And while it's difficult to ascertain whether these actions were prompted by the Bolsonaro government at their own volition, or at the request of Beijing, it does indicate a willingness of the Brazilian authorities to adjust to Beijing's favour.

Uruguay - Leveraging connections with Sinovac to facilitate vaccines for the Copa América for football tournament

As China's vaccines became more widespread through the region, understanding of their procurement, and the personal networks needed for this began to spread. A prime example of this is the procurement of Sinovac vaccines for CONMEBOL, South America's football federation. With their regional "Copa América" football tournament due to occur this coming June in Colombia and Argentina, the tournament's viability was plagued by the pandemic's

[8] Brazil Needs Coronavirus Vaccines. China Is Benefiting. - The New York Times – March 15, 2021

uncertainty. According to media reports, introductions to Sinovac representatives via China's ambassador to Uruguay were made following a call between CONMEBOL head Alejandro Dominguez and Uruguay's President Louise Lacalle.[9] Shortly afterwards, Sinovac announced a donation of 50,000 vaccine doses to CONMEBOL for distribution to the tournament's participating football teams.

Brazil – China's soft power with sharp edges

While Beijing has made efforts to further its vaccine diplomacy objectives through a narrative of soft power, when faced with criticism, its approach has rapidly hardened. Brazil was recently the recipient of this approach, following critical remarks from Brazil's President Jair Bolsonaro and his economic minister Paolo Guedes. In the following days, Sao Paulo's Batuntan Institute was forced to slow its production of Sinovac vaccines, due to an apparent delay in supply of raw ingredients from China. According to media reports[10], the Institute's director believes the delay isn't due to production constraints, but state-sanctioned retaliation through Sinovac in response to Bolsonaro and Guedes' comments. Given these actions were channelled through Sinovac, Beijing has officially maintained distance from the matter, providing them with plausible deniability.

Paraguay, Honduras, Guyana – coercion and opportunism over Taiwan

The prospect of Chinese vaccines is also being used to build political pressure on countries who recognise Taiwan. In April, Paraguayan officials claimed to have been approached by Beijing with an offer of vaccines, with a tacit understanding that they sever their diplomatic relationship with Taiwan.[11] In response, Taiwan subsequently secured an initial shipment of 100,000 vaccine doses from India, with another 100,000 reportedly in process.[12]

More recently, Honduras indicated a willingness to deepen their diplomatic engagement with Beijing in exchange for vaccines. To reaffirm the urgency the Honduran government has for vaccines against a growing diplomatic

[9] Conmebol agradeció a Lacalle Pou, Delgado, Bauzá y Alonso por donación de vacunas | Diario La República – April 14, 2021

[10] Brazil's Butantan expects less COVID-19 vaccine input from China | Reuters – May 6, 2021

[11] Paraguay Says Offers of Chinese Vaccine Tied to Dumping Taiwan - Bloomberg – March 24, 2021

[12] Taiwan says India helped Paraguay get vaccines after China pressure | Reuters – April 7, 2021

agnosticism, Honduras' president also called on Taiwan to pressure the United States for vaccines.[13]

Conversely, efforts in Guyana to allow Taiwan to establish a diplomatic office in country in early February were swiftly condemned by Beijing, who Guyana maintains diplomatic relations with. The office would have stopped short of establishing diplomatic ties with Taiwan, however the Guyanese government swiftly reversed their position upon Beijing's criticism. In the following weeks, Georgetown received 20,000 doses of the Sinopharm vaccine, President's Xi Jinping and his Guyanese counterpart Irfaan Ali exchanged a phone call, and President Ali reiterated his country's commitment to the one-China policy.[14]

The China-Latin America vaccine relationship is a dynamic interaction of the region's acute public health and political pressures, and Beijing's diplomatic opportunism

These examples underscore the caution in assuming China's vaccine diplomacy as purely a top-down directive from Beijing, as part of a broader "grand plan". The success of China's vaccines in Latin America are more the result of pragmatism and opportunism, where domestic political motives in the region are just as significant as Beijing's. It's crucial to keep in mind the severe need for vaccines in the region, that Latin America's political leaders are facing a lot of pressure to secure supply for their citizens, and that in Latin America, Beijing has been the most willing and agile provider.

Combined, these factors contributed to an improved perception of China in the region, which helped normalise China's presence in the region beyond trade and investment. In this sense, it's best to view Beijing's soft power in the region as "iterative", reverberating off the region's material needs. Deeper engagement with Beijing may not have been the preference of many of Latin America's leaders. However, the circumstances of the pandemic left them with few alternatives. Having received and utilised their vaccines, concerns over the efficacy of their vaccines have somewhat subsided, and appreciation for their availability grew.

[13] Honduran president, in diplomatic shift, says he may open China office | Reuters – May 11, 2021

[14] Lessons from Paraguay and Guyana's brushes with Chinese vaccine diplomacy – May 11, 2021

Phase III – Efforts to consolidate

Beijing's perceived gains from "vaccine diplomacy" are not irreversible. Their improved public perception, nascent commercial and scientific relationships, and the normalisation of their presence depends on a number of factors:

- Beijing's ability to secure long-term vaccine production contracts as COVID-19 transitions from a public health emergency to longer term management
- The perceived success of countries in region who rely heavily on Chinese vaccines
- Perceptions of the evolving efficacy of Chinese vaccines – against available alternatives
- The ongoing risk of scandals and misuse involving Chinese vaccines

Beijing's ability to secure long-term vaccine production contracts

From Beijing's perspective, it appears both Sinopharm and Sinovac are seeking to consolidate and expand their productive capacity in the region. Currently, Brazil's Butantan Institute produces Sinovac vaccines as part of a collaboration between the two. However as discussed above, Sinovac's supply of raw materials to Butantan is evidently exposed to diplomatic rifts and punitive actions from Beijing.

In Argentina, discussions are underway between the Argentine government, the Chinese Embassy, and Sinopharm to determine local manufacturers of the vaccine, after an agreement for domestic production of the vaccine was recently reached.[15] Similarly, Sinovac is said to be exploring domestic production in Chile via a partnership with the Pontifical Catholic University. Foreshadowing Beijing's broader objectives of increased scientific collaboration, the university's Rector Ignacio Sánchez indicated to the media that the collaboration would likely also include local production of Sinovac's influenza and hepatitis vaccines.[16] According to media reports, the Chilean government currently has an arrangement to receive 20 million doses of the Sinovac vaccine per year, for the following three years.[17]

[15] Quiénes fabricarían la vacuna china Sinopharm en la Argentina tras el acuerdo | Perfil – May 5, 2021
[16] Chinese vaccine developer eyes production in Chile — MercoPress – May 5, 2021
[17] Vacunas sinovac, nueva apuesta del 'soft power' de China | Internacional | Portafolio – March 23, 2021

It's uncertain whether vaccine inputs will be sourced locally under these proposals, or via Beijing. The latter would still expose Argentina and Chile to supply disruptions should Beijing need to re-prioritise vaccine production and inoculation of their own citizens, which is a growing priority. Although it's unclear whether it's intentional or not, China's ongoing control of vaccine inputs for Butantan's Sinovac vaccine production does provide Beijing with a sharp tool for political coercion to shape Brazil's China relationship.

The ongoing efficacy of Beijing's vaccines, and the perceived success of vaccine campaigns using these vaccines

Looking ahead, the success of Beijing's vaccine diplomacy in Latin America will depend on the perceived success of inoculation campaigns of those countries who rely heavily on these vaccines, such as Brazil and Chile. The perceived success of these campaigns depends largely on these government's effective use of resources, health care infrastructure, and clear and consistent messaging. However, the success of these campaigns in actually reducing COVID-19 cases is also a function of the effectiveness of the vaccines that they're using. With the current efficacy of the Sinovac, Sinopharm and CanSino vaccines, vaccination rates must be higher than vaccines with greater efficacy to achieve "herd immunity". In other words, in a continent with varied health infrastructure, the threshold to pandemic recovery is even higher. For those countries where Chinese vaccines have taken a high-profile role, any shortcomings or perceived failures could negatively impact the perception of Chinese vaccines.

However, the efficacy of China's vaccines will continue to evolve. For example, Chinese state media reported Phase III clinical trials were due to begin in Latin America and other regions in May 2021 for a mRNA vaccine developed by Suzhou Abogen Biosciences.[18] Its founder claims his firm will have a production capacity of 120 million doses by year's end. Such mRNA vaccines are typically more effective, although they often require more stringent temperature controls, complicating their distribution. Suzhou Abogen Biosciences claims its vaccine won't require the same stringent temperature controls as its Pfizer-BioNTech and Moderna counterparts.

The risk of scandals and misuse involving Chinese vaccines

Vaccines of Chinese origin will always remain exposed to negative perception from any local scandals or misuse. The risks of negative publicity apply for any

[18] China's first mRNA vaccine expected to enter Phase III trials in LatAm, paves way for mixed jabs against variants - Global Times – April 13, 2021

vaccine provider – as AstraZeneca has learnt – however an undercurrent of negative perceptions of China in Latin America suggest the downside of scandals involving their vaccines could be greater.

Sinopharm experienced this first-hand in March 2021, after being found to have sent "VIP" vaccines and gifts to Peru's Ministry of Health, in what was dubbed by Peruvian media as the "vacunagate" scandal. According to media reports[19], Sinopharm sent the Peruvian government an additional batch of vaccines outside of those sent as part of experimental Phase III trials. These "VIP" vaccines were then administered to then President Martín Vizcarra and other elites, alongside the Peruvian government's vaccine negotiators. While negotiations were still underway, the Peruvian government received over $860,000 in medical supplies from Sinopharm. After Peru's Minister of Health initially announced an agreement with Pfizer in December 2020, the agreement fell apart. On January 7, President Francisco Sagasti announced an agreement with Sinopharm for 38 million doses.

Concluding thoughts on China's vaccine diplomacy

The efficacy of China's vaccines against Western alternatives has been widely discussed. Yet despite being substantially less effective than other vaccines produced in the United States and Europe, it's important to remember that Latin America's leaders have had few alternative options in a reasonable time frame. In the United States, we may criticise the effectiveness of Chinese vaccines against American vaccines, but from a Latin American government's perspective, the efficacy of Chinese vaccines is still greater than no vaccines at all.

Yet despite the reduced effectiveness of China's vaccines, Beijing has thus far enjoyed a first mover advantage in the region by reacting to high demand from Latin American governments. As the first wave of vaccine shipments arrived, interest and demand from other countries grew, facilitated by a growing network between the region's leaders, Chinese diplomats, Chinese pharmaceutical firms, and an improved understanding of the procurement process. Rather than being directed as a grand strategy from Beijing, China's current share of the Latin American vaccine roll out is demand-driven, supplied

[19] Sinopharm envió a Perú vacunas VIP y regalos para el Ministerio de Salud | Internacional | EL PAÍS - March 1, 2021

by responsive Chinese pharmaceutical firms, and eagerly facilitated by Chinese government officials.

Despite its success so far, China's vaccine diplomacy hinges on Beijing's ability to secure domestic supply relationships, to improve their vaccines' effectiveness as more American and European vaccines become available in the region, all while countering their reputational risk exposure to local scandals and mismanaged vaccine distributions.

Recommendations

In order to counter the malign aspects of China's COVID-19 diplomacy, I make the following recommendations:

- As soon as possible, release surplus vaccines held by the United States for distribution throughout Latin America.
- Proceed in the United States' support for the World Trade Organization to temporarily waive intellectual property rights to COVID-19 vaccines. This wouldn't result in an immediate boost in vaccine supply, but it would neutralise the geopolitical objectives of Beijing's vaccine diplomacy in the medium term.
- Empower United States embassies in conjunction with the U.S. Commercial Service to broker and deepen relationships between U.S. pharmaceutical and health care firms and pharmaceutical firms and manufacturers in the region.
- Make U.S aid more tangible, and heavily promote success stories. Focusing on "technical assistance" is valid and has its place, but it rarely receives prominent recognition and the soft power benefits that higher profile projects do. Competing with Beijing on higher profile projects of vaccines and infrastructure will contrast the difference in governance and quality that are the hallmark of U.S. development aid.
- Support U.S. financial and tech companies to enter Latin America, to facilitate private capital and American entrepreneurialism to the region. Infrastructure projects will form a vital part of the economic stimulus to fuel the region's economic recovery. U.S. capital from traditional banks can play a significant role in financing these projects. The U.S. Government should also facilitate American venture capitalists to invest more in Latin American tech ventures, who are most attuned to the enormous commercial potential of Latin America's middle class.
- Liberalise U.S. visa rules, so that more of Latin America's middle class can visit the United States as tourists (including trips to the United States for

“vaccine tourism”) or on temporary work visas. This promotes the United States as a welcoming, open, attractive partner and destination for Latin Americans.

- Sponsor and promote investigative journalism that highlights Beijing’s malign influence in the region. This report has detailed numerous examples of Beijing’s coercion and substandard practices. These and others should be highlighted via local media in the region. However, *this will only be effective* if the United States Government is supplying vaccines, investment and economic development, as detailed in the above recommendations.

Conclusion

Aspects of China’s COVID-19 diplomacy in Latin America are prime examples of “grey zone” economic and political diplomacy, characterised by public utility at face value, but grounded in deeper strategic opportunism. At the United States’ southern doorstep, Beijing is acutely aware of American sensitivities to overt military activity in the region in an era of U.S.-China strategic competition. This is precisely why the United States Congress should be cognizant of China’s regional COVID-19 diplomacy, and creative in countering it in a positive fashion, by leveraging the magnetic attraction to the United States’ open culture, transparent and entrepreneurial business dynamic, and responsible global leadership.

OPENING STATEMENT OF FRANCISCO URDINEZ, ASSOCIATE PROFESSOR, INSTITUTE OF POLITICAL SCIENCE, PONTIFICA UNIVERSIDAD CATÓLICA DE CHILE

COMMISSIONER SCISSORS: Thank you, Mr. Hayes.

Dr. Urdinez?

DR. URDINEZ: Thank you.

Co-Chairs Chairman Carolyn Bartholomew and Commissioner Derek Scissors, thank you for inviting me to appear before you today.

I will comment on the objectives of Latin American and Caribbean national and subnational governments regarding relations with China, on how the public perceives China's presence in the region, and how COVID-19 has impacted regional perceptions of China.

I would argue that, between 2001 and 2017, local governments focused on cultivating strong relations with China, especially when they were interested in attracting investments on credits that they no longer received from the U.S. Since 2001, the United States gradually ceased to be seen by governments as the sole provider of the global public goods in the region. In this period, China replaced the United States in the provision of many of these goods, such as credit to finance infrastructure, investment, and scientific and technological cooperation. Recent scholarship would refer to this phenomenon as goods substitution.

In this period, there was room for maneuvering in the sense that countries could have very good relations with both China and the United States without one conditioning the other. This, coupled with the commodity boom, allowed local governments to deepen economic ties with China at a relatively low geopolitical cost.

I believe that in the period between 2001 and 2017 the main concern of national governments towards China was the deepening of excessive economic dependence and the risk of reprimarization of economies. Since the beginning of the Trump Administration, however, I think a new concern has been that the U.S.-China rivalry has generated a perception that governments should pick a side. This idea assumes that deepening relations with one country necessarily implies having to distance oneself from the other. This concern did not arise instantaneously, but was conveyed by the U.S. Government, I believe, as a strategy to contain China's advance in the region.

From 2017 onwards, it has become evident that pro-Chinese domestic constituencies are emerging within countries whose interests run counter to those of anti-China domestic constituencies. These are not narrowly divided along ideological lines, but mainly along economic lines. This was something that was stressed in the first panel.

I would argue that the Chinese approach to Latin America and the Caribbean region during the COVID-19 pandemic has made the strategy of targeting pro-China constituencies more evident. For example, this was a key variable in understanding Chile's success in attracting Chinese donations during the pandemic.

Regarding the public opinion towards China, surveys show that Latin Americans differentiate between China's rise as an economic phenomenon and China's rise as a geopolitical phenomenon. For example, in 2018, a majority of respondents found that it would be positive if China's economy were to grow to be as large as that of the U.S. At the same time in the same survey, a majority of respondents found China to be the country which posed the greatest risk to world peace, ahead of the U.S. and Russia.

Thus, Latin Americans distinguish, on the one hand, the economic benefits of China's rise from its political risks. This differentiation between the benefits of China in the region as a provider of or a goods substituter and the political risks that China's hegemonic rise could produce has been accentuated in surveys that I have conducted in 2020 and 2021.

In the last few years, respondents showed that this positive view does not automatically translate into believing that China is a desirable country to deepen political relations with. Finally, overall, the reputational damage that the pandemic has done to China in Latin America is enormous, as I show in my written testimony.

Based on this evidence, my policy recommendations are that the United States Government should understand that its greater cultural and geographical proximity to Latin America and the Caribbean are not sufficient reasons to maintain its hegemonic influence over the region. Hence, in order to retain part of the role it had before 2001, it should offer the public goods it once did. China has done an excellent job in filling the vacuum left by the U.S. using its economic statecraft. The United States should emulate this strategy by offering better infrastructure financing, humanitarian assistance, scientific cooperation agreements, and trade agreements. In addition, I suggest that the U.S. end the policy of forcing countries to pick a side, as was seen in the case of 5G technology.

And finally, I would recommend that, for the remainder of 2021 and 2022, I think there's an urgent need to end economic nationalism during the pandemic, and the U.S. should either sell or donate its surplus of vaccines to countries that do not have enough in the Western Hemisphere.

Thank you very much, and those are my comments. I look forward for questions.

PREPARED STATEMENT OF FRANCISCO URDINEZ, ASSOCIATE PROFESSOR, INSTITUTE OF POLITICAL SCIENCE, PONTIFICA UNIVERSIDAD CATÓLICA DE CHILE

Testimony before the U.S.-China Economic and Security Review Commission

Hearing on "China in Latin America and the Caribbean"

Francisco Urdinez, Dr.

Associate Professor

Institute of Political Science, Center for International Studies, and Center for Asian Studies

Pontificia Universidad Católica de Chile

Thursday, May 20, 2021

Co-Chairs, Chairman Carolyn Bartholomew and Commissioner Derek Scissors, thank you for inviting me to appear before you today to discuss China's Economic Engagement in Latin America and the Caribbean. I have been asked to comment on the objectives of Latin American and Caribbean national governments and subnational governments regarding relations with China, on how Latin American and Caribbean governments and the public perceive China's presence in the region, and on how has COVID-19 impacted regional perceptions of China. I respond to these three topics based on evidence gathered during my research and provide policy recommendations for Congressional action.

Objectives for Latin American and Caribbean national governments and subnational governments regarding relations with China

There are two major periods that are important for governments in regard to their relations and objectives with China. The first period is pre-2017, and the other post-2017.

Pre-2017 period

I would argue that between 2001 and 2017, governments were focused on cultivating strong relations with China, especially when they were interested in attracting investments and credits that they no longer received from the US. This required learning how to engage with Chinese companies, banks, and diplomats. Learning was a key objective from governments in this period. For example, they were focused in understanding the difference between private and state-owned Chinese companies, between policy banks and the "big four", or understanding how large Chinese state-owned enterprises (especially those under the wing of SASAC) behave in public biddings compared to its western counterparts. There was a great effort on the part of national and sub-national governments to train people who spoke Mandarin, who had lived in China, and who knew how to negotiate with Chinese counterparts. Despite this effort, I would argue that almost all governments, to this day, are far behind in having a technocratic staff that knows how to engage with Chinese counterparts.

Since 2001, the United States gradually ceased to be seen by governments as the sole provider of global public goods in the region. In this period, China replaced the United States in the provision of many of these goods, such as credit to finance infrastructure, investment, and scientific and technological cooperation. Recent scholarship would refer to this phenomenon as "goods substitution"[1]. My work shows that during this period China filled a vacuum left by the United States in the region, so that many governments saw in China an alternative source of public goods that the United States had historically provided.[2]

[1] Andersen, M. S., Cooley, A., & Nexon, D. H. (Eds.). (2021). *Undermining American Hegemony: Goods Substitution in World Politics*. Cambridge University Press.
[2] See Urdinez, F., Mouron, F., Schenoni, L. L., & de Oliveira, A. J. (2016). Chinese economic statecraft and US hegemony in Latin America: an empirical analysis, 2003–2014. *Latin American Politics and Society*,

However, in this period there was room for maneuvering, in the sense that countries could have very good relations with both China and the U.S. without one conditioning the other. This, coupled with the commodity boom, allowed local governments to deepen economic ties with China at a relatively low geopolitical cost.

The national governments that were more successful in attracting Chinese investment and credit in the pre-2017 period were those under less hegemonic influence from U.S. China was accommodating its behaviour to the changing strategic environment in Latin America, avoiding engaging with those countries in which the United States had a vested interest. The governments seeking to detach from the Washington Consensus –and thus weakening the influence of Western-led institutions, such as the IMF or the World Bank—were those which received more capital from China, such as Argentina, Brazil, and Venezuela.

Post 2017 period

From 2017 onwards, with the foreign policy shift made by US when Donald Trump assumed the presidency, the relationship of national and subnational governments with China changed. The relations with China ceased to be free of geopolitical costs, as they began to incorporate the strategic calculation of how the United States would react to certain agendas. During the Trump administration, the US government –which for more than 15 years passively watched as China deepened its ties with Latin America—suddenly tried to contain these ties with a mix of positive incentives (e.g., the TAIPEI act or the creation of the Development Finance Corporation) and negative incentives (e.g., openly threatening the governments that negotiated 5G infrastructure with Huawei).

Meanwhile, China's strategy to the region gradually went from accommodation to contesting the United States' interest in the region, further affecting the foreign policy of Latin America by employing economic statecraft. The empirical evidence from analysing U.S. hegemonic influence, the One China Policy response[3], and the effect of strategic partnerships[4], suggests that since 2017 China put forth a contesting policy by actively engaging with pro-Chinese domestic constituencies. This was coupled with more assertive Chinese

58(4), 3-30 and Rodrigues, P., Urdinez, F., & de Oliveira, A. (2019). Measuring international engagement: systemic and domestic factors in Brazilian foreign policy from 1998 to 2014. *Foreign Policy Analysis*, *15*(3), 370-391.

[3] Long, T., & Urdinez, F. (2021). Status at the margins: why Paraguay recognizes Taiwan and Shuns China. *Foreign Policy Analysis*, *17*(1), oraa002.

[4] Strüver, G. (2017). China's Partnership Diplomacy: International Alignment Based on Interests or Ideology. *The Chinese Journal of International Politics*, *10*(1), 31-65.

ambassadors, ready to criticize politicians who dared to speak out on Hong Kong, Taiwan, or ethnic minorities.[5]

In this period, it has become evident that pro-Chinese domestic constituencies are emerging within countries whose interests run counter to those of anti-Chinese domestic constituencies. These constituencies are not merely divided along ideological lines, but mainly along economic lines. For example, in a recent paper that studies whether localized trade shocks from China influence Brazilians' views on integration with the country, we find great heterogeneity across the country, depending on the comparative advantages of each municipality. For example, legislators representing localities hurt by import shocks tend to hold negative views about economic ties with China, while legislators who benefit from exports do not hold a positive view.[6]

I would argue that the Chinese approach to the Latin American and Caribbean region during the Covid-19 pandemic has made this strategy of targeting pro-China domestic constituencies more evident.[7] In a case study of the Chilean-China relations during the pandemic, I show evidence that pro-Chinese domestic constituencies were a key variable in understanding Chile's success in attracting China's "mask diplomacy" donations.[8] In another recent study between February 11 and June 20, 2020 of the "mask diplomacy" in 33 countries in the region, we find that, donations made by China's central government, Chinese companies, cities and foundations, although seemingly uncoordinated, were strongly affected by two political determinants, namely the recipient's partnership status with China and the One China Policy.

Perceptions of problems generated by China's activities in the region

[5] CNN Chile (2019, August 4). "Xu Bu, embajador de China, insiste en críticas a Jaime Bellolio: 'Ha difamado y calumniado gravemente a nuestro país'". Accessible at https://www.cnnchile.com/pais/embajador-china-jaime-bellolio-difamado_20190904/ and Abrantes, T. (2018, March 16). "A República Popular da China não gostou desta viagem de Bolsonaro". *Exame*. Accessible at: https://exame.com/brasil/a-republica-popular-da-china-nao-gostou-desta-viagem-de-bolsonaro/

[6] Campello, D., & Urdinez, F. (2021). Voter and Legislator Responses to Localized Trade Shocks from China in Brazil. *Comparative Political Studies*, *54*(7), 1131-1162.

[7] "China's Foreign Aid Political Drivers: Lessons from a Novel Dataset of Mask Diplomacy in Latin America During the COVID-19 Pandemic", forthcoming in *Journal of Current Chinese Affairs*: https://www.researchgate.net/publication/344035590_China's_Foreign_Aid_Political_Drivers_Lessons_from_a_Novel_Dataset_of_Mask_Diplomacy_in_Latin_America_During_the_COVID-19_Pandemic

[8] Urdinez, F. (2021). *China's Improvised Mask Diplomacy in Chile*. Carnegie Endowment for International Peace. Accesible at: https://carnegieendowment.org/2021/04/06/china-s-improvised-mask-diplomacy-in-chile-pub-84251

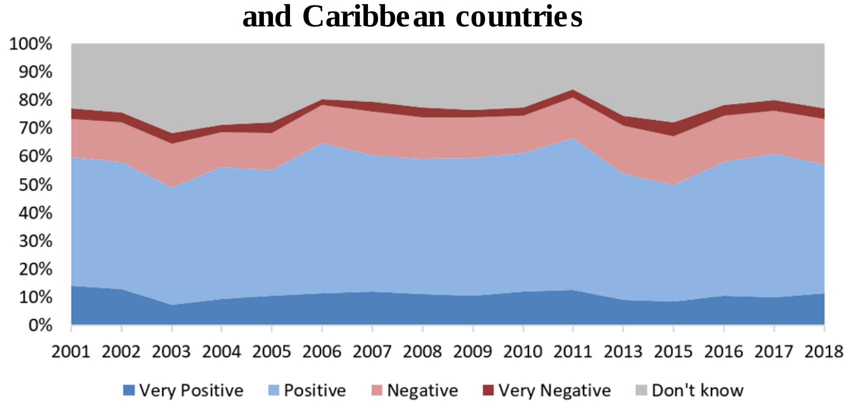
I believe that in the period between 2001 and 2017 the main concern of national governments towards China was the deepening of excessive economic dependence and the risk of re-primarisation of economies. These effects have been well documented in the recent work of Carol Wise[9] and Rhys Jenkins[10], as well as in previous work by Kevin Gallagher and Roberto Porzecanski[11]. This phenomenon is so strong, that Stallings has suggested that it reproduced a center-periphery pattern as described by the dependency theory.[12]

Since the beginning of the Trump administration, however, I think a new concern has been that the U.S.-China rivalry has generated a perception that governments should 'pick a side'. This idea assumes that deepening relations with one country necessarily implies having to distance oneself from the other. This concern did not arise spontaneously, but was conveyed by the U.S. government, I believe, as a strategy to contain China's advance in the region.

Public opinion towards China

When looking at averages for the period between 2001 and 2017, opinion towards China has been mostly favourable and very stable over time. According to data from Latinobarometer[13], negative opinion towards China has remained between 10% and 15% over this period (Figure 1).

Figure 1. Public opinion towards China in 18 Latin American and Caribbean countries



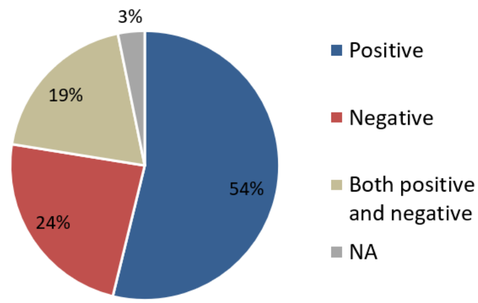
Note: Based on surveys in 18 countries, over 18 years, with an average of 20,000 respondents per year.

[9] Wise, C. (2020). *Dragonomics*. Yale University Press.
[10] Jenkins, R. (2018). *How China is reshaping the global economy: Development impacts in Africa and Latin America*. Oxford University Press.
[11] Gallagher, K., & Porzecanski, R. (2010). *The dragon in the room*. Stanford University Press.
[12] Stallings, B. (2020). *Dependency in the Twenty-First Century?: The Political Economy of China-Latin America Relations*. Cambridge University Press.

[13] Latinobarometer Project. Accessible at https://www.latinobarometro.org/lat.jsp

However, Latin Americans differentiate between China's rise as an economic phenomenon and China's rise as a geopolitical phenomenon. For example, in 2018, The Americas and the World[14] project asked, "In your opinion, if China's economy were to grow to be as large as that of the United States, do you think this would be positive, negative or equally positive and negative for the world?" A majority (54%) responded that this would be positive (Figure 2).

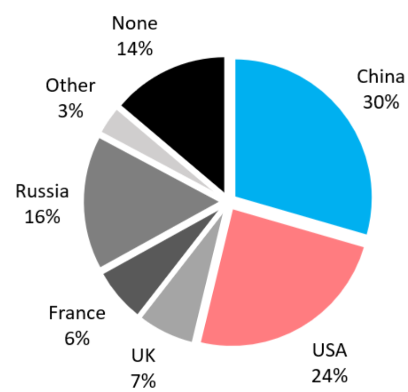
Figure 2. Latin Americans' views on China's economic rise



Note: N=5629. Countries: Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, and Peru. Year: 2018.

At the same time, in the same survey, respondents were asked which country in the world they trusted the least to maintain peace in the world. China was the country of choice (30%), ahead of the U.S. (24%) and Russia (16%) (Figure 3).

Figure 3. Latin Americans' opinion on which country poses the greatest risk to world peace



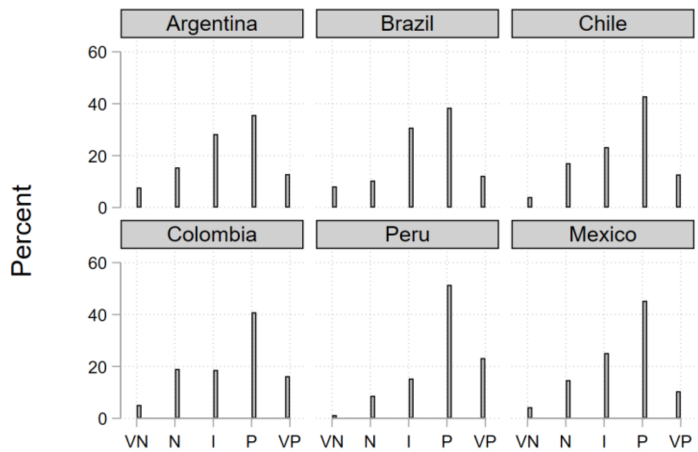
Note: N=5629. Countries: Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, and Peru. Year: 2018.

Thus, Latin Americans distinguish, on the one hand, the economic benefits of China's rise from its political risks. This differentiation between, the benefits of China's economic

[14] Las Americas y el Mundo. Accessible at https://www.lasamericasyelmundo.cide.edu/

growth in the region (its role as goods substitute), and the political risks that China's hegemonic rise could produce, has been accentuated in surveys that I have conducted in 2020 and 2021. An online survey conducted in May 2021 shows that a majority of respondents welcome the fact that Chinese companies have been among the main investors in the region over the past ten years (Figure 4).

Figure 4. "What do you think of the fact that Chinese companies have been among the largest investors in Latin America in the past ten years?"

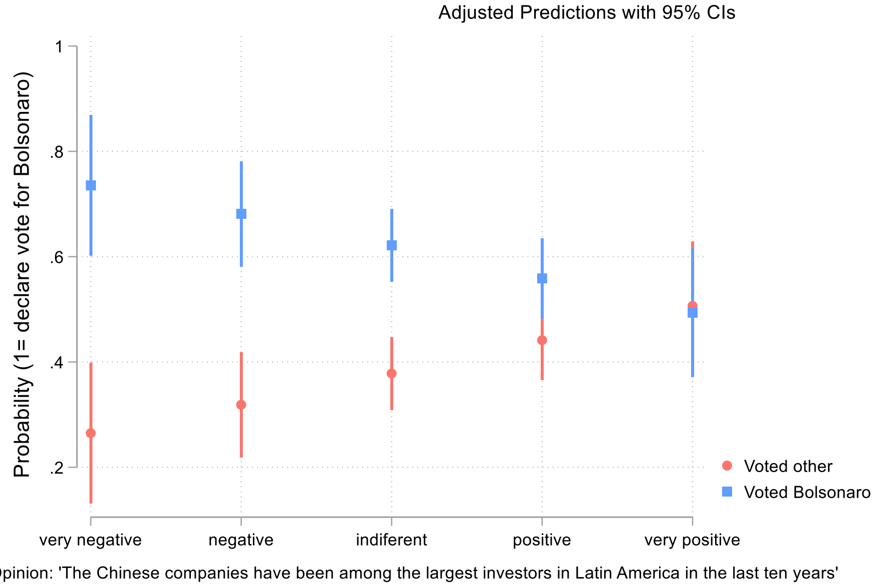


Note: N= 1586, May 2021. VN="very negative", N="negative", I="indifferent", P="positive", VP="very positive".

However, within each country there are huge variations depending on how much the individual considers China a threat. For example, in Brazil, we can see that this response varies enormously depending on whether the person declares having voted for Jair Bolsonaro or for another candidate (Figure 5). Recall that the election of Jair Bolsonaro in 2018 offers a unique opportunity to study the effects of voters' growing fear of the "China Threat", present in the rhetoric among right-wing populist politicians who blame many of the ills of economic globalization on China. During his presidential campaign, Bolsonaro accused China of "buying Brazil"[15] and the acquisition of a niobium mine by a Chinese firm became one of the emblems of his campaign.[16] Bolsonaro's "China threat" rhetoric was not only a campaign strategy but, arguably, also part of his foreign policy afterwards[17].

[15] Reuters. (2018). "A China está comprando o Brasil", repete Bolsonaro em discurso a empresários em SP. *Noticias Agricolas*. Retrieved from https://www.noticiasagricolas.com.br/noticias/politica-economia/215899-a-china-esta-compran-do-o-brasil-repete-bolsonaro-em-discurso-a-empresarios-em-sp.html#.W74QyPlRepo
[16] Pierry, F. (2018). Bolsonaro teme o avanço chinês no Brasil. Ele está certo? *Gazeta do Povo*. Retrieved from https://www.gazetadopovo.com.br/eleicoes/2018/bolsonaro-teme-o-avanco-chines-no-brasil-ele-esta-certo-4jhhllfsj7jaowe4tfsm3e83e
[17] During his campaign Bolsonaro visited Taiwan, breaking the tacit rule of the One-China policy, generating a harsh diplomatic response from China. Anecdotal evidence of hostility towards China

Figure 5. Predicted probability of electoral support for Bolsonaro on opinion towards Chinese FDI in Brazil



Note: N=221, May 2021.

In conclusion, I believe that China is viewed very positively when it comes to its economic effects on the region. However, in recent years, respondents show that this positive view does not automatically translate into believing that China is a desirable country to deepen political relations with.

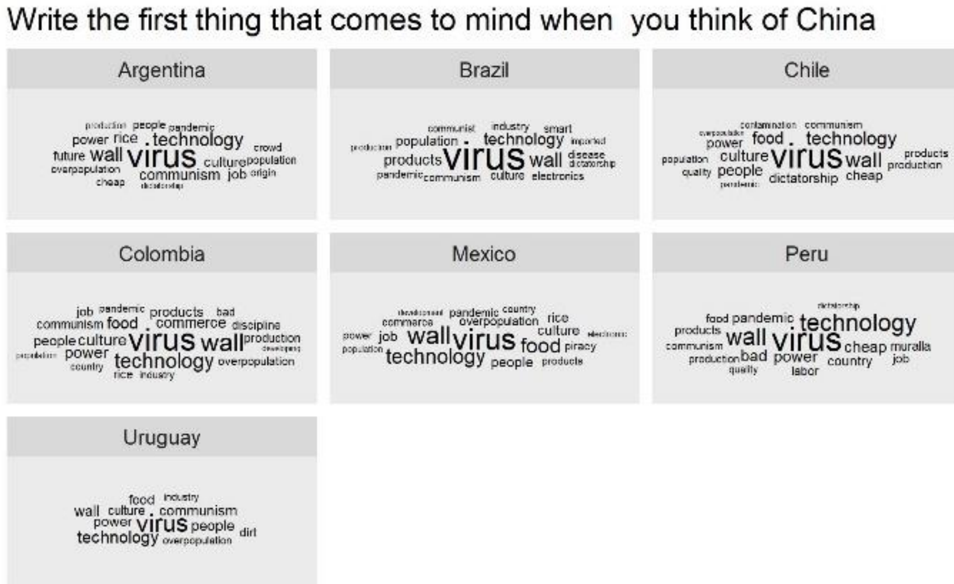
The impact of COVID-19 on the perceptions of China in Latin America

Finally, I would like to share a few findings from a survey panel on a sample of 2,850 Latin Americans in May 2020 and May 2021. While the evidence is preliminary, as it is still undergoing a blind peer review, I think the results are useful in shedding light on the effects of COVID-19 on the perceptions of China in Latin America.

In this survey, people were asked what was the first thing that came to mind when a country was mentioned. In May 2020, in all surveyed countries the word "virus" or "COVID 19" was the most frequent word associated to China (Figure 6).

continued after he was elected, even when the business associations demanded a more pragmatic stance towards the country's main economic partner. After he became elected president, Bolsonaro appointed as Foreign Affairs minister the openly Sinophobic diplomat Ernesto Araújo, who, for instance, declared in 2020 that the COVID-19 pandemic was a global communist conspiracy led by China to state a New Global Order.

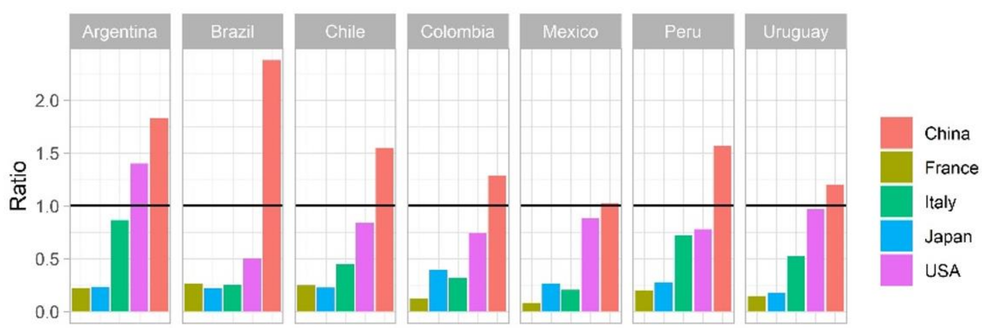
Figure 6. First word that came to mind when China was mentioned in 2020, by country



Note: Survey carried out in May 2020. N=2850.

Through a sentiment text analysis, in which a positive or negative emotion is assigned to each word, we can see that compared to "gut reactions" towards other countries, the ratio of negative to positive words towards China is higher than 1 (Figure 6). In other words, it was more frequent for a person to refer to China using a term that evoked a negative emotion than one that evoked a positive emotion.

Figure 6. Ratio of negative to positive sentiments, by country.



Note: N= 3162. Year: 2020. Analysis done using *tidytext* in R, with the "NRC" dictionary.

What is surprising, moreover, is that the association of China with COVID-19 has persisted over time, as when we repeated the survey in May 2021 in a sample of 1,900 individuals who had responded to the survey in 2020, the words most frequently used to refer to China were still those related to the pandemic (see Figure 7)[18]. In my opinion, the reputational damage that the pandemic has done to China in Latin America is enormous.

Figure 7. First word that came to mind when China was mentioned in 2021

Note: Survey carried out in May 2021. N=1900.

What is the effect of the Chinese vaccine on opinion towards China? Are those who have had Covid-19 more likely to rate China negatively? Results show that those individuals that had COVID-19 or received a Chinese vaccine (from Sinovac or Sinopharm) were not relevant factors that significantly changed the score given to China (from 1 to 100, with 100 being very positive) between May 2020 and May 2021 (Figures 8a). When we look at the variation between countries, this result holds true for all countries (Figure 8b). Again, more tests need to be done to confirm this data, but it serves as preliminary evidence that the pandemic has negatively affected China's image in the region, and that this remains the case, even among those who received a vaccine from a Chinese laboratory.

[18] In this figure I am aggregating the responses from all countries.

Figure 8a. One-year change in the appraisal of China among those who got Covid-19 and who got a Chinese vaccine

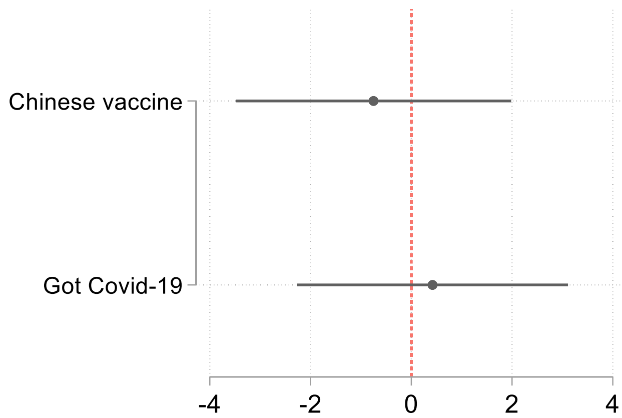
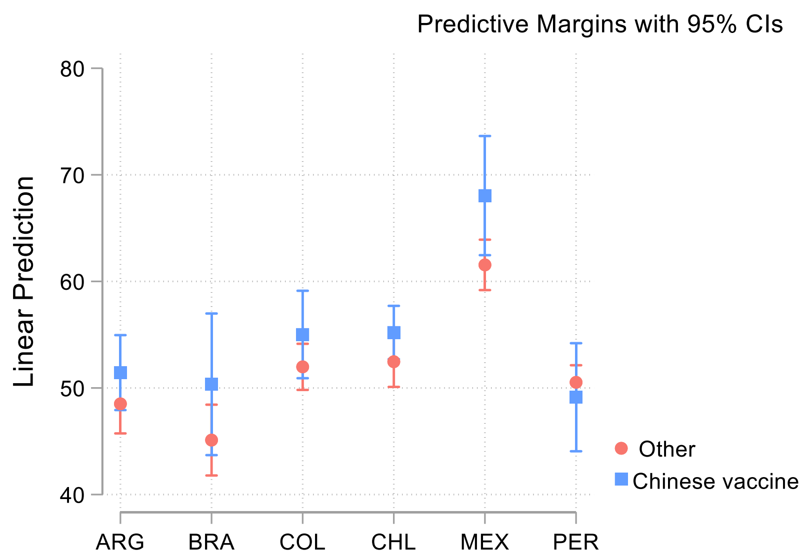


Figure 8b. One-year change in the appraisal of China among those who got Covid-19 and who got a Chinese vaccine, by country



Policy recommendations

The United States' government should understand that its greater cultural and geographic proximity to Latin America and the Caribbean, are not sufficient reasons to maintain its hegemonic influence over the region. Hence, in order to regain part of the role it had before 2001, the U.S. should offer the public goods it once did. China has done an excellent job in filling the vacuum left by the U.S. using its economic statecraft. The United States should emulate this strategy by offering infrastructure financing, humanitarian assistance, scientific cooperation agreements, trade agreements (i.e. TPP), among others. As argued by Cooley et al. the U.S. should bear in mind that “goods substitution, […] constitutes one of the major threats to contemporary international order. Although states may not always intend to “hollow out” liberal order, asset substitution often undermines its rules and norms. It does so *with* or *without* directly challenging the power-position of the hegemon”.[19]

In addition, I suggest that the U.S. ends the policy of forcing countries to "pick a side", as seen in the State Department’s attitude towards the possibility of Huawei being chosen to deploy 5G technology. This strengthens China’s position in the region, as it is the one currently offering more public goods.

Finally, for the remainder of 2021 and 2022, there is an urgent need to end economic nationalism during the pandemic. For example, for the U.S. to have surplus vaccines and use them to vaccinate tourists[20], instead of sending them to countries that do not have enough stock, shows a serios lack of hemispheric leadership regarding the importance of global public goods provision. The same could be said of the United States’ attitude regarding the provision of inputs such as masks and gloves, which generated unease even in other developed countries[21]. However, the U.S. support for the release of vaccine patents is a positive sign in this direction.

[19] Cooley, A., Nexon, D. H., de Carvalho, B., & Leira, H. (2015). *Undermining Hegemony?: Building a Framework for Goods Substitution*. Norwegian Institute for International Affairs (NUPI), p.1.
[20] Honan, K. (2021, May 6). “New York City to Offer Covid-19 Vaccines to Tourists.” *The Wall Street Journal*. Accessible at https://www.wsj.com/articles/new-york-city-to-offer-covid-19-vaccine-jabs-to-tourists-11620335843 and Aaron Leibowitz, A, and Tavel, J. (2021, April 27). “North Miami Beach Apologizes After Mayor’s Vaccine Invite Ripples Across Latin America”. *The Miami Herald*. Accesible at: https://www.miamiherald.com/news/local/community/miami-dade/north-miami/article250953699.html
[21] BBC News (2020, April 4). “Coronavirus: US accused of ‘piracy’ over mask ‘confiscation’”. Accessible at https://www.bbc.com/news/world-52161995

PANEL II QUESTION AND ANSWER

COMMISSIONER SCISSORS: Thank you, Dr. Urdinez.

For the Q&A component, we will go backwards, starting with Commissioner Wong. I will try to enforce time limits. Until we go through once. I'm also not onsite to be able to see who wants to speak. So, I would ask my fellow Commissioners to please direct questions to individual witnesses, so that we don't have a rush for three people to answer questions in five minutes. We will, then, do a second round, if possible.

Commissioner Wong, please start us off.

COMMISSIONER WONG: Thank you, Derek.

And thank you to all the panelists for joining us today and putting so much work into your very cogent testimonies and the data you provided us.

Dr. Ray, I'm particularly interested in your discussion of the expansion of commodity exports from Latin America to China, and perhaps the negative economic and social effects that may have. Am I reading you correctly that you're perhaps proposing that there's an exacerbation of what many would term a resource curse by China's demand for commodities?

DR. RAY: Yes, absolutely. In fact, if I could draw your attention to the last page of my written testimony, the very last figure there is the world demand for commodities from Amazon Basin countries, the commodities that are particularly linked to Amazon deforestation. And those two commodities are soybeans and beef. And you can see that China's responsible for all of the growth in global demand in those two sectors.

And so, yes, absolutely, there are economic, environmental, and social negative aspects of any what's called "reprimarization". We would call it de-industrialization, but there isn't anything to go onto in services quite yet in Latin America. So, they refer to it as "reprimarization".

And that brings a host of problems, not only economically with volatility, tying growth back to those global commodity prices, which are unpredictable, and also managing it from an environmental and social perspective. And that's where I think the U.S. has an opportunity to lead by example with better infrastructure financing that can support regional long-term goals of industrialization by establishing regional value chains. But those were never established before the rise of China, and they were eroded by the rise of China as a manufacturing competitor to Latin America and the Caribbean, which gives few options to the region, except returning back to commodities.

The trade dispute between the U.S. and China in which China put tariffs on U.S. agricultural goods further exacerbated this challenge, because facing those tariffs from U.S. goods, where did Chinese buyers turn for their soybeans and their beef? To Brazil, to Argentina. And so, that further pushed this reprimarization.

But these long-term industrialization goals continue to exist in the region. So, rather than just providing infrastructure that gets commodities like beef and soy to port to get to China, we can support infrastructure that harkens back to the desire to establish regional value chains to industrialize and move up the value chain within Latin America and the Caribbean, which has been their goal for decades.

Thank you.

COMMISSIONER WONG: Thanks.

You know, I'm particularly interested in the connection between this phenomenon of a resource curse or slow industrialization and this connection to social unrest, and then, the effects on the political makeup of countries. There's a strain of resource curse thinking that, if you have slow industrialization, an inability to move up the value chain, if you have perhaps then corruption and unequal distribution of wealth derived from the commodity sales, that this fuels populist sentiment; this fuels perhaps left-wing populist politics, particularly in Latin America. Is that something you agree with?

DR. RAY: Latin America is famously, and has been, considered for a long time the world's most unequal region. It stands apart from domestic politics in other regions for that reason. And it drives, as has been shown by political scientists, to drive populist political movements not just on the left, but also in the right, as in Brazil.

However, I do not think it is realistic to consider governments' relationships with China based on domestic ideological concerns. As the last panel indicated, Latin American and the Caribbean governments are approaching China for unmet economic needs.

And if you look at figure 6 in my written testimony, you can really see, looking at the debt relationship specifically, the extent to which Chinese loans have gone to different countries, in which different countries have different levels of debt exposure to China, we can really see that the Venezuelan case that's so often cited as indicative of left-wing populism stands out all by itself, almost off the chart. Other similarly ideologically aligned countries, such Ecuador and Bolivia, are much closer to the rest of the region in their approach to Chinese debt, and not really distinguishable from, for example, Dominica, Granada, Trinidad, Tobago, Brazil, Peru, and other countries in the LAC region. And so, ideology isn't driving this relationship as much as economics, generally speaking.

Thanks.

COMMISSIONER WONG: Thank you for that. I'll explore more of this in questions, but I'm more saying that the economics perhaps are driving the politics, rather than the politics driving the economics in their relationship with China, and understanding that perhaps there's a feedback loop there. But I'll send you some questions, and perhaps some of the others.

Thank you.

COMMISSIONER SCISSORS: Commissioner Wessel?

COMMISSIONER WESSEL: Thank you all for appearing here today.

And, Dr. Ray, I want to focus a bit more on your comments because I think they tie directly into a hearing that Commissioners Fiedler and Borochoff did recently about capital issues. And you talked about regional value chains, and my immediate thought was the value chains we should be talking about are the ESG value chains, rather than the sort of standard concept.

We've been looking at issues such that some of our major investment firms in the U.S. have been looking at ESG as a new metric for gauging corporate activities and what their investments should be. Yet, there are a lot of questions of whether they are putting their money where their mouth when it comes to their activities in China, investing in end-of-the-list companies, et cetera.

But, as you pointed out, and others have, you know, Latin America is in need of capital. What would you think of certain requirements -- and I know some of them have been done recently -- that would apply broad ESG standards for any investments going into Latin America, so that we are not competing with China to try and degrade workers' rights or deforest, or do anything else, but, rather, lift them up?

DR. RAY: Thank you so much for that question, Commissioner Wessel. I couldn't agree with you more. We don't want to be outcompeted. We don't want our firms outcompeted by cutting corners. We don't want our ESG standards to be a disadvantage in that region or any other region.

And this is an area in which multilateral development banks shine because they apply standard labor and environmental standards to every project that comes through there. And the (audio interference) with some of the world's strongest --

COMMISSIONER WESSEL: Let me stop you.

DR. RAY: Yes, please.

COMMISSIONER WESSEL: Let me interrupt you and appreciate that. That's about IDB or the development banks' loans. I'm talking about private capital now.

DR. RAY: Uh-hum. Okay.

COMMISSIONER WESSEL: Do you think it's possible to do that? Because most of those multilateral development banks are major infrastructure projects, et cetera. They're not talking about industrial firms or other textile, or anything else.

DR. RAY: Uh-hum.

COMMISSIONER WESSEL: You know, it seems to me that we're forcing our own companies to compete against Costa Rica, et cetera, Costa Rican and Mexican, you know, wherever, firms, and not applying the same kind of ESG standards that we expect of them for their domestic operations.

DR. RAY: Absolutely. And, in fact, our DFC, our Development Finance Corporation, supports private sector investment overseas. It supports public-private partnership. And that is a body where we can have influence on how business is done and set effective floors under performance, so that our ESG standards aren't a disadvantage to our firms and to our competitiveness in the global investment market.

Those standards are welcomed, as our research shows, by firms going overseas because it gives them not only financial support, but also cover. You're not competing with anyone who has lower costs of business because they're cutting corners on workers' wages, on workers' health, or on the way they treat national resources.

So, I could not agree with you more on your concerns or the importance of extending those conditions to supporting our private sector interests overseas.

COMMISSIONER WESSEL: And have you in your research measured the activities of the U.S. versus Chinese firms in similar markets?

DR. RAY: We have, as a matter of fact, and that is the book project I mentioned that came out in 2016, I believe, going into eight different Latin American countries and comparing major Chinese investors to their Western peers on a one-on-one basis. And that's where we didn't find significant differences in the ESG performance of individual major Chinese investors on a one-on-one basis; only that they're concentrated in these sectors that are endemically tied to ESG concerns and where governments aren't able or national institutions aren't able to set those standards underneath performance. Investors from everywhere underperform.

COMMISSIONER WESSEL: So, that would call into question, though, not necessarily China, but, overall, all investors in the region? Is that right?

DR. RAY: Yes. So, that's what I mean by the institutional gap.

COMMISSIONER WESSEL: Right.

DR. RAY: So, support that we can offer through, for example, DFC, support for private sector investment overseas that meets these higher-level standards, that kind of institutional support is really critical at filling that gap.

COMMISSIONER WESSEL: Okay. Thank you.

DR. RAY: Uh-hum. Thank you.

COMMISSIONER SCISSORS: Commissioner Talent?

COMMISSIONER TALENT: Thank you, and thanks to our three witnesses.

Dr. Urdinez, I think I'd like you to address the issues that Commissioner Wessel just raised. And I'll just say, I think he's touched on a piece of a broader issue, which is the extent to which American firms, and really American policy, are at a structural disadvantage in the kind of economic competition that a number of you have talked about. Because there are standards that we follow, not just in the area, as Mike was talking about, but also just we don't engage in corruption, and this causes issues. So, I'd like to hear your discussion of that in the time that we've got here.

DR. URDINEZ: Thank you.

Yes, it's a very good question. And I think that that depends very much on the standards of the local government and whether there are public biddings or not. It's very different, the behavior of the state-owned enterprise, when investing in a country without a competitive bidding process compared to a competitive, very regular, very much on OECD standards, using Chile, for example.

Chinese companies have had major trouble getting into the Chilean market for many years. They are latecomers in Chile because of that precise reason. They had to learn how to be competitive against American, Spaniard, French, Canadian companies, and they have done a lot of learning. And currently, they are starting to win those bids.

And I would say that the difference in regards to how much do they respect environmental or governance standards, it's more on the side of local governments on the proactivity of the companies.

And that's something that I would say that's reflected on Dr. Ray's research. There's a lot of heterogeneity among Chinese enterprises, as there is among Western enterprises. And a key variable is, how much do local governments enforce those rules?

So, honestly, I wouldn't say there's a huge difference between Chinese companies and non-Chinese companies when it comes to those kinds of things.

COMMISSIONER TALENT: Thank you.

COMMISSIONER SCISSORS: Commissioner Kamphausen?

COMMISSIONER KAMPHAUSEN: Thank you all for being here today.

My question is for Dr. Ray. I was quite taken with both your written statement and your oral statement when you talked about the infrastructure gap in Latin America and the Caribbean, as estimated by the IDB to be somewhere around $150 billion a year.

For those of us who work on Asia, the statistic that comes to mind is from a report from the Asian Development Bank in 2019 which says Asia's infrastructure gap is $27 trillion by 2030, or about $1.5 trillion a year.

So, obviously, a comparison, we don't want to talk apples and oranges, the size of the economies, and so forth. But I was struck with the number is not unattainable in Latin America and the Caribbean, $150 billion a year. So, that was the first. I'd like to get your reaction to that observation, and maybe it feeds into some of your recommendations about U.S. policy.

But, then, if you would, in that context, talk about that portion of the gap that China is filling. I was trying to read into your figure 5 to see if that would somehow inform that answer. Is the gap, is it both greenfield and M&A? Is it only greenfield? And what portion of the gap is China filling already, and what are the opportunities perhaps for the U.S.?

So, some pretty open-ended questions there to invite you to comment on.

DR. RAY: Thanks, Commissioner.

Yes, the size of the infrastructure gap in absolute terms and dollars is attainable, as a matter of fact. China's is contributing about -- now it's concentrated in greenfield investment. So, that means the gap is a new and expanded infrastructure network. When we talk about mergers and acquisitions, that's investment, but it's really just who owns the product that's changing, right? Is this oil well owned by Total Energy or is it owned by Sinopec, for example?

In greenfield, China's been contributing about 10 percent of the total. So, it's a drop in the bucket of $150 billion, but that drop is very welcome when the bucket is fairly empty.

So, this is one of the reasons why I say we're still dealing with numbers that are small enough that we have opportunities to influence the direction that they go in the future. This is not a train that has left the station. This is a train that we can still help steer in directions that are in line with regional goals, that communicate high ESG standards, and that take advantage of the fact that the U.S. has generation upon generation of experience operating in the region and developing our own ESG standards.

COMMISSIONER KAMPHAUSEN: Thanks very much. That's helpful.

I yield back the rest of my time.

COMMISSIONER SCISSORS: Commissioner Goodwin?

COMMISSIONER GOODWIN: Thank you, Mr. Chairman. And ignoring your first directive, I'm going to try to pose a question to the entire panel.

I'm curious, how many countries in the region have foreign direct investment review processes comparable to CFIUS? How robust are those regimes and how do they compare, both scope and in practice, to our CFIUS review process here in the United States?

And, Dr. Urdinez, why don't you start us off?

DR. URDINEZ: Thank you.

To my knowledge, none. I might not be well-informed. But, recently, Chile started to discuss a law project to try to control a bit investments that happen to gain majoritarian control of the market. And the main reason for this law was a recent acquisition by State Grid of a major electricity distributor.

And I remember asking myself the same question. And I did a bit of research and I couldn't find any body in the region that resembles CFIUS. So, I think that, again, in some countries there's not even a bidding process. So, we are very far from that standard still.

DR. RAY: I'd like to piggyback on top of what Professor Urdinez said and agree with that, and specifically, bring up the example that I talk about in my written testimony. Professor Urdinez talked about the China Three Gorges company buying large shares of Chile's electricity distribution network. And a similar thing happened a year before in Peru, where that same company has been active in electrical generation, as well as distribution upstream and downstream. And this is a situation in which we really see these two gaps that I talked about, infrastructure investment and institutions, common detention.

And so, Latin Americanists who paying attention to ESG considerations like I do, really sat up to take notice, what is the Peruvian state going to do with China Three Gorges buying up these large shares of both upstream and downstream power generation? And I was very encouraged to see the Peruvian government response, which was to put the deal on hold until they could resolve market concentration problems to make sure that there wouldn't be price-fixing between what was getting passed on to the consumer, because they can set the price that they're giving to the distributor. They resolved that by requiring public transparent auctions and were able to resolve it in this one-off situation to resolve complaints to move forward.

So, that was encouraging that institutions are growing. But, on a systematic level, like Professor Urdinez says, I don't see evidence that they have the institutional capacity necessary to carry that out, which goes back to my recommendation about the importance of helping national institutions set floors for performance.

Thank you.

Mr. Hayes?

MR. HAYES: Thank you very much.

I agree with what both of the witnesses have said there. I think if we step back, what this really shows is an enlightened awareness in the region to the security implications of Chinese investments into Latin America.

I'm Australian, and it's interesting to see for me some of the similar discussions and debates that have occurred in Australia 5 to 10 years ago starting to occur now in Latin America. And Chinese foreign investment, and the security concerns around that, particularly in critical infrastructure, is one of those common themes.

I agree, I haven't -- I can't recall knowing of any sort of foreign investments security review laws. It's certainly the case in Chile, I agree. On other cases, it's also the case in Colombia as well. I've spoken with several folks in the corporate space there. There is a growing awareness within the corporate space, and I think that's where it's starting to emerge from, to subtly try to manage investment bids to avoid coming into a situation that Chile found itself in, like Francisco mentioned. And the only way that they could formally review that was from a competitive standpoint. And it was ruled to be okay, and the investment was passed.

COMMISSIONER GOODWIN: Thank you.

COMMISSIONER SCISSORS: Thanks, everyone.

Commissioner Glas?

COMMISSIONER GLAS: Thank you so much.

And, Dr. Ray, I don't mean to keep directing questions to you, but at the end of your testimony, your graph charts were really extremely helpful to give us a sense about commodity markets. And I wanted to actually ask you a question.

You talk a lot in your testimony about the environmental degradation in Latin America around mining. You use an example talking about the lack of recognition for labor rights and some of the environmental degradation associated.

And it struck me, just looking through your charts, can you give us a sense of how much the Chinese are relying more on Latin America for extractive industries, for copper, lithium, and iron ore, and how much of the market share Latin America and the Caribbean have grown over time? And what should we deduce from that?

Because when I'm thinking of those extractive industries and thinking about clean energy technology, something that the United States is wanting to lead the way, I'm just curious what your thoughts are, based on your analysis.

DR. RAY: Thank you, Commissioner Glas. I'm so glad you're thinking about clean energy technology and the needs for minerals that are going to have to arise to make that possible.

Yes, lithium or copper, those sectors are not going away. In fact, they are going to grow in importance, I think. Chile accounts not only for the majority of China's copper purchases, but it literally accounts for the majority of globally traded copper.

So, these countries have market share that is sufficient to be able to set standards and enforce them, and not lose investment to other countries, because nobody else can provide the amount of copper that Chile can provide.

Similarly, lithium is going to be coming over the horizon as the next most important mineral for green energy development. The Lithium Triangle, the world's largest deposit of lithium, straddles the borders between Chile, Bolivia, and Peru. And this is a circumstance where those of us who follow ESG and investment might be concerned about a race to the bottom between those three countries to attract the most investment possible.

And again, this is a situation where institutional support can be useful to prevent being underbid or outcompeted by companies that don't have their own ESG standards that might rely entirely on national governments for regulations. And those national governments, as I've mentioned, are understaffed and under-resourced in that way.

So, this is a very important environment where there's less space for ESG regulations to be put in place because Latin America has that large of a market share in minerals trade, not just to China, but to everyone. But they don't have the institutional support and capacity to carry it out in reality, which means our investors may be outcompeted in these areas because of our standards.

Thanks.

COMMISSIONER GLAS: Thank you. I yield back my time.

COMMISSIONER SCISSORS: Commissioner Fiedler?

COMMISSIONER FIEDLER: I have a couple of factual questions that anyone can answer first perhaps.

On infrastructure deals that the Chinese do, do they bring their own workers? They're traditionally importing labor in Africa and elsewhere. Is this happening in Latin America?

DR. RAY: It depends on the national regulations of the host country because China doesn't have its own due diligence. So, they will bring their own labor if national regulations allow it.

But, for example, in Ecuador, where oil investment has been a backbone, not only of the economy, but also social conflict, for decades, there are very specific labor regulations on the books requiring the use of Ecuadorean labor. And that's met by Chinese investors. The same rules are not on the books for infrastructure investment. And so, China brought their own laborers for the mega-dam Coca Codo Sinclair in the Amazon of Ecuador, as well as hiring local workers, of course.

And so, this is, again, an institutional gap story. China relies entirely on the regulations of host countries, which vary tremendously throughout the region.

But I'll yield the rest of my time, since I've been dominating too much of this Q&A. Professor Urdinez, it looks like he has something to say.

DR. URDINEZ: Thank you, Dr. Ray.

Yes, actually, comparing to Africa, I wouldn't say this happens very often, and it's not a key issue. When (audio interference)--

COMMISSIONER FIEDLER: We just lost you.

DR. URDINEZ: Hello?

COMMISSIONER SCISSORS: Try again. Try again, Francisco.

DR. URDINEZ: Sorry.

COMMISSIONER FIEDLER: He's got a bandwidth problem.

COMMISSIONER SCISSORS: Mr. Hayes, do you want to take the question? And hopefully, we can get back to Francisco.

MR. HAYES: Sure. Actually, if I may -- I didn't get to my unmute bottom in time -- just to add some comments to the previous question and Dr. Ray on minerals.

I think just the other perspective to keep mindful of there is that, yes, mining for critical minerals, particularly rare earth minerals, throughout the critical minerals, is a dirty process. And it is a looming social stability risk within mainland China itself. It does have the lion's share of reserves of that.

But, to the ability that China can outsource some of that -- and lithium is a particularly important aspect of that in Latin America that will do so.

And I'll leave there, and I think Francisco has come back on here, too.

DR. URDINEZ: Yes, I'm sorry. I'm very sorry.

I was saying that, to me, labor, Chinese labor, is not a major issue. It has happened, as Dr. Ray mentioned, but there's been a lot of resistance to that. So, I would say that, among the main concerns regarding FDI, the use of Chinese labor is not among the top three concerns.

COMMISSIONER FIEDLER: Okay.

DR. URDINEZ: Not at all.

COMMISSIONER FIEDLER: Let me ask another quick factual question. The Chinese economic activity, company activity, is what percentage state enterprise?

DR. RAY: In terms of investment, it's mostly state-owned enterprise in Latin America and the Caribbean, to a greater extent than in other regions, where they have a longer history and where private enterprises have begun to explore more.

COMMISSIONER FIEDLER: Okay. And outside of COVID vaccine, which we've had a discussion about, in the ordinary course of medical needs of the Latin American people, who are they getting their generic drugs from? We are overdependent as a country on Chinese pharmaceuticals. I'm wondering what the situation is in Latin America.

Anybody got a -- I don't care who answers. Anybody with an answer?

MR. HAYES: Yes, Commissioner, I'm actually not sure of that. It's a great question. I'll have to look into that, and I can get back to you.

COMMISSIONER FIEDLER: Because we were making reference in testimony to developing relationships between Chinese pharmaceutical companies with local companies. And so, it occurred to me, what do you mean? They have relationships everywhere in the world with pharmaceutical companies. Why not in Latin America?

MR. HAYES: Right, I know enough to reference, I think, with its emerging relationship in Chile, they're looking at influenza vaccines, and I think it was tuberculosis was also mentioned as a possible future partnership and collaboration there as well.

COMMISSIONER FIEDLER: Okay. I see I'm over time. So, thank you very much.

COMMISSIONER SCISSORS: Commissioner Cleveland?

VICE CHAIRMAN CLEVELAND: Thank you.

I'd like to focus on -- or I have two questions, and both focus on debt and lending. In your piece in Science magazine, Dr. Ray, you talk about the fact that, of the 46 countries that are signed up for the Debt Service Suspension Initiative, 68 percent own bilateral debt to China that was due at the end of 2020.

And I'm interested in whether or not, given China's interest in biodiversity as a resource, and given the concentration of biodiverse wealth in this part of the world, whether or not we will start to see China, instead of restructuring debt, consistent with terms of other countries, either with debt relief or renegotiating the terms, that we will start to see an interest in accessing biodiversity instead of debt relief, for debt relief, essentially. So, that's question one, and along the lines that they've collateralized oil and structured pretty punitive contracts in other areas, when it comes to resources.

And then, the second thing -- and this is for all of you -- I'm interested in lending terms and contracts, in particular, and whether or not China gets special treatment when it comes to seniority and repayment clauses that essentially exempt them from Paris Club treatment. Confidentiality and cross-default clauses I understand are a real challenge.

And then, whether or not the China Development Bank, which has much of the lending in the region, is considered an official creditor, consistent with Paris Club, or if somehow they have managed to exempt themselves. So, kind of the terms of payment and contracts, and then, also, the question of, are we going to see a trend on linking biodiversity to debt relief?

Thank you.

DR. RAY: Thank you. I'll start off because of the reference to the Science article. Thanks for doing that extra homework.

The Paris Club, since you mentioned the Paris Club, has a long history of developing and participating in debt-for-nature swaps. And China is not a member of the Paris Club, and so, has been excluded from that.

And so, for those who haven't read the Science article, it was, essentially, wondering whether, and exploring the extent to which, the traditional Paris Club approach and Western creditor approach to converting debt into debt-for-nature swaps might be applicable to the Chinese case. And we've seen several proposals emerge from mega-diverse debtor nations saying, could we convert some of this debt into foundations that can oversee conservation areas locally? -- as was done in the Seychelles with their marine conservation years ago.

We have not seen China specifically propose any of this. In fact, we have received some signals from the Chinese side that they would be interested in perhaps entertaining proposals from borrower nations, but not proposing them, because it may be seen as conditionality, and they famously do not want to attach conditionality to debt relief negotiations.

On your other concerns about the terms of debt, the cross-default clauses are very interesting. And I'm so glad you brought them up. I know of one example in the Latin American context of China referencing a cross-default clause in communication with the government. And that was Argentina, and that was about five years ago.

I don't know of any other situation in which they've either been referenced or activated, although the other panelists may. And so, I'd be eager to hear if they have any information about it.

But these are ubiquitous in commercial loans. So, they're not unique to the Chinese side whatsoever. However, China's more involved in the region than most commercial lenders. And so, it becomes relevant. However, I've never seen them actually enforce one, and I've only seen them reference it once.

So, I'd love to hear from the other panelists whether you know of other situations other than the Nestor Kirchner Dam proposal, which is now the Condor Cliff Dam in Argentina, where China referenced it, but did not enforce it in communication.

Thanks.

DR. URDINEZ: In my case, that's the only one I know of as well.

MR. HAYES: Yes, what I would add to that is there was an excellent report that came out on March 31 of this year from AidData. It's called "How China Lends," in a rare look into 100 debt contracts with foreign governments. It looks at their debt contracts all around the world, including Latin America. It's not an exhaustive account, but it's a very insightful study that was conducted.

And I think what they distinguished that was very unusual and noteworthy was certainly their unusual use of confidentiality clauses, as has been mentioned, particularly their use of collateral arrangements and lender-controlled revenue accounts that they can directly dip into, as well as promises to keep debt out of these Paris Club restructuring agreements, as has been mentioned.

And I think that really does sort of start to influence their domestic and foreign policies. And it might not be enforceable in courts, but it does have that sort of soft influence to it as well.

VICE CHAIRMAN CLEVELAND: Okay. I'd just like to comment that Chinese loan contracts, 98 percent of them contain cross-default clauses, where China Development Bank can put pressure on a country to compensate China EXIM. And that's in contrast to only 11 percent in multilateral debt contracts.

So, I may ask a question for the record on this, just to make sure we have something that clarifies the unusual nature of China's contracting policies.

Thank you.

COMMISSIONER SCISSORS: Commissioner Borochoff?

COMMISSIONER BOROCHOFF: Thank you.

Dr. Urdinez, you mentioned in your written testimony, and touched a little on it in your remarks, specifically about goods substitution. And I wanted to ask a question or two about that.

But, aside from the vaccination subject, and where we are with that, has anyone taken the time to catalog, gather the data, actual empirical data, of the largest examples of goods substitution, other than the obvious one with recent health problems?

DR. URDINEZ: So, when I refer to goods substitution, I don't only refer to the recent case of the vaccines and the so-called mask diplomacy, but I'm referring to the fact that Chinese finance was seen as an opportunity to promote domestic growth, as well as trade relations with China, was seen as an opportunity to promote domestic growth, employment generation.

And in the previous panel, a lot of the questions were related to the values that the U.S. should promote in the region. And what I tried to stress in my report is that the material, the economical dimension, is very important as well, maybe more important. Local governments in Latin America cannot enforce strong democratic institutions without economic stability and economic growth. And in the last 20 years, China has been a source, or has been seen as a source, of economic growth in the region.

And I know that Chinese loans come usually -- well, it was right now mentioned that more than 90 percent of them come with not very convenient clauses. Perhaps some governments in the region had no other choice. So, China was maybe a second-best or the only alternative they had to attract capital. So, in that regard, that's what I mean with goods substitution, in the sense that Chinese capital was seen as an opportunity to promote growth and to take the most from the commodity boom.

Someone asked before -- and this is my last comment -- about the volatility curse and the major problems that commodity exporters face. And it's been proven recently that, during times of low commodity booms, it's very hard for local governments, in Latin America, to govern and even to finish their mandates.

So, when we refer to boosting trade and financial relations with China, for some governments, it was also a survival strategy. What I'm referring to is Fontanills and Gentile. The book is called The Volatility Curse. And I think it's very interesting evidence to understand local governments' approach towards China.

COMMISSIONER BOROCHOFF: That was a great answer. So, what you just said I believe was that the good that you were specifically referring to was the availability of capital and the effect it had on everything else. So, that was a good answer for me. Thank you.

DR. URDINEZ: Yes.

COMMISSIONER BOROCHOFF: And if we have just a little bit of time, Dr. Ray, I saw you nodding, and I could tell that you wanted to add onto that. So, will you please do that?

DR. RAY: Oh, that was not a nod in wanting to add anything, but, rather, to underline so much of what Professor Urdinez has said. His work absolutely reinforces our own work in this area, that countries go to China for financing capital when they have less access to private sector markets and to Western public markets.

And, in fact, I believe it's figure 2 at the end of my written testimony that explores how that worked in the Ecuadorean state. When they had limited access to private capital and Western capital, they borrowed from China. And as soon as they had access to bond markets again in the West, they rebalanced their portfolio, until it was about one-third bilateral, one-third multilateral, and one-third private sources, by the end of President Correa's term.

And so, this good substitution -- when you don't have one thing, you substitute with something else, but you would like to borrow from everyone, given the opportunity -- absolutely reinforces what Dr. Urdinez says and resonates with our own work as well.

Thanks.

COMMISSIONER BOROCHOFF: Thank you.

COMMISSIONER SCISSORS: Commissioner Bartholomew?

CHAIRMAN BARTHOLOMEW: Thanks very much.

And thank you to our witnesses for really interesting testimony.

I have two different kinds of questions. One is, who are the beneficiaries of Chinese investment and Chinese companies' presence in the region? Has there been a reduction in poverty generally across the board or in particular countries? That's one.

And then, Dr. Ray -- but others, if you have a response -- what is the Chinese incentive to encourage conservation? When you think that deforestation -- you know, their increased interest in Brazilian soybeans is resulting in deforestation. The fisheries that are being fished illegally, I mean, there's an issue there. Mining lumber, all of these resources that they want access to, why do they have an incentive to encourage conservation?

So, do you want to start with the reduction in poverty question?

DR. RAY: Thanks.

We have seen widespread drops in poverty levels since 2000. During the commodity booms, that poverty levels fell by as much as half across the region. So, there were tremendous gains that came with a resource boom. This is not unusual for resource booms in the region. When dollars become more plentiful because there's a foreign trade boom, poverty and other social problems tend to decline.

But it was really remarkable in this particular one, probably, in part, because of the size of the boom, and also the fact that it came concurrently with governments across the ideological spectrum enacting more ambitious social programs -- health spending, education spending, as well as direct transfers to low-income families. And so, there was a determination across the region by leaders, not just left-wing populist leaders, but also technocratic leaders and even right-wing leaders, to harvest the benefits from this particular resource boom to help alleviate these long-term problems.

Party bases are volatile. And so, those gains are not necessarily long-term gains, unless those long-term industrialization goals are revisited, so that their economic fortunes, and thus, their social fortunes, don't necessarily ride this volatility curse that Professor Urdinez mentioned.

From a Chinese perspective, why should you care about conservation? And the answer is, in our research, we find that the decisionmaking lever is the importance of state-to-state relationships, because state-owned enterprises are such a large share of this investment. And so, if it matters to the host country government, it, then, matters to the lending or investing government, which is China, because, ultimately, this is a state-to-state relationship. And so, that underpins the need for institutional supports for these stated goals in Latin America and the Caribbean for biodiversity that haven't translated into institutional capacity for overseeing a resource-intensive commodity boom.

Thank you.

CHAIRMAN BARTHOLOMEW: Dr. Urdinez or Mr. Hayes, anything to add?

MR. HAYES: Yes, sure. Thank you.

I would slightly answer your first question from a slightly different perspective and sort of address it in who are the political beneficiaries of trade and investment from China. And I think that's a really interesting question to look at. It's a classic question of political economy and who wins from trade.

And if you look at, for example, just Brazil simply, you can really see an increase in support from sectors in the resource sector, in beef, for example, pushing for China-friendly policies within their own country and influencing the political posture because of their benefits from trade.

CHAIRMAN BARTHOLOMEW: All right. Dr. Urdinez, anything to add?

DR. URDINEZ: Well, I agree a lot with both statements. So, I would say no.

I mean, China had a major impact in poverty reduction indirectly, yes, in the last two years. Due to the pandemic, poverty has grown again. And I see that, again, local governments made the connection that Chinese trade, trade with China, investment from China, credit from China, was the main driver for economic growth. And that was the main motivation to deepen ties with China, more than values or ideology.

And there is something I would like to add. You asked who benefitted from Chinese FDI in the region. Something interesting that has not been said yet, is that effects are not homogeneous within countries, of course, and there is increasing evidence that there are so-called winners and losers from China's credit and China's FDI in the region, as well as in other countries. Similar evidence has been found in the U.S. and in Europe.

So, normally, you would find benefits to be localized; for instance, where investments were made, where the infrastructure projects were made. But, in some cities or industrial clusters -- let's say Sao Paulo's metropolitan area -- China's economic impact has been probably negative overall, because it has deepened de-industrialization.

So, there's a lot of variation within countries, and it depends on the comparative advantages of each locality.

CHAIRMAN BARTHOLOMEW: Can I just follow up quickly to that, which is, for the people who are disadvantaged, the industries or the people who are disadvantaged, do they have an opportunity? Are they speaking out, expressing concern about China's impact on their economies or on their populations?

DR. URDINEZ: Let me ask first -- so, I have conducted research on the Brazilian case, and we found that voters are aware when relations with China have produced damage locally. And even more so, that translates into the opinion of the legislators. So, legislators who represent localities where there has been a negative effect, they tend to have more negative opinions of China.

CHAIRMAN BARTHOLOMEW: Thank you.

DR. RAY: Let me add to that. This goes back to the heterogeneous impact that I believe Margaret Myers was talking about in the first panel this morning. The impacts are felt differently in different places. As Professor Urdinez said, in metropolitan Sao Paulo they might be on net negative.

In, for example, the Mexican case, industry and small-scale agriculture were already on the decline because of domestic reforms and trade deals with the U.S. And so, the introduction to China simply exacerbated existing trends that were already happening.

And so, whether or not local businesses point to China as the driver, or whether they point to NAFTA as the driver, or whether they point to domestic reforms as the driver, isn't necessarily all going to be the same in every case.

COMMISSIONER SCISSORS: Okay. I will recognize myself for the question.

Mr. Hayes, this is an unfair question that is intended to press my opening statement. Your first recommendation in both your written and oral testimony -- and I think it was echoed by Dr. Urdinez -- is that surplus U.S. vaccines should go to Latin America and the Caribbean. That seems obvious, but I don't think it is. Why not India first? Why not U.S. treaty ally, the Philippines? Why not Egypt?

We have close friends around the world, in many cases closer than our friendships in Latin America and the Caribbean, who have far less vaccine availability than they would like. Other than Mexico, what's a compelling rationale for Latin America and the Caribbean to be near the front of the line when we start exporting vaccines on a large scale?

MR. HAYES: Thank you. Yes, and that's a tricky question. That is a big challenge. And I think, to be honest, that has contributed somewhat to the U.S.'s speed, or lack thereof, in rolling out these vaccines, because it's a very ethically difficult question to answer, as well as a strategic question.

I think I would go back to my thinking. And it's an open question, essentially, of phase 3 of China's efforts to consolidate their civic gains in the region. The big question really to me is, how sticky is their diplomacy in their vaccine rollout and what will the legacy be from that?

I think it's not fair to simply compare China's vaccine efficacy as it is now compared to U.S. and European alternatives because, from Latin America's perspective, those aren't a viable set of alternatives, generally speaking, at the moment.

But, also, too, China is continuing to work on improving with new vaccines. There's even discussion of them rolling out their own mRNA vaccine as well towards the end of the year. So, the efficacy itself could improve, and therefore, their ability to have an impact in the region could improve as well.

Like I said, that's very much subject to the effectiveness of the actual vaccine drives and rollouts in Latin American countries. That's out of China's hands. But, as long as those countries are using Chinese vaccines, as a public diplomacy standpoint, China's kind of on the hook to the relative, we'll say, success of that.

So, to me, that's really the question: how effective and how we should monitor China's emerging efforts to consolidate these gains in the region, whether it's through ongoing pharmaceutical relationships that I alluded to and general research and development and scientific collaboration, and how important the U.S. deems that to be to their strategic interests.

So, I would sort of stop there, and I think it's kind of a question of priority from those lenses.

COMMISSIONER SCISSORS: Thanks.

Do either of the other witnesses -- no obligation -- want to take a crack at that? What's the argument for Latin America being near the front of the line on U.S. vaccine exports?

(No response.)

Okay. Oh, go ahead.

DR. URDINEZ: So, in my testimony, very briefly, in my testimony, I mentioned the need for the U.S. to strengthen leadership in the Western Hemisphere. And in the region, there are countries such as Brazil where there's a major health crisis. And those negative externalities could create major problems, even political problems, everywhere else.

So, I don't think it's easy to choose who should be first, but there are countries -- again, Brazil, Mexico -- large countries where there's an urgent need for more vaccines. And I even mentioned or I recommended today that, if not donated, those vaccines could even be sold. And that would be already a major contribution.

COMMISSIONER SCISSORS: Thank you.

We have time for another question or two, which I consider to be a personal victory. Unfortunately, I can't see who has questions.

Carolyn, can you see if anybody wants to follow up?

CHAIRMAN BARTHOLOMEW: I think that the question time is over.

COMMISSIONER SCISSORS: Okay. Well, in that case, that closes the panel. I want to express the Commission's appreciation to Dr. Ray, Mr. Hayes, and Dr. Urdinez, for educating us today.

We will break for lunch and return at 1:35.

(Whereupon, at 12:40 p.m., the foregoing matter went off the record for lunch and went back on the record at 1:35 p.m.)

PANEL III INTRODUCTION BY CHAIRMAN CAROLYN BARTHOLOMEW

CHAIRMAN BARTHOLOMEW: Welcome back, everybody.

Panel III will analyze the elements and geopolitical consequences of China's growing security presence and influence in Latin America and the Caribbean, including the PLA's activities as well as China's access to space facilities and other dual-use infrastructure.

First, we will welcome back Dr. Cynthia Watson, Dean of Faculty and Academic Affairs at the National War College of the National Defense University. Dr. Watson last testified before the Commission in February 2020 during a hearing on China's military power projection and U.S. national interests. Dr. Watson has been studying China in Latin America for over two decades, and her testimony today will discuss China's military presence in Latin America and the Caribbean.

Next, we welcome Mr. Thiago de Aragao, Director of Strategy at Arko Advice Public Affairs, who will discuss China's investment in dual-use infrastructure in the region. While this is Mr. Aragao's first time testifying before the Commission, he has presented at the British Parliament, the Canadian Ministry of Foreign Affairs, the French Ministry of Foreign Affairs, the British Foreign Office, and the EU High Commission on Latin America and China Relations. Mr. Aragao's research focuses on geopolitical affairs, China-Latin America relations, Latin America's political environment, and institutional strategy.

Once again, I'd like to remind witnesses to please keep your statements to seven minutes, so we can have a robust question-and-answer session.

Dr. Watson, we will begin with you.

OPENING STATEMENT OF CYNTHIA WATSON, DEAN OF FACULTY AND ACADEMIC PROGRAMS, NATIONAL WAR COLLEGE

DR. WATSON: Thank you, Commissioner Bartholomew.

I welcome this opportunity to speak to the Commission again this afternoon. As in my prior conversations, I'm speaking only for myself and not officially in my capacity as the Dean of Faculty at the National War College or an employee of any branch of U.S. Government.

I also apologize upfront to the Commission that I did not provide you with a written statement, as requested, because this happens to be an extraordinarily busy time of the year, as we close out our academic year. And I happened to be teaching on top of everything else. So, I do apologize for that.

I want to approach this subject, I am quite certain, in a very different way than any of your other speakers today. I did not have the opportunity to hear my esteemed colleagues this morning, although I know all of the individuals who addressed you. But what I'd like to do is I would like to focus much more on the overall role that China is playing in this region, with the military component being only an important, but not absolutely essential part to that.

And the way I'd like to describe this is to ask all of us to think about what the United States and China are both doing with regard to Latin America as if you were looking at filling a jar. The way the United States tends to think about filling jars in terms of how we use instruments of statecraft is we focus on big rocks that we can put into that jar.

And when I say, "big rocks," I'm thinking of important bilateral or regional programs. We think about measures that are very important to us, and those tend to be measures such as treaties. They tend to be measures such as Latin American attendance at conferences. We tend to think of very big measures that we in the United States would view as important for how we would approach the relationship with any other part of the world.

China approaches, and has shown during the COVID era a remarkable ability to use, a very different method of filling the jar. In particular, what I think we're seeing is a China that fills the jar by grains of sand, and therein lies a major problem for the United States.

China has used, as you heard this morning, the COVID diplomacy to great success in many ways across this region, not total success, but China has left a mark on the region that is indelible compared to any health care links it had to Latin America in the past.

China has also been important in trade and investment. China is important in its role of all instruments of statecraft.

But the difference, and the reason I call our attention to this, is that, because our rocks are big, and because we think of the relationship in terms of easily demonstrable, important programs that will probably take some time to negotiate and to culminate, China is able to act much more swiftly in its relationship with this region. And it has, therefore, been able to fill in that jar to a much greater degree than the United States has in the last several years, and I would say particularly during the COVID period.

And what we see is that SOUTHCOM is an absolutely essential partner for the United States to put forth to states in Latin America. But, again, our big rocks, as put forward by SOUTHCOM, tend to have an awful lot of anticipated baggage that goes with the rocks. And in particular, we have issues relating to human rights. We have issues related to how the United States views Latin America vis-à-vis --relative to other parts of the world.

China doesn't approach things in that manner. And what we have, instead, is China making number of what appear to be significantly smaller moves, to include military moves, in this region to solidify a longer-term, positive relationship.

Why does all of this matter? It matters because this is the one part of the world where the United States ought to have its greatest benefit or ought to have its greatest ties. But, because of the growing anxiety in the United States about border crossings, because of some of the rhetoric over the last several years, which, by the way, I should remind everyone is bipartisan -- it may be overwhelmingly from one party, but it comes from both parties when it comes to concerns about Latin America.

As we focus on our concerns about this region, we're not cultivating the ties that we have built. And the evidence I would give for that is increased interest and engagement with the Chinese in Colombia, a place that's in the news right now with a lot of attention because of the violence that has resulted from some government decisions in Colombia.

By any measure, because of the U.S. commitment through Plan Colombia over the last 25 years, China should have been completely shut out of this region, out of this country. But, instead, what we're seeing is that China is able to offer seats in various meetings. China is able to offer small amounts of military diplomacy, and to recognize that Colombia is, in fact, a sovereign state, not merely an appendage to the United States, so that China has made headway in this country, among others.

My final comment, as I am down to my last seconds, is to say that it's -- we have to aim far lower in our expectations, instead of trying to come up with huge programs when it comes to dealing with China and Latin America. Re-institute, or at least create, some positive feelings about the United States that I don't think we've been able to do over the last several years.

I understand that that's not what your focus is, but, as a strategist, I would point out that, if the United States does not do that, but continues to focus on major ideas, and continue to push human rights issues, continue to push democratization and things that are not always that popular in this region, we are going to be in a position where China has filled in all of the sand in the jar, and that will leave us in a rather precarious position long term.

We still have many benefits that we could use in this region, but, sadly, we've become too captured by the idea that our ties have to be major ties, and as a result of those major moves, we believe China will be shut out. I would argue just the opposite is true. China is filling in the gaps, as we focus on those major ties.

Let me close and say thank you again for the opportunity, and I look forward to your questions.

Over.

OPENING STATEMENT OF THIAGO DE ARAGÃO, DIRECTOR OF STRATEGY, ARKO ADVICE PUBLIC AFFAIRS; SENIOR RESEARCHER, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

CHAIRMAN BARTHOLOMEW: Thank you. Thank you, Dr. Watson.

Mr. Aragao.

MR. ARAGAO: Thank you very much, Chairman Carolyn Bartholomew, Commissioner Derek Scissors, Members of the Commission, and fellow colleagues. Thank you very much for the invitation.

Well, the same expectation may have completely different outcomes for two very distant cultures. The U.S. believed that economic prosperity would invariably lead China to democracy, while China believes that the economic prosperity is the essence of the stability and legitimacy of the Chinese Communist Party.

Latin America is the chief supermarket that fuels the Chinese economic machinery on a two-way street -- suppliers of commodities and recipient of manufactured goods, and now technology. The essence of the relationship between China and Latin American countries may be defined in three essential pillars. The first one is commercial dependency; the second one is financial dependency, and the third one is a hybrid of commercial, financial, and technological dependency, which is in its beginning.

Observing China's military and security strategy towards the region, we must step back and understand the core goal of China's military and security ambitions, which lies in the Indo-Pacific Region. Latin America is an integral part of their Indo-Pacific strategy, as the region has the power to feed the military machinery as supplier of its necessary ingredients. This explains the three pillars.

First, commercial dependency fuels food supplies, oil, and gas to its economic development; rare minerals to its technological and military ambitions, and common minerals to its necessity of continuous industrialization. The limited industrial capability of the region offers a growing market with a desire to consume goods, with economic restraints that limits the access to better, more traditional, equivalent goods from the U.S. and Europe.

Second, financial dependency allows the conversion of loans for commodities below market price; the opportunity to sell bonds from the Chinese Central Bank; infrastructure, installations, and investments to optimize commodity outflow; total or partial ownership of natural resources, assets, and strategic partnerships, as compensation for increased local debt, such as, for example, as mentioned earlier, the space observation base in Argentina. It also opens doors for direct negotiation of military equipment, such as the FC-1 fighters for Argentina, without common tender processes, as expected and as the U.S. is accustomed to.

Third, hybrid dependency combines the two pillars that I just mentioned, as well as the technology aspect, which allows China to introduce technological needs, such as thermal cameras in Panama, Argentina, Chile, and Colombia; telecom infrastructure through Huawei, in which the natural evolvement of these technologies sustain compatibility dependencies for continuous usage of these products. Theoretically, the access to data that can feed research in AI deep learning may be obtained, if desired, though this is unsure and there is no clear public information that sustains that.

China gains rhetorical advantage in the region over the U.S. since Beijing portrays each country as lands of opportunity, while, historically, most countries have perceived themselves to be lands of problems to the U.S. -- illegal immigration, narco trafficking, corruption, money laundering.

China's ability to offer loans and infrastructure partnerships without demanding structural, institutional, fiscal, and monetary reforms, as multilateral organizations that are perceived in these countries to be very tied to the U.S. have historically demanded from these countries, facilitating the access to tailor-made opportunities provided by them.

The Chinese strategy within the pillars described are based in four axes, which can be observed in every single country where their presence is robust.

First, as I mentioned, it's the economic and commercial dependency through commodity-backed loans and investments which are less risky, generating a stable access to natural resources, while opening doors for strategic and specific projects. This strategic approach opens doors and guarantees supplies.

Second, more market for Chinese companies, services, construction, logistics, financial institutions, tech and consumer goods. This strategic approach, uses the doors opened by the dependency conditions and expand the economic capability of its companies and products.

Third, influencing local policies to favor Chinese interests at local, state, national, and international levels. This strategy utilizes the trust relationships established through local presence, adapting the local flexible regulations, which always have been a concern of the U.S. towards the region, to increase the access for further companies and further strategic opportunities.

Four, shaping the public view towards China, neutralizing anti-China narratives, which they attribute to the U.S. This strategy is a product of the opinion-making condition created by the previous strategic approaches, shifting the local policymaking in the international arena towards the U.S. interests in the region, as well as U.S. narratives which corner China within the international community.

China holds a unique ability, given its centralized political profile, to apply usage conversion in practically any infrastructure project in which they were able to negotiate total or partial exclusivity.

Ports throughout the region destined for commercial usage can easily support military usage, if necessary, as logistical corridors can be established through the Atlantic, using the Port of Paranagua in Brazil, the Port of Buenos Aires, the Port of La Brea in Trinidad and Tobago, and the Port of Santiago de Cuba. Also, through the Pacific, via the enhanced relationship with Panama and the project to use Punta Arenas in Chile as a launching base for scientific exploration of Antarctica could also offer access through the Magellan Strait.

The space observation center in Patagonia could be converted to a signal station, though there are no publicly available evidences of this yet. However, the technology is available and it's there.

High-level military cooperation with important leaderships of Latin American countries is ongoing since 2015, allowing China to offer their perception of international geopolitics to military opinion makers and decisionmakers.

In theory, all of these aspects could be converted, if necessary, to support an eventual theater of operations in the Indo-Pacific, if the situation in the South China Sea eventually escalates. Nevertheless, the adjustments from the current infrastructure and logistical capabilities used for commercial relations would need no major changes.

I would like to thank Chairman Carolyn Bartholomew, Commissioner Derek Scissors, for everyone. And I'm available for further questions. Thank you.

PREPARED STATEMENT OF THIAGO DE ARAGÃO, DIRECTOR OF STRATEGY, ARKO ADVICE PUBLIC AFFAIRS; SENIOR RESEARCHER, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

May 20th, 2021

Thiago de Aragao

Director of Strategy at Arko Advice and Senior Associate at CSIS

"Testimony before the U.S.-China Economic and Security Review Commission"

China's Military and Security Activities in Latin America and the Caribbean

Introduction

China's first general goal in Latin America is the most obvious and visible of all: to generate more markets for its products and its companies, as well as to acquire natural resources and commodities at the best possible price and within a continuous flow, with the lowest economic, political and diplomatic risks as possible. At this point, China has been achieving considerable success, especially if we note that the U.S. participation in the trade balance of several of the region's countries has been decreasing, while that of China rises year after year.

In the energy sector, China has already become an important player in Brazil. It is also relevant in logistics, not only for Brazil but also for Mexico, Peru, Colombia, as well as Argentina and Ecuador. In Chile, the country increases its participation and influence in the mineral sector regularly.

China's second macro-objective is to make several countries in the region economically and commercially dependent on it. From an economic point of view, China's financing lines end up becoming excellent deals for Beijing, since Latin American countries usually involve commodities and other products as part of the payment. Argentina has promised to repay part of its loans to the country with wheat and meat. Venezuela did the same with oil – the problem is that PDVSA, the state-owned oil and natural gas producer, is not managing to produce enough to repay this debt in this way.

But it is important to understand the distinction between economic dependence and commercial or trade dependence. The economic dependence revolves around the credit lines that are offered in government-to-government negotiations (as in the Venezuelan and Argentine cases), as well as in the negotiations between governments and the private sector (credit lines to enable the expansion of factories and logistics chains that usually involve the participation of Chinese companies as partners in joint ventures that use this capitalization to expand).

Although the Chinese loans are not addressed to the federal government in Brazil, the volume destined to the country's private sector is highly relevant. Brazil's largest oil producer, the state-owned company Petrobras, for example, closed a new $5 billion financing deal with the

China Development Bank in early February. On the other hand, trade dependence occurs more organically and is clearly present in the relationship that Brazil has with China.

Brazilian agribusiness and iron ore exports are highly dependent on China, which is the main buyer of these products. This increases the sector's risks, since maintaining the success of the main items on Brazil's export basket depends more on Beijing's decisions than that made in Brasilia.

The first two points (more markets for Chinese companies and a deep commercial and financial relationship) end up generating a by-product that becomes the third Chinese macro-objective in Latin America: to influence national public policies and the foreign policy in the different countries of the region, in order to strengthen China's image, perception, and objectives at the international level. A clear example of this third point is outside Latin America.

In 2020, Saudi Arabia, the United Arab Emirates, Qatar, Iran, among others, signed a letter of support to China regarding the Chinese government's stance in Xinjiang province, on top of the treatment given to Uighur Muslims. While Western countries highlight acts of human rights violations in the province, others interpret them as national security measures. Hence, Islamic countries – alongside Saudi Arabia and Iran (historic enemies) – signed a letter defending China on an issue affecting Chinese Muslims.

The increase of the Chinese influence in the Middle East, especially in the mentioned countries, is remarkable in recent years. While China has become a partner in uranium exploration and the main importer of Saudi oil, the country has also substantially increased its relationship with Iran, by offering commodity-backed loan lines. It is important to note that China's vaccine diplomacy also plays a crucial role in shaping the actions and international perception of countries that receive the vaccine on general Chinese issues.

In Latin America, several countries are receiving the Chinese vaccine, causing the warmongering tone of some presidents to be diluted by their need to obtain inputs for more immunizers. The clearest example of this is Brazilian President Jair Bolsonaro.

The lack of articulation to obtain vaccines from other manufacturers in time meant that the negotiations made by the governor of Sao Paulo State, Joao Doria, with Sinovac, the Chinese manufacturer of CoronaVac, ended up being the lifeline of Bolsonaro's government. It was with CoronaVac that the federal government started the national immunization program and vaccinated a large part of the Brazilian population. For this, Bolsonaro had to directly ask Xi Jinping to increase the volume of inputs needed for the vaccine to be produced in sufficient numbers at the production center of the Butantan Institute, the local partner of Sinovac for the production of CoronaVac.

Naturally, as there is no 'free lunch', Xi Jinping was able to ease President Bolsonaro's urge to exclude Chinese technology company Huawei from participating in the country's 5G auction. In 2020, because of his close relationship with former President Donald Trump, Bolsonaro made it clear that Huawei represented a security risk to the Brazilian 5G.

With the end of Trump's term and the beginning of Joe Biden's and, at the same time, the need to obtain vaccines in the face of the tragic management of the fight against COVID-19 in Brazil, Bolsonaro eased his stance on Huawei and, thus, obtained necessary inputs for CoronaVac. This week, the executive secretary of the Ministry of Health, Elcio Franco, sent a letter to the Chinese ambassador to Brazil, Yang Wanming, to "investigate the possibility" of buying doses of BBIBP-CorV, the Sinopharm's vaccine with an average effectiveness of 79%. In the document, the Brazilian government official also asks for the delivery of doses, if possible, to occur in the first semester.

For the Chinese strategic cycle to become more efficient, China needs to strengthen its image through numerous organizations (governmental and semi-governmental); this is a primary process to fit the points mentioned above. In countries with decision-making centralized in the federal government, relations with China primarily occur through diplomatic and official channels. In decentralized countries, where private companies, municipal governments, associations can deal directly with China, the country focuses on semi-independent organizations to work its image, to avoid wear and tear due to negative perceptions.

These are, roughly speaking, the four tactics that make up the Chinese strategy in the region. Two of these four categories are straightforward and easily understood: expanding trade relations and offering credit/financing, which can be paid for with commodities or other favors to Beijing, such as facilitating the construction of a space observation center in Argentine Patagonia, for example).The two subsequent strategies are by-products of the first two: the use of commercial and financial dependence to align the region diplomatically and open opportunities in other areas internally; and strengthening China's image among decision-makers. The Chinese strategy will continue in full swing after the end of the COVID-19 pandemic. The vaccine diplomacy has a limit, of course, but the results for China may be better than expected, since all the ties that are being created and expanded with several countries at a time like this tend to last beyond the crisis of the novel coronavirus.

The Six Angles

It is important to categorize the six areas in which the dispute with the United States are more clear and important for Beijing. Also, most of the Chinese operations abroad, even those under the spectre of the Belt and Road Initiative, tend to fall in one or multiple of the categories below.

1. Conceptual
2. Geopolitical

3. Economic
4. Technological
5. Commercial
6. Military

Naturally, further categories may be emphasized and de-emphasized as the conjecture changes. Nevertheless, these six fields are also where the main disputes between the US and China take place.

Conceptual

The conceptual dispute between the two countries lies, above anything else, in the profound differences of values, culture and ideology as well as interpretation of the world.

Since 1949 we have had the classic dispute between a Capitalist Democracy and a Communist regime, with the recent historical anomaly of a “Capitalist Communism”. Within the conceptual aspect that antagonizes both nations, China sees itself as a nation who earned the right, through its own development, to expand its influence from regional to global, carrying the economic/commercial narrative as the leading arguments.

For the Chinese Communist Party, the analysis of the reasons that led the Soviet Union to collapse, sedimented the comprehension that individual economic prosperity would replace the desire of participative, multi-party democracy within society.

For the US, the Chinese economic progress was the certainty that society would demonstrate an intense democratic desire, leading to a natural change of governmental logic.

This shows two sides of the same premise: while the US policy-makers understood that economic prosperity would lead to Democracy, the Chinese CCP policy makers understood that economic prosperity would ensure the maintenance of the one-party rule.

The global expansion of influence, through economic gains and commercial dependency, especially in Latin America, is intrinsically linked to the domestic economic stability and, consequently, to the sedimentation of the CCP as rulers of the country.

As long as the inflow of commodities and the outflow of ever-more value added manufactured goods remains as the center-policy of the CCP, Beijing understands that a long-term relation with Latin American countries is necessary and is not build on top of nothing, but on top of the assumption that the US has committed historical policy mistakes in the region.

As we understand that Beijing sees the domestic economic prosperity as a fuel for the survival of the CCP, and that China needs an increasing inventory of foreign customers and suppliers of raw materials, the Party understands that any attempt from the United States to impede the Chinese economic stability and further growth, as well as deepening the relationship with developing countries, represents a direct risk to the existence of the CCP.

In this sense, the quest for economic and commercial influence invariably invades the realm of political and diplomatic influence and, potentially, military influence as well. With variations of expectations, China sees every country in which the bilateral relationship has solidified into long-term projects, as potential future allies against the American regional narrative, if necessary.

Within the conceptual dispute between the two countries, Beijing envisions the future usage of the weight of commercial and financial dependencies upon Latin American countries to neutralize anti-China narratives produced by the United States and its allies.

It is natural that the solidification of these bilateral relations, whether the initial approach was commercial or financial, expands into further areas of collaboration, particularly if a country is indebted to China in a way or another.

While the "Conceptual" debacle between the US and China is perceived by the US as a desire for change based on historical and democratic values, for the CCP it is perceived as self-survival and dictates the approach of every other area of competition against the US.

Self-survival through expansion of influence is the key driver of the Chinese strategy in Latin America. Exporting ideological concepts, as the Soviet Union did during the Cold War, does not seem to be a target-goal for the CCP. For China, it is much better to engage with democracies in which institutionalization is low and the concentration of power is evident, rather than socialist regimes (such as Cuba and Venezuela) where the expectation of Chinese support is seen as an obligation.

The fact that China does not bring ideological factors to the negotiating table with Latin American countries is well-received in the region and serves as a strength to the Chinese narrative. Historically, the US narrative in the region has revolved around the narrative that Democracy and institutional strengthening would, invariably, lead to economic prosperity. China counter-argues this historical narrative by emphasizing that economic prosperity does not need to be entangled with the US-based democratic values. This adds a sense of relief to the countries that historically relied on US support but were not able (or willing) to comply with the democratic and institutional demands from Washington.

For the United States, this conceptual debacle with China is more difficult to counter than the conceptual challenge against the Soviet Union, since China does not aim to export its ideological views to Latin American countries.

The US narrative is aimed at preserving its historical pro-democracy speech, as well as its zones of influence, while the Chinese narrative is aimed at preserving the domestic concentration of power of the CCP, domestic economic prosperity, and international legitimacy of the party.

While the CCP understands that the ultimate, conceptual goal, of the United States towards China is the democratization of the country, the counter Chinese goal is the expansion of its legitimacy internally (control + economic prosperity) and externally (cooperation + dependency).

Geopolitical

The second category of the debacle between the US and China is geopolitical. For as wide as the term can be (geopolitics), the occupation of space of one (China), involves, invariably, the loss of space of the other (United States).

Within the Chinese view, the United States simply cannot tolerate the growth of Beijing's influence, as the US wants to remain as the only superpower in the globe. Taking in consideration that the Chinese conception of national security implies the survival and further solidification of the CCP, the expansion of its global influence aims directly at protecting its domestic goals. Expanding its presence in the South China Sea, neutralizing countries from Southeast and Central Asia through commercial and financial dependency (as well as vaccines), generating a corridor from Xinjiang to the Mediterranean, Indian Ocean and Pacific through the Belt and Road Initiative, as well as enhancing commercial, financial and investment dependency in Africa and Latin America, all this is aimed at solidifying the long-term existence of the CCP.

The historical perception of Latin American countries towards the Monroe Doctrine has been negative. Mostly, because the Latin American perception is that the Monroe Doctrine brought no clear benefits other than the ones when President James Monroe claimed it as a foreign policy (avoiding European powers from the region).

The Xi Doctrine has been received with much more flexibility by the Latin American nations, since it involves no structural demands from the local governments, in terms of actual changes in its institutional structures. The Chinese government, through various quasi-governmental institutions such as the Chinese People's Association for Friendship with Foreign Countries (CPAFFC), China Council for the Promotion of International Trade (CCPIT), United Front, as well as more specific ones such as the Association of Zhejiang Entrepreneurs in Mexico and the Cantonese Merchants Union of Latin America, are prolific in exploring local relations in a high level of pragmatism, in which the historical institutional and bureaucratic flaws of Latin American governments are not challenged as right or wrong by these organizations nor representatives of the Chinese government. This enhances the desire of Latin American governments, whether national, state or municipal, to relate with China without the pressure of becoming more transparent, more institutionalized and more democratic as historically required when dealing with the US.

The over-dependency that crippled Latin American countries developed with international organisms such as the IMF, World Bank and the IDB, also generated negative reactions from regional societies who understood that often, the demands for loans were unreal in relation to the capability of the borrowing country to fulfill (fiscal equilibrium, monetary policy etc). Argentina is a major example of that. After the 2008 financial crisis, China emerged as a lender with non-orthodox requirements that matched well the expectations of short-minded populist administrations in Latin America. If before, borrowing from an international organization could ameliorate the economic condition of a country, the political rejection from its own society haunted populist politicians. Also, the general perception (exaggerated or not), that these organizations were heavily influenced by the US, contaminated part of the public perception towards the country.

China emerged as a lender in which the requirements were different and easier to satisfy with little or no domestic political impact. The commercial dependency which was already a reality (Brazil being the stronger example), the financial dependency emerged as a new variable that influenced the geopolitical presence of China in several Latin American countries, protected by the commercial, financial or investing nature of the surfaced relationship.

In Latin America, the geopolitical occupation of influence occurs through generating dependency. The dependency targets the historical strengths and weaknesses of the region:

1. Natural resources and commodity production - strength
2. Openness to infrastructure that enhances production export - strength
3. Mid to low level of institutionality - weakness
4. Flexibilization of rules and regulations - weakness

Under the narrative of the Belt and Road, China was able to operate within the veil of a domestic policy to bring any sort of cooperation agreement or partnership towards Latin American countries.

In Latin America, the expansion of financing and/or direct investments in particular infrastructure projects, gives China a major tool for influence in critical areas such as logistics, energy and production.

Ports

Paranagua Port (Brazil) - The China Merchants Port Co. acquired 90% of the port containers facility at the Paranagua Port, which is the 2nd largest Brazilian port. Also, the company is financing terminal expansion.

Montevideo Port (Uruguay) - Uruguayan government suspended a project from Shandong BaoMa in 2019. Nevertheless, the Chinese government is still pressuring to expand specific areas of the port.

Buenos Aires Port (Argentina) - The Chinese company Cheung Kong has a pier at the port of Buenos Aires, with full autonomy to operate as well as the management of the inflow and outflow of the production.

Punta Arenas Port (Chile) - Chinese government aims to expand cooperation with the Chilean government to use the port for Antarctic exploration. The presence at the Strait of Magallanes is also very strategic due to traffic in the region.

Chancay Port (Peru) - This new port in Peru is almost entirely financed by Chinese investment through the Cosco Shipping Company in partnership with Volcan Mining Company.

Yurimaguas Port (Peru) - This river port terminal has Chinese investment which is likely to grow in the upcoming years, as China dominated the traffic inflow through that region. Combined with the Chancay Port investment, this can connect the Pacific to the Atlantic Ocean through the Caribbean.

La Brea Port (Trinidad & Tobago) - This port which is being built since 2018, is focused on the distribution of LNG and is being built by the China Harbour Engineering Company.

Santiago de Cuba Port (Cuba) - The China Communications Construction Bank worked on the modernization of terminals at the port. In exchange, they possess prioritarian access.

Ports in Mexico - Through Cheung Kong, China has access to specific piers at Baja California, Morelia and Michoacan.

Panama - In Panama, Cheung Kong controls three different piers and is negotiating the expansion of at least two of them.

All these ports are aimed to be used for commercial purposes. The duality of its use is not implicit in the agreements made with each country, though, given the financing or direct investment from the companies to these particular projects, the usage for military vessels depends on a simple political conversation, if this ever comes to be the case.

China has experience in military operations in the region, since they were part of the UN Peacekeeping in Haiti for 8 years. Also, Chinese elite army groups have engaged in training with elite forces in several Latin American countries, including Brazil and Colombia.

Within the geopolitical arena, we have the obvious stand-offs in the South China Sea. In relation to Latin America, China knows that Latin American nations believe that the U.S. does not tolerate geopolitical competition, particularly in Latin America. The key aspect is the initial, overall view that China portrayed to Latin American leaderships in comparison to what these same leaderships received from the U.S.: China sees the region as a land of opportunities (natural resources, commodities, necessity for loans, under-industrialization) while the U.S. sees the region as a land of problems (migration, narcotraffic, corruption, weak institutionalization).

This is the landing argument when the Chinese government initiates conversations with Latin American leaderships.

Economic

The CCP understands that to assure domestic order and stability, it must deliver economic stability and prosperity. The fuel for the internal domestic stability (economy) is a two-way road in which commodities are the inputs and industrialized goods are the output. In this sense, Latin America offers a fantastic opportunity for long-term engagement because the commodity output of the region to China is continuous, abundant and dependent on financing (decreased considerably over the past years), investment (increased, substituting financing) and dependent.

On the other hand, the low-level of industrialization increased opportunities of importing further goods from China as well as experimental technological equipment that, in normal circumstances, would prove to be too expensive if acquired from American or European manufacturers.

The economic, high-level relationship between the Chinese government and Latin American governments are the most solid and represent the biggest asset in the relationship between them.

The 2008 financial crisis was not as bad in Latin America as it was in other parts of the world. At that time, China had replaced the United States as Brazil's main trading partner. The region remained a major source of problems for the U.S. (illegal immigration, narcotrafficking, leftist/populist governments, corruption, money laundering etc). This limited the U.S.'s impetus in stimulating further investments in the region and facilitating trade deals. Also, the Latin American perspective was that any further relationship with the U.S. would involve solutions aimed at the traditional problems generated in the region, in which local governments had little know-how in controlling or solving problems.

China, on the other hand, did not have to deal with illegal immigration from the region, nor did it have problems regarding narcotics and ideological ambitions to change administrations that were perceived as intrinsically incapable of organizing themselves. At the same time, China demonstrated little to no interest in the traditional problems of corruption or populism or even how these countries would use loans offered by Chinese banks. In this sense, Latin America portrayed itself as the perfect opportunity for China: more developed than Africa, less institutionalized than Europe, plentiful of natural resources and a consumption-oriented society eager to acquire any sort of manufactured goods that could fit their pricing expectations.

If on one hand the commercial relations were functioning in auto-pilot, the financial aspect required a higher level of trust, dialogue, access and negotiations. Although China's experience in Venezuela is perceived by Beijing as a failure, the logic of loans for commodities worked relatively well as long as PDVSA could produce. After PDVSA proved to be an utter failure in its extraction capacities, the demand for capital from the Venezuelan government became a burden to Beijing.

In general terms, the advance of Chinese companies (state owned or quasi-state owned), was a success from 2008 until now. Major projects in infrastructure, mining, energy and logistics thrived in the region, decreasing the participation of traditional american and european companies. Lines of credit were flowing, though always in an amount below what was promised, leading several Latin American countries to look for Beijing ahead of looking for the traditional IMF and World Bank routes.

The specific target of commodities in the region switched from an opportunity for China to becoming a strategic option in a short period. Iron ore, beef and soybeans from Brazil, wheat and beef from Argentina, beef from Uruguay, lithium and copper from Chile and Peru as well as other projects in Ecuador, Central America and the Caribbean, turned Latin America into the go-to supermarket for Chinese economic growth. Consequently, China launched several forums to enhance dialogue and pamper Latin American decision-makers and opinion-makers in every possible way, without worrying about the FCPA and its European equivalent. Transparency was no longer an issue.

This led to major diplomatic victories, such as gaining diplomatic allegiances from Panama and the Dominican Republic, switching support from Taiwan to PR China.

Argentina proved to be an immeasurable source of opportunities for China. From infrastructure projects to the continuous flow of imports and exports, China began considering Argentina as the go-to place for practically anything in which they can't afford elsewhere, which culminated in a space observation base in Patagonia, Argentina. Projects for the construction of nuclear reactors with Chinese technology, as well as negotiations for the acquisitions of FC-1 fighters and armoured vehicles, are constant and demonstrate the value of the cross negotiations established by China in the region: the same route where loans are negotiated, serves as a route for strategic partnerships. It is also natural that indebted countries accept non-related projects as a mechanism to either decrease the amount of debt or to generate an opportunity for further loans.

The United States has alerted several regional governments about the debt trap and the long term risks. However, the U.S. administrations failed to couple the warnings of long term risks with short term solutions that could lead to the substitution of sources of loans and investments. The DFC was created in 2018 as a good idea, though not robust enough to substitute the Chinese banks and their willingness to lend. Also, the requirements still seem to be easier to negotiate with Beijing rather than Washington. The Chinese posture satisfies populist administrations with short-term mentalities and high expenditure profiles. Also, it satisfies the parts of society that consider a fast train in the province of Buenos Aires as an end in and of itself, rather than a symbol of long-term debt.

Center-left politicians in Latin America see the United States as a country that demands unfixable mistakes to be immediately fixed, leading to a cultural misunderstanding. The center-right politicians see China as a necessary evil, in which narratives may sound aggressive, but the reality is different (such as the Brazilian President Jair Bolsonaro's love/hate relationship with China).

Independently of the ideological positioning, the general perception is that the U.S. can only challenge China in the region if the U.S. applies the same mechanisms as China does: high levels of investments, financing and economic involvement dissociated from political entanglement. Naturally, this goes against the entire foreign policy logic of the U.S.

A faster approach, however, has been experimented during the Trump administration in relation to the International Development Bank (IDB). By appointing Mauricio Claver-Carone, Trump attempted to reposition the IDB as a reliable source of funding to Latin American countries in exchange to what China can offer. This places the IDB as an important player for credit offering at the same time in which we also observe an increase in the portfolio of projects in which the DFC is directly involved. However, financing is no longer the main issue.

The continuous flows of financing from Chinese banks into Latin American governments have shown Beijing a different set of problems. The execution capabilities of several of these countries have proven to be below expectations, especially in strategic logistical areas in which China expects to benefit from the final product. In this sense, the strategy has been shifting from financing to direct investment, where China (or the Chinese companies nominally involved in the project), are also owners, outright or in part, of the final product (a port, airport, railway, mine etc). This allowed Beijing to amplify its scrutiny on the execution of the projects in order to assure its proper development.

The arrival of the pandemic opened another front to the Chinese government to increase unrelated negotiations within the original framework of vaccine negotiations with each government. The Chinese vaccine diplomacy (and the Russian efforts as well, to a certain extent), was possible due to the simple aspect that the production, negotiation and distribution of the vaccines was oriented and executed by the governments of these two countries, rather than by the laboratories themselves (such as in the case of Pfizer, AstraZeneca and Johnson and Johnson).

The supply of Sinopharma and Sinovac vaccines (although Sinovac is private, the Active Pharmaceutical Ingredients (API) are not), offered the Chinese the opportunity to unify commercial goals with strategic goals as well. China was able to elevate the level of government to government conversations because of the vaccine supply, generating a new level of trust, dependency and flexibility of many Latin American governments in unrelated matters that were important to Beijing. In Brazil, for example, even though the negotiation for the production of Coronavac (Sinovac) was made between the State Government of São Paulo and the Chinese government, the ultimate decision-making for the production and distribution relied on the Federal Government in Brasilia. The dependency of the API to produce the vaccine, led President Bolsonaro to engage in conversations with Xi Jinping that, invariably, entered the realm of other areas of interest for the Chinese, such as Huawei. While the Brazilian government was demonstrating all signs of banning Huawei from being a supplier at the 5G auction at the end of 2020, the situation changed and now offers signs of allowing the Chinese tech company to participate. This comes at a moment where the dependency on the Chinese API's has reached a boiling point for Brazil to be able to produce and distribute the Coronavac vaccines.

We can observe two static aspects of dependency: commercial and financial, and a temporary one which is the vaccine dependency. The vaccine enhanced the way in which China could ameliorate the conditions of the two static aspects with Brazil and other countries as well.

The U.S. must place itself as a reliable option for at least one of the two static aspects. However, this implies complicated conjectural and domestic issues. Being a self-sufficient superpower, the U.S. is able to produce basically every variation of commodities produced in Latin America. For the U.S. to substitute China as a commercial partner, this would negatively affect American producers. Brazil would not be able to sell its soybeans to the U.S., since the U.S. is the main competitor to Brazil in this field. The same applies to Argentina's wheat and beef, Peru's minerals, Venezuela's oil, Brazil's ethanol and cotton etc. The low industrial diversification in the region is also a factor, since the offer of diversified products is even lower. At the same time, China is enhancing its position of not only being a buyer, but of being the investor in the products it buys, enhancing the production process through logistic and technological investments. Mergers and acquisitions, as well as micro-financing, tend to tie Latin American private companies to Chinese private companies, which are carriers of loans from same province banks, extending the relationship from these companies to China. Major investments in the distribution logistics also tie the local producer to the Chinese market.

Financially, it is also tough for the U.S. to substitute China. Most of the loans from provincial banks to Latin American companies, municipalities etc., are heavily subsidized, making it hard for the U.S. to operate within the same level of competitiveness. The IDB and the DFC are good initiatives, but still far from what can be offered by China.

China also brings an advantage to anxious indebted countries, due to the fact that the separation between public and private sectors in China is a gray zone. This offers China the possibility to alternate approaches towards anxious indebted governments and producers, as well as companies aiming to expand their productions and exports. This leads to an unbalanced relationship in which the country/producer wants a deal with China, whether it is financing, M&A or partnership, more than China does. In addition, this hybrid Chinese model of public and private, allows negotiations and deals to be sealed faster when compared to similar deals with a Western bank, investment fund or government. In Latin America, many companies are convinced either by their own governments or direct contact with Chinese authorities that opting for a deal with China Construction Bank or other similar banks are less bureaucratic and less rigid in terms of compliance rules.

Technological

Lines of credit are not the only instruments for financial and commercial dependencies. Although we have become used to seeing the Peruvian, Argentine and Venezuelan governments requesting more and more loans aimed, not for investment, but for regular payroll obligations, the Chinese approach to infrastructure projects is the main target for Beijing to expand their presence and influence in the country.

Initially, loans were offered for countries to execute key infrastructure projects. Since 2018, this has been shifting to the direction in which Chinese companies, backed by Beijing, become investing partners and not only financiers of these projects.

Infrastructure projects in the region have offered political leverage, commercial dependency (through enhanced logistics), financial dependency (through debt), but also became useful as showcases for Chinese high-end technologies to be presented to local decision-makers.

In Western societies, the interpretation of the term "soft-power" generally relies on non-technical aspects that are essentially cultural and easily attributed to a country. The U.S. exercises its soft-power through pop-culture, Brazil through soccer and Carnival, Argentina through tango and parrilla, etc. The notion that China, because of its distinct culture, cannot offer soft-power to Latin American societies is not correct.

Beijing understands that technology can be its most efficient mechanism of soft-power. The capability to produce high-end technological equipment for entertainment, security, government operations and scientific research at very low prices (due to an intense subsidy from the Chinese government as well as lack of intellectual property rights culture), enables China to offer Latin American governments and companies access to technological products that would not be economically viable if acquired from the U.S. or Europe.

For China, the soft-power approach to technology aims at developing a trusting relationship with Latin American consumers, in which the continuous usage of reliable hardware (Huawei and Xiaomi phones) and software (Tik Tok), neutralizes the U.S. narrative of reliability and data protection. On the other hand, as companies and municipal, state and federal governments opt for Chinese products for security, operational and scientific usage, mainly because of the price-tag aspect, Beijing is able to establish a long-term technological relationship with these countries making it hard for a private-sector approach from U.S. or European companies to gain more access to the local market.

As China focuses on the research and development of Artificial Intelligence and quantum computing, the access to data becomes imperative to enhance capabilities of facial recognition, deep learning and synthetic data generation. Given the fact that its products have back-door access, the expansion of Chinese technological products in Latin America may offer China a continuous flow of valuable data ranging from consumer habits, social media interactions, decision-making patterns, among other things.

In 2020, for example, Brazil was influenced by the U.S. pressure, as well as decisions in the United Kingdom, France, Sweden and Germany, to consider excluding Huawei from the 5G auction - expected to be held in 2021. As the telecom authorities in Brazil evaluated the best way to exclude Huawei, a final decision was not made until December 2020. Aware that their exclusion was a reality, Huawei shifted their strategy from lobbying directly the Brazilian government to focusing on large private agribusiness and mining companies. The goal was to offer Huawei 5G kits to influential private companies, making it harder for the Brazilian government to exclude Huawei if several key players in important producing sectors in Brazil were already using their kits. This enhanced the difficulty of excluding Huawei, since their 5G kits were already being installed in several private enterprises in the country.

As the pandemic grew and the government's lack of organization in acquiring vaccines became evident, the Federal government had to rely on the agreement tailored between the Government of São Paulo and Sinovac. By expanding the production capability of the Coronavac in São Paulo, the Federal Government had to request larger quantities of Active Pharmaceutical Ingredients from China. In a direct conversation with President Xi Jinping, Brazilian President Bolsonaro had to negotiate a larger influx of API's and in exchange, agreed to have a more friendly and tolerant approach towards maintaining Huawei as a supplier for the 5G auction to be held this year.

The confluence of matters - vaccines and tech - worked well and exemplified how China is able to deal with different matters with the same decision-makers in Latin American governments and Beijing.

In Argentina, the intense loans provided from China to Buenos Aires, as well as Argentina's incapability to pay these debts in regular manners, generated a hybrid mechanism of payments that benefitted the technological goals of China in the country. While part of the debt is paid through commodities exported below the market price, another part is converted into special strategic access for projects such as the Space observation facility in Patagonia, which is controlled exclusively by Chinese nationals without access to Argentine authorities. This Space observation center could, in theory, be converted into a SIGINT station, though there is no clear evidence that this is the target usage of the Station. Nevertheless, the duality of function allows China to operate the observation center at will, enhancing its signals capabilities in the region.

In parallel to that, the established relation between China and several Latin American countries opens the door to these countries, where China can offer technological products with large willingness of the host countries to accept offers in order not to damage the established relationship between the provider and the recipient. In the last year, Huawei increased their revenue in Latin America by 21.3%. The expansion of their telecom infrastructure is particularly strong in Brazil, Venezuela and Mexico. Tencent has partnered with Mexican digital payment company Openpay as Huawei also began the integration process of their servers with Brazilian SOE Caixa Economica Federal. Alibaba has also expanded its presence in Mexico. DaHua donated numerous thermal cameras to Argentina, Chile, Panama and Colombia. Donations of equipment have proved to be an efficient mechanism to establish tech dependency in Latin American countries, in which continuous updates and expansion of services guarantees a long period of relationship between the company and the recipient of the products.

It is clear that the United States has had difficulties in competing in this aspect, as the autonomous decision-making of tech producers is the essence of a free, capitalist society. Incentives from the government and specific, facilitated lines of credit for the acquisition of U.S. and European tech equipment could be an alternative to balance this out under the U.S. strategic tech goals in the region.

Commercial

The commercial relationship between China and several Latin American countries is the hardest one for the U.S. to tackle and position itself as a viable alternative. As mentioned earlier, the main difficulty revolves around the self-sufficiency of the U.S. in commodities that are produced in Latin America. Therefore, the U.S. market has difficulties in absorbing Latin American commodities in order to replace what China consumes.

On the other hand, the commercial dependency in which China developed with many countries, particularly Brazil, is the one that offers less leverage to China to engage in bilateral negotiations. With the auto-pilot function between private producers and the Chinese buyers, the operations flow without the continuous involvement of the Federal governments. In this sense, the channel of communication is not necessarily continuously open, making it difficult for China to involve other issues of negotiation through that door.

I don't see the commercial dependency between Latin American countries and China as the main source of preoccupation for the U.S. in the region. It is natural that China will keep acquiring commodities from the region, given the fact that the low diversification of production and low industrialization in the region is an aspect that will not change soon. As the U.S. aims to offshore some of its industrial productions in China to other countries, Latin America may emerge as an alternative in which countries, particularly Brazil, Colombia, Peru, Chile and Mexico would be willing to accommodate U.S. companies based in China, given that special tax incentives are accorded between the U.S. and these countries.

The commercial aspect is the visible part of the Chinese strategy in the region. This strategy can be divided in the following manner:

1. Economic/commercial dependency, through commodity backed lendings which are less risky, generating a stable access to natural resources while opening doors for strategic and specific projects.
2. More market for Chinese companies;
3. Influencing local policies to favor Chinese interests at local, state, national and international levels;
4. Shaping the public view towards China, neutralizing the anti-China narrative produced by the U.S.;

Another important angle of the Chinese commercial strategy towards the region revolves around mining. There is one international issue in the global agenda that unifies China and the United States, as exemplified by John Kerry's visit to China in the past month. The environmental, sustainable agenda is the main point of "positive diplomacy" between the two countries. As China engages with the U.S. in the quest for sustainable sources of renewable energy, Beijing is protected from potential sanctions against the import of rare earth minerals.

The reason is that rare earth minerals have multiple usages varying from semiconductors to quantum computing and Artificial Intelligence hardware to solar panels and eolic turbines. It is complicated for the U.S. to monitor the ultimate usage of the minerals obtained in Chile and Peru (such as lithium), for example. This mineral can be applied to batteries used for renewable energy projects, as well as military purposes. As China observes a wave of sanctions emerging from Washington D.C., while, at the same time, the country is not self-sufficient in specific rare earth minerals, the posture of collaboration from Beijing to Washington in renewable energy fits well, since it creates a protective belt against sanctions.

If there is a potential dual use of commodities imported from Latin America, this falls upon the rare earth minerals obtained in Peru and Chile. Other countries, such as Brazil and Colombia also offer opportunities which the Chinese were not yet able to explore to its full extent. The investments from China in Peru and Chile are growing and will not cease in the foreseeable future.

Military

China's military ambitions in Latin America are not explicit and can hardly be categorized into one clear policy. It is important to note, however, that since every negotiation, investment, sale, acquisition and project are connected to a central decision-making process in Beijing, which invariably involves the military, the core of every action can be traced back to a potential military project if needed.

The Chinese participation at the UN Peacekeeping mission in Haiti, as well as the training with elite Army forces from Brazil and Colombia are only glimpses of involvement of the PLA in Latin America. China's largest military engagement in the region has occurred via commercial deals, as Beijing tries to land military contracts with the Armed Forces of Argentina, Brazil and Peru. In Argentina, the negotiations for armored vehicles and FC-1 fighters often stumble in Argentina's lack of financial capability. Also, Argentina still must cope with the embargoes from the U.K., established since the Falklands War. The recent attempt from the Argentine Air Force to acquire South Korean jets stumbled upon this embargo, though China does not seem bothered and is still attempting to sell the FC-1s. For this sale to go through, however, China must replace the ejectable seat of the aircraft, which is manufactured by a British company (Martin Baker) in order to conclude the negotiations. Early in 2021, the Chinese attempted to offer J-17s to Argentina as well as ZBL 09s armored vehicles, though the pandemic temporarily suspended the negotiations. If this succeeds, it will be the most relevant successful attempt (excluding Venezuela) to offload non-used Chinese military equipment to a major Latin American economy.

Meanwhile, Argentina is negotiating with the Russians for SU-35s, especially now that the relationship between Argentina and Russia evolved positively after the negotiations for the supply of Sputnik V vaccines to Argentina.

Argentina and China, however, are not newcomers in strategic negotiations in the region. The Space Observation Base in Patagonia is possibly the biggest Chinese black box in the continent and generates numerous speculations of its real functions. This is the closest that China got in the Latin American region from establishing a military base.

The military focus of China is still concentrated on the South China Sea and the Indo-Pacific region. Nevertheless, Latin America as well as Africa are not forgotten, since China enjoys privileged access to several governments in both regions. China is still engaging, since 2015, to gain the trust of several military leaderships with the PLA leadership. During that year, military representatives of 11 Latin American countries participated in conferences and conversations in China that continued systematically after that.

It is unlikely that China prioritizes the military angle in Latin America. Beijing understands that any point of conflict with the United States will occur in the Indo-Pacific region. Nevertheless, the economic machinery to sustain such potential conflict must rely on Latin America and Africa to supply China with food, fuel and minerals.

Environment

Although the environmental issue is not an area of dispute or tensions between the US and China (being one of the few areas in which both countries cooperate), China explores well the US environmental narratives in the region, specifically in relation to Brazil, in order to offer an opposing and friendly approach.

The Brazilian government has the perception that the US environmental narrative towards the country is aimed, primarily, at satisfying domestic audiences rather than tackling directly the issue in Brazil and in offering potential cooperation for solutions. Even though the criticisms towards the current narratives and policies of the Brazilian government in relation to the environment are just and accurate, most of them do not accompany recommendations, concrete actions of support and joint collaboration.

On the other hand, the Chinese government, through its diplomats in Brasilia, understood well the gaps within the American narrative, and tried to fill in the blanks with supportive actions that resonated well within Brazilian policy makers. The exit of former Brazilian chancellor, Ernesto Araujo, one of the most vocal anti-China voices within the Bolsonaro administration, opened an opportunity for Beijing to engage in environmental talks with Brasilia aimed at enhancing an ambience of cooperation and goodwill. Currently, China is negotiating with Brazil the acquisition of USD 1 billion in carbon credit, to be destined for the preservation of the Amazon Forest. This occurred immediately after the Brazilian government requested financial support from the US to enhance preservation mechanisms to the forest, which, according to the Brazilian side, were not accepted by Washington.

As mentioned before, China's governmental structure allows crossing themes to be included within the same negotiation framework. This generated a triangular conversational routine with Brazil involving APIs supplies for the production of Coronavac, maintenance of Huawei's presence as a supplier to the 5G network infrastructure and potential acquisition of carbon credit. By mashing up three, theoretically distinctive topics in one, China is able to leverage the necessities of Brazil, APIs and capital for carbon credit with its current necessity, maintenance of Huawei as a supplier.

Conclusion

It is very clear that China has its eye on Latin America as a region for opportunities in multiple areas — mostly as a supplier of the domestic economic machinery, as more and more commodities are required. At the same time, Latin America is a promising recipient of manufactured goods and technological products produced in China, which are often offloaded through donations and as components of larger deals.

China's modus operandi revolves around aggressive market openings, which are more efficient in financially dependent countries rather than commercially dependent countries, like Brazil. Financial dependency allows for tailor-made deals, which involve non-related topics, giving China preferable access to specific markets.

Although China is not looking at Latin America militarily as a potential future war theater, the region is invariably connected to military goals in the Indo-Pacific region because of its influx of dual-use natural resources. Also, given the institutional frailty of some countries in the region, Latin America offers access to potential military bases that can be explicit (as the one China holds in Djibouti) or implicit, as the one China maintains in Argentina.

The six angles in which the U.S.-China tensions are set can be used to further monitor specific actions from the Chinese government in Latin America, without disregarding that these areas intertwine in many ways. Towards Latin America, the commercial, economic and technological angles are the areas in which China thrives with little or no competition from the U.S., mainly because the U.S. sustains the conceptual angle as its main strategic narrative approach to the region. The effectiveness of this narrative is limited, given the pragmatic and non-ideological approach that China employs.

The dependency angles must be observed and categorized continuously by the U.S. in order to better understand and further categorize Beijing's strategic actions. Commercial dependency opens the door for the neutralizing of larger political narratives against the CCP, since the fear of commercial retaliation exists and has been used in the past (increased sanitary inspections, for example). However, Brazil serves as an example that anti-China narratives are not enough to interrupt the export flow, but generates targeted responses from Beijing (such as the delay for the export of API's from China to Brazil). Financial dependency also opens other doors, which include variations for the paying of debts, including payments through commodities and or, opportunities for exploration of specific projects in the country that would otherwise require proper bidding processes. Technological dependency is specific and enables future supplies of equipment, enhancing the local tech infrastructure network, which is difficult and expensive to be dismantled or substituted in the future.

Recommendations

1 The United States must develop a new narrative for the region, wherein the benefit of cooperation and healthy dialogue may enhance the desire of Latin American countries to engage further with the institutions of the U.S. administration. This new narrative should be directed at identifying opportunities for partnerships and joint-approach to regional economic development, without focusing exclusively on the region's historical institutional instability.
2 Create, within or parallel to the DFC, a special credit line destined exclusively for the acquisition of civilian technological equipment to be used by municipal, state and federal governments, with high flexibility of negotiations, aimed at establishing a viable alternative to the technological products offered by China. A pool of companies could be invited to be part of the project, allowing some of their products to be accessible through simplified bureaucratic procedures.
3 Dynamize the business-to-business relationship of U.S. companies with agribusinesses in Brazil, Argentina, Paraguay, Ecuador and Central American countries, so that they can have a specific forum to explore financing possibilities, partnerships, infrastructure alternatives and market diversification.
4 Intensify the current financial relationship between U.S. and Latin American institutions, with special attention to the historical positive relation between the FED and the Brazilian Central Bank. An open channel of communication, through a specific forum, could allow the U.S. to obtain more insights about local economic policies, without publicly exposing the structural flaws of regional countries.
5 Create or elevate a permanent special envoy to Latin America charged with enhancing the strategic importance of the region and establishing a channel for positive policy development

Emphasize historical and institutional relationships with regional partners, understanding the natural tendency in Latin America to personalize relationships (i.e. the perceived relationship is based on the personal relationships between leaders). Identify ways to strengthen personal relationships when possible through shared interests.

Intensify academic and scientific cooperation with regional universities, think tanks, associations, and third party organizations balancing Chinese efforts to shape opinions of thought leaders to conform to Beijing's interest through the involvement of government and quasi-government organizations.

Increase legislative awareness and coordination with regional national parliaments through enhanced monitoring to identify stakeholders friendly to the US point of view, and recurring summits with key parliamentary leaders with a bicameral group from the US Congress (similar to the Congressional Argentine Caucus).

PANEL III QUESTION AND ANSWER

CHAIRMAN BARTHOLOMEW: Thank you very much. That was very interesting testimony.

We'll start alphabetically with Commissioner Borochoff.

COMMISSIONER BOROCHOFF: Thank you very much.

Dr. Watson, you gave what I thought was a tremendous metaphor for what you view is happening there. As a corollary, I have my own metaphor that I was thinking you were describing, which is in baseball when they play small ball. And I think what you're saying, if I can just apply both, is that sometimes it's better to just get dozens of hits, and you will eventually win the game, as opposed to swinging for the fence, and your odds of striking out are much higher.

And so, my question for you is, you've obviously put some thought into this. When you talk about the feelings, what you're really saying is that you want the perception of our intent to be different than what it is today in Central and Latin America, am I correct?

DR. WATSON: Commissioner Borochoff, thank you for the question.

Yes, I am, again, probably different than anyone else who's going to testify before you today, in that I believe the United States ought to be focusing far more heavily on what we have the power to do. And I find it difficult to think of a region of the world as a region where we have done more damage with a number of our public debates, or public rhetoric, over the last several years, than we have with Latin America.

This is the one part of the world, besides Canada, that one can literally get here walking. That is not true of China. That is not true of Europe. It's not true of Africa. Yet, we have a historic propensity, and we've certainly exacerbated it again, to alienate Latin America.

The subsequent speaker listed the number of things that we've done that are money laundering, as well as immigration issues, violence in the Northern Triangle -- the list goes on. That's not helping us.

And while I realize that the focus of this panel is on military activities, what we have the ability to do with Latin America, that we continue surrender, is to argue we care about them as something other than an object in between the U.S. and another country. We did this historically during the Cold War.

This is a region that wants to be valued. Part of the reason why we have seen so much discussion over the last couple of months about the vaccine issue is this is a part of the world that's having a very hard time getting those vaccines from the major players. They need to feel that we recognize they have human, as well as geopolitical, needs as well, and we haven't been very effective at conveying that message, much less trying to replicate what I've described as China using all the sand to fill the jar.

Thank you.

COMMISSIONER BOROCHOFF: So, I just want to tell you that that's one of the most refreshing things I've heard in some time. Without going into it, I've had as employees in my business literally thousands of people from that area of the world who want nothing more than to be able to join the team.

And so, I'm going to yield the rest of my time and just say I appreciate those comments.

CHAIRMAN BARTHOLOMEW: Thanks very much.

Vice Chairman Cleveland.

VICE CHAIRMAN CLEVELAND: Dr. Aragao, I'm interested in your characterization of the experiment and repositioning the IDB as a reliable lender in the region, and offering credit to compete with China; and also, your characterization -- I recognize this is a security panel, but this piece interested me in your testimony -- that the strategy has been shifting from finance to direct investment.

And I'm curious, when we had a hearing last year on Africa, we looked at how companies started with extraction, and then, moved to building the roads and ports to be able to ship to China, and then, building processing facilities adjacent to the mines, and then, direct investment, so that they could sell in the region.

And I'm wondering if you, or anybody else, has sort of mapped a similar strategy of how they start and build out, and then, in the process of building out, start to include security training and political education to kind of deepen their position.

But I'm curious about how you characterized the IDB, as I said, and then, what you see as the steps in this strategy to intensify or deepen their position in Latin America -- "they" being the Chinese, obviously.

MR. ARAGAO: Well, perfect.

Argentina, for example, since 1959, has defaulted with the IMF several times. Until 2008, most of the countries in Latin America, they had no other option to look for credit other than the IMF, the World Bank, the IDB. But there was a structural problem in that, that didn't match the cultural, political format of Latin American politics. The demands, they were often structural, demanding administrations to cut civil servants, stop hiring civil servants, generate fiscal balance, generate monetary balance, monetary equilibrium. And this was death to several politicians at the region, to the expense of solving the economic situations at that moment through the loans.

When China emerged in 2008 as a major lender to the region, especially after the financial crisis, the expectations never entered the structural organizations of the local governments. "I don't want you to change. I don't care if you change. I don't care how you're going to execute the loans that I'm giving to you. What I'm concerned is the guarantees that you can give back to me of how these loans will eventually be paid, whether they are through capital, whether they are through participation, through commodities, or through anything else."

So, China emerged as the flexible, fast option for several countries to be able to obtain loans. Initially, China's financing in the region, they were aimed specifically at infrastructure projects. However, China had very little control and very high frustration of the execution procedures in those countries of those projects that they financed. Given -- it could have been for quality of these services provided, or the speed, or corruption, et cetera. And this led them to make the shift into being partners or buying certain projects, assets, investing a lot in M&A, because this can put them in the forefront of the evaluation of several of these projects, which is different than financing.

So, the amount of loans have decreased, but loans from government to government, which basically, in Venezuela, in Argentina, and in a few other countries are used even to pay the daily payroll, this is something that occurs in a way that is different than the regular, traditional financing of projects. And this is what gives China a major advantage.

Because different than the United States, that you have the private sector independently and autonomous negotiating, and several other areas of the U.S. Government coordinating individually their relationship with Latin American countries, in China you have one big channel that within the same conversation you can change topics and intertwine them at the end of the conversation, allowing them to have cross-issues and cross-things within the same negotiation.

For example, the necessity for Brazil to have active pharmaceutical ingredients is intertwined with Brazil's decision to maintain or not Huawei as a supplier for the 5G tender, because this is -- they both fall within the spectrum of good relations.

So, why am I going to open an exception and send you APIs if you're not helping me in the other point, in the other end? This is hard to happen here because the U.S. would never involve a negotiation with AstraZeneca and at the same time with AT&T or Verizon, mixed within the same framework of conversation. And this fits well the Latin American countries, mostly those with centralized government, low institutionality, allowing this sort of cross-section negotiations and conversations to be more efficient.

CHAIRMAN BARTHOLOMEW: Commissioner Fiedler.

COMMISSIONER FIEDLER: Can we talk about Panama Canal? What are the Chinese interests in the Panama Canal?

MR. ARAGAO: Well, the Panama Canal is -- let's look at the Caribbean in a very similar way as China is looking to the small islands in the Pacific. They form a continuous bridge of channels of navigation that can be -- that is primarily used for commerce, but eventually could be using for military as well, in which the relationship that is developed with specific islands and specific ports allow you to create a stretch, roads, naval roads, for you to be able to have freedom of navigation.

And they have learned well the difficulties of navigation related to the South China Sea because of the difficulty of the Malacca Strait, which led them to anticipate the entrance of commodities to Asia through the Port of Gwadar in Pakistan.

Panama is the opportunity to control an area of transition from the Atlantic to the Pacific. "Control" might be a strong word, but to heavily influence or have exclusivity in which they are able to --

COMMISSIONER FIEDLER: Well, I mean, in light of the Suez Canal accident disruption that stopped the canal for -- I forget how long, a week or so --

MR. ARAGAO: Yes.

COMMISSIONER FIEDLER: -- it's a disruptive power that I'm concerned about in the Panama Canal.

MR. ARAGAO: It is. It is, for the U.S. interest in the region, it is absolutely, given the time that the U.S. relationship with Panama has existed, and the fact that, in 2017, you had the change of position of Panama in relation to China.

This offers priority, not necessarily exclusivity.

COMMISSIONER FIEDLER: Yeah.

MR. ARAGAO: But priority enhances your logistical capability. It justifies logistical increments and investments in the regions nearby that can use that outflow to export, for example, several Brazilian mines in the northeastern region or the north region.

COMMISSIONER FIEDLER: Do we have evidence of Chinese getting priority in the canal over somebody else?

MR. ARAGAO: We don't have evidence, but we have major investments, Chinese investments, in specific terminals, while in other areas of the world, and in the La Brea Port in Trinidad/Tobago and Santiago de Cuba, there were some exclusivity agreements being negotiated. The modus operandi could involve exclusivity. I cannot answer you if the investments in the terminals are connected to exclusivity as well.

COMMISSIONER FIEDLER: Okay. Does anyone have an idea of -- I don't, and I didn't read it yet -- are Chinese submarines visiting any ports in Latin America?

MR. ARAGAO: I have not – I cannot answer that question. I have no information on that.

COMMISSIONER FIEDLER: Dr. Watson, do you know?

DR. WATSON: I do not know in public information whether that's true.

But I would like to add one thing, Commissioner Fiedler, to your question about the Panama Canal. And that is to remind all of us that the Panama Canal is increasingly vulnerable, simply because of its size, to becoming a far less important part of global commerce. And as China continues to be involved with that, and especially as we see any concerns about a modernizing People's Liberation Army-Navy, which will have more modern and larger ships, it is extraordinarily unlikely that the Panama Canal is going to be as relevant as we've talked about or as your question indicated you were concerned.

COMMISSIONER FIEDLER: I was less concerned --

DR. WATSON: Panama is becoming less and less relevant because it's over 100 years old now, and the amount of resources that it would take to vastly expand that canal are pretty substantial, even for the Chinese.

COMMISSIONER FIEDLER: My reference was not to military ships going through the canal, but to commercial ships going through the canal.

DR. WATSON: Well, sir, even the number of commercial ships are challenged by that canal, supertankers, for example.

COMMISSIONER FIEDLER: Well, there's still a lot of traffic going into the Port of Savannah, Georgia, in imports from China and the East Coast, and it's not coming through the Strait of Magellan. It's too far away.

We haven't talked enough about military relationships. Who has the strongest military relationship with China in Latin America?

MR. ARAGAO: Well, definitely Venezuela does --

DR. WATSON: Venezuela.

COMMISSIONER FIEDLER: Yeah.

MR. ARAGAO: -- although the high-rank officers in Venezuela, they are more historically linked to Russian decisionmakers, while China has more of a role of financing in Venezuela, but the relationship exists.

The elite forces from China have done exercises with elite forces in Venezuela, in Colombia, and Brazil in the past. The relationship between high-command officers is something that they have developed forums exclusively for that, for receiving commanders, since 2015 from Latin American countries to China in order to talk.

In terms of profound cooperation, there is a huge problem, which is the lack of military technological capability in several Latin American armed forces. So, I think that before we have a strong cooperation in terms of exercises, the step before that, which we can still and already see some glimpses and signs of it, is potential route for financing the acquisition of military products from China.

COMMISSIONER FIEDLER: Thank you very much.

CHAIRMAN BARTHOLOMEW: Commissioner Glas?

COMMISSIONER GLAS: Many thanks to you both.

I'm going to direct this question to both of you. In your testimony, you outlined, in our discussion earlier, you outlined various disruptive events. I think, Dr. Watson, you mentioned Colombia and the recent news associated with some of the events on the ground there. We've talked about COVID-19. We have the Northern Triangle issues that continue to hit the national media. And how do these disruptive events, whether they're geopolitical or otherwise, impact Chinese loans, financing, and investment? Do we see more investment around these particular times or less?

And then, also, getting to Commissioner Cleveland's question about the IDB, what would your recommendations be to help foster positive investment in the region with ESG high-road standards associated, but still has flexibility that I think Latin American countries are seeking?

Thank you.

MR. ARAGAO: Professor, do you want to go first?

DR. WATSON: Yes. I think that your last question, Commissioner, goes to the heart of the issue. And that is that we almost always condition our anticipated relationships on trying to achieve a secondary goal. And Latin America is desperate in many cases for financing and will tolerate -- it doesn't feel that it's in a position to challenge whatever lender wants to make them loans. And therein lies part of the challenge.

It is that we always anticipate being able to get something else out of whatever an agreement portrays, and China doesn't put them in that position, with the notable two exceptions of pressuring states not to have diplomatic relations with Taiwan and, secondarily, not to challenge or not to criticize Beijing.

But I think part of the problem, to your earlier question, is that we tend to think about actions in the region or actions that we take as triggering a Chinese action, when I think what we're seeing, instead, is a sustained interest by China in this region across the region. And that is different than it being triggered by a particular opening.

The opening they're responding to is a longstanding belief on the part of Latin American states that we're not interested in treating them as a sovereign, or perhaps sovereign, but treating them as an equal part of the world to be dealt with as partnerships, not partnerships in a military sense necessarily, but treated as a state to be respected in the international system.

MR. ARAGAO: Well, I'll complement you on that. First, I see that the IDB can have a very important role, not only lending, but also acting as a bridge of comprehension and integration between Latin America and the U.S. Government. There's a lot of smart people here in Washington that understand the details, the cultural differences, the badly spoken phrase or the smart phrase in small negotiations. And this is something that the IDB can play a valuable role.

Also, expanding not only their portfolio, but also making sure that they can adequate and tailor-made some of the specifications of requirements in specific countries, given the reality of those countries, is something that the IDB can do with much more flexibility than the IMF or the World Bank, for example, because the IDB has the knowledge.

Furthermore, the equilibrium inside the IDB of the countries, and the representatives of the countries, they act, actually, as ambassadors to their own countries. And when you look at the representatives from El Salvador, from Nicaragua, from Ecuador, they are as close as they can be from their governments, from their presidents, from their ministers. They know what's going on and they are individuals that can be excellent, excellent bridges of approximation between the bank, which, by the way, if the bank satisfies the financing capabilities in the region, naturally, this satisfies U.S. interests, as you would have less option of Chinese investments.

In regards to how certain events affect, I think that the vaccine diplomacy is a very, very -- was a very smart move from China. But China had an advantage with Russia that the U.S. didn't have, that the vaccines were made from the –- were publicly sponsored. This allowed the governments to negotiate the inflow of the vaccines, while it was very hard for the U.S. or the UK to negotiate on behalf of their producers.

This, the capability to produce and to deliver the vaccines, creates a long-term dependency because you have to buy from the same supplier the active pharmaceutical ingredients. So, this is something that it was done very well.

And the United States now have the capability to equalize that. And as I was hearing earlier from Commissioner Talent of why the United States does not broadcast this in a better and more continuous way, I asked the same question. So, you have right now an incredible amount -- I would say about 240 million AstraZeneca potential doses that you have the ingredients.

There are only two places in the world right now that can actually produce the AstraZeneca vaccines outside of Europe and the U.S., which is Sao Paolo in Brazil and the Serum Institute in India. This would be a remarkable act of diplomacy right now for the production to be able to occur in those places. Of course, India, given its population, the division could be different. But this could create an equilibrium, and not only a goodwill towards Latin American countries in terms of the crisis that is going on there, that could have a major impact.

As I was saying here before this session began, politics in Latin America and elsewhere is 100 percent resources and 300 percent demands. You compensate the other 200 percent with the actions, the stories, the approximations, the charisma, and the diplomacy. And this has to be done continuously because, in international relations, countries forgive faster than in domestic politics.

CHAIRMAN BARTHOLOMEW: Interesting.

Commissioner Goodwin.

COMMISSIONER GOODWIN: Thank you, Madam Chair.

And thank you for your testimony today.

I want to talk a little bit about filling the jar, and, also, doing it in a manner that meets Latin American countries and governments where they are. And I think first and foremost would be the recognition that we can't expect these countries to turn away from Chinese investment dollars right now.

And Dr. Ray, in her testimony on our earlier panel, said, instead of trying to encourage Latin American countries to turn away from China and their economic engagement, we need to invite China in and encourage them to participate in regional collaborations. Bring them into the process, have them participate, and be integrated into some of these regional collaborative initiatives.

My question is, for this panel on security risks and security engagement by China in Latin America and the Caribbean, what are the security risks posed by such regional collaborations?

DR. WATSON: I think that the security risks are far smaller if we can not appear to be viewing the region in terms of, as I said earlier, a third party, much like a beach ball being batted by the U.S. and China across a net at each other. But if Latin American states were to believe, No. 1, that they were respected for whom they are, if we didn't have some of the rhetoric that I've alluded to before about the bad things that come from Latin America, rather than appreciating a number of important things that come to the United States, and that we benefit from in the bilateral relationship with the region and with the individual states, that would go a long way to reopening a view to Latin Americans who feel that they may have had to turn to China because the United States is simply not as interested, nor as willing to tolerate them on their own terms.

And that sounds a bit Pollyannaish, but I really think that that is much more important than we recognize and undermines the security concerns that we're talking about. Latin America will turn to the states, will build stronger ties, stronger military ties, with the states that it believes respects them and wants to be involved with them. And all too often, we don't appear to be those states, I'm sorry to say.

MR. ARAGAO: Well, the security risks and implications, they're in every, every relationship. For example -- and I'm going to bring something very recent here -- the only point of convergence right now, one of the only major points of convergence right now, between the U.S. and China is in regards to environmental policies and renewable energies. There is an element of security there as well, but the calculation of how big this is in exchange for the results of this convergence is something that is calculated every day. What are the security risks?

The same rare earth minerals that you need to make an eolic turbine or to make a solar panel you use for quantum computing; you use for military equipment. The same. What was -- where was the brilliance there of this convergence, at least on the Chinese side?

The brilliance is there if they look at the slow, continuous train of sanctions reaching their direction; they know that there is one area that cannot be sanctioned, or else you kill the good and the bad. You kill the renewables capabilities, the cooperation for the environment. You kill a narrative. Because how can the world trust a country that is impeding me to produce renewable energy components? But, at the same time, since we're talking about dual usage, I think that this is the biggest example of dual usage. That this is where the element of trust has to come in.

In Latin America, any sort of cooperation has the biggest security risk, which is something very hard to identify when you lose, which is information. But how can you -- and I'm totally in favor of what Professor Watson said. This is the fastest route for the U.S. to regain influence and equilibrium in the region by combining with China in several projects. But, at the same time, the United States have to solve the puzzle of security concerns in regards to information, and at the same time, establishing trustworthy relationships that sustains this relationship with them on this particular issue, this particular goal.

So, these are difficulties and issues that must be analyzed. Because the tempo, the long-term evaluation is much larger in China than in the U.S. The cycles are much longer. And the cycles being much longer, it's affordable to lose now, lose tomorrow, lose next Tuesday for you to win three months, three years, three decades from now. The calculations are different. So, the security risks, they are not the same in the eyes of each other.

COMMISSIONER GOODWIN: Thank you.

CHAIRMAN BARTHOLOMEW: All right. Commissioner Kamphausen?

COMMISSIONER KAMPHAUSEN: Well, this panel is entitled, "China's Military and Security Activities in Latin American and the Caribbean." And as a Commissioner member who focuses on this particular topic more generally, I guess I would offer two conclusions for our panelists to respond to.

First, it's not very significant. Chinese military activity in the broader Latin American and Caribbean region is so insignificant as to result in the panelists citing individual cases of arms sales or exercises, or numbers of officers who traveled to Beijing over the course of a six-or-seven-year timeframe.

So, my first conclusion is it doesn't really matter. Now I'm trying to be a little bit provocative, especially for my dear friend, Professor Watson, so that she'll say something that will, hopefully, inform our chapter on this topic. But that's the first point: it's not very significant.

Secondly, Mr. Aragao, in your testimony, you even sort of concede this. You say, "It is unlikely that China prioritizes the military angle in Latin America. Beijing understands that any point of conflict with the United States will occur in the Indo-Pacific Region."

Professor Watson has said, though, that the we are -- United States is missing opportunities -- I'm paraphrasing -- because of our own inept policies.

I guess the point is -- and it's sort of a corollary to the first point -- but this would appear to be an open opportunity for China's security interests, and the PLA more specifically, to have a much broader set of inroads within Latin America and the Caribbean. And it's not happening.

So, what do we conclude from that? If the opportunity is there, why aren't they taking advantage of this?

DR. WATSON: Commissioner Kamphausen, thank you for the question.

I would start by saying that the Chinese are acutely aware of how wide the Pacific is, and Latin America is never going to be their first priority in terms of security, traditional security, or military issues. And they're very aware of how close Latin America is to the United States. They're also aware of something that has not come up, but that we often talk about, which is something called the Monroe Doctrine, which may be in abeyance, may not.

But I think that your broader question about why is China not taking advantage of this opportunity is -- I don't think that's accurate. I think what I am saying is China is taking advantage of many instruments. It's just not that the military instrument, which is the one that we spend most of our time talking about in the United States, and frankly, in the bilateral relationship between the United States and China, the military is not the one that they are going to use in Latin America.

What they are doing is exactly the same thing they're doing in the rest of the world, which, as your other speakers have noted, is focus on economic, commercial, resource instruments, and they are being very successful with those instruments.

So, I think it's a matter of the United States having a different preference for looking at the military instrument, in using that instrument, and China has decided that that is not, at least in the current configuration, worth their while.

Does that mean that they ignore it? No. Are they continuing to offer smaller military ties? Yes. And that goes along with my idea that the Chinese are using lots of grains of sand to fill the jar.

I don't think it's that they are ignoring this region, but they are mindful of what the region represents to the United States. You, in particular, have heard me say that for a number of years. And I don't see any indication that they are less interested, but they remain far more willing to use the economic or commercial or resource tools, along with information, in order to try to foment or to build stronger ties with the region long term.

Thank you.

MR. ARAGAO: Well, Commissioner, I believe a couple of years ago the United States (audio interference) Chinese companies that were believed to be partially or strongly linked with the PLA. If you look at the list of companies that invest in Latin America, you will find Huawei; you will find Hikvision; you'll find Panda Electronics, China Railway Construction Corporation, China Telecom -- most, if not all, of those list.

So, it depends on the angle that we see whether the PLA is there or not. And it depends on the interpretation and the information that is not -– that I don't have access but you guys do in how connected these companies are to the PLA.

At the same time, for every military capability that is preparing themselves for something that could occur, even if in a very slim chance, and they know exactly where this could occur, and at the same time, China knows that they are no match for the U.S. Army globally, but they are a match if they can combine the region and squeeze the region as small as possible.

I see that it doesn't make, at least strategically for them, it doesn't make much sense to (audio interference) uniform-style military PLA activities in Latin America. What makes sense -- and is one of the points that I tried to bring in the testimony -- is that, if you are preparing yourself in a timeframe that for us here in the West is so hard to understand because we think in a different time span, is that you need ingredients. You need steel. You need lithium. You need food. You need oil. You need gas.

The route is established, because the way that we discuss those issues, we categorize into small boxes that they have no apparent connection to other boxes. It's just a commercial issue. It's a trade issue. It's company – it’s just commercial dispute.

One of the advantages that China has in their international policy and global policy is how they can fastly combine those small boxes into larger boxes and larger boxes, like a matryoshka doll, while we watch them individually.

So, the way that I see is that perhaps the zoom should be a little bit different. We should zoom at the companies. We should zoom -- for example, the way that Germany treated Huawei was the example that was settled for Brazil in the end of last year, which was, basically, claiming that, since the company is not listed and the company doesn't have an independent board, as a German company does, you cannot compete. Become a German company and you can do.

So, I think that perhaps Latin America will always be a supplier and not necessarily a theater in military angles.

CHAIRMAN BARTHOLOMEW: Very interesting.

Commissioner Scissors?

COMMISSIONER SCISSORS: I will yield my time. Thanks.

CHAIRMAN BARTHOLOMEW: Commissioner Talent?

COMMISSIONER TALENT: Thank you.

There's several questions I could ask, but I think I'm going to focus and ask you something, Mr. Aragao, because I thought your testimony was very good, and your recommendations are getting at the heart of what a lot of people have talked about today in other panels as well. So, let me sum it up for you, and you tell me whether I've, basically, got the right handle on this.

So, the underlying problem here, it seems to me you're saying, and others, is that, when the United States provides developmental aid -- and it does -- either directly or through various lending institutions, there's a tendency, whether we realize it or not, to sort of push upon Latin and South American countries our view of what it is they ought to want in terms of their priorities and our view of which problems they ought to be trying to solve, instead of understanding what it is they need, which is both in terms of economic development, but also the domestic political equities they have to deal with.

Whereas, the Chinese come in -- and even though they're probably rather suspicious of the Chinese, because who isn't around the world? -- the Chinese, basically, sit down and say, "What is it you want? How can we get it to you? And what can we get for it?"

Is that, you think, an accurate, if perhaps oversimplistic summary of what our basic problem is in terms of these development issues?

MR. ARAGAO: I think you are spot-on. The playbook in which the U.S. aims at expanding its influence, its good influence, values, to several countries is the same from the past 40-50 years. And part of the essence of this playbook is based on a dispute, with ideology being the No. 1 aspect of it.

COMMISSIONER TALENT: Uh-hum.

MR. ARAGAO: And I don't see ideology as the major aspect right now. In 1992, the Chinese created a committee to evaluate the reasons for the end of the Soviet Union, and they came to the opposite conclusion as the U.S.: economic prosperity will maintain us here forever.

So, the approach from the U.S., the U.S. has to decide how they want to approach it. Teachers are never the good business partners of anyone because they will try to teach you how to run the business instead of being a business partner all the time.

So, the United States will always have the desire and the strong ambition to see institutionality and democratic transparence in those countries in a way that the U.S. believes it should be. The metric is very different from country to country because the essence of the Latin American political environment is personalized on a figure of individuals with very low comprehension from the society of the functioning of the government, with very high expectations of the society, of the power of decisionmaking from an individual. China does not enter into those realms of arguments.

COMMISSIONER TALENT: Uh-hum.

MR. ARAGAO: China simply is a waiter that arrives, gets your request, and they evaluate whether they're going to give it or not, and then, they bring the prize at the spot. There's no menu there.

While the United States expects structural changes that kills the capability of those political groups that are negotiating the potential loans of support of sustaining themselves. So, politically, for them, it is like piling mines to reach the upper cabinet. It doesn't work.

So, I think one of the recommendations that I brought, for example, is, as I noted, one of the major concerns of the U.S. is regarding technological expansion.

COMMISSIONER TALENT: This is your recommendation, two. I noticed that, too, yes.

MR. ARAGAO: Yes. For example, the DFC, under or in parallel to DFC, they could be in partnership with several suppliers of tech products from the U.S., from Europe. They can create special and specific credit lines for the countries to be able to acquire those products.

Assembly lines, the U.S. is talking about offshoring several of the companies that are in China. Of course, sometimes you have to do one step back before doing two forward, but Latin America is there.

And if the countries are not welcoming fiscal environments, there are examples of fiscal zones in several countries, like Manaus in Brazil, that can actually produce within the standards that is expected of cost.

Those types of things, they can be complementary issues to balance the Chinese actions and postures there.

COMMISSIONER TALENT: I see I'm out of time, but I'm going to give you a question for the record, going and asking you for some more specifics about what those kind of programs might look like from the angle of -— from the American angle.

But thank you very much.

MR. ARAGAO: Thank you.

CHAIRMAN BARTHOLOMEW: Commissioner Wessel.

COMMISSIONER WESSEL: Thank you.

And, Senator Talent, I agree with your line of questioning and the desire to fulfill this, because I'm left feeling somewhat hopeless today, I hate to say, by the testimony of the two of you that American values, American objectives, put us at a competitive disadvantage with China, essentially.

And having worked much of my life on labor rights, and many of the other issues, I question whether we can compete against China, which simply wants to sustain its power and achieve goals with Taiwan, et cetera, and there is not a values agenda that extends beyond that.

And if Latin America, and elsewhere, views our values as costs, as impediments, as limitations, again, that makes me feel rather hopeless. So, like Jim, I'd like to find ideas from each of you on tools that can put the values agenda more, make it a more powerful tool. If you have any --

DR. WATSON: Commissioner --

COMMISSIONER WESSEL: Please.

DR. WATSON: -- this is Cynthia Watson.

I apologize, if that's the impression I left you with, then I have failed supremely this afternoon. I am not saying that I do not believe we can compete with China on values. That isn't what I said at all.

What I said was that I believe that our messaging and our continued hammering that -- and I have to confess that I liked what my colleague said more in a number of his later responses as complementary to what I thought I was saying, which is that Latin America would like to be treated as a partner. That isn't the same as saying Latin America will accept our values.

So, if I am misunderstanding what we want our objective to be, as a result of our policies, then that is one thing, but I am not arguing that this is impossible. I am saying that the current approach, which is an extraordinarily singular focus exclusively on U.S. values, as if there are no others, is problematic.

So, I'm sorry if I gave you the impression that this was hopeless. That wasn't my intent. As a matter of fact, I think that the United States has the upper hand here. But I think we have been extraordinarily ham-handed in any interest in saying to this region for a very long time that we want to be partners with them, and we have left the field open to the Chinese.

COMMISSIONER WESSEL: I still feel somewhat hopeless, sorry to say, only in --

DR. WATSON: Well, it may be because we only expect Latin America, or potentially other parts of the world, to look like us, but that doesn't mean that they automatically look like China if they don't look like us. And I think that's a very important distinction.

COMMISSIONER WESSEL: I'm not suggesting they look like us in the broadest sense, but, rather, again, in Colombia, since I worked on the murders of trade unionists there, et cetera, that we seek partners where there's progress towards certain goals; and that we not start, as I think you're saying, with identifying all the problems, but identify the opportunities, and then, certain goals we have to share.

But I also see a China out there that is willing to, again, bid away, auction away, much that undermines many of the things that we hold dear, and its power that has advanced since its accession to the WTO, and accelerated in past years, undermines those, our ability to achieve common goals, I think, even more.

This is probably part of a much longer discussion, which, hopefully, we will have, since I see my time is expired.

MR. ARAGAO: Just to complement --

COMMISSIONER WESSEL: Oh, yes.

MR. ARAGAO: -- one of the -- the point that I want to raise is that values, they should not be a condition. They should be a desire. Latin Americans, they learn U.S. values through the movies, through Hollywood. And those values in many ways, they are aspirations, not for decisionmakers, but for, sometimes for young individuals who actually want to come here. But they are not triggers for policymaking or structural changes.

When you look at – when you Google the list of universities in the Middle East, you see a bunch of U.S. university campuses there. How many do you see in Latin America?

When was the last time that Latin America had a permanent special envoy for the region, not to go there and talk about illegal immigration or narcotics, but to go there and say, "Hey, I'm here. What we can do?", especially in a society that is personalistic. They like to see embodied power in a person, because this is the sentiment that I'm talking to the boss or I'm talking to someone who decides. So, these are small gestures and small actions that can go a long way.

There are negotiations from Tsinghua University to open partnerships and campuses in Latin American cities. And it's astonishing that this could happen before Georgetown or before Johns Hopkins or before NYU. It's astonishing.

So, these are the sort of details that perhaps might seem too simplistic for such a strong and detailed and studious Commission such as this, but, as Professor Watson said, this is the grain of sand that makes a difference. And this is the grain of sand to you guys that actually are huge rocks in the jar back in Latin America. So, it's a win-win situation.

COMMISSIONER WESSEL: Thank you.

CHAIRMAN BARTHOLOMEW: Thank you.

Commissioner Wong?

COMMISSIONER WONG: Thank you to both of our panelists. But, in particular, thank you, Mr. Aragao, on your testimony regarding the military presence in China, and perhaps what their intents may be there.

I've taken a look at this and have been thinking about it, and it's very hard for me to understand. And I think this is an open question of exactly what their short-, medium-, and long-term intentions are with the military cooperation that they do have or military presence that they do have.

But I take your point on the dual-use nature of some of these activities, perhaps the deepening of the ports and other items that you listed, and other panelists have listed.

What I see here is perhaps that it's not a fully formed strategy. Perhaps they are building, as they have elsewhere in the world, perhaps a latent or a potentiality of military options down the line; that they don't know how they're going to want to execute it, but they may need it, depending on the contingency. It's not big right now, and I'm not seeing big red flashing lights, as I am in other regions of the world as far as Chinese presence. But when I do see them making deals to deepen ports combined with their plans to build out a larger blue water navy and carrier strike groups, I do see the potential for power projection into the Western Hemisphere.

What that is for, I would gather it's more for a defensive purpose, to secure their commodity flow, as you're saying, rather than any kind of offensive power projection desire, although who knows what's going to happen in the next 20-30 years, particularly as those carrier strike groups and other naval assets that they're building won't really come online for 15 or 20 years?

I just say that because I just wanted to -- I'm talking through it as I'm thinking about it. But I appreciate your testimony. It was very clarifying and to help me in thinking about that.

But, along that line, a more specific question, both to Dr. Watson and to you, are you aware, or have you drawn from or can point to, any Chinese language discussion of the military and security interests of China in Latin America, whether by Chinese scholars or other Mandarin or Chinese language source material for this?

MR. ARAGAO: Professor, if you want to go first?

DR. WATSON: I would refer you more to the work of Matt Ferchen, who is at Carnegie-Tsinghua, for work on that.

I don't read Chinese. So, I am not the appropriate person to answer that question.

COMMISSIONER WONG: Much appreciate it.

MR. ARAGAO: Yes, I don't recall any particular text. But I think that there are some alternatives for certain inflow of commodities that are being analyzed by China. They had a Party Committee meeting at the end of October in which several of these specific points were detailed, such, for example, potentially expanding the capability of Tanzania of growing some grains, which makes logistical sense, especially if you combine that with the full functionality of the Gwadar Port in Pakistan. You have just a small route in there, and you, at the same time, enhance the importance of the Indo-Pacific.

The logistics difficulties in Latin America, from getting production from the center of the continent and to the ports, is still the major challenge. The ports itself, they are advancing fast because the investments are easier to be made. But expanding railways from central parts of the countries until the ports is something that takes a while and, in theory, could be easily disrupted in the future.

So, there are alternatives, because, for particular products such as soybeans, there is a notion that they are overdependent on Brazil, especially given that the flow of soybeans from the U.S. would have an increased volatility as the situation between the two countries advanced.

COMMISSIONER WONG: Thank you to you both.

CHAIRMAN BARTHOLOMEW: Thanks very much.

Interesting. I think what you said about the companies, the PLA-linked companies, raises real questions in my mind about -- I mean, what are they doing, again, in terms of seeding a capability -- S-E-E-D-I-N-G, not C-E-D-I-N-G -- a capability?

But I want to address specifically the question about China becoming overdependent on Latin American resources, soybeans, for example. Why don't the countries, when they're negotiating, see that they have some sort of leverage that they could be using, that they don't necessarily need to comply with -- I mean, it's sort of about playing hard ball, isn't it? Right? I mean, if they're being told, "You need to do X in order to get Y," you need to take Huawei in order to get vaccines, why are they not saying, "Well, guess what? You know, you don't get soybeans unless you give us vaccines."?

MR. ARAGAO: But the major problem there is that the producers, they are autonomous, and that makes the whole difference. You don't have the U.S. -- you don't have the Brazilian government having the autonomy to dictate whether one will accept or not, only the regulatory and the taxes for the arrival and exit. So, it makes it harder, especially because the associations are diversified by states, by specific grains as well. And the level of quality of the grains, it varies a lot as well. And they lack a uniform view to be able to negotiate with a country, for example, like China.

CHAIRMAN BARTHOLOMEW: Okay. Thanks. That makes a lot of sense.

You mentioned --

DR. WATSON: Could I add --

CHAIRMAN BARTHOLOMEW: Yes. Dr. Watson.

DR. WATSON: Could I add, also, that they have a long historic experience with commodity prices dropping? And I think that that long historic experience keeps fresh in their minds. And so, the idea that China is interested in their products, whether they're foodstuffs or whether they're other resources, is more along the lines of a bird in the hand. And I think that it's easy for us to forget how volatile the international system has been for Latin America over the years.

CHAIRMAN BARTHOLOMEW: Thank you.

Mr. Aragao, you said, in 2015, were the first high-level military exchanges taking place with China?

MR. ARAGAO: Yes. I cannot guarantee that there weren't high-level conversations and interactions before that, but that year is symbolic because you had 11 members from armies from 11 Latin American countries participating in forums and conferences, which is very regular and very normal to occur in China. We see it all the time with African leaderships as well. So, this is -- 2015 marks perhaps the year that the press became more aware of that.

CHAIRMAN BARTHOLOMEW: All right. I was going to ask if there are military people in Latin America who are going to trainings in China or being trained by China. One of the interesting things we heard when we had our Africa hearing last year was that the Chinese are providing more opportunities to do military training and sort of military-to-military exchanges, or academic, right, military schools with African soldiers, but, actually, they preferred to have American training. And I'm just curious if there's some sort of similar dynamic.

MR. ARAGAO: Yes, the brand --

DR. WATSON: Could I comment?

MR. ARAGAO: Oh, yes. No, please go ahead, Professor.

DR. WATSON: I'd just like to comment on our experience in professional military education. And it goes to the law of unintended consequences. At the National Defense University, for example, the U.S. National Defense University, we are increasing, as per a decision by the Secretary of Defense, we are increasing our number of international officers coming to the United States. But we almost never see an increase in number of officers from Latin America.

As a result, as they are looking for places -- because they simply don't come out as high in the priority list, and that priority list is determined by the Combatant Command under the supervision of the Chairman of the Joint Chiefs of Staff. But that means, as there are not more seats available for Latin American military officers, then, if they are still looking for military education, China has been far more willing to welcome them.

They are on a separate campus. They are kept in a separate program. But they are still -- it's separate from the PLA -- but they are still getting the opportunity for that military education.

And that's one of the things that we are not increasing for Latin America any more, as we are increasing seats for others, such as our allies and partners in the Indo-Pacific. And so, it comes a zero-sum game, and Latin America has, therefore, taken advantage of opportunities in Beijing.

CHAIRMAN BARTHOLOMEW: Anything to add?

MR. ARAGAO: No, I think it was very precise, the words from Professor Watson.

CHAIRMAN BARTHOLOMEW: Great. All right. Thank you.

We have a few more minutes, if anybody has a second round of questions.

Mike, did you have one?

COMMISSIONER WESSEL: No.

CHAIRMAN BARTHOLOMEW: Bob?

COMMISSIONER BOROCHOFF: No, thank you.

CHAIRMAN BARTHOLOMEW: No?

Jeff?

COMMISSIONER FIEDLER: No.

CHAIRMAN BARTHOLOMEW: Alex?

COMMISSIONER WONG: No.

CHAIRMAN BARTHOLOMEW: No? All right.

Well, with that, thank you very much. Very interesting testimony by both of you.

There may well be some questions for the record. If you'll entertain them, we'll send them on.

But thank you very much for the time that you gave to us and the work that you've been doing. Thanks.

MR. ARAGAO: Thank you very much.

DR. WATSON: Thank you.

CHAIRMAN BARTHOLOMEW: All right. So, we will come back, actually, at 3:15. We have a bit of time for a break here. So, we'll be back at 3:15.

(Whereupon, at 2:56 p.m., the foregoing matter went off the record and went back on the record at 3:06 p.m.)

PANEL IV INTRODUCTION BY COMMISSIONER DEREK SCISSORS

COMMISSIONER SCISSORS: Welcome to Panel IV.

Again, a quick intro, for the sake of more discussion time.

This panel introduces case studies to flesh out the previous panels and, also, to allow identification of other important matters pertaining to Chinese activity in Latin America and the Caribbean and U.S. policy.

Our witnesses are Mr. Rasheed Griffith. Among other things, Mr. Griffith is founder of the "China in the Caribbean" newsletter and host of the associated podcast. He focuses on China's engagement with small states, and today will discuss China in the Caribbean.

Next is Dr. Luis Rubio. His long career includes being current Chairman of the public policy think tank Mexico Evalua and the former Chair of the Mexican Council on Foreign Relations. He will address China-Mexican relations.

Third is Dr. Oliver Della Costa Stuenkel from the FGV -- and with all the pronunciation mistakes I've just made, I am very glad there is an acronym for FGV, so I am not going to pronounce that -- FGV School for International Relations. He studies U.S.-China relations and Brazilian foreign policy, which converge on today's topic of China's engagement in Brazil.

We appreciate all of you participating. Your full written statements will go in the record. And we would also appreciate your keeping your opening remarks to seven minutes.

Mr. Griffith, please lead us off.

OPENING STATEMENT OF RASHEED GRIFFITH, HEAD OF OPERATIONS, TOKAMAK LABS; HOST, *CHINA IN THE CARIBBEAN* PODCAST

MR. GRIFFITH: Thank you.

Co-Chairs Bartholomew and Scissors, Distinguished Members of the Commission, thank you for inviting me to testify at this important hearing.

I will specifically address China's in the Caribbean proper and the U.S. response. Because of time constraints, I'll limit my presentation to two scenarios.

For decades, the U.S. has been sleepwalking towards the Caribbean. In the last 20 years, a U.S. President has only visited the Caribbean three times, each time being President Obama.

Little effort has been placed on holding a nuanced understanding of what the Caribbean has gained, and hopes to gain, from its engagement with China. The Caribbean is not an idle player. The fundamental question should not be, why is China engaged in the Caribbean? Rather, it should be, why do Caribbean countries so readily seek out deals with Chinese firms?

The problem that prevents this question from being taken seriously is that the U.S. tends to treat the Caribbean as a foreign policy Rorschach test, looking down the island chain to see what they want instead of what actually is there. This imprinting leads to policy miscalculation. The Caribbean is heterogeneous and has its own agency. A robust U.S. foreign policy must take that fact head-on and not brush it to the side.

I will give two examples where asymmetric information about how the Caribbean deals with Chinese firms harms U.S. policy.

Firstly, the debt-trap narrative. A striking feature of the oft-repeated debt-trap narrative is that in the Caribbean that narrative is linked with Taiwan and not China. If the U.S. perspective is persistently leveraging debt trapping as an argument to counter China in the region, it is likely to have the opposite effect.

For example, after Granada was virtually decimated by Hurricane Ivan in 2005, the country started to switch its recognition to China, which came to build infrastructure in Granada. The damage from Hurricane Ivan was estimated to be over 200 percent of Granada's GDP. Over 90 percent of homes were damaged or destroyed, and according to government reports, almost 50 percent of the population was left homeless.

It should be stressed that China was not the first choice for Granada, but it was the only country willing to provide the necessary assistance. At that time, Taiwan was Granada's largest bilateral lender. Granada eventually defaulted on this debt with Taiwan, as Taiwan refused to participate in a debt restructuring program.

Following the diplomatic switch, Taiwan sued Granada in U.S. courts. In 2011, Taiwan went further and served restraining notices on all Grenada's assets in the U.S., further constraining the country's growth. This case is not well-known outside of the Caribbean.

Another example is offshore Caribbean. There are 217 China-based companies listed on the U.S. exchanges, as noted by a recent USCC report. However, around 69 percent of these China-based companies use what we call a VIE structure to list on the exchanges. That is, most of the Chinese firms that are listed in the U.S. are actually Caribbean firms in the Cayman Islands, or BVI.

Although the aforementioned USCC report noted a number of Chinese firms and mentioned the total market capitalization, it did not mention the exposure, the equities exposure, of U.S. investors of Chinese firms. Official U.S. Treasury data indicates that U.S. investors hold about 154 billion USD in Chinese equities.

But, as a recent study showed, published in April 2021 by a team of U.S. economists, it has been shown that U.S. investors have an exposure of close to 700 billion USD in Chinese equities. The reason why the Chinese equities exposure is so dramatically underreported in Treasury data is because a large part of the flow from the U.S. goes to the Cayman Islands, which, as I said, are actually Chinese firms.

After realizing how enormous the actual equity exposure is, it is necessary to point out that, while much attention is being paid to $1.1 trillion of the U.S. Treasuries held by China, almost no attention has been paid to the 700 billion USD equity holdings in Chinese firms.

To close, I will make two quick recommendations which are expanded on in my written testimony.

First, the U.S. should expand its diplomatic posture and presence in the Caribbean. To show commitment to regional partners, high-level U.S. Government executives should visit the Caribbean with more regularity. There is one U.S. embassy accredited to seven eastern Caribbean countries. This, obviously, limits the groundwork diplomacy of the U.S. that can be done in the eastern Caribbean.

Secondly, U.S. embassies, as well as the U.S. Department, should hire and train specialists in the Caribbean political economy and, also, commission a comprehensive report to have a clear understanding of what the stats are on the ground.

I will end there for the time and thank you. I look forward to your questions.

PREPARED STATEMENT OF RASHEED GRIFFITH, HEAD OF OPERATIONS, TOKAMAK LABS; HOST, *CHINA IN THE CARIBBEAN* PODCAST

Testimony before the U.S.-China Economic and Security Review Commission

Hearing on "China in Latin America and the Caribbean"

May 20, 2021

"The Caribbean is not a Rorschach Test"

Rasheed Griffith

Commissioner Bartholomew, Commissioner Scissors, distinguished members of the US-China Economic and Security Review Commission, thank you for inviting me to testify today on China's engagement in the Caribbean.

For decades the U.S. has been sleepwalking towards the Caribbean. Recently, foreign policy discussions around China-Caribbean engagement have been uniformly skewed towards speculation on China's intentions in the Caribbean. Everytime the U.S. perceives a Communist threat in the Caribbean a new acronym is unilaterally created. When Cuba sided with the Soviet Union, President Kennedy created the AIP (Alliance for Progress) in 1961. After the Marxist-led revolution in Grenada, President Reagan created the CBI (Caribbean Basin Initiative) in 1983. Now with the increased engagement of China in the region, President Biden created the SALPIE (Small and Less Populous Island Economies) Initiative in 2021. But given the precedent of previous acronym-initiatives there is justification for not setting high expectations.

Little effort has been placed on honing a nuanced understanding of what the Caribbean has gained and hopes to gain from its engagement with China. The Caribbean is not an idle player. Regional governments actively seek deals from Chinese firms and government organizations - often with significant success. The fundamental question should not be why is China engaging in the Caribbean. Rather, it should be why do Caribbean countries so readily seek out deals with Chinese firms?

One problem that prevents this question from being posed is that the U.S. (from think tanks to policy staff) tends to treat the Caribbean as a foreign policy Rorschach test - they look down the island chain and see what they want instead of what is actually there. This imprinting leads to policy miscalculation. The Caribbean region is heterogeneous and has its own agency. A robust U.S. foreign policy must take that fact head on and not brush it to the side.

It is not too late for the U.S. to arrest the deepening of China-Caribbean engagement that could go contrary to U.S strategic interests. But it requires wrestling with the facts on the ground and countering with realistic and robust alternatives. By geographical, historical, and cultural fact the Caribbean is tethered to the U.S. - not China. However, the U.S. has to be a reliable partner in sustaining that link.

The body of this testimony lays out broad Caribbean-China engagement case studies in four sections. Section one will cover Taiwan in the Caribbean. Section two will focus on Caribbean offshore and China. Section three will discuss Chinese infrastructure construction in the Caribbean. Section Four will focus on Caribbean passport sales to Chinese citizens. In the fifth section I will conclude with policy recommendations to Congress. It is my goal herein to argue that the U.S. should (non-ironically) "seek truth from facts" in order to adjust policy prescriptions accordingly.

1. Cross-Strait Relations in the Caribbean

Taiwan's future as a formally recognized country is significantly contingent on the Caribbean's continued recognition. Latin America and the Caribbean accounts for 9 of Taiwan's remaining 14 formal diplomatic allies. Within the Caribbean specifically, 5 of the 15 members of CARICOM formally recognise Taiwan [1]. This curious feature of policy heterogeneity in the Caribbean often leads U.S. foreign policy in the region astray. In this section I will attempt to demonstrate why the U.S. should reduce its attempts of "Taiwan promotion" in the Caribbean.

Guyana entered international headlines in February this year on matters concerning cross-strait relations. On February 3, 2021 the U.S. Embassy of Guyana announced a new partnership between Guyana and Taiwan to support the "deepening ties between"[2]. This announcement by the U.S Embassy was made even before any official statement was publicly given by the

[1] Taiwan has 14 formal diplomatic allies in addition to the recognition of the Holy See. Within CARICOM the Taiwan allies are Belize, Haiti, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. Within Latin America, the Taiwan allies are the Republic of Guatemala; Republic of Honduras; Republic of Paraguay. See https://www.mofa.gov.tw/AlliesIndex.aspx?n=167&sms=33

[2] See https://gy.usembassy.gov/the-united-states-applauds-the-agreement-to-establish-a-taiwan-office-in-guyana/

government of Guyana. Taiwan made an official statement on the following day February 4 during a press briefing[3]. Guyanese, Taiwanese, and international media alike ran with the story that this new Taiwan Office in Guyana marked a "new breakthrough in diplomacy" for Taiwan[4]. Less than 24 hours later, Guyana's Ministry of Foreign Affairs and International Cooperation terminated the agreement to open a Taiwan Office in the country[5].

The Taiwanese government subsequently blamed China for pressuring Guyana to terminate the agreement, saying that China used " bullying tactics to suppress Taiwan's international presence"[6]. Although this conclusion is an easy one to reach it nevertheless misses the core problem that led to the termination of the agreement.

It is highly unlikely that China would deploy "bullying tactics" to pressure the Guyanese government to terminate the Taiwan Office as China was aware of the agreement before the public announcements. Guyana's Permanent Secretary in the Ministry of Foreign Affairs stated that the agreement was signed in January and China already knew about it[7]. Additionally, Taiwanese representatives were already in Guyana since January 15, 2021 to facilitate the local elements of the opening.[8]. It would appear that the messaging used by the U.S Embassy and the Taiwan Ministry of Foreign Affairs inadvertently enabled the narrative of diplomatic recognition to pervade the international press. Guyana in turn failed to accurately project its framing of the Taiwan Office publicly. This was a breakdown of communication among the parties involved and not a clear example of China trying to exert influence[9].

[3] See https://en.mofa.gov.tw/News_Content.aspx?n=1328&sms=273&s=95318

[4] 绿媒欢呼在圭亚那设"台湾办公室"是"外交新突破"，圭外长：我们不承认"台独(Pan-Green media [Pro-DPP] hailed the establishment of the "Taiwan Office"in Guyana as a "new diplomatic breakthrough" but Guyana's foreign minister says: "we do not recognize" Taiwan independence) https://www.sohu.com/a/448668801_162522

[5] In its statement the Guyana Ministry of Foreign Affairs made it explicit that Guyana "has not established any diplomatic ties or relations with Taiwan and as a result of the miscommunication of the agreement signed, this agreement has since been terminated." See https://www.minfor.gov.gy/press-releases/press-release/

[6] Office statement by the Taiwan Ministry of Foreign Affairs: https://en.mofa.gov.tw/News_Content.aspx?n=1328&sms=273&s=95339

[7] It was also emphasised that the Taiwan Office was solely set up to promote private sector engagement. Taiwan has several such offices around the world in other countries that do not formally recognise Taiwan. See https://guyanachronicle.com/2021/02/05/one-china-policy-remains-intact/

[8] Statement issued by Taiwan Ministry of Foreign Affairs: https://en.mofa.gov.tw/News_Content.aspx?n=1328&sms=273&s=95318

[9] It should be noted that the government of Guyana which signed the agreement with Taiwan only came to power in August 2020. This may boil down to inadequate preparation and inexperience with such matters.

U.S. interest in the Taiwan-Caribbean relationship sometimes presents itself in unusual ways. In February 2021, Secretary of State Bliken's official statement on Saint Lucia's Independence Day was merely 134 words however, he found this a reasonable venue to mention Taiwan[10]. Caribbean countries have much to be proud of but it could be interpreted that the relationship with Taiwan is so important that it must even be mentioned in an unrelated congratulatory message. This risks the perception that the U.S. primarily prioritises Caribbean partners simply because of their status with Taiwan , which may result in the alienation of their partners.

A striking feature of the oft-repeated "debt trap" narrative is that in the Caribbean that narrative is linked with Taiwan and not China. If the U.S persists in leveraging debt trapping as an argument to counter China in the region it is likely to have the opposite effect.

After Grenada was virtually decimated by Hurricane Ivan in 2005, the country decided to switch its recognition to China which came to Grenada's aid in rebuilding key infrastructure.[11] It should be stressed that China was not the first choice for Grenada but it was the only country willing to provide the necessary assistance.

At that time Taiwan was Grenada's largest bilateral lender[12]. Understandably, Taiwan did not take news of the switch well. It was reported that the Taiwanese foreign ministry accused Grenada's leaders of "extortion-like behaviour", because Grenada allegedly made demands for USD $245 million[13]. Grenada eventually defaulted on its debt owed as Taiwan refused to participate in the debt restructuring program initiated by Grenada[14].

[10] The message included this line: "Together with Taiwan, we promoted business development through entrepreneurship networks and startup incubators." https://www.state.gov/saint-lucia-independence-day/

[11] The damage from Hurricane Ivan was estimated to be over 200% of Grenada's GDP. Over 90% of homes were damaged or destroyed. According to government reports around 50% of the population was left homeless. For many weeks utilities such as water, electricity, and telecommunications were unavailable. The hurricane also wiped out the entire nutmeg crop (Grenada is the world's second largest producer of nutmeg after Indonesia. Nutmeg accounted for 22% of the country's exports). See https://www.imf.org/en/Publications/WP/Issues/2017/07/24/Sovereign-Debt-Restructurings-in-Grenada-Causes-Processes-Outcomes-and-Lessons-Learned-45101

[12] While Grenada still had diplomatic relations with Taiwan, the Export-Import Bank of Taiwan (Ex-Im Bank) provided USD loans to Grenada on four occasions: $10 million in 1990; USD $2 million in 1997; USD $6 million in 1997; and USD $10 million in 2000. By 2004, Taiwan was Grenada's largest individual bilateral creditor accounting for 12% of total debt. Whereas 85.4% of the debt was owed to private bondholders and 2.6% of the debt was owed to a mix of Paris Club lenders. See https://chinacaribbean.substack.com/p/the-taiwanese-debt-trap

[13] See https://www.jstor.org/stable/24384486?seq=1

[14] All of Grenada's other creditors had agreed to participate in the debt restructuring program. By the end of 2008 Grenada's debt-to-GDP ratio ballooned to 107%. See https://chinacaribbean.substack.com/p/the-taiwanese-debt-trap

Following the diplomatic switch, Taiwan sued Grenada in the U.S. In 2011 Taiwan went further and served restraining notices on Grenada's assets in the U.S. In effect, Taiwan attempted to obtain any assets owned by or owed to Grenada from entities based in the U.S. This pushed Grenada to file a series of appeals in the U.S. to remove the restraining notices[15]. After a decade-long legal battle both sides agreed to settle outside of court. Taiwan eventually agreed to join the restructuring program and allowed Grenada to finally reprofile its external debt[16].

Throughout the Caribbean there is no robust evidence that China has tried to influence countries to switch their recognition away from Taiwan. It is more accurate to argue that domestic political interests are the driving forces for diplomatic recognition. St. Lucia, in fact, switched recognition multiple times. From 1984-1997, St. Lucia recognised Taiwan. Then from 1997-2007 recognition was switched to China. From 2007 until the present they have been realigned with Taiwan[17]. It was once a common perception that a simple change in the Saint Lucian government could potentially lead to a recognition switch in that country.

Not all voices are confident that the recognition of Taiwan represents the best interest of St. Lucia. The country's External Relations Review Committee (established by the Ministry of External Affairs and International Trade) issued a report that was critical of the continued recognition of Taiwan over China[18].

A wikileaks document from 2010 revealed that China actually rejected then Panamanian President Martinelli's offer of diplomatic recognition[19]. The proposal was rejected in order to sustain the improving cross-strait relations (at that time). From this it can be seen that the recognition decision was not initiated from China. In 2014, the former Guatemalan President Alfonso Portillo admitted in the U.S. Federal Court that he received USD $2.5 million in bribes

[15] The court based its ruling on its interpretation of the US Foreign Sovereign Immunities Act (FSIA) which stipulated that the funds owed to Grenada were still covered by sovereign immunity. See https://www.law360.com/articles/406345?scroll=1&related=1

[16] See https://thecommonwealth.org/sites/default/files/inline/Introducing%20Hurricance%20Clauses.PDF

[17] See https://www.scmp.com/news/china/diplomacy/article/3035240/taiwans-allies-dwindle-st-lucia-stands-firm-against-china

[18] The report noted that "any decision to maintain recognition of Taiwan will be perceived in the arenas of international diplomacy, and pre-eminently at the United Nations, as inevitably temporary, the result of specific contingent circumstances and objectives of the Saint Lucian state, and therefore subject to change and lacking final certainty". Page 44, Review of the External Relations Policy of St. Lucia, 2012. See http://saintluciaconsulateny.org/wp-content/uploads/2014/08/Lewis-Report1.pdf

[19] "The Feb. 23, 2010-dated cable from then U.S. Ambassador to Panama Barbara Stephenson came in the midst of [Taiwan] President Ma Ying-jeou's efforts to improve ties with China." See https://www.foxnews.com/world/wikileaks-china-rejects-panamas-wish-for-ties

from Taiwan between 1999-2002 in exchange for continuing diplomatic recognition[20]. In 2011, Taiwan donated a helicopter as a gift to the President of Paraguay[21]. It is insufficient to suggest that Latin America and Caribbean (LAC) countries retain Taiwan as an ally merely or solely because of "democratic values". It is this lack of nuance that encumbers effective U.S. policy in the region on the question of promoting Taiwan.

Caribbean countries do not continue to recognise Taiwan because of economic benefits. If that was the primary rationale then China could have easily influenced these countries to switch recognition. It is not possible for Taiwan to out compete China in terms of investment, aid, and financing. A recent paper by Long and Urdinez estimated the amount of money that LAC countries have forgone by recognizing Taiwan. They call this opportunity cost the 'Taiwan Cost'.

Long and Urdinez estimated that between 2005-2019 if a country switches recognition from Taiwan to China then: 1) Chinese investment would be expected to grow by 7 times and 2) Chinese loans would be expected to grow by 122 times[22]. By analysing the money Paraguay in particular received from Taiwan in the same period they calculated that "Taiwan invested on average, US $4 million a year in Paraguay, provided aid for an average of $14.8 million and offered no loans." Relevative to the potential gains Paraguay could receive from China, the Taiwan Cost is particularly pronounced. The obvious question, then, is why would LAC countries continue to recognise Taiwan given the explicit economic gains that can be received from a switch to China?

Elite politics plays a substantial role in small countries maintaining diplomatic recognition with Taiwan over China. A visit by, say, St. Kitts' ambassador to Taipei has a lot more fanfare than the treatment St. Kitts' ambassador would be given in Beijing. Long and Urdinez studied this phenomenon within the politics of Paraguay. Taiwan "lavished attention on Paraguayan elites, affirming Paraguay's importance and providing symbolic material benefits."[23] There is a

[20] "The $2.5 million Portillo received from Taiwan is only a small fraction of the tens of millions of dollars U.S. prosecutors have alleged Portillo embezzled from the Guatemalan government and laundered through US banks." See https://www.jurist.org/news/2014/03/former-guatemala-president-admits-to-taking-bribes-from-taiwan/

[21] "The Taiwanese ambassador to Paraguay Lien-sheng Huang handed over the keys of a Bell 427 to President Fernando Lugo as a gift from the far eastern country." The Bell 427 will be used solely for the president and operated by the Army Command." See https://helihub.com/2011/07/11/taiwan-donates-bell-427-to-president-of-paraguay/

[22] "On average, LAC countries that recognise Taiwan receive roughly USD $850 million less in combined investment, aid, and finance from China than those that recognise China." See https://tomlongphd.com/2020/05/01/out-in-fpa-status-at-the-margins-why-paraguay-recognizes-taiwan-and-shuns-china/

[23] "Taiwan expanded its invitations for travel delegations, including broader segments of Paraguayan society - politicians, military, business, civil society, and artists - interviewees repeatedly noted. Taiwan extends a

looming sense that the Taiwan relations inbibes a sense of importance to small status-seeking countries[24]. Taiwan's active and well-executed diplomatic engagement strategy enables Taiwan to continue its status-enhancing function. President Tsai attended the inauguration of the new Paraguay President in 2018. She also successfully visited 4 Caribbean countries in 2019[25].

The U.S. should resist the temptation of animating its Caribbean policy with the premise that 'Taiwan promotion' must be a central pillar. Caribbean countries that recognize China do so based on their own domestic considerations. Any insinuation that China consistently attempts to influence Caribbean countries to switch sides runs the risk of condescension. And persistent condescension runs the risk of a Caribbean drift. Moreover, Taiwan on its own terms is a vibrant democracy and a key node in the global economy. Even if Taiwan had no formal diplomatic allies very little would change. Trade will still continue with all major players. And the domestic systems will remain robust and vibrant[26].

2. How Caribbean Offshore Enabled Modern China

The Caribbean is well-known for its offshore financial centres[27]. Foreign policy discussions usually do not mention how important the Caribbean is for Chinese-US relations given that capital markets are often relegated to financial policy debates. The offshore financial centres of the Cayman Islands and the British Virgin Islands, in particular, are used by Chinese firms to access global financial markets - primarily the United States.

"permanent invitation" for "senators, delegates, ministers [and] generals, and they love it." Even at lower levels, Paraguayan diplomats are treated to well-appointed training courses in Taipei. Taiwan invites young Paraguayan leaders and funds their education, building sympathy. Paraguayans noted that Taiwan sent ambassadors to Paraguay who had previously held high-ranking positions. Major legislators are invited to Taiwan each year and nearly all presidential candidates receive Taiwanese donations, followed by a grant to cover set-up costs." See http://centroestudiosinternacionales.uc.cl/publicaciones/otras-publicaciones/3261-status-at-the-margins-why-paraguay-recognizes-taiwan-and-shuns-china

[24] As one interviewee noted: "From the moment that we stop recognizing Taiwan...we lose our transcendence and importance." See http://centroestudiosinternacionales.uc.cl/publicaciones/otras-publicaciones/3261-status-at-the-margins-why-paraguay-recognizes-taiwan-and-shuns-china

[25] Haiti; St. Kitts; St. Lucia; and St. Vincent and the Grenadines. https://www.taiwannews.com.tw/en/news/374165

[26] "Some Americans see the loss of Taiwan's diplomatic allies as existential, but most Taiwanese seem to not particularly care. Pay attention to Taiwanese domestic reactions. The Taiwanese are the ones who vote on the island's future." See https://www.chinafile.com/conversation/taiwan-losing-allies-what-should-taipei-and-dc-do

[27] Definition from the OECD Glossary of Statistical Terms: "Countries or jurisdictions with financial centres that contain financial institutions that deal primarily with nonresidents and/or in foreign currency on a scale out of proportion to the size of the host economy. Nonresident-owned or -controlled institutions play a significant role within the centre. The institutions in the centre may well gain from tax benefits not available to those outside the centre." See https://stats.oecd.org/glossary/search.asp

China's stock market reopened in 1991 after being closed for decades following the Communist Revolution in 1949[28]. By 2000 only 1% of companies listed on China's stock exchanges were private companies. Even up until 2006, a study suggests that 98% of private Chinese companies could not get access to business loans from the state-owned banks[29]. Those banks preferred to only do business with other state-owned enterprises. This had a dramatic dampening effect on China's emerging market economy. While the Chinese economy was rapidly increasing in the late 1990s and early 2000s, private firms were generally left behind because of capital constraints. This precarious situation led to a dual movement of interests - Chinese private firms needed foreign capital and foreign investors wanted to participate in the booming of China's economic rise.

However, foreign investors are unable to buy equity in Chinese firms. This is for two main reasons. First, the Chinese government restricted or prohibited foreign ownership of firms in particular industries - the same industries of interest to foreign investors (like the 'internet' sector). Secondly, there are only two types of companies allotted under China's Company Law[30]. These two types of companies are not designed in a way to suit the requirements of many outside equity ownership investment agreements[31]. So even if foreign investors were allowed to put money into certain Chinese firms, there are generally few Chinese firms capable of receiving the money for reasons of legal structure[32].

Facing these constraints, foreign investors and Chinese firms alike sought out jurisdictions with both robust legal certainty and legal flexibility to manage their risk while performing substantial cross-border capital transactions. Caribbean offshore fit both requirements.The Cayman Islands (fund management), British Virgin Islands (incorporation), and Bermuda (insurance) are

[28] See https://www.nber.org/system/files/working_papers/w20957/w20957.pdf

[29] See https://www.chinaaccountingblog.com/weblog/2019-03-vie-gillis.pdf

[30] "In the PRC, there are only two types of companies: limited liability companies (有限责任公司)(PRC LLC) and joint stock companies (股份有限公司)." See https://www.chinalawinsight.com/2019/06/articles/corporate-ma/global-ma-know-the-differences-btw-prc-and-foreign-company-law/

[31] To form a Joint Stock Company is tedious and expensive. 5 million registered capital at least. Most companies will decide to not go through this process. See https://www.smeschina.com/form-joint-stock-company/

[32] "A common law company may issue its share capital at different prices and attach different rights to different classes of its shares. In the PRC, the concept of "registered capital" is applicable. The founding members of a PRC LLC will decide the amount of registered capital the PRC LLC shall have upon its incorporation, the portion they each subscribe for and how and when they will each contribute their subscribed registered capital. In the PRC, every company must have a "legal representative", who is the principal representative of the company with legal power to represent and bind the company." https://www.chinalawinsight.com/2019/06/articles/corporate-ma/global-ma-know-the-differences-btw-prc-and-foreign-company-law/

internationally recognized as leaders in commercial law[33]. All three of them are British Overseas Territories, meaning that the highest court of appeal is the Judicial Committee of the Privy Council in the UK[34]. They have been at the forefront of legal and regulatory innovation for decades - the concept of an international business company was invented in the British Virgin Islands[35]. Accordingly, these British Caribbean were already used by capital market firms around the globe to manage legal risks. The Cayman Islands, for example, is the domicile of 60% of the world's hedge funds[36].

To overcome the prohibition on foreign ownership in certain Chinese firms, lawyers and accountants in the U.S. created a new and special type of legal structure for two Chinese companies to IPO on the NASDAQ.[37] They decided it would be effective to parse the restricted business from the part of the business that can actually be owned by foreign investors (the WFOE)[38]. The WFOE is then owned by (usually) a Cayman Island holding company and the restricted business is owned by Chinese individuals - which can be called the Variable Interest Entity (VIE)[39]. The lawyers would then create a complex network of contracts and operating agreements to bind the VIE and the WFOE together without representing ownership via equity - a kind of "synthetic ownership"[40]. This structure enabled Chinese firms to consolidate financial statements for a group of entities even though not all of the entities are directly owned by the parent company.

33 "The international business and finance centre employs 2,200 people directly and supports a further 3,000 jobs – and generates US$330 million of gross value added and accounts for three-fifths of government revenues." See http://www.bvihouseasia.com.hk/uploads/Capital-Economics-Report-FINAL-for-print.pdf

34 The BVI also has a dedicated "Commercial Court": https://citywireselector.com/news/traditional-alts-hubs-squeezing-out-smaller-players-survey-finds/a785775/print?section=global

35 See Confidentiality in Offshore Financial Law by Rose-Marie Belle Antoine, Oxford University Press, 2014

36 See https://citywireselector.com/news/traditional-alts-hubs-squeezing-out-smaller-players-survey-finds/a785775/print?section=global

37 Sohu.com Inc. (along with Sina) was one of the two Chinese companies listed in 2000 on NASDAQ. See Sohu's Securities and Exchange Commission IPO Registration Prospectus (Form S-1) here: https://sec.report/Document/0001021408-00-001824/

38 Within Chinese Company Law there is an entity category called 'Wholly Foreign Owned Entity' (WFOE)

39 VIE is a U.S. accounting terminology that exploits a reporting convention known as Fin 46R in Financial Accounting Standard Board (FASB) Codification of Accounting Standards in Section 810. See https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1175801627792&acceptedDisclaimer=true

40 For details on the complex contracting structure of "synthetic ownership" see http://www.law.harvard.edu/programs/olin_center/papers/pdf/Fried_1041.pdf

In effect, the mesh of companies (some uniquely owned by Chinese persons and others owned by a cascade of offshore entities with foreign beneficial owners), was given the greenlight by the U.S SEC to list on U.S capital markets like the NASDAQ. To put this in more simple terms: If a U.S citizen purchases shares in, say, Alibaba, listed on the NYSE, that person only owns shares in an entity in the Cayman Islands. They do not own any part of the ownership of Alibaba, the operating company in Hangzhou, China. For obvious reasons this presents a risk to foreign investors (primarily from the U.S.)[41].

There are around 217 China-based companies listed on major U.S. exchanges as noted by a recent USCC report[42]. Another study calculates that 69% of these China-based companies use the VIE structure to list on U.S. exchanges[43]. Though, it should be noted that the use of offshore centres is not essential to the VIE structure. The 'Entity' in the 'VIE structure' is specially the entity within China owned by Chinese citizens. The foreign part of the structure can in theory be based in any other jurisdiction[44].

The reason Caribbean offshore is typically used is because of their speciality in flexible yet robust commercial law and regulatory frameworks[45]. Somewhat ironically, Caribbean offshore in some ways enabled China to maintain rigid domestic regulations over the market while not materially impeding growth of business capital. The flexibility was "offshored" in a similar way that China's special economic zones gave flexibility without total reform.

Although the aforementioned USCC report noted the number of Chinese companies and mentions the total market capitalization, it did not mention the equities exposure of U.S investors to Chinese firms. Official U.S. Treasury data indicates that U.S investors hold $154 billion USD in Chinese equities.

[41] Alibaba is based in China but is subject to U.S. securities law and to Cayman Islands corporate law. "The main problem, we show, is that almost every person or thing required to enforce the law...is behind China's "Great Legal Wall" and out of reach both for private plaintiffs and for public prosecutors in the United States." See https://corpgov.law.harvard.edu/2020/12/17/china-and-the-rise-of-law-proof-insiders/

[42] See USCC 'Chinese Companies Listed on Major U.S. Stock Exchanges,' October 2020, https://www.uscc.gov/sites/default/files/2020-10/Chinese_Companies_on_US_Stock_Exchanges_10-2020.pdf

[43] Paul Gillis and Fredrik Oqvist, "Variable Interest Entities in China," GMT Research. https://www.chinaaccountingblog.com/weblog/2019-03-vie-gillis.pdf

[44] There is a common sentiment that Caribbean offshore is primarily for asset privacy. That may be the case for certain jurisdictions. But for example, the Cayman Islands has signed Tax Information Exchange Agreements with major jurisdictions including the U.S. The privacy primacy argument is baseless. See https://www.oecd.org/countries/caymanislands/taxinformationexchangeagreementstieas.htm

[45] See Kristian Wilson 'Rationale and Use of Offshore Jurisdictions in the PRC.' Tsinghua Law Review 2014 for a detailed explanation on the legal management reasons for doing business in Cayman Islands/BVI as a Chinese company. http://www.tsinghuachinalawreview.org/articles/0602_Wilson.htm

But as a result of a truly herculean study recently published in April 2021, it has been shown that U.S investors have an exposure of closer to $700 billion USD in Chinese equities[46]. The reason why the Chinese equities exposure is so dramatically underreported is because a large part of the official capital flow is from the U.S to the Cayman Islands, primarily. The researchers were able to analyse and cross-reference thousands of data points to remap the capital from a 'residency-statistic' to a 'nationality-statistic' to get a better picture of where the capital is truly flowing.

After realizing how enormous the more accurate equities exposure is, they have rightly pointed out that "while much attention has been paid to the $1.1 trillion of U.S. Treasuries held by China, almost no attention has been paid to the $700 billion of U.S. holdings in Chinese equities."[47]

Caribbean offshore (particularly the British Overseas Territories) act as a link between China and the U.S. in terms of capital flow. Were it not for Caribbean offshore there would likely not be as many Chinese firms on U.S. exchanges. This also applies to exchanges in Toronto and London.

While Chinese private sector flows through Caribbean offshore are significant, it should also be mentioned that Chinese state funds also flow through the Caribbean[48]. China's State Administration of Foreign Exchange (SAFE) is the government body that primarily manages China's $3.1079 trillion USD foreign reserves (as of 2019)[49]. SAFE also has a series of subsidiaries in its investment division which operates as entities to channel funds to foreign investment targets. One of these subsidiaries is "Beryl Datura Investment Ltd" based in the British Virgin Islands; responsible for global infrastructure financing and investment[50]. Given the nature of this entity it is likely that it alone could be responsible for a significant portion of China's global investment in BRI projects.

[46] The main researchers of the study are economists from Harvard Department of Economics, Stanford School of Business, University of Chicago School of Business, and Columbia Business School. 'Redrawing the Map of Global Capital Flows: The Role of Cross-Border Financing and Tax Havens'. See https://globalcapitalallocation.s3.us-east-2.amazonaws.com/CMNS-Paper.pdf

[47] See Page 21. https://globalcapitalallocation.s3.us-east-2.amazonaws.com/CMNS-Paper.pdf

[48] According to SAFE, China's external portfolio investment assets (excluding reserve assets) amounted to USD 646 billion by the end of 2019, including USD 373.8 billion in equity investments and USD 272.2 billion in bond investments. The top 5 recipients of Chinese investments were Hong Kong ($226.4 billion), the US ($162.8 billion), Cayman Islands ($55 billion), the British Virgin Islands ($45.9 billion) and the UK ($21.8 billion). See https://www.safe.gov.cn/en/2020/0529/1691.html

[49] China State Administration of Foreign Exchange Annual report for 2019. See http://www.safe.gov.cn/en/file/file/20201221/6202b5b2b3834bafaa47fb7a5e81375b.pdf?n=Annual%20Report%20of%20the%20State%20Administration%20of%20Foreign%20Exchange%20(2019)

[50] '外管局和它的四朵金花'（In Chinese language reports the four main SAFE subsidiaries are referred to as the 'Four Golden Flowers': 华安、华新、华欧、华美劫. See http://www.eeo.com.cn/2014/0711/263258.shtml

The Caribbean also features the only stock exchange outside of China where the majority of listed entities are Chinese[51]. Over 60% of firms listed on the Dutch Caribbean Stock Exchange (DCSX) are China-based (with a registered entity in the British Virgin Islands or the Cayman Islands). What is striking is that most of the Chinese firms listed on DSCX have no tradable stock. That is, they are listed on the exchange but have not raised any capital through the exchange. The DSCX terminology for this is a "technical listing.[52]" Yet, It appears that at least a few of the Chinese firms listed on the exchange may not even have substantial operations in their domestic jurisdiction (China)[53].

3. The Most Important Contractor in Caribbean History is Chinese

It is well known that Chinese China's international construction and engineering contractors operate across the Caribbean. But there are two blindspots usually encountered. First, U.S. policy work is usually unaware of the extent to which Chinese contractors are engaged in the region. Second, too often projects are viewed in a negative light because of superficially obtained information. In this section I will attempt to dissolve these blindspots.

Between 2011 and 2013 China used more cement than the U.S used in the entire 20th century[54]. It should not be surprising then that Chinese firms have become globally well-established as engineering contractors. The capacity built up within China needs a global market to sustain its growth. In doing so, China's international construction and engineering contractors (ICECs) have entered the Latin America and Caribbean market.

From the outset I should clarify that while Chinese ICECs are mostly state-owned enterprises (SOEs) they are not necessarily state directed. That is, these SOEs go into the world to find projects to build for their self-interested profit motive. SOEs compete against each other to win

[51] "Red Curacao" See https://www.thewirechina.com/2021/03/14/red-curacao/

[52] On their website the DSCX explain that "some companies, and primarily the overseas ones that we have mentioned earlier, seek out international exchanges like Curaçao, not primarily for liquidity, marketability or raising money, but so that their listed company can benefit from the compliance requirements that DCSX as an exchange offers or for tax efficiency benefits back in their home country." See https://www.dcsx.cw/listings-tradeable-or-technical-what-does-that-even-mean-part-1/

[53] "荷兰加勒比证券交易所之深度解析" ("In-depth Analysis of the Dutch Caribbean Stock Exchange"). The article uses credible evidence to suggest that firms may be listing on the DSCX without operational soundness in China. See https://zhuanlan.zhihu.com/p/99476206

[54] The U.S. used 4.5 gigatons of concrete between 1901-2000. China used 6.6 gigatons of concrete between 2011-2013. See https://www.gatesnotes.com/Books/Making-the-Modern-World

contracts. The tidy rhetoric of the 'Belt and Road Initiative' has obscured the fact that the 'Initiative' is just a branding campaign, haphazardly organized with little centralization[55].

Moreover, it is often overlooked that it is the ICECs themselves that arrange the financing from China EXIM (and others) instead of China EXIM reaching out to governments to provide loans[56].

Jamaica

China Harbour Engineering Company (CHEC) has active projects in almost every major Caribbean country and has a regional headquarters in Kingston, Jamaica. CHEC was the contractor for the $400 million USD Jamaica Infrastructure Development Project between 2010-2015[57]. Subsequently, in 2013 CHEC was engaged for the $350 million USD Major Infrastructure Development Program (MIDP) again in Jamaica. The Government of Jamaica published a report containing the details of the entire MIDP on the website of the National Works Agency. All budgets are published. All subcontracting arrangements are public. It cannot be argued that the program is not transparent[58]. CHEC is also the main contractor for the construction of the North-South highway project in Jamaica. Without equivocation, CHEC is the single most important infrastructure contractor in Jamaica's history (and plausibly the Caribbean).

The North-South highway, which would lead to an economic boost for Jamaicans, was started since 1999 with initial work by a French contractor Bouygues Travaux[59]. But it was abandoned

55 "I wish less analysts asked, "What did Xi hope to accomplish by creating the Belt and Road?" and instead wondered, "What did Xi hope to accomplish by associating the SOE infrastructure-industrial complex so closely with his personal foreign policy?" See https://scholars-stage.blogspot.com/2020/10/rethink-what-you-think-you-know-about.html

56 See Hong Zhang 'Chinese International Contractors in Africa: Structure and Agency.' 2021 CARI Working Paper for a thorough discussion.
https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/6099cc5d267fb10016b82045/1620692064252/WP+47+-+ZHANG%2C+Hong+-+Chinese+Intl+Contractors%27+Market+Power+Africa.pdf

57 85% of the Project was financed by the China EXIM bank and 15% was provided by the Government of Jamaica. See https://www.mtw.gov.jm/index.php/news/21-2010/274-jamaica-infrastructure-development-project-launched-in

58 85% of the financing came from the China EXIM bank. See MIDP details here: https://www.nwa.gov.jm/major-infrastructure-development-programme

59 Even though the French company abandoned to project "the [Jamaican] Government had to reimburse the French company the US$120 million it had already invested in the construction." See https://www.jamaicaobserver.com/news/land-swap-deal-made-highway-possible-8212-phillips_98374?profile=1373.

because of financial difficulties. In 2009 the government of Jamaica approached Chinese contractors and policy banks to restart the highway project. They wanted to finance the project without increasing the debt burden of the country[60]. The Chinese parties agreed to Jamaica's unorthodox request. China Development Bank loaned $700 million USD to Jamaica for the highway project to be completed by the CHEC.

To repay the loan, Jamaica transferred 500 hectares of land for a 50-year concessionary period. The land transfer includes coastal areas on which CHEC has agreed to build over 2000 hotel rooms - further boosting the economy of Jamaica. As the Leader of the Opposition Party in Jamaica noted: "This highway cannot leave Jamaica. This highway, at the end of the concession period, reverts to the ownership of the people of Jamaica, and the hotels and other entities that are built will always be there for the people of Jamaica.[61]"

Jamaica's total debt outstanding to China is less than 4% of GDP[62]. At the same time Jamaica has been engaged in the numerical lion's share of major Chinese led construction projects in the Caribbean. One common refrain is that Chinese ICECs primarily used Chinese labour but CHEC has reported that 90% of their workforce in Jamaica are locals[63].

The Bahamas

Baha Mar Resort, the largest project of its kind in the Caribbean, was built in the Bahamas for almost $4 billion USD[64]. The main contractor for Baha Mar was China Construction America

Additionally see, 'Varieties of Capital and Predistribution: The Foundations of Chinese Infrastructural Investment in the Caribbean' by Ruben Gonzalez-Vicente, 2020. https://madeinchinajournal.com/2020/05/06/varieties-of-capital-and-predistribution-chinese-investment-carribean/

[60] Jamaica entered a partial International Monetary Fund (IMF) structural adjustment program around 2009. As a consequence of borrowing from the IMF the receiving country must commit to certain fiscal targets often relating to external debt management. Accordingly, the Jamaican government was keen to seek an unorthodox arrangement with China in hopes of finally finishing the highway project. See https://www.imf.org/external/pubs/ft/scr/2010/cr10267.pdf

[61] See https://www.jamaicaobserver.com/news/land-swap-deal-made-highway-possible-8212-phillips_98374?profile=1373

[62] "Finance Minister Dr Nigel Clarke in January said loans from the Chinese accounted for 3.9 percent of Jamaica's total loan portfolio." See https://jamaica-gleaner.com/article/news/20191110/no-new-loans-china-says-pm

[63] See https://twitter.com/CHECJamaica/status/1359897737014239232?s=20. It can be said that since this is a self-reported figure then an independent verification is warranted. However, this figure mirrors the independent research conducted in Ethiopia showing that similar Chinese firms have a workforce of 90% local workers. Therefore, these firms are substantial job creators in the local economies. See https://www.soas.ac.uk/idcea/publications/reports/file141857.pdf

[64] "It is to include four luxury hotels with 2,323 rooms, the largest casino in the Caribbean, a premier Jack Nicklaus Signature 18-hole golf course, a 30,000 square foot spa, and a 200,000 square foot convention center. Since its

and the main financier was China EXIM bank (providing around $2.5 billion USD.) Although the project is now completed it was marred by a several public court cases leading some observers to erroneously call it a "white elephant" project[65]. A more accurate framing of Baha Mar is important to prevent it from becoming a misused and abused example of the "debt trap" narrative similar to the Hambantota Port in Sri Lanka[66].

Baha Mar was not conceptualized by the Chinese. In the early 2000s the then Bahamanian Prime Minister Perry Christie envisioned the project and named Sarkis Izmirlian as the lead developer[67]. In 2005 Izmirlian formed Baha Mar Development Holdings Ltd. (BMD Holdings Ltd.) and announced the ambitious plan of building a 1000 acre resort complex to rival the offerings in Las Vegas and attract around 450,000 more U.S. tourists a year[68]. Izmirlian invested around $900 million (via a mix of loans and self-contributed assets) into BMD Holdings Ltd to purchase land for the project. But he was unable to secure the remaining financing to move the project forward[69].

In 2007 a deal was prepared between BMD Holdings Ltd and Harrah's Entertainment of Las Vegas to develop Baha Mar but it did not materialize. Following the 2008 global recession Harrah's Entertainment pulled out of the deal. It seemed like the project would remain only an idea. Then in March 2009, China Construction America (CCA) informed Izmirlian that they were interested in the ambitious Baha Mar project and can help secure funding from the China EXIM bank[70].

The Prime Minister of the Bahamas flew to China to negotiate the terms of the loan agreement. The details of the loan were then discussed in Bahamanian Parliament and was approved unanimously[71]. There are only very few instances in Caribbean politics when Parliament of

inception, Baha Mar has been touted as "the largest single-phase resort development in the western hemisphere" and an economic engine for the Bahamas, with projections that it could grow the country's gross domestic product by 12.8%." See https://fsi.stanford.edu/publication/bahamas-baha-mar-rescuing-mega-resort-bankruptcy

[65] See 'Jevon Minto, Examining The Lending Practices Of Chinese 153 Policy Banks In The Caribbean (2000-2018)'. *Page 153* in China's Financing In Latin America And The Caribbean, Edited by Enrique Dussel Peters (2019) https://www.dusselpeters.com/146.pdf

[66] Brautigam and Rithmire correct the worn-out myth of the debt trap in Sri Lanka. See https://www.theatlantic.com/international/archive/2021/02/china-debt-trap-diplomacy/617953/

[67] Izmirlian is a Swiss-born businessman of Armenian heritage residing in the Bahamas at the time. He is the son of the billionaire peanut tycoon Dikran Izmirlian whose company, Alimenta, once controlled a significant proportion of the peanut industry in the Gambia. See https://www.superyachtfan.com/yacht/totally-nuts/owner/

[68] See https://fsi-live.s3.us-west-1.amazonaws.com/s3fs-public/the_bahamas_baha_mar_proofread_final.pdf

[69] Ibid.
[70] Ibid.
[71] Ibid.

opposing parties vote unanimously on such a large fiscal commitment. This shows the wide scale government and public support of the deal.

After a promising start the situation between the developer (BMD Holdings Ltd) and the contractor (China Construction America, CCA) began to sour. BMD Holdings Ltd accused CCA of being too inexperienced and understaffed[72]. These failings were compounded by CCA's refusal to partner with a more experienced contractor of mega resorts. On the other side, BMD Holdings Ltd frequently changed the parameters of the project - altering timelines on which aspects to build at a particular time and changing design specifications. It was revealed in court documents that CCA sent thousands of emails trying to confirm specific project parameters but BMD Holdings responded slowly - delaying construction[73].

Unsurprisingly, Baha Mar missed its opening date[74]. The developer could not afford the payments to staff it had hired in preparation for the opening. Izmirlian filed for Chapter 11 bankruptcy in the courts of Delaware. He did this without notifying the government of the Bahamas or the contractor. In fact, the government of the Bahamas said that the case should be heard in the Bahamas and not in the U.S. This is understandable since 13 of the 14 entities involved in the case filing are Bahamanian entities. And the success of Baha Mar significantly affects the local economy.

The Bahamas supreme court did not grant Izmirlian temporary leave to proceed with the case in Delaware. The courts of Delaware decided to dismiss the bankruptcy case because they don't believe they had jurisdiction given the economic bases of the dispute is rightfully in the Bahamas[75]. Accordingly, the bankruptcy hearing was returned to the Bahamas Supreme Court for adjudication.

[72] At that time CCA had not built a project of that scale. However, CCA has been the contractor for several major projects in the U.S in the years leading up to Baha Mar. For example, CCA was the contractor for the Alexander Hamilton Bridge in New York. This was the largest contract ever awarded at that time from the New York State Department of Transportation valued at $419 million USD. See https://www.chinaconstruction.us/project/alexander-hamilton-bridge-rehabilitation/

CCA was also the contractor for the One Thousand Museum in Miami, Florida - a 62 story residential complex designed by Zaha Hadid. See https://www.chinaconstruction.us/project/1000-museum/

[73] See https://fsi-live.s3.us-west-1.amazonaws.com/s3fs-public/the_bahamas_baha_mar_proofread_final.pdf

[74] It is unsurprising on a practical level as well. Large construction projects globally are known to have delays and cost overruns. This is not unique to a project built by a Chinese company or the Caribbean. See Aljohani et. al. 'Construction Projects Cost Overrun: What Does the Literature Tell Us?' International Journal of Innovation, Management and Technology, Vol. 8, No. 2, April 2017

[75] See https://www.globalconstructionreview.com/news/court-dismisses-baha-mar-us-protection-7b7i7d-what/

Izmirlian faced intense public ridicule in the Bahamas for what they perceived as him trying to stall the project further. This was worsened when Izmirlian made a series of off-colour comments about the government of the Bahamas. In a radio interview, Izmirlian (who is not Bahamanian) accused the government of attacking him personally and insinuated that the voters of the country will punish the current ruling party in the next election for mishandling the Baha Mar situation (i.e not in his favour)[76].

Government ministers publicly replied to show their displeasure with Izmirlian. The then-Minister of Labour, Shane Gibson, remarked that "all of a sudden this one man [Izmirlian], because he got couple dollars, believe that he could come to the Bahamas, and talk to us and the Prime Minister any way he feel like."[77] The then-Minister of Foreign Affairs Fred Mitchell added that "there are only citizens of the Commonwealth of the Bahamas. That is the country to which we owe loyalty. Baha Mar is a commercial entity, designed purely for the profit of the developer."[78]

The Bahamas Supreme Court ruled that the Baha Mar resort would be placed in receivership. That is, the largest creditor China EXIM will need to find a new buyer. After a bidding process the privately-owned Hong Kong-based global conglomerate Chow Tai Fook Enterprises (CTFE) purchased Baha Mar in 2016[79]. Baha Mar has been open since 2017 creating thousands of jobs in the Bahamas[80].

Antigua and Barbuda

The recently established Antigua and Barbuda Special Economic Zone (ABSEZ) is not well known in discussions of China's engagement in the Caribbean despite being exceedingly ambitious. ABSEZ was created primarily for the development of a series of massive projects led

[76] In the same interview "He also twice referred to the 2,500 Baha Mar employees as "Baha Mar citizens." See https://www.globalconstructionreview.com/perspectives/baha-mar-de8ve6lop8er-sarkis-izmirlian-mad/

[77] See https://www.globalconstructionreview.com/perspectives/baha-mar-de8ve6lop8er-sarkis-izmirlian-mad/

[78] Ibid.

[79] CTFE was privately founded in 1929 in Hong Kong and has been involved in several large scale projects globally including London, Philippines, and Australia. https://www.globalconstructionreview.com/news/baha-mar-sold-chow-t7ai-fo7ok-enterp7rises/

[80] The resort is managed by globally recognized luxury product executives. The President of Baha Mar group is a U.S citizen. See https://bahamar.com/

by a Chinese investor - Yida Zhang[81]. In 2015, the Antiguan parliament approved the allocation of 1600 acres of land in northern Antigua, consisting of three islands and one large peninsula[82].

This land was partly purchased by the Yida Group for $60 million USD[83]. Yida Group was then licensed by the Antigua government to develop the special economic zone[84]. Yida Zhang is also the Chairman of the Administrative Committee of the ABSEZ; responsible for the oversight of the zone[85].

The 20 year 'Master Plan' for the ABSEZ approved by the government includes a "7-star hotel", cliff villas, an international finance centre, an international education zone, a casino zone, and more[86]. An environmental impact assessment of the proposed projects was also completed and approved by the cabinet of Antigua[87].

Recently in March 2021, Yida Group signed a multi-million deal with an investment partner to open an international medical school with the ABSEZ. The deal was witnessed by the Antiguan Prime Minister[88]. It should be noted that there are several accredited "offshore" medical schools in the Caribbean. In fact, St. George's University, a medical school in Grenada, produces the second most registered physicians in the USA[89].

81 Technically, Yida Zhang is no longer a Chinese citizen. He became a citizen of Antigua a few years ago via the country's Citizenship by Investment Program. See http://abstvradio.com/pm-doubles-down-in-yida-support/

82 Speech from the Prime Minister of Antigua https://www.antiguaabsez.com/official-documents/#1571483262802-28263c83-3ce5

83 2015 Land Certificate. See https://www.antiguaabsez.com/official-documents/#1571483262802-28263c83-3ce5

84 Antigua And Barbuda Special Economic Zone (Yida International Investment Antigua Limited) Licence Order, 2015. See https://www.antiguaabsez.com/official-documents/#1571483262802-28263c83-3ce5

85 Speech from the Prime Minister of Antigua https://www.antiguaabsez.com/official-documents/#1571483262802-28263c83-3ce5

86 Principle Approval of Master Plan by Government 2015. See https://www.antiguaabsez.com/official-documents/#1571483262802-28263c83-3ce5

87 Environment Impact Assessment Approval signed by the Secretary of the Cabinet. See https://www.antiguaabsez.com/official-documents/#1571483262802-28263c83-3ce5

88 "Western Imperial Capital Limited said that it is committed to spending over $100 million US dollars over a period of two years on the new projects at [in Antigua]" See https://embassy.ag/dario-item-antigua-barbuda-yida-zhang-signs-multi-million-dollar-agreement-with-investment-company/

89 Indiana University Medical school ranks #1(11,828 licensed physicians); St. George's University ranks #2 (10,791 licensed physicians). See FSMB Census of Licensed Physicians in the United States, 2018 https://www.fsmb.org/siteassets/advocacy/publications/2018census.pdf

4. Chinese Citizens Are the Main Buyers of Caribbean Passports

Caribbean Citizenship by Investment Programs (CIPs) are an overlooked discussion in foreign policy. It is not commonly known that the CIPs are a core source of Chinese direct investment in the Caribbean. A robust framing of China-Caribbean relations should be aware of this fact.

There are 5 Caribbean countries that have Citizenship by Investment Programs (CIPs). They are St. Kitts and Nevis (which in 1984 was the first country to invent this product)[90], Antigua and Barbuda[91], St. Lucia[92], Dominica[93], and Grenada[94]. Nationals of other countries are able to purchase citizenship in one of these countries once their application is approved. Across the 5 islands, Chinese nationals are the single largest source of applicants/new citizens (for available data)[95]. Given the trends of similar Caribbean CIPs metrics it would be reasonable to assume that the Chinese prominence trend tracks across countries[96].

Dominica started its Citizenship by Investment Program (CIP) in 1993. Since then, the country has raised more than $300 million USD via the CIP[97]. There are several paths to investment which qualify for purchasing citizenship. In St. Lucia the lowest investment option is a contribution of $100,000 USD to the National Economic Fund[98]. Last year because of the pandemic the Lucian government initiated a temporary investment option; investment in a 'COVID-19 Relief Bond' requiring a minimum investment of $250,000 USD[99].

[90] https://www.ciu.gov.kn/
[91] https://cip.gov.ag/
[92] https://www.cipsaintlucia.com/
[93] https://cbiu.gov.dm/
[94] https://www.cbi.gov.gd

[95] St. Lucia (37% of new citizens were Chinese in the 2019-2020 period); Antigua and Barbuda (34% of all applicants since the program started were Chinese); Dominica (top applicant nationality is Chinese). See https://www.imidaily.com/imi-club-data-center/

[96] The U.S. has a similar program called an EB-5. The biggest group is Chinese people as well. https://www.uscis.gov/working-in-the-united-states/permanent-workers/eb-5-immigrant-investor-program

[97] According to data available on Investment Migration Daily. See https://www.imidaily.com/the-dominica-citizenship-by-investment-programme/

[98] Additionally applicants can acquire citizenship by real estate investment ($300,00 USD), Enterprise Investment ($3,500,00 USD), Government Bond investment ($500,000 USD). See https://www.cipsaintlucia.com/investment-opportunities-st-lucia-citizenship

[99] See Government of St. Lucia Bond Prospectus 2020 https://static1.squarespace.com/static/5e70a15bb2e3335af0f036b3/t/5f7c77427e5e054ca08b0133/1601992521827/CIP+Bond+Prospectus+-+Zero+Coupon+Covid+Relief++Bond+%281%29.pdf

Applicants must apply for citizenship through an agency licenced by the government[100]. These agents are responsible for conducting thorough due diligence investigations. The entire process for application to approval can take a few months. In Dominica it takes on average 3 months[101].

These CIP programs provide substantial benefit to the countries that have them. In St. Kitts and Nevis revenue from the CIP is estimated to be valued at 25% of GDP[102]. According to an International Monetary Fund paper the St. Kitts CIP supported a sustained "economic recovery, improved key macroeconomic balances and boosted bank liquidity"[103]. Further, the CIP revenue has "benefited real estate and tourism developments, and fueled a pickup in construction. The fiscal balance has substantially improved to a surplus of about 12 percent of GDP"[104]. It is quite apparent that the CIP is a net positive for the small islands of the Caribbean.

Yet, they are constantly threatened by foreign governments (usually the U.S. and the EU). Recently, the Prime Minister of Antigua and Barbuda, Gaston Browne, accused the U.S. of trying to "kill" the CIPs in Antigua and the rest of the Caribbean. In his comments he went on to say that "[the U.S. attacked St. Kitts and Dominica too. And they do that so often I don't even know what to say. But anytime they kill it, countries like Dominica and St Kitts, their economies will be decimated and they will plunge tens of thousands of people [into] poverty and then you end up with so many social ills."[105] The implications are indeed stark.

Since CIPs are the economic lifeblood of some Caribbean countries and Chinese citizens are the main target audience. U.S. policy in the region should avoid casting them in a negative light. This will only cause resentment in many Caribbean countries towards the U.S.

[100] Each country publishes a list of licensed agents. For example those licensed in St. Lucia see https://www.cipsaintlucia.com/authorised-agents

[101] See https://www.imidaily.com/the-dominica-citizenship-by-investment-program-faq/

[102] CIP "...estimated 13% GDP in St. Kitts in 2013 [in the form of fees to the government budget]. Moreover, in St. Kitts and Nevis, there are further [CIP] inflows to the NDF, the Sugar Industry Diversification Foundation (SIDF), estimated at about another 12 percent of GDP in 2013, in addition to inflows to the private sector for real estate development." https://www.imf.org/external/pubs/ft/wp/2015/wp1593.pdf

[103] Ibid.
[104] Ibid.

[105] See https://dominicanewsonline.com/news/homepage/homepage-carousel/antigua-pm-accuses-us-of-trying-to-kill-caribbean-citizenship-by-investment-programs/

5. Conclusion and Recommendations

The cases presented are meant to add nuance to the conversations around China-Caribbean engagement. In so doing, the U.S Congress may implement and promulgate recalibrated Caribbean foreign policy with respect to China. In my judgement, without presuming comprehensiveness, I offer the following recommendations for maintaining U.S centrality in the Caribbean by limiting potentially ostracism by Caribbean partners.

The U.S. should expand its diplomatic posture and presence in the Caribbean. In the last 20 years a U.S. President has only visited the Caribbean 3 times[106]. To show commitment to regional partners high level U.S. government executives should visit the Caribbean with increased regularity. There is only one U.S. Embassy concurrently accredited to 7 Caribbean countries[107]. This limits the U.S. diplomatic groundwork that can be done in a large segment of the region whereas China has embassies in each of the Caribbean countries to which it has gained diplomatic recognition[108]. I recommend that U.S. Embassies should be established in each Caribbean country.

The U.S should use diversity as a strategic foreign policy tool in the Caribbean. People of African descent make up the primary ethic group in the Caribbean. U.S. Ambassadors in the region tend to not reflect this but they definitely could. It would be easier for the U.S. to deepen its diplomatic engagement with Caribbean publics by making it easier for these publics to see themselves reflected in America. It is impossible for China to deploy this same strategy potentially rendering Chinese diplomacy soft power as perpetually marginal. In moving towards

[106] Each time was Barack Obama: Trinidad and Tobago April 17-18 (2009); Jamaica April 9-10 (2015); Cuba March 20-22 (2016) See https://en.wikipedia.org/wiki/United_States_presidential_visits_to_the_Caribbean

[107] The U.S. Embassy based in Bridgetown, Barbados also represents Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

[108] See Chinese embassies in Latin America and the Caribbean https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zwjg_665342/2490_665344/2497_665358/

this orientation the U.S State Department should leverage the expertise of organizations such as the Black China Caucus[109] and the Caribbean Policy Consortium[110].

U.S Embassies in the Caribbean along with the U.S. Department of State Bureau of Western Hemisphere should hire and train specialists in Caribbean political economy.
A robust policy needs to be grounded in robust information analysis. Without specialists hosted in the region who understand the nuances of politics, economics, and culture in the Caribbean there is no way for sufficiently accurate information to flow back to the State Department. Within the State Department itself policy staff must be able to credibly synthesise and formulate strategy proposals based on the information obtained. To do this they also need to be keenly aware of the dynamics of the Caribbean on its own terms. Further, the State Department should commission annual comprehensive reports (jointly authored by non-State Dept. subject matter experts) on Caribbean political economy and foreign policy.

[109] See https://www.blackchinacaucus.org/

[110] See https://lacc.fiu.edu/news-1/2020/lacc-and-caribbean-policy-consortium-cpc-launch-caribbean-policy-series/

OPENING STATEMENT OF LUIS RUBIO, CHAIRMAN, MEXICO EVALUA

COMMISSIONER SCISSORS: Thank you, Mr. Griffith.

Dr. Rubio?

Dr. Rubio, we can't hear you.

CHAIRMAN BARTHOLOMEW: Dr. Rubio, yes, we can't hear you.

COMMISSIONER SCISSORS: We can't hear you.

DR. RUBIO: Sorry about that.

COMMISSIONER SCISSORS: Okay.

DR. RUBIO: Thank you, Dr. Scissors.

Dear Members of the Commission, thank you very, very much for the opportunity to appear before you.

No one can doubt the enormous ambitions of China as a world power. Mexico, however, has been spared of much of the Chinese hyperactivity activity in Latin America because China sees Mexico within the American sphere of influence.

Today, (audio interference) --

CHAIRMAN BARTHOLOMEW: Jameson?

COMMISSIONER TALENT: Dr. Rubio, we cannot hear you.

(Whereupon, at 3:14 p.m., the foregoing matter went off the record and went back on the record at 3:28 p.m.)

CHAIRMAN BARTHOLOMEW: We're going to start again and we're going to pick up -- some technical difficulties here. But, Dr. Rubio, let's go ahead and, I'm sorry, but can you start your testimony again from the beginning?

DR. RUBIO: Sure. Thank you.

Thanks again for the opportunity to appear before you.

No one can doubt the enormous ambitions of China as a world power. Mexico has been spared of much of the Chinese hyperactivity in Latin America because China sees Mexico within the American sphere of influence.

Today, however, it is Mexico, not China, that is seeking China. More important, it was President Trump's threat to do away with NAFTA that triggered Mexico's approach to China. NAFTA's importance to Mexico can hardly be overstated. More than a trade agreement, NAFTA was the main source of legal and political certainty for the country's development ever since it came into force.

USMCA upgraded NAFTA, but stripped the legal components inherent to the earlier trade agreement that made NAFTA so transcendent. In so doing, it opened up a Pandora's box, which had a lot to do with why Mexico began to rethink its relationship with both the U.S. and China.

The common U.S.-Mexico border is an extraordinarily complex and diverse region where two cultures, people, histories, and (audio interference) clash, often producing sources of conflict. Two mechanisms were agreed upon in 1988 that made it possible to address problems without generating diplomatic crises. One was a common vision about the future, one of eventual convergence; the other was an agreement on the principle of compartmentalization, which allowed managing this complex relationship without causing endless conflict and publicity that this brought about. This worked well until President Trump's arrival at the White House in 2017.

President Lopez Obrador has long been a critic of both the economic policies of the previous decades and of his nation's closeness with the U.S. In the absence of a change in

America's position on NAFTA, his options to shift course would have been limited. However, his coincidence of vision with President Trump gave him the opportunity to devise a potentially new course for Mexico.

China has long had a keen geopolitical perspective on Mexico. As compared to Brazil or Peru, it has had very small participation or investment in the country. Perceived American weakness, while especially a willing Mexican administration, has begun to change that picture.

On the Chinese side, China benefits by challenging the American hegemony in the region. And on the Mexican side, it fuels its drive to diversify away from the U.S., though, so far, mostly in a symbolic way.

Some quick specific issues.

Mexico's composition of trade does not lend credence to the notion that China has been using Mexico's duty-free access to the U.S. as a vehicle to sidestep existing restrictions imposed by the U.S. to Chinese exports. In addition, not all of Mexico's exports to the U.S. enter as tax-free goods. Many, including those with Chinese-made components, pay duty on entering the States.

The original Trans-Pacific Partnership, TPP, was meant to address two objectives. One was to upgrade NAFTA without focusing on a direct renegotiation among its three partners. The other was to effectively create a free trade zone in the Pacific region to strengthen America's ties with its Asian trading partners other than China.

TPP entailed a strategic vision that matched the notion of an American-led world order of yesteryear. By abandoning it, the U.S. wasted a major opportunity to achieve these two objectives. Four years later, the political context has changed, but not the transcendence of the original goals in both the Pacific region as well as in North America.

What is uncontestable is that a significant increase in Chinese influence over Mexico would have strong implications for U.S. security. Much more important than trade or cultural penetration, China's influence in Mexico is particularly significant on two fronts: as supplier of inputs to illegal drug companies based in Mexico, particularly fentanyl, and as an illegal point of entry by Chinese migrants into the U.S. territory.

Still, the match between China and Mexico is not an easy one. Whereas, the American and Mexican economies complement each other, Mexico competes with China as they produce similar goods.

China unleashes passions everywhere, but, beyond the emotions, the structural factors of this triangle explain why Mexico's economy is so tightly aligned with that of the U.S. Politics, however, could distort the economic rationale.

The issue at heart for Mexico -- and therefore, for the U.S.'s weakest border -- has nothing to do with China. The challenge has to do with Mexico's own weak systems of governance that produces frequent crises, those that NAFTA was meant to allay, and did successfully for some decades. From this perspective, it is critical to understand that Mexico's problem is not corruption, drugs, or violence, but the lack of governance duly anchored in the rule of law.

In conclusion, Mexico's government is exploiting the current situation to distance Mexico from the U.S., at least politically, to satisfy an ideological view, as well as internal political-electoral objectives. Thus, the main conclusion is that it is the U.S.-Mexico relationship that needs addressing, for China is not a challenge at this juncture.

I have three broad recommendations for congressional action.

First and foremost, to strengthen ties between the two countries. The strongest supporters of democracy in Mexico are also the most reliable friends of the U.S. Many of them are former students of American universities. The virtuous circle never fails, and it must be deepened and expanded in every area of life and the economy.

Second, to help strengthen Mexico's institutions. The best antidote to Chinese interference, and the best way to strengthen the common border, is to support the organizations fighting for democracy against corruption and for freedom of information.

And third, make use of American institutions to strengthen Mexico's. Support all and every effort to continue reducing and eliminating obstacles to trade, investment, and overall economic integration. Foster active exchanges among judges, justices, legislators, regulators, and mayors. Promote workshops among teachers of both nations and fund cultural exchanges among actors, cooks, academics, and so on.

China is an active player because it supports the status quo. It sells technologies that can be used to control the populations and is willing to employ corruption to advance its objectives. And in that, it matches the nature of Mexico's political system and practices. It finds in Mexico a potentially rich environment for its expansion because of the country's weaknesses. It is those that the U.S. could help change.

Thank you very much for the opportunity.

CHAIRMAN BARTHOLOMEW: Thank you.

Sorry, Mr. Griffith, before we start, I just wanted to assure you that the technical difficulty happened after you had spoken. So, your testimony will still be completely on the record with us.

MR. GRIFFITH: Thank you.

PREPARED STATEMENT OF LUIS RUBIO, CHAIRMAN, MEXICO EVALUA

Luis Rubio Ph.D.

Chairman, Mexico Evalua

Woodrow Wilson Center Global Fellow

The US-China-Mexico Triangle: a strategic assessment

Testimony Before the U.S.-China Commission Economic and Security Review Commission

May 20, 2021

After four decades of extraordinary transformation, no one can doubt the enormous ambitions of China as a world power. This transformation was dramatically aided and abetted by the retreat launched by President Trump over the past four years, leaving it fertile ground for the political and strategic, as well as economic, expansion project it is building throughout Asia and Africa. Its aspiration to recoup its importance as a world power has further reached Latin America, where its presence has grown exponentially over the past two decades.

Mexico has been spared much of that process, and thus constitutes an odd character in this general picture. However, in a rapidly moving world dynamic, this picture has begun to change, and it is Mexico, not China, that is introducing new elements into the bilateral relationship. Yet more important, it was Trump's threat to do away with NAFTA that triggered Mexico's approach to China.

NAFTA's importance for Mexico can hardly be overstated. More than a trade agreement, NAFTA was the main source of legal and political certainty for the country's development ever since it came into force. In a country with a weak legal system and similarly frail institutions, and a propensity for every new government to attempt to reinvent the wheel, NAFTA became a bastion of legality and thus certainty for the future. Although not perfect and surely in need for an upgrade, the trilateral trade agreement that came into operation in 1994 was critical in compelling Mexico's governments to stay the course in economic policy and pursue the gradual integration of the three North American economies. USMCA upgraded NAFTA but stripped the legal components inherent to the earlier trade agreement that made NAFTA so transcendent. In so doing, it opened up a Pandora's box, which has a lot to do with how Mexico began rethinking its relationship with both the US and China.

Three elements were changed in the renegotiation of NAFTA. First, the new agreement was stripped of the legal protections to investors in the industrial sector, Mexico's largest engine of growth; second, USMCA expires every six years, which means that it does not provide long term certainty. Much more important, the mere fact that the United States was willing to do away with the main source of stability and certainty for Mexico's gradual evolution towards an open market economy and a thriving democracy, radically changed the political equation in Mexico. In one word, NAFTA was a straitjacket that forced Mexican governments not to stray away from the established course. By threatening NAFTA, President Trump unleashed a series of forces that had long wanted to distance Mexico from the US. For President López Obrador, Trump's actions constituted the opportunity to rethink Mexico's standing vis-à-vis the world as well as its long-term perspective without being blamed for it.

Mexico and China in a geopolitical context

Mexico is located in a geopolitical zone distant from that of China, which has conditioned much of the historical nature of the bilateral relationship. In plain terms, this has entailed a cordial diplomatic relationship but not close political or diplomatic ties. The paradox in recent years is that it was the attitude of the U.S. that began generating a mutual incentive to explore common alternatives. In addition, since 2018, a change in political vision in Mexico has helped advance a radically new perspective on what can be termed a new "geopolitical triangle," namely: the US, China, and Mexico.

Historically, Mexico always sought diversification away from the United States. However, since the mid-1980s, Mexican governments began to realize that it was closeness to the US that could help Mexico achieve its development goals. This despite the obvious cultural, economic, political, and historical differences and contrasts that characterize these two nations.

For three decades, both nations, the United States and Mexico, worked together to address the multiplicity of issues that characterize the mutual border and that inevitably are the source of potential conflict. In this vein, two mechanisms were agreed upon in 1988 that made it possible to address problems without generating diplomatic crises. One was a common vision about the future (one of eventual convergence), regardless of the differences in perception about the implied timeline to reach it. The other was an agreement on the principle of compartmentalization, which allowed managing this complex relationship without causing endless conflict and the publicity that this brought with it. This worked well until Donald Trump's arrival to the White House in 2017.

President Andrés Manuel López Obrador has long been a critic of both the economic policies of the previous decades and of his nation's closeness with the United States. In the absence of a change in America's position on NAFTA, his options to shift course would have been limited.

However, his coincidence of vision with President Trump gave him the opportunity to devise a potentially new course for Mexico.

To begin with, the two presidents had in common a stark disapproval of the two principles that had prevailed in the management of the bilateral relationship since the 1980s. They disagreed on both the common vision and the principle of compartmentalization. In fact, they implicitly agreed on the opposite: distancing the two nations from each other and, rather than addressing the inexorable manifestations of conflict that stem from such a complex border, they sought to avoid the conflict altogether by negating its existence.

For Mexico's President, that was an ideal arrangement, for it matched with his objective to reenact the old, twentieth century Mexican principle of distancing the country from the United States. Implicit in that perspective is the objective to diversify relations with other nations, especially with China and Russia. This is not a power play or a strategic, geopolitical ploy, but a domestic-driven objective of maintaining internal unity through opposition to the neighbor to the north. This is an old tactic that, for many years, served a useful political purpose. It is doubtful that, given the depth of the bilateral relationship both at the economic and peoples' level, such a strategy could deliver any visible benefits.

On China's side, it is important to realize that, as clear in its objectives and policies as China might appear, its actual behavior is, in the words of Philip Orchard,[i] "an odd combination of rising confidence and a permanent crisis mentality." This impacts its behavior on a permanent basis and, as it pertains to Mexico, is probably an important source of the ups and downs that the bilateral relationship shows. Obviously, it also impacts everything else it does on every issue and front. However, this does not alter the relatively modest objectives of the current Mexican government, which largely sees China as a vehicle for its domestic agenda.

China's perspective on Mexico

China has long had a keen geopolitical perspective on Mexico. If one looks at the investment patterns of its companies or at its diplomatic overtures, what is noticeable is the fact that these are few. Compared to Brazil or Peru, to cite two obvious examples, China has understood Mexico as part of what could be termed the American sphere of influence, and thus not a country of prime interest, despite its relative size.

Two circumstances altered this picture: on the one hand, the new U.S. tone under the Trump administration, which re-opened discussion within Mexico concerning the elevated concentration of economic ties with the U.S. It is important to state that this rethinking took place before President López Obrador came into office. The context was a series of protectionist actions by the Trump administration and, especially, the threat to cancel NAFTA, that triggered demands to review the country's national priorities.

On the other, on China's side, its new assertiveness stemmed from its drive to exploit what it perceives to be growing American weakness. Establishing new geopolitical realities thus became its own national priority. China's clarity of vision contrasts with the lack thereof in the United States and, as it pertains to Mexico, has provided an opportunity for Mexico's government to attempt to diversify. Yet, if one looks at the numbers, these diversification efforts are tiny, inconsistent, and much more symbolic than substantive. Also, they are probably not devoid of potential opportunities for corruption.

Mexico has had a long relationship with China: from the establishment of diplomatic ties in 1972, the political relationship has been profound, albeit not so the economic one. Despite Mexico being the second largest Latin American economy, its trade with China is one of the smallest with the Asian giant. In 2018, two-way trade between both nations amounted to US$90 billion. China was Mexico's fourth biggest export market in 2014 and second biggest import trading partner. Mexico's exports to China amount to US$5 billion each year while Mexico's imports from China amount to US$66 billion with a difference of US$61 billion in China's favor.[ii] Several Chinese multinational companies operate in Mexico such as Hisense, Huawei, JAC Motors, Lenovo and ZTE.[iii] At the same time, several Mexican multinational companies operate in China such as Gruma, Grupo Bimbo, Nemak and Softtek.[iv] At more than US$677 billion in yearly two-way trade across the US-Mexico border, these figures dwarf Mexico's economic ties with China.[v]

China's ambitions in the world include Mexico, but it is only lately that Mexico began courting Chinese investment. Although the numbers are small, their relevance is political. The Mexican government has contracted Chinese firms to participate in the construction of the flagship Maya train project and the Dos Bocas refinery, while China's State Power Investment Corp. has acquired Mexico's largest independent renewables company. In previous years, Mexico contracted a Chinese company to build a fast train between Mexico City and Queretaro, but the project failed, as did a trade center, Dragon Mart, in Cancun.

Beyond the stable, albeit shallow, political and diplomatic bilateral ties, the China-Mexico relationship ought to be understood within a US-China-Mexico triangle. It is the Unites States that, indirectly, implicitly, and usually without realizing it, drives the relationship. On the Chinese side, China benefits by challenging the American hegemony in the region, and, on the Mexican side, it fuels its drive to diversify away from the United States, though, so far, mostly in a symbolic way.

NAFTA -now USMCA- and China

Mexico's composition of trade does not lend credence to the notion that China has been using Mexico's duty-free access to the United States as a vehicle to sidestep existing restrictions imposed by the US to Chinese exports. In addition, not all of Mexico's exports to the US enter as tax-free goods: major industrial companies, especially those involved in integrated supply chains, have become extremely deft at separating their intra-company exports that comply with the rules-of-origin required by USMCA from those that do not, the latter paying duty on entering the US. Some of those exports go through as items within the USMCA rules, others go through normal trade rules, paying their respective duty.

For its part, China was the United States' main trade partner in 2018, accounting for 15.7 percent of the total US trade. It is the top supplier of the US economy, with a 21.1 percent share of all US imports, up from a share of less than 3 percent 30 years ago. However, China buys only 7 percent of that country's exports. This difference resulted in a trade deficit of close to US$415 billion dollars in 2018.

During the first quarter of 2019, Mexico surpassed Canada and China to become the top trade partner of the US, with 15 percent of the total US trade. China's share was down to 13.1 percent during the same period in 2019. The US allocated 6.4 percent of its exports to China during the first quarter of 2019, a number that is 1.6 percentage points below that of the same period in 2018.

In terms of imports, during the first quarter of 2019, 17.7 percent of US imports came from China, down from the 20.5 percent registered in 2018. The 2.8 percentage point's variation in the demand for US imports equals 16.76 billion dollars, which is more than the total exports from Vietnam, the seventh largest US supplier, during the first quarter of 2019. In 2019 Mexico grew its share as a US supplier, reaffirming its position as the second largest supplier worldwide, with a 14.5 percent share of the total US imports.[vi]

The dynamic of North American trade over the past three decades has involved the rapid development of vertically integrated supply chains. These "strengthened the competitiveness of U.S. companies and helped Mexico accelerate its diversification of exports and imports. Vertical specialization was used in manufacturing production maquiladoras (Mexico's export-oriented assembly plants) across the U.S.-Mexico border: maquiladoras use large amounts of imported materials produced in the United States and assemble them into the final product, and then export most of the final product back to the United States with duty-free status. Vertical specialization has allowed the United States and Mexico to leverage their economies by collaborating in the manufacturing and assembly of various products, including automobiles, computers, and electronics. Mexico is now one of the largest auto manufacturers in the world, producing almost 4 million cars per year."[vii]

The original Transpacific Partnership (TPP) was meant to address two objectives: one was to upgrade NAFTA without focusing on a direct renegotiation among its three partners. The other was to effectively, create a free trade zone in the Pacific region to strengthen America's ties with its Asian trading partners other than China. TPP entailed a strategic vision that matched the notion of an American-led world order of yesteryear. By abandoning it, the US wasted a major opportunity to achieve these two key objectives. Four years later, the political context has changed, but not the transcendence of the original goals, in both the Pacific region as well as in North America.

As it pertains to Mexico, no objective assessment of the trading and investment patterns of Mexico with the rest of the world could conclude anything other than its primary trading and investment relationship is with the United States. The aim of developing and expanding new markets is natural, but given today's integrated supply chains, there is nothing that suggests that the essence of these facts will be altered anytime soon.

Despite what some Mexican politicians might claim in their rhetoric, the fact is that the US constitutes the main engine of growth of Mexico's economy and its strongest source of stability, both economic as well as political. More important, the closer and deeper the level of integration, the more difficult it becomes to alter these patterns. Furthermore, USMCA would not have been concluded without the active participation of President López Obrador. This was the case both to conclude the negotiations themselves, when he had just been elected president, but before his inauguration, and later, during the process of its ratification by the US Congress. Hence, it is critical to separate rhetoric from substance and, no less important, preferences from realities.

China's influence in Mexico

China and Mexico have increased cultural and political exchanges in the past two years. Although the leaders of both nations have paid visits to each other for many years and signed cooperation agreements of various types, it is only recently that Mexico has made a concerted effort to upgrade such ties. The driving force for these ties is twofold: one, as has been mentioned, is a belated response to Trump's degrading of NAFTA; the other is a politically motivated attempt to distance Mexico from the US. The numbers show that this remains largely a symbolic relationship, but China is a long-game player and may be hoping to take advantage of the current nature of Mexico's government to increase its influence over the long term.

Roman Ortiz argues that "A significant increase in Chinese influence over Mexico would have strong implications for U.S. security. Washington has, until now, maintained a 'special relationship' with its southern neighbor in terms of security cooperation."[viii] Limited economic ties have meant weak political relations between the two countries, and while Chinese and Mexican leaders have exchanged visits periodically, diplomatic dialogue has lagged behind that of other Latin American countries. Although Mexican government officials have called for a strategic partnership with China, the foundations for such a venture are weak. However, they do signal the underlying intent and that is what ought to be considered relevant from a strategic perspective.

Much more important than trade or cultural penetration, China's influence in Mexico is particularly significant on two fronts: as supplier of inputs to the illegal drug industry often based in Mexico, particularly fentanyl; and as an illegal point of entry by Chinese migrants into US territory.

Chinese migration to the US through Mexico has grown exponentially over the past decade. Detentions at the border increased from 48 to 752 from 2015 to 2016, while the estimated illegal Chinese population in the US, the third largest, was assumed to be of three hundred thousand in

2016.[ix] These numbers would appear to be minor when compared to other nationalities, but it is their link with organized crime that is relevant.

On the drug front, Mexico has long been the largest single avenue of entry into the United States. Starting with marijuana produced in Mexico, almost a century ago, the Colombian mafias introduced cocaine since the 1950s. In the 1990s, Mexican criminal organizations took over the distribution business of South American drugs into the American market. In response to changing US demand, they have moved to synthetic drugs in the past decade. In contrast with marijuana, which was grown in Mexico, the only thing Mexican about synthetic drugs is the fact that they are manufactured in Mexico with mostly foreign raw materials, most of them of Asian origin, China being an important supplier. The significance of this is that the laboratories that produce these drugs establish themselves in Mexico since they face less risk of police interdiction than they would in the US. The latter touches at the core of Mexico's vulnerability in this and other areas: lack of governance.

China has long seen Mexico through a geopolitical lens and acted that way: understanding that this is a triangular relationship regardless of temporary swings in mood by any of the parties involved. However, should the structural factors that tie the US and Mexico continue to weaken, it is to be expected that China would continue responding to Mexican overtures and exploiting every opportunity that presents itself.

The structural factors in the triangular relationship

China's attractiveness to Mexicans stems largely from its size and exceptional ability to transform itself into an economic powerhouse in a generation. Not being the United States, Mexico's powerful neighbor, adds to the picture. Much more significant is that Mexicans see themselves in the Chinese mirror and see, with envy, the lost opportunity that it has become. Very few Mexicans understand China or its nature. Yet, it stands out as a successful nation, which many Mexicans would therefore want to imitate.

Mexico's attractiveness to China is twofold: on the one hand, it is a large country and a significant consumer market. On the other, it is another road of access to the largest market in the world.

Whatever way one sees it, the biggest factor in this relationship is neither Mexico nor China, but the United States. For different reasons, both China and Mexico see opportunities in each other that stem from the fact that the US is a natural and inevitable vertex in this triangle. And yet, the structural factors in this triangle make it clear that the drivers of this relationship are and will remain weak for a long time:

- In contrast with the United States and other developed countries, China is a nation that competes with Mexican products in the most diverse sectors; in fact, it has displaced entire industries, such as footwear, clothing, textiles, toys, and electronics.

- Mexico and the US produce different products (or similar products at different stages of the production process), thus sustain a naturally complementary economic relationship.
- As China reorients its economy towards consumption, the competitive nature of the Mexico-China relationship might diminish, which might open up opportunities for Mexican exports to its market.
- The size of the Chinese market today is unmatched by any other. India's might one day be larger but, as of today, expanding into the Chinese market represents a potentially unique business opportunity.
- In economic, political, and military terms, China is a rising power that, in the long run, could rival the United States.
- In its consolidation process, China is building what has been called a "logistics empire," through the construction of the One Belt, One Road initiative, to which it plans to dedicate hundreds of billions of dollars in the coming decades. Beyond logistics, it is a strategic project that entails top-down decision-making ability which contrasts with the decentralized nature of the United States.
- Some Latin American countries have been important factors in China's growth plans, both as originators of raw materials and as markets. The rise and fall of economies like the Brazilian one in the last three decades exemplify China's modus operandi: the Chinese remain a transactional power.
- China, as an emerging power, is challenging the so-called "world order" established after World War II, generating fear and rejection in the Asian region. There too, the United States is the factor of power that is being challenged.
- China's strengths are obvious, but so are its weaknesses. It is a nation that has grown rapidly, but still suffers from the contradictions inherent to a country with extraordinary internal contrasts, an ageing population, and an authoritarian political system. Its challenges facing the future remain vast, both in terms of political stability as well as in surpassing the so-called middle-income trap, but so far it has proven capable of surmounting them. Should it succeed without altering its political system, the lesson to the rest of the world would be extraordinary, to the detriment of democratic systems.
- In contrast with other Latin American nations, especially Argentina, Brazil, and Peru, Mexico has not been a significant exporter to China. The latter results, first and foremost, because Mexico's economy is not a relevant producer of raw materials, grains, and foodstuffs. On the other hand, China operates under a clear geopolitical conception and does not deviate from it. From this perspective, its distance from Mexico (leaving aside failed projects such as the Querétaro-Mexico fast train and the Dragon Mart) is explained more by the closeness that Mexico has with the US economy -that is, a geopolitical logic- than a strictly pecuniary one.

China unleashes passions in Mexico. Some see it as a model to be imitated, others as a threat to their markets and the country's wellbeing. Beyond emotions, the structural factors of this triangle explain why Mexico's economy is so tightly aligned to the US. Politics, however, could distort the economic rationale.

The true challenge that Mexico faces has nothing to do with China or with the United States. It has to do with its own weak system of governance that produces frequent crises, those that NAFTA was meant to allay and did successfully for decades. In the absence of that anchor of stability, Mexico would have to develop its own sources of trust and stability. From this perspective, it is critical to understand that Mexico's problem is not corruption, drugs, or violence, but the lack of governance duly anchored in the rule of law. NAFTA was meant to help advance and strengthen the rule of law, which it did, albeit for the modern economy only. The so-called "China card" is not more than a symptom of the absence of a proper structure of governance and legality.

Conclusion

Mexico's aims in its overture to China are limited and more emotional than substantial. An objective assessment of the three bilateral relationships in this triangle reveals that both China and Mexico are exploiting an American vulnerability, albeit with different goals. There is no reason to conclude that there is, as of today, a concerted strategy to profoundly change existing patterns in this triangle anytime soon.

Mexico's government is exploiting the current situation to distance Mexico from the United States, at least politically, to satisfy an ideological view as well as internal politico-electoral objectives. As such, it represents a small danger to the United States. However, should this turn into a pattern, the long-term implications could become important. Thus, the main conclusion is that it is the US-Mexico relationship that needs addressing, for China is not a challenge at this juncture.

Most important, in contrast with China's keen geopolitical eye on every action it takes, Lopez Obrador has much more limited aims and those relate to being left alone by the Americans, not leading an earth-shattering break like Cuba or Venezuela did in their time. In fact, the only way a strategy meant to really transform the China-Mexico relationship would succeed is if were conceived within the relationship that Mexico currently has with the United States.

In other words, any future relationship would probably be within the US-China-Mexico triangle, which could easily be expanded depending on the way the US-China relationship itself evolves. By the same token, it is obvious that Mexico could be a natural beneficiary of disinvestments in China, but the Mexican government is doing absolutely nothing at this time to make this possible or help it along.

But the truly relevant strategic piece in the US-China-Mexico triangle is the United States itself, which has been absent for the last four years and shows no sign of realizing the challenges it faces in its southern border and is oblivious to the (relatively easy) alternatives at its disposal.

Recommendations for Congressional Action

Rationale

Two forces attract a Chinese presence in Mexico. One is the nature of the Mexican political system, where President López Obrador is looking to distance Mexico from the United States, even as he weakens internal checks and balances; the other is the transactional nature of the Chinese government. The connection between the two is an extremely weak system of government and governance which was designed, whether intentionally or not, to function through a network of corruption that made the government work. It is in this context that NAFTA was such an important factor in the gradual process of reform that the country was undergoing. The core of my recommendations has to do with the quality and strength of Mexican governance, for therein lies the key to a stronger southern neighbor and border, as well as a lesser participation of China in the region.

I. First and foremost, strengthen ties between the two countries

The strongest supporters of democracy in Mexico are also the most reliable friends of the United States. Many of them are former students of American universities. The virtuous circle never fails, and it must be deepened and expanded in every area of life and the economy. There is no better antidote to Chinese interference than a citizenry that feels comfortable with its neighbors, on both sides. Hence, getting Americans and Mexicans to know each other better and eliminating sources of conflict is in both nations' long-term interest.

Support all and every effort to continue reducing and eliminating obstacles to trade, investment and overall economic integration. Reinforce the supply chains among American and Mexican companies on both sides of the border. Help all efforts to increase students studying in each other's country and increase scholarships to that effect. In a word, help both societies appreciate the others' virtues. Foster active exchanges among judges, justices, legislators, regulators, and mayors. Promote workshops among teachers of both nations and fund cultural exchanges among actors, cooks and academics.

II. Help strengthen Mexico's institutions

Mexico's traditional political system was based on a strong presidency and a powerful political party that served both as a mechanism to channel disputes and conflict as well as a counterweight to the executive. Over the past three decades, a new system began to develop without a preordained design, but with a strong institutional and transparency bias. Since the 1990s, a strong credible supreme court was developed with proper anchors of independence and autonomy. A similarly autonomous national electoral authority and its respective tribunal was consolidated. An entity to make functional the freedom of access to information was founded, as were human rights commissions, a competition commission, a telecommunications commission, and several regulatory entities for the energy sector. These institutions gained standing and credibility over time. As of two years ago, all of them are under attack. Some have been eliminated, others neutralized, and most have been packed with individuals who are loyal to the president and usually neither independent nor technically competent.

Help strengthen these institutions and entities by exposing their growing weaknesses and supporting independent non-government organizations that are in the business of assessing, exposing, and improving the quality of these institutions and provide them with strong political backing. Foster and fund the training, professionalization, and capacity building of analysts and activists in the anti-corruption and transparency fields, preferably by observing best practices and ethics in American public and private institutions.

III. Help the adoption of digital technologies that do not support authoritarian practices

China's (and other) technologies are a perfect match for a government bent on exerting increasing control over the population. These technologies have been used to persecute political rivals, independent institutions, and reporters. Instead of persecuting and prosecuting criminals and organized crime in general, these technologies have been diverted to use against political rivals and independent entities.

Support local and international efforts to combat the use of these technologies, expose their existence and help the growth of a strong liberal-democratic citizenry. Support independent institutions in the human-rights arena, those advancing democracy, and, especially, those developing better governance practices.

IV. Support the fight against corruption, authoritarian technologies, and insecurity

As I argued, Mexico's true challenge is one of governance. The efforts of the past three decades to develop a modern system of government, accountable to the people, failed because the core of the old political system never changed, the nature of its pervasive corruption (from the bottom up) was never altered, and all efforts to improve security and the system of justice never took root as they did not address the needs of the population. Instead of anchoring security from the lowest municipal level to the federal government, all effort, many of these actively supported by the US, were imposed from above, using the army rather than investing in local police forces and the local justice system. In a word, as imaginative and well-meant as many of those efforts were, none recognized that the problem was the basic structure of governance of the country.

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China is an active player because it supports the status quo: sells technologies that can be used to control the population; and is willing to employ corruption methods to advance its objectives (and, in that, matches the nature of Mexico's political system and practices). It finds in Mexico a potentially rich environment for its expansion because of the country's weaknesses.

Mexico is a weak link in the North American region. Supporting a rapid transition to a stronger democracy is in the United States' best interest not only to limit the growth of China's presence in the country, but also to reinforce the North American region and the US's weakest border. A more democratic and open Mexico was at the core of the NAFTA project. It is high time to rethink it and develop a more forceful approach to reach the objectives that are today as valid and relevant as they were when that program was first conceived in the 1980s.

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OPENING STATEMENT OF OLIVER DELLA COSTA STUENKEL, ASSOCIATE PROFESSOR, FUNDAÇÃO GETULIO VARGAS SCHOOL OF INTERNATIONAL RELATIONS; NONRESIDENT SCHOLAR, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

COMMISSIONER SCISSORS: Thank you, Dr. Rubio -- for both of your presentations. Dr. Stuenkel.

DR. STUENKEL: Thank you very much, Commissioners. It's a pleasure to be a part of this hearing.

I'd like to make a few brief points about China's role in Brazil, which I believe is useful to think about Beijing's role more broadly in Latin America, and how the United States could respond.

The first issue, which is fairly obvious, but I think it's still worth making it, is that China has two major advantages, both in Brazil and across Latin America. The first is it's very far away, and as a consequence, it's very difficult to make the case to Latin Americans that China is a strategic threat.

And I think it's worth using the example of Vietnam or South Korea, which used the United States, and the proximity and the partnership of the alliance with the United States, to balance China. And in the same way, it's fairly common in Latin America to have China close, which isn't really seen as a threat because it's so far away, in order to balance U.S. influence. And that’s not really -- people who defend that don't really sort of agree with the Communist Party or anything that's being done in China. It's much more sort of a classic realist argument of having another superpower close in order to mitigate the impact of being so close to another.

And that, I think, leads me to my second point. The U.S. rhetoric in Latin America that people should sort of be careful with China, et cetera, tends to be unconvincing and counterproductive as a consequence, especially if, as previous U.S. governments, particularly the Trump Administration has done, makes reference, direct reference, to the Monroe Doctrine, which evokes the traumatic history of U.S. interventions in Latin America.

The second advantage is that there is a lot more economic complementarity between Latin America and China than is the case with the United States. Brazil and the United States compete for access to China's market. They both want to sell soy. And as a consequence, it's much easier for China to promote the trade relationship without facing a domestic backlash, which has been the case in the United States.

So, at the early days of the Trump Administration and Bolsonaro, there was a lot of expectations that trade could be increased, and it was quite obvious that that wouldn't be the case because Brazil's products compete directly with key states that voted for Trump. So, under no circumstance would there be a big deal that would allow Brazilian agriculture to compete with U.S. agriculture, which was supportive of Trump.

So, whatever the United States does in Latin America, it needs to be aware of these two advantages China faces -- that China has in Latin America.

The second issue –- the other issue is that China's strategy in Brazil, I think, is a good example of how effective China has been at increasing its influence without generating much of a backlash. That's, of course, as has been said in previous panels, because China embraces a non-interventionist rhetoric, which is very appealing to Latin America. Under no circumstances, not even in Venezuela, would China ever publicly comment on domestic issues that take place in Latin America.

And that, of course, is sort of seen as an assurance that China is kind of an all-weather friend; that as long as you don't talk about Xinjiang or Hong Kong, or, you know, any of these sort of internal issues from a Chinese perspective, then it's very unlikely that China will criticize you, which is always good to know, because right now Brazil is fairly isolated diplomatically.

There aren't really that many presidents in Europe or in North America who would be happy to meet Bolsonaro, who is kind of a pariah; whereas, he does have the BRICS Summit, where he at least gets sort of a photo op with leaders to show that he's not entirely isolated.

China -- I think one of the effectivenesses of China's engagement in Brazil is that China knows what it's good at -- credits, infrastructure, investments -- but it also knows what it's not good at. It knows very well that China lacks soft power. It will never probably be able to beat America in the realm of soft power.

My students, of course, they prefer to go to spend an exchange year in the United States or do their master's in the United States. And only a small minority would want to go to China, and that's sort of the key issues that the United States, obviously, should focus on. Whereas, China doesn't really engage in that. It focuses more on the things that it knows it is competitive. And I think the United States not necessarily does that.

And the issue of 5G and Huawei was a prime example of that because the United States ended up trying to compete with China on China's turf. And that's not something where there was a clear chance of beating China, unless the United States would have offered the Brazilian government to pay for the difference between what it costs to have Huawei as a key provider of 5G equipment when compared to the much higher cost of having, for example, Ericcson as a supplier.

The next issue I think is that China has a long-term strategy vis-a-vis Brazil, and that allows it to sustain periods of tensions like the one we're experiencing right now. China doesn't really react that much to anti-China rhetoric by President Bolsonaro because it knows that it needs Brazil in the long term.

And the last time I was in Beijing, Bolsonaro had just been elected. And I said, you know, "What do you think about the fact that we have a Sinophobic President now?" And they said: We think about Brazil in terms of like in 10, 15, 20 years. We don't think that Bolsonaro will be in power by then. So, we think long term because we know that we will need Brazilian commodities even 50 years from now. Whereas, we will be able to possibly replace German products or other products of rich countries, we will always depend on commodities.

It's a very, I think, long-term strategy which allows it to navigate these difficult moments it's experiencing right now quite successfully. Brazil has a very anti-China President, but, on the big issues, China has managed to avoid actual anti-Chinese policies.

The second-to-last issue, Brazil is not prepared for a more Asia-centric world. It lacks the knowledge necessary to craft a sophisticated strategy vis-a-vis China. The number of Sinologists is tiny. The number of diplomats who speak Chinese is very small. And as a consequence, it's a profoundly asymmetric relationship.

One of the things that would actually help Brazil is not do it through the United States, but, for example, partner with Australia, a country that is sort of not directly a stakeholder in this great power contestation, and allow Brazil to develop more knowledge on China, which would allow it, I think, to develop a more sophisticated strategy.

And finally, as a recommendation -- and I've heard the previous panels, and they were all excellent -- as I said, I think the mistake that past policymakers, U.S. policymakers, have done is to warn publicly the Latin American publics of the influence, growing influene, of China, without recognizing that, of course, the relationship between Latin America and China does produce some benefits.

Latin America is made up of developing countries which really are, to some extent, dependent on China. And the idea of reducing this dependence is not realistic at this stage because of the many benefits that that produces. So, the pressure that the United States may or may not exert on Latin American governments vis-a-vis China should be done behind closed doors, because doing so publicly is counterproductive.

And the second recommendation, last, is to focus on the things the United States is good at. You know, environmental issues, this government is prioritizing these things, empowering civil society, engaging subnational leaders, allowing more Brazilian students to study in the United States. All these are issues where really China cannot compete at all.

The Summit of the Americas is a wonderful opportunity to establish a regional dialog, which doesn't exist right now. Latin American presidents barely talk to each other. So, the United States has a convocatory power to bring together decisionmakers in the region that China lacks. And I think that allows the U.S. to set the agenda in the region in a way that no other country can.

Thank you.

PREPARED STATEMENT OF OLIVER DELLA COSTA STUENKEL, ASSOCIATE PROFESSOR, FUNDAÇÃO GETULIO VARGAS SCHOOL OF INTERNATIONAL RELATIONS; NONRESIDENT SCHOLAR, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

Testimony before the U.S.-China Economic and Security Review Commission: "China in Latin America and the Caribbean"

Oliver Della Costa Stuenkel, Associate Professor of International Relations at Fundação Getulio Vargas (FGV) in São Paulo, Brazil and Non-resident scholar at the Carnegie Endowment for Peace (CEIP) in Washington DC

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• *What are China's most important goals in its relationship with Brazil and how important is Brazil to China's regional and global objectives? How does China's desire to secure Brazilian natural resources drive its economic, political, and security activities in the country?*

China's engagement in Brazil is driven by two main goals. First of all, China hopes to diversify its energy imports and access large markets for Chinese products. Chinese investment is correlated positively with the natural resource wealth of destination countries. For example, China is the world's largest consumer of iron ore and niobium, both of which are vitally important for the country's urban development. Brazil, China's major trading partner in the region, is the number one producer of niobium and third largest source of iron ore. Similarly, China needs Brazilian soybeans to feed its population. Consequently, China Oil and Foodstuffs Corporation (COFCO), a state-owned Chinese food-processing company, has been highly active in the soybean trade with Brazil. As one of the world's major commodity producers, China sees Brazil as a long-term partner and a pillar in a more China-centric global economic system. While China will seek to compete with and outperform more advanced economies such as Germany -- by moving up the value-chain -- Beijing is aware that it will probably never cease depending on commodity providers such as Brazil.

Second, though less explicit and less visible, China seeks to rally support for international norms of independence, sovereignty and territorial integrity. Brazil, along with its Latin American neighbors, still influenced by their experiences with US unilateral interventionism, are generally inclined to ascribe similar importance and meaning to these norms. Mindful of deep-seated skepticism in Brazil of alliances and a strong interest in maintaining strategic autonomy, China has still fairly limited military engagement with Brazil, involving consultations, cooperation between military schools in the form of exchanges and short-term visits. The reason is simple: given the region's geographical proximity to the United States, Chinese policy makers consider Latin America to be part of the United States' broader sphere of influence, and establishing a military presence in the region at this stage could unnecessarily anticipate a great power conflict (which, it must be noted, many Chinese analysts consider to be inevitable in the long term). Beijing is well aware that several Latin American governments, including Brazil, are facing growing pressure on Washington against projects with security implications, and therefore seek to advance more quietly. Beijing is also careful not to comment on internal matters in Brazil, and usually seeks to deflect criticism and not take the bait when Brazilian policy makers criticize China.

Diplomatic ties have deepened since 2009, when the BRICS grouping became a political entity, involving yearly presidential summits, numerous minister-level meetings and, since 2016, the BRICS development bank. Brazil also joined the China-led Asian Infrastructure Investment Bank (AIIB) in 2015.

China has sought to deepen cooperation when specific opportunities arise. A good example is the Lava Jato corruption investigation, which began in 2014 and produced an earthquake in Brazil's business elite and weakened several former national champions, leading to an unprecedented opening for Chinese investors, able to take over several assets Odebrecht and other Brazilian giants were forced to sell. A majority stake in Rio de Janeiro's Galeão Airport, for example, was sold to China's HNA Group. A similar phenomenon became visible in the region as a whole, where Brazilian construction firms involved in corruption scandals shed key investments, such as Peru's Chaglla hydroelectric dam, which went to China Three Gorges. This reveals a familiar pattern of China engaging companies and countries in Latin America when they are most vulnerable, as has been the case over the past years in Brazil.

One key target in Brazil over the past years was energy, and there is some evidence that Chinese investments in this area are not entirely motivated by making quick profits, but rather form part of a broader plan, the so-called 'Global Electricity Interconnection', a subset of the Belt and Road Initiative. Chinese companies have spent around a quarter trillion US-dollars on energy projects around the world since 2000, roughly a fourth of that in Latin America. Indeed, particularly in the energy areas, Chinese investors seem to have overpaid in several instances, such as when China National Petroleum Corporation bought a 20% stake in the Comperj refinery in Rio de Janeiro state, suggesting strategic motives. Another possibility is that Chinese investors tend to be less influenced by short-term political considerations than others. Indeed, one standard response by Chinese investors about what they think about the risk posed by Bolsonaro is that they "think long-term", and therefore pay limited attention to the day-to-day debates in Brazilian politics.

Another new area where Chinese investments are transforming the Brazilian business landscape are technology firms. Companies such as Peixe Urbano, 99 Taxi and Nubank are now partly owned by Chinese companies (Baidu, Didi Chuxing and Tencent, respectively). Felipe Henriquez, a well-known tech entrepreneur, argued that while Brazilians had traditionally looked for investments in Silicon Valley, they now regarded China as a key source of finance. “China's influence has been very important. Latin America is more similar to China than to the U.S. When you go to China, you see what’s going to happen in Latin America in five more years. Today, we look at China. We look at Meituan, at Alibaba and Tencent, to see what we can do in the future.”, he argued in an interview. One of the key reasons why Chinese companies are so relevant for Brazilian entrepreneurs is that China addressed, several years ago, the same challenges that Latin American faces now: "the unbanked, no-credit scores, no phone-to-suddenly having smartphones.”

• *What are Brazil’s goals for its relationship with China, and where are there frictions in the relationship?*

Brazil's greatest benefits from the relationship to China are economic. Irrespective of what Brazilians think about China's political system, the Asian country's economic rise inspires awe in Brazil, especially considering the fact that Brazil's economy was bigger than that of China only four decades ago. During most of the time since then, China's economy has achieved double-digit growth almost throughout, while Brazil has seen two so-called "lost decades" without meaningful growth: the 1980s and the 2010s. While Brazil’s trade with China was modest only two decades ago, the Asian country quickly became Brazil's main trade partner, a position it obtained in 2009. Total bilateral trade rose from about $3 billion in 2001 to $44 billion in 2010 and to about $100 billion in 2019. This trend is expected to continue, given economic complementarities.

Since then, a broad consensus has emerged in Brazilian society that trade and investment ties to China are beneficial and must be protected, and even the election of Jair Bolsonaro, who embraced a pro-US and anti-China rhetoric during the campaign, has not affected this overall dynamic. There are, of course, those who point to the asymmetrical trade relationship which involves Brazil exporting commodities to China and importing value-added goods, but this is largely seen as a symptom of underlying challenges Brazil's economy faces. Despite Bolsonaro's systematic anti-China comments and his efforts to strengthen ties to the United States, US-Brazil trade has fallen to the lowest level in eleven years, while trade with China is booming. The Asian country is now the destination of 34.1% of Brazilian exports, a figure that is set to grow given China's relatively quick economic recovery from the pandemic. On the investment front, however, the United States continued to be a more important actor in Brazil than China, which has reduced its investments somewhat over the past years.

Brazilian policy makers also see China as a useful ally to offset US influence and improve Latin America's negotiating position vis-à-vis Washington -- a bit like Vietnam, South Korea or Japan, which seek closer ties to Washington to balance China's influence in its vicinity. To Latin American foreign policy makers, the best way to react to growing geopolitical tensions between the United States and China is thus obvious: Stay neutral and maintain cordial ties to both superpowers. Given Latin America’s geographic proximity to the United States, growing economic dependence on China, and historic aversion to long-standing alliances that limit strategic autonomy, leaders across the ideological spectrum have largely decided to embrace a pragmatic stance and maintain friendly ties with both Washington and Beijing.

Bolsonaro therefore tasked his vice president, Hamilton Mourão, with protecting Brazil’s ties to China. Along with most of Brazil’s foreign-policy establishment, Mourão has long been an advocate of neutrality as tensions between Washington and Beijing have intensified. So even as Bolsonaro made deals with Trump over the past two years — including an agreement to facilitate trade and to consolidate the United States’ role as leading investor in the country, a space cooperation agreement allowing the United States to use a launch site in Brazil, and the designation of Brazil as a major non-NATO ally — the country’s economic dependence on China deepened considerably.

While anti-China sentiment is not as deeply rooted as anti-Americanism in Brazil, Bolsonaro is unlikely to have been the last Brazilian politician to stoke sinophobia, and it will likely be a low-hanging fruit for right-wing policy makers to mobilize their followers.

• *How has China leveraged party-to-party engagement and other political influence activities to build influence and further its objectives in Brazil?*

Over the past decade, China has promoted a large number of diplomatic initiatives involving Brazil, creating an unprecedented engagement on many different levels of Brazil's bureaucracy and foreign service. While only a decade ago most Brazilian bureaucrats had rarely if ever engaged with Asian counterparts, frequent engagement is now commonplace. The BRICS grouping is an example -- initially comprising annual meetings of presidents and foreign ministers that were largely symbolic. Today, however, the BRICS grouping involves around one hundred meetings per year, around fifteen of which involve the participation of ministers. Contrary to initial expectations that center-right governments in Brazil would reduce their engagement in the grouping, the grouping has only gained relevance: Michel Temer, who substituted Dilma Rousseff after her impeachment in 2016, participated in two BRICS Summits and several bilateral visits in Asia, but did not visit Washington DC a single time during his time in office. Despite frequently embracing an anti-China rhetoric, Brazil today needs the BRICS grouping to avoid diplomatic isolation.

Chinese diplomatic initiatives in the developing world have been long underestimated by Western observers. Many US analysts questioned to what extent China would be able to project soft power, pointing to its authoritarian nature and numerous domestic problems, ranging from pollution, corruption, and systematic repression of its minorities. Yet a closer analysis reveals that Chinese diplomatic initiatives do not aim to make Latin Americans seek to live in China or replicate China's political system. Rather, their goal is more limited yet remarkably effective -- Beijing merely seeks to make sure that its engagement in Latin America is seen in a neutral way. In the same way, China understands that the easiest way to project itself positively in Latin American is by emphasizing its policy of non-interference, marking a sharp contrast to the United States.

Considering the evidence, the strategy is working relatively well, and initiatives such as the China-Latin America think tank forum (launched in 2010), the China-CELAC Forum (launched in 2014) and the World Political Parties Dialogue (launched in 2016) are low-cost affairs but give the Chinese government a platform to project its message. The second China-CELAC Forum took place in 2018, during which participants agreed to deepen cooperation, as well as issuing a declaration supporting the Belt and Road Initiative. The BRI is quickly gaining visibility in Latin America, and several countries have recently signed bilateral agreements to participate in the initiative. As Shoujun Cui, the Director of the Center for Latin American Studies at Renmin University of China (RUC), wrote during the Trump presidency, reflecting confidence in China's strategy in Latin America,

> *In an era when the Trump administration insists "America First" and upholds trade protectionism, China's embrace of globalization encourages Latin American elites to*

prioritize China in order to grow their economies and fill infrastructure gaps. As indicated by its second policy paper on Latin America, released in November 2016, China is committed to increasing its presence in Latin America in terms of trade, investment, and infrastructure cooperation. As Latin American countries are facing uncertainty prompted by U.S. policy, China's reassurance of continuous engagement resonates with the region's quest to attract investment and promote trade.

The same is true vis-à-vis BRICS. For years, Western analysts have tended to regard the BRICS grouping – comprising Brazil, Russia, India, China and South Africa – as either nonsensical or threatening. Indeed, after Brazil and Russia entered recession and growth in China slowed after 2014, Washington-based observers predicted the initiative's imminent demise. Yet the victory of Bolsonaro in Brazil shows how valuable the BRICS grouping has become to groups within Brazil that depend on stable ties to China. Despite frequent anti-China rhetoric on the campaign trail and attacks on a supposedly ideological foreign policy of previous governments that focused too much on ties to developing countries, Brazil not only continued to be part of BRICS, but Bolsonaro hosted the 11th BRICS Summit in 2019.

In 2004, Brazil and China created COSBAN (Comissão Sino-Brasileira de Alto Nível de Concertação e Cooperação) as an institution for bilateral dialogue and cooperation. COSBAN is chaired by the Brazilian Vice President and Chinese Vice Premier in charge of economic topics; it has eleven sub commissions and seven working groups. At the third COSBAN session in 2013, Brazil and China signed a ten-year development plan ("Plano Decenal Especial") extending the CBERS ("China-Brazil Earth Resources Satellite") program, easing Brazilian corn and beef exports to China and institutionalizing a Brazil-China dialogue about the United States. CBERS, in particular, can be understood as a source of Chinese soft power, particularly given its capacity to instill national pride and be used by the Brazilian government when speaking about significant technological achievements. COSBAN's political sub commission manages diplomatic relations between the two countries. The two foreign ministries' dialogue was elevated to a "Global Strategic Dialogue" in 2012 to exchange views on regional and international issues. COSBAN also accompanies the implementation of the Joint Action Plan signed in 2010 between Presidents Lula da Silva and Hu Jintao. Vice-President Mourão is in charge of COSBAN, which China watchers in Brazil consider to be an important platform to strengthen ties between the two countries.

In June 2017, the Brazil-China Fund for Production Capacity Expansion was launched as an additional mechanism to finance projects in Brazil. The project proposals are evaluated by a Technical Working Group and a Directive Committee, while Brazilian financial institutions eventually determine the projects' viability together with the China-LAC Industrial Cooperation Investment Fund (CLAIFUND).The Directive Committee is chaired by the Executive Secretary Chief of Staff, Executive Secretary of Parliament and Secretary General of the Foreign Ministry on the Brazilian side and three vice-ministers on the Chinese side; the committee in turn appoints the members of the working group. It gives primary consideration to project areas considered most important by the Brazilian government, including infrastructure, manufacturing, agribusiness and technology. In May 2018, the Brazil-China Cooperation Fund promised to finance five projects with US$ 2.4 billion. CLAIFUND, created in 2015 by Chinese Premier Li Keqiang with a total volume of US$ 30 billion, is largely managed by China and primarily supports investments in energy, infrastructure, and finance. Finally, China set up the China-Latin America Cooperation Fund in 2014 for US$ 5 billion and the China-Latin America Infrastructure Fund in 2015 for US$ 10 billion.

Furthermore, China has repeatedly encouraged Latin American media organizations to expand to China and promised to train 500 Latin American journalists over five years in an effort to increase understanding of China among Latin American elites and general publics. The Chinese government has offered 6,000 scholarships, 6,000 internships, 400 employment offers to young Latin Americans and agreed to train 1,000 future Latin American leaders until 2021 through the "Bridges to the Future" program. There are currently 39 Confucius Institutes and 11 Confucius Classrooms in Latin America, with an estimated 50,000 attending their programs. These numbers are relatively small. In the United States alone, in comparison, there were at one point over one thousand Confucius Institutes over 500 Confucius Classrooms. Chinese news outlets such as Xinhua, People's Daily, CGTN Spanish, and China Radio International are all operating in Latin America. But anecdotal evidence suggests that a significant part of the population – at least in Brazil -- has never heard the name of CCTV or CGTN.

• *How has COVID-19 created opportunities for China to expand its influence and exert leverage in Brazil?*

China has been able to deepen its influence considerably during the pandemic, largely due to a fast roll-out of Chinese-made vaccines or ingredients to produce covid-19 vaccines in partnerships with local laboratories such as Butantan in São Paulo. More than 80% of all vaccines administered in Brazil are Chinese-made, and Beijing has adroitly utilized this approach to project itself as a fellow developing country willing to export vaccines and share its knowledge at a time when developed countries like the United States were unwilling to do so. While there is some skepticism among the Brazilian public vis-à-vis Chinese vaccines, the lack of alternatives has allowed China to improve its image considerably.

China's 'vaccine diplomacy' possibly influenced other parts of the bilateral relationship. In 2020, the Trump administration had convinced Bolsonaro to join the U.S.-led Clean Network, an initiative to exclude Huawei that so far includes more than 50 countries, but in a humiliating backtrack, Bolsonaro later toned down his rhetoric against the Chinese telecommunication company and decided not to limit Huawei's role in Brazil in what was seen as an effort to avoid delays in the delivery of Chinese-made COVID-19 vaccines.

• *What are the implications of the Brazilian government's use of Chinese surveillance and technology for internal security?*

Washington's attempt to frame its campaign against Huawei in Brazil as a defense of the rule of law, fair trade practices and concern about Brazilian internal security has not convinced many in the Latin American country. Quite the opposite: the topic has become politicized, eclipsing legitimate concerns about the company's technology theft and possible ties to the Chinese government. The United States did not help its case when Huawei's CFO, Meng Wanzhou, was arrested in Vancouver, and Trump suggested that the United States might use her as a bargaining chip in its trade talks with China. Trump's comments vindicated those in Brazil who consider Huawei little more than a pawn in the trade war.

Today, critics can accuse anyone in Brazil who raises national security concerns about Huawei of blindly toeing the U.S. line in a geopolitical battle between a rising and a declining hegemon. A similar dynamic is discernible across the region, suggesting that the United States will fail to keep Huawei out of Latin American 5G networks. In Europe, concerns about the potential risk of Chinese spying for liberal democracies find genuine public resonance. By contrast, the U.S. undercut its warnings about Chinese meddling in Latin America when leading foreign-policy makers, including former National Security Adviser John Bolton, expressed their fondness for the Monroe Doctrine, the principle behind a long and traumatic history of U.S. interventions in the region. Considering that Latin American elites share a deep-seated concern about excessive U.S. influence in the region, but a relatively neutral stance vis-à-vis China, they have generally preferred to stay above the fray as the West's relationship with China has spiraled into open mistrust on matters of economic policy, technology, and national security.

As a result, Beijing's focus on the region's economic development has so far proved more attractive than Washington's attempts to depict Chinese mobile technology as a national and geopolitical security threat. In Brazil, where the NSA spied on former President Dilma Rousseff and her cabinet, leading Rousseff to cancel a formal state visit to Washington in 2013, U.S. warnings about Chinese spying ring hollow—not least because Rousseff's demand for a formal apology from President Barack Obama went unmet.

• *What are the implications for the United States? What are your recommendations for Congressional action related to the topic of your testimony?*

From a Brazilian perspective, Bolsonaro's diplomatic gamble to move closer to the United States is thought to have backfired, having produced few benefits to the Latin American nation. Heads of state in the region closely watched as Trump repeatedly humiliated Bolsonaro, for example when making surprise announcements about tariffs on Brazilian products. The lesson they drew was simple: betting on a partnership with Washington alone involved significant economic and political risks. Ranging from president Piñera's efforts to make Chile the region's main interlocutor with China to the Chinese military-run space station which began operating in Southern Argentina in 2018, governments in the region have therefore, overall, continued the trend of establishing deeper ties with Beijing. Of the seven countries that shifted ties from Taipei to Beijing during the Trump presidency, three of them -- the Dominican Republic, El Salvador and Panama -- are in Latin America, and pressure on Paraguay is growing to do the same; largely due to its limited access to covid-19 vaccines. In the realm of 5G, the United States' frequent warnings of Huawei and at times overt pressure tactics, referring to unspecified "economic consequences" for Latin American countries if they decided not to ban the Chinese telecommunications company, has had only a limited impact, and few countries in the region are expected to heed Washington's advice on the matter.

The election of Joe Biden is a unique opportunity for Washington to implement a better strategy of responding to Beijing's growing influence in Latin America -- one that avoids counterproductive antagonization, emphasizes the opportunities and shared interests between Latin America and the United States, and avoids making Washington look desperate and unwilling to support the region's economic development.

Most importantly, the Biden administration should stop giving Latin American policy makers public advice vis-à-vis China. From Santiago, São Paulo or El Salvador, it sounds patronizing, arrogant and dishonest, given the many positive economic consequences trade with China has had in Latin America over the past two decades. Indeed, the Biden administration should implement a rule that US Ambassadors or leading US policy makers should not speak about China in public at all, considering how self-defeating such rhetoric is. That is notably true even if the US concerns are genuinely relevant, like when they talk about the negative environmental impact of Chinese investments or the risks depending on Huawei poses to privacy. For example, while long forgotten in Washington, few Brazilians have forgotten about the NSA's decision to spy on former president Rousseff -- and Obama's refusal to apologize for it. US insistence in badmouthing China rather than promoting its own strengths makes Washington look desperate and afraid of competing with China.

Avoiding the strident anti-China rhetoric, which crowded out virtually everything else, would provide more visibility to a positive US agenda laying out how joint challenges can be addressed jointly -- in areas such as human rights, the environment, strengthening civil society, the fight against corruption, but also in the realm of economic aid as Latin America faces its most profound economic crisis in more than a century. In the same way, the United States could use its convocatory power – its capacity to bring political leaders together -- to help promote a frank regional debate about the multiple migratory crises afflicting Latin America, as well as about ways to rethink the war on drugs and against transnational crime, which victimizes hundreds of thousands of young Latin Americans every year.

The 2021 Summit of the Americas is a unique opportunity for the United States to lay out its new approach to Latin America and forge a regional agenda. Rather than promoting lofty but ultimately unattainable goals -- as has been done in the past --- the United States should use the meeting to nudge regional leaders to restart a dialogue that has all but broken down over the past years. President Bolsonaro has so far refused to speak to his Argentine counterpart Alberto Fernández, and Mexico's leader Andrés Manuel Lopez Obrador has yet to visit a single Latin American country. The reasons for such a complete collapse of even symbolic dialogue are complex, but there is no doubt that US presidential diplomacy could go a long way to help overcome the crippling polarization between Latin American governments. Unless leaders are willing to initiate a basic dialogue between each other, none of the urgent regional challenges -- ranging from the Venezuelan and Central American migratory crises, the environmental crisis in Brazil, transnational crime and a poverty rate nearing 40% -- can be addressed successfully.

Biden's diplomatic skills will be of particular importance when it comes to Brazil, where Jair Bolsonaro, the self-styled "Trump of the Tropics", has repeatedly attacked the Democrat during the campaign trail for his comments on deforestation in the Amazon forest. Striking a balance between pressuring Brazil to adopt more string environmental rules without pushing it into the arms of China -- which is careful never to criticize Brazil's controversial environmental policies -- will require, above all, quiet diplomacy, rather than public threats, which Bolsonaro uses to mobilize his radical followers, as seen during a public spat with France's president Macron last year.

Finally, a US return to the WHO, a more generous policy to help poor countries gain access to masks, ventilators and vaccines against covid-19 will go a long way in countering China's growing influence in Latin America.

Given their economic complementarities, it is natural that trade between China and Latin America will grow further over the coming years, allowing China to consolidate its influence to some extent. Even if Latin American expectations that Chinese demand for commodities will save the region from the worst -- like it did after the global financial crisis in 2008 -- will be partly frustrated, economic ties to China may help mitigate the impact of the current collapse to some extent. Yet if Washington plays its card right, focuses on its strategic advantages over China -- rather than fighting China on Beijing's turf -- it can become a far more trusted and influential partner to Latin America as the region is charting its geopolitical course.

PANEL IV QUESTION AND ANSWER

COMMISSIONER SCISSORS: Thank you, Dr. Stuenkel.

For Q&A, we will again reverse the alphabet. I ask my fellow Commissioners to consider directing longer questions to individual witnesses.

Commissioner Wong, please start us off.

COMMISSIONER WONG: Thanks, Derek.

And thank you to all the panelists. Apologies for that technical difficulty.

And hello again, Luis. It's good to see you again. I don't know if you remember, but we met each other a couple of times during some meetings across the world --

DR. RUBIO: Of course, I remember.

COMMISSIONER WONG: And thank you for joining us today.

DR. RUBIO: Thank you.

COMMISSIONER WONG: My questions focus on the Caribbean. And, Mr. Griffith, thank you for your testimony. And I was interested to read your testimony and hear it, because I think you often hear people compare the South China Sea situation for China to the Caribbean for the United States. I happen to think that comparison is perhaps true as far as it goes, but suffers from some -- it's imperfect, I mean, considering the makeup of the nations, the differences in the makeup of the nations of the South China Sea and of the Caribbean, the percentage, given their national trade, the populations, the resource potential. But, that said, look, the Caribbean is important.

In reading your kind of four case studies, five case studies, of particular instances of Chinese engagement in the Caribbean, I can tell you -- and you say this -- you seek to complicate and add nuance to our understanding of Chinese activity and the relationships of the nations of the Caribbean with China.

And reading it as a whole, I get the sense that you are making the argument that this is more about the nations of the Caribbean making certain economic choices in their relationship with China, rather than some sort of concerted effort by the Chinese to expand its influence in the Caribbean.

Given that argument, if that's correct, am I also right in hearing you say that, as far as U.S. policy, we should care about the Caribbean qua the Caribbean, not as a space for competition with China. Is that, essentially, your message?

MR. GRIFFITH: Essentially, yes.

COMMISSIONER WONG: Okay.

MR. GRIFFITH: Yes.

COMMISSIONER WONG: Okay. I'm sorry, if you want to expand?

MR. GRIFFITH: Okay. Sorry.

COMMISSIONER WONG: If you want to expand --

MR. GRIFFITH: Yes, I will go ahead and say it because too often what happens is that, in the action of doing U.S. policy qua U.S. in the Caribbean, nothing actually happens. So, if, for example, the U.S. actually wants to exert influence or to have a realistic policy in the region, then the Caribbean's requirements, the Caribbean's needs, the Caribbean's terms would have to take precedence. The prioritization of Caribbean governments (audio interference) prioritization of U.S. interests would have to actually have the equilibrium, where you have to sustain the link in a robust way.

Currently, it is the case that what happens in the Caribbean is not regarded as that important, but really what the U.S. sees in the Caribbean takes precedence. And that, obviously, cannot go for good policy.

COMMISSIONER WONG: Great. Thank you.

My second question goes more specifically. You discuss the citizen investment programs of certain nations in the Caribbean.

MR. GRIFFITH: Sure.

COMMISSIONER WONG: And obviously, this has been the subject of discussion between the United States, as well as other countries, with those Caribbean nations. There's been the citation of perhaps some national security interests, potential for abuse of the programs for money-laundering purposes, sanctions evasion, other issues.

Now I happen to think most of the Chinese citizens purchasing these passports or these citizenships, that's more of a commentary on their hedging strategy, where they may need an escape mechanism from the Chinese economy, if something happens, and less so of a national security issue for the United States. But I don't think that the national security concerns are nonexistent.

So, is it your proposal that we simply not raise this as an issue? Or is there a more nuanced way to discuss this or perhaps technical assistance to help with vetting that you would offer?

MR. GRIFFITH: In order to have it more nuanced, we have to have the conversation. I would say too often, though, the nuance is not even discussed or even attempted to be discussed. What happens is there are some very blatant offensive statements that the U.S. gives towards these Caribbean projects. And we see, of course, these are independent Caribbean countries that have their own democracies that can decide how their own foreign policy works. If that foreign policy and that domestic policy has some contrary agenda to the U.S., then, obviously, that conversation requires a lot more, you know, detailed conversation on the U.S. and Caribbean part.

But that's not what we see. We see a very blatant example where the U.S. goes from very strong against the Caribbean countries. But what happens when that goes on? The Caribbean governments and the Caribbean countries, then, feel a sense of condescension. And obviously, if that sense of condescension expands, any other tangential U.S. interest in the Caribbean also gets pushed aside.

So, of course, it could be nuanced. I would say the downplay of risk -- sorry -- the up-play of risk by the U.S. is, obviously, a bit too high oftentimes. But, or course, nuance can be had. However, the conversation has to be done with these are realistic, robust programs that help our countries, and it is their prerogative to do it.

If, then, the U.S. comes to the table with more nuanced agenda to how you actually vet or even propose rules or to vet the potential buyers, that's a realistic proposal. But just coming to the fore and saying it is bad, it needs money-laundering, those kinds of kinds of frameworks always lead to condescension and always get pushback from the Caribbean.

COMMISSIONER WONG: Thank you.

COMMISSIONER SCISSORS: Commissioner Wessel?

COMMISSIONER WESSEL: Thank you all for being here and for your patience with our technical issues.

I have a question for each of the witnesses.

Mr. Griffith, for you first, you talked about the VIE structure, BVI, and the Cayman Islands. A quick question: is that generating much domestic activity, other than for some banks and law firms and the post office boxes that support those efforts? Is there domestic activity associated with those? You're on mute.

MR. GRIFFITH: For example, in the BVI, the offshore industry accounts for about 20 percent of employment rate, over 3,000 or 4,000 jobs, about 300, 30 percent of the GDP or so. So, it's actually a very substantial amount of the economy in, for example, in the BVI.

I will also say that the BVI and Cayman Islands, their offshore market isn't just employment for P.O. Box companies. There are robust legal services that come with the financial services that primarily U.S. companies use. These are actually not primarily Chinese companies' use.

So, if, for example, you were to claim that these are, let's say, non-essential shell company activity, then that would equally say, well, most of the activity that these can produce is insufficient to actually meet the demands of the domestic economy. But because we know from data that this actually is a huge amount for the domestic economy, employment, and GDP, and government service potential, in resourcing for across the world, then it's really significant that these optional markets play. So, by no means is it a P.O. Box service.

COMMISSIONER WESSEL: Okay. That's very helpful. Thank you.

Dr. Rubio, with regard to Chinese investment in Mexico, which I understand is a fairly, has been fairly low, and actually was declining, my understanding is that it is beginning to tick up, that there has been a push by the AMLO government to attract new investment, but that there are concerns that the legitimization vote processes required under USMCA is not being applied to the new investment. Do you have any information on that and anything you can -- any light you can shed?

DR. RUBIO: In terms of volume, the majority of Chinese participation these days has to do with contract work for two of the three big government priorities, one being the so-called "Maya train," the other being the refinery that is being built in the state of Tabasco.

A Chinese company recently -- closely associated with the Chinese government -- has bought a large manufacturer of solar panels. But, beyond that, there's very little.

And there is a significant industrial plant along the border which produces or assembles parts of the components that go into the export industry. That may be the one that you're focusing on. It's not something new. It's been happening for some years now, and that has to do with labor prices, which are lower in Mexico than in China these days.

What I have seen is that the big American companies, particularly GM, Ford, Chrysler, are extraordinarily capable of separating what comes through Quad channels and what goes under USMCA and what doesn't go that way.

COMMISSIONER WESSEL: Okay. Thank you.

DR. RUBIO: Thank you.

COMMISSIONER WESSEL: Dr. Stuenkel, my recollection was that there were a number of very specific and significant trade tensions between Brazil and China -- steel, tires, I think a number of other sectors where Brazil raised its tariffs pretty significantly. From what you said, though, I interpret -- I'm sorry -- I interpret what you said is that those are somewhat transitory problems rather than long-term irritants, if you will, in the system. Am I correct in how I interpret your comments?

DR. STUENKEL: Yes, I think you're right. I don't consider those to change the overall tendency of where the trade relationship is going.

COMMISSIONER WESSEL: But does Brazil view China, because of Brazil's somewhat significant industrial capacity, as a threat or an opportunity? Because is China filling gaps in the

Brazil market, telecom, white goods, et cetera?

DR. STUENKEL: Well, it's interesting that you point to the dual nature of Brazil's economy. There is the increasingly powerful agribusiness, which is focused mostly on the export of low-value-added goods, which, of course, is very pro-Chinese and which is increasingly gaining political power. I would say the geographic new center of power is sort of what we call "the center east" and no longer the southwest. The traditional industrial heartland of Brazil is losing power to the big farmers, basically, and that also can be seen as how the perception -- the way that Brazil thinks about China is shifting and tends to be more positive due to the growing power of agriculture in Brazil's economy.

Now the industrial part is, of course, also a concern because there is competition, also, going on. But I wouldn't consider, I wouldn't think that China considers Brazil in that sense as a competitor. And, yes, absolutely, China is being able to fill gaps in that sense, even though the key element of the trade relationship is Brazil, which has a major trade surplus, selling and exporting low-value-added commodities to China.

COMMISSIONER WESSEL: Okay. Thank you.

COMMISSIONER SCISSORS: Commissioner Talent.

CHAIRMAN BARTHOLOMEW: He had to catch a flight. He's not here.

COMMISSIONER SCISSORS: Okay. Sorry that I can't see the room.

Commissioner Kamphausen?

COMMISSIONER KAMPHAUSEN: Thank you.

I have a single question, and I invite each of the panelists to respond. And that is, it relates to traditional national security topics, issues, concerns. If you could each answer from the perspective of your country -- "your countries" in Mr. Griffith's case -- what topics, what issues, what concerns occur to you, as you think about your country and China's growing military power; its increasing security presence, even in somewhat nontraditional ways? Are there issues that come to mind that you think are worthy of the Commission taking note of?

I would say, in none of your testimony did it rise to the level of concern. And so, if the answer is no, that's perfectly fine. But I wanted to give you an opportunity to take up this particular issue during my time of questioning.

So, if we could go in the order that you testified, that would be terrific.

Mr. Griffith?

MR. GRIFFITH: I would say, if I were to pick one of many issues, perhaps the single most, I'd say, concrete issue the Caribbean has is probably financial. So, U.S. correspondent banking has had a big impact, negative impact, on how Caribbean economies operate and function. Now that's, obviously, because of (audio interference) --

(Whereupon, at 3:57 p.m., the foregoing matter went off the record and went back on the record at 4:00 p.m.)

CHAIRMAN BARTHOLOMEW: Okay. Have we started again?

Mr. Griffith, can you hear me now. Yes, I think he can. Can you hear me?

MR. GRIFFITH: Yes, now I can.

CHAIRMAN BARTHOLOMEW: Okay. I'm sorry.

MR. GRIFFITH: I can.

CHAIRMAN BARTHOLOMEW: And can we have you maybe -- I don't know -- either pick up your answer midstream or start your answer again to Commissioner Kamphausen's question?

MR. GRIFFITH: Sure. I'll start from the top. I'm not sure where I was cut off.

Okay. So, to answer the question, for one of the concrete issues that the Caribbean does have that's pretty easy to explain is the correspondent banking crisis. Since the global financial crisis in the U.S., obviously, a lot of the rules were changed, particularly AML and risk in correspondent networks.

This has caused a severe issue for Caribbean countries. At one point in time, Belize had lost about 40 percent of its correspondent network into the U.S., which means, in effect, that the Caribbean can be cut off from the entire world financial system, given that our trade currency is the U.S. currency. At some points in time, this leaves a fact where Caribbean countries will look to diversify its currency holdings. So now, for example, it leads by example, where it has a bilateral swap arrangement with the PBOC, the Chinese Central Bank, for RMB already. I think over time perhaps other Caribbean countries will look to do that route as well.

So, I think if you think about risk in terms of influence, I would say that the correspondent crisis caused by the U.S. regulatory financial law change has perhaps pushed the Caribbean in some sense, or will push the Caribbean in some sense, to look for other banking partners.

COMMISSIONER KAMPHAUSEN: Thank you.

Dr. Rubio, please?

DR. RUBIO: Yes. Thank you, Dr. Kamphausen.

The short answer I think is no. Mexico is playing the China card, as Mexicans call it, not changing course. It's a symbolic move.

The issues that concern the U.S. are not being changed by the government, partly because the number of issues that are subject to conflict along and across the border are so huge and so varied, that there's no need to increase them, as it were.

Thank you.

COMMISSIONER KAMPHAUSEN: Thank you.

Professor Stuenkel?

DR. STUENKEL: I'd say the major national security challenges in Brazil are mostly about violent non-state actors, militias, organized crime, drug cartels, both in urban regions and along pretty much all of its borders; state collapse in Venezuela, but none actually directly connected to China.

I've conducted interviews with Brazilian armed forces, members of the armed forces, over the past years, and none of them bring up China sort of on their own. So, I think that's a reflection of the fact that China has been, despite its massive increase in influence, for example, having acquired over the past years a significant amount of Brazil's electricity sector, has actually been capable of remaining pretty much below the radar of both public opinion and elite opinion, not being seen as a strategic or national security threat.

COMMISSIONER KAMPHAUSEN: Thank you very much. Very helpful.

I yield the time.

COMMISSIONER SCISSORS: Commissioner Glas?

COMMISSIONER GLAS: Hi. My question is for Dr. Rubio. Dr. Rubio, in your testimony, you talk a lot about the strategic relationship that we have with Mexico and the USMCA agreement, which, of course, was of great interest to both Republicans and Democrats when that was renegotiated.

There were certain rules-of-origin changes that were tightened in the agreement that you're aware of to help increase the content requirements, whether it was for autos or other products, to ensure the benefits go to manufacturers, both in the U.S., Canada, and Mexico.

DR. RUBIO: Right.

COMMISSIONER GLAS: And you talk about in your testimony, about us needing to strengthen our relationship with Mexico, our strategic and economic relationship, and some of the governance issues associated.

If you had a magic wand and wanted to make sure that economic prosperity came to both the United States and Mexico, and was maximized under the USMCA agreement as an alternative to sourcing products out of Asia, or other areas of the world, what would your suggestions be in terms of the pathway forward?

DR. RUBIO: Well, that's a great question. Thank you for it. It's a complicated one.

NAFTA or the USMCA is by far the largest, the most important engine of growth of Mexico's economy through exports. So, the influence that American companies and the American government, as well as American institutions of all kinds, both in government and out/around government, are enormously important and potentially powerful in helping Mexico help itself. Because, at the end of the day, the issues that Mexico confronts are basic issues of governance that the country has been unwilling or incapable of addressing.

President Lopez Obrador would have been ideally located to address some of the reforms that his predecessors were not willing to do or had conflicts of interest with powerful interests in the country. And yet, he has failed to take advantage of that opportunity. He simply does not see it.

So, to try to answer your question, I think that sanctions is not the best way, but, rather, I think it's carrots that we should use. And that's why my proposals, my ideas are let's pursue deeper integration. All that Mexican population that is directly or indirectly related to USMCA is an all willing and avid participant. People want those jobs because they are the best jobs.

You may be surprised that 55 percent of the population, according to late and recent polls, has a direct relative living in the U.S. So, communication between the two societies is ongoing, permanent, natural. It happens every day, and with the cost of communications these days, it's extremely easy and cheap. That's the --

COMMISSIONER GLAS: Thank --

DR. RUBIO: Sorry?

COMMISSIONER GLAS: No. Thank you, Dr. Rubio.

Just a quick follow-up question for you. When you're talking about governance, can you just drill down a little bit more on what you're speaking about? In particular, there were provisions in the new agreement on enforcement mechanisms. And I'm just wondering if you think Mexico is in a position to, based on some of the, quote, "governance issues," to take full advantage of ensuring that those enforcement mechanisms are realized?

DR. RUBIO: Those will work. There are two cases today on labor, and I think that those will be worked out one way or another. I think that there are conflicting interests on the Mexican labor side and on the American labor side. But those help create an environment of rules and rule-abiding, and that is what I think has changed for a good chunk of Mexico's north, in particular. So, it is a good beginning.

I don't think that sanctions would be the best way. Again, I think that those procedures would be ideal, and they serve to show how to do it right, and then, punish those that don't do it.

COMMISSIONER FIEDLER: Thank you. And I'll yield back my time.

DR. RUBIO: Thank you.

COMMISSIONER SCISSORS: Commissioner Fiedler.

COMMISSIONER FIEDLER: I'd like, particularly for Mexico and Brazil, to know whether there's been significant activity by the Chinese with your political parties, given the fact that both dynamics are very volatile.

DR. RUBIO: I'll take the first one, if that's okay. In Mexico, there's very little Chinese involvement. They organize elite -- you know, elite meetings used to be for COVID, not much more than that. There are no cultural centers organized by the Chinese. There are a few intellectual sort of reporters who are invited to China, but it's very small. It's a very small activity, very little to do with political association.

DR. STUENKEL: In Brazil's case, the scenario is somewhat similar. China doesn't tend to focus on parties, even though there has been the practice of inviting congress men and women and bureaucrats in the context of the BRICS meetings. In general, BRICS is seen as a yearly presidential summit, but there are actually up to 100 meetings, around 15 of which are minister level. So, that leaves you with about 60 meetings a year between bureaucrats, above all.

And there's a significant number of missions when China invites groups, or commissions, commission members of both the senate and congress to visit China, such as visit the headquarters of Huawei and these kinds of exchanges.

But, specifically, when it comes to parties, that's not happening a lot, in part because the parties in Brazil, many actually lack an ideology. They're mostly seen as strategic vessels, but not really relevant vehicles. Politicians can very much change party affiliation five times throughout their careers. So, I think China, justifiably, doesn't identify most parties as useful entities to engage with in that sense.

COMMISSIONER FIEDLER: What are you seeing in terms of Chinese acquisition of Mexican and Brazilian companies? Have you seen any increase over the last five years?

DR. RUBIO: In Mexico, the increase has been significant because it's starting with almost zero. But there are two or three companies; that's all. Very small. There are more Mexican companies in China than Chinese companies in Mexico.

DR. STUENKEL: In the case of Brazil, there's currently a bit of a lull, and there's a massive debate in Brazil about whether that has to do with the anti-China rhetoric by President Bolsonaro. I think that it's certainly true that, at this stage, for a Chinese investor, investing in Brazil is not exactly the way to move closer to the decisionmakers in Beijing because, at this stage, Brazil isn't very, very close to China because of its anti-Chinese government, but that may change.

Now, over the past years, the long-term trend is of increasing investment and a large diversification and sophistication of Chinese investment, which initially were mostly commodities, and then, towards infrastructures, energy. And now, which I think is sort of the next stage, startups, unicorns.

So, if you look at the most competitive Brazilian companies, which are really sort of the next-generation companies in fin tech, you know, sort of the Brazilian versions of Amazon, et cetera, those are -- one called 99Taxi, which is sort of the Brazilian version of Uber -- those are pretty much all now in Chinese hands. So, that has changed quite significantly.

And I see it, that I used to not have many -- my former students worked for companies owned by Chinese investors, and that's the norm now. Particularly sort of in the tech sector, China is becoming increasingly active.

COMMISSIONER FIEDLER: Just quickly, Dr. Rubio, why do you think they're ignoring Mexico? I mean, beyond -- you've already stated that they figure they're within our sphere of influence, but that doesn't really explain it to me.

DR. RUBIO: They have taken that line, and it's only recently that they have begun to participate more actively, but with very small initiatives. So far, it is less than a billion dollars in total investment, including the contracting jobs for the two big government projects, which amount to more than $10 million all together.

COMMISSIONER FIEDLER: Okay. Thank you very much.

DR. RUBIO: Thank you.

COMMISSIONER SCISSORS: Vice Chairman Cleveland.

VICE CHAIRMAN CLEVELAND: Thank you.

I have two questions. I'm interested in -- you've written extensively on global order, Dr. Stuenkel -- and I'm curious what role you see BRICS playing in standard-setting. The Commission has looked at in the past how the CCP has tried to use international institutions, and particularly UN institutions, to advance their agenda, to promote standard-setting for everything from telecommunications to other commercial enterprises. So, I'm wondering how you see perhaps the BRICS organization being a useful regional or global institution that advances China's commercial interests. That's the first part.

And then, I'm interested, Mr. Rubio, in response to Commissioner Kamphausen, you said there were not compelling national security issues. But there has been extensive reporting in the last year or so by the Wilson Center and, also, Reuters report, on the deepening connections between Chinese fentanyl producers and the cartels in Mexico, and using Mexico as a way to access the American market. So, I'm curious if you have any observations on this growing illegal trade as a national security threat both to Mexico and to the United States.

Dr. Stuenkel, if you could comment?

DR. STUENKEL: Sure. Yes.

So, the BRICS is a bit of an unusual structure. It's perhaps something like the G-7, but it does have all these working groups, which makes it perhaps look a bit like the OECD. It does have a limited degree of institutionalization. It does have a development bank. So, it's a bit of an odd structure.

But it still exists, also, because it's, of course, for Brazil, very useful to have an institutional platform to establish ties on many different levels to China and to assure that the President gets guaranteed face time with Xi Jinping and the same, of course, for the Minister of Defense, Education, and all of those, which get to talk regularly to their BRICS counterparts, which is, above all, about China. And I think that's true for all the other BRICS member countries that are there mostly to talk to China.

And the way this basically works is there's a year-long discussion amongst the sherpas about the BRICS declaration, and all the countries try to sort of include their preferences. Of course, China, I would say, along with perhaps Russia and India, are the most active in shaping these declarations. I would say that South Africa and Brazil are fairly passive, in part, because of many domestic challenges that have kept it from influencing these discussions.

And there, even though sometimes it's done in a fairly subtle way, China makes it very clear that it would appreciate other countries supporting a lot of the issues that you've just mentioned.

And it's interesting that there's a bit of a tension in Brazil's position. You mentioned telecommunications. Whereas, Brazil and civil society does have an interest in keeping the internet open, which is much more aligned with sort of the way the United States conceives the future of the internet, it's very appealing sort of at first sight that when China says, "We should allow the UN to do that."

So, yes, I would say that BRICS in that sense is an important vehicle, even though, again, BRICS functions more like a talking shop where sort of each country says what it likes, what it would like to include in the declaration, and if there's no consensus, then that will just be thrown out.

So, it's not like Brazil is forced to adopt a BRICS position, as we could see last year when Brazil disagreed with the stance of the other BRICS countries vis-a-vis recognizing Maduro as the legitimate President of Venezuela. Brazil just said, "I recognize Guaido as the legitimate President." And then, basically, that didn't make it into the final declaration.

So, in a way, it's subtle, but it's certainly an important vehicle where these kinds of conversations are taking place and which China utilizes to articulate what its preferences and interests are.

VICE CHAIRMAN CLEVELAND: Thank you.

DR. RUBIO: In Mexico's case, the organized crime and the violence that it produces are major issues in the bilateral relationship and national security issues for both countries. I didn't mention it in my earlier response for one reason, because organized crime in Mexico, particularly the drug arena that takes drugs from Mexico to the U.S. in responds to changes in American consumption.

Earlier, a few decades back, that was mostly Colombian cocaine. Today, it's moved toward fentanyl and other synthetic drugs. So, they source wherever they need to to address the needs of their own market.

The only thing Mexican about fentanyl, and the like, is the fact that there are laboratories in Mexico because there's less law enforcement in Mexico. But this, (audio interference) inputs are foreign, mostly Chinese or Pakistani. And they are transferred to the U.S. from Mexico. If American tastes changed and went back to cocaine or to marijuana, or whatever else, they would be sourced somewhere else.

That's the reason I neglected it. I'm sorry.

VICE CHAIRMAN CLEVELAND: What I was interested in is the fact that there is this growing relationship between Chinese criminal enterprises and Mexican criminal enterprises.

DR. RUBIO: Yes, there is.

VICE CHAIRMAN CLEVELAND: Yes, yes. Okay.

DR. RUBIO: It is. That's correct.

VICE CHAIRMAN CLEVELAND: Yes. Thank you.

COMMISSIONER SCISSORS: Commissioner Borochoff?

COMMISSIONER BOROCHOFF: Thank you.

This is for Mr. Griffith. I was taken by the two paragraphs where you talk a little bit about the variable enterprises, variable interest enterprises, and the money that's being managed by the State Administration of Foreign Exchange. So, I probably have two questions for you.

The first one is, out of the roughly $400 billion, I think it was, that they're managing, about $100 billion is split between the Cayman Islands and the Virgin Islands. And interestingly, you mentioned that there are some 60 percent of the firms that are listed in the Dutch Caribbean Exchange and the British Islands are not tradeable. So, I don't totally understand what they're doing there. Are they parking money?

MR. GRIFFITH: So, the second question, the Dutch Caribbean Exchange, so that is a, let's say, a business strategy. That some lawyers and some accountants in the Dutch Caribbean, and some Chinese accountants can set up, and a way to allow the Chinese companies to prepare for a global standing, where they do all the compliance work to list on the exchange without actually needing to list on the exchange.

Also, the Dutch Caribbean then allows them slightly more access to investments from the European Union, from the Netherlands, and so on. So, I'm just going (audio interference) market and to a larger investment products(audio interference). So, the exchange itself doesn't need -- the companies don't need to trade on the exchange. However, being listed on that exchange has the compliance standards enough to satisfy the European investors. So, it's like a business model (audio interference), and they pay a fee to get listed. So, that's where they earn some more money.

COMMISSIONER BOROCHOFF: Thank you, that was --

MR. GRIFFITH: The first question is --

COMMISSIONER BOROCHOFF: Go ahead, if you want to respond. I had a question, but I think you may know what it is. So, go right ahead.

MR. GRIFFITH: No, I was saying, what is your first question, you mentioned the about the BVI.

COMMISSIONER BOROCHOFF: Yes, going back to it, I was looking at Beryl Datura, and you made the statement that "a significant portion of China's global investment in BRI projects" is probably in that company. And the way the VIEs work, it's just that much harder to see what their true value is.

So, my question is, do we have a good idea of the amount of money that the SAFE has in the Caribbean right now that is probably risky investment? Over the years, a number of very large investment firms have failed in the Cayman Islands because of that law. And I'm just curious if we have an idea of how much money we have from America risked in those exchanges.

MR. GRIFFITH: So, to answer that question, the VIE structure is primarily not -- the core of the VIE structure that is risky is not on the offshore side; it's on the Chinese side, where, for example, you have Senate control, where in China you have to have laws where the legal contracting is done inside China. The outside part in the offshore in the Caribbean, that part is very straightforward in the legal flexibility (audio interference). So, that's how we refer to like, if there is any risk for firms, it's on the Chinese side, not in the Caribbean side.

In terms of (audio interference) the State Administration for Foreign Exchange, they have a subsidiary in the BVI. We don't know exactly how much, but because we know from Chinese documents that the entity in the BVI is the one responsible for a lot of the infrastructure spending, you can guess that a big chunk, or practically all of it, that is actually globally channeled through different capital corridors across the world, probably intermediate from transactions(audio interference) in the BVI; also, U.S. banks and European banks, and so on. But we don't know exactly the specific number because it's not public information, but, given that's the task assigned to it, we can guess it's probably a lot. But, then, that is a separate issue from the risk that some investors in the U.S. could have when they invest in VIE. The VIE risk is not on the offshore side; it's on the Chinese side.

COMMISSIONER BOROCHOFF: Thanks for explaining that.

MR. GRIFFITH: Sure.

COMMISSIONER SCISSORS: Chairman Bartholomew?

CHAIRMAN BARTHOLOMEW: No, in the interest of time, I'm not going to ask a question, but I will submit it for the record. And it's about surveillance and police training, and the impact on the three countries. Well, Mr. Griffith, you have more than three countries you're talking about. So, I'll put it in the record.

Derek, back to you.

COMMISSIONER SCISSORS: Okay. I was one of the people advocating for a case study panel. So, it's fair that I now don't know what to do.

I think the witnesses have very clearly -- it isn't surprising -- but they've laid it out for us. The Caribbean, Mexico, Brazil, they have completely differently kinds of interactions with China. And it's very difficult to talk -- I mean, I've tried to have a question, a thematic question; I can't do it.

So, I'm going to ask a question with regard to where you think the biggest risk in each of your relationships is. In other words, how could -- we always think about how things could go wrong for the United States. I have some very clear things that could go wrong for China, at least in the Caribbean and Brazil. So, I'd ask each of you, briefly, what do you think the biggest risk to the China-Caribbean relationship is, the China-Mexico relationship, and the China-Brazil relationship?

And, Mr. Griffith, please go first.

MR. GRIFFITH: Oh, okay. I would say the biggest risk in the China-Caribbean relationship is on the -- perhaps the government (audio interference) on the Caribbean side. There's a long, endemic problem in the Caribbean where the public sectors themselves aren't really properly organized to do good investments or to do good strategy or to do good long-term planning.

The problem is that if you take that into consideration and, also, take on too much debt or too much loans from anywhere, this is a problem that we've been having with the IMF for decades now, then you have some issues where you can't properly direct your economy and strategically move forward.

So, the biggest risk for the Caribbean is a Caribbean problem that at the end of the day can only have a Caribbean solution.

COMMISSIONER SCISSORS: Dr. Rubio?

DR. RUBIO: Yes, thank you.

Mexicans don't have much of an opinion on China. It's too distant and it's not close internally. So, I would say, to answer your question directly, I think that the biggest risk is that Mexican welfare improves greatly, to the point that it becomes irrelevant to ask China anything.

COMMISSIONER SCISSORS: That's a wonderful risk. Thank you.

(Laughter.)

DR. RUBIO: I shared it.

DR. STUENKEL: So, regarding Brazil, I think that there's basically one risk, which is -- there's several sides to it -- and that is Brazilian society and Brazilian elites are basically unaware of what a more China-centric world actually entails.

It's very common to speak to decisionmakers in Brazil who have never been to China. The current Minister of the Economy has never been to China, and China has been our most important trading partner for the past decade. And that's sort of still okay. It's not seen as weird that he has just no idea about sort of this Asia-centric world.

And I think that most people, as Dr. Rubio has pointed out -- and I think the same is true in Brazil -- just don't know anything about China. They have no opinion. And that makes, also, you know, it creates a risk that, if something bad happens, a lot of Brazilians will get their first impression about China, and they have so little previous knowledge that the lack of interest and the lack of a perception of the threat could very easily change if something happens. Whereas, every Brazilian has a pretty sophisticated understanding of the United States.

So, some politician saying bad or good things about America is unlikely to radically change the way Brazilians see the United States. So now, we have a President who is openly Sinophobic, and that will be a low-hanging fruit from an electoral point of view for years in Brazil.

And China made a big mistake last year when it fought back and actively, sort of through this wolf warrior phenomenon, actually lashed out against politicians, including the President's son, accusing him in op-eds in Brazilian newspapers. And at that stage, even some sort of pro-Chinese politicians in Brazil said that's actually going a little too far. You know, a diplomat shouldn't be criticizing one of our elected officials. That goes too far.

So, I think the risk could be that the Brazil-China relationship at some stage suddenly sort of faces problems which affect Brazil's public opinion a bit in a way that we're seeing in the China-Australia relationship, which is currently facing a lot of difficulties.

COMMISSIONER SCISSORS: Thank you all.

That brings the panel to a close. The Commission very much appreciates Mr. Griffith, Dr. Rubio, and Dr. Stuenkel educating us today. I want to express my personal thanks for the written testimonies which were extensive and very helpful to me.

We are done, except for closing remarks, which I'll turn it over to the Chair.

Carolyn?

CHAIRMAN BARTHOLOMEW: Thanks very much.

DR. RUBIO: Thank you.

CHAIRMAN BARTHOLOMEW: And I join you in thanking the witnesses for all the work that they put in to prepare for this, as well as their patience with the many questions that we have.

And I thank people who are watching this online for their interest in it.

The Commission's next hearing is on June 10th, and it's on China's nuclear posture, capabilities, and proliferation.

And with that, we'll close down today, but, again, thank you very much.

(Whereupon, at 4:32 p.m., the hearing was adjourned.)

QUESTIONS FOR THE RECORD

RESPONSES FROM R. EVAN ELLIS, RESEARCH PROFESSOR OF LATIN AMERICAN STUDIES, U.S. ARMY WAR COLLEGE STRATEGIC STUDIES INSTITUTE

Question for the Record: Hearing on "China in Latin America and the Caribbean"

June 16, 2021

Submitted by Chairman Carolyn Bartholomew and Commissioner Derek Scissors:

- In which countries can the United States most effectively appeal to democratic values in order to counter Chinese influence? In which countries is this not an effective approach and why?

In formulating effective messages to help counter Chinese influence, it is important to distinguish between (1) appeals to democratic values, (2) interest in strategic alignment with the United States, and (3) appeals to economic self-interest. There is significant overlap between each, but their dynamics, requirements, and required strategies arguably differ in important ways. As the question recognizes, appeals on each of these interdependent bases work in some countries, and some circumstances better than others.

With respect to appeals to democratic values, there are two overlapping, but separate considerations: (A) the degree to which partner state residents and leaders value their own democratic traditions, and (B) the degree to which regimes, and the political culture of their peoples cherish asserting those values in international relations beyond the region.

In principle, the states of the region with the strongest commitments among their populations, and also by their government, to Western Style democracy should respond best to democratic appeals. Key partners in this regard arguably include Chile, Uruguay, Costa Rica and Colombia, in which a strong commitment to procedural democracy and freedom of expression is deeply rooted (as demonstrated in polls), complimented by relatively healthy democratic institutions in current practice, as well as regimes without deep animosity toward the United States.

Within this framework, "leftist populist regimes" such as those currently in Venezuela, Bolivia and Argentina will arguably be less receptive to appeals regarding the PRC on the basis of "democratic values," even while their populations, as shown in polls such as Latinobarometro, may show commitments to some concept of "democracy." Similarly, states in which poor government performance and high levels of corruption have made citizens skeptical that democracy can "deliver the goods" may not respond strongly to appeals on this basis, choosing to put their immediate economic interest in engaging with the PRC, above seemingly abstract principles of democratic choice, expression, or individual liberties.

Within the limited group where healthy democratic institutions and populations with democratic commitments coincide, the nature of the US message makes a difference. Specifically, the US may not achieve the desired results by reminding these partners that the PRC is undemocratic and abuses its populations (Xinjiang, Hong Kong, Tibet, etc), but rather, by convincing them that their country's principally economic engagement with the PRC threatens THEIR democracy, while leveraging the fact that those populations and their leaders care about the democratic principles at stake. To make these connections, it is important to remind partners how their own democratic system is put at risk through the self-censorship of free expression and organization by political and business elites who hope to benefit from business engagement with Chinese partners, access to the Chinese market, or other benefits, or how non-transparent deals contribute to corruption, which also undermines the effectiveness of their democratic system.

Unfortunately, countries in which such appeals most strongly resonate also tend to have strong democratic institutions. This often leads the partners who might be open to such appeals, to believe that they can "handle the challenge," and thus not forgo engaging with the PRC for its hoped-for economic benefits.

A regrettable additional factor in receptivity to US messaging on "democratic values" that must be mentioned is perceptions in the region over the U.S. dispute over our November 2020 presidential election, and the associated events of January. The current perception in the region of the US handling of its own democracy arguably undermines, to some degree, the effectiveness of appeals on the basis of democratic principles, at least in the near-term.

An additional complication is that, while many states in the region have experienced periods of authoritarian rule, there are arguably none which have suffered the legacy of Communist-style suppression of liberties and discourse, and are now motivated by that legacy to fight against it, as is the case in some Eastern European states, such as Romania, where China's threat to democracy currently resonates and has led its government to distance itself from several important projects with PRC-based companies, because of the experiences of the era of Soviet domination.

Distinct from valuing democracy internally, regrettably very few Latin American states place importance on the advocacy of democracy globally, to a degree sufficient to motivate their leaders to criticize PRC treatment of its own people, and those in its near abroad, at the expense of jeopardizing Chinese investments, loans, or commodity purchases from their country. The willingness of Brazil's President Jair Bolsonaro and elites associated with his government and family to criticize PRC practices is, unfortunately, a rare exception, reflecting a combination of Brazil's trans-regional projection, and President Bolsonaro's unique character.

As noted before, while motivations are mixed, some countries may respond to an appeal to democratic values in part because they prioritize their alignment with the United States, for which "commitment to democracy" is a surrogate. Countries such as Colombia arguably fall into this category, openly supporting US concerns about the PRC, in part due to a desire to align themselves with the US.

Given China's particular sensitivity to criticism of what it regards as its "internal affairs," however, it is generally easier for the US to rally states in the region around questions of economic self-interest, rather than democracy, particularly with respect to Chinese practices in the PRC and its near abroad. The argument that inequality and other deficiencies in Latin American economic performance is related to the nature of its relationship with external actors is well rooted in the political culture and discourse of the region. The region is acutely aware of its challenges of corruption, the weaknesses of its of its institutions, and the damage done to its development and prosperity by elites entering into agreements which are ill-considered, or benefit them personally, at the expense of the long-term interests of the country.

The truthful argument that Latin American countries are particularly vulnerable to getting "bad deals" through the confluence of predatory Chinese companies, collaborating elites and weak governance institutions, thus has potential resonance in the region, so long as it is not perceived as merely a cover for a self-interested strategic gambit by the United States to block China's advance in its "near-abroad." In short, the United States must also be credible in articulating why it is in US interest, that the region is prosperous, well-governed, and stable.

To be effective, U.S. appeals based on corruption and institutional weakness in the region are best used through discourse targeted at Latin American publics, in conjunction with official messaging to our partners at the government level which insist on transparency of interactions, equal application of the rule of law, and offers to help them strengthen institutional capability, in order to enable them to get a "better deal" in engaging with the PRC.

Directly telling the Latin American government partners who deal with China that they should not do so because they are too corrupt, or that their governance processes are inadequate, will likely be counterproductive. Openly treating them as corrupt in front of their own populations is unlikely to achieve the desired results either. Rather, US messaging must mobilize Latin American publics to demand such transparency, equal application of rules, and enforcement of laws, to advance their own country's interests in dealing with China, while working through official engagement to help those governments to do so. Doing so will be most effective, of course, in countries whose mechanisms for democratic accountability have not already been subverted, such as Cuba, Venezuela, and increasingly Bolivia and Ecuador. Yet any chance of effectiveness depends on the US helping our partners to get "the greatest possible benefit from engaging with China," rather than being perceived as trying to block them from such engagement, in support of US "Great Power" interest.

RESPONSES FROM MARGARET MYERS, DIRECTOR OF THE ASIA AND LATIN AMERICA PROGRAM, INTER-AMERICAN DIALOGUE

Question for the Record: Hearing on "China in Latin America and the Caribbean"

June 16, 2021

Submitted by Chairman Carolyn Bartholomew and Commissioner Derek Scissors:

- In which countries can the United States most effectively appeal to democratic values in order to counter Chinese influence? In which countries is this not an effective approach and why?

The US should seek to promote democratic values throughout the Latin American region, and especially to note the importance of democratic governance in addressing issues of critical concern among Latin American citizens, including high rates of corruption and weakening rule of law.

Values-based partnership will be of greatest interest to those countries, such as Colombia, Costa Rica, Chile, and Uruguay, that have maintained a strong commitment to democracy, and where populism has not taken hold. But commitment to democratic values is still prevalent throughout the entire region, including among some political parties and constituencies in countries, such as El Salvador, where leaders have recently undermined democratic institutions to consolidate political power. Nor should we write off Venezuela, which has a long democratic tradition. Work with key constituencies across the region to underscore democratic principles and fortify institutions will do much to foster strong US-Latin America commercial and political ties, and to ensure that any Chinese engagement is in fact beneficial to Latin American populations.

In addition to promoting democratic values, it will be critical that the US also commit to helping the region's democracies—through targeted investment and assistance and institutional capacity building—to effectively meet the needs of their populations and to address existential challenges, such as climate change, public health, and security issues. Governments' inability to do so has led to profound disillusionment among Latin Americans and a rise in populism and authoritarianism, threatening some of the social, economic, and human rights-related gains achieved by regional governments in recent decades.

We must also recognize that Latin American and Caribbean leaders will be in a very challenging position in the aftermath of Covid-19, managing a possibly lengthy economic recovery and the wide-ranging social effects of the pandemic. Even those countries with strong democratic tendencies will be inclined to engage most extensively with whatever partners—democracies or otherwise—are most supportive of short-term economic revival. It is imperative that the US and allies be active in the region's recovery by emphasizing the practical aspects of cooperation and engaging with the region's economic needs and development-related challenges front of mind. Now and for the foreseeable future that means vaccine distribution, among other forms of collaboration.

RESPONSES FROM RYAN BERG, SENIOR FELLOW, AMERICAS PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Question for the Record: Hearing on "China in Latin America and the Caribbean"

June 16, 2021

Submitted by Chairman Carolyn Bartholomew and Commissioner Derek Scissors:

- In which countries can the United States most effectively appeal to democratic values in order to counter Chinese influence? In which countries is this not an effective approach and why?

In the hearing on "China in Latin America and the Caribbean," I referenced that one of our most important forms of engagement with the region is in the shared principles of democracy and human rights—especially, given that the U.S. will not compete dollar-for-dollar with what the Chinese can invest in the region. This was as true twenty years ago as it is today. While all countries—save for Cuba—have signed the Inter-American Democratic Charter, binding the region's leaders to provide for and deepen representative democracy to the citizens of the Western Hemisphere, it is clear that several countries fall dangerously short of their commitments as made in the Charter. The Charter and its tenets shine brightest precisely where its practices are most lacking—Venezuela, Nicaragua, and, increasingly, in countries such as El Salvador experiencing sharp declines in the quality of democracy. On the other hand, a concern for democracy and the quality of governance will likely remain an important and fruitful avenue of engagement with countries such as Mexico, Colombia, Peru, and Chile in the region. The Caribbean is also a subregion that should not only receive more U.S. attention, but it presents an opportunity for engagement on the level of democratic values since Caribbean democracy is the most consolidated in the entire region. In the former countries, democratic regression and backsliding into consolidated dictatorship (El Salvador is backsliding but not yet a dictatorship) has made engagement on democracy terms fruitless. In fact, engagement has been met with denouncements and an increased presence of U.S. adversaries, such as China, Russia, and Iran.

RESPONSES FROM REBECCA RAY, SENIOR ACADEMIC RESEARCHER, BOSTON UNIVERSITY GLOBAL DEVELOPMENT POLICY CENTER

Question for the Record: Hearing on "China in Latin America and the Caribbean"

June 16, 2021

Submitted by Vice Chairman Robin Cleveland:

- Can you offer more detail with regard to seniority and repayment terms that may privilege Chinese lenders over multilateral and commercial lenders? And, what steps would be necessary for China Ex-Im and other state-owned lenders to conform with standards of transparency that other bilateral and commercial lenders support?

Thank you for the opportunity to address these important points.

In their groundbreaking work "How China Lends," Gelpern et al (2021) show that sovereign loans by the China Development Bank (CDB) and the Export-Import Bank of China (China ExImBank) frequently carry clauses excluding them from Paris Club debt restructuring negotiations, although as the authors mention, such clauses are likely unenforceable. As Paris Club negotiations require all debt to be considered, these clauses may have the effect of encouraging debtor countries to repay or seek forgiveness of their CDB or China ExImBank loans before approaching the Paris Club for separate negotiations.

An important aspect of these clauses is that they effectively mean that Chinese debt should not take a subordinate role to private debt. Unfortunately, the current prevailing approach to sovereign debt renegotiation does not provide equitable treatment among all creditors but effectively favors bondholders and other private lenders. Schlegl, Trebesch, and Wright (2019) establish that in practice, a de facto seniority has emerged in which multilateral debt has preferred status, followed by commercial and bond market debt, followed by official bilateral debt. This phenomenon is related to the fact that private lenders are not required to follow the terms of Paris Club restructuring. As eminent Colombian economist José Antonio Ocampo explains, frequently "private creditors do not accept the restructuring conditions agreed by members of the [Paris] club, while still benefitting from the reduction of the burden on debtor countries (2016, 193). Thus, by sometimes including the "no Paris Club" clauses into their loans, CDB and ExImBank are effectively stating that even if other official creditors accept waiting in line after private lenders, China is striving for more equitable treatment.

To respond to the specific question about how these "no Paris Club" clauses may impact the relative seniority of Chinese and multilateral debt: they are not likely to privilege Chinese debt compared to multilateral debt, because as Schlegl, Trebesh, and Wright (2019) find, multilateral debt is effectively senior to both commercial and official bilateral debt. Instead, to the extent that they have any impact, it will be relative to commercial and private creditors, who usually supersede official bilateral lenders, and to those official bilateral lenders whose renegotiations usually take place subordinately to commercial and private lenders.

Regarding broader questions of transparency standards, these are unfortunately poorly defined throughout the global sector of bilateral sovereign credit, regardless of the source. Currently, no globally multilateral commitments exist by which bilateral creditors agree to publish their activities. Chinese development finance institutions do not regularly publish comprehensive lists of their approvals or reports from meetings, but they join a long list of other public financial institutions in this regard. This is an area in great need of global reform, which could go a significant distance to rebuild trust across debtor and creditor governments. In fact, the United States has an opportunity to lead by example in this regard, by allowing the Sunshine Act to apply to the International Development Finance Corporation. In doing so, it would greatly enhance its moral authority to demand similar commitments to transparency from China and other official creditors.

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RESPONSES FROM MITCH HAYES, FOUNDER, "THE CHINA SIGNAL" AND "MUNDO"

Question for the Record: Hearing on "China in Latin America and the Caribbean"

June 16, 2021

Submitted by Chairman Carolyn Bartholomew and Commissioner Derek Scissors:

- In order to most effectively counter Chinese vaccine diplomacy in Latin America and the Caribbean, to which countries should the United States send vaccines first and why?

The COVID-19 pandemic in Latin America is a threat to the United States' national interests because of its impact on the region's public health, migration flows, and political stability. Furthermore, the United States' response to the pandemic impacts its public image in the region. China's vaccine diplomacy impacts all of these factors due to its high profile public diplomacy campaigns, and their vaccines' lower efficacy in combating the disease.

The United States' response therefore should prioritise those countries where the impact of these factors (the COVID-19 disease burden, illegal migration to the U.S., political stability) poses the greatest threat to U.S. interests. **Therefore, the United States should prioritise sending vaccines to Argentina, Brazil, Colombia, Ecuador, Mexico, Paraguay, and Peru**. I also support the United States' efforts to distribute vaccines through the COVAX vaccine distribution program, in addition to directly distributing vaccines to specific countries.

By focusing on advancing the United States' national interests in the region while maintaining its humanitarian values, the United States can project itself as a responsible leader in the region, and avoid being perceived by the region as overtly countering China's vaccine diplomacy, pushing the region to "choose sides".

RESPONSES FROM FRANCISCO URDINEZ, ASSOCIATE PROFESSOR, INSTITUTE OF POLITICAL SCIENCE, PONTIFICIA UNIVERSIDAD CATÓLICA DE CHILE

Question for the Record: Hearing on "China in Latin America and the Caribbean"

June 16, 2021

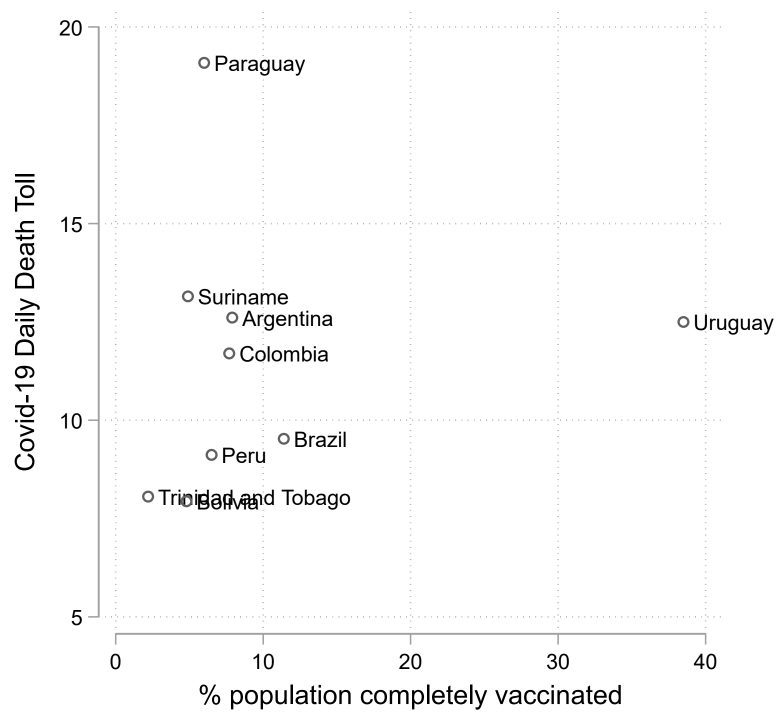
Submitted by Chairman Carolyn Bartholomew and Commissioner Derek Scissors:

- In order to most effectively counter Chinese vaccine diplomacy in Latin America and the Caribbean, to which countries should the United States send vaccines first and why?

Although I am not a global health expert, all the data clearly show that Latin America is the region of the world that is suffering the most from the pandemic. In my opinion, the policy should be to complement, rather than counter Chinese vaccine diplomacy.

According to Our World In Data, nine Latin American countries are among the top 10 countries in the COVID-19 daily death toll, as of June 16, 2021. This should be the main criterion for defining vaccine delivery priorities. Many Latin American nations have had enormous difficulty in obtaining vaccines, and the relative success of each country's vaccination campaign could be measured by the percentage of people vaccinated with two doses as of June 16th. Crossing the two variables we arrive at a figure where the only country moving towards herd immunity is Uruguay. Paraguay stands out as a critical case, because in addition to having the highest death toll, due to its diplomatic recognition of Taiwan, it has had great difficulty in obtaining contracts with Chinese laboratories, nor has it received donations of vaccines (as has the Dominican Republic, for example) (see Figure 1).

Figure 1. Covid-19 Daily Death Toll and percentage of population fully vaccinated, as of June 16.



Source: Our World In Data

Of these nine countries, I also believe that socio-political variables can be used to prioritize those where the situation is critical. One of them is whether the country has suffered major social unrest in recent months. Colombia, Peru, and Paraguay stand out above the rest, in that order.

Another key variable is the economic impact of the pandemic on economic activity, which we can proxy through the GDP growth rate of the last year. Third, it is important to assess which countries have suffered democratic backsliding in recent years, as the pandemic could further deteriorate countries' democratic institutions. From this minimalist criterion we can arrive at the following table (see Table 1).

Tabla 1. Socio-economic facts of most affected countries by Covid-19 in LAC

Country	COVID-19 death toll (1)	% fully vaccinated (1)	2020 GDP growth (2)	Major social unrest in 2021 (3)	Democratic backlash since 2019 (4)
Paraguay	19.09	6	-1.6	Yes	No
Suriname	13.15	4.9	-10.1	No	No
Argentina	12.61	7.9	-10.5	No	No
Uruguay	12.5	38.5	-4.5	No	No
Colombia	11.7	7.7	-7	Yes	No
Brazil	9.53	11.4	-5.3	No	Yes
Peru	9.12	6.5	-12.9	Yes	No
Trinidad and Tobago	8.06	2.2	-6.8	No	No
Bolivia	7.94	4.8	-8	No	Yes

(1) Our World In Data

(2) ECLAC [https://www.cepal.org/sites/default/files/pr/files/table_press_gdp_preliminaryoverview2020-eng.pdf]

(3) Own elaboration based on journalistic data

(4) Additive Polyarchy Index elaborated by V-Dem [https://www.v-dem.net]

Based on Table 1, I think Colombia and Paraguay should be prioritized because they have suffered major social unrest and are far behind in vaccinating a significant percentage of their population. I would also add Peru, because not only has it suffered social unrest as a consequence of its presidential elections, but it is also the country with the biggest economic downturn in the region and has very few people vaccinated with two doses. Finally, Argentina and Suriname are going through very serious economic crises, and continue to lag far behind in their vaccination, I would put them in a second order of priority.

RESPONSES FROM RASHEED GRIFFITH, HEAD OF OPERATIONS, TOKAMAK LABS; HOST, *CHINA IN THE CARIBBEAN* PODCAST

Question for the Record: Hearing on "China in Latin America and the Caribbean"

June 16, 2021

Submitted by Chairman Carolyn Bartholomew

- Please describe China's involvement in Caribbean countries' internal security affairs, for example, through training and providing equipment to police or other internal security forces. What is the impact of Chinese surveillance equipment on good governance in the Caribbean?

The most explicit example of China's involvement in Caribbean countries' internal security affairs is the deployment of Chinese Peacekeepers during the United Nations Stabilization Mission in Haiti (MINUSTAH) between 2004 and 2012. Some of these Chinese peacekeepers were killed during the 2010 earthquake in Haiti2. As can be surmised from the recent association of the President of Haiti, MINUSTAH on a whole was not successful and Haiti remains unstable.

China has organized military and defense training for Caribbean defense officials. This includes the Forum for Senior Defense Officials from Caribbean and South Pacific Countries held in China3. There have been small donations of 200 police motorcycles and policy equipment in Trinidad and Tobago4. These kinds of donations will increase throughout this decade.

In regards to surveillance, I believe this is potentially an area that will develop rapidly. Jamaica, for example, has launched the Jamaica Eye Program. This is a national initiative from the Jamaica Ministry of National Security that creates a national network of CCTV cameras to monitor the population in an attempt to reduce crime5. There have been no explicit statements from the Jamaican government that Chinese assistance has been sought for this program but I think it is inevitable that Chinese technology will be used here. Jamaica has the 3rd highest homicide rate in the world. Gang violence has been endemic for decades. I suspect other Caribbean countries like Trinidad will follow suit and create their own versions of the Jamaica Eye surveillance program. This is a policy development that the U.S should follow closely.

RESPONSES FROM LUIS RUBIO, CHAIRMAN, MEXICO EVALUA

Question for the Record: Hearing on "China in Latin America and the Caribbean"

June 16, 2021

Submitted by Chairman Carolyn Bartholomew

- Please describe China's involvement in Mexico's internal security affairs, for example, through training and providing equipment to police or other internal security forces. What is the impact of Chinese surveillance equipment on good governance in Mexico?

I inquired with three experts, including one who is a broker for both hardware and software for the military and various police forces. None has any knowledge of Chinese participation as suppliers of materials or services of any kind. Most surveillance equipment that is used by these forces comes from the US, Germany, and Israel. None from China.

RESPONSES FROM OLIVER DELLA COSTA STUENKEL, ASSOCIATE PROFESSOR, FUNDAÇÃO GETULIO VARGAS SCHOOL OF INTERNATIONAL RELATIONS; NONRESIDENT SCHOLAR, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

Question for the Record: Hearing on "China in Latin America and the Caribbean"

June 16, 2021

Submitted by Chairman Carolyn Bartholomew

- Please describe China's involvement in Brazil's internal security affairs, for example, through training and providing equipment to police or other internal security forces. What is the impact of Chinese surveillance equipment on good governance in Brazil?

At first sight, security cooperation between Brazil and China remains relatively discrete, particularly when compared to military ties between Brazil and the United States, which have deepened since Brazil was declared a major non-NATO ally by the United States in March 2019, on the occasion of Jair Bolsonaro's visit to the White House. If the Chinese military is seeking to make inroads into Latin America, Brazil does not seem to be its initial focus. In the same way, commercial military ties are relatively low since Brazil's defense industry is well-developed and protected from outside competition.

However, there are numerous areas directly or indirectly related to the military realm where China is slowly gaining influence, even though this is generally not seen as a threat by the Brazilian military. This development is not recent. In 2011, for example, the governments of Brazil and China approved a treaty relating to military cooperation between the two nations; the agreement called for partnerships in remote sensing, telecommunications and information technologies. Three years later, Brazil's Minister of Defense and China's General Director of the State Administration for Science, Technology and Industry for National Defense signed an additional protocol to that agreement which established further ties between the two militaries. The document placed particular importance on the security protection and development of the Amazon region and recognized "that Chinese and Brazilian technological capacities can together contribute to environmental protection and to support the fight against illegalities, by improving the monitoring of territorial use and occupation, as well as preventive protection in light of extreme events of nature".

High-level visits by leading Brazilian defense and security personnel to China and vice versa is now commonplace, both bilaterally and as part of a yearly, institutionalized process of the BRICS grouping, where member countries' national security advisors (NSA) meet on a yearly basis. Particularly since 2009, when the first BRICS presidential summits took place in Yekaterinburg, the Brazilian government began to support more regular military consultations with China. Visits by Chinese military vessels to Brazilian ports occur occasionally, but not with high frequency. In November 2018, General Edson Leal Pujol, head of the department for Science and Technology (DCT), Generals Chalella, Robson and Dahmer visited China's defense firm NORINCO.On that occasion, the Brazilian delegation also visited the defense company CETC, known for its knowledge in the realm of radar and rockets, among others. CETC is not only emerging as a relevant actor in Brazil, but also in other Latin American countries like Ecuador, which purchased CETC radars to better monitor the border region. In the same way, China's Aviation Industry Corporation of China (AVIC) is said to be in conversations about opening a production facility in Brazil, where it could produce, among others, the low-cost aircraft Y12.

In January 2019, representatives from the Partido Social Liberal (PSL) - President Bolsonaro's party - went to China in order to gather information about China's facial recognition system. The visit was made at the invitation of the Chinese government and was also financed by it. However, the event caused turmoil in Brazil's public opinion, including among Bolsonaro's supporters, who are wary of deepening ties with China and also are passionate about Brazil's loyalty to the United States. Olavo de Carvalho, Bolsonaro's ideological guru, posted a video on social network wildly criticizing the visit, stating that "to install this system in Brazilian airports is to deliver the information of everybody who lives in Brazil to the Chinese government."

Another high-level visit to Brazil's Navy took place in April 2019, where participants discussed ways to deepen cooperation. Among the other topics addressed were the training of human resources to act in the logistic support of the armed forces; logistics, and the joint processes for the acquisition of military equipment and the civic-military integration.

"The Chinese can offer us things of the same quality, for half the price", a Brazilian military analyst, who wished not to be identified, commented during an interview. Even that, however, is not always enough: while a Brazilian company produced the army's uniforms in China until 2011, then-president Dilma Rousseff ordered purchases to stop and initiate domestic production, even though the step led to a 25% increase in cost. At the time, complaints about the quality were thought to be the key reason for the policy change.

Lower- and mid-level military-to-military engagement has also become increasingly common, and the Ministry of Defense, along with military academies, have begun organizing frequent debates about China and the implications of its rise. In 2015, an agreement was signed to increase the number of military personnel to participate in 'exchange programs' and participate in each other's courses. Chinese military began to join Brazilian troops who were in Haiti as part of MINUSTAH, and joined military exercises in the Amazon forest. In 2018, Brazilians joined the Military World Games in Wuhan. There is thus a growing number of Brazilian military who has participated in courses in China, some up to one year long, such as a senior command course in Chinese Navy Command School in Nanjing. Particularly more senior military tend to have participated in courses and debates around the world, including in China and the United States. Naturally, of course, this means that Brazilians military who have gained knowledge of US defense technology will also be engaging with the Chinese military.

There are several other areas of cooperation with potential relevance for the military realm. First of all, the Brazilian Navy chose the Chinese state owned company Ceiec (China National Electronics Import & Export Corporation), which was responsible for the reconstruction of Brazil's Antarctic base and its communication system, eight years after the old base was destroyed in a fire. Ceiec has also implemented infrastructure projects in Bolivia, Venezuela and Ecuador. The Commander Ferraz base was inaugurated in 2020. Researchers and military personnel can now visit the base again. Even though the main areas of research are biology and meteorology, Brazil's armed forces are also aware of the growing strategic importance of Antarctica, and rebuilding the destroyed research base was seen as a crucial step to demonstrate that Brazil seeks to be part of any future negotiations that involve the region.

On October 26, 2013, Brazilian navy and the Popular Liberation Army navy performed joint military exercises. This unprecedented operation featured two warships from each country.

Another domain of growing cooperation between Brazil and China is regarding satellites, which has been going on for several decades. After jointly launching their first and second satellite (Cbers 1 and 2) in 1999 and 2003 respectively, Brazil successfully launched a satellite in 2013 and 2014 (CBERS-3 and CBERS-4) (Satélite Sino-Brasileiro de Recursos terrestres, 2017), and additional satellites are expected to be launched from China in the coming years. The Brazilian government often refers to this as "the best example of technological cooperation between developing countries," and frequently prides itself for no longer depending on satellite imagery from foreign countries, thus enhancing its autonomy.