



September 18, 2018

China's Engagement with Latin America and the Caribbean

As the People's Republic of China (PRC) has increased its engagement with Latin America and the Caribbean over the past 15 years, U.S. policymakers have raised questions regarding potential implications for U.S. interests in the region. China's engagement with the region has grown significantly since 2001, particularly in terms of diplomatic and economic ties. This growth reflects China's increasing global "soft power" efforts worldwide. A succession of Chinese leaders and other officials have visited the region to court governments, and in turn regional leaders and officials have been frequent visitors to China. The PRC has signed a variety of bilateral partnership agreements with several countries in the region, including "strategic partnerships" with Argentina, Brazil, Chile, Costa Rica, Ecuador, Mexico, Peru, and Venezuela.

Diplomacy and Policy

Beijing's diplomatic overtures in Latin America underpin China's economic activities and help it to institutionalize its engagement in the region and garner support in international fora. Some analysts argue that China's activities in the region reflect a global strategy to reduce U.S. dominance, although they do not aim to challenge the United States directly or militarily. China's diplomatic efforts include being an observer at the Organization of American States, a member of the Inter-American Development Bank and the Caribbean Development Bank, and an active participant in the Asia Pacific Economic Cooperation forum. PRC President Xi Jinping and Premier Li Keqiang have made four trips to Latin America since 2013, visiting 11 countries.

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

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

countries" but also emphasizes that China "does not target or exclude any third party."

According to some sources, PRC defense sales and assistance to the region have expanded from small arms to advanced weapons systems. They include military exchanges with various countries, military helicopters and vehicles to Bolivia, rifles and patrol boats to Ecuador, rocket launch vehicles to Peru, and fighter aircraft and armored personnel carriers to Venezuela. Some PRC military equipment, however, reportedly suffers from poor quality and aftermarket support.

Another apparent goal of Beijing in the region is to isolate Taiwan by attempting to lure away Latin American and Caribbean countries that still maintain diplomatic relations with Taiwan. At this juncture, 9 countries in the region (out of 17 countries worldwide) recognize Taiwan, also known as the "Republic of China," while the remaining 24 countries in the region recognize the PRC. Although tensions between China and Taiwan over so-called "checkbook diplomacy" had been waning for about a decade, in 2017 and 2018, Panama, the Dominican Republic, and El Salvador switched recognition to China.

Economic Relations

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

Total China-Latin America trade increased from \$17 billion in 2002 to almost \$262 billion in 2014 and was valued at \$257 billion in 2017. In 2015, PRC President Xi set a goal of total China-Latin America trade reaching \$500 billion in 10 years. China's imports from Latin America and the Caribbean amounted to about \$126 billion in 2017, accounting for 7% of China's overall imports; China's exports to the region amounted to \$131 billion, accounting for 5.7% of China's total exports. China has become the top trading partner of Brazil, Chile, Peru, and Uruguay. Major Chinese imports from the region in 2017 were primarily natural resources, including ores (31%), soybeans (19%), petroleum (16%), and copper (9%). Major PRC exports to Latin America included electrical machinery and equipment (21%); machinery and mechanical appliances (15%); motor vehicles and parts (6%); and a wide array of industrial and consumer products.

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

Chinese cumulative foreign direct investment (FDI) in Latin America and the Caribbean reached around \$200 billion in 2017 (including territories with large offshore financial sectors), according to PRC figures. The region has become the second-largest destination for Chinese FDI, more than half in natural resources. AidData, a research consortium, estimated that from 2000 to 2014, China provided Latin America and the Caribbean with \$53 billion in development loans and other assistance, making it the third-largest regional recipient of such assistance from China, after Africa and Central and Eastern Europe.

Chinese banks (China Development Bank and China Export-Import Bank) have become the largest lenders in Latin America. Accumulated lending has surpassed \$150 billion (2005-2017); Venezuela, Brazil, Ecuador, and Argentina are the top recipients of that funding (see **Table 1**). For Venezuela and Ecuador, much of the financing has been provided through loans-for-oil deals. In recent years, China's banks provided more financing to the region than was provided by the World Bank and the Inter-American Development Bank combined. A significant amount of the lending has been for infrastructure projects, as well as for oil and gas and mining projects. Such loans typically have less stringent terms, do not impose policy conditions, and have less rigorous environmental guidelines compared to the loans of major international financial institutions.

Table 1. China: Financing in Latin America, 2005-2017

Country	Amount (U.S. billions)
Venezuela	\$62.2
Brazil	\$42.1
Argentina	\$18.2
Ecuador	\$17.4
Bolivia	\$3.5
Trinidad and Tobago	\$2.6
Jamaica	\$2.1
Mexico	\$1.0
Other Countries	\$1.3
Total	\$150.4

Source: Gallagher, Kevin P. and Margaret Myers, "China-Latin America Finance Database," Inter-American Dialogue, 2017.

U.S. Policy Concerns and Considerations

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

labor and environmental standards. From 2006 to 2015, the United States and China held seven bilateral consultations on Latin America.

In contrast, the Trump Administration has viewed China's engagement in Latin America with more suspicion. Its 2017 National Security Strategy states that "China seeks to pull the region into its orbit through state-led investments and loans" and expresses concern about China's support for "the dictatorship in Venezuela." The U.S. Southern Command's 2018 posture statement expresses concern that China's economic engagement enables it to expand its influence over key U.S. regional partners and promote unfair labor practices, and that China's space and telecommunications ventures in the region create U.S. commercial and security vulnerabilities. More recently, following El Salvador's decision to switch diplomatic relations from Taiwan to China in August 2018, the White House issued a statement asserting that it would reevaluate U.S. relations with the Salvadoran government. Along these lines, some Members have called for cuts in U.S. assistance to those countries switching their diplomatic recognition to Taiwan. S. 3406 would authorize the Secretary of State to consider modifying the U.S. diplomatic presence or adjusting U.S. foreign aid for those countries that downgrade relations with Taiwan.

U.S. warnings about China have been met with skepticism in the region, with some countries calling on the United States to respect their sovereign decisions. Some analysts contend that China's primary interest and influence in the region remain largely economic, and that the possibility of the PRC creating a sphere of influence in Latin America remains small. Despite some affinity between Beijing and some authoritarian Latin American governments and some general support in the region for China's role as a counterweight to U.S. power, some argue that China's appeal is limited due to deep political, social, and cultural differences and language barriers. Some observers argue that recent U.S. disengagement in the region, marked by such actions as withdrawal from the TPP and efforts to reduce U.S. foreign aid, coupled with growing U.S. trade frictions with China and some Latin American countries, may encourage greater PRC-Latin American cooperation.

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

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