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China's Engagement with Latin America and the Caribbean

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

Diplomacy

Beijing's diplomatic overtures in LAC underpin China's economic activities and help institutionalize China's engagement in the region and garner support in international fora. Some analysts argue that China's activities in LAC reflect a global strategy to reduce U.S. dominance, although the activities 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 (IDB) and the Caribbean Development Bank, and a participant in the Asia Pacific Economic Cooperation forum. China has sold Coronavirus Disease 2019 vaccines and has provided medical assistance and loans to pay for vaccines to about a dozen countries in LAC. China and the United States are the leading suppliers of vaccines to the region, according to Wilson Center data.

Since 2015, PRC President Xi Jinping has participated in three summits 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. Xi addressed the Third China-CELAC Ministerial in December 2021 via video message. The meetings have promulgated "cooperation plans" covering politics, security, trade, investment, finance, infrastructure, energy, resources, industry, agriculture, science, and people-to-people exchanges. At the 2018 summit, China invited countries in LAC to participate in its Belt and Road Initiative (BRI), which focuses on PRC-backed infrastructure development around the world. At least 19 countries in LAC participate in the BRI.

In 2016, the PRC government released its second policy paper on LAC. The paper stated 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. It noted that China will "actively carry out military exchanges and cooperation" with countries in LAC but emphasizes that China "does not target or exclude any third party."

Another of Beijing's apparent goals in LAC is to isolate Taiwan by attempting to lure away Latin American and Caribbean countries that maintain diplomatic relations with Taiwan, also known as the "Republic of China." Currently, eight countries in LAC (out of 14 countries worldwide, including the Vatican) recognize Taiwan; the remaining 25 countries recognize the PRC. Panama, the Dominican Republic, and El Salvador switched recognition to the PRC in 2017-2018, and Nicaragua switched on December 9, 2021. In Honduras, President-elect Xiomara Castro pledged to establish relations with the PRC but her transition team maintains that her government will maintain relations with Taiwan.

Economic Relations

China's economic goals in LAC include securing access to raw materials (such as oil, ores, and minerals) and agricultural goods (especially soybeans); establishing new markets for Chinese goods, including high value-added products; and partnering with LAC firms to access and develop technology. China also has sought investment opportunities in Latin America for its infrastructure firms.

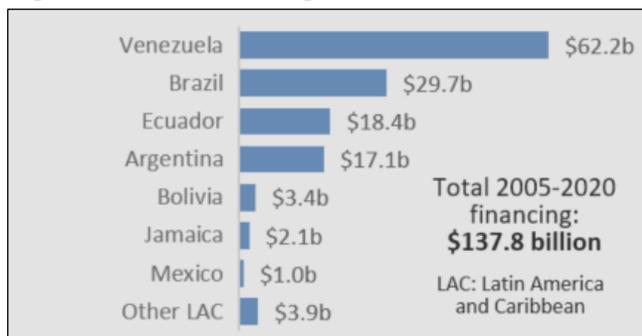
Total China-LAC trade increased from almost \$18 billion in 2002 to almost \$316 billion in 2019. In 2020, despite the decline in world trade due to the pandemic, China's total trade with the region dipped only slightly, to \$315 billion. In 2020, China's imports from LAC amounted to \$165 billion, consisting primarily of natural resources, including ores (35%), soybeans (17%), mineral fuels (12%), meat (7%), and copper (6%). China's exports to the region in 2020 amounted to \$150 billion, with major exports including electrical machinery and equipment (23%), machinery and mechanical appliances (16%), and motor vehicles and parts (6%). China has become the top trading partner of Brazil, Chile, Peru, and Uruguay and the second-largest trading partner for many other countries. China has free-trade agreements with Chile, Costa Rica, and Peru.

According to the China Global Investment Tracker database maintained by the American Enterprise Institute (<https://www.aei.org/china-global-investment-tracker/>), which tracks transactions of \$100 million or more, China's investments in LAC from 2005 to mid-2021 amounted to \$133 billion, with Brazil accounting for \$61 billion and Peru \$25 billion. Energy projects accounted for 60% of investments; metals/mining accounted for 25%. The database also shows China's construction projects in LAC from 2005 to mid-2021 were valued at \$63 billion, with

energy projects accounting for 51% and transportation accounting for 28%.

Chinese banks (China Development Bank and China Export-Import Bank) became large lenders in LAC more than a decade ago, although amounts have declined in recent years and there were no such development loans in 2020. Accumulated loans amounted to over \$137 billion from 2005 to 2020, with Venezuela, Brazil, Ecuador, and Argentina the top recipients, according to the China-Latin America Finance Database hosted by the Inter-American Dialogue (see **Figure 1**). A majority of the lending (68%) has been for energy projects, and 18% has been for infrastructure projects. Such loans typically lack policy conditions and have less stringent terms and less rigorous environmental guidelines compared with the loans of major international financial institutions.

Figure 1. China: Financing in LAC, 2005-2020



Source: Created by CRS with data from Kevin P. Gallagher and Margaret Myers, "China-Latin America Finance Databases," Inter-American Dialogue, 2021, at https://www.thedialogue.org/map_list/.

U.S. Policy Concerns and Considerations

Under the George W. Bush and Obama Administrations, U.S. officials, while recognizing concerns about China's growing influence, generally viewed China's engagement in LAC positively. The overarching goal of U.S. policy was for China to contribute economically to the region in a transparent fashion, following international rules and complying with local or international labor and environmental standards. From 2006 to 2015, the United States and China held seven bilateral consultations on LAC. The Trump Administration viewed China's engagement in LAC with more suspicion and often warned countries in the region about engagement with China. In 2020, the Administration issued a strategic framework for the Western Hemisphere, which included among its priorities countering economic aggression and malign political influence from external actors, such as China.

The Biden Administration's *Interim National Security Strategic Guidance*, issued in March 2021, describes China as a strategic competitor and asserts that the Administration will work to reinvigorate and modernize U.S. alliances and partnerships around the world. The guidance notes that the United States will confront China when its behavior threatens U.S. interests and values. In the context of strategic competition with China, President Biden and G-7 leaders agreed in June 2021 to launch a global infrastructure initiative, Build Back Better World (B3W), to advance infrastructure development in low- and middle-

income countries. Latin America is to be featured in the initiative, which is expected to launch in 2022.

The U.S. Southern Command (SOUTHCOM) has expressed strong concerns about China's activities in LAC. Its 2021 posture statement states that China continues to increase its activities across all domains in the region: cyber, space, extractive and energy industries, transportation hubs, roads, infrastructure, telecommunications, legal and illegal fishing, agriculture, and military training. SOUTHCOM contends that China donates security supplies and equipment to gain access and win favor with regional security forces and uses medical diplomacy to its advantage as leverage. It also warns the PRC is "seeking to establish global logistics and basing infrastructure in our hemisphere in order to project and sustain military power at greater distances."

In recent years, U.S. warnings about China have been met with some skepticism in LAC and among some regional experts. Some analysts contend that China's primary interests and influence in the region remain largely economic and diplomatic and that the possibility of the PRC creating a military sphere of influence in Latin America remains small. Some argue that China's appeal is limited due to deep political, social, and cultural differences and language barriers. Nevertheless, some analysts have expressed concerns about the potential harmful effects of China's economic engagement on LAC's development, including that many Chinese companies do not adhere to international environmental, labor, and safety standards. They maintain that some countries have amassed unsustainable levels of debt owed to the PRC and have become dependent on commodities exports to China. Some argue that PRC support extends a lifeline to leaders with poor governance records and exacerbates corruption.

117th Congress Action. Legislative initiatives have been introduced in both houses to improve the U.S. ability to compete with China worldwide, including in LAC. In June, the Senate passed S. 1260, which, among its LAC provisions, would authorize a capital increase for the IDB; would require strategies to increase exports of U.S. goods and services and to strengthen U.S. economic competitiveness and promote good governance, human rights, and the rule of law; and would require a report assessing China's engagement with international organizations and the defense sector in LAC. In July, the House Foreign Affairs Committee reported H.R. 3524, with some of the same LAC provisions found in S. 1260, although not the IDB provision, and additional provisions to strengthen U.S. engagement with the Caribbean. In November, the Speaker and Senate Majority leader issued a statement that the House and Senate would go to conference to reconcile the two bills.

The compromise National Defense Authorization Act for FY2022 (approved by the House on December 7 as an amendment to S. 1605) would require a report on efforts by the PRC to expand its presence and influence in LAC. The measure awaits final Senate action.

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