

IN FOCUS

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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 been a large supplier of Coronavirus Disease 2019 vaccines to the region, although most have been sold rather than donated.

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 PRCbacked infrastructure development around the world. To date, 21 countries in LAC participate in the BRI; Argentina joined in February 2022, which could pave the way for increased Chinese investment in the country.

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 is to isolate Taiwan by attempting to lure away LAC countries that maintain diplomatic relations with Taiwan, also known as the "Republic of China." Currently, 8 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 in December 2021. Honduran President Xiomara Castro stated her government would maintain relations with Taiwan for now, despite an electoral campaign pledge to establish relations with the PRC.

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 jointly 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 nearly \$449 billion in 2021. China's imports from LAC amounted to \$221 billion in 2021, consisting primarily of natural resources, including ores (42%), soybeans (16%), mineral fuels and oils (10%), meat (6%), and copper (5%). China's exports to the region in 2021 amounted to \$228 billion, with major exports including electrical machinery and equipment (21%), machinery and mechanical appliances (15%), and motor vehicles and parts (7%). 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 and, in February 2022, launched talks with Ecuador.

According to the China Global Investment Tracker database maintained by the American Enterprise Institute and the Heritage Foundation (https://www.aei.org/china-globalinvestment-tracker/), which tracks transactions of \$100 million or more, China's investments in LAC from 2005 to 2021 amounted to \$140 billion, with Brazil accounting for \$64 billion and Peru \$25 billion. Energy projects accounted for 59% of investments and metals/mining accounted for 24%. The database also shows that PRC construction projects in LAC from 2005 to 2021 were valued at \$66 billion, with energy projects accounting for 51% and transportation accounting for 29%.

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 to LAC in 2020 or 2021. Accumulated loans amounted to \$138 billion from 2005 to 2021, 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 (69%) has been for energy projects, and 19% 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 I. China: Financing in LAC, 2005-2021



Source: Created by CRS with data from Kevin P. Gallagher and Margaret Myers, "China-Latin America Finance Database," Inter-American Dialogue, 2022, at https://www.thedialogue.org/map_list/.

U.S. Policy Concerns and Considerations

The George W. Bush and Obama Administrations, 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.

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 middleincome countries, including in Latin America.

In recent years, the U.S. Southern Command (SOUTHCOM) has voiced strong concerns about China's activities in LAC. Its 2022 posture statement asserted that the PRC and its state-owned enterprises continued to target, recruit, and bribe officials at all levels in order to expand their economic, political, and military influence in LAC. According to SOUTHCOM, PRC activities have included "investments in strategic infrastructure, systematic technology and intellectual property theft, disinformation and propaganda campaigns, and malicious cyber activity – all with the goal of expanding long-term access and influence in this hemisphere."

U.S. warnings about China at times 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 LAC 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. China also has exported surveillance technologies that some observers fear could be used to violate privacy or other rights. Some also argue that PRC support extends a lifeline to leaders with poor governance records and exacerbates corruption.

117th Congress Action. In December 2021, Congress enacted the National Defense Authorization Act for Fiscal Year 2022 (P.L. 117-81), which includes a provision (Section 1138) requiring a report by June 30, 2022, on the PRC's efforts to expand its presence and influence in LAC.

Both houses also have approved broad bills to improve the U.S. ability to compete with China worldwide, including in LAC. The Senate approved S. 1260, the United States Innovation and Competition Act of 2021, in June 2021, and the House approved H.R. 4521, the America COMPETES Act of 2022, in February 2022. In March 2022, the Senate approved H.R. 4521, substituting the language of S. 1260, and the measure went to conference in April. Both versions would require a strategy to strengthen U.S. economic competitiveness and promote good governance, human rights, and the rule of law in LAC; require a report assessing China's engagement in international organizations and the defense sector in LAC; support U.S. defense cooperation in the region; and increase U.S. engagement with civil society regarding accountability, human rights, and the risks of pervasive surveillance technologies. The Senate version also would require a strategy to increase exports of U.S. goods and services to LAC and authorize a capital increase for the Inter-American Development Bank. The House version also would increase U.S. engagement with the Caribbean; require a strategy to expand U.S. educational and cultural diplomacy (and a report on China's related activity in LAC); and require reports on major Chinese infrastructure investments in LAC and on multilateral efforts to address Latin American fentanyl trafficking, including efforts between China and Latin America to combat such trafficking.

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