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China's Engagement with Latin America and the Caribbean

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

Diplomacy

Beijing's diplomatic overtures in Latin America underpin China's economic activities and help it to institutionalize its engagement in the region and garner support in international fora. Some analysts argue that China's activities in the region reflect a global strategy to reduce U.S. dominance, although they do not aim to challenge the United States directly or militarily. China's diplomatic efforts include being an observer at the Organization of American States, a member of the Inter-American Development Bank and the Caribbean Development Bank, and a participant in the Asia Pacific Economic Cooperation forum. Amid the Coronavirus Disease 2019 (COVID-19) pandemic, China has provided medical aid to countries throughout the region and has offered loans to help pay for the purchase and distribution of vaccines once developed.

PRC President Xi Jinping participated in a January 2015 summit 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 meeting, China and CELAC countries agreed to a five-year cooperation plan covering politics, security, trade, investment, finance, infrastructure, energy, resources, industry, agriculture, science, and people-to-people exchanges. At a second China-CELAC ministerial held in January 2018, both sides agreed to an updated cooperation plan extending through 2021. China also invited Latin American and Caribbean countries to participate in its Belt and Road Initiative (BRI), which is focused on PRC-backed infrastructure development around the world. Currently at least 19 countries in the region are participating in the BRI.

In 2016, the PRC government released its second policy paper on Latin America and the Caribbean. The document states 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 countries in the region but also emphasizes that China "does not target or exclude any third party."

Another apparent goal of Beijing in the region is to isolate Taiwan by attempting to lure away Latin American and Caribbean countries that still maintain diplomatic relations with Taiwan, also known as the "Republic of China." Currently, 9 countries in the region (out of 14 countries worldwide) recognize Taiwan, and the remaining 24 countries in the region recognize the PRC. In 2017 and 2018, Panama, the Dominican Republic, and El Salvador switched recognition to the PRC.

Economic Relations

China's economic goals in Latin America and the Caribbean (LAC) 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.

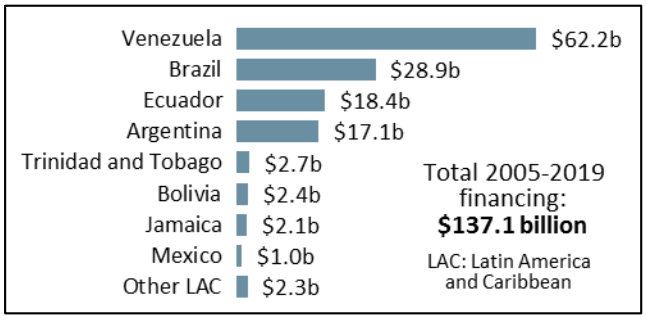
Just as Latin America's economic linkages with China helped the region withstand the 2008 global financial crisis, China's post-COVID-19 economic rebound could play an important role in Latin America's post-pandemic recovery.

Total China-LAC trade increased from $17 billion in 2002 to almost $315 billion in 2019. In 2015, PRC President Xi set a goal of increasing total China-LAC trade to $500 billion in 10 years. China's imports from Latin America and the Caribbean amounted to almost $165 billion in 2019, accounting for almost 7.9% of China's overall imports; China's exports to the region in 2018 amounted to $151 billion, accounting for 6% of China's total exports. China has become the top trading partner of Brazil, Chile, Peru, and Uruguay and the second-largest trading partner for many other countries. Chinese imports from the region in 2019 were primarily natural resources, including ores (32%), mineral fuels (19%), soybeans (16.7%), and copper (5.6%). Major PRC exports to the region in 2019 included electrical machinery and equipment (21%); machinery and mechanical appliances (15%); motor vehicles and parts (6.5%); and a wide array of industrial and consumer products. China currently has free trade agreements with Chile, Costa Rica, and Peru.

According to the China Global Investment Tracker database maintained by the American Enterprise Institute (at https://www.aei.org/china-global-investment-tracker/), China's investments in Latin America and the Caribbean from 2005 to 2019 amounted to $130 billion, with Brazil accounting for $60 billion and Peru almost $27 billion. Energy projects accounted for 56% of all investments and metals/mining 28%. In addition, the database shows that China's construction projects in the region were valued at almost $61 billion, with energy projects accounting for almost 53% and transportation projects nearly 27%.

Chinese banks (China Development Bank and China Export-Import Bank) have become the largest lenders in Latin America. Accumulated loans amounted to $137 billion from 2005 to 2019, 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 (67%) has been for energy projects, and almost 20% 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. Notably, China's bank lending to Latin America has been waning since reaching a high of $21.4 billion in 2016, likely due in part to Venezuela's economic deterioration. By 2019, China's annual lending had declined to $1.1 billion.

Figure 1. China: Financing in LAC, 2005-2019



Source: Created by CRS with data from Gallagher, Kevin P. and Margaret Myers, "China-Latin America Finance Database," Inter-American Dialogue, 2020, 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 influence, generally viewed China's engagement 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 Latin America.

The Trump Administration has viewed China's engagement in Latin America with more suspicion. Its 2017 National Security Strategy states that "China seeks to pull the region into its orbit through state-led investments and loans" and expresses concern about China's support for "the dictatorship in Venezuela." In an April 2019 visit to Latin America, Secretary of State Mike Pompeo said, "when China does business in places like Latin America, it often injects corrosive capital into the economic bloodstream, giving life to corruption, and eroding good governance."

The U.S. Southern Command has expressed strong concerns about China's activities in the region. Its 2020 posture statement maintained that certain Chinese investments in the region have strategic value for future military uses and expressed special concern about China's investments in deep ports and infrastructure on both sides of the Panama Canal. It also warned about Chinese telecommunications projects that, it argued, could allow China to monitor or intercept U.S. official information.

In August 2020, the White House set forth a strategic framework for the Western Hemisphere, which includes among its priorities countering economic aggression and malign political influence from external actors such as China. The actions identified to combat such influence include building closer ties between the U.S. and regional private sectors, supporting development and investment opportunities in the hemisphere, and continuing to lead in international organizations and multilateral fora.

U.S. warnings about China have been met with some skepticism in the region 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. Some observers argue the Trump Administration's more confrontational or zero-sum approach in relations with Latin America may have encouraged greater PRC-Latin American cooperation.

Some analysts have concerns about the potential harmful effects of China's economic engagement on the region'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 upon commodities exports to China. Some argue that PRC support extends a lifeline to leaders with poor governance records and exacerbates corruption.

In the 116th Congress, several legislative initiatives have been introduced to counter China's influence in the Western Hemisphere. S. 4528/H.R. 8716, introduced in August and October 2020, respectively, would take measures to increase U.S. competitiveness in Latin America and the Caribbean, promote regional security and digital security, expand U.S. educational and cultural exchange programs, and advance initiatives to strengthen the role of civil society and the media. S. 4629, a broader initiative introduced in September 2020 to counter China's influence worldwide, includes a section to deepen U.S. engagement with Western Hemisphere nations. H.R. 7703, introduced in July 2020, would authorize funding for the Caribbean Basin Security Initiative, including for the purpose of countering malign influence from authoritarian regimes, including China.

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