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China in Latin America: Geopolitics and Global Pandemics

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The rise of China in LAC and threats to US interests in the region

China's economic rise has undoubtedly been one of the most dynamic changes in the global economy and geostrategic positioning of this century. This realignment has expanded to LAC in two distinct ways. As the global leader on manufacturing, China's economy needs raw materials, of which LAC has a rich amount, mostly in commodities essential for manufacturing. As an area comprising of 33 nations and over 652 million people, China benefits from trade with a continent that can also serve as a robust export market. In the era of "great power competition" between the US and China and a focus on the economic growth of developing nations, what is the threat? Investment in the LAC economy could help reduce out migration to the United States and provide a much-needed influx of capital for the region. China's investment in LAC can also boost critical development of LAC economies without having LAC relying only on the US for aid and trade. China can be a partner on counter-terrorism efforts at the border, mitigation of illicit activities and regional corruption due to cartels. It also does not want to be the only power in play. China further appreciates that Brazil and Mexico are regional superpowers on their own and aims to maintain those relationships.¹ China will also respect that a "de facto" Monroe Doctrine still exists, and it would not likely agitate the US militarily in the region solely to advance its economic interests.

For these and other reasons, the deepening of the China-LAC relations hadn't been a threat to US interests before, as the US is China's largest trading partner and concurrently the largest stakeholder in the Western Hemisphere. As with the exponential threat of the spread of the coronavirus, the dynamics around China's creeping influence are rapidly changing the landscape in LAC. According to China's Ministry of Commerce (MOC), China has become the second largest trading partner of LAC, while the region is ranked second for Chinese overseas investment, following Asia.² In 2017, trade value between the two sides was \$257.8 billion, up 18.8% year on year. The Global Development Policy Center reported that South America relies on China for its export market overall to a greater degree than it does the US, which comes in second for the region. Countries in Latin America have begun to join the China-led Asian

¹ Margaret Myers and Carol Wise, *The Political Economy of China-Latin America Relations in the New Millennium: Brave New World* (Routledge, 2016).

² "China Becomes Second Largest Trading Partner of Latin America - Xinhua | English.News.Cn," accessed December 7, 2019, http://www.xinhuanet.com/english/2018-11/29/c_137640261.htm.

Infrastructure Investment Bank (AIIB) and the China-initiated Belt and Road Initiative (BRI). Resulting from China's membership in the Inter-American Development Bank (IADB), The Organization of American States (OAS), and The World Bank, the CPC has arguably tried to influence each of these institutions to their advantage. Chinese banks (China Development Bank and China Export-Import Bank) have become the largest lenders in LAC.³ China is now Latin America's largest creditor and the Chinese Development Bank and Chinese Ex-Im Bank has awarded over \$137 billion in loans to LAC and has been supporting institutions such as the Community of Latin American and Caribbean States (CELAC) of which the US is not a member, to compete for influence in the region. Notably, when China wanted to host the IADB conference in the country in 2019, while refusing entry to Venezuela's elected Guaido administration, US leadership opposed it and it was subsequently moved. As of 2019, six LAC countries are members of the AIIB and 17 countries have signed BRI memoranda of understanding, cooperation agreements, or framework agreements. At least 41 Chinese sponsored "Confucius Institutes" have emerged in LAC and China has diplomatic relations with 24 countries in LAC. Considering its geopolitical positioning, the main security concern for US interests is whether this economic engagement creates political capital which then leads to strategic cooperation.

Building the Future of LAC

Chinese loans and investment are heavily criticized for creating debt traps, not hiring locals, promulgating corrosive capital and increasing corruption in the host nation. Moreover, China's spending on aid and infrastructure results in the increasing of its soft power with many LAC governments at the national, state and local level. An alarming concern for US policymakers projecting Western democratic and free trade values is that one of the aims of China's "soft power" approach is to educate and engage LAC scholars and political leaders to gain an interest in the "China model." Therefore, curated delegations conducted between China and LAC in support of academic and cultural exchanges are intended to promote learning from each other for development and therefore, influence a cadre of LAC intellectuals and elites on China's development model.⁴ This model would be predicated on a statist and totalitarian system and sold as the solution to "bring millions out of poverty" as China likes to retort.

China's infrastructure investment project, the Belt and Road Initiative, launched in 2013 President Xi Jinping, has focused on Central Asia and the Middle East, historically relevant areas to Chinese trade

³ Mark P Sullivan and Thomas Lum, "China's Engagement with Latin America and the Caribbean," n.d., 2.

⁴ Chai, Yue.

over the past few centuries.⁵ However, given the geo-strategic goals and context of the BRI, which aims to reconnect these historical trading routes within Asia, China's obvious distance from the Western Hemisphere makes it curious that in January 2018 China invited LAC countries to join the Belt and Road Initiatives at the second China-CELAC forum.⁶ At the event, China and CELAC member states agreed to a cooperation plan extending through 2021. The China-CELAC relationship reflects China's transparency about its interests in the region, advancing a roadmap consistent with its current activity and expanding beyond the Asia and Indo-Pacific regions.⁷ 17 LAC countries are now participating in the BRI: Antigua and Barbuda, Barbados, Chile, Cuba, Ecuador, El Salvador, Dominica, Dominican Republic, Grenada, Guyana, Jamaica, Panama, Trinidad and Tobago, Suriname, Venezuela, and Uruguay.⁸

By 2017, China had 69 infrastructure projects in LAC, at a value of over \$56 billion, creating about 214,000 jobs. Argentina, Brazil, Ecuador, and Venezuela have initiated the bulk of the Chinese infrastructure projects, with the remaining in Central America and Mexico.⁹ Chinese strategy of BRI and on-the-ground infrastructure investments have had well-documented controversies in Africa and the Indo-Pacific with many claiming that the People's Republic of China has an imperialistic agenda in the partnership, development, and ultimate control of the host nation's critical infrastructure. Some LAC nations have welcomed Chinese investment, as the process for the buildout of these projects can be timely, flexible, and less bureaucratic.¹⁰ However, weak governing institutions partnering on infrastructure investments can increase corruption and of even "corrosive capital," described as the undermining of the rule of law and governance as a result of state driven capital. A 2019 report on the impact of "corrosive capital" and the protection of democracies identified an alarming trend among the investments made by authoritarian regimes such as China, stating that can "exploit governance gaps" and in some cases, worsen the situation, using a case study of 3 different projects in Argentina.¹¹ Chinese infrastructure investment can be a valuable fit for LAC nations desperately lacking this necessary spending, but some

⁵ "China's Massive Belt and Road Initiative," Council on Foreign Relations, accessed December 14, 2019, <https://www.cfr.org/backgrounder/chinas-massive-belt-and-road-initiative>.

⁶ "China Invites Latin America to Take Part in One Belt, One Road," *Reuters*, January 22, 2018, <https://www.reuters.com/article/us-chile-china-idUSKBN1FB2CN>.

⁷ "HHRG-114-FA07-Wstate-EllisE-20150910.Pdf," accessed December 8, 2019, <https://docs.house.gov/meetings/FA/FA07/20150910/103931/HHRG-114-FA07-Wstate-EllisE-20150910.pdf>.

⁸ Sullivan and Lum, "China's Engagement with Latin America and the Caribbean."

⁹ Peters, "CHINA'S RECENT ENGAGEMENT IN LATIN AMERICA AND THE CARIBBEAN: CURRENT CONDITIONS AND CHALLENGES."

¹⁰ Dollar, "China's Investment in Latin America."

¹¹ "MXW_CIPE_CorrosiveCapitalPaper_PRINT_20190809.Pdf," accessed December 14, 2019, https://www.cipe.org/wp-content/uploads/2018/09/MXW_CIPE_CorrosiveCapitalPaper_PRINT_20190809.pdf.

areas of infrastructure investment and loans can provide an alarming set of consequences for both LAC sovereignty and US interests in the region. Again, the main security concerns is that for the Chinese, soft power as the presumption of value congruence has statist goals.

Taiwan and the PRC's "Quid Pro Quo"

As Sun Tzu remarked in *The Art of War*, "The supreme art of war is to subdue the enemy without fighting." China's strategy in the LAC region isn't just economic, they are rapidly picking up diplomatic partners in the Hemisphere. In a 2019 article in *Foreign Affairs* magazine, Bonnie Bley remarked that "for decades, Washington had the largest diplomatic network in the world. Now China does, boasting 276 diplomatic posts—The United States' network, meanwhile, stands at 273, down one post since 2017." In the article, Bonnie Bley remarks that China's choices for opening up diplomatic posts are not "random," noting that China has opened five new embassies since 2018 and two of them are in LAC: the Dominican Republic and El Salvador, part of a campaign to isolate Taiwan diplomatically.¹²

China's global strategy of isolating Taiwan has reduced the region to only 9 countries that maintain diplomatic relations (Belize, Guatemala, Haiti, Honduras, Nicaragua, Paraguay, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines) and recognize Taiwan, the remaining 24 hemispheric LAC nations do not.¹³ However beneficial the relationship with Taiwan and/or the US could be to LAC, the opportunity cost for them is high, as China has significantly more resources than Taiwan. Recognition of the One China principle promotes Chinese economic/political/socio-cultural activity that includes, but is not limited to, access for domestic exporters to the Chinese market and all the aforementioned investment and bilateral FTAs, MOU's and OFDI. In essence, the flood gates will open and there will already exist a mutual desire for these benefits on the economic, diplomatic, and cultural fronts such as the establishing of people-to-people connections, Confucius Institutes, travel between official delegations and even increased tourism from the mainland to the host nation. This was clearly the case with the Dominican Republic, El Salvador, and Panama, until they adopted the One China principle.

The PRC's policy paper on LAC published in 2018, clearly states that "The One China principle is an important political foundation for China to develop its relations with other countries in the world. The

¹² Bonnie Bley, "The New Geography of Global Diplomacy," December 2, 2019, <https://www.foreignaffairs.com/articles/china/2019-11-27/new-geography-global-diplomacy>.

¹³ Sullivan and Lum, "China's Engagement with Latin America and the Caribbean."

Chinese government appreciates that the vast majority of Latin American and Caribbean countries abide by the One China principle and support China's great cause of reunification. China is ready to establish and develop state-to-state relations with Latin American and Caribbean countries on the basis of the One China principle.¹⁴ A recent report by the RAND corporation advising Taiwan on how to counter China's increasing efforts to isolate it in the LAC region found that even though Taiwan and China declared an end to the dollar diplomacy, China's economic relationships are still diplomatic first.

The prospect of Chinese market access for countries who support the One China principle is a serious factor in the decision-making process of a nation with existing diplomatic ties to Taiwan. Chinese official economic and policy papers make clear the caveat of the One China principle for mutual gain and so, smaller and less economically developed nations endure a high opportunity cost of this trade-off. This is not just costly economically; it can be politically costly to the party in control who seeks to maintain the relationship with Taiwan if constituencies perceive they lose out on profitable business with China unnecessarily. Including nations that support Taiwan, China has a practice of establishing "working relations with more than 80 parties in 30 countries." CC/IP has party-to-party diplomatic ties which helps to gather intelligence and prepare the PRC if that party takes over power, essentially "opposition parties and politicians in waiting."¹⁵ This is a long-term and multi-level calculated strategy of isolating Taiwan in LAC and China is consistently working with various political players to achieve it.

Paraguay's cattle industry is a good example of the dilemma many LAC countries who still acknowledge Taiwan face and where the future battleground of the fight for Taiwan might be. Paraguay is well known for its cattle industry and beef exports. It is also the last country in South America that still recognizes Taiwan and has received enormous benefits from those diplomatic ties. This hasn't precluded China from exporting its products into Paraguay (\$3.5 billion worth of exports in 2017 alone) but recognition of Taiwan has closed the markets to Paraguay for exporting its products (exporting only \$25 million of goods), namely beef. This makes Paraguay the country with a largest trade deficit with China in Latin America. In a Dec 2019 article in *Dialogo Chino*, it was noted that "Earlier in the month, during a business trip to Sao Paulo, Paraguayan ranchers met with China's vice-consul to Brazil. According to Fernando Serrati, head of the meat producers' association, they were told they 'held the key to allow Paraguayan meat into mainland China, but first it was necessary to break relations with Taiwan.'"¹⁶ Paraguay has chosen to

¹⁴ "China's Policy Paper on Latin America and the Caribbean."

¹⁵ Shambaugh, *China Goes Global*.

¹⁶ "Paraguay's Agribusiness Pushes for China Market Access," *Dialogo Chino* (blog), November 8, 2019, <https://dialogochino.net/31546-paraguays-agribusiness-pushes-for-china-market-access/>.

renew diplomatic ties with Taiwan for now, but the exchange covered is revealing. On December 13th, 2019, the US President and the President of Paraguay met in the Oval Office in Washington, DC where President Benítez thanked President Trump for “firmly defending democracy in the region” and “reaffirms our bilateral and our historic friendship.”¹⁷

The issue of Taiwanese recognition is a critical consideration among US policy makers as the US has actively discouraged countries to reverse their policy of diplomatic recognition for Taiwan. The US is so invested in this foreign diplomatic policy, that an adverse effect of a country’s decision to accept the One China principle and cut ties with Taiwan is its subsequent view as a rejection of traditional US influence in the region. The official policy outcomes of the US on assistance programs correlate with Taiwan’s outcomes and though the US recognizes the One China principle itself, it remains supportive of the Taiwan-LAC relationships and seeks to strengthen and continue these alliances in the region.¹⁸

To put these developments in hindsight, it’s important to understand that not all aspects of Chinese investment is a threat. The main underlying threat to the US for the future of the China-LAC relationship isn’t whether the deepening of these ties are collectively good for the hemisphere or any particular country within it, including the US, but IF China succeeds in garnering greater hegemonic influence in the region over the US as a result of an increased perceived or actual value in the engagement. China is already the number one trading partner for Brazil, Chile, Peru and Uruguay.¹⁹ The continued isolation campaign of Taiwan in the region, a key political goal of the CPC, reflects not only Latin America’s increasing preference for Chinese engagement, but at best, sends a message of ambivalence about the US preference for Latin America’s diplomatic decision, as the US still advocates for Taiwanese engagement in the region with its partners. In a statist economic system, South-South partnerships advance Chinese ROI, of which some of their goals are presenting a hegemonic threat to US and its value system and assuring that key LAC political and business leaders are increasingly tied to Chinese interests.

¹⁷ “Remarks by President Trump and President Abdo Benítez of the Republic of Paraguay Before Bilateral Meeting,” The White House, accessed December 15, 2019, <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-president-abdo-benitez-republic-paraguay-bilateral-meeting/>.

¹⁸ Scott W. Harold, Lyle J. Morris, and Logan Ma, “Countering China’s Efforts to Isolate Taiwan Diplomatically in Latin America and the Caribbean: The Role of Development Assistance and Disaster Relief,” Product Page, 2019, https://www.rand.org/pubs/research_reports/RR2885.html.

¹⁹ Elizabeth Gonzalez, “Explainer: Latin American Countries’ Rising Trade with China,” AS/COA, accessed December 14, 2019, <https://www.as-coa.org/articles/explainer-latin-american-countries-rising-trade-china>.

The mechanisms of China's engagement will cement their sphere of influence in the region regardless of whether they ever actually beat out the US as LAC's preferred trading and security partner. China's significant investment in both physical and telecommunications infrastructure in Latin America has far-reaching consequences for national security and the LAC host nation autonomy. The Inter-American Dialogue has identified over 150 planned and completed Chinese infrastructure projects close to waterways and key naval trade routes. This includes a stake in the Panama Canal, a historic marker of the Monroe's Doctrine of which 2/3 of US trade routes are still active and many small Caribbean nations in closer proximity to the US continent. Telecomms infrastructure may present an even greater danger in future. In Dec. 2019, the mayor of El Salvador announced he would invest in at least 1,200 cameras with facial recognition technology for public safety. It is estimated that Latin America will adopt 5g technology at above average rates when compared to other nations and with Huawei and ZTE being the lead competitors in this space, the likelihood that those contracts will go to Chinese companies is high.

Diminished risk or delayed risk? The effect of COVID-19

Many new policy developments in the past few months alone have appeared at first glance to at least temporarily neutralize the rapid rise of Chinese influence in the Hemisphere. The surprising emergence of and spread of the Coronavirus or COVID-19, that has its origins in Wuhan, China has become a global pandemic that will hit the economies in Latin America relying on the relationship with China in a unique way. The US has also passed the USMCA and a deal with China has been finalized. Data released on March 23rd, 2020 by the InterAmerican Dialogue indicate that Chinese development finance has scaled back significantly to a little over \$1 billion in 2019. This was due to an elimination of new loans to Venezuela, a failed investment, and the lending of smaller amounts to new LAC actors or directly to Chinese companies. Energy and infrastructure remain the highest investment and the combination of all its financial activity in this space will still expand its sphere of influence in the region for decades to come.

The question many experts in the hemisphere are now asking themselves is whether the economic effects of the virus presents a diminished risk or simply a delayed one? Economies like Chile and Peru who rely on the export of commodities to China must now find other global markets for their goods. "Anti-China" sentiment is high overall, and many are advocating that China's global manufacturing capabilities be replaced by small nations in the Indo-Pacific or Latin America. However after this phase ends, the global supply chain market will have taken a serious hit and Europe, for example, will find itself in need of aid or loans wherever it can find them. Ironically, China may then be best positioned to come back even stronger than ever. China-LAC analysts Margaret Myers and Kevin Gallagher make this exact case

in their March 24th 2020 article in America's Quarterly, noting that just like in 2008 after the financial crisis, China could once again bolster LAC economies, providing debt relief, critical FDI and 5g technology.

Policies mandated in the US to contain the virus have halted economic growth and are causing unemployment among many sectors and massive drops in the stock market. Europe's economy and governing infrastructure, in particular, will be devastated, taking many decades to recover. Will we see a world where among the suffering of the superpowers, China thrives? This is possible. By the time US and European economies will readjust to recover, China may already be at a massive equity advance. Countries may feel compelled to accept their loan offerings, despite any disadvantages to the terms. The massive transition to telework that has occurred may extend beyond the quarantined time in order to save the many small business' that will struggle to stay open by reducing office space and overhead costs. Among the threats would be to our cybersecurity. Most offices, much less homes, aren't equipped with safe and secure networks to the degree necessary to prevent a serious systems and data breach.

Reversing the trends – Regaining perspective

Can trends favoring China in the great power competition with the US in the Western Hemisphere be reversed or is the US just playing a long losing game? Increased attention from key US policymakers and particularly the Trump administration with respect to China, has at least brought this issue to greater light. The passing of the USMCA and the deal with China aside, the US has now passed a stimulus bill to boost the economy in the aftermath of the drastic measures taken to slow the Coronavirus pandemic. On the political front, the recent elections at OAS emphasized the importance of continued engagement of Latin America. A fierce advocate of human rights and rule of law in the region, Secretary General Luis Almagro was recently re-elected, but not without facing opposition from candidates backed by a block of countries which are key allies of China. Of note, US representative to the OAS, Ambassador Carlos Trujillo was recently nominated by President Trump to be Assistant Secretary of Hemispheric Affairs at the White House, a critical position determining US policy in Latin America. The Inter-American Development Bank has brought on veteran foreign policy and White House leadership in Andeliz Castillo, having been nominated by the President. Last year, the former Undersecretary of the Treasury for International Affairs, David Malpass, became President of the World Bank. New US leadership in these crucial institutions have a long history of being foreign policy hawks with an eye on China and the region.

Experts raising the alarms about Chinese influence globally and specifically in the Western Hemisphere have ample reason to worry, but maybe more time to make necessary policy changes. The US economy remains stronger than China's and so is its global influence. The way in which countries contain the COVID-19 and manage the crisis through their policies to prevent economic collapse will determine the perception of their global positioning to a large degree. In the coming months, many nations will become vulnerable to both the outbreak of disease and the rapidly changing environment in the aftermath of its containment and there is still much ambiguity as more drastic measures are taken. Not unlike the healthy individuals under strict quarantine boosting their immunity, LAC nations should take this time to consider sustainable and efficient ways of avoiding the need for Chinese investment in the aftermath of the COVID-19 crisis. The US should be heavily considering multiple opportunities to establish strategic partnership for LAC engagement and provide better alternatives than China to meet and support the LAC nations' needs. Almost certainly, China's long-term vision and state-run economic system is already in the process of implementing a plan that would market the problem as also the solution. The US must provide a policy vaccine to combat the potentially harmful virus that is excess Chinese influence in LAC.

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