

# China in Latin America: Major Impacts and Avenues for Constructive Engagement

A U.S. Perspective

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# **CHINA IN LATIN AMERICA: MAJOR IMPACTS AND AVENUES FOR CONSTRUCTIVE ENGAGEMENT; A U.S. PERSPECTIVE**

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## **Introduction**

Over the past two years, U.S. officials have sought to highlight China's negative effects on the Latin American and Caribbean (LAC) region's development and stability, whether to U.S. or Latin American audiences. As U.S. Secretary of State Mike Pompeo said during a trip to Mexico City in October 2018, "China has invested in ways that have left countries worse off."<sup>1</sup> Pompeo and other U.S. officials have also taken this message elsewhere in the region, cautioning against the effects of Chinese engagement on LAC governance, security, corruption, regulatory capacity, and financial stability, and in a range of other areas.

For Latin Americans, though, relations with China aren't so black and white. China may be an imperfect partner for LAC, as many in the region will attest, but it is an increasingly important one. After nearly two decades of enhanced Chinese economic engagement with the region, LAC governments and economic sectors rely heavily on China's economic partnership and inputs. China is LAC's second most important trading partner, second most important source of mergers and acquisitions foreign direct investment, and top source of development finance. For South America, China's importance is even more pronounced: It became the top export destination for South American goods in 2010.

China's effects on regional development are also mixed, as we demonstrate below. China's contributions to the region's economic growth are well-documented, but Chinese demand for raw materials has also accentuated regional dependence on these commodities, in a process of "re-primarization" in South American economies, with troubling implications for the region's long-term development prospects. Chinese investments have transformed the energy sectors in some countries, but the environmental effects of hydroelectric and other projects will be long-lasting in certain cases.

To achieve a wide range of development objectives—economic, environmental, and social—LAC must depend on increasingly well-planned and coordinated engagement from all of its major economic partners and donor nations, including China. This is especially true in times of growing uncertainty, as the region grapples with humanitarian and migration crises, growing populist tendencies, relentless corruption, and climate change, among other factors.

## **China's Effect on Latin American Development**

Chinese development assistance to LAC, which includes concessional finance, grants, technical assistance, and aid, has undoubtedly affected development outcomes in the region, especially at the community level in certain countries. Chinese disaster assistance was critical in the aftermath of the 2016 Ecuador earthquake, for example, and China-funded housing projects in Venezuela are of clear individual benefit to certain Venezuelans. Chinese technical assistance, including in agricultural technology and telecommunications, is also on the rise, especially as Chinese capacity in these sectors advances in its own right. A growing number of Chinese companies, such as China National Petroleum Corporation (CNPC) in Peru and the Industrial and Commercial Bank of China (ICBC) in Argentina, also provide

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<sup>1</sup> Jourdan, Adam, "China denounces Pompeo's 'malicious' Latam comments amid influence battle." Reuters. Retrieved 1 May 2019.

occasional donations to local communities. CNPC manages a “Sinfonías del Mar” music program for underprivileged students in Piura, for example. In these and other ways, China’s foreign aid activity is impacting regional well-being, albeit on a seemingly ad hoc basis. Barbara Stallings (2017) estimates that from 2010 to 2012, Latin America and the Caribbean was somewhat overrepresented among recipients of Chinese official development assistance (ODA).<sup>2</sup> The LAC region accounted for 8.4 percent of Chinese ODA compared to 7 percent of its trade and just 2.8 percent of its FDI. However, China was *under*-represented among donors to LAC: China accounted for just 7 percent of LAC’s inbound ODA flows compared to 23 percent for U.S. aid, for example.

China’s broader economic engagement with LAC has a far more profound impact on the region’s development trajectory than its official aid, however. The literature suggests that China’s extensive economic activity in the region has had both positive and negative effects on regional development prospects, advancing sustainable development objectives in some cases and limiting them in others. China’s impact also varies across countries and industries and even on a project-by-project basis, depending upon the type and extent of engagement and the various actors involved. This report aims to qualify China’s effect on key development indicators in LAC, using the United Nations’ 17 Sustainable Development Goals (SDGs) as a basis for analysis.

As indicated in the sections below, China’s extensive trade and investment with the region is at least partially supportive of three of the priority areas outlined by the SDGs: affordable and clean energy (Goal 7), decent work and economic growth (Goal 8), and industry, innovation, and infrastructure (Goal 9). China’s effect on the region’s economic growth was evident early on in the China-LAC story—trade demand and capital supply enabled the LAC region to swiftly rebound from the 2008–2009 global financial crisis.<sup>3</sup> Due in large part to their trade ties with China, Argentina, Brazil, Chile, and Peru were able to engage in countercyclical policies when the crisis struck and to recover by 2010.<sup>4</sup> China’s impact on the region’s clean energy access and job creation has also been evident for a number of years, but is highly project-specific and focused on a handful of countries.

Chinese engagement has had a seemingly neutral or negative effect on LAC progress toward some of the other SDGs. China would appear to have had minimal effect on gender equality (Goal 5) in the region, although little analysis has been done on the topic. There is anecdotal evidence that Chinese engagement may be exacerbating economic inequalities (Goal 10), especially to the extent that infusions of Chinese capital are being pocketed by LAC elite. Chinese finance has also arguably supported disastrous economic policymaking in some countries, such as Venezuela, with lasting effects on that and neighboring countries’ development prospects. China’s trade with LAC also arguably reinforces historical patterns of dependency in the region, with possibly detrimental economic and political effects.<sup>5</sup> The impact of Chinese engagement on Latin America’s environment is of additional concern as Chinese companies continue to invest in sectors with high ecological impact.

In pursuit of poverty alleviation (Goal 1), China has prescribed a model of economic development for LAC that very much resembles its own and that resulted in one of China’s most notable modern-day feats—lifting more than 500 million people out of poverty between 1981 and 2012.<sup>6</sup> References to industrial capacity development and infrastructure investment, prominent features of China’s own

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<sup>2</sup> Stallings, Barbara, “Chinese Foreign Aid to Latin America: Trying to Win Friends and Influence People,” in Margaret Myers and Carol Wise, eds., *The Political Economy of China-Latin America Relations in the New Millennium*, Routledge: New York, (2017).

<sup>3</sup> Carol Wise, Leslie Armijo, and Saori Katada, eds., *Unexpected Outcomes: How Emerging Economies Survived the 2008–09 Global Financial Crisis* (Washington, DC: Brookings Institution Press, 2015).

<sup>4</sup> Manuel Pastor and Carol Wise, “Good-bye Financial Crash, Hello Financial Eclecticism: Latin American Responses to the 2008–09 Global Financial Crisis,” *Journal of International Money and Finance*, vol. 52 (April 2015), pp. 200–217.

<sup>5</sup> See, for example, Gallagher, Kevin P. and Roberto Porzecanski. 2011. *The Dragon in the Room: China and the Future of Latin American Industrialization*. Stanford University Press.

<sup>6</sup> “China has almost ended urban poverty – a promising start for the SDGs”. *Odi.org*. Retrieved 28 December 2017.

development strategy, figure prominently in Chinese policy toward LAC, including China's most recent policy paper on Latin America and the Caribbean, which was published in 2016. They are also increasingly evident in practice, as China's Belt and Road Initiative (BRI), Chinese President Xi Jinping's signature foreign policy initiative, makes its way to LAC. But piecemeal application of China's economic formula is unlikely to achieve China-style economic outcomes in the region.

Below we look in more depth at the effects of China's three economic "engines"—financial cooperation, investment, and trade. As articulated in the often-referenced "1+3+6 Cooperation Framework," Beijing expects these engines to drive its relations with the LAC countries in the coming years.

### **The Effects of Chinese Finance to LAC**

Chinese development finance has been a lifeline for some LAC countries that have temporarily lacked access to Western bond markets, such as Ecuador between 2007 and 2014. The China Development Bank (CDB) and the Export-Import Bank of China (China ExIm) are national development finance institutions (DFIs), and like many Western national development banks (NDBs), when they operate abroad they do not bring their own binding standards to bear on the environmental and social performance of the projects they support. However, their footprint is now much broader than those of Brazil's National Bank for Economic and Social Development (BNDES) or other NDBs that operate abroad. In fact, for the last several years, China has extended more credit to Latin American and Caribbean nations than any of the traditional multilateral banks: the World Bank's International Bank for Reconstruction and Development (IBRD), the Inter-American Development Bank (IDB), or the Development Bank of Latin America (CAF). This trend is likely to continue as LAC nations sign on to the Belt and Road Initiative, signaling their interest to work more closely with China on joint finance and investment projects in the future.

Far from entering the region tentatively, the CDB and the China ExIm have been involved with the largest hydroelectric dams in Ecuador (Coca-Codo Sinclair) and Colombia (Ituango) as well as Argentina's Condor Cliff megadam and the high-tension power lines associated with the Belo Monte megadam in Brazil. They have also been active finance partners for highway, transportation, and renewable energy projects (Gallagher and Myers, 2019). These projects have had mixed records, discussed in more detail below. Nonetheless, their aggregate scale is significant: all told, China Development Bank and China Export-Import Bank have provided more than \$141 billion in loan commitments to LAC countries and state-owned firms since 2005.<sup>7</sup>

Chinese banks' sustained focus on infrastructure development in LAC has clearly facilitated regional transport, improving livelihood in some communities and even broader prospects for economic growth (Goal 8). Chinese finance supported the construction of a new road to the Quito airport, for example. China has also supported the renovation of Argentina's Belgrano Cargas rail network, a project with broad-based political support. China-backed road networks in Bolivia are increasingly extensive, though mostly located in environmentally sensitive areas. And investments in inter-city transport, such as a proposed rail line in Panama, are presumably supportive of the sustainable cities and communities SDG (Goal 11).

Chinese capital has also boosted energy production in some countries, including of the clean variety if we count run-of-the-river hydroelectric projects. Though the subject of labor-related and environmental critique, the China-built and financed Coca-Codo Sinclair dam generates at least 750 megawatts of electricity for Ecuador, and China's broader hydroelectric investments in the country are designed to make Ecuador an exporter of energy to the region. In this sense, this and other projects support progress toward at least one of the SDGs—affordable and clean energy (Goal 7). China-backed infrastructure development also presumably supports poverty reduction through local job creation (supporting Goals 1 and 8), albeit of a mostly temporary variety. The extent of local job creation also

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<sup>7</sup> Gallagher, Kevin P. and Margaret Myers "China-Latin America Finance Database," Inter-American Dialogue: Washington, DC (2019).

depends on the extent of Chinese labor involved in a project, which is determined during contract negotiations.

Despite some clear benefits to the region of China-backed projects, the U.S. has been increasingly direct in its criticism of China's model of overseas finance, voicing concerns about the effect of Chinese financial engagement on governance, corruption, and economic stability, noting a Chinese tendency for "predatory economic practices."<sup>8</sup> U.S.-based and Latin American nongovernmental organizations (NGOs) would appear to share at least some of these concerns, while also noting the environmental and social effects of China's infrastructure and extractives-focused deal-making.

At present, Washington is especially focused on China's role in Venezuela, where China Development Bank (CDB) and China Export-Import Bank (China ExIm) are thought to have enabled government-level mismanagement. In January, U.S. Secretary of State Pompeo accused China of "propping up a failed regime" in Venezuela, and of "ill-considered investments" in the oil-rich nation.<sup>9</sup>

U.S. concerns are warranted in some cases. The lack of transparency associated with Chinese state financing may indeed be facilitating corruption in certain countries. CDB and China ExIm have often extended finance through credit lines with no publicly specified purpose, creating a challenge for transparency to domestic constituencies and for corruption prevention. For example, these arrangements have stoked allegations in Venezuela that the funds have essentially disappeared, without benefit to the Venezuelan population.<sup>10</sup>

Also, in the infrastructure space, China continues to rely on the project preferences of individual governments. This has led on occasion to the selection of leaders' "pet projects," such as the Nestor Kirchner and Jorge Cepernic dams in Argentina, which were thought to have benefited former President Cristina Kirchner and her associates, but were deemed of low relative priority for energy sector development in studies conducted by the Argentine Energy Ministry.<sup>11</sup> In this regard, CDB and China ExIm have followed a common practice of national DFIs operating abroad, including Brazil's own BNDES. However, this pattern is strongly associated with corruption in Latin America, as the BNDES-linked *Jato* scandal has enveloped the region the last few years.

Yet, China's effect on debt sustainability is seemingly less concerning in LAC than in other regions. The case of Sri Lanka is commonly referenced by U.S. media and officials as an example of so-called debt trap diplomacy, wherein Chinese deal-making provides Beijing with outside leverage over a country's political or economic decision-making. Sri Lanka's default on Chinese debt gave Chinese creditors considerable equity in the strategically important Hambantota Port.<sup>12</sup> But in the case of Latin America, examples of debt traps are harder to come by. If anything, China stands to lose money from Venezuela, the main LAC recipient of Chinese finance. Analysts have predicted a default to China on oil-based payments as early as this year.<sup>13</sup> China's effect on the region's debt sustainability is also less extensive than some might think. Analysis from the Boston University Global Development Policy Center shows that even as debt to China grew in Bolivia, Guyana, and Ecuador between 2004 and 2016, total external public and publicly guaranteed debt fell. In other words, Chinese credit acted as a substitute for traditional sources of credit, but each of these three countries ended the time period with less external

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<sup>8</sup> Jourdan, Adam, "China denounces Pompeo's 'malicious' Latam comments amid influence battle," Reuters, October 21, 2018,

<https://www.reuters.com/article/us-usa-trade-china-latam/china-slams-pompeos-malicious-latam-comments-amid-influence-battle-idUSKCN1MW03Q>

<sup>9</sup> Gehrke, Joel, "<https://www.washingtonexaminer.com/policy/defense-national-security/pompeo-denounces-russia-china-over-support-for-venezuelas-maduro>." Washington Examiner. Accessed 1 May 2019.

<sup>10</sup> Author (Myers) interviews with Venezuelan journalist and former PdVSA personnel, May 2016.

<sup>11</sup> Author (Myers) interview with former Argentine government official, January 2019.

<sup>12</sup> <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>

<sup>13</sup> Grisanti, Alejandro and Gorka Lalaguna, "El arte de la deuda: China, más cerca del default que de nuevo financiamiento." Proavinci. Accessed 1 May 2019.

debt than they had in 2004.<sup>14</sup> Moreover, while aggressive action by creditors gains more news coverage than debt forgiveness, China has shown itself willing to engage in debt restructuring many times recently. Hurley, Morris, and Portelance (2018) document 84 cases of Chinese debt renegotiation, restructuring, or forgiveness since 2000.<sup>15</sup> Kratz, Feng, and Wright (2019) calculate that this activity sums to approximately \$50 billion in debt relief.<sup>16</sup>

Chinese actors are increasingly cognizant of the drawbacks of their approach, prompting important conversations in Beijing about new ways forward.<sup>17</sup> Both in the scale of the finance they have provided and the scope of the types of projects they have financed, Chinese DFIs have exposed themselves to significant environmental and social risk, which can endanger projects and strain diplomatic relations (Ray, Gallagher, and Sanborn, 2018). For example, the China-financed Rosita dam project in southern Bolivia was recently suspended amid allegations of insufficient prior consultation with indigenous communities who would have been displaced for the dam (Hinojosa, 2018). Furthermore, China's deferential approach to environmental and social risk management has enabled Latin American governments to seek out Chinese financing for higher-risk projects that, like the Rosita dam, did not attract financing from Western DFIs.

### **China's Investment Impact**

Chinese foreign direct investment (FDI) has bolstered the LAC region, bringing much-needed capital and creating an estimated 2 million jobs (Salazar-Xirinachs, Dussel Peters, and Armony, 2018). However, as with any transition of this size, the introduction of this new source of investment has not always been a smooth process. Chinese investors are new to the region and have faced steep learning curves in adapting to local labor and cultural expectations, as in the case of Shougang mining in Peru and Golden Dragon copper in Mexico (Sanborn and Chonn, 2017; Schatan and Piloyon, 2017).

That said, when Latin American governments have enforced their own high standards, Chinese investors have largely been willing and able to meet those standards. Thus, the extent to which Chinese investment in commodity production has been successful and long-lasting has often depended on host country government regulatory capacity. Chinese state-owned enterprises (SOEs) in particular face less pressure for short-term profits and have the potential to invest for the long term, even if social or environmental regulations raise initial project costs. This SOE-specific incentive structure also means that Chinese investors have been willing to remain in Latin American countries when Western investors have fled the region's sometimes heterodox economic management, as in the cases of Sinopec and CNPC in Ecuador (Ray and Chimienti, 2017). That resilience has provided stability and enabled relationship-building and institutional learning among government institutions and investors alike.

The effects of Chinese infrastructure projects and extractive sector investments are nonetheless of considerable concern to certain communities and environmental groups in LAC and globally. Despite extensive reference to environmental and ecological cooperation in China's LAC policy, and China's own

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<sup>14</sup> Ray, Rebecca and Kehan Wang, "China-Latin America Economic Bulletin, 2019 Edition," February 2019, <https://www.bu.edu/gdp/2019/02/21/2019-china-latin-america-economic-bulletin/>.

<sup>15</sup> Hurley, John, Scott Morris, and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective," Center for Global Development: Washington, DC (2018). <https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf>

<sup>16</sup> Kratz, Agatha, Allen Feng, and Logan Wright, "New Data on the "Debt Trap" Question." Rhodium Group: New York, NY (2019). <https://rhg.com/research/new-data-on-the-debt-trap-question/>.

<sup>17</sup> Derecho, Ambiente, y Recursos Naturales, "Sinohydro's social and environmental policies on the ground," DAR web site, March 13, 2019, <https://www.dar.org.pe/en/news/sinohydros-social-and-environmental-policies-on-the-ground/>



progress in recent years toward the environmental SDGs, Chinese engagement would appear to have an overall negative effect on the region's environmental sustainability.

LAC's environmental and social standards are among the most ambitious in the world, and Chinese investors have at times struggled to meet them (Ray, 2018). This is especially common where enforcement has been lacking from national governments in Latin America, as in the case of Sinopec in Colombia (Rudas Lleras and Cabrera Leal, 2017). In other cases, China-backed infrastructure projects are transforming the region's delicate ecosystems. Sinohydro's dredging project in Peru will reportedly alter the dynamics of the affected rivers and their capacity to sustain lakes in natural parks like the Pacaya Samiria.<sup>18</sup> Moreover, there is considerable prospect for more environmentally impactful deal-making in the coming years. China has expressed interest in about 150 transport infrastructure projects in Latin America and the Caribbean since 2002. As of last year, half of those had entered some phase of construction<sup>19</sup>. Several more will begin construction in 2019.

Competition over water availability and quality is a major driver of social conflict surrounding Chinese investments in Latin American commodity production (see, for example, Rudas Lleras and Cabrera Leal, 2017; Ray and Chimienti, 2017), further underscoring the delicate balance between rewards and risks in China's presence in Latin America.

The U.S. has focused to a considerable extent on the strategic impact of Chinese investment, including the prospect for Chinese dual (civilian-military) use of ports and other infrastructure in Latin America. The U.S. government has been taking stock of these possible strategic investments in LAC since the 1990s. Concerns surfaced around 1998 about Hong Kong firm Hutchinson Whampoa running the ports on both ends of the Panama Canal, for example.<sup>20</sup> Chinese billionaire Wang Jing's canal adventures in Nicaragua were also closely monitored in Washington starting in 2013. Attention has focused more recently on Chinese investment in a deep space monitoring facility in Neuquén, Argentina, and its implications for U.S. security.<sup>21</sup>

U.S. concerns have increasingly real-life implications for LAC countries, as regional governments are encouraged to avoid engagement with China in favor of partnership with the U.S. and other traditional allies. There are indeed drawbacks associated with the Chinese model, including the negative impacts of insufficient due diligence in certain China-financed infrastructure projects. In Bolivia, for example, the China-backed Rosita dam project has been formally suspended amid protests against the project's lack of prior consultation with affected communities. Colombia's Ituango dam collapsed during construction, requiring the evacuation of downstream communities, though effective early-warning systems prevented casualties.<sup>22</sup> The Coca-Codo Sinclair dam project in Ecuador has been the subject of environmental, labor-related, and technical scrutiny.<sup>23</sup> However, U.S. pressure to limit economic options and partnerships could also have unfortunate consequences for the region's overall economic growth.

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<sup>18</sup> Myers, Margaret and Kevin Gallagher, "Cautious Capital: Chinese Development Finance in LAC, 2018," Inter-American Dialogue: Washington, DC (2018).

<sup>18</sup> Myers, Margaret and Kevin Gallagher, "Cautious Capital: Chinese Development Finance in LAC, 2018," Inter-American Dialogue: Washington, DC (2018).

<sup>19</sup> Gallagher, Kevin P. and Margaret Myers "China-Latin America Finance Database," Inter-American Dialogue: Washington, DC (2019).

<sup>20</sup> "The Panama Canal and United States Interests." Hearing before the Committee of Foreign Relations of the United States Senate on June 16, 1998. Accessed 1 May 2019.

<sup>21</sup> See, for example, Londoño, Ernesto, "

<sup>22</sup> Ray, Rebecca. "Colombia Megadam Collapse Highlights Need for Comprehensive Standards." *Diálogo Chino* (12 July 2018). <https://dialogochino.net/11354-colombia-megadam-collapse-highlights-need-for-comprehensive-standards/>.

<sup>23</sup> Garzon, Paulina, "China's grip on Ecuador's energy matrix." Presentation at the Woodrow Wilson Center on 13 April 2017.

## The Trade Story

Latin America's trade relationship with China has also grown precipitously in the last decade. Chinese demand now accounts for over 10% of LAC exports, including over 15% of LAC agricultural exports and over 25% of LAC extractive exports such as minerals and oil. In fact, China's soaring demand for these commodities was strong enough to drive a global rise in minerals prices (Roach, 2012; Streifel, n.d.), further boosting export revenue in minerals-exporting countries globally, including in LAC.<sup>24</sup> Moreover, the rise of China as an export market represented significant geographic diversification of Latin America's exports, cushioning the blow from the U.S. recession of 2008-2009.<sup>25</sup>

Nonetheless, China's imbalanced demand for raw materials from Latin America, coupled with its own development into a powerhouse of manufactured exports, has contributed to a process of re-primarization of LAC economies: a retreat from industrialization and toward primary commodity production. The rise of China as a global trading giant has created "winners" and "losers" in LAC countries' trade balances, based on whether each country's export profile is complementary or competitive with China (Jenkins, Dussel Peters, and Mesquitia Moreira, 2008). Those countries with histories of exporting mineral and agricultural goods – particularly in South America – have seen those sectors bolstered. Meanwhile, Mexico and Central America, whose exports include an important share of manufactured goods destined for the U.S. market, have struggled to maintain that market in the context of strong competition from Chinese manufactured goods (Gallagher and Porsecanski, 2011).

LAC re-primarization is not solely an economic phenomenon, but also an environmental and social one. The LAC region is unique in the world in raw materials production: It has a more intensive climate impact than manufacturing, measured as net greenhouse gas emissions including the effect of land-use changes such as Amazonian deforestation (Ray, 2017). Thus, from the perspective of climate change mitigation, it is in the world's interest for the LAC region to specialize in manufacturing rather than raw materials production. LAC commodity production also has a greater water intensity than manufacturing (measured as the quantity of water used or contaminated for a given level of export revenue), further compounding the environmental impact of the China-led re-primarization in LAC.

## Conclusion

The U.S. government continues to articulate numerous concerns about Chinese engagement with Latin America in conversations with the regional officials and addresses to other audiences. Most recently, Assistant Secretary of State for Western Hemisphere Affairs Kimberly Breier made reference to the China-Latin America relationship in an April 26, 2019, speech at the Council of the Americas in Washington, D.C., noting China's distorted market practices; the generational impact of 5G-related decision-making on national security, economy, and society; Chinese support for authoritarian regimes and surveillance states; and China's responsibility for the worsening crisis in Venezuela, among other issues.<sup>26</sup> Breier added that while some Chinese projects are not "malign," "a mere promise of 'high-quality development' won't cut it when China's track record is so poor."

China's messaging vis-à-vis Latin America, as articulated in the Chinese Ministry of Foreign Affairs "2018 Policy Paper on Latin America and the Caribbean" and a handful of other commonly referenced proposals, such as the "1+3+6 Cooperation Framework," portrays a decidedly different reality.

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<sup>24</sup> Arezki, Rabah and Akito Matsumoto. "Metals and Oil: A Tale of Two Commodities." Brookings Institution: Washington, DC (2015). <https://www.brookings.edu/blog/africa-in-focus/2015/09/16/metals-and-oil-a-tale-of-two-commodities/>.

<sup>25</sup> Jenkins, Rhys, "China's Global Expansion and Latin America," *Journal of Latin American Studies* 42 (2010): 809-837. <https://doi.org/10.1017/S0022216X10001379>.

<sup>26</sup> AS/COA. "Remarks: Assistant Secretary of State for Western Hemisphere Affairs Kimberly Breier," Accessed 1 May 2019 from <https://www.as-coa.org/articles/remarks-assistant-secretary-state-western-hemisphere-affairs-kimberly-breier>



It describes a partnership supportive of common development objectives and shared global interest, including climate change mitigation and upgrading global economic governance.

In practice, Chinese activity in the region has had varied effects on the region's development prospects. Chinese engagement would appear to at least partially support many of the economic SDGs, including those related to employment, poverty, and economic growth. At the same time, patterns of trade between China and LAC have reinforced LAC's traditional focus on commodities exports. And China's persistent investment in infrastructure and extractives, though of value economically, is concerning from an environmental and social standpoint.

China nonetheless appeals to the region on the basis of equal partnership, South-South goodwill, and support for alternative development paths suited to countries' "own conditions." Some in LAC share U.S. skepticism of China's intentions in the region, but the prospect for collaborative partnership with a fellow developing nation remains attractive to many others. Sustained interest in partnership with China, along with regional demand for Chinese investment and trade, will ensure stronger relations in the years to come. China would also appear fully committed to continued engagement, having recently extended the BRI to Latin America.

With China very much in the region to stay, LAC's development outcomes are best supported by engagement from a range of partners and growing commitment from both regional governments and external actors to sustainable, long-term development initiatives. Collaboration on areas of shared interest, whether by the U.S., China, and LAC, or by LAC governments and other partner nations, will help to promote positive development outcomes while reducing negative ones.

### **Proposals. U.S.-China-Latin America Trilateral Cooperation: A Political Imperative**

Though an exceedingly challenging prospect in the current political environment, U.S.-China-Latin America trilateral cooperation would be of great benefit to the LAC region's development. Existing institutional approaches leave gaps in pursuing SDGs, including unmet demand for infrastructure finance. The region's traditional DFI partners, such as the Inter-American Development Bank and World Bank, have reduced their participation in the infrastructure space in Latin America in a move that has limited their risk profiles. At the same time, competition among development lenders, including China Development Bank and China Export-Import Bank, has led to a potential race to the bottom in standards, which can be seen as cumbersome by borrowing countries.

Trilateral cooperation might also help to reduce tension between the U.S. and China at a moment of growing strategic rivalry between Washington and Beijing. A preference for simultaneous bilateral arrangements (LAC-China and LAC-U.S. security agreements and U.S./China lending in Latin America) has exacerbated U.S.-China tensions and given rise to suspicions of each other's motivations. China and the U.S. are developing policy toward the region on the basis of each other's perceived weaknesses. As the U.S. adopts a series of isolationist trade policies, China has positioned itself as partner for LAC in the promotion of free trade, for example. The U.S. has been exceedingly critical of China's no-strings-attached financing and of Chinese telecommunications technology in LAC, which it regards as a security threat for both the U.S. and partner nations. The Build Act was largely intended to provide an alternative to China's model of overseas infrastructure development, which the U.S. views as problematic for a variety of reasons.<sup>27</sup>

Collaboration will be increasingly critical as the China-LAC relationship continues to grow, which it is likely to do in the coming years in at least some important ways.

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<sup>27</sup> "BUILD Act: Frequently Asked Questions About the New U.S. International Development Finance Corporation," Congressional Research Service, January 16, 2019, <https://fas.org/sgp/crs/misc/R45461.pdf>.

Peru approved contracts for the expansion of at least two Chinese mining projects just last year. Argentina, Ecuador, and Venezuela, which are among Latin America's top recipients of Chinese state finance, each negotiated new loans with China Development Bank and China Export-Import Bank in 2018.<sup>28</sup> Also, since 2017, Panama, the Dominican Republic, and El Salvador cut ties with Taiwan in favor of establishing diplomatic relations with China, noting prospects for new economic deal-making, and the value of a soon-to-be-finalized free trade agreement, in the case of Panama. Even those governments seeking to revise their relations with China are seemingly in favor of more Chinese activity in their countries. Ecuador's President Lenín Moreno has suggested some interest in renegotiating the terms of his country's debt to China but accepted more loans from China just last year.<sup>29</sup> Argentine President Mauricio Macri also sought cancellation of at least one project negotiated by his predecessor, Cristina Kirchner, but has since negotiated a handful of new projects with Beijing.

To date, 14 Latin American and Caribbean countries have signed onto the Belt and Road Initiative (BRI), which envisions a global, multitrillion-dollar web of land- and sea-based infrastructure. These include some of the region's more prominent economies, such as Chile and Peru, and Costa Rica and Panama, two of the three Central American countries that maintain diplomatic ties to China. China's bilateral Belt and Road Cooperation Agreements with Latin America are not binding, according to those who have seen them, but are of considerable value to China as an indication of support of Beijing's foreign policy objectives and approach to overseas development assistance.

Based on the above analysis, three major areas of potentially constructive collaboration emerge. First, the emergence of Chinese DFIs as major finance partners raises the opportunity of collaboration with Western DFIs on the development of sustainable energy and infrastructure. Second, diplomatic priorities show the importance of joint work among security agencies for shared peace and stability. Finally, humanitarian cooperation on health and education priorities, especially in remote areas, can augment efforts on the other two fronts and help ensure long-lasting progress toward the Sustainable Development Goals.

## **DFI Collaboration**

China has become a crucial partner in economic growth in Latin America, particularly in raw materials sectors such as agriculture and mining. These sectors have long histories of environmental and social risk in LAC, and China is far from the first partner to navigate these risks. As LAC governments continue to make progress in establishing effective regulatory regimes in these sectors and develop the institutional capacity to enforce those regulations, it will be crucial for Chinese investors and DFIs to continue working constructively with them to maximize the potential benefits of their investments and adequately mitigate the risks.

However, as described above, the relative newcomer status of Chinese investors and DFIs in the region has left them vulnerable to taking on high-risk projects and establishing inadequate oversight to prevent project-related environmental degradation and social conflict. Western multilateral development banks (MDBs) and LAC countries' NDBs can complement Chinese DFIs' size and flexibility with their own local experience, access, and technical abilities. As Ma, Studart, and Vasa (forthcoming 2019) explain in detail, each of these types of actors has complementary institutional strengths, all of which are needed for the development of climate-savvy, socially inclusive infrastructure.

Chinese DFIs offer competitive capital costs and sizable financial resources, along with a wealth of technical expertise in the design and implementation of infrastructure projects. Western MDBs also have abundant access to capital, as both the World Bank and IDB have AAA bond ratings. What CAF is lacking in this regard it partially offsets through its perfect history of borrower repayment, emphasizing its

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<sup>28</sup> Myers, Margaret and Kevin Gallagher, "Cautious Capital: Chinese Development Finance in LAC, 2018," Inter-American Dialogue: Washington, DC (2018).

<sup>29</sup> Myers, Margaret and Kevin Gallagher, "Cautious Capital: Chinese Development Finance in LAC, 2018," Inter-American Dialogue: Washington, DC (2018).

excellent relationships with regional governments (Ray and Kamal, 2019). MDBs can also boast decades of history of offering concessionally financed or grant-based technical assistance to assist governments in establishing the necessary oversight capacity to successfully implement challenging infrastructure projects. Finally, LAC NDBs have unique vantage points for identifying and cultivating feasible and sustainable projects. By working together to identify, finance, and oversee the next generation of LAC infrastructure, these various types of DFIs can help ensure that these projects facilitate LAC's progress toward the Sustainable Development Goals.

Joint infrastructure development is especially important given LAC's and China's current economic situations. The cooling of commodity prices since their 2014 peak has eroded the profitability of LAC commodity production. In turn, reduced revenue levels have slowed new investment and put pressure on national governments to relax environmental and social standards in order to expedite new projects (see for example Sanborn and Chonn, 2017). From China's perspective, falling commodity prices hurt the feasibility of current mining and oil projects in the Andes and Amazon region. The relative paucity of current LAC connectivity infrastructure is demonstrated by the fact that the region has the lowest share of intraregional trade of any region in the world (UN Statistical Division). Effective, high-quality infrastructure can help to counter these revenue squeezes by facilitating the establishment of regional value chains, a necessary step in diversification away from reliance on raw materials production and vulnerability to their related price volatility.

However, the same pressure to relax standards to facilitate mining and oil project expansion during periods of slow economic growth can apply to infrastructure as well. Haphazardly planned highway projects are a leading cause of Amazonian deforestation and degradation as well as community displacement and the introduction of illegal mining and logging. (See for example Dammert, 2018; Laurance, Goosem, and Laurance, 2009; Pfaff, 1997.) In fact, the unsustainable outcomes of early DFI-financed road-building in the Amazon (especially with regards to the Polonoroeste highway project in Brazil) met with such resistance as to help spark the creation of the environmental and social safeguards that MDBs currently have (Blanton, 2007; Plater, 1988). It is vital for DFIs to learn from this history. By approaching infrastructure development jointly, Chinese DFIs, Western MDBs, and LAC NDBs can maximize the economic benefits of connectivity while ensuring that new projects are aligned with the Sustainable Development Goals.

## **Security Cooperation**

Latin American governments are not fully equipped to respond to growth in trans-Pacific organized crime, which has accompanied the expansion of economic relations between the two regions. There is growing anecdotal evidence, for example, of Chinese participation in trafficking of narcotics and contraband goods across much of the region. The Chinese groups Fuk Ching, the Flying Dragons, and Tai Chen, for example have been identified as importing contraband goods into the Tri-Border Area of Argentina, Paraguay, and Brazil.<sup>30</sup> In interviews conducted by Evan Ellis, now of the U.S. Army War College, Mexican authorities also indicated emerging ties between Mexican cartels and Chinese organized crime in the importation of contraband goods, including in the port of Veracruz and various Pacific coast ports. Trafficking of Chinese people is also an issue across much of the region. In Trinidad and other parts of the Caribbean, for example, authorities have registered an increase in the trafficking of Chinese people since 2006.

Security forces in the region rarely have the language skills or networks of contacts needed to combat emerging and growing human trafficking, drugs, contraband goods, money laundering, and other security issues. Few have working-level technical contacts with counterpart organizations in China to

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<sup>30</sup> Ellis, Evan. 2002. "Chinese Organized Crime in Latin America," 2002. *Prism* 4(1): pp 65-77. [https://cco.ndu.edu/Portals/96/Documents/prism/prism\\_4-1/prism64-77\\_ellis.pdf](https://cco.ndu.edu/Portals/96/Documents/prism/prism_4-1/prism64-77_ellis.pdf)

follow key leads, for example.<sup>31</sup> Collaboration between LAC and China on data sharing and for language support would be of benefit to both sides. Trilateral collaboration and information-sharing with the U.S. would also be of likely benefit considering these networks also often touch upon U.S. territory.<sup>32</sup>

Because U.S. authorities already have some experience working with Chinese law enforcement on transnational crime issues, they may be able to facilitate and expand cooperation with Latin American authorities. Interest in closer security collaboration might eventually come from Chinese companies operating on the ground in Latin America—particularly those engaged in extraction or construction where criminal or insurgent groups are present. U.S. and Latin American companies have considerable experience operating in these environments. Efforts to share experiences, including on the careful vetting of private security companies, would be of benefit to all.

## **Humanitarian Assistance**

Finally, the cooperation efforts described above can be bolstered by, and in turn bolster, multilateral humanitarian efforts in public health in LAC. It is in this regard that The Carter Center has a uniquely advantageous position to facilitate constructive action. Although the Center's efforts have been largely successful in eradicating river blindness in Africa, the disease continues to exist in Amazonian communities near the Brazil-Venezuela border. The Center's progress relies on cooperation between Brazil and Venezuela, which have had contentious relations for several years. Nonetheless, the Center has enjoyed positive relations with the governments of Venezuela and Brazil in the past, providing it a rare level of political capital in the current environment.

Unfortunately, the subject of humanitarian aid has become politicized in the context of the current crisis in Venezuela. The Carter Center's institutional strengths have traditionally lain in bringing together competing or even warring parties to look past their differences for the sake of the health of their people. Such a need has presented itself in the case of Venezuela currently. It may be possible for The Carter Center, in conjunction with Chinese partners who have successfully delivered humanitarian aid to Venezuela in the form of medicine, to create a space for dialogue in the name of the public health concerns that The Carter Center has so successfully addressed in the past.

In other cases, the U.S. and China are conducting strikingly similar humanitarian exercises in the region. The November 2010 China-Peru bilateral medical exercise Angel de Paz resembled humanitarian exercises by the U.S. Southern Command such as Beyond the Horizon and New Horizons, and Medical Readiness Training Exercises, which are held annually across the LAC region.<sup>33</sup> Similarly, the December 2011 deployment of the Chinese hospital ship Peace Ark paralleled the deployment of the USNS Comfort from April to September 2011 as part of Operation Continuing Promise. The Chinese and American ships both traveled to Costa Rica and Jamaica that year, albeit at different times.<sup>34</sup>

There are potential benefits to conducting humanitarian activities multilaterally, even though the prospect of doing so could become increasingly limited in the coming years due to tensions in the China-

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<sup>31</sup> Ellis, Evan, "Cooperation and Mistrust between China and the U.S. in Latin America," in Margaret Myers and Carol Wise, eds., *The Political Economy of China-Latin America Relations in the New Millennium*, Routledge: New York, (2017).

<sup>32</sup> Ellis, Evan, "Cooperation and Mistrust between China and the U.S. in Latin America," in Margaret Myers and Carol Wise, eds., *The Political Economy of China-Latin America Relations in the New Millennium*, Routledge: New York, (2017).

<sup>33</sup> Ellis, Evan, "Cooperation and Mistrust between China and the U.S. in Latin America," in Margaret Myers and Carol Wise, eds., *The Political Economy of China-Latin America Relations in the New Millennium*, Routledge: New York, (2017).

<sup>34</sup> Franks, Jeff, "Chinese navy hospital ship visits Cuba, Caribbean," Reuters, 21 October 2011, <https://www.reuters.com/article/idINIndia-60058520111021>.

U.S. bilateral relationship and limited Chinese military humanitarian missions to LAC. China's Peace Ark has made only one trip to Venezuela, in 2018, since its first visit to the LAC region in 2011, for example. The 2018 Annual Report to Congress on Military and Security Developments Involving the People's Republic of China nevertheless notes that military-to-military relations are intended to "manage and reduce risk" and "clarify and develop areas of cooperation," and encourages exchange for these specific purposes.<sup>35</sup> The U.S. defense community would appear to have abandoned the notion of engaging China in multilateral exercises to socialize its military to international norms. But a rationale prevails for continued cooperation, including in the humanitarian space, to maintain critical lines of communication between the U.S. and China, address humanitarian challenges in the region, and help to reduce suspicion that either country is seeking to advance a strictly unilateral agenda through such aid.<sup>36</sup>

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<sup>35</sup> "Military and Security Developments Involving the People's Republic of China 2018," US Department of Defense (2018).

<sup>36</sup> Ellis, Evan, "Cooperation and Mistrust between China and the U.S. in Latin America," in Margaret Myers and Carol Wise, eds., *The Political Economy of China-Latin America Relations in the New Millennium*, Routledge: New York (2017).

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