



## Forum for American Leadership

### **Engaging Chinese Engagement in Latin America: Recommendations for U.S. Policy**

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China's inroads and influence in Latin America are continuing to grow. While speaking at a background briefing about the still-missing National Security Strategy, a senior official at the National Security Council [touted](#) that the Western Hemisphere section of the forthcoming strategy did not mention the word China once. If the United States is to effectively counter China, its most significant national security priority, it needs a strategy to deal with the continued rise of Chinese influence in its own hemisphere in Latin America and the Caribbean. While the Department of Defense and SOUTHCOM are focused on this threat, there is seemingly no political leadership behind them.

An effective U.S. response to the PRC challenge in the Western Hemisphere requires a significant increase in resources dedicated to the region, a coherent plan built around a viable strategic concept, a coordinated interagency response based on the re-thinking of U.S. engagement mechanisms and the rules that constrain them, and an effective, credible public communication strategy to explain the U.S. initiative, concerns, and alternative vision. Below are recommendations from the Forum for American Leadership [Latin America Working Group](#) for how the United States can correct course and address Chinese engagement in Latin America.

### **The Challenge**

In the last two decades, China has focused on establishing a foothold in the region, having become the number one [trading partner](#) for most countries south of Costa Rica. Total trade between China and Latin America increased from US \$17 billion in 2002 to nearly US \$315 billion in 2019. In 2015, President Xi Jinping [set a goal](#) to increase total bilateral trade to US \$500 billion in ten years. In addition, Chinese companies have established a significant presence on the ground through over [\\$160 billion](#) in direct investment in over 480 projects across the region. Many of these investments have been in large infrastructure, energy, agricultural, and critical mineral mining projects, providing valuable economic benefit to Latin American countries trying to recover from the economic impact of COVID-19. Meanwhile, the United States is shifting its investment focus away from these areas.

The magnitude of Chinese investment and economic influence is difficult to pinpoint; figures of \$160 billion do not include China's growing investment in the region through multilateral financing. Although the Asian Infrastructure Investment Bank (AIIB), led by China, has a mandate to invest in Asia, the AIIB made its [first investment](#) in Latin America in Ecuador, a non-member country, in December 2020. Since then, Brazil, Uruguay, and Ecuador have become members, and AIIB is rumored to be seeking membership (which only requires a \$5 million capital injection) from many Latin American countries. The New Development Bank (NDB) was established in 2014 to support the BRICS countries and is headquartered in Shanghai. NDB has already invested

[over \\$5 billion](#) in Brazil, which is more than 2.5 times the U.S. Development Finance Corporation (DFC)'s investments in Brazil since 2013. China has [invited](#) Argentina to attend the upcoming BRICS summit, in part to make NDB an attractive alternative to the World Bank for Argentina.

**Strategic sectors:** There is a growing Chinese presence in strategic sectors from lithium to electricity generation and transmission to digital technologies. Huawei, already comprising [60 percent](#) of the region's telecommunications backbone, is now positioned to play a leading role in 5G. Chinese companies are also actively setting up data centers, using subsidies to lure cutting-edge technology startups to locate their intellectual property and processes in Chinese data clouds. The PRC-based technology company [Aisino](#) almost won a contract to manage the civil registry of all Chileans. [DiDi Chuxing](#) now controls an estimated 50 percent of the ride-share market in the region. PRC-based surveillance systems companies are playing an increasingly dominant regional role, including Hikvision's [recent acquisition](#) of Syscom, Mexico's largest security systems firm. The penetration of Chinese payment systems and other Fintech into the region could further expand PRC access to data on Latin American government personnel and corporations.

**Military:** The People's Liberation Army (PLA) continues to make important inroads in the region, with approximately [200 visits](#) by senior PLA personnel to the region in the past two decades, over 25 port calls by PLA warships, attendance by PLA personnel at Latin American military institutions, and regular attendance by Latin American and Caribbean military officers in PLA military education programs in China. PRC military engagement further includes arms sales and donations, including to police forces in the region, that span the gamut from dual use military trucks and armored vehicles to warships and rocket launchers. Argentina's Peronist government is also currently [considering purchasing](#) the FC-1, which would be the most advanced Chinese fighter sold to the region to date.

**Education:** Since 2015, China has [publicly offered](#) 17,000 scholarships for Latin Americans to study in China. A significant number of the new generation of China-facing technocrats hired by Latin American foreign affairs and commerce ministries and leading corporations may owe their professional standing to the PRC.

**Taiwan:** Cross-strait stability also depends in part on Latin America and the Caribbean, as [eight of the 14](#) countries in the world that continue to recognize Taiwan are found in the Western Hemisphere. Nicaragua's December 2021 switch in diplomatic relations from Taiwan to the PRC, the promise by Honduras President Xiomara Castro to do the same, and the possibility of further such "flips" dramatically expand PRC influence in the region.

The combined and accumulated effect of such PRC advances not only dilutes U.S. political influence and the U.S. commercial position, but also is resulting in a region that is progressively less democratic and less disposed to work with the United States. In Cuba, technologies supplied by Huawei and other PRC-based companies were [key in helping](#) the communist regime shut down communications between protesters in July 2021. In Venezuela, the PRC supplied the [armored vehicles](#) used to suppress protesters against the illegitimate Maduro regime, and the Chinese company CEIEC helped the regime spy on the interim government of Juan Guaido and his supporters.

## What to Do

**The Strategic Concept:** At its core, a U.S. strategy must be based around helping our partners to strengthen institutions and oversight mechanisms. That approach must be coupled with a significantly enhanced, and more agile, leveraging of the private sector, working with democratic U.S. partner governments in the region and beyond, to provide economic alternatives to the PRC.

- The U.S. must complement the focus on institutions, transparency, and private sector alternatives by pushing back in select areas in which engagement with the PRC is particularly dangerous to the sovereignty of our partners and the data security of companies operating within them, while providing viable alternatives.
- At the national level, the U.S. strategy must carefully weigh the tradeoffs in pressuring partners over their performance on corruption, security practices, environmental stewardship, or other internal affairs. While the U.S. may wish to advance such policy goals and to be associated with the “right side” of such fights, it must be careful not to apply so much pressure that it pushes partners into the hands of the Chinese, destabilizes their government, or brings to power a far less U.S.-friendly alternative.
- Congress should insert China strategy reporting requirements in annual budget authorization and appropriations legislation, requiring every regional bureau to have an annually updated strategy, if the White House continues to resist drafting a China in Latin America strategy.
- Finally, the U.S. must do a much better job of credibly communicating the nature of the Chinese threat to Latin American democracy and prosperity, and the long-term value of engaging on the basis of transparency, the rule of law, and democracy. It must work to credibly show the region U.S. interest in its prosperity and commitment over the long-term as well as overcome the instinctive Latin American perception that the U.S. response is simply “great power competition.”

**Effective Institutions and Transparent Processes:** The State Department, while continuing programs to promote democracy, human rights, and assist vulnerable populations, should concentrate on mobilizing the U.S. toward the expansion of programs providing technical assistance to partners in planning the construction of physical, electricity, telecommunications, and other infrastructure, as well as contract evaluation and project oversight.

- This should include in-country support, leveraging entities with relevant expertise, such as the U.S. Army Corps of Engineers. The U.S. should continue to support partner nations developing investment screening (like CFIUS) and contract evaluation processes as was begun during the Trump Administration.
- As a complement to such institutional support among willing partners, the U.S. should also greatly expand and carefully calibrate anti-corruption efforts.

- Rather than naming and shaming foreign governments, which tends to reduce cooperation with the United States, not strengthen it, the U.S. should implement on-the-ground programs. This could include resources and technical support for polygraph testing of government officials involved in investment planning, public procurement, helping governments enhance enforcement of laws regarding corporations operating in the national territory, and implementation of digital systems to expand transparency and make corruption in public transactions more difficult to conceal.
- The U.S. should complement such activities through a range of diplomatic and other levers, including U.S. visa policy, Treasury Office of Foreign Assets Control sanctions, possible U.S. Justice Department cases, and other instruments to induce governments and individuals to manage planning, contracting, and implementing programs for public infrastructure in a transparent way within the rule-of-law, and on a level playing field.

**More Effectively Informing the Region About China:** The State Department and other agencies must implement a more effective public messaging campaign to credibly show that the U.S. is helping Latin American partners to obtain the best deal for their own development and does not necessarily oppose Chinese projects if won and carried out through transparent, legal processes. The U.S. must do far better in articulating why doing so is in the long-term best interest of the country, while also offering clear examples of the United States providing head-to-head alternatives for similar types of investment.

- The U.S. must do much more to collect and disseminate data on the comparative record of PRC-based companies and the Chinese government in the region. This includes data on the relative portion of announced Chinese projects that do not occur, the portion that are associated with serious allegations of corruption, those associated with social unrest, and/or violations of environmental, labor, and other laws.
- Part of that data should be collected and made available publicly, for analysis and dissemination by academic organizations and think tanks in the region and globally. Part should be provided through programs for State and the U.S. intelligence community to improve the actionable data available to support senior officials' engagements in Latin America, intelligence analyses, public outreach, briefings to Congress, and other activities.

**Protecting Against PRC Advancement in Digital Sectors:** In the digital domain, the U.S. must formulate and resource a strategy to ensure the security of architectures to prevent China's ability to collect information on—or the data of—governments, companies, and their personnel in the region. This must include the following elements:

- First, identify and use specific leverage to dissuade partners from permitting untrusted Chinese vendors such as Huawei, Aisino, Hikvision, or Didi Chuxing in sensitive architectures such as telecommunications, surveillance systems, smart or safe cities, data centers and cloud computing, or ridesharing. U.S. leverage may include its inability to share intelligence information, or even fund or guarantee certain types of investments, for countries which allow PRC-based companies of concern into sensitive architecture. The U.S. must adopt a sophisticated posture in applying this leverage, while ensuring that it

does not isolate itself from countries which go with Chinese solutions, thus pushing them into an even greater technological, economic, and political dependence on the PRC.

- Second, the U.S. must actively partner with like-minded democratic countries and firms to define an alternative vision with standards for architectures consistent with individual privacy, freedom of expression, democratic values, and data protection. This vision must include ways to monitor and ensure the architectures adopted cannot be exploited by PRC-based companies for commercial or other espionage. The U.S. must also defend this vision in international standards boards and other forums to ensure that the PRC cannot set standards that make the adoption of its systems or architectures a fait accompli for future governments and consumers given its near-term dominance in digital technologies.
- Third, the U.S. must work with like-minded partners to ensure the availability of commercially viable trusted alternatives. Given that non-Chinese partners themselves are lured by the prospect of access to the PRC market, the U.S. must ensure that acceptance of assistance in promoting its solutions over PRC-backed ones are accompanied by verifiable commitments that those firms and personnel are not being compromised through pursuit of the Chinese market.

**A Credible U.S. Counteroffer for Latin American Prosperity:** The U.S. must do far more to provide credible, sustainable, significant support for the region’s development and well-being, based on transparency and principles of the free market. This “credible counter to the PRC offer” must include four areas of focus:

1. The U.S. must expand, and unshackle, the capabilities of the Development Finance Corporation (DFC) and define what specific alternatives it will offer in the region. If you look at the projects China is financing and overlay that with the projects that the DFC is financing in Latin America, there is little to no overlap. Different interpretations of DFC’s dual mandates of foreign policy and development between the agency and Congress, restrictions on working with higher-income countries (such as those in the Caribbean), and bureaucratic requirements regarding work with small and medium enterprises, vulnerable groups, and “green investment” make it difficult for the DFC to move forward with projects that the private sector finds viable.
  - Within upper-middle income countries (UMICs), Congress and the DFC must decide what role the organization will play. The Western Hemisphere is predominantly an UMIC hemisphere, and there are varying opinions within Congress about whether the DFC should finance there or instead focus on lower-income countries.
  - The agency should be given the flexibility to support acquisition financings for 5G so that it may support western alternatives to China’s telecommunications companies. Today, deals must be “fully baked” when they reach the DFC, and the changing nature of these types of bids do not fit into that box.

2. The U.S. should pursue the expansion and restructuring of USAID. The agency's traditional mission of providing resources for helping people and vulnerable groups in need must continue. However, USAID could also focus on private sector-oriented programs that explicitly target small and medium enterprises and low-income countries with projects that provide sustainable benefits and development. These programs should also leverage subsidies, investment guarantees, and other vehicles to compensate for the short-term lack of market attractiveness of the investments being made.
3. The U.S. should support a significant expansion of the capital of the Inter-American Development Bank (IADB) as an alternative to PRC-backed financing mechanisms. The U.S., however, should condition its funding on IADB addressing the issue of PRC co-financing funds and undue advantages for PRC firms in competing for projects with IADB funds due to the position of the PRC on its board.
4. The United States needs to return to having a trade policy that, while protecting American jobs and workers, also continues to engage countries in Latin America in a meaningful way. To date, the Biden Administration's lack of a trade policy and failure to renew "fast-track" negotiating authorities has left both Ecuador and Brazil at the altar, as both countries have indicated an interest in deepening trade relations with the United States. Trade should be about American jobs, exports, and needed inputs or goods for the U.S. economy, and less about social and policy engineering abroad. If the U.S. is going to compete with China in a meaningful way, it needs to open new markets, deepen economic relationships, and demonstrate the benefits of two-way trade. It's time to return to trade policy about trade.

*This paper is a product of the Forum for American Leadership's [Latin America Working Group](#).*

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