# China’s Economic and Political Role in Latin America

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CHINA'S ROLE IN LATIN AMERICA AND THE CARIBBEAN:
REPORT 1 OF 3

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# CHINA'S ECONOMIC AND POLITICAL ROLE IN LATIN AMERICA


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| | |
|---|---|
| ALADI | Latin American Integration Association |
| ALBA | Bolivarian Alliance for the Peoples of Our America |
| BRI | Belt and Road Initiative |
| BRICS | Brazil, Russia, India, China, South Africa |
| BYD | Build Your Dreams |
| CAF | Development Bank of Latin America |
| CCCC | China Communications Construction Company |
| CCD | Community of Common Destiny |
| CCP | Chinese Communist Party |
| CDB | China Development Bank |
| CELAC | Community of Latin American and Caribbean States |
| CI | Confucius Institute |
| CICDHA | Collective on Chinese Financing and Investments, Human Rights and the Environment |
| CNOOC | China National Offshore Oil Corporation |
| CNPC | China National Petroleum Company |
| COSBAN | Sino-Brazilian High-Level Commission of Agreement and Cooperation |
| CRCC | China Railway Construction Company |
| CRRC | China Railway Rolling Stock Corporation |
| CSR | Corporate Social Responsibility |
| DSR | Digital Silk Road |
| ECLAC | Economic Commission for Latin America and the Caribbean |
| EITI | Extractive Industry Transparency Initiative |
| EU | European Union |
| FDI | Foreign Direct Investment |
| FTA | Free Trade Agreement |
| GDP | Gross Domestic Product |
| IBRD | International Bank for Reconstruction and Development |
| ICT | Information and Communications Technology |
| IDB | Inter-American Development Bank |
| IMF | International Monetary Fund |
| KNL | Kingdom of the Netherlands |
| LAC | Latin American and Caribbean |

| | |
|---|---|
| LGBTQI+ | Lesbian, Gay, Bisexual, Transgender, Queer and Intersex |
| MERCOSUR | Southern Common Market |
| MoU | Memorandum of Understanding |
| NAFTA | North American Free Trade Agreement |
| OAS | Organization of American States |
| OECD | Organization of Economic Cooperation and Development |
| PA | Pacific Alliance |
| PDVSA | Petróleos de Venezuela |
| PRC | People's Republic of China |
| SOE | State-Owned Enterprise |
| UN | United Nations |
| UNASUR | Union of South American Nations |
| US | United States |
| USD | US dollar (in the report we use $ throughout) |
| USMCA | United States–Mexico–Canada Agreement |
| WTO | World Trade Organization |

# EXECUTIVE SUMMARY

This is the first of three studies into the economic and political influence of China in Latin American and the Caribbean, and the implications for the region's relations with Europe and the US.[1] This report aims to answer the questions: How has China's role in the Latin American and Caribbean (LAC) region developed, and, especially, what have been the nature and impact of recent economic and political relations between China and Latin American countries, as well as perceptions and reactions in the region?

Our analysis concurs with many studies of China's relations with developing regions, and indeed with Latin America and the Caribbean, in finding that economic goals are the central driving force underwriting Chinese engagements in the region. China–LAC relations have developed predominantly through bilateral and market channels, and the sectoral focus continues to expand. Chinese economic interests were initially focused on the LAC region's mineral wealth (mining and oil), then expanded towards a wide range of infrastructure projects, and now also include electricity generation and distribution, energy transition, telecommunications and digital technologies. The Chinese government has supported the ambitions of Chinese companies and banks in the region through active bilateral diplomacy and the provision of large development loans. One question in the debate on China's presence in Latin America (and elsewhere) is how Chinese economic activities are connected to, or even directed by, political concerns and how to assess the implications of both in the shorter and longer terms.

Economic relations with China are of great importance to the LAC region. Increased imports of relatively cheap Chinese manufactured goods have partly harmed national industries and imports from other destinations, but have also made some competitively priced products available to low-income consumers. More importantly, for many countries in South America, China is now their primary export market. Chinese companies are also among the main foreign investors in the region. Chinese banks have provided large development loans to countries like Venezuela, Brazil, Ecuador and Argentina, but this lending has recently slowed down dramatically. For the region as a whole, China has become a major economic partner alongside the US and Europe.

Beyond general regional trends, LAC national experiences with China differ greatly. While relations between Brazil and China can be labelled as a long-standing collaboration between superpowers, also traditionally more cautious and US-oriented countries such as Colombia and Mexico have recently shown a rapprochement towards China. And while the trans-Pacific engagements of Peru and Ecuador with China demonstrate rather stable trade and financial relations, in the case of Venezuela, a dream partnership turned into a disillusion when Venezuela became unable to meet its obligations with Chinese lenders.

[1] The three reports can be accessed at https://www.cedla.nl/china-lac.

Contrary to some claims in debates and the media, Chinese economic activities do not exclusively focus on countries that have signed up to the Belt and Road Initiative (BRI); nor do Chinese policies and economic interests have a preference for 'authoritarian' regimes. In Latin America, the BRI is principally a diplomatic and strategic device that includes many Chinese activities that were already under way. China has established free trade agreements with Chile, Peru and Costa Rica, whereas Brazil is the main destination for Chinese investments. Because the Chinese government has a policy of non-interference and Chinese development banks do not pose macroeconomic policy conditions, Latin American countries with less-than-liberal economic or political regimes top the list of borrowers from Chinese development banks. Many of these countries have broken their ties with traditional sources of finance and have therefore grown more dependent on China.

China's soft power is directed at a wide range of LAC countries by increasing diplomatic relations, as well as cultural and educational activities through the Confucius Institutes and effective medical (COVID-19) diplomacy. Medical diplomacy, in particular, has built goodwill. Latin American reactions to China's presence are influenced by a history of European and US hegemony in the region. Strong ideological reactions, as in the case of anti-American sentiments, are lacking in LAC public opinion about China. There is no evidence that China's growing economic role has negatively affected China's image in the region, although Latin American citizens' confidence in the Chinese government has declined in recent years because of concerns about corruption, the failure of some projects and environmental damage caused by Chinese projects.

Political and economic elites in the LAC region appreciate the lack of policy conditionalities – economic or non-economic – in relations with China. While this has offered democratic governments room to develop alternative development policies, it has also offered non-democratic and autocratic regimes economic room to survive. In addition, in bilateral relations with China there is an evident power asymmetry. Although the China–CELAC Forum has served as a multilateral platform since 2015, there is not yet a joint regional agenda for relations with China that could counterbalance China's powerful role in shaping these relations.

There is no doubt that Western and Chinese interests and agendas regularly conflict in multilateral organizations, especially regarding value-driven issues like human, social and sexual rights, democracy, or corporate social responsibility (CSR). China often opposes Western initiatives or legislation in these fields. A considerable number of LAC countries, especially those with illiberal regimes, tend to side with China's standpoints in multilateral organizations. There is a risk that human rights and democracy will hold less priority in the region's multilateral affairs as a result of China's increasing economic and political role in the LAC region and the world. The same could be said about the weakening of multilateral negotiations on environmental and labour issues.

Europe should actively engage with LAC actors to protect and strengthen human rights, democracy and the international rule of law. To counter the potentially negative impacts of China's growing influence, the LAC region needs stronger institutions and committed and transparent leadership by its national governments. This all fits well with the EU's development programme for the Americas and the Caribbean, especially on democratic governance and social cohesion (even if Europe's commitment to these values has not always been consistent). Europe should be aware that the Americas at large (that is, South, Central and North America and the Caribbean) remain natural partners to protect universal human rights and global democratic values and practices. Since Europe's economic relevance for the region has somewhat decreased in recent decades, its political and diplomatic efforts towards LAC governments and civil societies should be geared towards revitalizing old and new linkages and partnerships.

While China's military and security presence in Latin America is fairly limited and not the core strategy of its engagement, there are some developments that deserve attention which we will also address below.

## *Implications for the EU and the Netherlands*

China's lack of transparency in its projects and loans are a concern for Dutch ambitions of promoting transparency and accountability, and promoting fair competition (a level playing field), both globally and in the LAC region. The lack of commitment to transparency of Chinese companies, banks and policies allows for, or even creates the conditions for, illegal and undemocratic local and national practices. The Netherlands and Europe could help in solving this problem through constantly and positively showing the value of alternative ways of doing business and politics – also by improving their own commitment to financial transparency and limiting the opportunities European jurisdictions provide for international tax evasion. In this respect, the Netherlands' role as both a provider and intermediary of major investments in Latin America places the Netherlands in a threefold front-row position in the region: interest; influence; and responsibility.

China's growing influence in the LAC region has implications for Dutch economic interests. For instance, Dutch expertise in infrastructural projects, particularly concerning sea facilities and ports, is confronted by increasing competition from Chinese companies. Dutch direct investments in the LAC region (including investments by companies that use the Netherlands as a financial hub) are still considerable, also compared to Chinese investments. This prominence should be used by the Kingdom of the Netherlands (KNL) to devise policies that incentivize inclusive and sustainable investments in the LAC region as well as corporate social responsibility in trade and value chains by all companies that invest in Latin America via the Netherlands.

Concerning Dutch and EU development policy goals of reducing poverty and social inequality, Latin American countries face growing needs, for which they seek foreign partnerships. Growth levels have been alarmingly low since 2014, and the COVID-19 pandemic and Ukraine war have increased economic and social damage for the most vulnerable groups. Concerning the region's medical needs, Europe and the KNL, just like the US, have missed an important opportunity during the COVID-19 pandemic to extend their soft power and solidarity towards the LAC region. The EU (and KNL) could harmonize policies with the Biden administration and do more to support the region in tackling the root causes of poverty, including unemployment, inequality, economic instability and institutional weaknesses. While some EU programmes rightly prioritize a green transition, digital transformation, sustainable economy, democratic governance and social cohesion in LAC countries (see the 2021–2027 Regional Multiannual Indicative Programme on the Americas and the Caribbean), for a strong EU–LAC partnership it is recommended that greater resources be allocated.

Chinese cultural and educational initiatives (soft power) come at a time when Europe and the US have decreased their funding for development activities, cultural programmes and academic cooperation in the LAC region. This may cause a growing distance between Europe and LAC, which is a region where a large part of the population traditionally considers itself part of the West, and where indigenous groups have actively developed relations with civil society organizations in Europe. It is important that the KNL reinvigorates its educational cooperation and knowledge-sharing with the LAC region.

The use of Chinese surveillance (and other digital) technology in Latin America involves complex security issues. Such technologies are presented as instruments that support regional security and fight crime, but they are also used in the monitoring and repression of civil society organizations and social movements (for example, in Ecuador and Nicaragua). The market for surveillance technology in Latin America is not dominated only by China. If the KNL perceives these new surveillance technologies to be a (potential) threat to human rights and democracy, it could support standard-setting rules and regulations and, in the meantime, help to strengthen civil society capacities of digital security in LAC.

The crisis in Venezuela is a major regional security concern, especially for surrounding countries, including the KNL. While China's government and Chinese banks and companies are also negatively affected by this situation, they still help to sustain Venezuela's Maduro regime economically. The KNL and the EU could appeal to China to take greater responsibility in supporting initiatives for a peaceful and democratic solution for the current social and political crisis in Venezuela.

The conclusions of the report are followed by fifteen recommendations for the EU and the Netherlands.

# 1 INTRODUCTION

China's fast-growing economic ties with Latin America and the Caribbean are increasingly diverse and dynamic. These ties have expanded since the turn of the century with China's rapid economic development and industrialization, its World Trade Organization (WTO) membership in 2001 and its 'Going Out' policies. China's economic and political interactions with Latin America initially focused on the region's raw materials. More recently, especially since (around) 2015 and responding to shifts in both Chinese and regional needs and interests, China's economic and political engagement with the region has rapidly changed. With the Belt and Road Initiative (BRI), formerly known as 'One Belt, One Road', the Chinese government in 2013 adopted a global infrastructure development strategy to invest in infrastructure and connectivity projects. Xi Jinping's foreign policy centrepiece, which reflects a crisis of overaccumulation in China's domestic construction sector, has promoted a change in the focus of Chinese international relations, leading to an expansion of foreign infrastructure and communication investments.

For some Latin American countries, the BRI has emerged as an important institutional framework of interaction, but countries that are not signatories to the BRI have also hosted Chinese megaprojects. While closer China–LA relations have raised criticism within and outside the region, and especially in the US and Europe, Latin American governments and public officials have generally accepted the economic opportunities presented by closer relations with China. This attitude received a boost when, during the recent COVID-19 pandemic, China became the first major country that came to rescue and furnished the region with medical supplies and vaccines.

In the analysis of these perceptions of China's presence in the region, it is important to recognize that Latin America has a long history of foreign economic and political interference, especially from the US, but certainly also from Europe. This interference, which became particularly visible during the Cold War with Washington's support for military dictatorships throughout the region, is deeply ingrained in Latin America's collective memory. China has basically refrained from policy interference in Latin American countries. In the words of Chile's former Minister of Finance Felipe Larraín, 'for much of Latin America, growing ties with China have been propelled above all else by trade and broader economic considerations – not geopolitics'.[2] This may explain why, in general, the Chinese presence is generally seen less as a threat in Latin America than might be expected from a European or a US standpoint.[3]

This apparently apolitical posture of Chinese interests is gradually changing, as are Latin American perceptions. With the emerging economic relevance and presence of China in the region, Chinese diplomatic presence has sharply increased. Chinese embassies have been expanding in the region and the 'wolf warrior' doctrine has emboldened some Chinese diplomats and made them a more prominent

[2] Larraín, F. and Zhang, P. (2021), 'How Latin America Can Navigate the China-US Trade Wars', *Americas Quarterly*, 8 September.
[3] Morgenstern, S. and Bohigues, A. (2021), 'Battling for the Hearts and Minds of Latin Americans: Covariance of Attitudes toward the United States and China', *Latin American Research Review*, 56:2; pp. 280–299.

voice in Latin American debates.[4] Since his path-breaking ten-day visit to Latin America in 2014, Chinese President Xi Jinping (2012–present) has been receiving most Latin American leaders in Beijing, and he and his successive prime ministers have visited the region on various occasions. With China's growing presence and visibility in the region, critique has also increased. While military cooperation between China and LAC countries has remained limited, the economic support provided to the autocratic regimes of Nicolas Maduro in Venezuela and Daniel Ortega in Nicaragua is a major source of concern. Civil society actors are also increasingly questioning the poor environmental and social performance of some Chinese companies in the region (primarily an expected outcome of China's focus on conflict-prone sectors such a mining and infrastructures). Simultaneously, the poor domestic human rights record of Xi Jinping's government and its authoritarian tendencies are worrying signs for a region where the memory of repressive dictatorships is still vivid.

The increasing Chinese activities in Latin America and the difficulties of monitoring them – among other reasons because many Chinese investments flow through intermediary countries and because Chinese companies, banks and government institutions are generally less transparent than Western institutions – have raised questions about the economic and political influence of China on the region. The main questions that this report will try to answer are: *How has China's role in the region developed, and, especially, what have been the nature and impact of recent economic and political relations between China and Latin American countries, as well as perceptions and reactions in the region?*

This report tries to answer these questions by focusing on the concrete Chinese presence in Latin America and the different forms of engagement between China and Latin American countries and their populations. It will attempt to point out important patterns in these interactions between Chinese and Latin American actors. Geographically, the report focuses on the larger countries in South America and on Mexico. The second report will zoom in on the relations that China has developed with smaller countries in the Caribbean and Central America. Thematically, we are mainly interested in bilateral and multilateral economic and political relations here, while our third report will cover the geopolitical dimensions in their wider hemispheric and global context.[5]

These questions and their answers have great relevance for the EU and the KNL. Latin America is a region with traditionally strong economic and cultural ties with Europe. Even in the period of unassailable US hegemony during the 20th century, Latin American nations frequently linked up with European actors for alternative interests and perspectives. The underlying question in this report is thus how the growing presence of Chinese interests in Latin America relates to European and Dutch interests. In more concrete terms, the report will try to address whether China's presence in the region affects the behaviour of Latin American governments in ways that run counter to the EU's and Dutch interests and objectives in the region.

This report will elaborate upon the different economic and political fields of Chinese presence, both at the regional level (chapter 2) and in selected individual countries (chapter 3). We will pay special

[4] Wu, W. (2020), *Chinese Foreign Minister Wang Yi Defends 'Wolf Warrior' Diplomats for Standing Up to 'Smears'*. Also Margaret Myers (2021), 'China's COVID-19 Diplomacy in Latin America and the Caribbean: Motivations and Methods', *FIU Digital Commons*, Florida International University, pp. 8–11.

[5] The three reports can be accessed at https://www.cedla.nl/china-lac.

attention to recent interactions, especially in the fields of infrastructure, digital communication technologies and COVID-19. In the conclusions, we assess the main opportunities and threats of the new Chinese presence for key actors inside and outside the region (chapter 4). The report then closes with implications and recommendations for the EU and the Netherlands (chapter 5).

## *A note on the analytical points of departure*

Theoretically and analytically, this report uses four points of departure to provide a balanced assessment of political and economic developments on the national as well as local levels. These four points stress how societal dynamics shape the forms and consequences of the Chinese presence in the region. For those interested, we briefly present this analytical approach here.

First, on an international level, following Zweers *et al.*, the report will use the idea that a great power's influence over another country is exercised through linkages, especially political, economic and security linkages.[6] These can either serve as channels for exerting influence (such as political contacts), or as sources of such influence in their own right (for example, trade and investment relations). Depending on their specific nature, these linkages can either directly shape a country's conduct (that is, affect concrete actions or choices), or indirectly affect a country (by shaping its policy context). One of the crucial questions in the debate on China's presence in Latin America is how its economic activities are connected and directed by political implications.

Second, if we want to understand China–Latin American relations, it is important to look beyond the evidently strong Chinese state and the control of the Chinese Communist Party in foreign economic affairs. While large state-owned Chinese companies and banks clearly have close ties with the state apparatus and closely align their activities with Chinese embassies, they also have substantial agency and autonomy in their operations abroad.[7] We therefore need to analyse the Chinese influence as comprising a variety of actors, implying both state and non-state actors, and try to look at the fissures and fault lines in Chinese presence in Latin America. A crucial challenge in China studies is identifying to what extent we can separate economic and (geo)political drivers of China's presence from the context of a centralizing Chinese state and the overwhelming presence of Chinese ideologies of expansion under the influence of current President Xi Jinping. While recent literature on China stresses the recentralization attempts under President Xi, many China scholars highlight the decentralization of the system. It is not exaggerated to say that Chinese economic presence in Latin America is principally the work of the Chinese companies themselves (and their CEOs). Central state officials may have some manoeuvring space beyond the logics and forces of market engagement, but Chinese state control is quite limited.[8]

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[6] Zweers, W., Shopov, V., van der Putten, F.-P., Petkova, M. and Lemstra, M. (2020), China and the EU in the Western Balkans: A Zero-Sum Game?, The Hague: Clingendael Institute, p. 5.

[7] Hogenboom, B. (2018), 'Latin America and China', in: J. Cupples, M. Palomino-Schalscha and M. Prieto (eds), The Routledge Handbook of Latin American Development, London: Routledge, pp. 179–191.

[8] Jones, L., and Hameiri, S. (2021), Fractured China: How State Transformation is Shaping China's Rise, Cambridge: Cambridge University Press.

Third, these warnings against a too state-centred approach are also relevant when assessing the Latin American side of economic and political relations with China. Especially in Latin America, where states are notoriously volatile actors and where social actors influence state decisions in various ways, it is important also to look at societal dynamics within the region. National policy-making and international economic and political interactions are shaped by these dynamics. Vice versa, foreign policy and international economic interactions are core matters in national political debates and organized civil society. These differences not only refer to the size of the population and the nature of the national economies, but also to the political system and the social composition (including social inequality, poverty and the role of elites, etc.) of the countries. The Argentine political scientist Guillermo O'Donnell has famously described Latin American post-dictatorship political systems as a 'delegative democracy', where Latin American presidents grab control after democratic elections and proceed as semi-independent leaders who routinely avoid democratic accountability.[9] His emphasis on the particular centralist character of Latin American democracy remains important, but needs some adaptation in today's circumstances, where democracy has consolidated in the region but has taken a variety of political forms. Latin American state systems are still very centralist, personalist and sometimes authoritarian, but state policies are increasingly scrutinized and disrupted by both social pressure groups and economic and military elites. This has led, on the one hand, to a relative weakness of democratic institutions, untransparent corporativist policies and the frequent incapability of the state to guide society, sometimes alluded to as a 'state with holes'.[10] On the other hand, Latin American societies present a social and political vibrancy in which strong and articulate social movements pressure state actors to accept their demands. Although these actors do not have formal power, their perspectives and the resulting social and political polarization cannot easily be ignored. They force state and business actors to negotiate constantly with civil society groups, indigenous and otherwise. This situation debunks those views that see Latin America gradually moving towards liberal democracy. Rather, Latin American politics are the result of a constant process of negotiation and renegotiation where multiple actors pursue their demands via formal and informal channels. This situation leads to different outcomes, with paralysed and polarized states like in Peru, Argentina and Brazil, different kinds of populist solutions like in Venezuela and Nicaragua, or hybrid forms as in El Salvador, but also in Mexico.

Fourth, and finally, in the international arena, and partly as a result of the previous point, Latin America has not succeeded until now to speak with one voice. Different, often competing regional organizations – such as the Bolivarian Alliance for the Peoples of Our America (ALBA), the Andean Pact and the Southern Common Market (MERCOSUR) – emerged, languished and sometimes all but disappeared. Their success or failure often depended on political and economic conjunctures. Even with regard to the most appealing multilateral initiative, the emergence of the BRICS nations (Brazil, Russia, India, China and South Africa), which was strongly pushed by (then) Brazilian President Lula, the Latin American voice was weak and fragmented. In the multilateral context, the Latin American presence has remained thoroughly divided and fragmented. This state of affairs has created a situation where bilateral

[9] O'Donnell, G. (1999), 'Delegative Democracy', in: *Counterpoints: Selected Essays on Authoritarianism and Democratization*, Notre Dame: University of Notre Dame Press, pp. 159–174.

[10] PNUD (2007), *Informe Nacional sobre Desarrollo Humano 2007: El estado del Estado en Bolivia*, La Paz: PNUD.

relations remain predominant in the international arena, and where multilateral relations can demonstrate radical shifts.

In order to understand this complex reality of Chinese presence and influence in Latin America, not only political and economic but also in its societal consequences, and ultimately its relevance for Europe and the KNL, we need a framework that will allow us to assess the impact of the Chinese presence. For Latin America, the Chinese presence offers clear political and economic opportunities. It generates resources for development and creates more bi- and multilateral space and room to manoeuvre for individual countries. At the same time, it threatens some democratic gains that have been made in the region during the past two decades, in which transparency, due diligence and respect for human rights stood central. A recent report on human rights' protection by Chinese enterprises noted that *none* of the recommendations made in 2018 – and accepted by the People's Republic of China (PRC) – have been implemented.[11] In addition, the Chinese interest in primary resources may threaten the need for economic diversification and the importance given to environmental and social protections.

The multi-actor perspective regarding both Latin American and Chinese actors is crucial to understand the complex and often contradictory realities of the Chinese presence in Latin America. Chinese diplomats and investors have demonstrated a clear interest in Latin America during the last two decades. They are interested in the region's commodities and investment potential and obviously believe that closer relations with Latin America will serve their interests. This has required them to deal with these specific political and social characteristics in the region. Success has depended on their ability to deal with Latin American red tape (including corruption), polarization, inequality and social movements' activities. Chinese success may be explained by their successful adaptation to this cultural environment, which has enabled them to replace European and US interests in many parts of the region. It is not easy to understand exactly and identify this process. Some Chinese companies are not listed on the stock exchange and Chinese commercial and financial dealings are frequently obscure. The construction sector is notorious for their pay-offs and illicit practices,[9] and the fragility of the state in Latin America often expresses itself in its lack of transparent tender processes and routine corruption.

In the fragmented landscape of Latin America, these opportunities and threats will be felt differently. Lack of transparency and corruption will benefit small groups of (political) decision-makers and gatekeepers, while local elites, communities and social movements may see their interests jeopardized. In a wider perspective, these opportunities and threats will be assessed differently by outside actors, such as political authorities, social movements, or business people in the US, Europe and the Netherlands. What may be considered an opportunity in Latin America, may be perceived as a threat by these actors. For these actors, (international) security concerns may present an additional weight. However, we should not close our eyes to possible opportunities for cooperation that may present themselves, for instance in the realm of energy transition, which is desired by many Latin American countries. China's President Xi Jinping's recent adherence to CSR and environmental protection

[11] CICDHA (2022), *Derechos humanos y actividades empresariales chinas en Latinoamérica: Casos de Argentina, Bolivia, Brasil, Chile, Colombia, Ecuador, México, Perú y Venezuela*, mid-term report of the Universal Periodic Review of the People's Republic of China, February 2022.

measures, and China's support for the 2021 Escazú agreement on environmental protection, may be promising signs here.[12]

# 2 CHINESE ENGAGEMENTS AT THE REGIONAL LEVEL

Over the course of the last two decades, China has gained a major presence in Latin America, and recent activities show that its engagement with the region continues to expand and develop. Economically, the pandemic and other crises temporarily halted several Chinese initiatives, but sometimes to a lesser extent than activities by other foreign powers. Moreover, there are new fields of Chinese influence, including the digital, energy and health sectors. Politically, the 2022–2024 China–CELAC Action Plan, designed together with officials from most Latin American and Caribbean countries, shows that China continues to engage the LAC region in comprehensive development plans. However, for the first time in the short history of the China–CELAC Forum, Beijing did not announce how much Chinese companies would be investing in the region.

This section will review the main political and economic trends at the regional level. The different political and economic dimensions are evidently connected, but for the sake of clarity we start with the main fields of political cooperation and economic influence (trade, investment and loans), which during the past two decades have formed the basis of Sino-Latin American engagement. We then discuss recent Chinese engagement with Latin America's renewable energy and digital communication sectors, military cooperation and soft power, including medical diplomacy.

## 2.1 Political cooperation and diplomacy

China's region-wide diplomatic outreach was originally part of its global objective to modernize its role in the international political arena and reach its economic objective of joining the WTO. Already in the 1990s, China became an observer of the Group of Rio, the Latin American Integration Association (ALADI), and also of the Inter-American Development Bank (IDB), in which the US has the largest voting power. Later, China became an observer at the United Nations (UN) Economic Commission for Latin America and the Caribbean (ECLAC), the Latin American Parliament (Parlatino) and the Organization of American States (OAS). It also established a dialogue mechanism with MERCOSUR. By investing $350 million, China in 2008 became a (small) member of the IDB. During these years China also engaged with a wide range of sub-regional platforms, including the New Left's initiative of the Union of South American Nations (UNASUR) and the pro-free-trade Pacific Alliance (PA) between Mexico, Chile, Peru and Colombia. One notable exception is the ALBA, the Bolivarian – and thus anti-US – alliance of Venezuela, Cuba, Bolivia, Ecuador and some Caribbean and Central American states. Despite several official invitations by Venezuela, China did not join this anti-neoliberal and anti-imperialist collaboration,

[12] Rollo, A. (2021), 'The Escazú Agreement: A Leap Forward for Environmental and Human Rights Protection in Latin America and the Caribbean', *Opinio Juris*, 11 March.

which by now has lost much of its original relevance. Brand *et al.* conclude that 'China's institutional presence may not be due to any considerations of regime type, but rather motivated by long-term interest in the region'.[13]

As the region's central organization for development analysis, ECLAC's generally positive and open attitude towards China has informed regional policy debates. While ECLAC studies early on identified the risks of China's industrial competition, they also indicated the opportunities of a new source of investments and loans, and the potential of China as a partner for regional development. For instance, in its report prepared for the visit by China's Prime Minister Li Keqiang to ECLAC headquarters in 2015, shortly after the Community of Latin American and Caribbean States (CELAC) adopted the China–CELAC Cooperation Plan for 2015–2019, ECLAC stated that 'China's strong interest in enhancing links with Latin America and the Caribbean offers a historic opportunity for the region. More plentiful, more diversified Chinese investment flows in the coming years could not only transform economic and trade relations between the two parties, but could also promote production integration within the region'.[14] According to Evan Ellis, however, 'PRC engagement has helped to transform ECLAC from an entity once substantially critical of the economic role of external powers in the region to an institution whose reports today substantially embrace the PRC as a key source of its development'. Ellis even claims that ECLAC is '[o]ne of the PRC's most significant if unrecognized vehicles for using the United Nations system to protect and advance its commercial interests in Latin America'.[15] While ECLAC's optimist assessments of China's (potential) role in Latin American development indeed contrasted with more critical views among various Latin American politicians, scholars and civil society organizations, there is no support for the idea of ECLAC serving as a vehicle for Beijing. And it is important to note that in its latest studies, ECLAC reports rather critically about China–Latin American relations. Its 2021 report on foreign investments, for instance, states that it does not see China's win–win discourse materializing yet.[16]

The most substantial deals between China and its Latin American partners have been struck at the bilateral level. The PRC has signed a long list of different bilateral agreements and partnerships with Latin American countries. It signed free trade agreements with Chile (2005), Peru (2009) and Costa Rica (2010), while Comprehensive Strategic Partnerships, China's highest form of cooperation, were formalized with Brazil (2012), Mexico (2013), Peru (2013), Argentina (2014), Venezuela (2014), Chile (2016) and Ecuador (2019). A Chinese agenda for the LAC region as a whole began in 2008, when the Chinese government published its first policy paper on Latin America and the Caribbean, putting forward the goal of establishing a comprehensive partnership featuring equality, mutual benefit and common development with LAC countries. The emphasis on mutual respect, South–South solidarity and the protection of national sovereignty remains central to China's discourse and this plays well in the sovereignty-conscious capitals of Latin America. In 2016, the PRC government released its second

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[13] Brand, A., McEwen-Fial, S. and Muno, W. (2015), 'An "Authoritarian Nexus"? China's Alleged Special Relationship with Autocratic States in Latin America', *European Review of Latin American and Caribbean Studies*, 99, pp. 7–28, at p. 18.

[14] ECLAC (2015), *Latin American and the Caribbean and China: Towards a New Era in Economic Cooperation*, Santiago: ECLAC, p. 77.

[15] Ellis, R.E. (2022), *Forums and Influence: Chinese Competitive Strategy and Multilateral Organizations in Latin America and the Caribbean*, West Point: Modern War Institute, 14 June.

[16] ECLAC (2021), *Foreign Direct Investment in Latin America and the Caribbean, 2021*, Santiago: ECLAC. p. 79.

policy paper on LAC, which again aimed at strengthening cooperation on the basis of 'equality and mutual benefit'. The One China policy is an integral component of China's foreign policy, as reflected in the PRC's LAC policy papers. This One China policy represents Beijing's strategy to achieve full recognition over the entirety of its claimed territories. On this condition, both the first and second paper were clear from the start, using almost the exact same words: 'China is ready to establish and develop state-to-state relations with [all] Latin American and Caribbean countries based on the One China principle'.[17] These policy papers accompanied Beijing's increased diplomatic efforts in the region.

China's most comprehensive regional political endeavour is the China–CELAC Forum. CELAC includes all 33 Latin American and Caribbean countries and was created in 2011 with the 'commitment to advance the gradual process of regional integration and act as spokesman for the Community with other countries' regional blocs'. China then took the initiative to create the China–CELAC Forum, which at its first ministerial meeting in Beijing in 2015 was presented as 'a new platform, new starting point and new opportunity for dialogue and cooperation'. Through the Forum, China diplomatically responded to two major Latin American concerns: first, the predominance of the primary sector in Chinese economic engagements; and second, the predominance of country-to-country relations with China, which are, per definition, asymmetrical. The Forum's meetings have promulgated cooperation plans covering trade, investment, finance, infrastructure, energy, resources, industry and agriculture, as well as politics, security, science and people-to-people exchanges. In 2015, the PRC's President Xi announced China's aim to increase trade with Latin America to $500 billion and Chinese investments in the region to $250 billion by 2025. The China–CELAC Cooperation Plan for 2015–2019 announced a shift from trade and investment in Latin America's natural resources to a new model of South–South cooperation, with more consideration of the LAC region's development needs. At the 2018 ministerial meeting, China invited LAC countries to participate in its global Belt and Road Initiative, which is focused on infrastructure development. At the third ministerial meeting (held online) in December 2021, President Xi for the first time did not specify an amount for Chinese investment in the coming years. Moreover, the meeting took place without Brazil as a result of Bolsonaro's decision to end Brazil's CELAC membership.

In recent years, the Belt and Road Initiative has become a label for all kinds of Chinese activities in (large-scale) construction and infrastructure in Latin America. The label applies to Chinese companies looking for lucrative foreign projects, normally involving deals with Latin American state agencies and sometimes co-finance by Chinese banks. As Jones and Zeng have shown, despite the grand rhetoric of the BRI, this global campaign has in fact unfolded in an incoherent and fragmented fashion. Rather than coming from a top–down coordinated masterplan, the BRI's strategic goals are in fact defined by institutions at various levels, including governments and sub-national actors in host countries, but chiefly by Chinese companies (which are subject to market imperatives domestically and abroad).[18] So far, 21 LAC countries have joined the BRI through a Memorandum of Understanding (MoU) with China (see Figure 1). Most countries seem to prefer bilateral agreements, which they can better control. In addition, in terms of investment and access to Chinese capital, so far the BRI does not appear to make

[17] See the 2008 paper and the 2016 paper on the PRC's policy on Latin American and the Caribbean.

[18] Jones, L., and Zeng, J. (2019), 'Understanding China's "Belt and Road Initiative": Beyond "Grand Strategy" to a State Transformation Analysis', *Third World Quarterly*, 40(8), pp. 1415–1439.

a great difference.[19] For instance, Mexico and Brazil have not joined the BRI, but they are Latin America's major recipients of information and communications technology (ICT) investments. This hints at Chinese technology companies making investment decisions rather independently of the PRC government's global programmes.

**Figure 1: LAC countries that signed an MoU on the Belt and Road Initiative**[20]

Source: Nedopil, Christoph (2022), 'Countries of the Belt and Road Initiative', Shanghai: Green Finance and Development Center, FISF Fudan University, www.greenfdc.org; authors' elaboration. Created with Datawrapper.

Beijing's idea of a Community of Common Destiny (CCD) clearly resonates in its Latin American activities. This key concept in China's diplomacy in recent years aims at creating a 'new framework' of multilateral relations and stresses equal partnerships and development that benefits all.[21] Especially in Brazil, one of the co-founders of the BRICS platform, China found a natural ally for this international agenda for change in the Dilma Rousseff administration. In 2014, when leaders of the BRICS and South American states met in Brasilia, China's President Xi Jinping bridged these regional and global ambitions in one sentence: 'We should jointly push forward the international order towards a fairer and more rational direction, safeguard the rights of peoples in choosing the social system and the development path by themselves, strengthen global economic governance, push forward the

[19] Moreno, J.E.S. (2021), 'La retórica de la conectividad de la Iniciativa de la Franja y la Ruta en América Latina', *China y América Latina: claves hacia el futuro*, p. 151.

[20] Years of signature: 2017: Panama; 2018: Antigua and Barbuda, Bolivia, Chile, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Grenada, Guyana, Suriname, Trinidad and Tobago, Uruguay and Venezuela; 2019: Barbados, the Commonwealth of Dominica, Jamaica and Peru; and 2022: Nicaragua and Argentina (map data until July 2022).

[21] Zhang, D. (2018), 'A New Concept Enters China's Diplomatic Lexicon', *Policy Forum*, 20 April.

international community to pay greater attention to the development issue, and help South American countries with poverty alleviation and the sustainable development cause'.[22]

### Box 1: China's image in Latin America

How do Latin American citizens perceive China, now that political and economic cooperation with China is common practice? And how does that compare to their perceptions of the LAC region's long-standing counterpart, the US? The overall image of China in the LAC region is rather mixed, with some Latin Americans liking and others disliking the PRC and its influence in their country. Trust in the Chinese government, however, clearly declined in recent years. In 2012 this trust was still 58 per cent, but by 2018–2019 it had lowered to 47 per cent. Yet Latin Americans' trust in the US government also fell during that period, from 64 per cent to 39 per cent. Men and wealthy, highly educated and young people tend to trust Beijing more than other citizens do. The picture differs considerably from country to country and trust in Beijing was, for instance, considerably lower in Brazil and Colombia (40 per cent and 39 per cent, respectively) than in Mexico and Peru (49 per cent and 54 per cent) in 2018–2019.[23] Surprisingly, in countries that received Chinese aid, the image of China is lower than elsewhere. This could be explained by negative experiences with corruption, project failures and environmental damage in (early) Chinese aid.[24]

What is striking for the entire LAC region is that, in a large 2021 survey, China was only mentioned by 19 per cent of Latin Americans as a country of which they have the best opinion, compared to the US being mentioned by 47 per cent.[25] This finding may be counterintuitive considering the sometimes strong anti-US sentiments among progressive Latin Americans. While ideology plays an articulate role in perceptions of the US and its development model, LAC citizens' general attitude towards China seems less ideological. With respect to China's image, a study based on a large 2014 survey finds that a positive perception can be found both among left-wing Latin Americans, who value China's development model, and among right-wing Latin Americans, who value China's positive economic influence.[26]

[22] Quoted in Piccone, T. (2016), *China and Latin America: The Geopolitical Implications of Growing Economic and Trade Ties*, Washington, DC: Brookings Institution. p. 5.

[23] Asen, E. (2020), 'Spotlight on Trust in the Chinese Government in Latin America and the Caribbean', Nashville: LAPOP, Vanderbilt University, December; and Horton, S. (2020), 'Spotlight on Trust in the US Government in Latin America and the Caribbean', Nashville: LAPOP, Vanderbilt University, December.

[24] Eichenauer, V.Z, Fuchs, A. and Brückner, L. (2018), 'The Effects of Trade, Aid and Investment on China's Image in Developing Countries', Discussion Paper Series no. 646, Dept. of Economics, University of Heidelberg.

[25] https://data.nuso.org/downloads/What-are-Latin-Americas-perceptions-on-the-European-Union-datanuso.pdf.

[26] Morgenstern and Bohigues (2021), 'Battling for the Hearts and Minds of Latin Americans', pp. 280–299.

## 2.2 Shifting drivers of Chinese economic engagement

The main ingredients of the widespread Chinese engagement with Latin American countries have consisted of economic relations. Since 2000, China's role in Latin America has climbed from close to nothing, to being of similar importance as the region's two other economic partners: the US and the EU. Beyond trade flows, which multiplied more than 25 times, Chinese capital has firmly landed in the LAC region. Chinese companies have invested major sums, and Chinese banks have become a more important source of development loans than the World Bank (see Table 3, Figure 5, and sections 2.4 and 2.5). Before looking at the speed and way in which Chinese companies and banks managed to expand their activities in Latin America, let us first review a few specificities and key drivers of their engagements.

Chinese capitalism and its global expressions cannot be understood under just one label. In the infrastructure sector, Chinese construction investments abroad normally obey a short-term profit rationale, as do other transnational companies. In the primary sector, however, foreign investments by Chinese companies do not necessarily pursue profit maximization, but rather look for 'encompassing accumulation', thus mixing profit optimization rationales with the Chinese state's strategic goals to secure access to natural resources.[27] This played a central role during the commodity boom (from 2003–2014). For the development-bank sector, Stephen Kaplan has recently coined the interesting term 'patient capital' for Chinese banks.[28] This characterizes the long-term repayment horizons of Chinese loans, a certain risk tolerance and a lack of political or economic conditionalities. Kaplan finds that China's 'patient capital' allows the receiving national governments more room for manoeuvre in formulating their domestic economic policies, compared to multilateral banks like the World Bank and Inter-American Development Bank. This was an opportunity for progressive Latin American governments that went against the current of the Washington Consensus.[29]

China's shifting economic needs and developments have shaped the engagements and sectoral focus in the LAC region over time. In an early phase, China's rapid urbanization and expanding resource demands resulted in extremely commodity-oriented activities by Chinese companies and banks with Latin American countries (supported by the Chinese state, as we will see below). The oil and mining sectors remain important in Chinese (accumulated) investment and loans in Latin America, but, since 2015, Chinese investments in the LAC region and globally have become less commodity-focused. New projects by Chinese companies in the LAC region were evenly spread across the sectors of infrastructure (32 per cent), extraction (30 per cent) and manufacturing (29 per cent) during the 2015–2019 period.[30] Nowadays, China is no longer the economy that routinely achieves double-digit growth. Already before the COVID crisis, China's GDP growth had slowed (6.2 per cent in 2019), its total debt

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[27] Ching Kwan Lee observed these sectoral differences in Zambia; see Lee, C.K. (2017), *The Specter of Global China: Politics, Labor and Foreign Investment in Africa*, Chicago: University of Chicago Press.

[28] Kaplan, S.B. (2021), *Globalizing Patient Capital: The Political Economy of Chinese Finance in the Americas*, Cambridge: Cambridge University Press.

[29] The term 'Washington Consensus' was coined in 1989 to describe neoliberal policies introduced by LAC policy-makers that had the backing of Washington-based international institutions such as the IMF, World Bank and IDB, as well as the US Treasury, to aid recovery from the 1980s' debt crisis.

[30] Ray, R. and Batista Barbosa, P.H. (2020), *China–Latin America Economic Bulletin, 2020 Edition*, Boston: Global Policy Development Centre, p. 9.

spiked (253 per cent of GDP in 2018) and industrial growth in 2019 hit its lowest point since 2002.[31] Especially falling profits and rising debts in infrastructure and construction became a source of concern to Beijing. A crisis in the construction sector, which represents one-quarter of the Chinese economy, could easily spread to other sectors.[32] China's global Belt and Road Initiative is a massive effort to find overseas investment opportunities for numerous Chinese construction firms, supported by the Chinese state with diplomatic and financial means. Loans are offered to Latin America and other regions in order to create new markets for Chinese infrastructure. As a result, the outlook of the China–LAC relationship is now one dominated by both resource extraction and infrastructural projects geared towards 'connectivity'.

## 2.3 China's prominence in Latin American commodity exports

Within only two decades, China has become a key export destiny for most South American countries. From 2000 to 2020, Latin American exports to China exploded. Starting at $3.8 billion in 2000, Latin American exports to China amounted to $128.9 billion in 2020. China is now the number one export country for Brazil, Chile, Cuba, Peru, Uruguay and Venezuela, and the number two for Ecuador (see Figure 2).

**Figure 2: Importance of China as an export destination, 2021**


Source: UN Comtrade, 2020; authors' elaboration. Data for Venezuela was reported by China as imports from Venezuela. Created with Datawrapper.

[31] McKinsey & Company (2019), 'China Brief: The State of the Economy'.

[32] Ansar, A., Flyvbjerg, B., Budzier, A. and Lunn, D. (2016), 'Does Infrastructure Lead to Economic Growth or Economic Fragility? Evidence from China', *Oxford Review of Economic Policy*, 32:3, pp. 360–390.

The numbers differ greatly from country to country (Table 1). For the LAC region as a whole, the US remains the largest export country, while China has become about as important as the European Union.

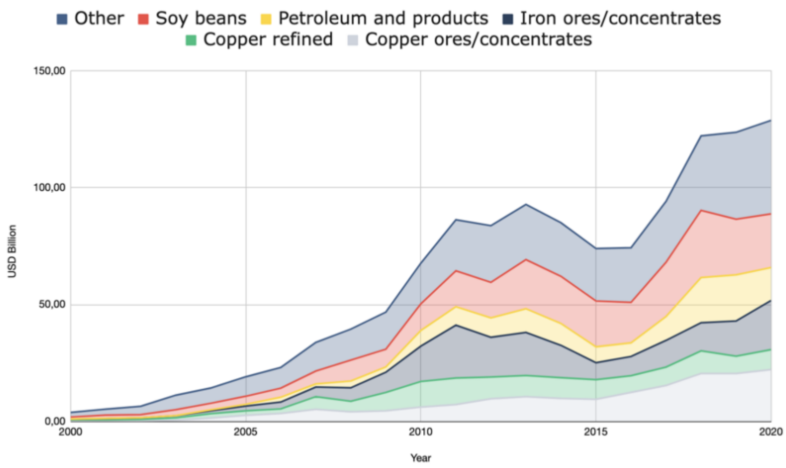
**Table 1: Latin American national exports to China, the US and EU, selected countries, 2020**[33]

| | China % | USA % | EU-28 % | Other % | Total exports in billion USD |
|---|---|---|---|---|---|
| Argentina | 9.6 | 6.0 | 12.1 | 72.3 | 54.9 |
| Brazil | 32.4 | 10.3 | 13.2 | 44.0 | 209.2 |
| Chile | 38.9 | 13.2 | 9.4 | 38.5 | 73.5 |
| Colombia | 8.9 | 30.5 | 11.7 | 48.9 | 31.1 |
| Ecuador | 16.3 | 23.5 | 16.2 | 44.0 | 20.4 |
| Mexico | 1.9 | 79.2 | 5.7 | 13.2 | 417.0 |
| Peru | 28.3 | 16.1 | 12.5 | 43.1 | 38.8 |
| Venezuela* | 10.6 | 8.8 | 5.5 | 75.1 | 14.5 |

Source: UN Comtrade, 2020. *Data for Venezuela only available for 2019, Total Venezuelan exports taken from OEC World and % from UN Comtrade; Authors' elaboration

Latin America's exports to China are strongly commodity-centred. Primary goods represented 87 per cent of the region's exports to China (32 per cent for agricultural products and 55 per cent for mining extractives, including oil and gas), and only 12 per cent consisted of manufactured goods during the period from 2011–2015.

**Figure 3: Latin American exports to China by product, 2000–2020 (billions of USD)**




Source: UN Comtrade 2022; authors' elaboration.[34]

[33] For reasons of readability we round up numbers to one figure after the dot, which in some tables might result in sums slightly above or below 100%.

[34] Standard International Trade Classification (SITC) Revision 3, Total trade. Product codes Codes: 2222 Soya beans, 281 iron ore/concentrates, 283 copper ores/concentrates, 33 petroleum and products, 68212 copper refined.

For the rest of the world, there is more balance in Latin American exports, with 52 per cent for primary goods (21 per cent for agricultural products and 31 per cent for extractives) and 46 per cent for manufactured goods during that period.[35] Latin American raw materials such as soy and iron primarily serve China's domestic market. Other Latin American commodities such as copper, silver and lithium are the starting points of global production chains, in which also Western companies play a prominent role. They use China as a production platform for cheap yet increasingly high-quality manufacturing that serve consumers worldwide. Around half of Chinese exports are by foreign-invested enterprises with varying degrees of local added value and high environmental impacts.[36,] Latin Americans sometimes complain that their local industry cannot compete with China's low-cost 'factory of the world' and they see their region's continuous role as a provider of cheap raw materials as the perpetuation of colonial injustice. Yet while a MacBook assembled in China and sold to a customer in Lima may count as a high-tech Chinese export to Peru, China mainly adds cheap labour to this Apple product, while the profits flow to countries such as the United States and South Korea.

### Box 2: Agro-exports as a stepping stone in the Southern Cone: Argentina

The originally agrarian connection of Southern Cone countries with China has important economic and (geo)political dimensions and environmental effects. Countries like Brazil and Argentina, but also Uruguay and Bolivia, started to expand their agrarian production and to export a large part to China. Soy is the main driver of this new commercial connection, but other crops and beef also play a role. In 2012, Brazil overtook the US as China's most important provider of soy. In this sense, Brazil is a winner of the US–China trade war. However, these massive soy exports to China contribute to deforestation and the emission of $CO_2$ in Mato Grosso, Paraná and Rio Grande do Sul (simultaneously, the soy exports from northern Brazil to the EU have an even 14 per cent higher carbon footprint).[37] At the other end is Paraguay, which because of its diplomatic recognition of Taiwan, cannot export soy to the PRC. This situation has caused unrest among Paraguayan producers, also because Taiwan imports 98 per cent of its soy from the US, Argentina and Brazil, rather than from its ally, Paraguay.[38] For the last country in South America maintaining diplomatic relations with Taiwan, soy could become a reason for Paraguay to switch its relationship to the PRC.

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[35] Ray, R., Gallagher, K., López, A. and Sanborn, C. (eds) (2017*), China and Sustainable Development in Latin America: The Social and Environmental Dimension*, London: Anthem Press.

[36] *Financial Times* (2012), 'Who Makes China's Exports – Local Companies or Foreign?', 10 September.

[37] Escobar, N., Tizado, E.J., zu Ermgassen, E.K.H.J., Löfgren, P., Börner, J. and Godar, J. (2020), 'Spatially-Explicit Footprints of Agricultural Commodities: Mapping Carbon Emissions Embodied in Brazil's Soy Exports', *Global Environmental Change*, 62, 102067, p. 7.

[38] Paraguay Fluvial & Logística (PFL) (2020), 'Exportadores de soja exigen entablar comercio con China Continental', 17 June.

**Table 2: Importance of soy in trade with China, 2020**

| Country | Total soy exports (USD billion) | Soy exports to China (USD billion) | China's share of total soy exports (%) | Share of soy in total exports to China (%) |
|---|---|---|---|---|
| Argentina | 21.9 | 18.7 | 85.4 | 35.6 |
| Brazil | 28.6 | 20.9 | 73.2 | 30.8 |
| Paraguay | 2.1 | 0.0 | 0.0 | 0.0 |
| Uruguay | 0.8 | 0.2 | 28.4 | 15.3 |

Source: UN Comtrade; authors' elaboration.

The case of Argentina's agro-based relations with China merits special attention. Driven by soy, wheat and beef exports, bilateral trade between Argentina and China expanded by 56 per cent from 2007 to 2019, reaching $15 billion, before the pandemic caused trade to fall slightly.[39] China selected Argentina as a 'Strategic Partner' already in 2004 and it elevated the relationship to a Comprehensive Strategic Partnership during Chinese President Xi Jinping's visit in 2014 and broadened this cooperation further after 2018. At present, Chinese policy banks have loaned $17 billion to Argentina and the country is also the largest receiver of commercial loans by China's 'big five' commercial banks, with 36 outstanding loans.[40] Chinese companies are strong in the commercialization of Argentinian grain exports, which today are largely in the hands of China's state-owned food processing company, COFCO (which, through the acquisition of Nobel Agri in 2015 and the Dutch agricultural trading house Nidera in 2017, is now the dominant player in the country). There is no doubt that agro-based relations with China have benefited Argentina and, for instance, allowed it to weather the global financial crisis after 2008. On the other hand, agro-exports have had their drawbacks for Argentina. The related influx of large sums of foreign currency prevented the fixing of structural problems and increased the tendency to clientelism and corruption under the Peronist government of Cristina Fernández de Kirchner.

With the election of Alberto Fernández in 2019, with Cristina Fernández de Kirchner as vice-president, Argentina and China have strongly stepped up their economic relations, supported by China's COVID diplomacy, when millions of doses of the Sinopharm vaccine were delivered to Argentina. Argentina became a member of the Asian Infrastructure Investment Bank in March 2021 and, following Fernández's February 2022 meeting with Xi Jinping during the Olympic Games in Beijing, Argentina signed a MoU to join China's Belt and Road Initiative.[41] New initiatives were announced, among others focused on the exploitation of Argentinian lithium. The stalled plans to build nuclear power plants (announced after the construction of the Chinese-run space station in Patagonia in 2018) were revived during the visit to the Olympic Games by Alberto Fernández and, among a number of other investments, contracts were signed about building a nuclear power plant. Argentina and China are also holding talks with Huawei over the adoption of advanced 5G technology.

The intensified engagement with China does not go uncontested in Argentina. Many environmental organizations are concerned about the consequences of the agro-export model and warn about pollution, land degradation on the Argentine pampas and continuing deforestation. Political observers warn about the new agro-exporting dependency that relations with China are implying, but Argentine political elites appreciate the stable market for the country's agrarian products and the economic and political alternative that China represents. However, Chinese leaders have not shied away from using China's new leverage over Argentina as the principal purchaser of Argentina's soy. One example was COFCO's suspension of soy oil purchases in 2010 to signal China's displeasure over Argentine protectionist measures.[42] This showed that a strong dependence on the Chinese market can also hold serious risks for the Argentine economy and sovereignty.

## 2.4 The expansion of Chinese investments

Chinese companies have clearly become an interesting source of foreign direct investment for the LAC region. Given China's focus on specific sectors, this trend 'does not appear to be an immediate threat to traditional investors in the region'.[43] As Figure 4 indicates, during the period 2005–2019, China was probably LAC's second external source of foreign mergers and acquisitions (M&As), annually around $6 billion, coming after the US (around $9 billion) and followed by Spain and Canada (each around $4 billion).[44] Large-scale Chinese investments are mainly undertaken by large state-owned enterprises (SOEs). The two largest Chinese multinationals in the region are State Grid and Sinopec, which can also be found in the top five of Fortune's Global 500 Ranking. As well as buying existing operations, Chinese companies are investing in new (greenfield) projects, which tend to be smaller. The precise amount of total Chinese foreign direct investment (FDI) in the LAC region – and how this compares to investment from other countries – remains hard to establish. It is often difficult to see if and when the Chinese projects announced in the media are (fully) carried out. Furthermore, Chinese multinationals – even more than other multinationals – invest via overseas financial centres such as the Bahamas or Cayman Islands. The Netherlands and, especially, Luxembourg are also stopovers in these global flows of capital. Finally, Chinese projects in the region that are financed as part of government-to-government loans are computed as debt rather than as FDI. Nevertheless, the overall accumulated investment

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[39] Sweigart, E. and Cohen, G. (2021), 'Argentina's Evolving Relationship with China', *Americas Quarterly*, 19 October.

[40] https://www.thedialogue.org/map_list/.

[41] Lanteigne, M. (2022), 'Argentina Joins China's Belt and Road: The Argentine President's Attendance at the Beijing Winter Olympics Brought Big Strides in the Relationship', *The Diplomat*, 10 February.

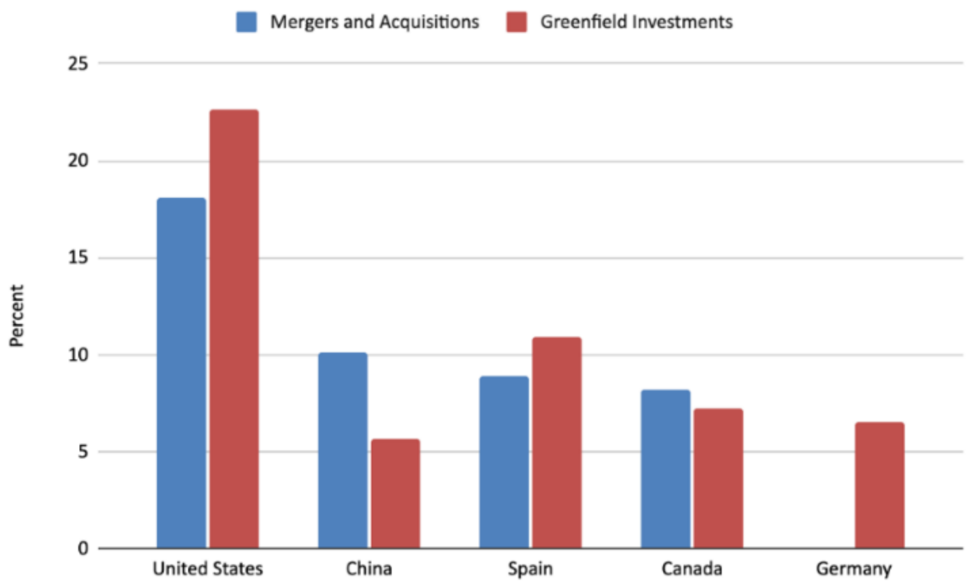
[42] Ellis, E. (2021), 'New Directions in the Deepening Chinese–Argentine Engagement', *Global Americans*, 11 February.

[43] Chonn Ching, V. (2021), 'Joining the Game: China's Role in Latin America's Investment Diversification', Paper, Boston: Global Development Policy Center, Boston University, 12 July.

[44] ECLAC (2021), *Foreign Direct Investment in Latin America and the Caribbean*.

(stock) of China remains far below that of traditional investors such as the US, Canada and several European countries, whose multinationals have been operating in the LAC region for decades or even centuries. In UNCTAD's data of investment stock in Latin America, China does not appear in the top ten, while the top three consist of the US, Spain and the Netherlands.[45] Moreover, an ongoing expansion of Chinese foreign investment is not a given. In fact, since 2017, China's outward investment has slowed down worldwide, in part because of more stringent regulations in China.

**Figure 4: Top five countries for foreign investment into Latin America, 2005–2019 (percentages)**




Source: Chonn Ching (2021);[46] authors' elaboration.

Despite recent diversification trends, most of Chinese FDI still flows to mining, energy and transport infrastructure. The main recipient countries of Chinese investment are Brazil, Peru, Chile and Argentina (see Table 3). The destinations for investments from China show that Chinese companies are driven by the commercial opportunities that LAC countries have to offer, rather than by (geo)political calculation or ideological affinity. While most Chinese companies operating in the region are SOEs, they seem attracted by the classical foreign investment drivers identified by John H. Dunning: resources and markets.[47] It is no surprise that most Chinese investments go to Brazil, considering the country's sizeable economy. The subsequent prominence of Peru, Chile and Argentina points to the (original) centrality of mineral, fossil fuel and agricultural resources, and related infrastructures. Since Latin America's commodity sector is marked by many local conflicts over labour, land and water, a number of Chinese projects have been contested. Weak local institutions and the interests of the national state

[45] See, for instance, https://unctad.org/news/foreign-direct-investment-latin-america-plunges-45-amid-pandemic, which lists the top ten countries by investment stock in Latin America. China is not there, and Spain and the Netherlands are second and third!

[46] Chonn Ching (2021), 'Joining the Game'.

[47] Dunning, J.H. (1977), 'Trade, Location of Economic Activity and the MNE: A Search for an Eclectic Approach', in: B. Ohlin, P.O. Hesselborn and P.M. Wijkmon (eds), *The International Location of Economic Activity*, London: Macmillan, pp. 395–418.

to advance quickly foreign investments add to an environment in which social and environmental effects are neglected and risks are ignored (see Box 3 and also Box 5).

**Table 3: Chinese investment projects in LAC, main countries, 2005–2021**

| Country | No. of projects | Volume in USD billion | % of Chinese investment in LAC |
|---|---|---|---|
| Brazil | 69 | 63.8 | 45.5 |
| Peru | 18 | 25.5 | 18.2 |
| Chile | 13 | 15.3 | 10.9 |
| Argentina | 18 | 10.2 | 7.2 |
| Ecuador | 6 | 6.2 | 4.4 |
| Colombia | 5 | 5.6 | 4.0 |
| Venezuela | 6 | 4.6 | 3.3 |
| Mexico | 13 | 3.3 | 2.4 |

Source: American Enterprise Institute (2021).

A new sector in which Chinese companies have become important is electricity, as shows in countries like Brazil and Chile. The sector is vital for development and Chinese investments have generally been welcomed, but at times they are also contested. Between 2010 and 2020, no less than 48 per cent of Chinese investments in Brazil went to the electricity sector.[48] Chinese companies own 304 power plants and over 16,000 kilometres of transmission lines. Hydroelectricity received 81 per cent of all generation investments.[49] Chinese companies, including China State Grid, have become prominent actors in Brazil's electric power market, owning 10 per cent of power generation, 12 per cent of transmission and 12 per cent of distribution in 2019. In Chile, Chinese companies even control 52 per cent of the national electricity commercialization in the general distribution segment and 57 per cent in the domestic distribution segment.[50] In 2021, China State Grid bought 94 per cent of Chile's most important electricity distribution company CGE (for $2.6 billion) and in 2019 it acquired Chilquinta Energy (for $2.2 billion). These deals, supported by Chile's Piñera government, and the new dependency that they may implicate, have been the subject of criticism and debate in Chile.

[48] Ibid.

[49] Barbosa Batista, P.H. (2021), 'Lighting Up: China's Arrival in Brazil's Electricity Sector', Boston: Global Development Policy Center, Boston University, 25 January.

[50] Torres, C. (2020), 'El avance de China en el control de la distribución eléctrica despierta las alarmas en Chile', *Infobae*, 29 November.

## Box 3: Mining investment and protest in Ecuador: The Mirador project

The Mirador mining project in the Ecuadorian Amazon took 20 years of exploration and construction before it started producing its first grammes of copper and gold in July 2019.[51] The mine has been owned since 2009 by two Chinese companies, Tongling Non-Ferrous Metals Group Holdings and China Railway Construction Corporation, and is the first and largest Chinese investment in Ecuador's nascent mining sector. Like many other large-scale mines in the region, whether by Chinese or other companies, the Mirador project has been controversial from the start. Local communities and national environmental and human rights organizations protested repetitively against the expected damage to ecosystems and indigenous and peasant livelihoods. They also initiated a court case against the mining company for violating the protected rights of ecosystems guaranteed in the Ecuadorian Constitution (Articles 71-73 on the Rights of Nature).[52] After initially ignoring and even repressing these protests, the mining company tried more recently to negotiate with the local population, making some social concessions.

As to the technical conditions of the mine, E-Tech International – a group of US-based mining engineers who independently evaluate technical reports and environmental impact assessments (EIAs) – issued a scathing report about the Mirador mine. The engineers focused on the tailing facilities where mining waste is stored in perpetuity, because if they fail, the social and ecological impacts are devastating. The technical reports and EIAs that were submitted to obtain an environmental licence, ignored or minimized most of these risks. Also, the risk of water contamination with heavy metals and acid drainage had been assessed as 'insignificant'.

This project exemplifies how the confluence of Chinese companies' interests and the agendas of both the Chinese government and a Latin American government can speed up decision-making at the cost of due diligence and regulatory procedures. Particularly in the case of large-scale projects in sensitive areas, this confluence may produce risky outcomes (see also section 3.6 and Box 5). The Ecuadorian government proclaimed that the mine would allow Ecuador to develop. Mirador was the spearhead project for Ecuador's emerging mining sector and a keystone of growing China–Ecuadorian relations. In an internal meeting on the project, Chinese officials stated that the advances of the Mirador mine were a matter of 'quid pro quo' for other Chinese investments in the country. While Ecuador's government had limited capacity to assess thoroughly the impact of the mine, its dependence on Chinese financial support curtailed its freedom of action. It is telling that at the time of Mirador's festive inauguration, Ecuador's Ministry of the Environment had not yet issued the environmental licence that is a prerequisite for any mining project. In recent years, there have been several

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[51] This box is largely based on Teijlingen, K. van (2019), *Mining in the Land of Buen Vivir: Politics of Large-scale Mining, Development and Territorial Transformation in the Ecuadorian Amazon*, PhD thesis, University of Amsterdam.

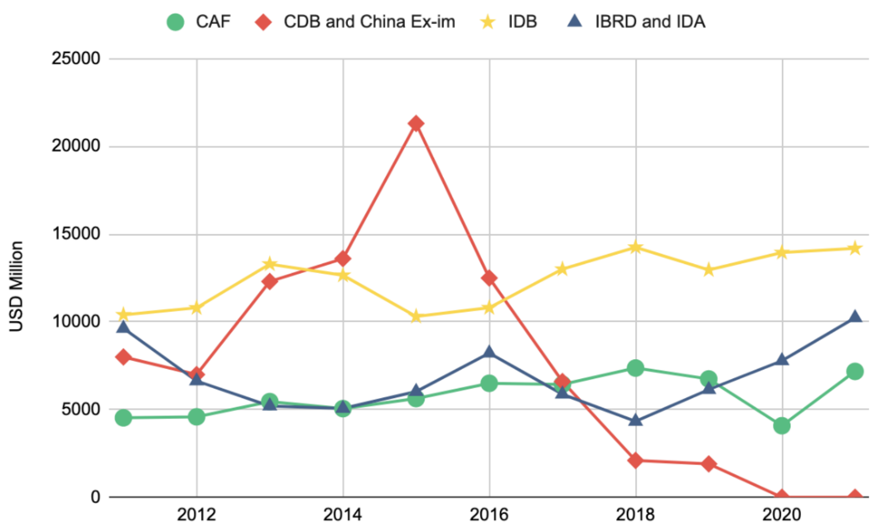
[52] The Case for Rights of Nature in Face of the Mirador Open-Pit Copper Mining Project. See also: CICDHA (2022), *Derechos humanos y actividades empresariales chinas en Latinoamérica*, pp. 64–68.

court cases curtailing mining in Ecuador on the basis of Rights of Nature, but without affecting the strategic Mirador project.

## 2.5 China as a source of development loans

During the 2010s, Latin America received substantial loans from Chinese development banks. Following the decline of Western capital in developing markets after the financial crisis of 2008, the Chinese state started to deploy massively its foreign currency reserves through funds for international finance.[53] Quite suddenly, in 2010, the Export–Import Bank of China and especially the China Development Bank emerged as important sources of credit. While the global financial crisis forced the World Bank, the Inter-American Development Bank (IDB) and the US Export–Import Bank to limit their Latin American activities, Chinese loan commitments jumped to $37 billion in 2010. In 2010 and again in 2014, China even provided more foreign credit for Latin American development than the region's traditional channels based in Washington collectively: the World Bank – that is, the International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) – and the IDB. In the meantime, the funding by the Development Bank of Latin America (CAF), of which next to LAC countries also Spain and Portugal are members, remained remarkably constant. Since 2015, however, Chinese lending has been falling (see Figure 5). In 2020, the China Development Bank (CDB) and China Export–Import Bank did not lend to any LAC country, for the first time in 15 years,[54] although this may ignore the loans designated to buy Chinese COVID-19 vaccines.[55] At the time of writing, China has provided up to $137 billion of loans in (commercially-oriented) 'development finance' in the region.

**Figure 5: Comparison of loans to LAC, 2011–2021 (millions of USD)**




[53] The origins of China's role as key development banker for the region are to be found in the country's vast foreign currency reserves.

[54] ECLAC (2021), *Foreign Direct Investment in Latin America and the Caribbean,* p. 106.

[55] Landy, J. and Senters Piazza, D.K. (2021), 'Who is Seizing the COVID-19 Moment?' *Journal of the Americas*, 1.

Source: Annual reports from the IBRD, IDB, CAF, and Gallagher and Myers (2021); authors' elaboration.[56]

The Chinese loans for large infrastructure projects usually came as part of government-to-government deals that also involved major construction contracts for Chinese companies.[57] Energy infrastructure projects (in total 37) made up 64 per cent of the loans' value for 2005–2019, ranging from hydroelectricity dams and renewable energy plants to electricity grid development, and oil and gas projects. The second area of Chinese loans was for transport infrastructure. The main recipients here were Venezuela, Brazil, Ecuador and Argentina (see Table 4), and many Chinese loans were so-called oil-backed loans, paid back by ten to thirty years of oil-supply contracts with a Chinese oil company.[58] This new source of finance for strategic infrastructure was welcomed by several countries, particularly those with few other lending options, such as Venezuela and Ecuador. Their broken ties with traditional Washington-based sources of finance made them turn to China as a reliable lender that does not attach macroeconomic conditionality to its loans. Some Chinese loans came with attractive side deals, but China's official lending often happened on less favourable terms, with higher interest rates, shorter maturities or less generous grace periods, and also without the debt rescheduling options of the Paris Club. LAC countries with continuing ties with the World Bank, Inter-American Development Bank or the International Monetary Fund were less pressed to borrow from China. Chinese banks took commercial and political risks by engaging with countries that other banks avoided, for which in the case of Venezuela they would pay a high price. Such negative lending experiences have now prompted Chinese policy banks to adopt a more cautious lending approach in LAC. Since 2019, China seems to have refused to act as 'a financial lifeline for the region's more fragile economies', particularly in a context of low commodity prices that renders commodity-backed lending less profitable or secure.[59]

**Table 4: Chinese loans to LAC governments and SOEs, selected countries, 2005–2021**

| Country | No. of loans | Volume in billion USD | % of total Chinese loans to LAC |
|---|---|---|---|
| Venezuela | 17 | 62.2 | 45.5 |
| Brazil | 12 | 29.7 | 21.7 |
| Ecuador | 15 | 18.4 | 13.5 |
| Argentina | 12 | 17.1 | 12.5 |
| Bolivia | 10 | 3.4 | 2.5 |
| Jamaica | 11 | 2.1 | 1.5 |
| Mexico | 1 | 1.0 | 0.7 |
| Peru | 1 | 0.05 | 0.04 |

[56] IBRD Gross Commitments by Region; IDA Commitment; IDB (Loans and Guarantees); CAF (Approvals to Sovereign Loans, Contingent Credit Lines and Financial Credit Lines).

Myers, M. and Gallagher, K.P. (2021), 'China–Latin America Commercial Loans Tracker', *The Dialogue*, Washington: Inter-American Dialogue.

[57] Dussel Peters, E. (2020), 'Monitor of Chinese Infrastructure in Latin America and the Caribbean 2020', Red ALC-China.

[58] Downs, E.S. (2011), *Inside China, Inc.: China Developments Bank's Cross-Border Energy Deals*, Washington: Brookings Institution Press.

[59] Myers, M. and Ray, R. (2021), *Shifting Gears: Chinese Finance in LAC, 2020*, China–Latin America Report, *The Dialogue*, Boston: Global Development Policy Center, Boston University, February, p. 1.

| | | | |
|---|---|---|---|
| Other | 20 | 2.85 | 2.1 |
| Total | 99 | 136.8 | 100 |

Source: Myers, M. and Gallagher, K.P. (2021), 'China–Latin America Commercial Loans Tracker', *The Dialogue*, Washington: Inter-American Dialogue.

There is some debate about the nature and lending conditions of Chinese loans. While there is little proof of Chinese lenders causing a debt trap, China is not a member of the Paris Club, meaning that Chinese banks do not participate in the Paris Club debt rescheduling of debtor countries. Another important point of criticism is the lack of openness about the nature and clauses of Chinese loans. 'Most Chinese lending contracts are signed on a government-to-government basis, which, in conjunction with the high levels of confidentiality of the contracts, can constrain the financial maneuverability of future administrations, generating tensions with Beijing in the process'.[60] For instance, when the Santa Cruz River hydroelectric project in Argentina was initiated under the presidency of Cristina Fernández de Kirchner (2007–2015), the Chinese included a cross-default clause, which made it difficult for Argentina's subsequent government led by Mauricio Macri (2015–2019) to terminate the project without jeopardizing Chinese funding for the important modernization project of the Belgrano–Cargas rail system. However, Chinese banks have also been willing to restructure debts in case of crisis, such as with Venezuela, Ecuador and Argentina during the COVID-19 pandemic. 'This pivot from large-scale lending to restructuring, paired with a pause in additional loans, lends weight to the hypothesis that China has not laid a "debt trap" [to Latin America and the Caribbean]', Margaret Myers and Rebecca Ray conclude.[61]

## 2.6 China in Latin America's energy transition

The stable provision of energy is a consistent problem in many Latin American countries. In their efforts to solve these problems and to meet international climate commitments, governments increasingly prioritize the transition to sustainable energy. The total growth of renewables from 2011–2020 was 53 per cent in South America. The region saw a spectacular growth of solar energy output during that decade, from only 65 megawatts to 12,768 megawatts. While 25 per cent of the region's primary energy demand is already met by renewables, hydropower still dominates the renewable energy sector (77 per cent in South America), and this brings challenges.[62] In Argentina, for example, sustained heat waves during summers produce dramatic power shortages and popular protest. Such climate change-related factors have led to problematic decreases in hydropower across the LAC region. In addition, the construction of hydroelectric dams has proven to impact negatively on local populations, biodiversity and even global warming.[63]

[60] D'Sola Alvarado, P. (2021), 'The Changing Phase of China's Lending Practices in Latin America and the Caribbean', Bogotá: *La Fundación Andrés Bello, Centro de Investigación Chino Latinoamericano*, 22 November.

[61] Myers, M. and Ray, R. (2022), 'What Role for China's Policy Banks in LAC?', China–Latin America Report, *The Dialogue*, Boston: Global Development Policy Center, Boston University, March.

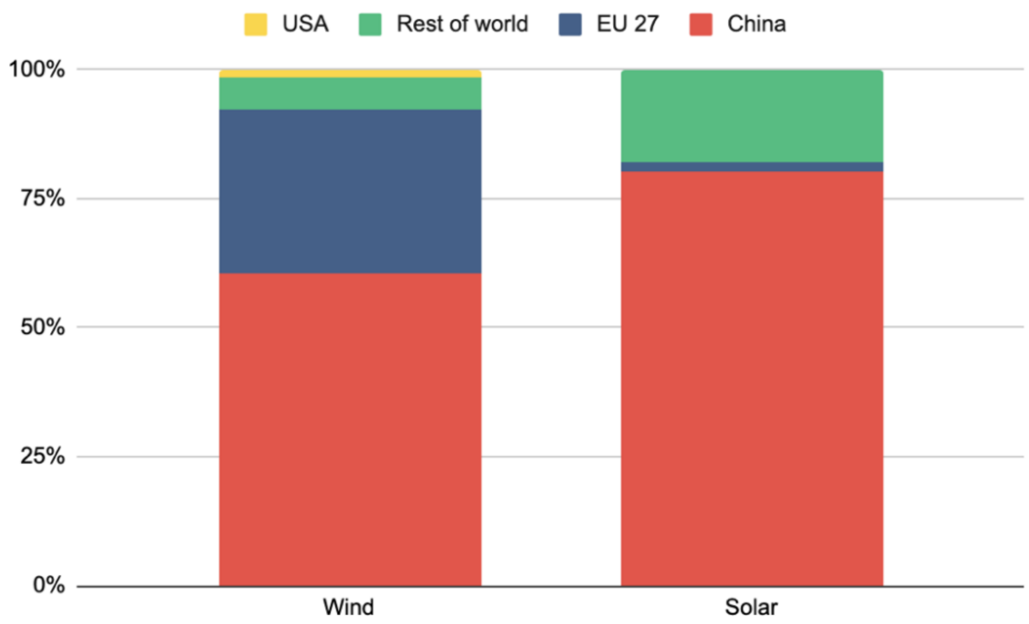
[62] IRENA (International Renewable Energy Agency) (2021), *Renewable Capacity Statistics 2021*, p. 22.

[63] Fearnside, P.M. (2016), 'Environmental and Social Impacts of Hydroelectric Dams in Brazilian Amazonia: Implications for the Aluminium Industry', *World* Development, 77, pp. 48–65.

Energy transition has become a field where Chinese companies are responding to Latin American governments' urgent search for solutions.[64] Given China's leading global role in solar and wind power, Chinese energy companies have an increasingly strong position in the LAC region, which shows in the sale of equipment, investments and loans – and their connections.

First, China is the region's major provider of renewable energy equipment. In the period of 2017–2021, the LAC region imported $2.6 billion of wind-power equipment, of which 61 per cent came from China (compared with 32 per cent from the EU and only 1 per cent from the US; see Figure 6). In the same time span, the region imported over $7 billion in solar power equipment, with 80 per cent coming from China.[65] China provides equipment at highly competitive prices, which is a challenge for European companies, but it helps Latin American countries to expand and develop their renewable energy capacity. Some Chinese companies have also started to manufacture equipment directly in the LAC region and Brazil is now the largest producer of Chinese sustained wind and solar energy in the world, outside of China.[66]

**Figure 6: LAC imports of wind and solar power sets from selected regions, 2017–2021**




Source: UN Comtrade, Windpower HS Code 850231, Photovoltaic equipment HS Code 854140; authors' elaboration.

Second, China's engagement in Latin America's energy sector and energy transition shows in investment. Between 2000 and 2019, Chinese investments in this sector amounted to 58.4 billion.[67] During these years, Chinese companies were heavily focused on fossil-fuel projects in the LAC region,

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[64] Koop, F. (2016), 'China's Impressive Stake in Latin America's Renewables', *China Dialogue*, 22 November.

[65] UN Comtrade, Windpower HS Code 850231, Photovoltaic Equipment HS Code 854140; authors' elaboration.

[66] Rebecca Ray during online 'China–Latin America Economic Update', Inter-American Dialogue, 12 April 2022.

[67] Singh, N. (2021), China destinó $58,4 mil millones para el sector energético latinoamericano en las últimas dos décadas, *Energía Estratégica*, 12 February.

which amounted to 83 per cent of the region's total, whereas hydropower and solar power amounted to a meagre 13 per cent and 2 per cent, respectively.[68] However, Rebecca Ray observes that Latin America has recently become one of the most important places for China's outbound investment in renewables – even if this remains outpaced by Chinese investments in fossil fuels.[69] Apart from China's interests and capabilities in the field, China's increasing dominance in the LAC region's energy sector is also because of the withdrawal of some Western companies in the wake of the global financial crisis of 2007–2008. In addition, the corruption scandal of Brazilian construction company Odebrecht, which involved many large-scale infrastructure projects and bribes to government officials and presidents in LAC countries (as well as Africa and the US), created room for manoeuvre by Chinese companies.[70] The longer investment horizon of China's 'patient capital' has been another relevant factor.

Third, after their initial focus on fossil-fuel energy projects, Chinese banks have also started to provide loans for renewable energy projects. Such loans usually come together with Chinese construction projects and provision of equipment. An interesting example is the contract for PowerChina's Cauchari solar plant in Jujuy province in northern Argentina, which began operating in 2020. Built by Shanghai Electric Power Construction (SEPC), with string inverters supplied by Huawei and solar panels supplied by the Chinese company Talesun,[71] this plant is part of Argentina's renewables promotion programme Renovar.[72] It consists of 1.2 million solar panels that provide 300 megawatts of power. This part of the project was supported by the Export-Import Bank of China, which financed 85 per cent of the project's $390 million total cost.[73] The ambition is to expand to 500 megawatts in 2022–2024, making it one of the largest solar plants in the world. The hope is that an elaborate participatory arrangement will prevent local resistance to the project. Argentina's government has agreed to provide the indigenous communities that own the land where Cauchari is located with 2 per cent of its annual profits (which could equate to $1 million per year). Community members also receive training and job opportunities.

This case of a Chinese energy project that is supposed to be more sensitive to local circumstances indicates a broader trend towards sustainable and inclusive development, both in Latin America and China. In Latin America, a binding regional environmental agreement went into force in April 2021 that will bolster efforts to protect the environment by state actors, but especially by non-state actors. The Escazú agreement aims at the 'full and effective implementation of the rights of access to environmental information, public participation and access to justice'.[74] The newly elected Chilean government of Gabriel Boric quickly announced that it would also ratify the agreement. This will certainly influence the ways in which Chile's emerging lithium industry is governed and thereby affect the Chinese companies that are active there. This Latin American development coincides with changes in China itself. The National Development and Reform Commission, one of China's top policy-making bodies, recently

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[68] Institute of the Americas (2021), *China Stakes Its Claim in Latin American Energy: What It Means for the Region, the US and Beijing*, 10 February.

[69] Rebecca Ray during online 'China–Latin America Economic Update', Inter-American Dialogue, 12 April 2022.

[70] Ibid.

[71] Koop, F. and Pike, L. (2019), 'China builds Latin America's largest solar plant', *China Dialogue*, 5 March.

[72] Gateway to South America (2020), 'China builds Latin America's largest solar plant in Argentina', *Real Estate and Investment News from South America*, 10 December.

[73] https://china.aiddata.org/projects/54783/.

[74] Koop, F. (2021), 'Historic Escazú Agreement enters into force', *China Dialogue*, 29 April.

published new guidance for the environmental behaviour of Chinese companies and even suggested launching a Green BRI. As well as new ideas on environmental protection, the rights of communities and protection of environmental organizations are mentioned.[75]

As the LAC region is rapidly expanding activities in the renewables sector, this requires large investments in infrastructure and equipment.[76] Here, European companies and states can also come in. A survey among Latin American elites by the German think tank KAS highlights the potential for trilateral cooperation between LAC, China and the EU in the field of renewable energy.[77] If European companies of renewable energy are not to lose more ground in LAC, their governments and the EU should provide support and incentives. The EU could also help to promote the ratification of the Escazú agreement by more LAC countries, such as Brazil, Colombia and Peru, and also commit itself to adhering to the agreement's rules.

## 2.7 Telecommunication, digitization and the Digital Silk Road

In the post-2015 shift in China's international economic ambitions, telecommunications and digital cooperation play a significant role. This was also part of a national digitizing strategy. China was a relative latecomer to digitization, but online platform giants Alibaba and Tencent have now become part of daily life for hundreds of millions of Chinese citizens. As Creemers stresses, the rapid adoption of digital possibilities such as mobile payments happened because the Chinese economy had been largely cash-based.[78] Similarly, Chinese telecommunications company Huawei developed mobile technology as a response to the deficiencies of China's telecommunications system. In its rapid development, Huawei became a world player, supplying more patents to the 5G standard than any other business.[79] Where Beijing tried to overcome China's reliance on foreign technology, Western governments became increasingly suspicious about the consequences of the extensive use of Chinese digital technology in their own countries, but also in the Global South, where the relatively cheap Chinese technology rapidly became dominant. This tension increased with the incorporation of digital technology in the projects of China's BRI. The aim of the Chinese government is to promote Chinese digital communications infrastructure and services globally. Its latest five-year plan, which was adopted in March 2021, focuses on technological development, self-sufficiency and security.[80] Simultaneously, Chinese technology companies are seeking new global markets and contributing to what some have labelled a 'Chinese digital empire in the making'.[81]

The Digital Silk Road (DSR) is a powerful marketing umbrella in Latin America. It builds upon an increase of Chinese digital investments from 2011 onwards, with Brazil capturing the majority of projects and

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[75] Rebecca Ray during online 'China–Latin America Economic Update', Inter-American Dialogue, 12 April 2022.

[76] International Energy Agency (2021), *Hydrogen in Latin America – Analysis.*

[77] Konrad Adenauer Stiftung (2019), *Geopolitics of Renewable Energies in Latin America: A Survey*.

[78] Creemers, R. (2021), 'China's Long and Winding Road in Global Cyberspace: Great Power Relationships or Common Destiny?', *SSRN*, 31 January, p. 26.

[79] Johnson, K. and Groll, E. (2019), 'The Improbable Rise of Huawei', *Foreign Policy*, 3 April.

[80] ECLAC (2021), *Foreign Direct Investment in Latin America and the Caribbean,* p. 109.

[81] Keane, M. and Yu, H. (2019), 'A Digital Empire in the Making: China's Outbound Digital Platforms', *International Journal of Communication*, 13, pp. 4624–4635.

total volume. For Latin America, the DSR may serve as a development opportunity, since the region needs large digital infrastructure investments. The LAC region is not only looking at China, but Chinese companies do hold a double advantage in the region: as well as their competitive prices (especially in the 5G sector), they know how to handle a situation of sub-optimal digital infrastructure, many people without bank accounts and low levels of broadband internet access. Around 200 million people, almost one-third of the LAC population, lack access to basic digital infrastructure. This digital gap has severe negative consequences for economic and social development.[82] For example, millions of students in the LAC region were heavily impacted by the closing of schools and universities during COVID lockdowns.[83] At the same time, the region became one of the world's fastest-growing e-commerce markets during the pandemic, with 52 million first-time online shoppers.[84]

Chinese technology companies have been eying these needs and opportunities, and they are important players in the region.[85] Huawei is by far the most active Chinese technology company in the region, with 19 projects worth $1.6 billion, representing 62 per cent of all Chinese technology investment. Starting with a $20 million project in Mexico City in 2000, recent Huawei projects include a $350 million investment in a research centre in São Paulo, Brazil, and $100 million for Latin America's first cloud storage project in Chile.[86] Huawei focuses on digital infrastructure (including 5G). This is also the case for other Chinese digital companies that are active in the region, although software companies such as Chinese transportation and delivery app DiDi are also spreading their operations (see Box 4). Overall, the database of the Latin America and the Caribbean Network on China (abbreviated to Red ALC-China) for Chinese investment projects in the region counted 50 projects in the telecommunications sector during the 2000–2019 period, totalling $2.4 billion and no fewer than 349,760 jobs (including indirect jobs supported by software such as DiDi). Brazil takes the main share (35 per cent) with fifteen Chinese projects totalling $914 million, followed by Mexico with ten projects and Colombia with eight projects (see Figure 7).[87] Chinese communication investments soared to almost $670 million in 2011 and 2014 because of a few big projects. These included Chinese telecommunications equipment manufacturer ZTE's $200 million creation of an industrial hub in Brazil (in Hortolândia in the state of São Paulo), a deal that was sealed during Brazilian President Dilma Rousseff's state visit to China in 2011. Although smaller in absolute terms, the Chinese investments in Nicaragua (including Xinwei's roll-out of 4G operations for $300 million) and Panama are quite substantial for these countries.

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[82] The LAC region has a young and mostly urban population, but only 66 per cent use internet (low compared to 87 per cent in high-income countries). During the pandemic, many mobile- and broadband internet connections were not resilient to the rapid increase of date usage and resulted in reduced velocity for companies and private users. The digital resilience in Latin American private households, measured in its ability to download apps, e.g. for education and health or to buy online, is 30.7 points, compared to an average of 53.78 in the OECD countries.

[83] CAF (2020), 'COVID-19: ¿Cuál es el estado de la digitalización de América Latina para la resiliencia social, económica y productiva?', Caracas: CAF (Development Bank of Latin America), 7 April.

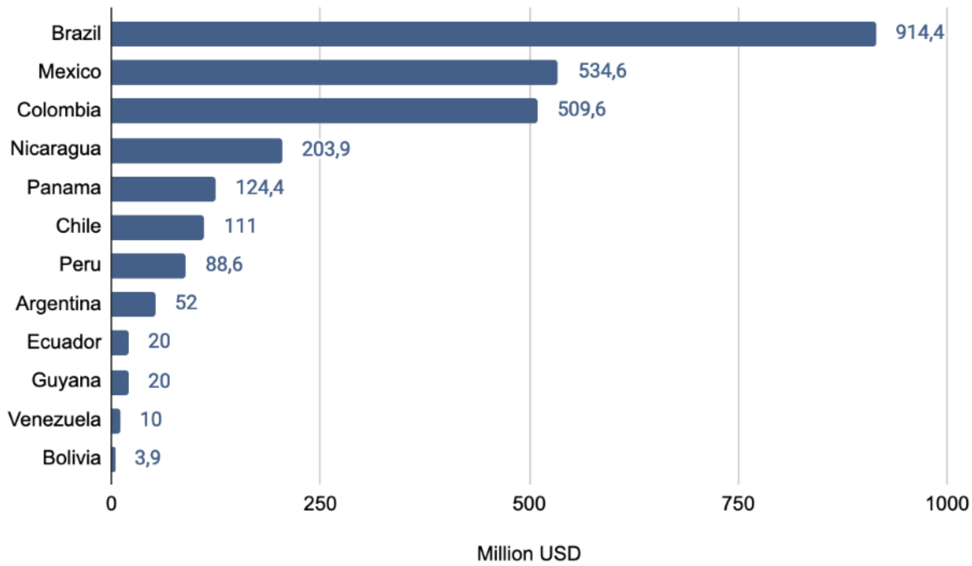
[84] Lima, A. and Ziolla Menezes, F. (2021), Fastest-growing Market, E-commerce in Latin America Hits USD 200 billion, *LABS News*, 25 December.

[85] Koop, F. (2020), 'Coronavirus reconfigura la Franja y la Ruta en América Latina', *Observatorio de Inversiones Latinoamericanas*, 30 July. For detailed information on Chinese FDI in digital sectors in LAC, see ECLAC (2021), Foreign Direct Investment in Latin America and the Caribbean, 2021.

[86] Cambero, F.A. (2019), Huawei prevé invertir 100 mln dlr en Chile para servicio regional de almacenamiento en nube, *Reuters*, 28 April.

[87] Monitor de la OFDI China en ALC.

**Figure 7: Chinese FDI in the communications sector, 2000–2019 (millions of USD)**




Source: Red ALC-China 2021; authors' elaboration.

The growing role of Chinese technology companies and surveillance technologies in Latin America is increasingly seen as a worrisome development, although the concerns seem to be larger externally than within Latin America itself. Huawei's role in Latin America's 5G infrastructure causes particularly serious concerns – mainly abroad, in the US.[88] Whereas the EU and European governments take measures to prevent Huawei from installing 5G networks, this has not happened to such an extent in the LAC region.[89] Globally, politicians and non-governmental organizations (NGOs) criticize China for 'exporting political illiberalism',[90] and Freedom House, a US government-funded NGO, warns about a spread of the 'Chinese model' that favours state control of the internet.[91] There is a fear that Chinese technology companies and surveillance technologies may enable Chinese authorities to spy on governments through critical infrastructure (such as the case of a Chinese construction project for the African Union). In Latin America, however, distrust of surveillance technology is not necessarily linked to China. Chinese technology is only slowly catching up with that of US and European companies.[92] And the LAC region's largest case of spying on civil society in recent years was the Mexican intelligence unit's use of the Israeli software Pegasus, with over 15,000 potential victims of surveillance.[93] Such a different assessment of risk could also be seen when Chile was planning an undersea fibre-optic cable

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[88] For detailed information on Chinese FDI in digital sectors in LAC, see ECLAC (2021), *Foreign Direct Investment in Latin America and the Caribbean*.

[89] See European Commission (2020), Cybersecurity of 5G Networks: EU Toolbox of Risk Mitigating Measures, 29 January; and Noyan, O. (2021), 'EU Countries Keep Different Approaches to Huawei on 5G Rollout', *EURACTIV.com*.

[90] Clayton, C. (2019), 'China's Digital Silk Road: Strategic Technological Competition and Exporting Political Illiberalism', *Issues & Insights*, 19:8, July.

[91] Shahbaz, A. (2018), *The Rise of Digital Authoritarianism*, Washington: Freedom House.

[92] Kaye, D. (2019), *La adquisición y el abuso de tecnologías de vigilancia en América Latina*, Asunción: TEDIC, 28 March.

[93] Santos Cid, A. (2021), 'El espionaje del 'caso Pegasus' en México se cobra su primer detenido', *El País México*, 9 November.

connecting Latin America with mainland China. The plan caused such strong opposition from the US that the project was eventually cancelled.

Another kind of risk related to Chinese digital projects concerns the possibility of local governments using the new technologies to spy on or suppress their own citizens. This critique is more often heard in the LAC region and refers to digital surveillance technology, in particular Huawei's safe-city systems. These systems encompass sophisticated facial recognition, communications technology and command centres, and can be found in Latin American cities such as Quito (Ecuador), Salta (Argentina), Chaco (Argentina) and Cochabamba (Bolivia). Ecuador's emergency system ECU911, which has been installed by Chinese companies since 2011, illustrates the ambiguous nature of such technologies. The system uses 4,300 surveillance cameras, artificial intelligence, drones, night vision, facial recognition and more to cut crime and respond to natural disasters. However, Ecuadorian NGOs have accused the system of spying on them and using the technology to repress their activities,[94] and during the 2019 large-scale anti-austerity protests in Ecuador, many ECU911 cameras were destroyed by the protesters.

### Box 4: DiDi's mobility app spreading its wings in Mexico and LAC

The recent increase in Chinese investments in Mexico's digital sector may only be the start of something big. Mexico has a strong digital industry that is supported by Chinese digital technology. Especially since the COVID-19 pandemic began, Mexico's digital economy has boomed and e-commerce has grown by double digits. The Chinese platform economy is strong and relatively cheap, and companies like Alibaba, Huawei, Tencent and TikTok play an increasingly important role in Latin America. On both sides, this development raises expectations of a digital future, as shown in the sector's prominence in the China–CELAC Action Plan for 2022–2024.

Chinese transportation and delivery app DiDi offers services such as taxi transportation, ride-sharing, food delivery and financial services, including mobile payments. With operations in ten countries in the LAC region,[95] in 2020 the DiDi app counted approximately 20 million LAC users,[96] which is over 50 per cent of the region's ride-share market.[97] The application is popular because of its safety measures for both drivers and clients, providing live sharing of location to five contacts, and female drivers for female clients. In Mexico, the application is used in more than 50 cities. During the pandemic, the platform has increased its food delivery service, as well as DiDi Vacúnate, a service for transport to vaccinations, and DiDi Hero, a campaign for discounted transportation for medical personnel.

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[94] Mozur, P., Kessel, J.M. and Chan, M. (2019), 'Made in China, Exported to the World: The Surveillance State', *The New York Times*, 24 April.

[95] Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama and Peru.

[96] CEPAL (2020), *Foreign Direct Investment in Latin America and the Caribbean 2020*, Economic Commission for Latin America and the Caribbean (ECLAC).

[97] Ellis, E. (2021), 'DiDi and the Risks of Expanding Chinese E-Commerce in Latin America', *The Global Americans*, 2 September.

DiDi's investment in Latin America differs significantly from other Chinese projects, both in positive and negative terms. On the positive side, its ratio for the creation of jobs per invested amount of money is much higher than, for example, in capital-intensive mining projects. In the period leading up to 2020, DiDi was regionally responsible for 162,600 jobs, especially in Mexico and Colombia, which amounts to almost one-third of all jobs generated through Chinese FDI in LAC.[98] However, as other international companies in the platform economy, DiDi has been criticised for the precarious employment conditions of its drivers and delivery workers.[99] On a more negative side, there are potential intelligence risks associated with DiDi's link to 'smart cities' initiatives in Mexico and its access to collected client information (financial and other). Interestingly, DiDi was banned in 2021 from Chinese app stores by China's Administration of Cyberspace, which accused the private company of abusing user data. However, the fact that China's new Data Security Law ensures 'that such data would be under the control of trusted agents of the Chinese state, rather than of private technology firms',[100] has raised serious concerns and debate in Mexico.[101]

## 2.8 China's military and security presence and other threats

Military cooperation is certainly not the main field of China's engagement with Latin America. A specialist in the field like Evan Ellis concludes that 'Chinese military engagement is neither the most significant aspect of its activities, nor the core of its strategic concept for engagement'.[102] The PRC has also not openly challenged US military hegemony in the LAC region. Nevertheless, potential geopolitical ramifications of China's military relations in the region are closely watched, both by Latin American governments and outside forces like the US and the EU. As military cooperation is generally shrouded in secrecy, outside observers have little concrete evidence of military cooperation between China and LAC. However, let us briefly review Chinese military cooperation in the LAC region in three areas: the sale of Chinese military assets and technology; direct bilateral cooperation in military training; and security cooperation in areas that are vulnerable to violence or organized crime.

China-based companies of military equipment started to sell relatively low-sophistication goods to LAC in the late twentieth century. This accelerated in the early 2000s, when China started to provision Hugo Chávez's Venezuela with military equipment and airplanes, which it could not buy in the US because of the economic blockade. These sales of modern equipment also replaced some of the older Venezuelan equipment bought from Russia. At the same time, China started to sell military equipment to other countries of the so-called 'pink tide', Bolivia, Ecuador and Argentina, while Peru bought

[98] To be precise, 29 per cent, especially in Bogotá and Mexico City; Dussel Peters, E. (2021), 'Monitor de la OFDI china en América'.

[99] Hernandez, G. (2021), 'México se encamina a regular la relación laboral en las plataformas digitales', *El Economista*, 18 October.

[100] Ellis (2021), 'DiDi and the Risks of Expanding Chinese E-Commerce in Latin America'.

[101] Arrealoa, F. (2021), 'Un DiDi nos vigila. ¿No le parece escandaloso a AMLO?', *Plaza de Armas*, 9 July.

[102] Ellis, R.E. (2022), *China Engages Latin America: Distorting Development and Democracy?*, Basingstoke: Palgrave Macmillan, chapter 8 on 'Military Engagement and its Role', pp. 227–242, quote on p. 227.

helicopters and trucks from China. At present, of the democratic LAC countries, only Argentina has continued to make extensive military acquisitions from the PRC, the most important being the intended purchase of Chinese JF-17 fighter jets (see below). Overall, the share of Chinese sales of military equipment to the LAC region remains very low compared to the US, EU and Russia (see Table 5). Between 2007 and 2021, LAC's $2.3 billion worth of imported tanks and other armoured vehicles mainly came from the US and the EU-27, 41.2 per cent and 37.5 per cent respectively, while China and Russia only accounted for 1.4 per cent and 0.6 per cent. During the same period, LAC imports of military weapons, in total $4.7 billion worth, came mainly from the US and from Russia, 40.1 per cent and 39.7 per cent, respectively. Another 5.2 per cent was from the EU-27, whereas China was statistically irrelevant here.[103] This dominance by the US and Russia and the minor relevance of China also shows for data from the Stockholm International Peace Research Institute (SIPRI) for 2000–2021 on major weapons' transfers. The only Chinese arms sales were to Mexico in 2006 ($14 million) and several sales to Venezuela between 2005 and 2016, including air radar, anti-tank missiles, light tanks and combat aircrafts.[104] However, it is possible that with Russia's current war efforts, China could partially replace Russia's position in the LAC region's military architecture.

**Table 5: LAC imports of selected weapons, 2007–2021 (millions of USD)**

| | Tanks and other armoured vehicles | | Military weapons | |
|---|---|---|---|---|
| Country / Region | Millions of USD | Percentage | Millions of USD | Percentage |
| US | 960.1 | 41.2 | 1,868.8 | 40.0 |
| EU-27 | 875.6 | 37.5 | 241.3 | 5.2 |
| Rest of World | 449.2 | 19.3 | 703.9 | 15.1 |
| China | 33.0 | 1.4 | 1.2 | 0.0 |
| Russian Federation | 15.1 | 0.6 | 1,850.8 | 39.7 |

Source: UN Comtrade, SITC 4, Code 8911 (Armoured fighting vehicles and arms) and Code 89112 (Military weapons other than revolvers); authors' elaboration.[105]

In the wake of its limited military sales, military exchanges and cooperation in training have somewhat increased in the LAC region. These include the visits of Chinese military ships to Latin American ports, institutional visits by Chinese People's Liberation Army (PLA) military officers and training activities. While some US-based commentators warn about this development,[106] these activities are still rather limited and usually accompanied by academic exchange and a deepening of the all-round bilateral

[103] These data are not completely trustworthy because of confidentiality rules for transactions and a difficulty in separating military and civilian use of ships and aircrafts; see Finardi, S. and Danssaert, P. (2012), *Transparency and Accountability Monitoring and Reporting Methods Under An Arms Trade Treaty*, Chicago: TransArms Research and Antwerp: International Peace Information Service.

[104] SIPRI (2022), Transfers of Major Weapons: Deals with Deliveries or Orders Made for 2000 to 2021, Stockholm: Stockholm International Peace Research Institute.

[105] Russian Federation data only available for 2007–2017 (Code 8911) and 2011–2013 (Code 89112).

[106] For instance, Lazarus, L. and Berg, R.C. (2022), 'Washington Must Respond to China's Growing Military Presence in Latin America', *Foreign* Policy, 14 March.

relationship. As such, they could be considered more as an extension of China's soft power, rather than concrete military engagement. Margaret Myers suggests that China's increasing engagement with Latin American militaries 'should be understood within the context of a much larger and even more expansive public diplomacy initiative'.[107]

Although not military in nature, the space station in the Argentine province of Neuquén may be the most significant Chinese presence in the LAC region. This controversial project was agreed upon during the government of Cristina Fernández de Kirchner and granted the Chinese a 50-year concession to a deep-space base. This space station, exclusively run by Chinese military personnel, is officially ceded for scientific use only, but some fear that it could be used for Chinese military operations. These suspicions are connected to the fact that Argentina has close cooperation with the Chinese military. Argentine military and other defence personnel travel to the PRC on a regular basis for military courses and institutional visits, while Argentina's National Defence University has created a 'strategic cooperation program' with China.[108] In 2021, conversations started about the possibility of selling Sino-Pakistan JF-17 fighter jets to Argentina, which would be the most advanced Chinese fighter jet in the region.[109] At this moment, the Argentine military seems to have some points of concern, especially its dependence on Russian engines (complicating the reliability of maintenance and replacement), although the JF-17s' relatively low cost is attractive.[110]

A third form of cooperation is in the field of security and law enforcement. This has always been an important element of Latin American military doctrine. Cooperation on these issues became even stronger after 9/11, when the US-led Global War on Terror connected to the LAC tradition of counter-insurgency into what Müller has called a 'crime–terror–insurgency' nexus.[111] In the 2019–2021 China–CELAC cooperation plan, the PRC expressed its wish to collaborate in the fight against crime and corruption, particularly with respect to Chinese criminal groups operating across the Pacific. The 2022–2024 China–CELAC action plans, the organization of a China–Latin America Superior Defence Forum, as well as the joint implementation of the UN Security Council's Resolution 1373 on counter-terrorism are pertinent here.[112] An interesting form of cooperation can be seen in Colombia. Despite its close alignment with the US, Colombia received significant donations of Chinese military equipment in 2013 and 2014. With the increase of Chinese mining activities in Colombia, this cooperation also included support for fighting crime.

There are no signs that China is in any way helping the expansion of transnational organized crime or other armed actors in the region. Evidently, with the expansion of trade and investments, illegal transnational economic interactions also occur, but Beijing seeks to halt such criminal and illicit activities. For instance, while China is an important source of fentanyl ingredients (mainly sent by

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[107] Myers, M. (2022), 'Why is China Bolstering Military Ties in the Region?, *Latin America Advisor*, 28 March.

[108] Ellis, E. (2021), 'New Directions in the Deepening Chinese–Argentine Engagement'.

[109] Horta, L. (2021), 'Why China Wants to Power Argentina's Air Force Modernization', *East Asia Forum*, 10 July.

[110] Ellis, E. (2021), 'New Directions in the Deepening Chinese–Argentine Engagement'; see also https://www.defensenews.com/air/2022/06/24/having-visited-pakistan-and-china-is-argentina-ready-to-buy-the-jf-17-jet/.

[111] Müller, M.M. (2020), 'Enter 9/11: Latin America and the Global War on Terror', *Journal of Latin American Studies,* 52:3, pp. 543–573.

[112] Ministry of Foreign Affairs of the PRC (2021), China–CELAC Joint Action Plan for Cooperation in Key Areas (2022–2024), 7 December.

international mail), China recently placed restrictions on the export of such chemicals in order to curb Mexican transnational criminal organizations, which process it for the US market.[113] Moreover, local problems with illegal activity and insecurity are also troubling Chinese companies (such as Zijin and its Buriticá gold mine in Colombia), just as much as other foreign companies.

Finally, some observers ask themselves to what extent China has broader ambitions in the field of security and connectivity. They suggest that Chinese investments in ports, railways, hydroelectric dams and power grids, etc., reflect a longer-term ambition to acquire (better) control of the region and to pursue geopolitical ambitions. Although certainly important, these suggestions are difficult to verify. Compared to other regions, such as Europe or Africa, Chinese investments in Latin America's infrastructure and connectivity are still relatively modest. In addition, they are widely scattered throughout the region and at this time do not seem to follow a clear (geopolitical) pattern, except perhaps for Panama, where obviously China has clear economic interests.

## 2.9 Chinese soft power: COVID diplomacy and Confucius Institutes

China's influence in Latin America received an unexpected boost during the COVID-19 pandemic. Latin American societies were severely affected by the pandemic, leading to emergency situations in countries like Brazil, Ecuador and Peru in 2020. When Western countries were slow to react to the requests for help from Latin American governments, China reacted quickly.[114] First, China offered medical supplies and later it provided Chinese vaccines and support in setting up plants for producing them in the LAC region. Of the 1.5 billion Chinese vaccines sold worldwide in 2021, approximately 390 million have gone to LAC countries.[115] During the first four months of the pandemic, LAC countries received a total of $128 million worth of supplies as medical gifts. It is important to mention that these provisions did not come exclusively from the Chinese central state. Margaret Myers observes that Chinese COVID-19 diplomacy can best be characterized as a 'semi-coordinated' effort involving various Chinese actors.[116] As well as gifts from China's corporate sector, many Chinese provinces used (and strengthened) their sub-national links by providing support to their Latin American counterparts, and the city of Shanghai offered donations to its LAC sister cities. Later, the charitable foundation of Jack Ma, former executive chairman of Alibaba, became an important donor with gifts worth $15 million.[117]

Chinese diplomats were quick to jump on the political and diplomatic opportunities provided by this support. Most of the gifts were publicly delivered in the presence of Chinese ambassadors, often obscuring the varied origins of the donations. The 'mask diplomacy', as it was often called, generated

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[113] US Drug Enforcement Agency (2020), Fentanyl Flow to the United States, January.

[114] Sanborn, C.A. (2020), *Latin America and China in Times of COVID-19*, Washington: Wilson Center, October; and Myers (2021), 'China's COVID-19 Diplomacy in Latin America and the Caribbean'.

[115] D'Sola Alvarado, P. (2021), 'China aprovecha al máximo el contexto de la pandemia en Latinoamérica y el Caribe', Bogotá: *La Fundación Andrés Bello, Centro de Investigación Chino Latinoamericano*, 7 December.

[116] Myers (2021), 'China's COVID-19 Diplomacy in Latin America and the Caribbean', p. 16.

[117] Urdinez, F. (2021), 'La diplomacia china de "mascarillas y vacunas" hacia América Latina durante la pandemia de COVID-19', in: Jorge Sahd (ed.), *China y América Latina: claves hacia el futuro*, Santiago de Chile: CEIUC and KAS, 2021, pp. 46–49.

goodwill in the LAC region, even though the sales of equipment and vaccines largely outweighed the donations. Latin Americans noted the Chinese support during a period of an acute health crisis, while the US administration of Donald Trump was still denying its calamitous nature and was unprepared to offer a helping hand.[118] On the other hand, Latin American media are still principally fed by US news agencies and the fact that the virus originated in China counterbalanced somewhat the goodwill of Chinese masks and vaccines.[119] In this sense, COVID-19 did not fundamentally change the ambiguity in Latin America about the presence of China as a counterweight to the US, as there remains an adherence to 'Western culture' and distrust towards the expansion of China.[120]

A next stage in the COVID-19 diplomacy began when different pharmaceutical companies succeeded in making vaccines that were approved by the World Health Organization (WHO) in early 2021. Simultaneous with different Western companies, the Chinese state company Sinopharm developed a vaccine that was approved by the WHO on 7 May 2021 as the first non-Western vaccine. It was sold in large quantities to Latin American countries, which did not have access to the Western brands. Sinovac, a private Chinese company (listed at the NASDAQ stock exchange in New York), produced a vaccine that was massively sold to LAC countries, in particular to Chile. An agreement between the *Universidad Católica de Chile* and Sinovac guaranteed Chile a supply of 20 million doses at a discounted price. This helped Chile become a success story in combatting the pandemic, and was the start of negotiations for a large medical plant to be opened in Chile by the end of 2022.[121] Through similar agreements with other countries, the Chinese vaccines quickly became the most used (60 per cent) in the region in this first vaccination wave.[122] Some countries, like Venezuela and the Dominican Republic, received most of the vaccines as a gift. The One China policy clearly played a role in the vaccine diplomacy. The Dominican Republic received 11 million doses as a result of the country's shift of allegiance from Taiwan to the PRC in 2018. This meant that 90 per cent of all the vaccines administered in the Dominican Republic at the time came from China. The opposite is showcased by the case of Paraguay, which still recognizes Taiwan. In April 2020, the opposition left-wing bloc in the Paraguayan Senate introduced a bill to open relations with Beijing, which would inevitably mean ending recognition of Taiwan. This proposal was, however, voted down in the Paraguayan Senate (controlled by the Colorado Party) and, as a result, Paraguay did not get any Chinese COVID-19 support.

After this first wave, the vaccine diplomacy started to change. The new Biden administration in the US was aware of the risk of leaving the solution of the pandemic in Latin America to China. From June 2021, it therefore started a massive programme of shipping US vaccines to the LAC region. Of the 80 million doses promised to countries outside the US, a large part went to Latin America. After lagging behind both Russia and China for months in early vaccine exports to the region, this signalled a dramatic shift in vaccine diplomacy towards Latin America.[123] The disruptions of the pandemic also had taken a

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[118] D'Sola Alvarado (2021), 'China aprovecha al máximo el contexto de la pandemia en Latinoamérica y el Caribe'.

[119] Urdinez (2021), 'La diplomacia china de "mascarillas y vacunas" hacia América Latina durante la pandemia de COVID-19', pp. 58–63.

[120] Morgenstern and Bohigues (2021), 'Battling for the Hearts and Minds of Latin Americans', pp. 280–299.

[121] See, for instance, 'Where will Sinovac Install its Vaccine Megaplant in Chile?', *InvestChile Blog*, 27 January 2022.

[122] Urdinez (2021), 'La diplomacia china de 'mascarillas y vacunas' hacia América Latina durante la pandemia de COVID-19', p. 55.

[123] Gramer, R. (2021), 'US Blunts China's Vaccine Diplomacy in Latin America: The Biden Administration Ships Millions of Vaccines to the Region as its Public Health Crisis Worsens', *Foreign Policy*, 9 July.

toll on China's infrastructure and investment programme in LAC, with fewer new Chinese loans and infrastructure projects. Nevertheless, the quick Chinese reaction to the pandemic strengthened China's presence in the region, increased its visibility, and created space for new trade opportunities and economic investments. On the other hand, the assertive rhetoric that accompanied the medical diplomacy and lingering doubts about the effectiveness of the Chinese vaccines may, in time, nullify this diplomatic success.[124]

Prior to the pandemic, Beijing had already worked for several decades on giving shape to its soft power in the LAC region. While Chinese activities in Latin America have typically taken the form of diplomatic representation, state visits, trade arrangements, direct investment and infrastructure projects, China has also attempted to employ cultural soft-power techniques to create a more pervasive system of influence. Soft power can be defined as the efforts to shape preferences of other states and societies primarily through the use of culture, language and ideology. Until now, soft power in Latin America has mainly been the domain of the US – and to a lesser extent European countries – whose cultural and media hegemony has been uncontested over the past two centuries, albeit certainly not uncontroversial. As a latecomer to modern globalization, China must overcome a backlog in global cultural presence, which seems to move slower than its economic catching up. Since 2004, Confucius Institutes (CIs) have been playing an important role in the Chinese soft-power efforts. Of the more than 500 institutes worldwide, 44 are based in the LAC region. Financed by the Chinese Ministry of Education, also known as *Hanban*, these institutes for language and cultural development are established on the campuses of partner universities. This contrasts with most Western cultural institutions, which are normally established as separate centres and programmes (for example, the *Alliance Française* or the Fulbright Program). As well as the traditional language and cultural programmes, the CIs can directly engage with people working in the private sector. For example, the Confucius Institute at the Pontifical Catholic University of Rio de Janeiro offers business classes for employees of Chinese companies in Rio and Brazilian companies that work with China, in keeping with the companies' needs.

While hosting a Confucius Institute is attractive to resource-scarce universities that would normally not be able to afford the activities that they bring, the CIs are often seen as (potential) propaganda tools. This apprehension stems from the official sponsorship by the Chinese state and its ties to the Chinese Communist Party's (CCP) United Front Work Department, which seeks to 'quell dissent within China through clamping down on political ideals and social philosophies that might threaten CCP control and international efforts to improve China's public image'.[125] A more academic concern may be that CIs' presence in universities can compromise the intellectual and academic integrity of these organizations. The CIs control their own curriculum and the recruiting, hiring and training of their academic staff, without input from the local host universities.[126] In addition, Latin American researchers who work at a university with a Confucius Institute and study local problems around large-scale extractive and infrastructure projects feel that they have to act and express themselves more carefully than before

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[124] Myers (2021), 'China's COVID-19 Diplomacy in Latin America and the Caribbean', pp 16–17.

[125] Hubbert, J. (2019), *China in the World: An Anthropology of Confucius Institutes, Soft Power, and Globalization*, Honolulu: University of Hawaii Press, p. 12.

[126] Pratik, J. (2019), 'Confucius Institutes: The Growth of China's Controversial Cultural Branch', *BBC Monitoring*, 7 September.

when studying Chinese projects, because of their university board's interest in maintaining good relations with the CI and *Hanban*.[127] Among US and European countries there is a recent trend to close Confucius Institutes as a result of government policies (for example, in the US and Sweden) or university decisions (as with Leiden University in the Netherlands and the Free University of Brussels), based on concerns about CIs' limitations to academic freedom, political propaganda or even espionage,[128] or concerns over human rights' violations in China. However, this trend is currently not mirrored in Latin America.

A recent study by Jake Gilstrap finds that 72 per cent of the CIs in the LAC region were founded during a left-leaning presidency, which could indicate that the political climate plays a role in their establishment.[129] This link, however, should not be overstated, since the creation of CIs in Latin America since 2006 coincided with the region's so-called 'pink tide', and there are also several CIs in Colombia, which did not have leftist governments at the time. It appears that these institutes are generally conducive in developing closer cultural and political relations between China and the host countries and help to facilitate economic linkages between them. According to Jake Gilstrap, we should not look at the CIs as simple tools of Chinese state interference. China's primary motivation for establishing CIs across the world is not centred on immediate gain, but instead is part of the Chinese state's broader, forward-looking strategy. Not unlike similar Western institutions and programmes, China seeks to educate, through its CI project, a generation of future political and business leaders that will support its ascent and serve as its diplomatic allies in the international order. Finally, the CIs' activities could also serve to overcome a key challenge in Sino-Latin American economic cooperation that Claudia Labarca identifies: the perception of cultural distance in person-to-person interactions.[130]

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[127] These concerns were raised by Latin American scholars in confidential conversations.

[128] Galindo, G. (2019), 'Brussels University to Close Chinese-funded Institute after Espionage Accusation', *The Brussels Times*, 12 December.

[129] Gilstrap, J. (2021), 'Chinese Confucius Institutes in Latin America: Tools of Soft Power', Perry Center Occasional Paper, Washington: Perry Center, National Defense University, October.

[130] Labarca, C. (2021), 'Aspectos culturales de las relaciones económicas entre China y Chile: Una mirada desde los actores', in: Jorge Sahd (ed.), *China y América Latina: claves hacia el futuro*, Santiago de Chile: CEIUC, 2021, pp. 128–150.

# 3 CHINESE ENGAGEMENT AT THE LEVEL OF THE NATION-STATE

As already noted above, the relations between China and Latin America primarily have a bilateral and economic character. The following overview of several countries shows that there are important differences in their economic and political relations with China. We start with the two largest economies – Brazil and Mexico – followed by a selection of countries that illustrate the diversity in bilateral relations: Venezuela; Colombia; Ecuador; and Peru. Relevant indicators are the specific content of the economic relations (primary resources, infrastructure and loans, etc.), the nature of the political relations with China (more or less 'equal') and the consequences of Chinese involvement in each society.

## 3.1 Brazil and China: Collaboration between superpowers

Compared to other Latin American countries, China–Brazil relations were established relatively early. These relations have been marked by strong multilateral ambitions and an interest in science and technology collaboration from both countries. In 1993, Brazil was the first country in the world with which China established a strategic partnership, building on the rapprochement and collaborations of previous years. Following the end of the Cold War context, both Brazil and China strived for a multipolar world and recognition of the needs and rights of the Global South in the global economy and multilateral system. The two countries had relative success in combining state-led industrialization while opening up their economies. They had a mutual interest in high-tech collaborations, such as their early cooperation in satellites and airplane production.

Under Brazil's President Lula da Silva (2003–2010), Brazil and China not only deepened their bilateral ties, but they also partnered in global initiatives to alter the multilateral institutional framework and global balance of powers. Lula's presidency belonged to the so-called 'pink tide', the statist, progressive and sometimes populist wave that was sweeping through South America at the time, and in which the rapprochement to China played an important role. In the World Trade Organization, Brazil and China joined forces to launch a G-20 group of developing nations that would effectively halt the Doha Round liberalization agenda. Lula was an important force behind the collaboration of the BRICS countries (Brazil, Russia, India, China and South Africa), which was a vehicle to counter the political and economic hegemony of Western countries and foster stronger South–South relations. Brazil's economic relations with China flourished during the administrations of both Lula and his successor, Dilma Rousseff (2011–2016).

Business continued as usual under the presidency of market-oriented Michel Temer (2016–18), but Brazilian–Chinese relations became more complicated with the presidency of Jair Bolsonaro in 2019. During his presidential campaign, Bolsonaro promised a pro-US foreign policy and claimed that China was not only 'buying in Brazil – it is buying Brazil'.[131] Widely seen as a provocation, Bolsonaro also visited Taiwan during his campaign. He and his team were influenced by fiercely anti-China ideologues like Olavo de Carvalho, who have contested trends of 'globalism' and 'cultural Marxism', which they see reflected in China but also the EU and the UN.[132] His first Minister of Foreign Relations, Ernesto Araújo, proclaimed, for instance, that 'Brazil would not sell its soul' to export iron ore and soy to China.[133] Meanwhile, several Brazilian provincial governors tried to maintain direct relations with China outside the influence of Brazil's national government, especially for the provision of medical equipment and research cooperation for vaccines. Julio Serson, São Paulo state's Secretary for International Relations, observed: 'The Chinese authorities respect and understand that there is a different line in the São Paulo state government than the one adopted by the federal government'.[134]

Yet soon after entering office, Bolsonaro seemed to warm up somewhat to China and many of the Sino-Brazilian connections continued and even expanded. Bolsonaro visited China's President Xi Jinping in Beijing in 2019, a few months after his vice-president, Hamilton Muraõ, had travelled there to attend the fifth meeting of the Sino-Brazilian High-Level Commission of Agreement and Cooperation (COSBAN, created in 2004). In 2019, the COSBAN discussed a ten-year plan to diversify and increase the value of Brazil's exports to China, and to settle a dispute over Chinese alleged restrictions of Brazilian sugar imports.[135] Bolsonaro also attended the annual BRICS meetings, albeit with less Global South activism than before. Meanwhile, Brazil's Foreign Affairs Minister Ernesto Araújo had to resign in 2021 because many Brazilian senators felt that his anti-China views 'hurt access to COVID-19 vaccines'.[136] Interestingly, Bolsonaro's government did not exclude Huawei from public bidding for the Brazilian 5G network, as had happened in many countries worldwide. Tulio Cariello of the Brazilian–Chinese Business Council explains this course of events as 'pragmatism against the rhetoric'.[137]

Economic relations between Brazil and China have shown steady expansion in recent decades and seem hardly affected by the political changes. Since 2009, China has been Brazil's most important trading partner, with a positive trade balance for Brazil. During the 2010s decade, Brazilian exports to China doubled in value. In 2020, no less than 33 per cent (worth $68 billion) of Brazil's exports flowed to China, while the US made up for only 10 per cent. The top three products exported to China are soy (37 per cent – mainly to feed Chinese livestock), followed by iron ore (29 per cent) and crude oil (17 per cent). In 2012, Brazil overtook the US's leading position as the largest soy exporter to China.

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[131] Senra, R. (2019), 'Um ano após reclamar que China "compraria o Brasil", Bolsonaro quer vender estatais e commodities em visita a Xi Jinping', *BBC News Brasil*, 23 October.

[132] Stefanoni, P. (2019), 'El teórico de la conspiración detrás de Bolsonaro Olavo de Carvalho y la extrema derecha en Brasil', *Nueva Sociedad*.

[133] *Folha de S.Paulo* (2019), 'A novos diplomatas, Araújo diz que país "não venderá alma" para exportar minério de ferro e soja', *Folha de S.Paulo*, 11 March.

[134] Lang, M. (2020), 'Brazil's State Governors Open their Own Channels with China', *Diálogo Chino*, 13 August.

[135] EFE (2019), 'China, Brazil Agree to Boost Trade, Cooperation', News Release, *Agencia EFE*, 23 May.

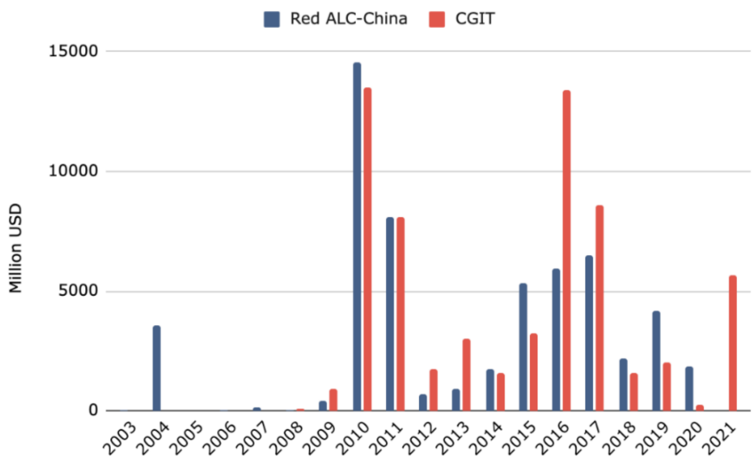
[136] Boadle, A. (2021), 'Brazil Senators Say Anti-China Views Hurt Access to COVID-19 Vaccines', *Reuters*, 18 May.

[137] Cariello, T. (2020), 'Investimentos Chineses no Brasil – Histórico, Tendências e Desafios Globais (2007–2020)', *Conselho Empresarial Brasil-China* (CEBC).

Meanwhile, Brazil imported $37 billion worth of Chinese products in 2020, including manufactured goods, telecommunications and offshore (oil) equipment.[138]

Chinese investments in Brazil are also substantial, and they have been increasingly directed at the non-commodity sectors. While indirect investments via third countries easily blur the picture, China is Brazil's third-largest foreign investor and around 45 per cent of all Chinese foreign direct investment in LAC has flown into Brazil (see Table 3). Early on, a few massive investments were made by Chinese oil company Sinopec, including the $7.1 billion acquisition of 40 per cent of Repsol's assets in 2010.[139] China National Petroleum Company (CNPC) and China National Offshore Oil Corporation (CNOOC) made their first large investments in 2013, when they joined a global consortium to start oil extraction from Brazil's largest oil field, Libra. This deep-sea project requires new technologies and major investments. The Chinese companies each paid $700 million for a 10 per cent share, while Shell and Total each bought 20 per cent and Brazil's state-owned oil company Petrobras holds 40 per cent. This case shows that state-owned Chinese companies can be interested in minority stakes, especially in strategic projects where they can team up and learn from more experienced global companies.[140]

**Figure 8: Chinese FDI in Brazil, 2003–2020 (millions of USD)**




Source: Red ALC-China 2021; China Global Investment Tracker (CGIT) 2021; authors' elaboration.

Overall, Chinese investments have focused on the electricity sector (48 per cent), oil sector (28 per cent) and mining (7 per cent) during the period 2007–2020.[141] In addition, Huawei started a project with Brazil's postal services in 2014, and recently there have been several Chinese industrial investments, such as a Chery car factory. Chinese electric-car company BYD invested $195 million from 2014–2016 in a large plant to produce electric vehicles, solar panels and batteries, which has serviced public

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[138] China Briefing (2021) '[Bilateral Trade Between Brazil and China]', *China Briefing News*.

[139] *El Economista* (2016), '[Las 10 mayores fusiones y adquisiciones chinas en el extranjero]', *El Economista*, Business Section, 3 February.

[140] Khaitan (2014).

[141] Cariello, T. (2021), '[Chinese investments in Brazil have grown rapidly and are long-lasting]', *Diálogo China*, 6 September.

transport in São Paolo and exported to Colombia and Chile.[142] When the impact of the COVID-19 pandemic became clear, Brazilian authorities agreed to Sinopharm building a vaccine factory to provide vaccines for the local Brazilian market. Similar cooperation occurred between the Chinese laboratory Sinovac and the Butantan Institute, which developed a Brazilian vaccine.

After Venezuela, Brazil is the second-largest Latin American recipient of Chinese loans. The China Development Bank and Import-Export Bank of China account for $30 billion of the loans, while the remaining $8 billion come from Chinese commercial banks, such as the Industrial and Commercial Bank of China (ICBC), Bank of China and China Construction Bank. The largest loan by the China Development Bank (CDB) for the development of pre-salt oil fields in 2009 amounted to $7 billion. This was an important showcase of the Lula government. Recent large loans were the $4 billion granted for the Jupia and Ilja Solteira dams (2015), $1 billion for the Ituverava solar plant (2016), $1 billion for the Port San Luis expansion (2017) and $2 billion for the Brazil power-sector bailout in the context of the pandemic (2020).[143] The latter was done by commercial banks, as the provision of new loans by Chinese policy banks came to a halt in 2018, when China's economic growth dramatically slowed.

Brazil's relations with China stand out for the political and economic equilibrium between the two countries and for their shared ambitions. As the LAC region's largest economy and an important provider of agricultural products to China, Brazil is in many ways an equal partner of China. Within the Latin American region, this relative equilibrium may partially be shared by Chile, a much smaller economy but a country that can also boast of a longer-term and quite stable relationship with China, including a free trade agreement (since 2004). In such bilateral relations, the countries may not always agree or be real friends, but they need each other, and their interests are more or less in balance. With Brazil, recent history demonstrates the ability of Chinese businesses and the Chinese government to understand their economic interests and avoid unnecessary confrontations, despite the clear provocations of Brazil's Bolsonaro government. These provocations could have fuelled a confrontation, especially in the context of the US–China trade war, but in the absence of a material basis for conflict, the Bolsonaro government's rhetoric was simply ignored and business as usual continued.

## 3.2 Mexico and China: Beyond caution and competition

Mexico's relations with China are strongly influenced by its vicinity to the US and the nature of the Mexican economy. Where, for Brazil, China is a partner for development, for Mexico China's rise is primarily a challenge. In 2001, Mexico was the last country to accept China's entry into the WTO, because of its concerns about serious economic competition in the US. Later, Mexico initiated several actions against China to the WTO, claiming unfair trade practices.[144] These complaints are also clear in Mexico's National Development Plan 2013–2018, which states that China is responsible for rising prices of basic food products as well as for the low competitiveness of Mexican labour.[145] Relations seemed

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[142] Tabak, B. (2020), 'BYD, la gigante china fabricante de vehículos eléctricos, crece en Brasil', *Diálogo China*, 12 March.

[143] Myers, M. and Gallagher, K.P. (2021), 'China–Latin America Commercial Loans Tracker', *The Dialogue*, Washington: Inter-American Dialogue.

[144] Kahn, T. (2013), 'Xi Jinping in Mexico: 'Relaunching' a Relationship', *The Diplomat*, 4 June.

[145] Cornejo, R., Morayta, G.C. and Mabire, B. (2019), 'China y México 2012-2018, Entre el Idílico y la Realidad', *Foro Internacional*, vol. 59, n3–4, pp. 879–906, at p. 883.

to improve in 2012, when Xi Jinping became president in China and Peña Nieto in Mexico. They met four times within two years and the countries formed a formal strategic partnership in 2013. During Xi's visit to Mexico in 2013, the so-called 'tequila pact' aimed at diminishing tensions.[146] Yet the diplomatic rapprochement stagnated, mainly because of two failed mega projects: Dragon Mart, a huge shopping mall in Cancún, Mexico; and the Mexico City–Querétaro high-speed train line. Another infrastructure project failed after protests: the hydroelectric dam Chicoasén II in Chiapas by the Chinese company Sinohydro, in consortium with two Mexican partners.[147] Mexico's proximity to and dependence on the US clearly played a role. The Trump administration pressured Mexico and Canada to replace the North American Free Trade Agreement (NAFTA) with the United States–Mexico–Canada Agreement (USMCA). The new agreement, which went into force in 2020, contains an article to avoid trade agreements with any *non-market economy*. This clearly refers to China and was described by (then) US Secretary of Commerce Wilbur Ross as the 'poison pill clause'.[148] Enrique Dussel Peters even describes the USMCA as the first 'regional anti-China bloc'.[149] The rivalry between the US and China forms a constant challenge for Mexico's foreign and economic policies.

Recent relations between Mexico and China are cordial but cautious. There are regular inter-parliamentary meetings[150] and five Confucius Institutes were founded. During the pandemic, Mexico received Chinese COVID-19 test kits, masks and vaccines. In 2021, Mexico held the presidency of the CELAC summit and invited Xi Jinping as the only president from outside the region to give a speech. On the other hand, Mexico has not formally joined the Belt and Road Initiative and, in a meeting with US and Canadian presidents Joe Biden and Justin Trudeau, Mexico's President Andrés Manuel López Obrador (hence known as AMLO) observed that China's role in global markets had surpassed that of the three countries together, stressing the need to deepen North American integration to compete with China's global economic expansion.[151]

Economically, Mexico's perspective on China is indeed more aligned with that of its North American neighbours than to its Latin American counterparts. Already in 2003, China became Mexico's second most important trading partner, but Mexico's trade balance with China is notoriously negative. Imports are around ten times as high as exports, culminating in annual trade deficits in the range of $65–75 billion from 2015–2020. The main products imported from China are manufactured goods and parts, such as computers and mobile phones and especially for the automotive industry. Mexico's exports to China are dominated by copper and lead, next to vehicle parts and pork meat. Mexico receives few Chinese loans and investments, especially when compared to other LAC countries. The only loan was in 2013, $1 billion for offshore drilling equipment by the China Export–Import Bank. Chinese FDI during

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[146] Prados, L. (2013), 'China and Mexico Sign "Tequila Pact" to Boost Bilateral Trade', *El País*, 5 June.

[147] García, K. (2020), 'Corte de Londres falla contra la CFE por cancelación de hidroeléctrica Chicoasén II', *El Economista*, 2 June.

[148] Greber, J. (2018), 'Donald Trump's NAFTA 2.0 "Poison Pill" Won't Work in Asia, Say Experts', *Financial Review*, 16 October.

[149] Dussel Peters, E. (2018), 'USMCA, ¿primer tratado internacional antichino?', *Reforma*, 30 November.

[150] Rodriguez, B. (2021), 'Retoma Senado Foro Parlamentario entre México y China tras pandemia', *Noticias Énfasis*, 11 November.

[151] *El Economista* (2021), 'AMLO llama a la integración entre México, EU y Canadá para hacer frente a la competencia china', *El Economista*, 18 November.

the period 2000–2018 was $6.6 billion, which amounted to only 1.2 per cent of Mexico's total received FDI.[152]

In recent years, Chinese companies have been involved in some infrastructural projects in the country. An important new project is the *Tren Maya* (Maya Train), a prestige project of the López Obrador government. The China Communications Construction Company (CCCC) is part of a larger consortium charged with building the first section of 227 kilometres. Another project concerns the renovation of Metro Line 1 in Mexico City, where China Construction Railway Company (CCRC) and CRRC Zhuzhou Locomotive won the public tender ($2 billion) for four years of construction, followed by fifteen years of maintenance. A more traditional, resource-oriented strategic investment by China is in a lithium mine in Sonora, 180 kilometres south of the US border, which is believed to hold one of the world's largest lithium reserves. In December 2021, the private Chinese company Gangfeng, which supplies Tesla with lithium, bought the mining rights for $381 million.[153] In early 2022, however, Mexico's President López Obrador announced the creation of a Mexican state-owned company to mine and process lithium.[154] Recently, there have been some rumours about a project that aims at traversing the isthmus of Tehuantepec with Chinese investments,[155] and about new investments in some Mexican ports. The feasibility and organization of these projects are not yet very clear, but they show that relations between the AMLO government and Chinese investors have some traction.

Mexico is a strategic country for China, because of its large economy and internal market of 128 million people, as well as its proximity to the US. However, for geopolitical reasons, this proximity has led China to approach Mexico with care and caution. For Mexico, in return, China is a potential economic partner and a welcome alternative to the hegemonic US, but even more so a competitor. Mexican governments would like to diversify further Mexico's economy and they would like to diminish its dependence on the US economy. Bilateral relations between Mexico and China have therefore been characterized by cautious negotiations that demonstrate both mutual respect and a certain hesitation and distrust. Several Mexican presidents failed to establish a stable relationship and President Enrique Peña Nieto's charm offensive towards China from 2012–2018 was ultimately a 'train that never left'.[156] Current Mexican President López Obrador seems to be ambiguous about deepening the relationship with China. The Mexican government would like to get the best from both the US and China, but so far this has proven hard to achieve.

## 3.3 Venezuela and China: From a dream partnership to disillusion

As to be expected from the country with the world's largest proven reserves of oil, Venezuela's relations with China have centred around this commodity. Under President Hugo Chávez (1999–2013) and his increasingly socialist and illiberal political agenda (known as the Bolivarian revolution), Venezuela strengthened the central state's control over the oil sector and raised royalties and taxes. This

[152] Dussel Peters, E. (2019), 'China, ¿fuente de diversificación para México?', *Reforma*, 25 July.

[153] Jamasmie, C. (2021), 'Bacanora Lithium Accepts Ganfeng's $391m Takeover Offer', *Mining.Com*, 27 August.

[154] Associated Press (2022), 'Mexico Plans State Lithium Company, Questions Chinese Mine', *CityNews Toronto*, 2 February.

[155] Webber, J. (2018), 'Corredor del Istmo, ruta comercial que AMLO quiere trazar de la mano de China', *El Financiero*, 7 June.

[156] León-Manríquez, J. and Apango, E.T. (2019), 'Un tren que no salió: Las relaciones entre México y China durante la administración de Enrique Peña Nieto', in: *REDCAEM*, Working Paper Series no. 8, at http://chinayamericalatina.com.

renationalization of control and revenues hurt foreign companies, with several of them ending or limiting their investments in Venezuela. Development banks also turned their back on Venezuela. In this context of radical change, China surged as an indispensable economic and political partner. Both in Beijing and Caracas, the relationship was seen as a mutually beneficial friendship. Venezuela and China established an extensive model of energy cooperation with key roles for their state-owned companies and banks, including joint ventures between the state-owned oil giants China National Petroleum Corporation (CNPC) and *Petróleos de Venezuela* (PDVSA), and Chinese oil-backed loans to Venezuela accumulating to no less than $65 billion between 2007 and 2015. The fact that China became Venezuela's main creditor and Venezuela China's main foreign lender shows that there was a mutual commitment to cooperation.

This intensive cooperation was governed by newly established joint institutions such as the China–Venezuelan Joint Fund (co-funded by the China Development Bank and Venezuela's Development Bank) and the China–Venezuela High-Level Mixed Joint Committee. The Fund and loans helped other Chinese state-owned companies to win large infrastructure contracts.[157] Despite this major economic and institutional engagement, Beijing kept a clear distance from Chávez in his anti-US political agenda, careful not to antagonize the United States. It also did not accept Chávez's repeated invitation to the ALBA alliance with countries including Cuba and Bolivia. Still, in 2014 China granted Venezuela the status of a Comprehensive Strategic Partnership, the highest and most intensive form of cooperation. By this time, the charismatic Chávez had died and his right-hand man Nicolás Maduro turned out to be a far less popular and effective president (2013–present). Together with plummeting oil prices and export revenues, and the exposure of widespread corruption and poor investments, Venezuela entered into a deep economic, political and social crisis that continues to the present. Over six million Venezuelans have left the country, mainly to Colombia and the rest of South America, but also to the Caribbean.[158] The nearby islands of Curaçao and Aruba, part of the Kingdom of the Netherlands, host the highest number of Venezuelan refugees and migrants, relative to their population.[159]

Among Chinese commentators and officials, Chávez's successor Maduro is perceived as a weak and disappointing leader, but they also had to adapt their views on Chávez retrospectively. For some time, Chinese top officials may not have been fully aware of the local situation and the problems with Chinese investments and Chinese loans because of limited reporting and weak bottom–up information flows (hierarchical relations and the fear of bringing bad news in China's bureaucracy do not help in this respect). It turned out that Chinese policy recommendations, such as the importance of manufacturing and inflation control (which were based on China's own development lessons), had hardly been implemented. Under the banner of '21st-century socialism', Chávez had instead spent large amounts on domestic social and economic projects and on special oil arrangements for befriended LAC countries. Venezuela was unable to meet its obligations with Chinese lenders, requesting a rescheduling of debt payments and additional loans. While the China Development Bank (CDB) initially agreed to some of these requests, Chinese scholars and media openly criticized the old and new loans

[157] Sanderson, H. and Forsythe, M. (2013), *China's Superbank – Debt, Oil and Influence: How China Development is Rewriting the Rules of Finance*, Singapore: Wiley.

[158] R4V, Regional Inter-Agency Coordination Platform for Refugees and Migrants from Venezuela, https://rmrp.r4v.info/.

[159] UNHCR (2021), Aruba and Curacao, January.

to this nation with its uncertain future.[160] A $2.2 billion loan by the CDB for oil-sector development in 2016 was the last development loan made by a policy bank to Venezuela.[161]

The events of the past few years have forced both sides to critically reassess their relations. This devastating turn of events was also sobering and frustrating for the Chinese actors that had invested substantially in the relations and in Venezuela. The CDB had provided Venezuela with recommendations regarding macroeconomic policy, long-term strategic planning and infrastructure investment, but clearly without success. An investigative journalism project that gathered and reviewed numerous official documents from the period 2007–2012 sketches a picture of 'a Venezuelan administration that was enthusiastic but inefficient and disorganized (...), seemingly incapable of channelling Chinese financial support'.[162] Where the oil-based bilateral cooperation seemed strongly institutionalized and the loans set up in such ways that Chinese risks were limited, Venezuela's crisis damaged China's interests and image. Because of the deep crisis, Chinese projects in Venezuela that had initially suffered from embezzlement and illicit enrichment were completely abandoned. Several infrastructure projects funded by Chinese loans have evaporated, but the high debt continues to burden the country for years to come. Similar problems occurred around an iron-ore-based Chinese loan of $1 billion that never generated the anticipated upgrading and upscaling of this other extractive activity.[163] While leaders and institutions of both countries could be held accountable for the damaging lack of transparency, Venezuela's society pays the highest price.[164]

While China remains among the few remaining economic partners of the Maduro regime, relations have turned tense and sour. The Chinese attitude clearly differs from that of Russia, which has actively supported the regime and the military's profitable illicit (mining) activities.[165] During the past decade, Venezuela bought some 40 'moderately capable' (Ellis) fighter jets, air defence radar and military transport aircraft. It further bought different types of armoured vehicles with modern electronics, which were an improvement compared to the older Russian vehicles that it traditionally used.[166]

Chinese investments in Venezuela have diminished and are focused on a few sectors where a return on investment is still expected, including iron-ore mining in the Arco Minero. The pandemic has not brought the two countries closer. While the Maduro government announced shipments of Chinese vaccines, most vaccinations were done with the Cuban Abdala vaccine and the Russian Sputnik

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[160] Hogenboom, B. (2017), 'Chinese Influences and the Governance of Oil in Latin America: The Cases of Venezuela, Brazil, and Ecuador', in: Amineh, M.P. and Guang, Y. (eds), *Geopolitical Economy of Energy and Environment*, Leiden: Brill, pp. 172–211 (chapter 6), DOI:10.1163/9789004273115.

[161] Gallagher, K.P. and Myers, M. (2021), 'China–Latin America Finance Database', *The Dialogue*, Washington: Inter-American Dialogue.

[162] *Diálogo Chino* (2021), 'Venezuela's dance with China', *Diálogo Chino*, 14 February.

[163] Segovia, M.A. (2021), 'A Dream Deal with China that Ended in Nightmarish Debt for Venezuela', *Diálogo Chino*, 14 February.

[164] *Transparencia Venezuela* (2020), *Negocios chinos: Acuerdos que socavaron la democracia en Venezuela*, Report, *Transparencia Venezuela*, August.

[165] Farah, D. (2020), 'The Maduro Regime's Illicit Activities: A Threat to Democracy in Venezuela and Security in Latin America', Issue Brief, Washington: Atlantic Council, 13 August.

[166] Ellis (2022), *China Engages Latin America*, pp. 227–242, at p. 231.

vaccine.[167] China also seems to be prepared for the possibility of Venezuela's opposition taking over at some point. For Chinese oil companies, this political shift would probably bring positive changes, such as oil reforms that would limit state control and allow foreign companies more room for manoeuvre *vis-à-vis* PDVSA. Beijing never approved of the US-led embargo against Venezuela, nor of Western recognition of opposition leader Juan Guaidó as president of Venezuela since 2019. The eventual lifting of this embargo and recovery of Venezuela's economy and oil and mining sectors would also make Chinese stakes in Venezuela more profitable.[168]

## 3.4 Colombia and China: Finally pulling closer

For a long time, China's engagement with Colombia was of remarkably low intensity. Chinese investments in Colombia were lower than in neighbouring countries, and Colombia has not taken a loan from a Chinese policy bank. Colombia exports oil and other primary commodities to China, but in 2019 this accounted for just 6 per cent of the total, far less than the 36 per cent Colombia exports to the United States. There is also a large trade deficit, as 2021 imports from China were valued at around $14.8 billion, compared to exports of $3.6 billion that year.[169] The US has been a much more important partner for Colombia, not only economically, but also in its financial and military support to combat drugs and guerrilla movements, through programmes such as Plan Colombia. While this has probably discouraged very close political relations with China, for Chinese companies and banks there were other reasons not to become heavily involved in Colombia. Most Chinese investments in the LAC region were originally focused on oil and minerals, but Colombia's reserves did not make it a very attractive destination. Although Sinopec operated several oil and gas camps, Colombia's oil reserves rank only seventh in Latin America. Moreover, Colombia's main mining exports are gold and emeralds, whereas Chinese companies mostly invested in 'industrial' metals such as copper and iron ore. Recently, China ventured into the coal sector which, because of environmental concerns, has been abandoned by Dutch and Canadian interests. Colombia's Peace Accords in 2016 have improved the investment climate, but there are still safety issues in numerous zones. This showed when China's Zijin Mining Group Co. wanted to buy Continental Gold Inc. for $1.0 billion to gain control of the Buriticá gold mine, Colombia's largest project.[170] Elevated security concerns made the deal uncertain for some time, and since it went through in 2020, Zijin Mining Group has increasingly been complaining about illegal gold mining under the surveillance of criminal groups.[171]

During the presidency of Iván Duque (2018–2022) in Colombia, there was a clear change, with intensified diplomatic and economic relations with China. Duque made an official state visit to China in July 2019 and steadily strengthened the bilateral relationship through steps such as the Colombia–China Initiative.[172] In 2018, the Chinese government started the construction in Bogotá of what became

[167] Harrison, C., Horwitz, L. and Zissis, C. (2022), 'Timeline: Tracking Latin America's Road to Vaccination', *as-coa.org*, New York, Washington and Miami: AS/COA, 6 June.

[168] *Diálogo Chino* (2021), 'Venezuela's Dance with China'.

[169] UN Comtrade (2022).

[170] Zhang, M. and Lewis, J. (2019), 'China's Zijin Mining to Buy Canada's Continental Gold for $1 Billion Amid Security Risk', Reuters, 2 December.

[171] Symmes Cobb, J. (2021), 'Gold Diggers: Illegal Mining near Colombian Town Hits Zijin Output', *Reuters*, 18 May.

[172] Sweigart, E. and Cohen, G. (2021), 'Colombia's Evolving Relationship with China', *Americas Quarterly*, 19 October.

one of the region's largest Chinese embassies. At the beginning of the COVID-19 pandemic, China offered the Duque government a way out of a quite desperate situation. With little concrete aid forthcoming from the US at the time, despite the traditional relations and Duque's pro-US attitude, Colombia received $1.5 million worth of Chinese ventilators, test kits, facemasks and other equipment. The friendly relations were confirmed in March 2021, when video messages between President Xi and President Duque accompanied the arrival of the fourth shipment of Chinese-made COVID vaccines in Colombia.[173]

The second phase of Chinese investments in Latin America, in which infrastructure has more prominence, showed closer engagement with Colombia. In 2019, state-owned China Harbour Engineering Co. formed a consortium with China's Xi'an Metro and Canada's Bombardier Inc that won the more than $12 billion contract to construct a metro line in Bogotá and operate it for twenty years. To many observers, this investment signalled China's real arrival in Colombia. In 2019 and 2020, two commercial bank loans were also granted: for the Pasto–Rumichcaca highway by the Bank of China; and for the Pamplona–Cúcuta highway by the Bank of China and the Industrial and Commercial Bank of China.[174] Chinese firms have increasingly been financing solar and renewable energy projects around Colombia, such as the recently purchased wind energy projects in the northern region of La Guajira. In the communications and digital sector, Huawei has increased its market presence in Colombia (26 per cent in 2019), DiDi has 20,000 registered drivers, and ZTE recently agreed to sell hundreds of video cameras to the Colombian national government.

Despite this '*mejor momento*' in China–Colombia relations, Colombia remains the only Andean country that has not been formally linked to the Belt and Road Initiative.[175] Many observers, however, consider it only a matter of time before Colombia also adheres to China's BRI, if only unofficially. Colombia would like to acquire a status similar to Brazil and Chile: fairly independent and a relatively equal partner that has some freedom to choose the fields of cooperation and the projects for which it needs Chinese support. Colombia's needs complement new Chinese economic interests in construction, infrastructure, renewables and ICT, while its oil and mining sector also has room for more Chinese projects. Together with the recent diplomatic efforts on both sides, Colombia is on its way to embrace China as an important partner for development, while remaining close to the US as well. It remains to be seen how this situation will develop with the probable election of a more left-leaning candidate in the elections of 2022.

## 3.5 Peru and China: A profitable trans-Pacific relationship

Peru has welcomed Chinese investments in its mining sector for three decades. Under the privatization campaign initiated by the dictatorial leadership of Alberto Fujimori (1990–2000), two state-owned Chinese enterprises entered the country. Shougang, owned by the Beijing municipal government, started to operate the Marcona iron-ore mine, while China National Petroleum Corporation (CNPC)

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[173] Castrillon, D. (2021), 'Colombia: China's New Amigo? As Colombia Grows Closer to China, Will it End Up Giving the US a Cold Shoulder?', *The Diplomat*, 14 May.

[174] Myers and Gallagher (2021), 'China–Latin America Commercial Loans Tracker'.

[175] *El Nuevo Siglo* (2021), 'Relaciones entre Colombia y China pasan por su mejor momento: Duque', *El Nuevo Siglo.*

acquired its first overseas oilfield in Peru's Talara province. This was a prelude to major Chinese investment in mining between 2007 and 2010, when Peru became the LAC region's largest destination for such investment.[176] Economic ties were strengthened in 2009, when the two countries signed a free trade agreement, and later in 2019, when Peru became a member of the BRI. The presidency of left-wing candidate Pedro Castillo (since 2021) has not substantially changed the relationship. From the start, Castillo gave priority to strengthening Peru's ties with China.[177] Meanwhile, his original plans to raise taxes in the mining sector to pay for public services were stifled by Peru's economic downturn.

China is Peru's main trading partner and an important investor (see Figure 9). In 2020, Peru sold products to China valued at $11.1 billion (28 per cent of total exports), and imports from China stood at $9.6 billion (also 28 per cent of total imports).[178] While bilateral trade took a temporary dent in 2020 because of the disruptions caused by the COVID-19 pandemic, China–Peru trade grew again in 2021.[179] The mining sector contributes 86 per cent of Peru's exports to China, with copper and iron ore as the main commodities.[180] As well as investment in mining, Chinese companies have more recently become active in infrastructure, telecommunications, financing, tourism and education.[181] In 2018, the Chinese ambassador to Peru unveiled plans for a wave of Chinese investments of up to $10 billion in the years to come.[182] Indeed, China Yangtze Power bought US firm Sempra Energy's Peruvian assets, including an 84 per cent stake in Peru's largest power utility company, Luz del Sur, for a total of $3.4 billion. Next, a Chinese–Peruvian consortium invested $3 billion in the construction of the Chancay port, north of Lima, and a consortium led by China Three Gorges Corporation bought the Chaglla hydroelectric power plant for $1.4 billion.[183] In contrast to other Latin American countries, there is remarkably little lending activity by Chinese banks in Peru. This situation can be explained by the fact that Peru has not struggled to receive loans from the World Bank or the Inter-American Development Bank (IDB). The IDB is Peru's main multilateral lender, with an active portfolio of $2.4 billion.[184]

In terms of social and environmental impacts, there are no significant divergences between Chinese and other transnational investors in Peru's mining sector.[185] Chinese firms in Peru show high levels of localization, hiring local and international non-Chinese personnel, and subcontracting crucial parts of the mining process – such as, for example, community relations – to non-Chinese companies.[186] At the same time, the overwhelming presence of Chinese firms in mineral and oil extraction in Peru has placed

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[176] Gonzalez-Vicente, R. (2012), 'Mapping Chinese Mining Investment in Latin America: Politics or Market?', *The China Quarterly*, 209, pp. 35–58.

[177] *Gestión* (2021), 'Castillo prioriza relación con China y las empresas de ese país en primeros días de su gobierno', *Gestión,* 5 August.

[178] Mincetur [*Ministerio de Comercio Exterior y Turismo del Perú*] (2020), 'Reporte de Comercio Bilateral Perú–China', Lima.

[179] Mincetur (2021), 'Reporte de Comercio Bilateral Perú–China, 2021 III Trimestre', Lima.

[180] Mincetur (2020), 'Reporte de Comercio Bilateral Perú–China'.

[181] Zhu, L. (2021), 'Peru', *The People's Map of Global China*.

[182] *Andina* (2020), 'Chinese Mining Investments in Peru Reach Nearly US$15 Billion in Last 11 Years', *Andina – Agencia Peruana de Noticias*, 9 September.

[183] Sweigart, E. and Cohen, G. (2021), 'Latin America's Evolving Relationships with China', *Americas Quarterly*, 19 October.

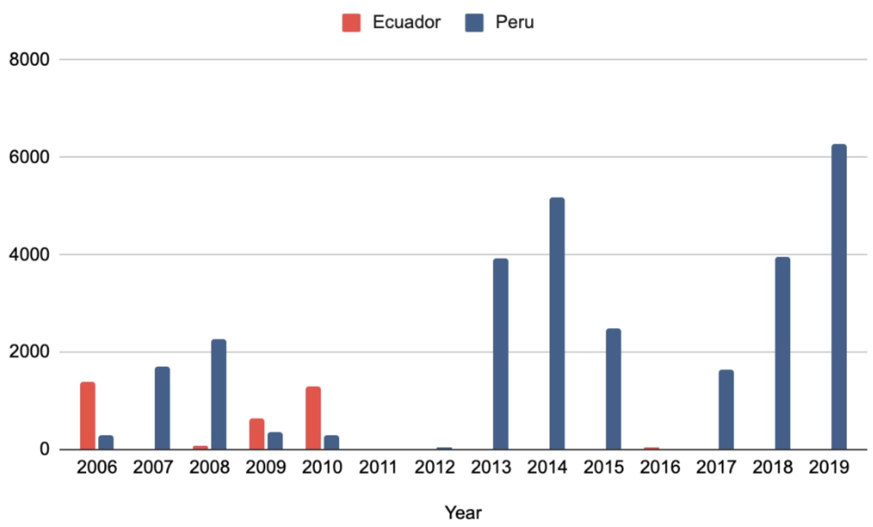
[184] Inter-American Development Bank (2021), 'Peru', available at: https://www.iadb.org/en/countries/peru/overview.

[185] Irwin, A. and Gallagher, K.P. (2013), 'Chinese Mining in Latin America: A Comparative Perspective', *The Journal of Environment & Development*, 22(2), pp. 207–234.

[186] Gonzalez-Vicente, R. (2012), *The Internationalization of China's Mining Industry: A Critical Political Economy of Chinese Mining Investment in Peru*, PhD Thesis, University of Cambridge.

them at the centre of conflicts and debates over Peru's future. The management style of Shougang in the Marcona iron-ore mine has led to frequent clashes with mining unions on issues of labour rights.[187] Newer projects by Chinese firms Minmetals, Zijin and Chinalco have faced the resistance of local populations over questions of livelihoods. Chinalco's investment in the Toromocho project in Junín required a complex town relocation. Communities around Minmetals' Las Bambas mining project have ferociously contested the company's mineral transportation route and its environmental and health impacts. In some cases, local populations have opposed mining projects on account of their potential environmental impacts, particularly given the threat that these projects pose to agriculture-based livelihoods. In all these cases, Peru's central government authorities have tended to side with transnational investors, prioritizing national goals of economic growth over local sensitivities. There are no signs yet that the Castillo government will change this posture and risk antagonizing the Chinese investors and government.

**Figure 9: Chinese investments in Peru and Ecuador, 2006–2019 (millions of USD)**




Source: Red ALC-CHINA, 2021; authors' elaboration.

## 3.6 China's role in Ecuador: Financial dependence and investments

The case of Ecuador is an example of relative dependence on Chinese capital. Where Ecuador's President Rafael Correa (2007–2017) needed Chinese investments to keep his 'revolutionary' government afloat, subsequent more market-oriented and conservative governments have courted Chinese investments for economic rather than political reasons. The Chinese presence in Ecuador started in the first years of Rafael Correa's so-called Citizen's Revolution (*Revolución Ciudadana*). Correa's socialist-inspired government defaulted on Ecuador's enormous foreign debt with the World Bank and the International Monetary Fund (IMF) and therefore lost its access to international financial

[187] Gonzalez-Vicente, R. (2013), 'Development Dynamics of Chinese Resource-based Investment in Peru and Ecuador', *Latin American Politics and Society*, 55(1), pp. 46–72.

markets. Chinese development banks filled the void and, within a few years, China became Ecuador's single most important lender through several oil-backed loans.[188] Also PetroChina, the listed arm of state-owned China National Petroleum Corporation (CNPC), offered a loan of $1 billion to the Correa administration in 2009. The 'pre-finance' deal was to be repaid over two years and carried a 7.25 per cent interest rate. In exchange, Ecuador committed 96,000 barrels per day to Chinese firms. This financial prominence went hand in hand with the increasing presence of Chinese companies in Ecuador's oil sector, mining and construction. From 2007 to 2013, Chinese investment in oil and hydropower amounted to $9.2 billion and $4.0 billion, respectively – substantial amounts, yet much smaller than the investments in Peru (see Figure 9). Most large Chinese projects of this period are, however, not visible as FDI, because they were paid for by Ecuador, mostly with Chinese loans. This was, for instance, the case with the construction of the $2.2 billion Coca Codo Sinclair hydroelectric project developed by Sinohydro (see Box 5). The close cooperation of Ecuador and China also showed in multilateral organizations. Together with Cuba and Venezuela, Ecuador was the Latin American country that mostly voted with China in the United Nations (an 85 per cent convergence during the years 2001–2015).[189]

The eagerness of both Ecuador's government and Chinese companies and banks to develop quickly large projects gave cause to several local conflicts and technical and socio-environmental problems. During Ecuador's Correa period, Chinese firms became active in the fields of infrastructure – including bridges, waterworks, hospitals, roads and wind farms – and of oil and mining. In contrast with the long history with mining of its neighbouring country Peru, large-scale mining only started very recently in Ecuador.[190] As in other countries, foreign mining companies often meet local, sometimes indigenous, resistance. In this respect, Chinese mining companies are no exception. Quiliconi and Rodríguez Vasco show that in the case of Chinese mining projects, such protests can lead to widely divergent outcomes, depending on the attitudes of the Chinese companies as well as the national state, but also on local circumstances.[191] In Mirador, the most prominent Chinese mining project in Ecuador, the Chinese company forged alliances with elite groups and managed to divide the local population. In another case, an Ecuadorean court ordered the suspension of all mining activities by a Chinese corporation in the highlands of Rio Blanco, in the Cajas Nature Reserve, in June 2018. In general, civil society protests caused a reorientation of mining companies. Just like with Las Bambas mine in Peru, Chinese companies started to make concessions to local demands and to apply CSR strategies to avoid the forced winding down of their operations. A very different sector where there have also been concerns about the impact of 'extractive' activities by Chinese companies is that of fishery. Recently, tensions

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[188] Herrera-Vinelli, L. and Bonilla, M. (2019), 'Ecuador–China Relations: The Growing Effect of Chinese Investment on Ecuadorian Domestic Politics, 2007–2016', *Journal of Chinese Political Science*, 24:4, pp. 623–641.

[189] Herrera-Vinelli, L. (2021), *A la sombra del dragón: Interdependencia asimétrica de China con Ecuador y Costa Rica*, Quito: FLACSO Ecuador, p. 130.

[190] Gonzalez-Vicente (2013), 'Development Dynamics of Chinese Resource-based Investment in Peru and Ecuador', pp. 46–72.

[191] Quiliconi, C. and Vasco, P.R. (2021), *Chinese Mining and Indigenous Resistance in Ecuador*, Washington: Carnegie Endowment for International Peace.

have erupted over the fishing rights around the Galápagos Islands and the incursion of Chinese trawlers in Ecuadorian territorial waters.[192]

It is interesting to see how in the past few years Ecuador has combined closer relations with both Beijing and Washington. Under the governments of Lenín Moreno (2017–2021) and Guillermo Lasso (2021–present), the Chinese presence has further evolved. In December 2018, Moreno visited China to renegotiate Ecuador's debt and borrow another $900 million. In the process, Ecuador also joined the BRI. Next, President Lasso in 2021 started talks with China's President Xi about the idea of a bilateral free trade agreement (FTA). During Lasso's visit to the Olympic games in February 2022, the FTA negotiations began. Lasso also proposed renegotiating Ecuador's outstanding $4.6 billion loans to China, which he claims (former) President Correa had accepted under unfavourable conditions for Ecuador.[193] Simultaneously, Moreno and Lasso tried to diversify Ecuador's economic and political relations. In 2019, Ecuador joined the US *América Crece* (America Grows) plan, which sought to counter Chinese influence in Latin America but that seems to have dissolved after Trump's US presidency. In January 2021, a week before Joe Biden was inaugurated as US President, the US Development Finance Corporation (DFC) signed an agreement for $2.8 billion with Ecuador to refinance what the DFC calls the 'predatory Chinese debt' and to support US private-sector investment.[194] The DFC has an explicit anti-China agenda and the agreement prohibits Ecuador from purchasing Chinese high-tech products.[195] Ecuador, however, tries to keep close to its two main economic partners.

### Box 5: The Coca Codo Sinclair hydroelectric dam

After the plan for the Coca Codo Sinclair (CCS) Dam had simmered since the 1970s, Rafael Correa's Citizen's Revolution in Ecuador brought the emblematic project rapidly to life in 2007.[196] The environmental impact assessments of what would be one of the biggest hydroelectric plants in Ecuador were conducted in just five months and they were approved in only one week! The technical studies ignored the plant's consequences for the river downstream of the dam and for the San Rafael waterfall. Construction started in 2010 with Chinese financial 'support': 85 per cent of CCS was funded by the Export–Import Bank of China (nearly $1.7 billion). The state-owned Chinese building company Sinohydro was contracted to build the plant. Sinohydro was given full responsibility to plan and build the

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[192] See, for instance, Etchegaray, A. (2021), 'China's Fishing in South American Waters Raises Questions, Fears', *The China Project* (formerly *SupChina*), 21 February.

[193] https://dialogochino.net/en/trade-investment/ecuador-china-fta-free-trade-agreement-opportunities-concerns/.

[194] DFC (2021), https://www.dfc.gov/media/press-releases/dfc-and-ecuador-sign-framework-agreement-support-development-private-sector.

[195] Adam Boehler, FDC chief executive: 'It is a novel approach that very strongly combines both missions of the DFC. The first is that we are going to impact development in Ecuador in a very positive way' […] 'DFC was created so that no single authoritarian country had undue influence over another country and we are addressing that factor with this agreement', at: https://www.ft.com/content/affcc432-03c4-459d-a6b8-922ca8346c14.

[196] This box is based on van Teijlingen, K. and Hidalgo Bastidas, J.P. (forthcoming 2022), 'A Mine, a Dam and the Chinese–Ecuadorian Politics of Knowledge', in *The Tropical Silk Road. The Future of China in South America*, edited by Amar, P. *et al*., Stanford University Press.

project. The Ecuadorian state was expected to facilitate the environmental impact assessment and provide the project with its environmental licence.

Once the project was inaugurated in 2016, multiple technical and socio-environmental problems emerged. Apparent acts of corruption also began to surface, and several senior government officials were sentenced or investigated for corruption. In February 2020, the magnitude of the problems surfaced when the San Rafael waterfall collapsed, causing the rupture of Ecuador's main oil pipeline a few weeks later. Experts from the Ecuadorian National Polytechnic University concluded that the waterfall's collapse was the result of the dam's impact on the hydraulic system of the river downstream from the CCS. The Moreno government, however, explained the disaster as a natural phenomenon. As Chinese loans were an important element in Ecuador's post-COVID recovery, open critique of one of the largest Chinese projects in Ecuador would be inconvenient. Interestingly, Sinohydro and some Chinese officials seemed to have been aware of the risks early on. A Chinese diplomat declared in 2018: 'We didn't pay enough attention to environmental issues'. In 2020, however, the Chinese officials joined the Ecuadorian government in its silence and limited their public communications to a donation of facemasks to an Ecuadorian hospital.

# 4 CONCLUSIONS AND RECOMMENDATIONS

It is not easy to draw unambiguous and definitive conclusions from this varied and dynamic overview of China's engagement with the LAC region. First, there is a continuing debate on the logic of this engagement, and especially the relationship between China's increased economic presence and its (geo)political interests. Are Chinese companies just following the rules of the international market or are they embedded in, and directed by, the geopolitical agenda of an expansive Chinese regime? Second, there is no consensus on the consequences of this increasing presence for Latin America countries. Some observers have concluded that the high demand for primary goods from China has made the LAC region less vulnerable to the US and the economic ups and downs of its traditional trade partners. For others, the emerging linkages suggest a new (debt) 'dependency' that is condemning the region to a cycle of 'reprimarization', deindustrialization and debt, as well as to a wave of 'neo-extractivism' with pernicious impacts on the environment and the rights of peasant and indigenous populations.

The international debate on the nature and implications of China's presence in Latin America has been dominated by a US-driven perspective and strongly (geo)political assessments of recent trends. Reports by Washington-based thinks tanks are primarily interested in the potential security risks that the Chinese presence poses or may pose in the future. Their views are based on suppositions and interpretations that may be true, but are often speculative, simply projecting China's grandiose policy rhetoric on Chinese economic activities 'on the ground'. This report has tried to avoid speculation as much as possible. First, by trying to stick to the facts of Chinese presence in the specific context of Latin America; and second, by taking a European, but also a Latin American perspective, in which Chinese linkages are not viewed as problematic by default, and accepting that they can present LAC countries with a welcome alternative to historic relations with Western counterparts. Latin Americans are certainly not blind to the risks of new forms of dependency, but they welcome the manoeuvring space that the rise of China has offered them. Only by assessing both the negative and positive consequences of China's growing role in Latin America can we hope to understand possible future political and economic scenarios for the LAC region.

## *China's economic and political role in Latin America*

Our analysis concurs with a majority of studies of China's relations with developing regions, and indeed with Latin America and the Caribbean, in finding that access to primary goods and economic goals are the central driving forces underwriting Chinese engagements in the region. The crucial point is that, in this process, Chinese corporations and banks have influenced Latin American politics and development in a variety of ways. Most prominent are the ways in which Chinese finance and investments have bolstered regional political leaders who have openly challenged the hegemony of Western powers and policies. Simultaneously, when Europe and North America were struck by the financial crisis starting in 2008, China's ongoing high performance helped to sustain Latin American economies through high commodity prices and demand for Latin American exports. Moreover, in the following years, Chinese investments and loans more than compensated for the decreasing flows from North America and Europe.

A concrete example is presented by the Ecuadorian case. In 2008, Rafael Correa's administration decided to default on what it considered an odious or illegitimate external debt of $3.2 billion. The objective was to free up public funds that could be invested in social programmes across Ecuador. Having antagonized Western markets, Ecuador turned to Chinese loans and investments, which contributed to maintaining high rates of economic growth and public investment. Interestingly, Ecuador returned to international bond markets in 2014 with little reputational damage,[197] which could suggest that this was, after all, a successful strategy enabled by China's development finance. The case of Venezuela is less celebrated. Chinese finance was confronted with a faltering economic model and the erosion of democracy under Nicolás Maduro's leadership.[198] Chinese (and Russian) support and finance have been key factors in the economic and political survival of the discredited Venezuelan regime. In this context, US sanctions on Venezuela have not succeeded in bringing down the Maduro government, but they have certainly exacerbated the social collapse in Venezuela.[199] The same process seems to be unfolding today in the case of Nicaragua.

Chinese financial relations normally do not carry conditionalities with respect to 'structural' economic reforms or issues like good governance, human rights and environmental protection. Where in the first instance this has been the result of China's foreign policy principle of non-interference in the internal affairs of sovereign countries, this attitude has also contributed to the appeal and expansion of Chinese interests and the BRI in Latin America and the Caribbean. These new global ideas and presence indicate a Chinese self-consciousness that expresses a vision of an alternative global hegemony. The rise of China and these recent developments can definitely affect democratic rule in Latin America. This political impact can be twofold. In some cases, Chinese investments and loans support the agendas of authoritarian regimes and thus undermine democratic processes. China's relations with Venezuela and, to a lesser extent, Cuba are examples of this. More broadly, economic support to elites and the fact that these elites remain the PRC's only political interlocutor are to the detriment of democracy, local systems of governance and civil society movements. In addition, China offers Latin American leaders a viable economic and political partnership as an alternative to relations with the US and Europe, which may be more demanding regarding liberal democracy, open markets, good governance and transparency. While we may accept that historically, these kinds of Western conditions did not always guarantee beneficial effects of Western engagement in the region, from a value-driven perspective, this characteristic of the Chinese presence is certainly a concern. It can strengthen anti-democratic tendencies and threaten the protection of human and environmental rights. There are signs that Chinese companies are increasingly aware of this issue, albeit only for public-opinion reasons, but safeguarding these rights should be one of the top priorities of European policies towards and in the LAC region.

In spite of this, we do not concur with Evan Ellis's rather alarmistic conclusion that 'without significant corrective action, expanding Chinese engagement in Latin America, as elsewhere, is leading towards a region dominated by populist authoritarian states economically subservient to the PRC and in which

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[197] Rathbone, J.P., Rodrigues, V. and Schipani, A. (2014), 'Oil Price Fall Sparks Venezuela Default Fears', *Financial Times*, p. 5.

[198] Bull, B. and Rosales, A. (2020), 'The Crisis in Venezuela', *European Review of Latin American and Caribbean Studies/Revista Europea de Estudios Latinoamericanos y del Caribe*, 109, pp. 1–20.

[199] Weisbrot, M. and Sachs, J. (2019), *Economic Sanctions as Collective Punishment: The Case of Venezuela*, Report, Washington: CEPR.

democratic expression and state action are permissible only insofar as they do not challenge those Chinese interests'.[200] This report has shown that Chinese engagement with the LAC region is too varied, and even sometimes contradictory, to warrant such a simplistic generalization. It also underestimates the agency of Latin American societies. In some circumstances, economic relations with China have enhanced participative processes when they allow more policy space for governments that were previously restricted by US economic and political interests, as for example was the case in Ecuador or the Dominican Republic. In essence, China's presence reinforces the power of Latin American political and economic elites – domestically and beyond – but, because of intra-elite struggles, this may lead to variegated impact on political processes in the LAC region. China has cordial relations with democratic countries such as Chile, Colombia and Costa Rica, just as it has had with a range of populist, authoritarian and one-party regimes, such as with Bolsonaro in Brazil, Chávez and Maduro in Venezuela, and with Cuba. In short, there is no proof for an authoritarian preference in Chinese foreign policy.[201]

If we then look at the economic and developmental consequences of China's presence in Latin America, the jury is still out. In its assessments of the economic China effect, the influential regional policy organization ECLAC has often pointed at the benefits and opportunities of Chinese investment for the region's development, although in recent years it has become more critical about the gap between China's win–win rhetoric and actual achievements. Kevin Gallagher, a well-known expert on China–Latin America relations, stated a few years ago that Chinese economic activity 'is an unprecedented opportunity for Latin America to upgrade its industrial competitiveness and environmental protection'. In his view, China's presence offers 'the best and balanced opportunity for Latin American economic development in 80 years', of which Latin America has not sufficiently made use.[202] In contrast, Barbara Stallings, another key expert, states that LAC countries' relationship with China has created new dependencies that are not supportive for achieving inclusive development.[203]

Although the economic and political consequences are partly connected, it is necessary to distinguish them clearly. For Latin Americans, there is in this respect always the 'comparative' question: is the Chinese influence different from the 'imperial' US influence of recent centuries? Many Latin Americans appreciate the fact that Chinese actors do not pursue political and social intervention in their societies, but they are very aware of the limitations and possible risks involved. First, they are wary that this Chinese attitude might change in the coming decades. Second, they are aware of the similarities between US and European economic dominance and the increasing political assertiveness of the PRC and the economic role played by Chinese corporate actors. Many groups in Latin American civil society have also come to appreciate certain US and (especially) European conditionalities on democratic procedures, labour issues, human rights and environmental protection, which have served to keep their political leaders and corporate actors in check and put some conditions on their 'delegative democracies'. An important general conclusion of this report is that to counter the possible negative

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[200] Ellis, R.E. (2022), *China Engages Latin America*.

[201] Brand *et al.* (2015), '[An "Authoritarian Nexus"?]', pp. 7–28.

[202] Gallagher, K.P. (2016), *The China Triangle: Latin America's China Boom and the Fate of the Washington Consensus*, Oxford: Oxford University Press, pp. 172–173.

[203] Stallings, B. (2020), *Dependency in the Twenty-first Century?: The Political Economy of China–Latin America Relations*, Cambridge: Cambridge University Press.

elements of Chinese (and to be fair, US and European) influence, the LAC region needs consolidation of its democratic procedures, stronger institutions, and committed and transparent leadership by its national governments.

## *Chinese geopolitics in Latin America and security concerns*

As we saw in the first part of this report, China's discourse on cooperation with Latin American countries is embedded in a rhetoric of mutual benefits and win–win relationships. These long-standing pillars of Chinese diplomacy have recently been connected to some of Xi Jinping's innovations, such as the idea of a Community of Common Destiny (CCD). Bunskoek and Shih suggest that 'the BRI and the CCD are respectively the material and discursive instruments for China to relate to the rest of the world'.[204] As instruments, they should be taken seriously, but not exaggerated. This report argues that the BRI is principally a rhetoric and diplomatic device created by Xi Jinping to include many things that were already happening, often instigated by Chinese corporate interests. In many ways, the BRI should be seen as a (successful) branding exercise. The other way around, while economic and political relations between China and LAC countries have increased enormously, there is not a joint regional agenda and institution to coordinate the China–Latin America engagement. Even the institutional infrastructure of the CELAC–China Forum is rather weak. While CELAC's presidency rotates annually, it lacks a technical secretariat, depending each year on a different Latin American ministry of foreign affairs. As a result, the learning process in terms of regional analysis and proposals is weak, and so are the implementation and evaluation of policy on specific items. The lack of strong regional institutions and the political fragmentation have prohibited a joint Latin American agenda until now. At the same time, and possibly as its result, China has clearly won influence in CELAC, especially during the two years of Mexico's chairmanship (2020 and 2021). This resulted in a more active CELAC–China Forum and several programmatic workgroups, while in contrast the CELAC–EU Forum decreased its activity.

In general terms, China–LAC relations have tended to develop through bilateral and market channels. This report has demonstrated that the drivers of these relations are predominantly economic, but Chinese state-owned resource-based firms often combine goals of profitability with secure access to resources.[205] Even in this case, it should be noted that Chinese corporate interests are driven by long-term goals of supply and profitability, rather than extra-economic ambitions. This capitalistic 'patience' offers both opportunities and threats to the region. In general, we can say that when Chinese investments in the LAC region appear to deviate from a profit-seeking rationale, this tends to lead to bad business. For example, Chinese loans to Venezuela are today considered within China and beyond as a political 'headache' and an economic failure, with potential negative impacts to China's long-term diplomatic standing in the LAC region.[206]

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[204] Bunskoek, R. and Shih, C.Y. (2021), '"Community of Common Destiny" as Post-Western Regionalism: Rethinking China's Belt and Road Initiative from a Confucian Perspective', *Uluslararası İlişkiler Dergisi*, 18(70), pp. 85–101.

[205] Lee, C.K. (2017), *The Specter of Global China: Politics, Labor and Foreign Investment in Africa*, Chicago: University of Chicago Press.

[206] See, for instance, [The Diplomat](#) (2019); [South China Morning Post](#) (2019); ); [https://jia.sipa.columbia.edu/online-articles/chinas-stakes-venezuela-are-too-high-be-ignored](https://jia.sipa.columbia.edu/online-articles/chinas-stakes-venezuela-are-too-high-be-ignored).

The One China policy, which aims at ensuring that China and Taiwan are recognized as one country with its legitimate government in Beijing, has been a long-standing pillar of Chinese foreign policy. In the bilateral relations between China and South American countries, the One China principle is not much of an issue, since only the relatively small country of Paraguay holds diplomatic relations with Taiwan. Nonetheless, the One China policy has unmistakably been deployed quite successfully in Central America and the Caribbean in recent decades, with seven countries switching diplomatic recognition from Taipei to Beijing (the Dominican Republic in 2004, Grenada in 2005, Costa Rica in 2007, Panama in 2017, the Commonwealth of Dominica in 2018, El Salvador in 2018 and Nicaragua in 2021). We discuss its consequences in Report 2.[207]

This report has not found proof of any urgent or alarming military or security presence by China in the LAC region (see section 2.8). Although occasional Chinese military cooperation visits (for example, to Chile, Cuba, Brazil and Argentina) may give rise to alarming reports in US media, most commentators agree that these are instead part of a Chinese public diplomacy agenda rather than have a military agenda. In the case of transnational organized crime in Latin America, findings indicate that these problems are not particularly related to the Chinese presence, although there are of course cases where illegal transnational activities make use of legal transnational channels that involve Chinese actors. However, there are some indirect (potential) security consequences in which the Chinese presence plays a role, such as during the Venezuela crisis and the security risks of Chinese surveillance (and other digital) technology.

In regional terms, China has become a serious global competitor to the influence of the US and – to a lesser extent – the EU. However, differences in the style of influence should not be exaggerated. All power blocs are strongly business-oriented in their approach to the LAC region, and all prefer to see a Latin America that is open for trade and investments. From a LAC perspective, it is true that the US is still the most important actor in the region, with long historical ties to the regional elites, militaries and academics. The value-oriented presence of European development cooperation in Latin America has been petering out, even though Spain, and also France and Germany have tried to maintain some political and cultural presence in the region. The US and Europe also play an important role in cultural and public opinion terms, particularly through US and European news agencies, although Chinese and Russian agencies are increasingly gaining ground. A decade ago, Chinese scholars stated that China would respect the US sphere of influence, but since then China's presence has not only increased in economic terms, but China has also emerged as an additional actor, questioning the hegemony of the US and the European Union in the region.[208] While some observers speak about the need for a new triangular relationship among Latin America, the US and China, it will be a challenge for Europe to insert itself 'squarely' into this relationship and to broaden the economy-oriented focus towards value-driven relations. This topic is briefly addressed in the Implications and Recommendations section that follows, and is more extensively reviewed in Report 3.[209]

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[207] https://www.cedla.nl/project-publications-2-china-economic-political-role-caribbean-central-america.

[208] Dussel Peters, E. (2019), *China's Recent Engagement in Latin America and the Caribbean: Current Conditions and Challenges*, Atlanta: The Carter Center, 29 August.

[209] https://www.cedla.nl/project-publications-3-china-engagement-latin-america-caribbean-geopolitical-challenges-role-eu.

## 4.1 Recommendations for the EU and the Netherlands

Europe has had strong economic, cultural and political ties with Latin America, originating long before Chinese actors became actively engaged with the region. Economically, Europe remains an important trade partner for Latin America – with the port of Rotterdam as major hub – and a key source of foreign investment in the region. European corporate actors have had a long-standing presence in Latin America. This is the case for Dutch multinationals such as Ahold, Unilever, Shell, Boskalis and Heineken, although some sold their regional assets (for example, Ahold) and others have become less connected to the Netherlands (Unilever and Shell). Politically, Latin American nations often linked up to European actors to counterbalance US interests and perspectives. This happened, for instance, during the period of military authoritarianism in the 1970s and 1980s when Europe played an important role in supporting the struggle for human rights.[210] A similar crucial role was played by development cooperation, by which European countries such as the Netherlands furnished Latin American governments and civil society actors with funds and know-how to solve pressing social and economic problems. However, with the expanding presence of Chinese trade, companies and banks in Latin America, the relative weight of Europe's economic connections has decreased. The traditionally strong networks around human rights and development cooperation have been scaled down, but many of them still exist in formal or informal ways. Overall, the LAC region politically treasures its relationship with Europe.

It is not easy to understand how China's presence in, and impact on Latin America will affect the economic and political interests of the KNL. Even more difficult is how to judge the balance of challenges, threats and opportunities. Here, we will present the main implications and recommendations for European and Dutch economic and political interests in Latin America, as well as the value-driven connections, including bilateral and biregional, non-economic ambitions and the multilateral dimension. There is no doubt that, in multilateral organizations, Western and Chinese interests are often in conflict. The complexity of this conflictive relationship on a multilateral level will be discussed in Report 3. Here, though, it suffices to say that such conflictive relations are not very frequent in the LAC region. This is the result of the still relatively modest weight of Chinese interests in the region and the reluctance of Chinese diplomats to become embroiled in national politics. This situation may change in the future, either leading to an increase or a decrease of the Chinese presence. Finally, this report has not directly addressed issues like transnational organized crime and related insecurity in Latin America, because studies indicate that these issues are hardly related to the Chinese presence in the region. However, digital security issues and indirect security effects of the growing Chinese presence deserve attention.

### *Recommendations for the EU*

1. The LAC region is important for Europe, not only economically, but also because it shares many values with its European partners. This was recently confirmed in the Foreign Affairs Council of the EU. There is a risk that human rights and democracy become of less priority in the LAC region's multilateral affairs as a result of China's positions in multilateral fora under the

[210] See, for instance, Michiel Baud (2018), 'Between Academia and Civil Society: The Origins of Latin American Studies in the Netherlands', *Latin American* Perspectives, 45:4, July 2018, pp. 98–114.

increasingly authoritarian leadership of Xi Jinping. The same can be said about the weakening of multilateral negotiations on environmental and labour issues, as many Chinese corporations have routinely rejected participation in multilateral fora such as the Extractive Industries Transparency Initiative. The decreased EU and US political interest in the region has added to this risk. Europe should be aware that the Americas at large (South, Central and North America and the Caribbean) are natural partners to protect universal human rights and global democratic values and practices. **Since Europe's economic relevance for the region has somewhat decreased, its political and diplomatic efforts towards LAC governments and civil societies will have to revitalize the linkages. In addition, the bi-regional relations with CELAC require intensified efforts.** Doing so fits well with the EU's development programme for the Americas and the Caribbean for 2021–2027, especially on 'Democratic governance, security and migration' and 'Social cohesion and fighting inequalities'.[211]

2. Concerning Latin America's experience with the COVID-19 pandemic and its aftermath, the EU seems to have missed an important opportunity to extend its soft power and solidarity towards the region. European countries have largely left the LAC countries to themselves during the pandemic, not only delaying a solution to the medical and social crisis in the region, but also missing out on commercial interests connected to the medical supply chain. In the meantime, Chinese medical support and trade reached several LAC countries, with a positive effect on the immediate health crisis and some of the pandemic's social and economic effects, such as unemployment and income loss experienced by vulnerable parts of the population, which eroded trust in the LAC national governments. Even though most Chinese vaccines were sold rather than donated to the region, this was often more than what the EU and US had to offer, and this outreach was well received in the region. It is clear, however, that recovering from the pandemic and solving the resulting social problems are a massive challenge for Latin American countries. **The EU needs to make a greater effort to support Latin American governments and civil society, to focus on the root causes of poverty in the region, especially unemployment, economic instability and institutional weaknesses.**[212] The EU can explore the options of harmonizing policies with the Biden administration's ambitions in this direction.

3. A considerable number of Latin American observers have criticized the lack of transparency among Chinese actors. This is especially disconcerting because this takes place in a region that is already suffering from corruption and a lack of transparency.[213] The so-called Odebrecht scandal caused by this Brazilian construction company in several LAC countries brought this problem into the open and showed how corruption was widespread in the region. The Chinese presence may indirectly bolster this problematic characteristic of the region. Despite some progress, the commitment to transparency in Chinese companies, banks and policies remains limited, which allows for – or even creates – the conditions for illegal and damaging local and

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[211] The Americas and the Caribbean Regional Multiannual Indicative Programme 2021–2027.

[212] CEPAL/ECLAC (2021), *Resilient Institutions for a Transformative Post-Pandemic Recovery in Latin America and the Caribbean: Inputs for Discussion*, Santiago de Chile: ECLAC, October.

[213] Weekly Report (2022), 'Corruption and Threats to Democracy Menace Latin America', WR-22-04, *Latin News*, 27 January (on the Corruption Perceptions Index by Transparency International).

national practices. **The EU needs to uphold and improve its transparency standards and policy (implementation), support Latin American political and social actors that fight corruption, and positively show the value of transparent ways of doing business and politics.**

4. The export and use of Chinese surveillance and other digital technology in Latin America involves complex issues. The security risks of such technologies have not even been structurally solved in Europe, let alone in the LAC region. These technologies are presented as instruments that support security and the fighting of crime, but signs exist that in countries like Ecuador and Nicaragua, they are also used in the monitoring and repression of civil society organizations and social movements. **In cases where European and Latin American actors perceive surveillance and other digital technology as (potential) threats to human rights and democracy, the EU and European governments need to help and strengthen public and civil society capacities of digital security in the LAC region.** The EU can also invest more in digital infrastructure and capacities in the region, going beyond its 2016–2021 research and education programme, 'Building the Europe Link to Latin America' (BELLA). This can enhance security and business opportunities, based on the five principles of the Digital for Development (D4D) Hub of the European Union: win–win partnerships; multi-stakeholder expertise; sustainable and green digital transformation; a human-centric approach; and data security and protection.

5. China has recently invested in the expansion of Confucius Institutes in the region, as well as in other instruments of soft power. The Chinese state has realized that economic activity needs to be accompanied by activities that highlight the value of Chinese culture. These Chinese initiatives come at a time when Europe and the US have decreased their funding for development activities, cultural programmes and academic cooperation in the LAC region. This may cause a growing distance between Europe and LAC, a region where a large part of the population traditionally considered itself part of the West. **More emphasis on, and EU engagement with, soft power will be an important instrument to maintain cultural and political influence in the Latin American region. This engagement should emphasize values of democracy, human rights, cultural diversity and appreciation for indigenous cultures.** In recent years, the facilities and access of Latin American students have been decreasing, largely because LAC is considered a region of middle-income countries. In the context of soft power, this has been an unfortunate development. Europe should expand its track record of training Latin American students in a wide range of (applied) science programmes. This bridge in higher education feeds cross-Atlantic social and cultural linkages among citizens and stimulates economic and political collaboration.

6. There are indications that Chinese corporations and diplomats will not reject collaborative efforts with Latin American national governments to combat crime. **The EU can become a partner in anti-crime efforts and take care that the focus will not exclusively be on repressing illegal activities and protecting corporate interests, but equally on the improvement of root causes of social fragmentation and illegality.** Without being naïve, these activities could be linked to the increasing up-take of CSR practices in the Chinese

corporate sector. At the same time, Europe can play a crucial role in combatting the increasing criminalization of social activism across the region, a trend in which Chinese and Western corporations have been involved.

7. **In all the above-mentioned areas, and also more generally, the EU needs to continue to play an active role in international standard-setting.** Strong partnerships with the LAC region could support these renewed international efforts.

## *Recommendations for the Netherlands*

Although the Netherlands is small compared to countries like the US and China, and its economy ranks as number 19 on the global list, the Netherlands' economic, political and cultural relevance for the LAC region should not be underestimated. Direct investments from the Netherlands in Latin America have been considerable, also when compared to Chinese investments. For example, the Netherlands appears in recent statistics as the largest investor in Brazil in certain years. This primarily reflects the position of the Netherlands as a key intermediary hub for globally operating companies. The Central Bank of Brazil calculated that while 25 per cent of all foreign investment into Brazil in 2015 came from the Netherlands, only 4 per cent was truly Dutch-controlled.[214] In terms of accumulated investment stock, the Netherlands even appears as the third largest foreign investor in Latin American and the Caribbean. Meanwhile, China is a much more recent source of investment and is not even in the top ten.[215]

Together with the EU, the Netherlands can strengthen its relations with the LAC region in general, and especially with the LAC countries that share its values. This also implies that the Netherlands can cooperate more intensively with LAC nations in multilateral organizations. At the same time, the KNL should look at its own position as a major intermediary in trade and financial flows. Too many profit-oriented efforts without putting into practice its (supposed) value-oriented aims may negatively affect the KNL's regional relations. In the long term, business relations also profit from more general support to, and cooperation with, the region (improving an 'enabling environment'). Cooperation may also extend to areas in which the Chinese presence may (directly or indirectly) be a factor of concern, such as Chinese surveillance and other digital technology and related security concerns (see recommendation 13), and the crisis in Venezuela (see recommendation 14).

8. The Dutch role as both provider and intermediary of major investments places the Netherlands into a three-fold front-row position in Latin America: interest; influence; and responsibility. **The Netherlands' economic prominence can be used to support and devise policies that incentivize inclusive and sustainable investments in the LAC region – even in instances of weak local or national institutions – and to actively support Latin American governments in strengthening their institutional capacity and frameworks to deal with crucial issues of transparency, labour rights and environmental protection.** It does so already in relatively small, civil-society-oriented programmes, but it is necessary to pursue

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[214] Banco Central do Brasil (BCB) (2018), Relatório de Investimento Direto no País, p. 17.

[215] UNCTAD (2021), 'Foreign Direct Investment in Latin America Plunges by 45% Amid Pandemic', News, 21 June.

these goals more structurally in the context of government-to-government and government-to-business relations. At the same time, the KNL should look at its own position as a major intermediary in financial and trade flows and especially its policies that attract corporations involved in tax avoidance schemes, and to policy coherence (between various domestic and foreign policies).

9. The massive commodity exports from the LAC region to China have not harmed exports to the Netherlands, which have in fact tripled in value during the period 2002–2021.[216] Dutch imports from Latin American and the Caribbean totalled $20.9 billion in 2021 (3.8 per cent of total imports). More than half of these imports consist of (bulk) agricultural products, such as soy from the Amazon. In the context of these trade relations, **the Netherlands needs actively to pursue its global commitment to the Sustainable Development Goals (SDGs)** and offer greater support for climate action and other environmental and social goals, civil society organizations and local private-sector development (including food value chains and regional food systems) to address root causes of poverty and to help transition to a sustainable economic system, which cannot be achieved by trade instruments only.

10. Dutch expertise in infrastructural projects, and in particularly concerning sea facilities and ports, faces increasing competition from Chinese companies. Through the difference in size and corporate style, as well as Chinese state support and the opaque nature of Chinese infrastructure loans, a level playing field is illusionary. However, **the Dutch government and its diplomatic representatives can be more active in promoting Dutch expertise and showcasing the advantages of Dutch-run projects among Latin American governments,** possibly also by offering more loans or other arrangements. Competition for the dredging of the Paraná River in Argentina may be an example where the Netherlands can actively support Dutch companies. An example of a missed opportunity could be Ecuador's national Water Plan (*Plan de Agua*), which was executed by a Chinese company despite evident Dutch expertise. On the other hand, the large Dutch multilateral enterprises that are active in Latin America do not need support and appear not to be threatened (yet) by Chinese expansion. In addition, it is not necessary only to see Chinese influence in the region in terms of competition. Dutch companies can also seek opportunities to collaborate with their Chinese counterparts.

11. An area for potential cooperation between China and the Netherlands is climate adaption, as laid out by the Dutch MFA. China has become a leading player in the field, as it significantly increased its investments in renewable energy in LAC, such as hydroelectric dams, electric vehicles and battery production, and wind and solar energy. **Dutch companies have expertise in sustainable mobility and the circular economy. This presents a potential for cooperation to reach the goals of the Paris Agreement and the SDGs.** The Netherlands should, however, remain a critical partner and promote structural reflection on the practices of these new projects, especially the increasingly criticized hydroelectric power generation. In doing so, it can actively promote and sustain the regional Escazú agreement on environmental rights, as well as human rights assessments, such as those undertaken by the Collective on

[216] Open data from CBS StatLine, https://opendata.cbs.nl/statline/#/CBS/nl/ (accessed 17 June 2022).

Chinese Financing and Investments, Human Rights and the Environment (CICDHA) and Human Rights Watch.

12. The lack of transparency in Chinese projects in Latin America's extractive sector may hamper Dutch competitive strengths, but is also a concern for the wider ambitions of equality, accountability and transparency in the region. In its China policy, the Dutch MFA aims at cooperation with China in the United Nations (UN) and the Organization for Economic Cooperation and Development (OECD) to increase transparency in the mining industry.[217] **The Netherlands can actively support Latin American countries to make progress in the field of transparency**, for instance through its membership of the Extractive Industry Transparency Initiative (EITI). The Netherlands can collaborate with Latin American member countries and stimulate other countries to join this initiative. Even though China is not a member, Chinese companies have been willing to report in 25 of the 43 EITI member countries, including Peru. This can increase transparency and accountability and create a level playing field for Dutch and European companies in the extractive sector.

13. With the EU, **the Netherlands can also increase its investments in digital infrastructure and capacities in the LAC region in ways that support economic and social development.** These goals are also reflected in the Dutch Digital Agenda for Foreign Trade and Development Cooperation (BHOS). Concrete measures should be capacity-building for civil society and institutions in LAC on topics of digital security, internet freedom and data protection, including a focus on gender equality.

14. The crisis in Venezuela is a major regional security concern, especially for the many surrounding countries, including the Caribbean parts of the Kingdom of the Netherlands. The crisis has led to a massive out-migration of Venezuelans, which is having a destabilizing effect on the entire region. While China's government and Chinese banks and companies are also negatively affected by this situation, economically they help to sustain Venezuela's Maduro regime. A range of (geo)political scenarios for internally or externally-driven escalation of violence could happen if Venezuela's current problems and pressures intensify (see Report 3). However, continuity of the status quo may be more probable, only exacerbating the current problems of massive migration, illicit economic activities, and political tensions in the region and beyond. The Caribbean islands of the KNL that border on Venezuela are strongly affected by these problems. The tense situation between the EU and Venezuela has disrupted the food supply to these islands, leading to scarcity and inflation. **The KNL and the EU could try to call on China to take greater responsibility in supporting initiatives for a peaceful and democratic solution for the current social and political crisis in Venezuela.**

15. Finally, China's diplomatic efforts and its successes with the use of soft power in Latin America indicate the ongoing relevance of diplomacy and soft power. While China offers attractive deals to almost all countries in the LAC region, including undemocratic regimes that violate human

[217] Dutch Ministry of Foreign Affairs (2019), *Nederland–China: een nieuwe balans [The Netherlands and China: A New Balance]*, The Hague: Dutch Ministry of Foreign Affairs, May, p. 59.

rights, European countries have to make a greater effort to support Latin American actors that share common values. **The Netherlands needs to support human rights and democracy more actively (including democratic actors and institutions), both in cooperation with government institution and civil society organizations in Latin America.** The Netherlands has a good name and diplomatic track record in the region on issues like the rights of women, indigenous peoples and the LGBTQI+ community, free press and democratic institution-building. Building on existing formal and informal relations on these issues, new programmes can be developed. Considering the growing presence of Confucius Institutes in Latin America, the Netherlands must consider reopening NUFFIC programmes (that is, programmes of the Dutch Organization for Internationalization in Education) for academic training to Latin American citizens.