

# CHINESE INTEREST



# INVESTMENT IN LATIN AMERICA AND THE CARIBBEAN

by Chief Warrant Officer 4 Charles Davis

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*Never before in modern human history has a state so powerful, so fundamentally put at risk the global institutional order, security, freedoms and prosperity of the rest, employing an approach that was so superficially benign, and disarming its targets from within by playing to their short-term material interests.*

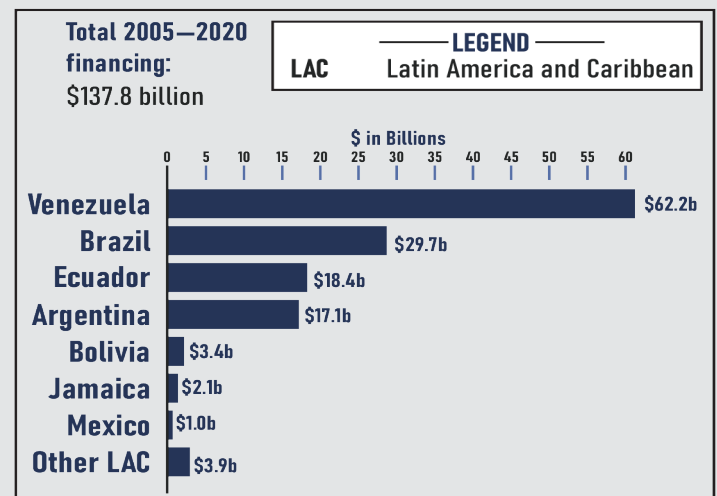
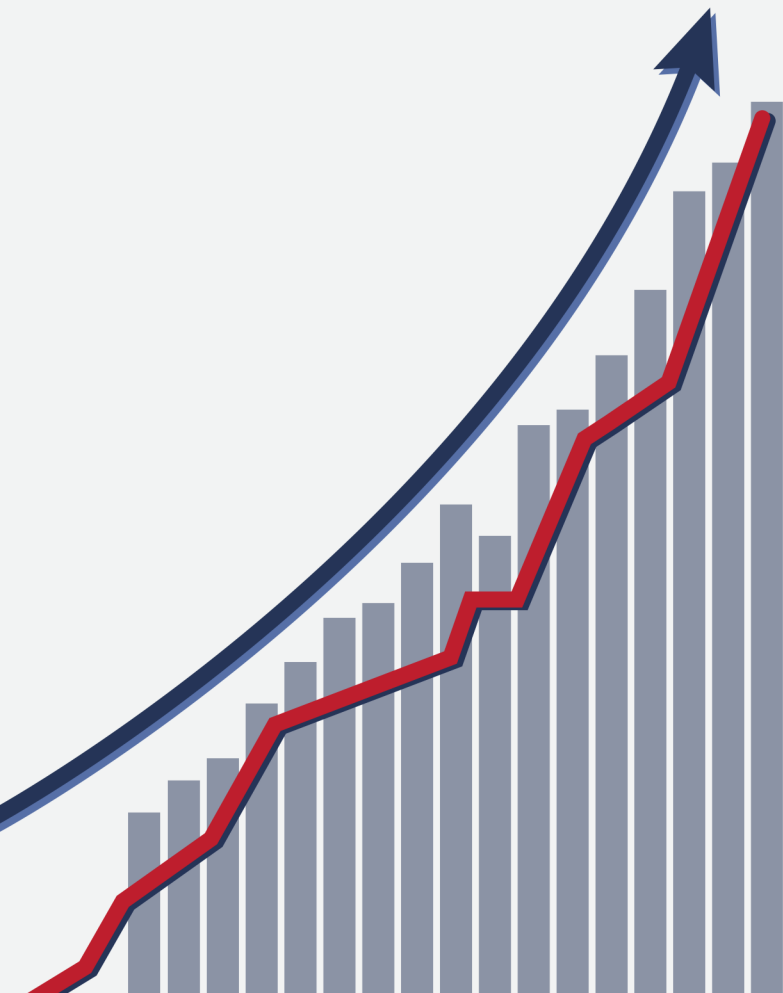
– Dr. R. Evan Ellis, Research Professor of Latin American Studies  
U.S. Army War College Strategic Studies Institute

## Introduction

In June 2022, the United States hosted its 9<sup>th</sup> Summit of the Americas; however, a summary Congressional Research Report indicates only 23 of the 35 member heads of state participated.<sup>1</sup> The decision to boycott by so many leaders hinged on President Biden’s decision to exclude Cuba, Nicaragua, and Venezuela. While the leaders of those three countries are undesirable partners for the United States, the response from other Latin American countries reinforces a regional perception that the only interests that are a priority for the United States are their own.

Final commitments from the Americas Summit nest firmly in the Biden Administration’s climate initiatives as it seeks to establish a resilient Caribbean region regarding natural disasters, catastrophic weather events, and migration. Though, on the geo-political stage, China may be the big winner of this event it did not even attend. With every American misstep, China’s influence in Latin America and the Caribbean (LAC) continues to expand.

Based on reports from the Green Finance and Development Center, of the 33 countries in LAC, 20 state leaders are committed to China’s Belt and Road Initiative in the region.<sup>2</sup> Key among those participants are Argentina, Cuba, Venezuela, Panama, and Chile. While not a member, Brazil remains heavily tied to significant loan obligations.<sup>3</sup> These economic ties did not occur overnight. The People’s Republic of China (PRC) made significant inroads over the past 20 years while the focus of the United States was on the Middle East. Chinese trade in LAC continues to rise. In 2002 trade amounted to \$18 billion; in 2021 it reached \$449 billion.<sup>4</sup>



China: Financing in LAC, 2005-2020<sup>5</sup>

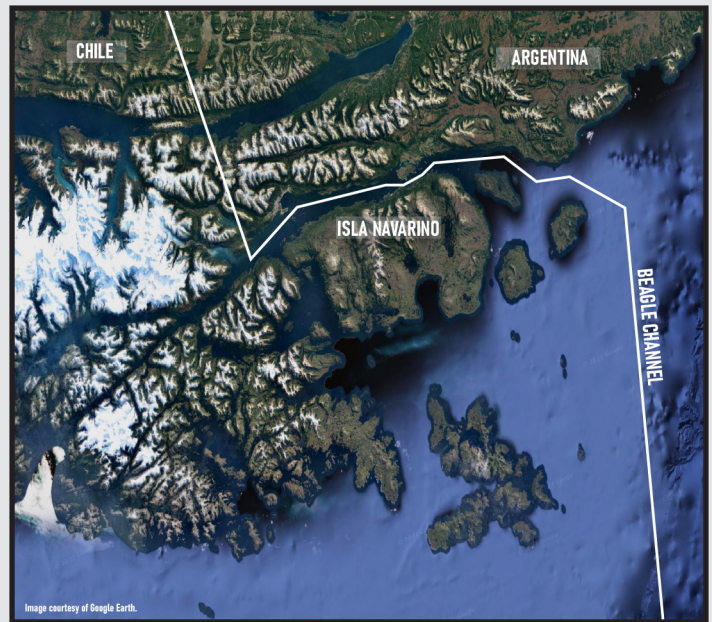
From 2005 to 2020, the PRC used state owned China Development Bank and the Import and Export Bank of China to secure an estimated 99 loans at a staggering \$137 billion, with Venezuela, Brazil, Ecuador, and Argentina carrying 90 percent of that debt.<sup>6</sup> These same institutions are the leading lenders in the region while China holds voting interest in local financial institutions like the Inter-American Development Bank and the Caribbean Development Bank.<sup>7</sup> This financial strength has assured China's place as South America's top trading partner and primary lender in energy and infrastructure.

### Regional Strategic Importance

The Council on Foreign Relations, an independent, non-partisan think tank, asserts that China has invested \$73 billion in LAC's raw materials sector since 2008, establishing refineries and processing plants for coal, copper, natural gas, oil, and uranium.<sup>8</sup> The Council on Foreign Relations also indicates China's focus is now on the Lithium Triangle countries of Argentina, Bolivia, and Chile, which the PRC believes accounts for more than half of the world's lithium, a metal necessary to produce batteries.<sup>9</sup>

During a June 2021 conference on United States-China Strategic Competition, ADM Craig Faller, former commander of U.S. Southern Command (SOUTHCOM), highlighted the strategic importance of the LAC. He stated, "I look at this region, our neighborhood here as a region of real promise. The proximity, location matters, the distance to the United States is key. The people, those values associated with the people and the cultural connections."<sup>10</sup> He further spoke of concerns regarding Chinese presence and influence across the continent, commenting on the port of Ushuaia (the furthest port in the southern hemisphere) and the Panama Canal. Both tie to key commercial navigation routes and are of significant interest to China. With Panama, a key Belt and Road Initiative partner, and Argentina, a significant investment partner of China, Admiral Faller's concerns are well founded.

Dezan Shira and Associates, a Pan-Asian professional services firm, produces the Silk Road Briefing, which is an online publication focusing on China's Belt and Road Initiative globally. Their May 2022 assessment of Chinese interests in Ushuaia asserts that "Chinese involvement in the Beagle Channel would also mean that it would be capable of exerting some control of US commercial shipping both north and south of the South American continent."<sup>11</sup> The Panama Canal is operated with assistance from Chinese logistics firms on both ends of the canal at Margarita Island and the Colón Free Trade Zone.<sup>12</sup> Panama is also a member of the Belt and Road Initiative. Given China's claim to be a near-Arctic partner, its relationship with the Russian Federation on northern projects, and its interests and investment in Argentina and Panama, it seems likely China will be at least the gate keeper, if not the key holder, to global commercial shipping access.



Map: South American Beagle Channel

In March of 2022, at a hearing before the Senate Armed Services Committee, GEN Laura Richardson, commander of SOUTHCOM, addressed specific concerns regarding Chinese presence and influence in Panama over activities associated with the Panama Canal. GEN Richardson expressed concern that the United States has not invested in projects important to Panama. This has allowed the PRC to develop inroads with this key partner. She also addressed joint Argentina and PRC space projects, which allow the PRC to track United States satellites. GEN Richardson explained Beijing's ongoing investments in Central and South American infrastructure, particularly ports, follow the pattern linked to debt trap financing in Africa. Right now, the "Chinese have 29 port projects" across SOUTHCOM, including a major one in El Salvador that has economic implications for other Central American nations.<sup>13</sup>

### Positives and Negatives of Cooperative Agreements

The Community of Latin American States (CELAC) provides additional insight into Chinese political influence in LAC. Founded in 2011 as a regional bloc of 32 member states, CELAC serves as an alternative to the Organization of American States (OAS), which is supported politically and economically by the United States. President Manuel Lopez Obrador of Mexico serves as the organization's current president. He is pursuing an agenda to model that of the European Union and to negate the need for the United States led OAS. Affiliations with China, Russia, Turkey, and several Arab States support this vision.<sup>14</sup>

The China-CELAC Joint Action Plan for Cooperation in Key Areas addresses political and security cooperation as well as financial support. The plan includes initiatives on trade and

links the previously discussed financial organizations to future partnerships through the China-LAC Infrastructure Cooperation Forum. Other components of the plan emphasize agriculture, industry, and science and technology partnerships.<sup>15</sup>

One result of the PRC's sustained presence in these partnership organizations and LAC's growing reliance on Chinese financial institutions is that the PRC has shifted the region's relationship away from Taiwan. President Xi Jinping has visited the region 11 times since he took office in 2013, and now only 8 countries in the region still recognize Taiwan's sovereignty. The Dominican Republic and Nicaragua are the most recent countries to break ties with Taiwan.<sup>16</sup> It is not surprising that Nicaragua would demonstrate a willingness to partner with China because its relations with the United States continue to deteriorate. In November 2021, President Biden addressed Nicaragua's presidential election by stating, "What Nicaraguan President Daniel Ortega and his wife, Vice President Rosario Murillo, orchestrated today was a pantomime election that was neither free nor fair, and most certainly not democratic."<sup>17</sup>

While the United States is experiencing the cost of deteriorating partnerships and projects across the LAC, the LAC states must also examine the cost of partnering with the PRC. Chinese technology is being used to bolster surveillance throughout the hemisphere. While this capability aids in fighting crime and monitoring natural disasters, it also provides data and intelligence collection to the PRC. Dr. Evan Ellis, research professor of Latin American Studies at the U.S. Army War College Strategic Studies Institute, suggests that integrators, such as Huawei, continue to leverage technologies, especially facial recognition and biometrics programs, nested in big data repositories. These technologies originate in the PRC where individual privacy considerations are minimal. China then offers this capability to LAC, "where insecurity, [and] the fight against corruption make Chinese solutions attractive"<sup>18</sup> The United Kingdom, Australia, and the United States have already experienced the costs of allowing companies like Huawei access to national digital infrastructure.

As in every other region of the PRC's Belt and Road Initiative, engagements with the military follow the economic and political relationships. Dr. Ellis also notes that "for the [People's Liberation Army] PLA, engagement in Latin America supports multiple national and institutional objectives as a subset of its global engagement. One of the PRC's economic and strategic goals is building strong all-around relationships with countries in the region, which includes forging bonds with Latin American militaries."<sup>19</sup> Just as with the United States military industry, the PLA's weapons sales allow for many continuing relationships through training, service contracts and equipment upgrades, and professional military education opportunities.

Defense is a key component of the CELAC Action Plan by incorporating a defense forum and fighting transnational organized crime, nuclear proliferation, and violent extremism. The plan also offers exchange opportunities for professional military education to LAC and includes opportunities for PLA members to attend jungle warfare instruction. Given how much the PRC uses their sub-Saharan playbook towards their goals in the LAC, the United States should take lessons from China's covert efforts to establish bases. For example, in the United Arab Emirates, classified satellite imagery led United States officials to conclude that the Chinese were building some sort of military installation at Abu Dhabi's Khalifa port.<sup>20</sup> Concerning Equatorial Guinea, the United States Department of State indicated, "As part of our diplomacy to address maritime-security issues, we have made clear to Equatorial Guinea that certain potential steps involving [Chinese] activity there would raise national-security concerns."<sup>21</sup>

Dr. Ellis also alludes to potential United States security concerns regarding the PRC's military goals nesting in infrastructure projects:

*The PRC has also not, to date, sought to establish permanent military bases in Latin America, as some have speculated could occur as a product of construction work or port concessions going to Chinese companies in Panama, or through the port of La Union in El Salvador. Such caution in close proximity to the United States is consistent with PRC reluctance to acknowledge even the military character of its only current foreign military port facility, which is located in Djibouti, in Africa.*<sup>22</sup>

The PRC continues to lead with economics but will certainly shore up those efforts with its diplomatic and military elements of national power.


Of all the LAC countries, Peru has the region's largest Chinese diaspora community, amounting to about 5 percent of the population, or one million people. The PRC's presence in the LAC will only grow, and the United States will likely have to weigh the consequences of its limited interest in the LAC over the past 20 years. Dr. Richard Kilroy, Associate Professor, Department of Political Science, Coastal Carolina University, recently presented potential scenarios for the future of the OAS and CELAC at the Homeland Defense Academic Symposium. There is value in his argument:

*For the OAS to maintain its relevancy in a changing global security environment, it needs to adapt and address the concerns of its member states. Lopez Obrador's call for CELAC to replace the OAS should not be dismissed. Rather it should serve as a wake-up call to the United States and the OAS bureaucracy to reimagine its future in the Western Hemisphere.*<sup>23</sup>

Key drivers for this preferred scenario would include:

- ◆ Reorganization of the OAS, possibly modeled after the United Nations Security Council, with six permanent members (Argentina, Brazil, Canada, Chile, Mexico, and the United States) and eight rotating members (two each) from the sub-regions of the Caribbean, Central America, the Southern Cone, and the Andean Ridge.
- ◆ Relocation of the OAS headquarters out of Washington, DC, to a more central location in the region, such as the former military facilities of SOUTHCOM in Panama.
- ◆ Establishing an office of military affairs to coordinate all aspects of military operations in the region from peacekeeping or peace enforcement to disaster response, pandemics, and actions to counter the transnational criminal threat.
- ◆ Empowering the OAS Secretary General with the ability to act both regionally and globally to expand interactions with other international governmental organizations in confronting trans-regional threats including climate change and environmental security.<sup>24</sup>

## Conclusion

Regardless of the chosen path forward, the United States must reevaluate the level of national interest placed on what SOUTHCOM leaders have framed as our backyard. Foreign policy in the region must include not only what nests in the United States National Security Strategy, but also that which serves those relevant and specific issues of the member states of the LAC region. 

## Epigraph

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