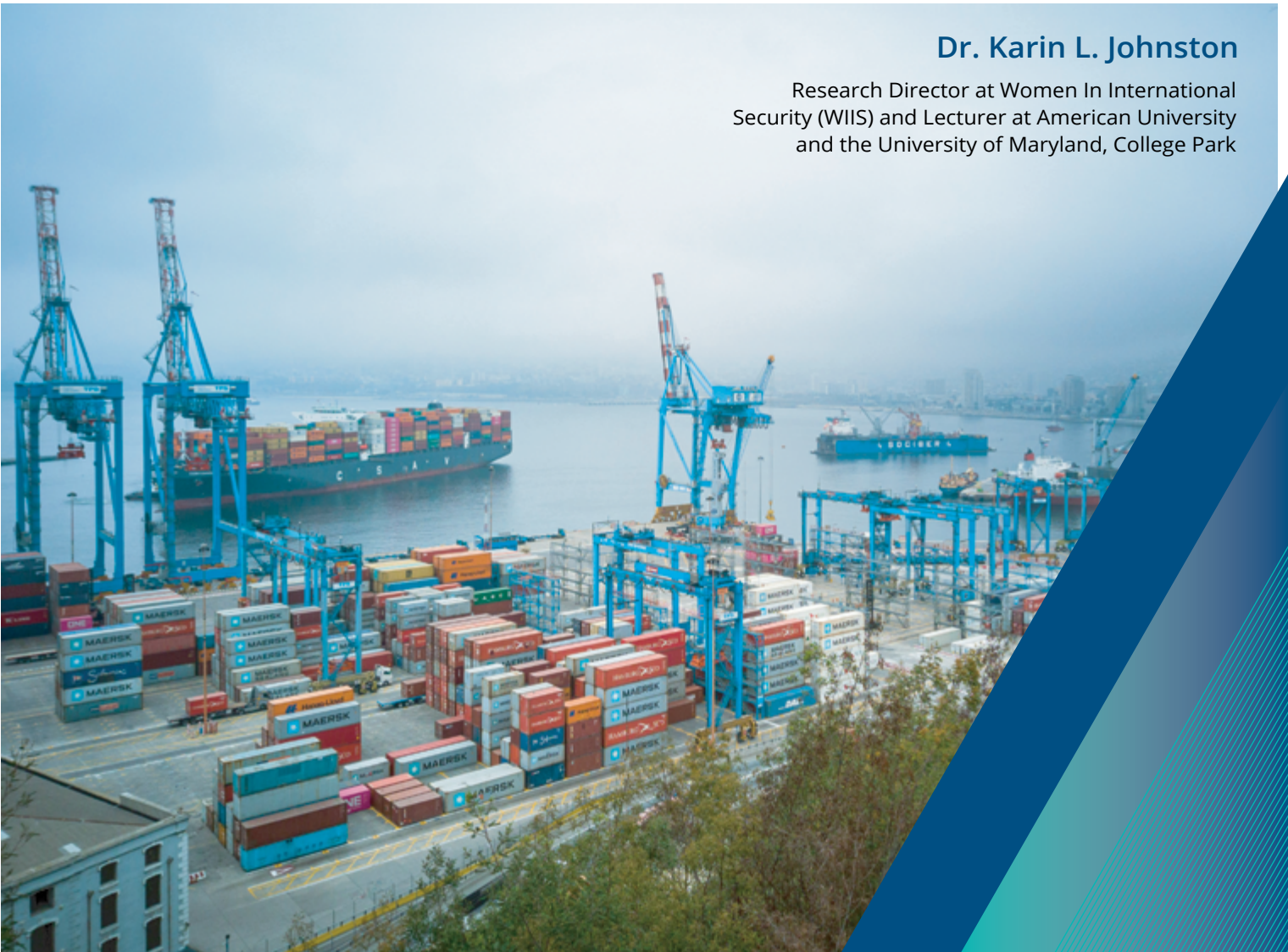


# China, Latin America, and the United States

## Geopolitical Impacts and New Challenges

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# Introduction

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Over the course of a mere two decades, China has forged robust economic and political ties with nations spanning Latin America and the Caribbean (LAC). China stands as the primary trading partner in South America and the second largest across LAC. The trade in goods between China and LAC has skyrocketed, increasing 35-fold from 2000-2022, a stark contrast to LAC's total worldwide trade, which only saw a 4-fold increase.<sup>1</sup>

China has strategically bolstered its influence through trade, strategic loans, and direct investments. Since 2005, China's development banks have loaned a staggering \$141 billion to LAC countries, accounting for 24% of all loans distributed globally by China between 2005 and 2021, slightly more than Africa (23%) but less than Asia (29%). This strategic investment has solidified China's position in the region.<sup>2</sup>

China's economy, driven by its rapid growth, has a substantial demand for raw materials, including oil, foodstuffs, and minerals. Given these needs, China's attraction to LAC is not surprising. The region, with its abundance of natural resources and raw materials and its status as one of the world's largest exporters of agricultural goods, is a natural fit for China's economic requirements. The growth of China's economy and its subsequent demand for these goods and materials have been instrumental in shaping the evolution of China-LAC relations.

These mutually advantageous circumstances thrust LAC countries into a rapidly expanding economic relationship that saw trade with China surge from \$14.6 billion in 2001 to \$315 billion in 2020.<sup>3</sup> LAC countries have embraced China as a partner and benefited from the relationship, with advances in infrastructure development and trade and investment in the region. Nevertheless, the rapid transformation of China-LAC economic relations and growing Chinese influence has not been without its challenges.

The United States and the European Union have reacted with alarm to China's expanding influence in LAC. However, as China strengthened its economic and political presence in LAC over the past 20 years, the LAC's two traditional partners have not been as actively engaged. Growing skepticism about traditional free trade agreements has complicated American relations with LAC countries, and the domestic political battles over migration and drug trafficking regularly overwhelm the U.S.-LAC policy agenda.

The EU relegated LAC to the back burner. Eight years went by—from 2015 to 2023—before the EU met again with the Community of Latin American and Caribbean States (CELAC).<sup>4</sup> Discussions reflected current geopolitical realities. Europe sees the need



to respond to China's rising influence in the region, and importing lithium from LAC will reduce Europe's (97%) dependence on Chinese lithium sources. But differences arose at the summit over support for Ukraine, and the EU's proposed €45 billion investment package is vastly overshadowed by China's investment in the region. Finally, the meeting did not resolve the stalled trade deal between the EU and the South American Mercosur bloc.<sup>5</sup> It was only in the final weeks of 2024, after 25 years of negotiations, that the EU and the Mercosur states of Argentina, Brazil, Paraguay, and Uruguay finalized a free trade agreement. Announced on December 6, preparations will begin on the texts of the agreement for its subsequent signature and ratification.<sup>6</sup>

By examining China's growing influence in LAC, this report seeks to illuminate the multifaceted strategy China has implemented and its impact on important actors in the region, primarily the United States and the LAC countries themselves. One of the most debated questions is whether the relationship with China has benefited or harmed LAC countries. The contrasting views and assessments of China's intentions and strategic interests will provide a different lens on the perceived benefits and risks of China's rise in the region.

China is now a major actor in LAC. Despite the region's desire to remain non-aligned and neutral, LAC countries will be part of the escalating geostrategic competition between the U.S. and China. The broader issue, then, is how LAC countries and the United States respond to the challenges each faces relative to China's growing leverage in Latin America and the Caribbean.

# China's LAC Strategy

## Building China's Economic Power

China's strategic interest in the region grew out of its need for resources, primarily to ensure food security for its population, energy security for an expanding economy, and the opening of markets for its manufactured goods.<sup>7</sup> China's growing demand for raw materials and the region's vast reserves of raw materials—oil, minerals, and foodstuff—

created complementary conditions that would, within two decades, result in China rising to become the region's second-largest trade partner.

Xi's assumption of power in 2012 signaled a break with the more cautious approach taken by earlier Chinese leaders. For the Chinese leadership, China's rising global ambitions required a new international architecture that would change the existing U.S.-led system to fit its own geostrategic and economic interests to counter Western efforts to contain it.<sup>8</sup> Central to this strategic aim was building a sphere of influence with the "Global South," led by China, to support its geopolitical objectives. In this "South-South" strategy, China presents itself as a fellow traveler and a superior alternative to the West, deploying a massive array of economic, political, financial, and diplomatic tools to build greater support for its objectives.<sup>9</sup>

### *China-LAC Trade: Robust*

Over the past two decades, China's core components of economic engagement—trade, lending, infrastructure, and foreign direct investment (FDI)—have altered trade patterns across the LAC region.

China's economic priorities remain to secure raw

materials and agricultural goods, markets for its goods and services, joint technology development with LAC firms, and opportunities for its firms to globalize.<sup>10</sup>

In 2017, China announced that LAC would be included in its Belt and Road Initiative (BRI). The initiative would develop a network of infrastructure development projects

### **"China Policy Paper on Latin America and the Caribbean 2016"**

#### **State Council, People's Republic of China**

The 2016 strategy outlined priorities in trade, investment, infrastructure, manufacturing, financial, and other areas of economic cooperation, signaling a shift toward:

1. greater diversification and sophistication in higher-value-added and technology-intensive products;
2. prioritization of infrastructure cooperation in transportation, trade logistics, information, and communications technology, and energy and power sectors; and
3. an emphasis in manufacturing on building production lines, chemical industries, automobiles, and new energy equipment.

Source: State Council, People's Republic of China, "China's Policy Paper on Latin America and the Caribbean" [https://english.www.gov.cn/archive/white\\_paper/2016/11/24/content\\_281475499069158.htm](https://english.www.gov.cn/archive/white_paper/2016/11/24/content_281475499069158.htm).

in LAC financed by China. This proved an effective vehicle for pursuing China's needs for resources and a stable investment climate.<sup>11</sup> The numbers attest to the massive transformation of China-LAC economic relations. In only 20 years, from 2000 to 2020, trade grew from \$12 billion to \$315 billion, a 26-fold increase. In comparison, U.S. trade with LAC reached \$758 billion in 2020, while European trade with LAC hit \$197.4 billion in that same year. Estimates show that growth could more than double to \$700 billion by 2035.<sup>12</sup>

By 2022, the total value of China-LAC trade was estimated at \$482 billion.<sup>13</sup> China is now the second-largest trading partner in LAC and the largest trading partner in South America. Due to its trade with Mexico, the U.S. remains the region's largest trading partner. Geographically, trade with China is highly concentrated in South America, with Brazil, Chile, and Peru as China's top trading partners, primarily in commodities and foodstuffs: 40% in metals, 35% in agri-foods, and 18% in energy together constitute 93% of South American exports.<sup>14</sup> Between 2015 and 2019, only five commodities—crude oil, copper ores and refined copper, iron ores, and oilseeds such as soybeans—constituted nearly 70% of Latin American exports to China and originated in primarily four countries: Brazil, Chile, Peru, and Venezuela.<sup>15</sup> China's expansion into electric vehicles and batteries in the LAC region also drives its purchase of lithium from the "lithium triangle" countries of Chile, Bolivia, and Argentina, which together hold 56.3% of the world's lithium reserves.<sup>16</sup>

Given the importance of LAC to China's economic growth, trade will continue to remain robust. In 2022, LAC exported an estimated \$184 billion to China and imported \$265 billion in goods. In 2022, LAC's trade deficit reached a new high; while LAC slightly increased its share of the Chinese market for a few commodities, its importation of Chinese goods increased at a faster rate, with South American countries largely responsible for the deficit in services trade. A comparison with 2015 data confirms that imports continue to increase, but the sectoral composition has not changed.<sup>17</sup>

### *Belt and Road Initiative (BRI)*

Linked closely to trade and loans, the BRI is the centerpiece of Beijing's strategic ambitions to integrate its political, economic, diplomatic, and military sectors and expand China's influence and power globally. Currently, 154 countries are members of the BRI, including 22 countries from LAC.

President Xi officially launched the BRI in 2013. The strategy aims to link Asia with Africa and Europe through the construction of a "Silk Road Economic Belt," a transcontinental trade route from China through Asia to Europe, and a "21st Century Maritime Silk Road," a sea route connecting China to Europe with intermediary points in Asia, the South Pacific, Eastern Africa, and the Middle East.<sup>18</sup>

#### **Belt and Road Initiative: 5 Priorities**

- > Policy Coordination
- > Infrastructure Connectivity
- > Trade Facilitation
- > Financial Integration
- > Closer People-to-People Ties

Given that the BRI was designed to link Asia with Europe, the LAC was not considered an important region when it was established in 2013. While the BRI has no formal budget, China has stated that the export credits funded by its four state-owned banks are key pillars of the BRI, linking BRI to Chinese export finance and lending for infrastructure projects in various countries. Estimates are that BRI spending has reached over \$1 trillion.<sup>19</sup>

### *Loans: In Decline*

China has been called the “lender of last resort” for countries that were unable to secure loans from traditional international lenders due to various reasons—such as over-indebtedness or corruption. Two development banks dominate lending: the China Development Bank (CDB) and the Export-Import Bank of China (EXIM). Since 2005, these banks have loaned over \$141 billion, more than the World Bank, the Inter-American Development Bank (IDB), or the Latin American Development Bank.<sup>20</sup>

When Xi Jinping took power in 2012, China-LAC trade relations intensified as the Chinese government began offering bilateral loans via its development banks, primarily for infrastructure projects such as roads, railways, ports, dams, and bridges. The average annual level of lending (2013-2017) was \$12.8 billion, with lending reaching its highest in 2010 at \$35.1 billion, though problems with indebtedness brought lending down sharply after 2017.<sup>21</sup>

Sovereign loans have been a key pillar in building China's economic influence. As China expanded its trade with LAC, its economic relations expanded into the financial sphere, with massive lending focused on large infrastructure projects. Here, the economic development interests on both sides were closely aligned; LAC countries borrowed urgently needed funds to build infrastructure, and China could take advantage of newly built ports and roads to transport goods and services.

**Contractual Concerns.** Chinese authorities generally do not reveal details about Chinese loan contracts, and the terms are seldom released. The attraction of Chinese sovereign loans stems in part from their size, availability, and, for many countries, the absence of many of the policy conditionalities and clauses that are standard in contracts from Western lending institutions, such as social and labor standards and environmental impact evaluations.<sup>22</sup>

The absence of environmental protection requirements and other concerns does not imply that Chinese sovereign funds lack conditionality. Chinese contracts contain special confidentiality and secret clauses that restrain LAC countries. For example, some clauses demand that countries are obligated first to pay China before other creditors are paid. Other clauses allow China to withdraw the loan to punish countries that engage in what China views as policies unfavorable to it.<sup>23</sup>

**Indebtedness.** The majority of LAC countries are highly indebted to China; in 2022, the LAC trade deficit with China stood at 1.4 percent of regional GDP—a record of over \$80 billion.<sup>24</sup> The number of countries indebted to China—some estimates are as high as at least a third of all BRI loans globally—has raised warnings that Chinese lending can lead

to a “debt trap,” i.e., that China uses loans for political gains by forcing countries unable to repay their debt to cede control of the projects (ports, fisheries).<sup>25</sup> Though studies have not found evidence to substantiate this argument, many projects are plagued with corruption, labor troubles, environmental degradation, and excessive debt.<sup>26</sup>

Unlike trade, state-to-state loans have witnessed a steep decline. Official state-to-state lending rose from 2005 to 2015, averaging just over \$9 billion annually, then plunged precipitously to zero in 2020. What can explain the sharp deterioration in lending? Experts point first to an evident increase in caution and greater attention to risk assessment on the part of the Chinese government, given the large volume of non-performing loans. However, lower demand from LAC countries due to the lingering effects of the COVID-19 pandemic and a slowdown in economic growth in the region are other factors.<sup>27</sup>

Yet, the plunge to zero does not imply that LAC has become less important to Chinese officials. A comparison of official loans to FDI, for example, reveals that as credit declined, investment rose. As one analysis stated, FDI has outpaced government-to-government loans as the main conduit for China-LAC financial flows. This points to a greater share of private sector participation in bilateral relations and “an appetite for the control of foreign real assets that FDI allows for.”<sup>28</sup>

Xi’s announcement of a revived “BRI 2.0” at the third forum on the BRI in October of 2023 surprised observers who assumed China had abandoned earlier lending practices. Xi stated he had directed China’s two development banks, CDB and EXIM, to raise \$100 billion in loans for new BRI projects. The revived BRI would prioritize “small” and “beautiful” projects, signaling a shift away from large traditional infrastructure projects and toward more investment in “green” projects, renewables, and information and communications technology (ICT) projects.<sup>29</sup>

Thus, the recalibration of Chinese economic priorities from large infrastructure projects to more targeted innovation-focused investments seems to have shifted preferences in its financing mechanisms. Analysts believe Chinese state loans will remain modest as China narrows its lending and invests in more technologically sophisticated sectors critical to its “new infrastructure” strategy.<sup>30</sup>

### *FDI: Variable*

China has expanded its economic presence as a provider of FDI. Prior to its accession to the WTO in 2001, China registered no significant capital outflows. That changed dramatically over the next two decades. As LAC countries began to accumulate large debts, China extended its economic influence via direct investment. It is estimated that between 2005 and 2022, Chinese investment in LAC reached \$148 billion, with 61% going to two countries: Brazil (44%) and Peru (17%).<sup>31</sup>

However, while Chinese FDI has not surpassed U.S. and European FDI in the region, Chinese FDI did reach \$160 billion between 2000-2020. Estimates show that Chinese FDI in this period totaled only 5.74% of the total FDI in LAC, while the combined total of U.S. and European FDI in LAC accounted for 70-80% of total FDI for the same period.<sup>32</sup>

## Financing New Infrastructure Sectors

- > Critical metals/ minerals: 98% of total mining investment since 2017
- > Computing: 41% of total Information and Communications Technology (ICT) investment in 2018-2023
- > Electronic vehicles: 35% of the total value of Chinese FDI in 2022
- > High-end manufacturing: medical manufacturer Sinovac received 26% of investment in high-end medical production since 2017

Source: Myers, Melguizo, and Wang, "New Infrastructure: Emerging Trends in Chinese Foreign Direct Investment in Latin America and the Caribbean," *The Dialogue*, January 2024.

Chinese FDI patterns have changed in recent years. The steep increase in the value of Chinese investments peaked in 2019 and then dropped sharply. In 2022, the value of China's overseas investment was estimated at \$29 billion, a decrease of 52% year-on-year.<sup>33</sup>

Many factors, both internal and external to China, have contributed to this decline. Geopolitical competition and related regulatory restrictions and the effects of rising global inflation have had an impact, while shifts in the Chinese government's investment strategies and priorities also contributed. Other potential effects range from the pandemic to China's slowing economic growth and outstanding debt from countries in the "Global South."<sup>34</sup>

Secondly, the nature of Chinese FDI has changed, in line with a shift in strategic priorities and an emphasis on specific industrial sectors that support the government's economic growth objectives. The focus is now on "innovation" and the "new infrastructure" that lays the foundation for China's next phase of technological development. Thus, the new emerging sectors that are driving the global economy will be prioritized, such as telecommunications, AI, electric vehicles, renewable energy, cloud computing, and 5G. The traditional large infrastructure projects will be replaced with smaller investment projects of shorter duration. Traditional sectors will still remain a priority—such as energy and minerals and mining—but will be redirected toward greater innovation-related investments.<sup>35</sup> Thus, analysts expect FDI in LAC to rebound with investments in "new infrastructure" industries. For 2022, investment in these sectors rose to 58% of all Chinese FDI in LAC (\$3.7 billion).<sup>36</sup>

## Issues for LAC Countries

For Latin American analysts, the potential impact of the LAC-China economic relationship presents two possible outcomes: either it offers a possible path to access global markets, or it portends LAC's return to the traditional model of a commodity-based economy that reinforces economic dependencies.<sup>37</sup>

As the data show, China-LAC economic relations have been and continue to substantially benefit China and LAC countries. The LAC countries were able to reduce critical infrastructure gaps, expand exports, and secure loans they would not otherwise obtain from traditional lending institutions. Many countries see relations with China as a way of diversifying their economies and creating opportunities to build new markets via China.<sup>38</sup> Countries in the region also see an advantage in reducing their traditional dependency on U.S. and European trade. The LAC region's volume of trade with China has overtaken trade with Europe and, as noted, has overtaken the United States as the most important trading partner in South America.

Despite the advantages of economic ties with China, the relationship has downsides. As noted, the lack of environmental regulation and social and labor standards has had serious consequences across the region. The exploitation of natural resources in agriculture, minerals, mining, and the energy sector has been especially damaging.<sup>39</sup>

Secondly, though relations produced substantial benefits for LAC, there are troubling patterns of asymmetrical interdependence over the longer term. The first is a concern about the entrenchment of an economic model that leaves LAC countries exporting commodities to China and importing manufacturing products made in China rather than expanding their own manufacturing production capacities. In its early years, China's trade with LAC concentrated on raw materials, and while China-LAC trade patterns have diversified over time, China's economic trade strategy continues to reinforce a highly asymmetric model of trade: 84% of LAC exports to China remain commodities, while 63.4% of Chinese exports to LAC are manufactured goods.<sup>40</sup> Some experts argue that these patterns of economic dependency replicate the traditional "core-periphery" model in LAC: extractive commodities are exchanged for manufactured value-added products, creating persistent levels of economic underdevelopment.<sup>41</sup>

The case of Chile is a useful example. Chile is one of only a handful of LAC countries with a trade surplus with China because of Chile's vast reserves of copper and lithium. Chile is the top producer of copper in the world (roughly 25% of world production) and the second largest producer of lithium (30% of world production). In 2021, 77% of Chile's exports to China were copper ore and related products, while China exported mostly semi-finished products to Chile.<sup>42</sup> Since 2000, Chile's exports have changed little—remaining highly concentrated in raw materials—while China has diversified its exports, moving from textiles and footwear in the early 2000s to more valued-added manufactured products such as telecommunications equipment and electronics. By 2021, footwear and textiles represented only 10% of Chinese exports to Chile.<sup>43</sup>

**Total Value China LAC-Trade 2022:  
\$482.6 billion**

**Chinese Imports from LAC 2022:** \$231. billion  
Mineral ores (32%), oil seeds (18%), mineral fuels and oils (12%)

**Chinese Exports to LAC 2022:** \$252.5 billion  
Electrical machinery and equipment (23%), machinery and appliances (14%), motor vehicles and parts (8%)

*Source: "China's Engagement with Latin America and the Caribbean," Congressional Research Service, June 23, 2023.*

A parallel concern is whether a trend toward deindustrialization is evident. The term refers to a situation in which a country or region experiences a decline in industrial activity for reasons such as outsourcing, economic shifts, or technological change. LAC countries export commodities to China, while China's exports manufactured products to LAC. A CEPAL report indicated that while overall well-being improved in LAC due to improved terms of trade driven by a boom in commodities trade, industrial production in low, medium, and high-tech sectors had decreased.<sup>44</sup> CEPAL case studies on Chile, Argentina, and Brazil concluded that all three countries "increased their specialization in commodities, resource-based manufacturing, and low productivity services to the detriment of their manufacturing industries."<sup>45</sup> If this trend of Chinese goods displacing LAC producers persists, analysts worry it will have consequences for LAC competitiveness over the longer term.<sup>46</sup>

Finally, the degree of Chinese control of strategic infrastructure in some LAC countries is worrisome to some observers, particularly in the energy sector. In Brazil, China owns and operates more than 300 power plants and 50% of Sao Paulo's hydropower generation, which, combined, constitutes 10% of the country's total energy generation capacity. In Chile, 57% of electricity distribution is owned by Chinese companies.<sup>47</sup>

## Soft Power and Diplomacy

Most assessments of China's growing power in LAC focus on its rapid and extensive economic dominance, but economic engagement is closely aligned with soft power, both of which have fueled China's rise. Economic interests drove the initial development of relations, but as China's economic influence grew, so did its political weight and diplomatic influence.

The Chinese leadership invests significant funds in public diplomacy and applies a broad array of soft power tools—political, economic, and cultural means—to advance its strategic interests in the region, such as official state visits, establishing media and communication outlets, and providing educational and cultural exchanges and outreach. This section will examine the tools with which China builds relations at the regional, national, and local levels and, in doing so, has realigned political relations across LAC.

Diplomacy is an essential component of a state's soft power. Unlike hard power, which refers to a country's ability to influence others through coercion or force, soft power is defined as the ability of one country to influence and affect the preferences and behavior of others through persuasion and attraction using non-coercive techniques and strategies.<sup>48</sup>

A country's soft power tools include its culture (e.g., education, media), political values and beliefs (institutions), foreign policy (diplomacy), and aspects of its business and economy. In the case of China, its soft power approach is primarily set by the Chinese Communist Party (CCP), with little input from civil society.

### *Multi-layered Public Diplomacy*

**Regional Level.** China has a long history of engagement in LAC regional organizations, institutionalizing its role and garnering support for its regional policies. China's outreach in LAC fits closely with Xi's "South-South" strategy that cultivates close ties with developing countries to achieve China's broader geostrategic objectives of building a different international state system under Chinese leadership. Securing its influence over the emerging "Global South" by presenting itself as the superior model to "Westernization" is key, and China's efforts have made significant inroads in LAC.<sup>49</sup>

A recent study by Florida International University provides insights into the tactics and impact of Beijing's active role in LAC regional institutions. There are more than 30 regional organizations and forums in LAC. This fragmentation—a result of competing interests, ideologies, and efforts to limit U.S. influence in the region—has resulted in

overlapping mandates and memberships that hamper regional cooperation and integration efforts.<sup>50</sup>

China joined its first regional organization as an observer in 1994, followed in 1998 by its full membership in the Caribbean Development Bank. It continued to extend its relations with regional institutions through the 1990s and 2000s, which allowed China to deepen its bilateral ties with many LAC countries. Altogether, China is engaged in 19 regional bodies in some capacity—as a full member of two regional bodies (Caribbean Development Bank and the Inter-American Development Bank), a permanent member of six more, and with others through consultation mechanisms or other agreements.<sup>51</sup>

China's objectives in such institutions reflect its broader soft power strategy: ensuring institutions do not take positions that obstruct or harm Chinese interests, supporting its economic interests and the expansion of Chinese companies, and reversing state recognition of Taiwan.<sup>52</sup> It engages with global institutions in the region (UN, World Bank, International Monetary Fund), regional institutions and forums (Organization for American States (OAS)), and with the Community of Latin American and Caribbean States (CELAC) and its subregional institutions and forums. CELAC was founded in 2011 to counter U.S. influence in LAC and offer an alternative to the OAS, of which Canada and the United States are members.

Several factors have enabled China's growing regional presence. China has benefited from the fragmented nature of the region's institutions. The overlapping functions and memberships mean a state can avoid organizations with rules and norms it rejects and join others more aligned with its interests. This has allowed Beijing to adapt its objectives to each organization, crafting specific goals and targeting those organizations it considers useful. It can then lobby to set rules, norms, and technical standards that bolster its position across the region.<sup>53</sup> China has also targeted regional organizations of which the United States is not a member, such as CELAC and the China-CELAC Forum, founded in 2014. In the China-CELAC Forum, China's efforts are focused on sub-forums in technical and functional areas where it can exert more influence.<sup>54</sup>

**Taiwan:** One of the most recognizable effects of Chinese diplomacy has been its success in peeling away support for Taiwan. Since 2017, five LAC countries have ended their official recognition of Taiwan. Of the remaining 11 state governments worldwide that maintain diplomatic relations with Taiwan, seven are in the LAC region, five of which are Caribbean

### China-CELAC Sub-Forums

- > China-Latin America High-Level Defense Forum
- > China-Latin American and Caribbean Region People-to-People Friendship Forum
- > China-LAC Young Political Leaders' Forum
- > China-LAC Scientific and Technological Innovation Forum
- > China-CELAC Political Parties Forum
- > China-LAC Agricultural Ministers' Forum
- > China-LAC Legal Forum
- > China-LAC Think Tanks Forum
- > China-LAC Infrastructure Cooperation Forum
- > China-LAC Business Summit

*(The China-CELAC 2022-2024 Plan of Action states that the Media Forum should happen "in due course.")*

*Source: adapted from Paul Nantulya and Leland Lazarus, "Lessons from China's Forum Diplomacy in Africa, Latin America, and the Caribbean," Africa Center for Strategic Studies, January 22, 2024.*

nations.<sup>55</sup> For the time being, Taiwan has retained its diplomatic connections in the Caribbean by providing funds for projects the governments prioritize, but China's pressure to eliminate all diplomatic support for Taiwan has been relentless.<sup>56</sup>

**State Level.** China has built good relations with countries across the region, and bilateral agreements have been signed in a wide range of economic, political, and cultural arenas. Its relations are particularly strong in South American countries. Seven LAC countries have been given “comprehensive strategic partnership” agreements by China, the highest diplomatic classification China awards: Argentina, Brazil, Chile, Ecuador, Mexico, Peru, and Venezuela.<sup>57</sup> Another measure of LAC's growing importance has been the rapid rise in official state visits. Since Jian Zemin's thirteen-day visit to Latin America in 2001, Chinese leaders have cultivated closer ties with the region, including Xi, who has visited LAC 11 times since 2013.

### ***Education and Culture***

Perhaps the most well-known soft power tool is the establishment of Confucius Institutes throughout the region. These institutes are an integrated part of the Chinese government's long-term campaign to consolidate its political, diplomatic, economic, and military power in the region. China established its first Confucius Institute in 2004 to provide cultural and language education programs in foreign countries. Currently, 23 LAC countries host 44 Confucius Institutes.<sup>58</sup> Worldwide, China has built 548 Confucius Institutes and 773 Confucius Classrooms in 160 countries and regions.<sup>59</sup>

Education exchanges and sponsorship of international students to study in China are government priorities and strengthen the soft power of China and its international status. Though Chinese cultural and educational programs such as in LAC universities are widespread, the number of LAC citizens studying in China is not large. A comparison of students in China reported that in 2017, only 1.5% of all international students studying in China (around 2,200) were from LAC.<sup>60</sup>

**Commercial/Technology Initiatives:** Economic mechanisms are also effective soft power tools.<sup>61</sup> The Chinese government links education programs and partnerships to areas with strategic value. Chinese companies and universities have established collaborative research programs and institutes with countries such as Argentina, Chile, Panama, and Brazil in areas of high economic interest, such as space technology, biotechnology and biomedicine, mining and minerals, petroleum, AI, marine technology, and medical equipment.<sup>62</sup>

**Strategic Communications and Media.** Strategic communications and media diplomacy are critical soft tools for every country, and China is no different. It invests significant resources in LAC to promote a positive image of itself as a reliable partner through public campaigns, Chinese news networks, print and digital media, and courting journalists and politicians—alongside a carefully crafted narrative. In 2009, China invested \$7.25 billion in overseas media outlets, opening 186 bureaus of its national news agency, Xinhua, worldwide.<sup>63</sup> Chinese diplomats are especially active on social media and in utilizing media tools: purchasing advertisements in media outlets, paying

newspapers to publish articles, giving interviews, writing op-eds, and building deep ties to Chinese diasporas to amplify their message.<sup>64</sup>

**Local.** Finally, China's strategic diplomacy also concentrates on building connections at the local level. Chinese officials arrange trips to China for local parliamentarians and promote business ties with governors and mayors. It cultivates close ties with the Chinese diaspora in Brazil, Cuba, Panama, Colombia, Argentina, Paraguay, Peru, and Venezuela, all of which have large Chinese communities to which Beijing pays close attention.<sup>65</sup>

### *Health Silk Road and Vaccine Diplomacy*

Announced in 2015, the Health Silk Road was considered part of the Chinese government's Belt and Road Initiative. It was not immediately implemented, however, and remained largely dormant until the COVID-19 pandemic hit. China's vaccine diplomacy was a soft power strategy, first applied as "damage control" to deflect criticism of its handling of the pandemic, then to assert it would step in to supply vaccine shots when the United States was unwilling to do so.<sup>66</sup> Loans were given to purchase Chinese vaccines, and agreements were signed to invest in building vaccine production facilities and collaborating on research.<sup>67</sup>

China was also suspected of using its vaccines to gain political concessions; Honduras and Paraguay alleged that China pressured them to abandon their support for Taiwan in exchange for receiving vaccine doses. None of the LAC countries with ties to Taiwan changed their position on Taiwan, though Brazil's government reversed a decision to ban Huawei from working on Brazil's 5G networks after China shipped millions of vaccine doses to Brazil.<sup>68</sup>

How effective was China's vaccine diplomacy? In the initial stages of the pandemic in 2020 and the first half of 2021, China outperformed the U.S. and Europe in supplying vaccines to LAC countries, and there remains a widespread belief that China supplied the vast majority of vaccine shots to LAC countries. However, the data show that China's advantage declined after mid-2021 when the U.S. and Europe began donating massive vaccine supplies. By early 2022, the U.S. and the EU had surpassed China in vaccine deliveries worldwide (U.S.: 41%, EU 30%, China 12%) and outperformed China across the LAC region (South America, Central America, and the Caribbean).<sup>69</sup> China's vaccine diplomacy was further eroded by the fact that China shipped vaccines as commercial supplies to LAC countries at a price that sometimes exceeded those of other countries. Concerns about the efficacy of Chinese doses and China's refusal to share data about the COVID-19 virus also had an effect.<sup>70</sup>

Thus, as an instrument of soft power, China's vaccine diplomacy achieved only limited gains. It managed to ward off major damage to its reputation in LAC, but the pandemic did not generate any significant advantages for China in its competition with the United States.<sup>71</sup>

## Security and Defense

China's engagement in LAC has been principally economic and commercial, but its security and defense engagement in LAC is a growing component of its multifaceted approach to achieving its strategic objectives. While the PRC does not have military capabilities based in the region, it has a growing web of military and defense connections to forge stronger military relations in LAC. It has raised its military profile through its arms sales, donations of military equipment, security cooperation programs with LAC military and national police forces, and other means. China has also utilized its membership in CELAC to boost its military ties among China-CELAC Forum members. Establishing the China-Latin America High-Level Defense Forum in 2015 gave China a venue to build closer military relations among LAC countries.<sup>72</sup>

China's strategy in the Caribbean illustrates its integrated approach as well as the growing strategic significance of the Caribbean for China. Though insignificant relative to China's trade with the rest of the region, Chinese-Caribbean trade is rapidly increasing, as are Chinese loans and investments since 2005. Four of the seven LAC countries that maintain relations with Taiwan are Caribbean nations.<sup>73</sup> Ten of the 44 Confucius Institutes in LAC are located in the Caribbean. The Chinese government has increased its regular courting of business leaders and politicians and its outreach to the Caribbean's Chinese diaspora. Finally, through its security cooperation initiatives, China regularly donates equipment to military and national police forces and invites military personnel to China for professional military education (PME) courses and training.<sup>74</sup>

**Education and Training.** China accepts more officers to attend its military academies than the U.S., investing in the careers of junior officers who may one day hold top leadership positions.<sup>75</sup> In some years, China has provided more professional military education training slots for Latin American and Caribbean officers than the United States by a factor of five.<sup>76</sup> Professional Military Education (PME) has increased in scope and numbers in recent years, with the PLA emphasizing critical domains such as cyber and space, areas critical to China's longer-term economic development strategy.<sup>77</sup>

**Visits and High-level Exchanges.** China places significant value on its people-to-people diplomacy in the military and defense field. According to a 2021 report by the United States-China Economic and Security Review Commission, Chinese military officials met with their LAC counterparts 215 times, with Chile, Argentina, Brazil, and Cuba accounting for more than half of those visits.<sup>78</sup> The Chinese People's Liberation Army (PLA) regularly interacts with South American military institutions, strengthening its long-term relationships with LAC militaries.

**National Police Forces.** China's growing relationship with national police forces in Caribbean countries parallels its interactions with the military. China has also organized bilateral exchanges between senior LAC police officers and China's internal security services, which is part of its growing contacts with LAC domestic security forces. Similarly, China provides training and equipment to local law enforcement agencies.<sup>79</sup>

There has also been a rapid increase in Chinese overseas police outposts and private security companies deployed to other countries to protect Chinese citizens and economic interests.<sup>80</sup> With these developments, set in the context of LAC worries about public safety and the upsurge of transnational crime, the desire of national and local officials for better strategies to ensure safety also creates a market for the kinds of solutions China offers, such as surveillance technology, facial recognition software, and so on.

**Arms Sales.** In the early 2000s, cooperation began with Chinese donations of military equipment and materiel—uniforms, tents, and helmets—and moved on to sales of heavier equipment and military hardware. Observers note that China is seen to offer relatively good equipment at a fair price with dependable post-sale services.<sup>81</sup> Venezuela is the top buyer of military hardware from China, purchasing \$629 million of arms between 2006 and 2022, followed by Argentina, Peru, Ecuador, and Bolivia.<sup>82</sup>

**Aviation Sector.** Over the years, China has donated or supplied military aircraft to several LAC countries, including Cuba, Venezuela, Bolivia, Colombia, Guyana, and Costa Rica. Argentina has long needed to modernize its fighter aircraft fleet, but the UK's ban on the sale of fighter aircraft using British-made parts—a legacy of the 1982 British-Argentine war over the disputed Falklands (Malvinas) Islands—and U.S. compliance with the ban severely constrained Argentina's options for decades. China's JF-17/FC-1 fighter was a top contender when Argentina signaled its intention to purchase a new fleet of combat fighters, receiving the support of the then center-left government of Alberto Fernández.<sup>83</sup>

Facing the prospect of the Chinese military gaining a stronghold in South America, the United States moved to counter Chinese military advancement in LAC and improve its relations with Argentina. Denmark's decision to modernize its fighter aircraft fleet created an opportunity for Argentina to purchase Denmark's used F-16 combat aircraft—made possible by Washington relaxing its informal compliance with the UK ban. Then, Argentina's 2023 presidential election brought Javier Milei to power, a right-wing populist politician critical of China and supportive of closer relations with the United States. Milei broke with his predecessor's pro-China stance, and the \$300 million deal delivering Denmark's 24 F-16 aircraft to Argentina was signed on April 16, 2024.<sup>84</sup>

**Space.** China's development of its space technology and facilities in LAC is emblematic of its shift towards more sophisticated technology sectors and its expansion into a critical economic and militarily strategic domain. Chinese space cooperation in LAC began in the late 1980s with joint satellite research and production with Brazil, and China currently has satellite ground stations in Brazil, Bolivia, Venezuela, and Chile.<sup>85</sup> According to General Laura Richardson, former commander of the U.S. Southern Command, the PRC has at least ten space-based facilities across five countries in the region. This could allow the PLA to build up its military capabilities in areas such as global space tracking and surveillance capable of “monitoring, tracking, and targeting” U.S. forces.<sup>86</sup>

The most well-known of these is the Chinese deep-space station in Neuquén, in the Patagonia region of Argentina. The agreement signed by the two countries stipulates that Chinese military personnel must conduct peaceful scientific research at the

station. However, the Argentine government also signed a non-interference agreement, meaning it lacks verification mechanisms to monitor whether the station's research is only used for civilian or non-military uses.<sup>87</sup> Thus, with China constructing a string of satellite ground stations and space technology facilities along the South American coast towards Antarctica, U.S. officials see the growing likelihood of intensified geopolitical competition in this strategic arena.

***Dual-Use Technology and "Civil-Military Fusion"***. The discussion of China's space program illustrates the critical issue of dual-use technology and "civil-military fusion" in examining Chinese actions and intentions in LAC. The term "dual-use" refers to goods, technology, and software that can be used for civilian and military purposes. China's leaders have long recognized the connection between economic advancement and military modernization. The PLA—itsself a major economic actor with global commercial interests—leverages the civilian acquisition of advanced and emerging technologies to "informatize" its forces.<sup>88</sup>

Perhaps more importantly, all China-based private companies and PRC technology companies are legally obligated to surrender their data to the Chinese government, showing how closely its civilian and defense economies are intertwined.<sup>89</sup> Two cases are illustrative.

***Chinese Investment in the Panama Canal***. The Panama Canal is of significant global economic and strategic importance, connecting maritime traffic between the Atlantic and Pacific Oceans. Its trade volume represents 6% of global trade. According to Panama Canal Authority figures for 2021, the United States is the top user of the Canal, with 72.5% of cargo with origin or destination in the United States, while the share of cargo linked to China increased from 18.3% in 2017 to 22.1% in 2021.<sup>90</sup>

China's growing presence in the Panama Canal reflects the familiar model of leading with its economic and commercial infrastructure projects, investments, grants, and loans and then augmenting its economic influence with soft power tools and diplomacy to advance its policy objectives.

In 2016, the Panamanian government completed the Canal's expansion. Soon thereafter, China announced it would implement a series of Chinese-backed infrastructure projects, including a high-speed rail train linking Panama and Costa Rica, a cruise ship terminal, ports, a convention center, a fourth bridge over the Panama Canal, a natural gas-fired power plant, and a new Chinese embassy.<sup>91</sup>

In 2017, a China consortium acquired control of the Margarita Island port in the Colon Free Zone and a deal for \$900 million to build the Panama-Colón Container Port (PCCP), a deep-water port for mega-ships. Colón is the largest free trade zone in the Americas and the second largest in the world. The work on the port began a week before Panama officially severed relations with Taiwan and gave diplomatic recognition to the PRC. Panama was the first LAC country to join the BRI five months later. In June 2018, Panama's first Confucius Institute was established.<sup>92</sup> The Doublethink Lab, which measures PRC influence across the globe, reports that Panama received the second highest level rating of countries exposed to PRC influence in LAC (#23 overall) after

Peru (#5 overall). Venezuela, highly dependent on China, was ranked #25, while the U.S. was #21.<sup>93</sup>

A change in Panama's government brought greater scrutiny and the suspension of some projects. The high-speed rail project was abandoned. The most important reversal was the decision to suspend and then revoke China's PCCP port project for a host of reasons, such as non-compliance with contractual terms, corruption, and failure to conduct environmental impact reports.<sup>94</sup> Still, China remains deeply entrenched in Panama. The cruise ship terminal is near completion, the convention center is open, and China will soon begin building the \$1.4 billion bridge across the Panama Canal. Importantly, China continues to operate two of the four strategic ports adjacent to the Canal—Balboa on the Pacific and Cristobal (Colón) on the Caribbean side.<sup>95</sup>

***U.S-China Competition in Punta Arenas, Southern Chile.*** A quiet deep-water seaport in southern Chile in the Strait of Magellan near Antarctica has suddenly become enmeshed in the geopolitics of great power competition for both economic and strategic reasons. Global conflicts have disrupted trade patterns and redirected global shipping lanes towards the southern tip of Latin America. In early 2024, Houthi attacks on cargo ships in the Middle East slashed commercial traffic through the Suez Canal by 42%. Russia's invasion of Ukraine interrupted Black Sea trade, and drought in Panama slowed container traffic through the Canal down to a trickle.

Seeking new and more stable routes, global shipping companies have discovered LAC and Punta Arenas in particular. In January-February 2024, the volume of bulk carriers, container ships, and gas tankers passing through Punta Arenas soared by 25% from the same period in 2023 and by 83% in 2021. Traffic for 2024 is expected to increase by 70%.<sup>96</sup>

Strategically, Antarctica's close proximity to the Strait of Magellan has driven the United States and China into intense regional competition. Strategic issues focus on safeguarding freedom of navigation and Western access to Antarctica as global demand for Antarctica's minerals and freshwater reserves also increases. Already in 2019, China opened talks with Chile to acquire access rights to the port of Punta Arenas for Chinese exploration vessels to support its growing presence in Antarctica.<sup>97</sup> In April 2023, USSOUTHCOM commander General Laura Richardson visited Punta Arenas and a military exercise in Patagonia to signal American determination to protect its interests in the region.<sup>98</sup>

In summary, while China does not have a military presence in LAC, it has expanded its military-to-military collaboration and invested in advanced technology facilities that can leverage civilian technologies for potential military gains. Most experts do not believe there is cause for alarm today—the United States has a strong military presence and a dense network of regional partners—but emphasize the need to monitor regional events closely. Geopolitical politics and major power competition now shape the region's political, economic, diplomatic, and military landscape.

The two cases above illustrate the complex nature of assessing China's growing influence in LAC and the need for an integrative response.

# Considerations

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## For the United States

The United States has a long and multifaceted history with LAC and retains deep ties within the region—economic, political, familial, and cultural. Latin America and the Caribbean are among the United States’ most important trading partners. However, as China’s strategic outreach advanced across LAC, an inattentive foreign policy, divisive domestic politics, and a failure to monitor the security implications of a deepening Chinese presence in America’s sphere of influence facilitated China’s growing economic, diplomatic, political, and military ties. It is telling that in 2008, a Council on Foreign Relations report on U.S.-Latin American relations asserted that “the era of the United States as the dominant influence in Latin America is over.”<sup>99</sup>

Observers partly attribute this complacency to the United States’ preoccupation with conflicts tightly linked to its strategic interests worldwide. The 9/11 attacks and interventions in Afghanistan and Iraq focused U.S. attention on the Middle East and South Asia and the Russian invasion of Ukraine in 2014 and 2022 back to Europe. America’s dominant position and the absence of military confrontation in the region that would prompt U.S. intervention, along with American domestic politics over migration and drugs overriding any other U.S.-LAC foreign policy considerations, were other reasons cited. With America’s focus elsewhere, China filled the vacuum.

Consequently, the United States now views LAC as part of the geopolitical competition and China as a rising threat to LAC. China is there to stay, however, and all indications are that the China-LAC relationship will continue to grow. The question is how the United States should respond to a permanent Chinese presence in the Western hemisphere.

Some observers doubt the United States has the political will or resources required to regain ground in LAC. Others argue that the United States is not without significant assets and advantages, such as its close geographic proximity, its deep economic and trade ties, and the democratic values and norms it shares with LAC. What experts do agree on is that the United States must refrain from painting U.S.-China competition in LAC in alarmist “either-or” terms. Instead, it must present a positive plan for building partnerships based on mutually beneficial outcomes that address the needs and concerns of LAC countries without requiring them to choose sides.<sup>100</sup> An effective U.S. regional strategy requires a similar multifaceted and unified strategic approach as China has employed in LAC.

**Trade.** For LAC experts, to compete economically with China requires developing a comprehensive trade strategy and an emphasis on assisting LAC countries in

developing their own economic capacities and capabilities. The Biden administration took steps to close gaps, including establishing the Americas Partnership for Economic Prosperity (APEP). Officially launched in June 2022, APEP was established to mobilize U.S. investment in the region and encourage regional competitiveness. In the first APEP Leaders' Summit in November 2023, topics of discussion included strengthening critical supply chains and driving region-wide economic growth. One drawback, however, is that major economies such as Brazil and Argentina, countries with strong relations with China, have not joined APEP.<sup>101</sup>

Under the Biden Administration, the bipartisan bill "Americas Trade and Investment Act" or "Americas Act," was introduced in the U.S. Senate on March 6, 2024. The bill sought to build a comprehensive approach to U.S. foreign and trade policy for LAC, deepening relations with LAC countries to advance trade, investment, and people-to-people partnerships. With the election of Donald Trump as president in November 2024, prospects for the bill's passage are uncertain as the traditional bipartisan consensus on U.S. economic policy weakens in the face of growing protectionism and the incoming administration's predilection for tariffs.

Another considered approach extends membership in the United States-Mexico-Canada Agreement (USMCA) to other countries.<sup>102</sup> Entered into force during the Trump administration in 2020, the USMCA replaced the 1994 North American Free Trade Act (NAFTA) and updated it, adding such components as a chapter on digital trade, environmental and labor protections, and the insertion of a dispute resolution mechanism.

The overall goal of USMCA is to strengthen economic collaboration among its members and build the foundation for an integrated, sustainable, and all-inclusive North American economy, particularly in securing resilient supply chains in critical sectors such as semiconductors, clean energy, and batteries.<sup>103</sup> Over the past three years, despite setbacks during the COVID-19 pandemic, trade in goods and services, investment, and job growth under USMCA have grown and are expected to continue to rise.<sup>104</sup>

Nevertheless, trade advocates will continue to struggle against changes in views of free trade on both sides of the political aisle. Attitudes on trade liberalization have shifted dramatically over the past decades. Democratic and Republican parties have abandoned the postwar consensus on the benefits of expanding free trade and globalization in favor of a more insular view of global economic trade. U.S. elites and the public see more harm than good coming from unfettered trade, and it will be difficult to return to some semblance of a free trade regime.

While the Biden administration worked to develop new types of economic arrangements to persuade LAC countries to build regional cooperation under U.S. initiatives, LAC countries continue to prefer free trade agreements (FTA). The United States has FTAs with 12 countries but has declined to negotiate new ones, leaving the field open to China. Four LAC countries have ratified FTAs with China—Chile, Peru, Nicaragua, and, as of May 2023, Ecuador, which had previously failed to negotiate an FTA with the Biden administration. Uruguay and Panama have begun discussions, and Honduras is reportedly in the negotiation stage.<sup>105</sup>

*"If the United States doesn't show up with a meaningful economic agenda for the region, the region is going to turn to people who will ... And who's the obvious choice? The one with the money: China."<sup>106</sup>*

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**Soft Power and Diplomacy.** The United States retains a deep reservoir of soft power, but a renewed commitment to supporting American soft power capabilities is needed. The U.S. Department of State requires budgetary support and political commitment to strengthen traditional diplomacy, cultural and educational exchanges, and people-to-people engagement to reinforce lasting relationships. It is also important to acknowledge that the Chinese challenge to America's standing is global. Recognizing LAC's strategic importance and China's multiple challenges to U.S. interests in the region is long overdue, as is prioritizing U.S. diplomatic outreach. For example, China's largest embassy in the world is in the Bahamas. In contrast, the United States has not named a permanent ambassador to the Bahamas since 2011.<sup>107</sup>

Investing in supporting democratic institutions, good governance initiatives, and civil society, environmental, and human rights organizations signals an American commitment to people-to-people partnerships in LAC, which is important because China has not prioritized such issues in its relations with LAC countries. A reinforced U.S. diplomacy initiative will also require attention and resources given to the transformative role of digital media and technology. The 2023 budget for the Voice of America Latin America division was \$10 million. This figure is less than 50% of the budget for Eurasia and less than 25% for East Asia and Pacific. Building VOA programming in Spanish, for instance, would give the United States (with a population of 40 million native Spanish speakers) a true comparative advantage.<sup>108</sup>

**U.S. Domestic Politics.** The dynamics of U.S. domestic politics complicate U.S. efforts to build comprehensive economic and political initiatives in LAC. The highly volatile issues of drugs and immigration in American domestic politics dominate the U.S.-LAC agenda, eclipsing almost all other bilateral and regional discussions. For some LAC countries, these issues dominate their relations with the United States.<sup>109</sup> Political polarization, particularly on migration issues, continues to hamstring U.S.-LAC relations.

Analysts are not optimistic about U.S. prospects for marshaling all of the components it will need to regain momentum in the commercial and economic sectors. Sustained funding will be difficult in the current political climate at home. Given budgetary constraints, it is likely that U.S. soft power mechanisms will not be sufficiently funded despite the prioritization of people-to-people partnerships in the Americas Act and the media challenges the United States faces in the region.<sup>110</sup>

**Military.** The LAC region is, without a doubt, a critical arena of geopolitical competition between the United States and China. Militarily, the United States maintains a strong advantage in the region, but China is rapidly expanding its military and security

presence and cooperation in LAC. U.S. officials are especially concerned with China's "civil-military fusion" approach that develops projects offering both commercial and military advantages.

The U.S. response, argued the former commander of the U.S. Southern Command, General Laura Richardson, is to meet China's strategic challenge with an equally multi-leveled approach—a "whole of government" approach that leverages U.S. military power, U.S. economic investment and opportunity, and strengthening partnerships to overcome shared security challenges. Fundamentally, General Richardson stated: "Presence absolutely matters."<sup>111</sup> Increasing engagement and assisting LAC partners to address their security concerns is paramount. Security cooperation programs, education and training programs, and military exercises all help build relationships and connections over the longer term.

## For Latin America and the Caribbean

Over the past several decades, LAC countries have solidified relations with China. The benefits have been substantial. Trade continues to grow, LAC countries have diversified their exports, and progress has been made in narrowing the infrastructure gap, among other positive benefits. And yet, gains in economic development through trade and investment have also come with significant costs, seen in the structural economic and commercial asymmetries and their consequences: trade dependencies and deindustrialization, environmental degradation via extractive industry practices, social conflict, and a lack of labor and social protections.

Some LAC countries, for example, have relaxed environmental, safety, and social regulations to attract Chinese investment. A 2015 Boston University study found that Chinese companies contributed to severe environmental degradation, especially in the extractive and agricultural industries, and thus to the social conflicts in LAC countries that followed. Some governments did act—with oversight measures, labor standards, and indigenous protections—but the study concluded that, for the most part, "Latin American governments fell short of mitigating the social and environmental costs of trade and investment of the China-led commodity boom."<sup>112</sup>

For some LAC experts, it remains an open question whether the benefits of closer ties to China outweigh the costs, because whether a country's relationship is positive or negative will depend on the actions of government leaders, and the potential costs depend on the decision outcomes negotiated between LAC countries and the Chinese government. For LAC leaders, taking steps to negotiate terms of agreement that secure the protections, standards, and regulations of their citizens will better protect national interests.<sup>113</sup>

*“The terms by which South American governments establish its relations with China will condemn the region to agro-export economies based on extractivism or they will enable economies capable of incorporating added value to their products through the application of technology, being able to compete in the global market ...”*

Source: Mejias and Sampó, p. 10.

There are signs that some governments are reappraising their relationship with China, and growing opposition to Chinese practices has prompted some governments to respond. For example, China is intensifying its holdings in the lithium sector, particularly with Chile, as the lithium boom accelerates. Chile has responded by finalizing a national lithium strategy to establish partial control over its reserves and further nationalize lithium as a strategic mineral.<sup>114</sup> This is particularly important given that demand for lithium is projected to grow 40-fold in the decades ahead as the global economy transitions to renewable power and electric vehicles. With 60% of global lithium reserves, LAC has the potential to be a major beneficiary if it can secure investments to ensure that a greater share of the value chain remains in the region, including the construction of lithium refining plants and battery production facilities in LAC.<sup>115</sup>

China's industrial overcapacity is another concern for countries, including Brazil, China's most important economic and political partner in South America. On March 18, 2024, the Brazilian government launched an investigation into possible Chinese dumping of industrial products, particularly in the steel sector. Brazil itself is a major steel and iron ore exporter, and industry companies are calling for stiff tariffs against China to protect Brazilian businesses.<sup>116</sup>

# Observations

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Over the past two decades, the United States has seen LAC as peripheral to its strategic interests, but China's advancement in LAC shows that the strategic challenges the United States faces today are global, not regional. China is a permanent fixture in the Western Hemisphere. Even the strongest U.S. partners in LAC see their relationship with China as beneficial and will continue to expand relations.

The United States' challenge is to invest in a comprehensive whole-of-government strategy that meets China across the same economic, diplomatic, and defense spectrum. Analysts are clear-eyed about the significant effort it will take for the United States to regain momentum to meet China's growing presence. It will take committed resources across multiple sectors, and U.S. policymakers must find the political will and determination to make it happen. For many observers, the way forward is through building partnerships and opportunities for cooperation in areas vital to LAC societies. Thus, an important task is to offer a relationship built on common interests and mutual benefit to address current security and economic challenges in LAC.

This is where policymakers in Europe and the United States can be more effective together, particularly given the EU's renewed commitment to the region. Combining the EU's Global Gateway with the U.S. Americas Partnership for Economic Prosperity (APEP) initiative, for example, could have a greater multiplier effect in the region and provide more counterweight to China's deep economic investments in LAC. A combined U.S.-European initiative would assist LAC countries in developing the capacity to deliver sustainable economic development, climate resilience, social equality, and thus greater prosperity for their citizens.

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