



## **Exploring the Impact and Implications of Chinese Capital in Latin America and the Caribbean**

Emerging market finance from authoritarian regimes generally lacks the transparency and accountability of democratic, open market societies. China's growing economic and political influence in Latin America and the Caribbean (LAC), amplified by the COVID-19 pandemic, suggests a need to investigate the wider impact of such capital.

In a series of public and private meetings between 2021 and 2023, Americas Society/Council of the Americas (AS/COA) examined key issues facing entrepreneurs and investors competing with Chinese entities across the region. The purpose of these conversations was to understand better the nature and implications of Chinese investment and broader engagement, and to identify specific recommendations for consideration.

For these off-the-record discussions, AS/COA invited dozens of private sector leaders, experts, and other interested observers to offer real-world experiences and ideas as China's regional footprint continues to grow consistent with Beijing's broader goals and aspirations. This summary report details key project findings and recommendations.\*

### **KEY FINDINGS**

- China's engagement with Latin America and the Caribbean is now fully established and relations are increasingly intertwined.
- China employs diverse economic tools to promote a broader strategic agenda.
- Appreciation lags concerning implications of China's approach to financing and investment.
- Misinformation about Chinese activities is persistent.
- Washington must develop a more strategic approach to Latin America and the Caribbean.

## **CHINESE RELATIONS WITH LAC ARE INCREASINGLY INTERTWINED**

China's relationship with LAC is long-term given regional requirements for investment capital and mutual trade interests. Despite the relative newness of China's intentional engagement, i.e. barely 20 years, China has rapidly become the top trade partner for most of South America and a significant and growing investor throughout LAC, particularly across sectors and nations identified by Beijing as strategic. It is unrealistic to suggest that China's desire to continue expanding ties with the region will wane, or that the region itself would desire or work toward such an outcome.

World Bank projections suggest near-term regional economic performance below what is required for sustained post-pandemic recovery. Debt loads have increased; China is the largest holder of sovereign debt. Yet, LAC is richly blessed with natural resources, including critical minerals such as copper and lithium, which have become strategic in the context of energy transition and climate change mitigation, and which China and others increasingly desire. Meantime, the region suffers from a significant deficit of infrastructure and other investment even as popular expectations are increasing, pressuring governments to deliver a better quality of life despite restricted resources.

China gains economically by engaging meaningfully with LAC, but Beijing's ambitions for the Americas go well beyond a self-interested desire for economic benefits. This mirrors a broader approach to emerging markets globally. The goals are wide-ranging, integrated, and open-ended, including the cultivation of political leverage that can be deployed when needed. At the same time, Chinese capital is ubiquitous and comes without the inconvenient conditionality that can accompany capital from democratic societies. It may even undermine regional development priorities. Nonetheless, it is often difficult for political and business leaders in recipient nations to resist its allure.

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## **CHINA EMPLOYS DIVERSE ECONOMIC RESOURCES TO GAIN WIDER INFLUENCE**

As Chinese engagement with LAC increases, Beijing has expanded beyond trading commodities to implementing a broader political agenda. Political and economic uncertainty in the region, including social strains heightened during the pandemic, in addition to a growing acceptance across the region of authoritarian populist or other non-traditional solutions, creates a more permissive environment for the deployment of capital sourced from authoritarian nations.

Strategic investments are ultimately directed by China's political leadership and engagement brings certain practices. A lack of transparency in contracts, for example, helps circumvent international financial regulations, facilitates the transfer of illicit funds, undermines environmental, social, and labor standards, and erodes democratic values. In such circumstances, at a minimum, corruption can flourish while the rule of law diminishes, but the impact is often more significant including democratic deterioration and eroding sovereignty.

Digital is key. Chinese "smart cities" technology is already prominent across LAC. It is an economic play that nonetheless exports Chinese security practices into markets that may not have adequate democratic protections including robust rule of law to safeguard deployment of dual-use technology. As well, user data can be and is collected by Chinese companies which can then be transferred in whole or in part to Chinese government authorities. The implications for civil liberties and personal privacy are enormous.

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With economic dependence comes political leverage which Beijing uses effectively. From agreements that burden nations with increased indebtedness to cancelling commodities contracts for political reasons to secret investment agreements and protocols to outright payoffs and bribes, authoritarian capital targets elites who have the ability to make decisions and take actions that China finds convenient on such issues as Taiwan, universal human rights, and the promotion of global governance reforms. It's a high price to pay in return for a road, port, or space station.

## **APPRECIATION LAGS CONCERNING IMPLICATIONS OF CHINA'S APPROACH TO FINANCING AND INVESTMENT**

Economic fallout from COVID-19 has made the region more dependent than ever on China, and many in the region, including elites, continue to view relations primarily through an economic prism. But China's activities and ambitions are much greater. International investment and trade, often made possible through loans rather than FDI or grants, are the primary tools that China uses to build its own economy while creating leverage in emerging markets to promote a more overtly strategic agenda that benefits Beijing's political interests. A significant percentage of regional leaders fail to appreciate fully the implications of this reality.

It may be more convenient for leaders to reap economic benefits in the short term while delaying any political costs until the longer term, but doing so can effectively mortgage their own nations' futures to the priorities and whims of the Chinese government.

A greater appreciation of the role of authoritarian capital in undermining hard-won democratic reforms could at least encourage national leaders to take a more probing, skeptical view of the broader implications of Chinese investments, and to take appropriate steps to vet projects effectively in advance and to strengthen rather than weaken democratic institutions.

## **MISINFORMATION ABOUT CHINESE ACTIVITIES IS PERSISTENT**

The LAC messaging space is highly contested. China effectively uses cultural and media presence to influence public perceptions. Media and government elites, including both federal and local officials, are routinely targeted for lavish goodwill tours of China and other benefits. Confucius Institutes and language programs can be found throughout Latin America, widely acknowledged to promote a collectivist, pro-China worldview not only language training. As well, China maintains a large official media including social media presence in the region which allows the government to insinuate the ideas and values of the Chinese Communist Party while filtering out countervailing messages of transparency and democracy. The impact of this effort was on full display during the pandemic, when China's limited and often substandard assistance was magnified and celebrated despite shortcomings.

Broad public education is required, including exposing and rejecting predatory investments that disregard rules-based systems and societies. Corruption facilitated by authoritarian capital debilitates democracy. Transparency, enforcement, and reduced impunity must be active parts of national dialogues. Contracts made in secret should be rejected, their terms made public, which may otherwise limit sound public policy options while exposing members of the bureaucracy to potential legal jeopardy.

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For their own well-being, LAC nations should also seek participation in international treaties that set standards for environmental protection, infrastructure development, critical materials, and the protection of private digital data. Shifting incentives in this manner will ensure that discussions around broader social impacts of investment, including local communities, the environment, rule of law, and development will also include Chinese investments, not just U.S. or Canadian or European or Japanese. The objective is to ensure that China plays by the same rules of the game that LAC establishes for others, with national leaders willing to reject authoritarian capital investments when these rules are not met or respected.

#### **WASHINGTON MUST INVEST GREATER POLITICAL AND ECONOMIC RESOURCES**

It is imperative that the United States develop and implement a more ambitious policy agenda focused on deepening economic and democratic engagement across LAC. Greater appreciation for the region's importance for U.S. interests, and urgency in helping to meet regional needs, would be both strategic and wise.

High level diplomacy is critical, including presidential, vice presidential, and cabinet level visits, and rapidly confirming appointees to senior positions. Additionally, expanding trade and investment—progressive convergence with USMCA should be a priority for countries that have proven willing and capable of taking on the higher obligations the agreement requires—would show that the United States is committed in building partnerships that foster mutually beneficial economic growth and sound development.

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Supporting policies that encourage greater private sector investment abroad will also give confidence to companies to take on greater regional investment risk, not leaving potentially lucrative investment opportunities to companies that enjoy the backing of authoritarian governments.

Revitalizing and better utilizing existing tools such as the Development Finance Corporation, Millennium Challenge Corporation, and other entities to prioritize strategic U.S. goals in the Americas would assist efforts to meet the challenge of authoritarian capital across LAC.

## **CONCLUSION**

China seeks structural economic and political convergence between Beijing and countries across the region. Current challenges within LAC could speed this process, particularly if meaningful alternatives to Chinese largesse do not materialize.

Even before COVID-19, LAC was underperforming economically, a situation compounded by the political and social strains of the pandemic. To return to a more favorable growth trajectory, greater investment is required. Not all investment, however, is the same. Chinese investment and financing embed negative externalities. Nonetheless, LAC needs foreign capital and China is committed to the long term.

The key is not to isolate China, if such were even possible, but to increase economic and political engagement with the region to show the tangible value of enhanced relations with Western partners. Emphasis must also be placed on strengthening democratic institutions at the local, national, and international level to channel Chinese engagement appropriately, including a better understanding of the implications of such investment and a clear-eyed view of the true costs associated with authoritarian capital.

Washington must compete for regional hearts and minds, not just wallets. With a shared vision for democracy and development, LAC will be in a better position to benefit from *all* investors, including those from the United States, ensuring greater transparency and accountability in relations with countries and partners worldwide.

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*Americas Society* is the premier forum dedicated to education, debate, and dialogue in the Americas. Its mission is to foster an understanding of the contemporary political, social, and economic issues confronting Latin America, the Caribbean, and Canada, and to increase public awareness and appreciation of the diverse cultural heritage of the Americas and the importance of the inter-American relationship.

*Council of the Americas* is the premier international business organization whose members share a common commitment to economic and social development, open markets, the rule of law, and democracy throughout the Western Hemisphere. The Council's membership consists of leading international companies representing a broad spectrum of sectors, including banking and finance, consulting services, consumer products, energy and mining, manufacturing, media, technology, and transportation.

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*\*This summary report details key project findings and recommendations. While none are necessarily the views of AS/COA or any individual project participant, they represent a general consensus in the aggregate.*