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China’s Engagement with Latin America and the Caribbean

Relations between the People’s Republic of China (PRC, or China) and the countries of Latin America and the Caribbean (LAC) have grown substantially over the past 20 years. This growing engagement, which remains primarily economic and diplomatic, has led some U.S. policymakers to consider the potential implications of strengthening PRC-LAC ties for U.S. interests.

Diplomacy

Beijing’s diplomatic initiatives in LAC have helped advance China’s economic priorities, institutionalize its engagement in the region, and garner support in international fora. Some analysts assess that the PRC’s activities in LAC do not appear to be aimed at challenging the United States directly or militarily, yet reflect a global strategy to counter U.S. influence. China’s diplomatic efforts include being an observer at the Organization of American States, a member of the Inter-American Development Bank and the Caribbean Development Bank, and a participant in the Asia Pacific Economic Cooperation (APEC) forum.

Since 2014, China has sought to engage with the region through the Community of Latin American and Caribbean States (CELAC), a region-wide organization that excludes the United States and Canada. During the Third Ministers’ Meeting of the China-CELAC Forum in December 2021, the parties adopted a China-CELAC Joint Action Plan (2022-2024) to guide cooperation in areas including politics and security, economy, and infrastructure. In his most recent address to the grouping in January 2023, China’s leader Xi Jinping expressed China’s support for LAC regional integration and characterized CELAC as China’s “key partner in enhancing solidarity among developing countries and furthering South-South cooperation.”

One of Beijing’s goals in the region appears to be to isolate Taiwan by incentivizing LAC countries to end formal diplomatic ties with the self-governing democracy, over which the PRC claims sovereignty, and which officially calls itself the “Republic of China.” Currently, seven governments in LAC (out of 13 governments worldwide) maintain formal diplomatic relations with Taiwan. The remaining 26 maintain formal diplomatic relations with the PRC. Since 2017, five LAC governments have established formal diplomatic relations with the PRC, ending their formal recognition of Taiwan; the country to do this most recently was Honduras in March 2023.

Economic Relations

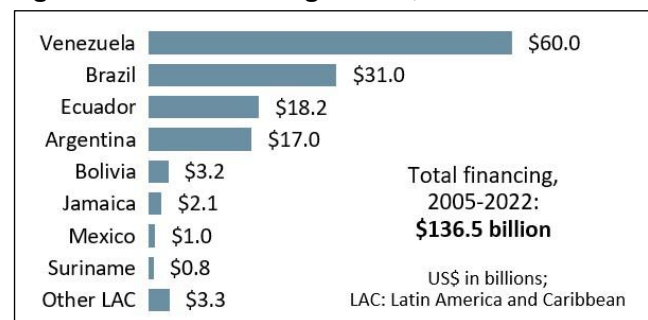
China’s economic priorities in LAC include securing access to raw materials and agricultural goods (e.g., petroleum, soybeans, and minerals including lithium); fostering markets for Chinese goods and services, including in the

information and communications technologies (ICT) sector; and partnering with LAC firms to access and jointly develop technology. China also has sought opportunities in LAC for PRC infrastructure firms as a way for these firms both to internationalize and offload excess capacity.

Data published by the General Administration of Customs of the PRC estimated the total value of China-LAC trade at \$482.6 billion in 2022. That year China’s imports from LAC amounted to \$231.1 billion, consisting primarily of ores (32%), oil seeds (18%), and mineral fuels and oils (12%). China’s exports to the region meanwhile totaled \$251.5 billion, with major exports including electrical machinery and equipment (23%), machinery and mechanical appliances (14%), and motor vehicles and parts (8%). China is the largest trading partner of Brazil, Chile, Peru, and Uruguay and the second-largest trading partner for many other countries. China has free-trade agreements with Chile, Costa Rica, Peru and, as of May 2023, Ecuador. China’s projected slower economic growth in the near term may result in weaker PRC demand for LAC exports and reduced PRC capital flows to the region.

According to the American Enterprise Institute’s China Global Investment Tracker, Chinese entities invested \$148.9 billion in LAC countries between 2005 and 2022, with Brazil accounting for \$66 billion (44%) and Peru \$25.5 billion (17%). Energy projects accounted for 62% of investments and metals/mining accounted for 21%. The database also shows that PRC construction projects in LAC over the same period were valued at \$68.6 billion, mainly in the energy (50%) and transportation (30%) sectors.

Figure 1. China: Financing to LAC, 2005-2022



Source: Created by CRS with data from Kevin P. Gallagher and Margaret Myers, “China-Latin America Finance Database,” Inter-American Dialogue, 2023, at https://www.thedialogue.org/map_list.

China’s state-owned policy banks (i.e., China Development Bank and the Export-Import Bank of China) have made numerous loan commitments to the region over the past 20 years (see **Figure 1**). According to the Inter-American Dialogue, from 2005 to 2022, LAC countries borrowed a

cumulative \$136.5 billion, most of which was directed at the energy (66%) and infrastructure (19%) sectors. These loans typically lack the policy conditionalities and environmental safeguards associated with major international financial institutions; often contain a mix of concessional and commercial terms; and include strict confidentiality clauses. Nonetheless, lending has decreased in recent years due to factors including lower LAC demand for PRC financing; changes in the way the PRC manages its foreign exchange reserves, which the PRC uses to make loans; and greater risk aversion of PRC lenders.

Currently, 22 countries in LAC have signed memoranda related to the Belt and Road Initiative (BRI)—a multifaceted foreign economic policy initiative that aims to expand China's global economic reach and influence by developing China-centered and -controlled global infrastructure, transportation, trade, and production networks.

U.S. Policy Concerns

The Biden Administration's *National Security Strategy* describes China as a strategic competitor but maintains that the Administration will refrain from seeing the world "solely through the prism of strategic competition." It states that because the Western Hemisphere impacts the United States more than any other region, the Administration will further deepen partnerships in LAC to advance economic resilience, democratic stability, and citizen security. It also vows to help protect LAC from "external interference or coercion, including from the PRC."

The U.S. Southern Command (SOUTHCOM) has voiced concerns in recent years about China's activities in LAC. Its 2023 posture statement asserted that the PRC has "the capability and intent to eschew international norms, advance its brand of authoritarianism, and amass power and influence at the expense of the existing and emerging democracies in our hemisphere." According to SOUTHCOM, the PRC is investing in critical infrastructure, including deep-water ports, cyber, and space facilities which "can have a potential dual use for malign commercial and military activities."

U.S. warnings about China have been met with some skepticism in LAC and among some regional experts. Some analysts contend that China's primary interests and influence in the region remain largely economic and diplomatic and that the probability of the PRC creating a military sphere of influence in LAC remains small. Others argue that China's appeal is limited due to deep political, social, and cultural differences, and language barriers.

Nevertheless, some analysts have expressed concerns about the potential harmful effects of China's economic engagement on LAC's development and claim that Chinese companies do not adhere to international environmental, labor, and safety standards. China also has exported surveillance technologies that some observers fear could be used to violate privacy or other rights.

Some argue that PRC support extends a lifeline to leaders with poor governance records and exacerbates corruption. In some LAC countries, civil society groups, journalists,

and activists have drawn attention to corruption, poor labor standards, and environmental damage linked to PRC-backed projects, sparking local opposition. They have also drawn attention to alleged political influence operations.

Illicit Fentanyl

Some Members of Congress have expressed concern about China's role in the production of illicit fentanyl, a synthetic opioid roughly fifty times more potent than heroin. Currently, most U.S.-destined illicit fentanyl comes from Mexico, using chemical precursors sourced from the PRC. In the 118th Congress, S. 1689 has been introduced in the Senate to prioritize efforts to combat international trafficking in precursor chemicals and covered synthetic drugs with the Government of Mexico, and to provide for the imposition of sanctions PRC individuals and entities contributing to international proliferation and production of illicit drugs. (For more on China's role in the illicit fentanyl trade, see CRS In Focus IF10890, *China Primer: Illicit Fentanyl and China's Role.*)

Issues for Congress

The United States has sought to reinvigorate U.S.-LAC ties as China's presence and influence in the region has continued to grow. Issues that Congress may face include:

Strategic Competition. In December 2022, the 117th Congress enacted the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023 (P.L. 117-263), which requires reports on activities undertaken by China and Russia intended to increase their influence in LAC; PRC port infrastructure purchases and investments globally critical to U.S. interests and national security; and Chinese financing of port infrastructure globally. Some versions of (H.R. 4521), the America COMPETES Act, also introduced in the 117th Congress, contained provisions that did not become law but may be raised again in the 118th Congress. These include, for example, provisions that would have required a strategy to strengthen U.S. economic competitiveness and promote good governance, human rights, and the rule of law in LAC; required a report assessing the PRC's engagement in regional organizations and the defense sector in LAC; and supported U.S. defense cooperation in LAC.

Economic Prosperity. Congress may seek to reduce the region's reliance on China by designing a positive agenda to promote economic prosperity in the hemisphere. Bills have been introduced during the 118th Congress, such as the Western Hemisphere Nearshoring Act (H.R. 772), which would provide incentives for companies to move operations from the PRC to LAC. Bills introduced during the 117th Congress contained provisions that did not become law but that could be introduced again in the 118th Congress. These include, for example, provisions in H.R. 7726 introduced during the 117th Congress that would have directed the President to support a general capital increase for the Inter-American Development Bank, the region's primary multilateral lending institution.

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