



*NDIA's Business &
Technology Magazine*

GLOBAL DEFENSE MARKET

Viewpoint: Why China's Advance in Latin America Matters

1/27/2021

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China's expanding presence and influence in Latin America is now widely recognized by political and business leaders and security professionals.

In the last two decades, the nation's trade with the region has expanded 18-fold to \$314 billion, while its companies have become important partners and suppliers for firms operating there and key owners and operators of the region's oilfields, mines, ports, telecommunications and electricity grids.

In the security sphere, the People's Liberation Army has become increasingly active in the region, sending military police to the UN peacekeeping mission in Haiti for eight years, deploying its hospital ship on three separate occasions, regularly sending its warships for "friendly" port calls and military exercises, participating in elite training programs such as Brazil's jungle warfare school and the Lanceros course in Colombia, hosting the region's military and police officers in China, and making countless institutional visits.

China-based defense companies such as the NORINCO group have sold or given a broad array of equipment to the region's security forces, including not only anti-U.S. regimes, but those consistently friendly to the United States such as Colombia and Peru.

In the more than 16 years that I have followed and written on China's expanding engagement in Latin America, successive U.S. administrations have struggled to credibly explain to our partners in the region why that is a problem for them, as well as for the United States.

China's engagement with Latin America presents multiple strategic perils, wrapped in values the United States and its partners hold dear.

The Chinese people have every right to be prosperous and secure. Latin Americans similarly have the right to benefit from economic and other engagement with all parts of the world. Yet China's often predatory efforts to secure its own benefit through its initiatives, and behind-the-scenes incentives, pressures and maneuvering produces relationships which are disadvantageous to its counterparts. It enables corruption and authoritarian populism in the region to which U.S. security and prosperity is most closely tied.

Globally, Chinese efforts advance a world order in which human rights and liberties, international law, democracy and the freedom of expression are subordinated to the interests of Beijing where they conflict, and in which states and groups that have something that the People's Republic of China wants — or that threaten its security and economic expansion — are ever more imperiled.

While China's goals are principally economic, it employs political relationships and revisions to the institutional order to facilitate them, while building military capabilities with global reach to protect the nation against those that it anticipates will resist its efforts.

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

At the center of China's approach is building, buying and stealing key business capabilities, coordinating across sectors and value chains to build and exploit monopolies, and using its growing economic influence — in combination with statecraft and other tools — to silence critics and create a political, institutional and business environment receptive to its further advance.

China's strategy is arguably more easily recognizable by business strategists than military and political leaders, yet employs a level of coordination between commercial entities and state tools, across domains and geographies on a scale unprecedented in human history.

In Latin America, as elsewhere, the PRC has used its corporations at the core of its strategy, empowering them with resources and support in obtaining key technologies and market position. While a sectoral analysis of what China has achieved with its \$137 billion in loans and \$122 billion of investment in the region in the past two decades is beyond the scope of this article, it is important to highlight key patterns.

First, China's acquisitions include moves to corner markets in strategic minerals, including niobium in Brazil — one of its few locations outside China — and significant ownership stakes in lithium mines in each of the hemisphere's four countries endowed with it: Chile, Argentina, Bolivia and Mexico.

Second, PRC-based companies use their access to significant financial resources to make strategic acquisitions that help them learn and advance more effectively in key sectors. Examples include China Communications Construction Company's acquisition of a 30 percent stake in the Portuguese firm Mota-Engil, with a significant presence in construction in the region, potentially helping CCCC companies like China Harbour compete more effectively in public-private partnership infrastructure projects in which Mota-Engil is experienced.

Third, while PRC efforts to win diplomatic recognition from states recognizing Taiwan are primarily about isolating the latter, they also support rapid advances in China's economic and strategic position. In all recent cases, from Costa Rica's flip in 2007, to switches by Panama, the Dominican Republic and El Salvador, the change was

accompanied by a flurry of non-transparent agreements facilitating penetration of those countries by Chinese construction companies and other goods and service providers, including attempts to negotiate free trade agreements.

Well-connected commercial elites, who accompanied their government colleagues to the PRC to launch the new relationship, made contacts generally more profitable to their businesses than to substantially increasing their country's exports to China.

Fourth, China's approach has been fundamentally rooted in exploiting the mutually reinforcing relationship between its leverage as a source of demand for Latin American exports, control over sources of supply — especially commodities — and the value added from building and operating the infrastructure that connects demand to supply and permits the region's economies to function.

The favoritism by Chinese petroleum, mining and construction companies for Chinese suppliers and service companies is well known. In Jamaica, China Harbour used leverage from self-financing the North-South highway to obtain undervalued terrain for building lucrative tourism-related properties along the route.

On a larger scale, the PRC exploited demand for iron and the regulation of Chinese ports to force Brazilian giant CVRD to cede the value added for shipping its products to Chinese companies. Today that leverage has obliged CVRD to partner with Chinese firms in projects such as Porto Central opening the door for a key role by the China Railway group in building infrastructure to open up Brazil's interior to better access the country's soy and iron. Currently, the bid by CCC company Shanghai Dredging to operate the Paraguay-Parana river corridor as a "toll route" would give it leverage over the five South American countries that ship their agricultural exports via the route, allowing China to privilege its own agro-logistics companies such as Noble and Nidera for the business.

It is critical to recognize how China's exploitation of synergies between its demand, control of supply and domination of infrastructure operates across different types of infrastructure. PRC-based companies such as State Grid, SPIC and China Three Gorges have invested tens of billions of dollars to build positions in electricity generation and supply in Brazil, and more recently, in Peru with the acquisition of Luz del Sur, and in Chile, with the acquisition of Naturgy.

Chinese firms Huawei and ZTE are similarly dominant in telecommunications infrastructure. The threat is not just about 5G, but China's positions as suppliers of phones and other equipment, supporting government and commercial providers such as Telefonica, Claro and Movistar in building and operating networks, transpacific and transatlantic fiber optic connections, and other new technologies, including "smart cities" architectures that link distributed surveillance technologies to user financial data and other sensitive information.

The PRC's expanding positions in telecom and financial architectures are mutually reinforcing, with the advance of Chinese e-commerce platforms in the region in the framework of China's "digital silk road," through firms like Alibaba and Tencent.

As PRC-based companies increasingly control these financial and other digital infrastructures, not only does China's 2017 National Security law oblige the nation's companies to turn over data of interest to the Chinese state, but its firms — working in tandem with government apparatuses such as the Ministry of State Security — have a well-understood track record of robbing its partners of technologies and other information that facilitate China's commercial, political and military advance.

From China's cutoff of soy imports from Argentina in 2010, to its 2020 suspension of Australian pork purchases, the PRC has repeatedly exhibited its willingness to use its massive economic leverage to silence people, businesses and governments which might oppose or criticize it.

Often, however, Chinese suppression of discourse is more subtle, including the self-censorship of companies who hope to do business in the PRC or with its companies, academics who hope for continuing access, and students and journalists who temper the critical tone of their comments lest they appear ungrateful for the scholarships and trips they have received.

As China's footprint and economic leverage in Latin America expands, so too does its ability to acquire strategic assets, win projects, dominate markets, and silence those who resist. COVID-19 will accelerate this dangerous, reinforcing spiral. The pandemic will increase the importance of PRC demand from the region with its projected 8.1 percent GDP growth next year, while the United States and Europe stagnate. It will also provide opportunities for China-based companies to buy the Latin American assets of financially distressed Western companies.

Latin American governments beset by fiscal, economic and social crises will be tempted to accept bailouts and loan-based projects disproportionately benefitting Chinese companies that they would not have previously considered. The resurgence of the Latin American political left, already seen in Argentina and Bolivia, and the entrenchment of the Maduro regime in Venezuela, possibly bolstered by leftist victories in elections in Ecuador in February and Peru in April 2021, will further broaden China's opportunities.

Meanwhile, defense sector colleagues reassure themselves that the superiority of U.S. military technology and the quality of our exercises, training and other engagements permanently entrench us as the partner of choice. They underestimate how growing PRC economic and personal leverage over U.S. regional partners, and the regime change that can occur when populations lose faith in democracy, means that privileged American access can evaporate at any moment.

Indeed, that is exactly what happened with the arrival of leftist populist governments in Venezuela, Ecuador and Bolivia.

Similarly, the absence of Chinese military bases and alliance agreements in the region should not be too reassuring when easily, in time of war, PRC-dependent regimes can be pressured to "stay neutral," deny access to the United States, or worse, permit PLA use of their ports and other facilities. If, in such extreme circumstances, an anti-U.S. regime bets against America, the PLA could rapidly establish an effective presence, leveraging the knowledge from years of commercial logistics and peaceful military visits, combined with the "friendships" with the institutions it has visited and the officers it has hosted in China.

Aside from the military dimension, China's advances put the region on track to increasingly specialize as a supplier of low-value added commodities extracted by Chinese companies, with profits passed and key decisions made in the PRC, local workers and governing elites subservient to Chinese interests, and free expression and political relations with Washington tolerated only so far as they do not conflict with Beijing's interests.

It is an Orwellian future that threatens to make colonial exploitation, misbehavior by Western companies, and historic U.S. interventions look like amateurism.

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