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Mr. Chairman, Ranking Member Sires, and Members of the Subcommittees:

Thank you for the opportunity to testify on China's advance in Latin America and the Caribbean. I ask that my full testimony be submitted for the record. My name is Enrique Dussel Peters, and I am a full-time professor at the School of Economics of the National Autonomous University of Mexico, and have been the director of that university's Center for Chinese-Mexican Studies since 2006 and director of the Academic Network of Latin America and the Caribbean on China since 2012.

In both initiatives, as well as in earlier research, we have been working with dozens of research groups and hundreds of researchers, firms, and business organizations, as well as public officials and experts from many countries in Latin America and the Caribbean, particularly in Mexico, on trade and investment issues. As part of this work, we have engaged in a detailed dialogue with Chinese counterparts in the academic, business, and public sectors. Since 2000, research by both institutions and my own personal research have resulted in the publication of dozens of books and articles. Interactions with newspapers and radio and television stations in China, the United States, Europe, and Latin America and the Caribbean have been particularly fruitful. This detailed research and analysis has been accompanied by proposals and policy suggestions, including dozens of specific project proposals for Mexico City and Beijing.

I would like to share with the Members of the Subcommittees an assessment of three issues—(1) China's objectives in Latin America and the Caribbean, (2) China's economic relationship with the region, and (3) Chinese companies' trade and investment activities in Mexico, including as they relate to NAFTA—and recommendations for actions by the U.S. Congress on these issues.

China's objectives in Latin America and the Caribbean

Mr. Chairman, in the last decade, the relationship between Latin America and the Caribbean and China has intensified, particularly regarding trade but also in terms of political, cultural, educational, historical, language-instruction, and investment contacts. This trend is no coincidence, but a result of long-term strategies and policies of the Chinese central government. Its first explicit policy paper on Latin America and the Caribbean was released in 2008; the Cooperation Plan (2015–2019), produced by the first ministerial meeting of the CELAC

(Community of Latin American and Caribbean States)–China Forum in January 2015, is the most detailed and concrete commitment between China and Latin America and the Caribbean.

The Cooperation Plan commits to doubling trade between the region and China to $500 billion annually by 2025 and to more than tripling Chinese foreign direct investment (FDI) to at least $250 billion in the same time frame. It covers infrastructure and transportation, energy and natural resources, industry, science and technology, aviation and aerospace, education and human resources training, as well as tourism and culture. In addition, Chinese and Latin American/Caribbean firms are encouraged to work toward the integration of Latin America and the Caribbean through formal forums (for example on infrastructure, industrial development, and science and technology), many of which oversee a corresponding fund. These strategies go hand-in-hand with other global and regional policies established by the central government of China, also known as the "new Silk Road" and the "one belt, one road" initiative, focusing on international cooperation through infrastructure development (for example, through the recently established Asian Infrastructure Investment Bank).

China's engagement is not limited to the economic field: We are witnessing China's long-term global reemergence in a variety of fields, including militarily and geostrategically. From a Latin American and Caribbean perspective, however, the Cooperation Plan reflects some of the main institutional weaknesses in the region. CELAC only has a *pro tempore* presidency and lacks a secretariat or specialized group of professionals working to fulfill its commitments, even in terms of evaluation. In addition, no Latin American or Caribbean country today has presented a clear and comprehensive strategy toward China in the economic, political, military, educational, and cultural areas. In this regard, China's relatively coherent strategy puts it at a significant advantage.

As a result of China's reemergence, and based on historical and current relationships with the United States, new triangular relationships have developed in the last decade between Latin American and Caribbean countries, the United States, and China.

China's relationship with Latin America and the Caribbean

China is rapidly and profoundly changing Latin American and Caribbean societies and economies, starting with trade and expanding into FDI and massive financing, especially in the following ways:

1. During 2000–2014, China became the region's second largest trading partner after the United States; China's share of Latin American and Caribbean exports increased from 1 percent to 9 percent, while imports from China grew from 2 percent to 16 percent.

2. The region's trade deficit with China has increased substantially, from below $20 billion until the mid-2000s to over $75 billion since 2012. The Caribbean, Central America, and particularly Mexico account for most of this deficit.

3. While Latin American and Caribbean exports to China have increased, they are dominated by low-value-added and low-technology goods. Medium- and high-technology goods account for barely 5 percent of the region's exports to China (compared with 30 to 40 percent of total Latin American and Caribbean exports over the last two decades), while medium- and high-technology goods accounted for more than 60 percent of Chinese exports to Latin America and the Caribbean in the last decade. This gap helps explain the region's increasing disenchantment with its most dynamic trading partner.

4. Latin American and Caribbean exports to China are much more concentrated than exports to any other trading partner: The top three exports to China—ores, oil seed and copper—increased their share of total exports from 50 percent to 72 percent during 2000–2014.

5. Since the late 2000s and particularly since the international crisis of 2007–2008, China has begun a second stage in its relationship with Latin America and the Caribbean, based on FDI and financing. During 2010–2013, China invested on average $10.7 billion annually in Latin America and the Caribbean, with almost 90% going to Argentina, Brazil, and Peru. Chinese companies have actively pursued mergers and acquisitions in the region, especially to acquire raw materials and a share in the corresponding domestic markets (57 percent and 34 percent, respectively, of China's total FDI in Latin America and the Caribbean in 2000–2012). This effort is predominantly (87 percent in the same time period) carried out by publicly owned firms.

6. China is also increasing its financial presence. From 2005 to 2014, loan commitments totaled more than $118 billion. Venezuela alone accounted for more than 50 percent of total loans and 42 percent of infrastructure projects in the region. This rather new Chinese

focus on finance will likely grow substantially, given the expected increase in Chinese infrastructure projects.

Finally, China is competing vigorously with Latin American and Caribbean firms in the United States and with US firms in Latin America and the Caribbean. This has, so far, not been recognized and analyzed sufficiently in the United States. It is apparently widely known that China has displaced Mexico in the US market, but there is insufficient understanding of the massive effects of Chinese competition with US firms in Latin American and Caribbean markets since 2001, when China joined the World Trade Organization. A competitive threat analysis yields the following results:

1. China dramatically increased its share of total US imports during 2001–2014, from 9 percent to 16 percent. Latin America and the Caribbean's share also increased, but less dramatically—from 16 percent to 19 percent.
2. China's share of Latin America and the Caribbean's imports increased sharply, from 3 percent in 2001 to 17 percent in 2014, while the United States' share fell from 46 percent to 32 percent.
3. The impact of this loss of market share in Latin America and the Caribbean on jobs in the United States is significant. It can be estimated as follows: If the US share of the region's imports had remained the same as in 2001 (46 percent), the value of US exports to the region would have been $145 billion higher in 2014. Based on recent estimates by the Department of Commerce (International Trade Administration) of jobs supported per billion dollars of exports, the additional $145 billion would have generated 840,000 jobs in the United States in 2014 alone, all related to manufacturing and 55 percent related to automobiles and auto parts.

While it is true that Latin America and Caribbean–China trade and investment have been booming since 2001, particularly through commodity exports until 2007–2008, it is also true that trade with China has generated massive setbacks for the region, including a significant trade deficit and even greater dependence on exporting raw materials rather than value-added and technology-intensive goods.

The Latin American and Caribbean region has some disadvantages competing with China as exporters to markets such as the United States. However, losses to the United States in its competition with China in the region have been greater, and the effects on trade and jobs have been substantial.

Chinese trade and investment in Mexico

This section focuses on Mexico, rather than the whole of Latin America and the Caribbean. Based on analysis by the Center for Chinese-Mexican Studies, the Academic Network of Latin America and the Caribbean on China, and other public and private institutions, the recent economic relationship between Mexico and China could be summarized as follows:

1. Trade increased during 2001–2014 by a factor of 17; China is Mexico's second trading partner after the United States. Trade, however, is highly unequal: In 2014, each unit exported from Mexico to China corresponded to 11 units imported from China. The share of medium- and high-technology goods in Mexico's exports to China is unique for Latin America, at more than one-third, but this is till significantly below the corresponding share, two-thirds, in Chinese imports to Mexico.
2. During 1999–2014, China invested significantly less in Mexico than in most of the rest of Latin America and the Caribbean, accounting for an accumulated FDI of around $360 million or 0.1 percent of total FDI in Mexico.
3. Unlike in most of Latin America and the Caribbean, Chinese FDI in Mexico has concentrated in manufacturing and services in firms such as Hutchinson Ports, Huawei, Minth, Lenovo, Golden Dragon, and Sinatex. Chinese FDI is qualitatively different from most FDI in Mexico because of the recent establishment of these firms (most of which are less than 10 years old), and because of their problems in complying with NAFTA rules of origin in order to export to the region as a whole, and in particular to find specialized local, national, and regional suppliers and distributors. The learning process of Chinese firms, like that of Mexican firms in China such as Bimbo and Gruma, has been slow and full of misunderstandings on both sides, such as the failure of public bidding on Mexico's high-speed train project since the end of 2014.

Mexico is probably one of the most extreme cases in the region of trade disparity with China, with an 11:1 import-export relationship. What little Chinese FDI has taken place in Mexico has specialized in manufacturing and services rather than the acquisition of raw materials as in most of Latin America and the Caribbean. The increasing disintegration of NAFTA, particularly in terms of trade between Mexico and the United States, is also evident in the continuously falling US share in Mexico's trade, from over 81 percent at the height of NAFTA (1999–2000) to below 65 percent since 2008; the US share in Mexican imports has fallen from 75 percent to less than 50 percent since 2007, affecting electronics, auto parts, automobiles, telecommunications, and other industries.

Recommendations

Mr. Chairman, I would invite the United States House of Representatives to consider the following actions:

1. Support, fund, and create public, academic, and private institutions in the United States to promote detailed understanding of and dialogue on the global reemergence of China, especially in Latin America and the Caribbean, since it also affects US trade, production, and employment, especially in manufacturing and automobiles and auto parts. Specifically support new "triangular" analysis and projects with concrete proposals regarding markets such as Latin America and the Caribbean, Mexico, and NAFTA in specific value-added chains such as telecommunications; electronics; yarn, textiles, and garments; and auto parts and automobiles.
2. Create institutions in the United States—in the Congress, Department of Commerce, and/or State Department—to discuss, together with Chinese and Latin American and Caribbean counterparts, the short-, medium-, and long-term implications of China's reemergence in the region and its socioeconomic, environmental, and labor sustainability.
3. Actively participate in and support the important work being done in Latin America and the Caribbean on the many issues related to this triangular relationship—such as statistics, trade, investment, tourism, visas, infrastructure, environment, and labor—by institutions such as CELAC, the Economic Commission for Latin America and the Caribbean, and the Inter-American Development Bank. This work is critical to a harmonious and sustainable triangular relationship. The elaboration of geostrategic and sector-related scenarios is also important. For example, the possibility of constructing a transoceanic canal in Nicaragua, funded by Chinese institutions and parallel to the

Panama Canal, could create new military, political, and socioeconomic challenges in the region and in its relationship with China and the United States.

China, in the last decade, has become the most dynamic socioeconomic and political partner of Latin America and the Caribbean; the United States has lost substantially in trade, investment, and financing terms, although its presence in Latin America and the Caribbean is still substantial and unquestioned. All three parties to this new triangular relationship will need to develop creative and vigorous strategies, policies, and instruments to meet the challenges arising from this new triangular relationship.

Thank you for your time. I look forward to your questions.