

“Dollar Diplomacy or Debt Trap? Examining China’s Role in the Western Hemisphere”
Testimony by Brian Fonseca
Director, Jack D. Gordon Institute for Public Policy
Florida International University
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Chairman Sires, Ranking Member Rooney, and distinguished members of the Subcommittee, it is my privilege to address you today on the challenges China poses to the national security of the United States and our partners in the Western Hemisphere.

Most experts agree, at least in part, that Chinese involvement in Latin America is largely a result of China’s rise as a global economic power. China needs access to natural resources and markets critical to its growth, while Latin America has sought to diversify its economic engagement beyond the United States. Although there is strategic and even aspirational intent to China’s rise, there remains elements of opportunism that guide its global—and hemispheric—engagement. Chinese activities across the hemisphere vary in size and scope, and although it is well known, it remains important to note that Latin America is not the only space that China is aggressively seeking to do business; India, Africa and the Middle East have all seen increased forms of Chinese economic, political and security engagements over the last decade. So, from the strategic security perspective we should view Chinese engagement in the Western Hemisphere as part of a broader global effort aimed at shaping a world consistent with its authoritarian model.

The question before us today is not whether China has emerged as a formidable global competitor; rather how and where will Chinese engagement in the Western Hemisphere challenge U.S. and regional national interests? And what can we do, now, to mitigate potential long-term concerns while continuing to foster a democratic, prosperous and secure Western Hemisphere?

In general, I assess four areas where Chinese engagement in the Western Hemisphere is challenging U.S. and regional strategic interests: the first two include Chinese economic practices and the proliferation of Chinese surveillance and IT technologies—both of which undermine the efficacy of democratic institutions and expand Chinese influence across economic, political, and security landscapes. Third is Beijing’s complex information campaign where it is leveraging Chinese and regional media platforms, Confucius Institutes and overseas ethnic Chinese, and its deepening people-to-people contacts in the region to build soft power and differentiate the Chinese brand from the United States. And finally, China’s military and security engagement is positioning itself as an alternative to U.S. security assistance and could influence the security calculations of countries in the region in the long-term, while also providing China with important footholds and access in this hemisphere.¹

¹ I would like to acknowledge the work of Thomas Breslin, Alexander Crowther, Evan Ellis, Eric Farnsworth, Robert Morgus, Frank Mora, Margaret Myers, and Alexander Morales, among others for contributing to the analysis contained in this written testimony. Much of their works is cited, but also comes from years of collaboration on China and its engagement in Latin America and the Caribbean.

Economic Engagement

It is clear that China has emerged as a viable economic and political partner in the region. China's economic engagement encourages and enables states to pursue more agency in their respective international diplomatic and economic engagements, and in return China extracts raw materials and accesses foreign markets to fuel its economic growth and satisfy the domestic demands of its population. There is nothing intentionally nefarious about that. Certainly, not all Chinese economic engagement is designed to undermine the sovereignty and security of nations in region. However, when taken in the aggregate—whether intentional or not—China's economic engagement enhances China's influence in economic, political and security spaces. It also undermines (already struggling) democratic institutions by inducing corruption and circumventing transparency and accountability—all of which are core pillars of democratic governance. Chinese engagement also undermines rule of law and bypasses important environmental and labor standards. That is, China isn't playing by the accepted rules of the game.

Beijing leverages a mix of economic and political practices designed to persuade Latin American countries to align with PRC domestic and foreign policy objectives. It uses trade and investment as means of influencing Latin American and Caribbean countries to provide favorable conditions for Chinese stakeholders. It is also mobilizing Chinese-owned companies such as Huawei and ZTE in the region to act in the interests of China's strategic objectives. For example, China uses the attractiveness of its large market and financing—often at the direction of Beijing—to obtain work projects and enter markets on its terms, force partnerships from which it can steal critical technology, and use its resources to advance its own position, especially in strategic industries like telecommunications, artificial intelligence, robotics, and big data.

China's infrastructure and investment initiatives in Latin America and the Caribbean long predates the introduction of the Belt and Road Initiative (BRI). However, the BRI provides a coherent strategic framework by which the Chinese plan to expand their political and economic engagement in the region and pivot from mainly infrastructure projects to developing more expansive commercial networks that include global services, e-commerce, logistics, energy, agribusiness, and innovation through science and technology hubs. China's BRI remains an ill-defined, undercapitalized response to increasing domestic needs for food, raw materials, and foreign markets; however, public statements by Chinese officials indicate the BRI to be part of China's enhanced, infrastructure-led engagement with the region aimed at achieving a similarly broad range of economic, strategic, and security related goals. These include resource acquisition and trade facilitation to employment of excess steel, transport security and possibly a forward military positioning in the region. The BRI, as a component of China's broader foreign policy objectives, will challenge democratic norms and the liberal economic order, thus helping to undermine U.S. influence and leadership in the region. The BRI will have some positive short to mid-terms impacts on the region's development; however, a large number of infrastructure projects will likely lead to increased environmental strain, especially if Chinese firms do not comply with regulations or if regional governments do not sufficiently enforce them.

Proliferation of Chinese Technologies

Chinese investments in telecommunications, artificial intelligence and other critical technologies represents a concern to the United States and nations in the hemisphere due to security vulnerabilities in Chinese technologies, the potential that these technologies could serve as intelligence collection platforms against the U.S. and our partners, and questions about the overall impacts on digital sovereignty and norms. It is clear that China's view of the internet is very different from the U.S.

Chinese firms like Huawei and ZTE have surged in quantity in the region, placing intellectual property, private data, and government secrets at risk. As of 2017, Huawei captured 7.6% of the market share for smart phones in Latin America and reporting for 2018 indicates that their revenue increased by about 21% —largely due to increased efforts in digital infrastructure and mid-range consumer products.^{2,3} Huawei is willing to accept lower profit margins than its competitors in order to gain access to more market share, which spreads both its reach and the reach of the Chinese Communist Party (CCP).⁴ While this would normally just be good competition, Chinese firms in general and Huawei in particular have, thus far, not adhered to standards of safety or privacy that leave them vulnerable to exploitation. This raises the concern of compromising the networks of our partners in the region.

As collection platforms, the United Kingdom, which has not banned Huawei, notes that “The number and severity of vulnerabilities discovered, along with architectural and build issues, by the relatively small team in HCSEC [Huawei Cyber Security Evaluation Centre] is a particular concern⁵.” In the context of Latin America, the situation is troubling because, while the UK theoretically has the potential to undergo a costly retrofit and expel Huawei, Latin American countries may not have the resources or the will to do the same if it is found that Huawei is sending information back to China. This is indicative of the likelihood that Latin American countries may become dependent on Chinese telecommunications infrastructure. The concern is that the shortcomings in Huawei's engineering may be leveraged by Chinese intelligence to acquire sensitive information.

Further, Chinese investment in surveillance technology could impact digital sovereignty and norms in Latin America. In particular, China has installed surveillance systems in Ecuador, Bolivia, Panama, and Argentina.⁶ A recent report by Evan Ellis argues that the spread of these systems can normalize

² “2017: A Year of Mixed Results in the Latin American Smartphone Market,” Counterpoint, Tina Lu, March 6, 2018, <https://www.counterpointresearch.com/2017-year-mixed-results-latin-american-smartphone-market/>

³ Huawei Investment & Holding Co., Ltd. 2018 Annual Report,” Huawei, March 27, 2019, https://www-file.huawei.com/-/media/corporate/pdf/annual-report/annual_report2018_en.pdf?la=zh

⁴ Huawei global net profit margin was about 8% in 1Q 2019, while Samsung's (it's closest competitor globally by volume) was about 9.6% in 1Q 2019. It should be noted that industry analysts are saying that this is a higher than anticipated profit margin for Huawei and a lower than anticipated margin for Samsung; “Huawei Revenue Jumped 39 Percent to \$27 Billion in First Quarter,” Bloomberg, James Mayger, April 22, 2019, <https://www.bloomberg.com/news/articles/2019-04-22/huawei-revenue-jumped-39-percent-to-27-billion-in-first-quarter>; “Huawei Phone Buyers Don't Share Trump's Concerns,” Bloomberg Opinion, Leonid Bershidsky, May 3, 2019 <https://www.bloomberg.com/opinion/articles/2019-05-03/huawei-phone-buyers-don-t-share-trump-s-concerns>; “Earnings Release Q1 2019,” Samsung Electronics, April 2019, https://images.samsung.com/is/content/samsung/p5/global/ir/docs/2019_1Q_conference_eng.pdf

⁵“HUAWEI CYBER SECURITY EVALUATION CENTRE (HCSEC) OVERSIGHT BOARD ANNUAL REPORT” Huawei Cyber Security Evaluation Centre, March 2019 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/790270/HCSEC_OversightBoardReport-2019.pdf

⁶ “Chinese Surveillance Complex Advancing in Latin America,” Newsmax, Evan Ellis, April 12, 2019,

the type of privacy violations authoritarian states commit against their populations. He argues that these systems can be used to acquire vast amounts of data on U.S. and the region. For the same concerns about Huawei expansion, it is possible that there are backdoors in the surveillance systems that allow China to collect information as national authorities use these technologies. This could place information of Latin American citizens in the hands of the Chinese government.

China's Charm Offensive

China is also engaged in complex information campaigns that erode Western sources of information, challenge Western narratives, and promote Chinese soft power. For China, information operations in the region are viewed as vital to combatting dissident movements such as the Falun Gong, further isolating Taiwan (where nearly half of all countries that recognize Taiwan reside in Latin America and the Caribbean), masking Chinese human rights issues in Tibet and with Uyghur Muslims, and countering pro-democracy movements (take Venezuela as an example).

Using Chinese and regional media outlets and leveraging the more than 40 Confucius Institutes in the region, China presents alternative views on a wide range of topics. It also uses Confucius Institutes and Confucius Classrooms to promote Mandarin language—especially among overseas ethnic Chinese. This enables Beijing to communicate to and through vital overseas ethnic Chinese communities as a means of deepening organic influence in host countries. China also leverages its China-Latin America & Caribbean Press Center which hosts journalists from Latin America in China for extended stays of five to six months before going back home.⁷ Regarding the success of these initiatives, polling indicates a steady increase in Chinese favorability in the region—in some cases surpassing the U.S. While this result can't be traced solely to Chinese information operations, it is likely that Chinese information campaigns have strengthened its overall brand in the region.

China's Military and Security Engagement in the Region

In the region, China has pursued a modest flow of military equipment, key leader engagement, the expansion of ports financed on Chinese credit, and made it a priority to engage domestic law enforcement organizations in the region. In regard to arms sales, the Chinese have provided over six hundred million dollars' worth of equipment since 2008—placing them as the fifth largest arms exporter in the region. This number, however, is slightly deceiving in terms of desirability of Chinese arms in the region as over 87% of the value of its arms exports have been to Venezuela alone.⁸ While Chinese arms are often cheaper than American equipment, China is still not able to compete with even the Russian alternatives on a sustained and competitive basis.

China has, in recent years, made it a priority to maintain high-level military-to-military contacts and offer training to Latin American militaries to strengthen defense ties in the region. From 2003 to 2016, South America received or attended 201 senior-level meetings with the Chinese armed

<https://www.newsmax.com/evanellis/china-surveillance-latin-america-cameras/2019/04/12/id/911484/>

⁷ "Chinese Media and Latin America: "Borrowing a Boat" to Set Sail," Jamestown Foundation, Sam Geall and Robert Soutar, July 10, 2018, <https://jamestown.org/program/chinese-media-and-latin-america-borrowing-a-boat-to-set-sail/>.

⁸ "How dominant is China in the global arms trade?," China Power Team, China Power, April 26, 2018, Updated June 29, 2018, Accessed May 8, 2019. <https://chinapower.csis.org/china-global-arms-trade/>

forces.⁹ Of these visits, almost half were spent in Chile, Brazil, or Cuba. Given that two of these countries are close American partners, it can be inferred that Chinese investment in high-level contacts is designed to explore potential openings for Chinese diplomacy. China also regularly deploys its hospital ship, the “Peace Ark,” in an attempt to compete with the USNS hospital ship Comfort (again, taking a page from our book).

China has invested heavily in ports in the region and the example of Sri Lanka indicates that China is not above using its financial leverage to secure leases for the use of ports.¹⁰ These port agreements could be leveraged beyond commercial activities. Within Latin America, the three largest projects of port construction by cost are in Porto Sul, Brazil (\$2.4 billion), Margarita Island Port in Panama (\$1 billion), and Puerto Cortes, Honduras (\$624 million). Each of these give China a firm financial stake in critical ports in Latin America that could be leveraged later to support global military deployments.¹¹

Finally, the Chinese have publicly announced their intention to collaborate with Latin American law enforcement agencies in a comprehensive manner—as indicated in its 2019-2021 CELAC-China plan.¹² This shows that Beijing acknowledges that domestic security concerns are more prominent than external security threats for most countries in the region. The influence of military institutions across the region varies—take Argentina where the Minister of Defense is one of three positions afforded to the country’s opposition party.

China’s expanding engagement with Latin America will probably not lead to a direct, military challenge to the U.S. in the near term, such as the establishment of Soviet-style client-state relationships, military bases in the region, or the open funding of anti-U.S. insurgencies. This is not, however, due to Chinese benevolence. Rather, it is simply not currently in its strategic interest to do so. For now, it is far more effective to buy its way into the region. However, as Chinese corporations become more involved in Latin America, and as Chinese communities grow with respect to their political profile in the region, China may be increasingly tempted to engage in security cooperation with governments of the region to protect the interests of its corporations and nationals—China’s position in Venezuela is a glaring example of its willingness to go against the interests of the region when its interests are threatened.

Recommendations

So, how do we respond to Chinese engagement in the Western Hemisphere?

First, we should disaggregate the good from the bad and resist labeling all Chinese activities as nefarious and antithetical to United States and regional interests. Not all Chinese engagement is designed to directly challenge the United States and a great deal of it remains economic and

⁹ “Chinese Military Diplomacy, 2013–2016: Trends and Implications,” Kenneth Allen, Philip C. Saunders, and John Chen, *Chinese Strategic Perspectives* 11 (July 17, 2017). <http://www.ssri-j.com/MediaReport/DocumentUS/INSSreportChinaPerspectives.pdf>

¹⁰ “The Future of Latin America and the Caribbean in the Context of the Rise of China,” Evan Ellis, CSIS, Last modified November 2018. https://csis-prod.s3.amazonaws.com/s3fs-public/publication/181119_FutureofLatinAmerica.pdf.

¹¹ Op. Cit. “China’s Engagement with Latin America and the Caribbean.”

¹² “CELAC AND CHINA JOINT PLAN OF ACTION FOR COOPERATION ON PRIORITY AREAS (2019-2021).” CELAC, January 2018, <http://www.itamaraty.gov.br/images/2ForoCelacChina/Joint-Action-Plan-II-CELAC-China-Forum-FV-22-01-18.pdf>

opportunistic. This competition doesn't have to be zero sum, and to label the entirety of Chinese engagement in the region as detrimental to our and regional interests is intellectually lazy and could entice a self-fulfilling prophecy. At the same time, we must be cautious in divorcing economic interests from political and security interests and recognize that these are very much interrelated. We should call it like we see it and call-out Chinese activities that run counter to long term strategic interests of the region while helping shape Chinese activities that benefit U.S. and regional interests.

Second, we should bolster the governance capacity of our partners in the region. The U.S. should reinforce democratic institutions and values that create resiliency against China's ability to leverage its engagement to promote authoritarian alternatives. We should increase training in key areas such as human rights, transparency/anti-corruption and rule of law and continue focusing on developing long-term sustainable relations with key partners—this makes tools such as International Military Education and Training (on the security side) a key instrument in developing people-to-people relationships.

Third, we must truly embrace a “whole of nation” approach that strengthens our competitiveness in the region. Ultimately, this is about what we do and what we stand for, much more than it is about China. The rapid growth of Chinese engagement in the Western Hemisphere should serve as a call to competition—not a call to arms—for the United States. And competition is something we do very well. But to borrow a sports analogy, you have to be on the field to compete. And that means consistent presence and sustained engagement, a full court press of defense, diplomacy, and development efforts. The United States Government should also find new ways to foster greater people-to-people contacts—through exchanges among academic institutions, civil society, and American private sectors. Strong personal relationships grounded in shared values are our greatest competitive advantage.

We must do better to guide, inspire, and support our private sectors into strategically important markets—especially in critical technology sectors. United States Commercial Services operating in U.S. Embassies around the hemisphere could do more to court American enterprises. U.S. multinational corporations and non-governmental organizations are among the most critical tools needed to compete with China (and others) in the region. Finding a way to further work with U.S. multinational corporations to pursue strategic market/sectors will increase competitiveness in areas that the U.S. should maintain dominance, such as telecommunications, artificial intelligence, etc. While there may be a financial cost, it could increase transparency and promote good business practices to indirectly compete with China's strategy of abusing lack of transparency to secure business deals. This should be coupled with continued support for anti-corruption institutions in Latin America.

We should evaluate the usage of the 160 Bi-national Centers for Latin America (BNCs) currently operating in the region and explore ways to use them as a counter to Confucius Institutes and bolster U.S. image in the region. These BNCs are currently autonomous agents dedicated to teaching English that do not rely on much funding of the Department of State. The current quality and reach of these institutions vary due to different levels in quality instructors and funding

challenges that reduce the effective reach of these institutions, but they could serve as excellent tools to foster deeper people-to-people relationships.

Fourth, we should expand the franchise of our security engagement to include a more robust and intentional emphasis on domestic law enforcement engagement that competes with Chinese engagement in this space. Our traditional military-to-military relationships are strong; however, we lack a robust domestic law enforcement cooperation with our Latin American partners. Currently, our law enforcement cooperation takes the form of ad-hoc requests, while the Chinese have outlined engagement with law enforcement entities as a priority. Given that most threats faced in the region are internal, we should not cede influence space in domestic law enforcement to the Chinese at this point.

Finally, the United States must compete better in the information domain. The United States should expose and exploit the contradictions in Beijing's policy and the divisions that exist between China and the region, such as cultural differences, political systems, and business practices, including over-promising commitments and labor practices (using of Chinese labor). U.S. should help make the region aware of how China is undercutting the region's long-term economic and political interests. Additionally, China is sensitive about its global image; and, it sees negative perceptions as antithetical to its long-term economic and political interests. U.S. information operations should further expose China's authoritarian practices and long history of human rights violations. We currently lack the tools to propagate American values and ideas in a meaningful and consistent way absent executive-level guidance. Our public diplomacy should not be ashamed of using our history and culture to strengthen ties with the region, while remaining conscious of the complexity of our history with Latin America.

I know the Congress, and Members of this Committee in particular, are waking up to the fact that we need to pay more attention to this region. Nature abhors a vacuum, and if we're not engaged, China will be more than happy to fill that void. Maybe it's time for a regional initiative that recognizes the importance of this hemisphere—a Good Neighbor Policy 2.0—that enables the consistent presence and sustained engagement that are critical to ensuring our hemisphere—and our homeland's—security, stability, and prosperity. Again, thank you for this amazing opportunity and I look forward to your questions.