Reclaiming Influence: U.S. Strategy Amid China's Rise in Latin America

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International Policy Review - Policy of the Month

January 22, 2025

Introduction

With the inauguration of the Chinese-backed Chancay Megaport in Peru and the recent signing of 37 new Sino-Brazilian trade and investment agreements, one would be hard-pressed to find any cause for celebration concerning the current state of affairs between the U.S. and Latin America.

There may be no better metaphor to describe the current competition between the U.S. and China in the subcontinent than the photo of the 2024 APEC summit, hosted by Peru, where Xi Jinping stands at center of the lineup of state leaders, next to Peruvian president Dina Boluarte, while President Biden stands in the back row, off to the side. [1]

The United States is rapidly losing its long-held position as the dominant economic and political actor in the Americas, largely without a fight, and simultaneously failing to address the root causes of growing illegal immigration to the U.S., most of which is being driven by a lack of economic opportunity and development.

This article provides a detailed overview of how this current state of affairs has come to pass, focusing on China's expansion in the region, the rationale behind it, U.S. neglect that has made it possible, and the potential repercussions of this policy failure. Latin American views on Chinese expansion and U.S. disengagement are also explored, ending with proposed policy measures aimed at reversing this trend.

China's Growing Footprint

Latin America, home to 57% of global lithium, 37% of copper, and 20% of oil reserves has become the most recent target of Chinese economic expansion, attracting massive sums of Chinese investment and rapidly increasing volumes of trade.[2] In addition to the need for access to these critical natural resources, China is also drawn by the region's immense human capital and growing consumer market. On a more

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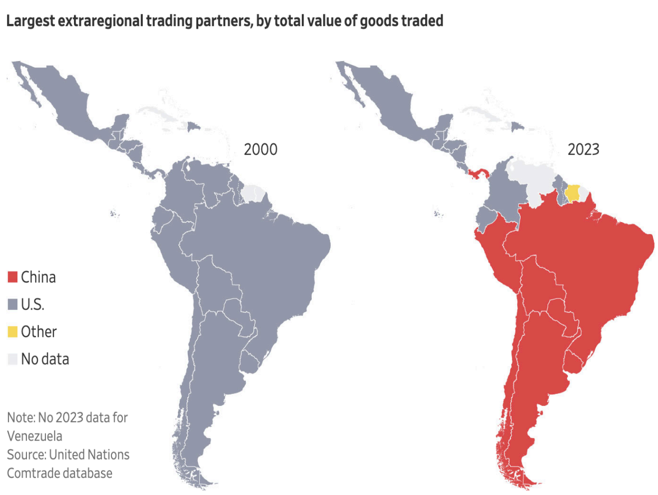
[1] Wilkins, Rebecca Choong. "Xi Takes Spotlight in APEC Family Photo with Biden off to Side." Bloomberg, November 16, 2024. Link.

[2] Stott, Michael. 2024. *"Joe Biden loses to Xi Jinping in battle for Latin America."* Financial Times, 20. November. Link.

strategic level, its increased involvement in Latin America is motivated by the CCP's desire to isolate Taiwan, with seven of the eleven nations that maintain diplomatic relations with the country located in the region. This strategy has thus far paid off, with 5 countries in the subcontinent shifting to the Chinese side of the dispute since 2013.[3]

Chinese trade with Latin America has ballooned in the past two decades, growing from $12 billion in 2000 to $450 billion in 2023, and projected to surpass $700 billion by 2035.[4] The PRC currently has free trade agreements with Costa Rica, Peru, Ecuador, and Chile, and is in ongoing negotiations with Uruguay. It also imports vast amounts of Venezuelan oil, Brazilian minerals, Argentine lithium, and an array of agricultural products from Chile, Panama, Brazil, Uruguay, and Peru.[5]

Regarding exports, China has become the largest supplier to Colombia, Ecuador, Peru, Bolivia, Paraguay, Brazil, Chile, and Argentina. The majority of these goods are finished, value-added products. These trade relations provide significant benefits to both parties, with China receiving vital natural resources necessary for its industrial development, while Latin American states boost their economies through job creation and the sale of natural resources, and receive inexpensive goods to feed a growing consumer base.[6]



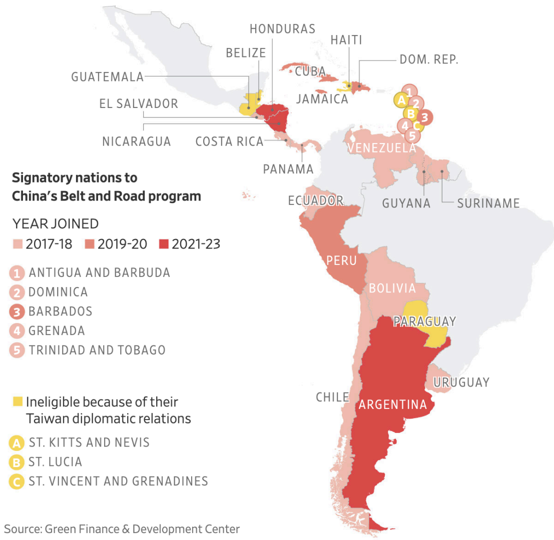
Extraregional Trading Partners in Latin America.
Source: Wall Street Journal, 2024.

Regarding investments, the CCP has managed to obtain twenty-two Latin American signatories to its Belt and Road Initiative (BRI), with states like Brazil still receiving the benefits from the initiative

[3] Panama (2017), Dominican Republic (2018), El Salvador (2018), Nicaragua (2021), Honduras (2023)
[4] Roy, Diana. 2023. *"China's growing influence in Latin America."* Council on Foreign Relations, 15. June. Link.
[5] Roy, Diana. 2023. *"China's growing influence in Latin America."* Council on Foreign Relations, 15. June. Link.
[6] *"TS Lombard, an investment firm in London, reckons that a 10% increase in Chinese demand for Brazilian products could boost GDP growth from a projected 2% in 2025 to 2.6%."* The Economist. 2024. *"Brazil courts China as its Musk feud erupts again."* The Economist, 17. November. Link.

without signing on. These projects have focused primarily on mining; energy generation and transmission; technological/digital transformation; and transportation infrastructure. [7]

To date, these projects have totaled upwards of $285 billion, almost matching Chinese investment on the African continent, with $73 billion going towards the extraction of raw materials, with a major emphasis on the Lithium Triangle of Argentina, Bolivia, and Chile. Some of the most transformative investments have included the Coca Codo Sinclair Dam in Ecuador; the Cauchari Solar Park in Argentina; the Las Bambas Copper Mine in Peru; the Punta Sierra Wind farm in Chile; and the aforementioned Chancay Megaport.[8]



Signatories to China's Belt and Road Program.
Source: Wall Street Journal, 2024.

Additional investments have been made in producing electric vehicles, solar panels, and batteries, with 58% of investments directed at these sectors.[9] From 2019 to 2023, exports of these products from China to Latin America nearly tripled from $3.2 billion to $9 billion, facilitated by the region's largest solar panel providers in Latin America, 80 percent of which are Chinese-owned.[10] Other signs of China's increasing dominance of the region's energy sector include the acquisition of major electricity companies, including the China Southern Power Grid acquisition of Enel's electricity business in Peru, which provides power to northern Lima; and China's Three Gorges Corporation purchase of the remainder of the supply of electricity in Lima, which also acquired the Peruvian Chaglla power plant.[11]

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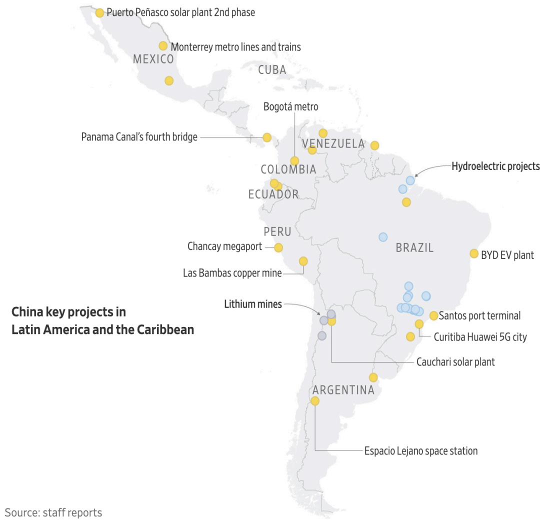
[7] Nedopil, Christoph (2023): "Countries of the Belt and Road Initiative"; Shanghai, Green Finance & Development Center, FISF Fudan University, Link

[8] Roy, Diana. 2023. *"China's growing influence in Latin America."* Council on Foreign Relations, 15. June. Link.

[9] Lewkowicz, Javier. 2024. *"How is Chinese investment in Latin America changing?"* Dialogue Earth, 18. July. Link.

[10] The Economist. 2024. *"Brazil courts China as its Musk feud erupts again".* The Economist, 17. November. Link.

[11] Bernard, Steven and Joe Daniels. 2024. *"South America's 'made in China' megaport prepares to transform trade."* Financial Times, 13. November. Link.



China Key Projects in Latin America and the Caribbean.
Source: Wall Street Journal, 2024.

While the pace of investment slowed during Covid, it rapidly rebounded in 2024, with Chinese firms investing $124 billion, a 9.2% increase from the previous year.[12] The most recent investments include a $1 billion stake in an EV factory in Mexico and expansion of a Chinese state-backed satellite service to rival Starlink, in Brazil.[13]

The Threat of China's Expansion

"Latin America is not thinking about China's dominance either in short-term policymaking or in the longer term." [14] The potential impacts of this growing economic dominance are widespread, at the local, state, and international levels. Locally, the influx of Chinese companies threatens domestic businesses, including the collapse of Chile's steel industry resulting from the import of cheap, state-subsidized Chinese steel, and increased Chinese fishing in coastal waters, which threatens the livelihood of communities reliant upon income from commercial fishing.

On a national level, Chinese-built infrastructure has begun to deteriorate, due to the poor quality of Chinese construction. One prominent example is the Ecuadorian Coca Codo Sinclair Hydroelectric Power Plant, constructed by the Chinese state-owned Sinohydro Corporation, at a reported cost of $US 3

[12]Bird, Mike. 2024. *"Chinese firms will keep going global."* The Economist, 20. November. Link.
[13]Olcott, Eleanor, Michael Pooler and Joe Leahy. 2024. *"Chinese satellite company to challenge Elon Musk's Starlink in Brazil."* Financial Times, 21. November. Link.
[14] The Economist. 2024. *"China's presence in Latin America has expanded dramatically."* The Economist, 4. July. Link.

billion, paid for by the Ecuadorian government.[15] The plant, completed in 2016 is producing less than one third of the promised electrical output and is already showing cracks and fissures that put the future and safety of the dam at risk. A disregard for labor standards and environmental regulations by Chinese firms has also resulted in poor, unsafe working conditions and production practices, particularly in the mining sector.

Internationally, economic dependency on the CCP has impeded the economic development of the states it invests in Latin America and other regions, as *"there is no effort to require investors to provide technology transfer and to come up with initiatives in education and incorporation of local labor."*[16]

China also uses its increasing dominance of regional trade and investment as leverage to shape the foreign policy of Latin American countries to its benefit.[17] This leverage also allows China to assert itself more aggressively, as its supply deals for mineral and food imports from Latin America allow it to secure access to critical resources in the face of potential Western embargoes in response to increased aggression, a luxury not afforded to Russia after its invasion of Ukraine. Additionally, its increased investments into authoritarian states like Venezuela, Nicaragua, and Cuba, allow China to serve as an *"incubator of populism,"*[18] by strengthening these repressive regimes' ability to repress their populations.

Authoritarian Tendencies in Latin America
Source: Center for a Secure Free Society, 2022.

The American Vacuum

This increasing economic dominance is made possible, in large measure by American neglect and non-strategic largely failed social policies, like its decades-long *"War on drugs."* For example, in Peru, the inauguration of the $3.5 billion Chinese-supported Chancay Megaport, was juxtaposed against the Biden

[15] Baires, Lorena. 2024. "US Helps Ecuador Manage Chinese Dam Damage." Diálogo Américas, 3 September. Link.
[16] Lewkowicz, Javier. 2024. *"How is Chinese investment in Latin America changing?"* Dialogue Earth, 18. July. Link.
[17] 2024. *"China's presence in Latin America has expanded dramatically."* The Economist, 4. July. Link.
[18] 2023. *"China's growing influence in Latin America."* Council on Foreign Relations, 15. June. Link.

Administration's announcement of the donation of Black Hawk helicopters and a $65 million counter-narcotics program.[19]

This is just one part of a wider trend that has defined the U.S. position on Latin America in recent decades, with its overemphasis on narcotics, and neglect of economic opportunities that have been exploited by China, as *"The U.S. sees Latin America as 'ours to ignore.'"*[20] Countless examples of this neglect have opened the door to Chinese investment. For instance, in 2016, U.S. ambassador to Panama, John Feely, proposed the involvement of U.S. companies in the construction of a fourth bridge across the Panama Canal, a proposal that fell on deaf ears in Washington. In response, Panama began looking for other investors. In 2017, Panama cut ties with Taiwan and then awarded the contract to China. There has also been a severe American 'diplomatic deficit' of appointments of Latin American ambassadorial officers, routinely left vacant due to political gridlock. This is in stark contrast to the diplomatic activity of Chinese officials, who send ambassadors with a deep understanding of Latin American politics and culture, possess a strong command of Spanish and Portuguese, and actively engage with national governments and involve themselves in much larger scale and more deal-oriented diplomacy.

The U.S. has not forfeited its position in the region completely. Most Latin American leaders and economists in Latin America prefer U.S. involvement over Chinese, due to the stability of U.S. consumer demand; Chinese apprehension to fund large-scale development projects; concerns over the quality and durability of Chinese-built infrastructure; China's propensity to import labor from China to complete large infrastructure projects; etc. Officials assert that China filled the economic vacuum left by U.S. complacency, as *"any investment is welcome in a region which has an enormous investment deficit [...] If you have to choose between no investment and Chinese investment, you will always prefer investment."*[21]

The Path Forward

Several policy measures can and should be taken to reverse this trend and reduce Chinese influence in the region. First, the U.S. must revamp its investment programs, including those managed by the U.S. International Development Finance Corp (DFC). While the DFC has expanded its engagement across Latin America, its current guidelines often restrict investments in many countries deemed "too wealthy," limiting its potential to address development needs in the region effectively.

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[19] Stott, Michael. 2024. *"Joe Biden loses to Xi Jinping in battle for Latin America."* Financial Times, 20. November. Link.

[20] Areddy, James T., Ryan Dubé and Roque Ruiz. 2024. *"How China Capitalized on U.S. Indifference in Latin America."* Wall Street Journal, 14. November. Link.

[21] Stott, Michael. 2024. *"Joe Biden loses to Xi Jinping in battle for Latin America."* Financial Times, 20. November. Link.

The rigidity of criteria that qualifies states for DFC investment has crippled U.S. ability to invest in crucial activities and sectors throughout the region. One recent example is Guyana, where the government requested DFC investment to build a port to unload oil extracted by Exxon Mobil. Due to DFC regulations regarding wealth and natural resources, the agency was unable to provide the funding. As has happened on repeated occasions, the PRC and its contractors came in and offered to build the port, once again cutting out the U.S. from integrating itself in these emerging markets.[22] *"The U.S. is doing all the oil pumping, but China is doing a lot of the infrastructure."*[23]

To effectively counter Chinese economic expansion in Latin America, a concerted, bipartisan initiative must be launched, capable of withstanding the shifts that come with the transfers of power, allowing for the U.S. to maintain a stable and productive presence in Latin America. This initiative must put investment programs and permanent trade deals at the forefront of its efforts and establish a stronger economic presence in the Western Hemisphere, especially south of Mexico. The economic foreign policy of the U.S. should be guided under the same principles it currently follows, "not asking partners to choose between the United States and China but [...] demonstrating the benefits of partnership with the U.S."[24] but with a renewed vigor and enthusiasm. These efforts would not only encourage the decoupling of economic growth from Chinese investments and the removal of the power disparity that comes with it; but would also boost the American economy and the living conditions of the average American citizen through the influx of inexpensive products produced south of the border.

For this to work, the U.S. must also reestablish a stronger diplomatic presence, pursue large-scale projects, and put investments and development at the vanguard of their efforts. This would provide the resources that this emerging region requires to move past its historical global isolation and exploit its natural advantages to gain a place at the global roundtable.

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[22] Eaton, Collin, and Kejal Vyas. 2024. "As Exxon Pumps Guyana's Oil, China Is Winning Battle for Influence." The Wall Street Journal, 26 September. Link.
[23] Areddy, James T., Ryan Dubé and Roque Ruiz. 2024. *"How China Capitalized on U.S. Indifference in Latin America."* Wall Street Journal, 14. November. Link.
[24] Bernard, Steven and Joe Daniels. 2024. *"South America's 'made in China' megaport prepares to transform trade."* Financial Times, 13. November. Link.

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