The DFC's Test: Competing with China in Latin America

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Introduction

A stable and prosperous Latin America is essential for U.S. national security, curbing mass migration and transnational crime. As the region faces economic hardship and infrastructural deficits, China has stepped into the void left by U.S. neglect—becoming South America's top trading partner and investor in key development projects. This trend threatens regional stability, emboldens revisionist regimes, and undermines U.S. influence.

This decade may be decisive in the future of LATAM and its relations with the U.S., as governments attempt to address major challenges in infrastructure, productivity, and rising levels of crime and violence. To secure the partnership and support of the region, the U.S. should take a serious look at its economic policies towards infrastructure investment in Latin America, including programs under the U.S. International Development Finance Corporation (DFC).

This analysis seeks to identify policy reforms that would enhance Washington's investment tools to counter Chinese influence and advance U.S. strategic interests in Latin America.

Latin America's Infrastructure Crisis

Latin America faces a severe infrastructure deficit, driven primarily by limited access to capital and government inefficiencies. The region's infrastructure is not keeping pace with its growing upper-middle-income population and economic growth expectations, leaving critical sectors underdeveloped.[1]

According to the Inter-American Development Bank (IDB), Latin America requires: $3.73 billion for water and sanitation, $577 billion for the energy sector, and $976 billion to upgrade transportation infrastructure. The infrastructure gap is estimated at $150 billion annually, with total investment needs projected at $2.22 trillion by 2030 to meet essential demands.[2]

Despite the urgency of these needs, several projects have been delayed or abandoned, such as Brazil's Transnordestina railway, critical for the transport of agricultural and mineral goods, and Peru's $7 billion natural gas pipeline project, cancelled during construction.[3] [4]

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[1] Wilson Center. "Latin America Must Prioritize Infrastructure to Spur Economic Growth." Wilson Center, April 11, 2023. Link.

[2] Wilson Center. "Latin America."

[3] Ueslei Marcelino. "Brazil's 'Railway to Nowhere'," *Reuters*, December 15, 2016. Link

[4] Argus Media. "Gas Field Anchors Chinese Energy Ties with Peru." *Argus Media*, November 24, 2016. Link

China's Investment Strategy in Latin America

China has capitalized on U.S. neglect, investing over $285 billion in Latin American infrastructure over the past two decades. While the U.S. remains the region's largest source of foreign direct investment, it lags far behind in funding critical infrastructure — a domain where China dominates with megaprojects like the Coca Codo Sinclair Dam (Ecuador), Cauchari Solar Park (Argentina), and Las Bambas Copper Mine (Peru).[5] [6] [7]

Beijing's strategy hinges on "Patient Capital" — long-term, high-risk investments where profitability is secondary to strategic influence. This approach gives China a distinct advantage, investing in areas where most Western lenders are incapable or unwilling to invest due to delayed returns.[8] Central to this is China's Infrastructure-for-Resources model, where infrastructure funding is exchanged for long-term commodity deals, e.g., China lending over $60 billion to Venezuela, secured by future oil shipments. The most dangerous aspect, however, is debt financing: China offers low-conditionality loans appealing to cash-strapped regimes, gaining leverage without demanding reforms.[9] This has already led to debt traps. Following a drop in oil prices in 2014, Ecuador mortgaged four years of oil production to repay $20 billion in loans, sacrificing $5 billion in potential revenue — and effectively tying its economy to Beijing.[10]

The Critical Minerals Battleground

Perhaps the most strategic sector where China has expanded its critical minerals, investing over $73 billion in raw material extraction—especially in the Lithium Triangle of Argentina, Bolivia, and Chile, which holds 54% of global lithium reserves. These minerals are vital to the U.S., labeled by the Department of Defense as "minerals of strategic interest" for their role in energy technology, electronics, healthcare, and military systems.[11] Latin America is crucial to securing this supply, accounting for 60% of global lithium, 23% of graphite, and over 15% of manganese and nickel.[12]

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[5] Lucas S. Phillips, "Reclaiming Influence: US Strategy Amid China's Rise in Latin America," *International Policy Review*, (2025). Link

[6] U.S. Bureau of Economic Analysis. "Direct Investment by Country and Industry." Link.

[7] C Textor. "Capital Stock in Chinese Direct Investments in Latin America from 2010 to 2023," *Statista* , 2024, Link.

[8] Stephen B. Kaplan, "Don't Let Geopolitics Undermine Latin America's Hard-Won Free Markets," *Atlantic Council,* 2024, Link.

[9] Kaplan, "Don't Let Geopolitics."

[10] Kaplan, "Don't Let Geopolitics."

[11] Olivia Licata, "Mineral Security and U.S. Supply Chain Resilience," *Center for Global Security Research*, 2024, Link.

[12] Licata, "Mineral Security and U.S. Supply Chain Resilience."

China has leveraged this, with 28 of 50 lithium companies in the region Chinese-owned or affiliated, and now dominates the lithium-ion battery supply chain, controlling 25% of global mining capacity, 80% of raw lithium refining, 77% of battery cell capacity, and 60% of component manufacturing.[13] This dominance puts the U.S. in a dangerous position, as its lithium imports from China surged from 78% in 2022 to 88% in 2023. Any Chinese export restrictions could severely disrupt U.S. energy, defense, and tech sectors, revealing a critical supply chain vulnerability.[14]

U.S. Response: Failures and Missed Opportunities

The U.S. response to growing Chinese influence in the region has been lackluster at best. Programs undertaken during the Biden administration, including the Free Trade Area of the Americas (FTAA) and the Americas Partnership for Economic Prosperity (APEP), have been ambitious in name and ineffective in practice. The prolonged nature of negotiating such large accords like the APEP has only given China more time to cement its position. [15] The other approach undertaken by the U.S. has been called "blocking without building", essentially opposing Chinese projects without offering any alternatives such as when the U.S. threatened to cut off aid to El Salvador after it established diplomatic ties with China in 2018, without offering to match China's offers of financing.[16]

The cause of the failure to push back against Chinese investments is the unwillingness to invest in cornerstone projects that involve a greater sum of capital and risk, as "U.S. investors continue to face significant obstacles in LAC, including poor transportation and logistics infrastructure, rigid labor markets, corruption, complex and nontransparent legal and regulatory frameworks, and insufficient protection of property rights."[17] Given these challenges, it appears the U.S. has only one agency it can truly rely on to effectively compete with China and the Belt and Road Initiative, the U.S. International Development Finance Corporation.

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[13] Licata, "Mineral Security and U.S. Supply Chain Resilience."
[14] Licata, "Mineral Security and U.S. Supply Chain Resilience."
[15] P. Michael McKinley, "Inflection Point: Challenges Facing Latin America and U.S. Policy in the Region," *Center for Strategic and International Studies (CSIS)*, September 7, 2023, Link.
[16] Nelson Renteria. "El Salvador Says Economy Prompted Diplomatic Switch to China from Taiwan." *Reuters*, August 22, 2018. Link.
[17] Congressional Research Service, "U.S.-Latin America Trade and Investment," March 31, 2025. Link.

The DFC: Potential and Limitations

The DFC was created under the Better Utilization of Investments Leading to Development (BUILD) Act of 2018 and began operations in 2020. The DFC's mandate is to focus on development impact in lower and lower-middle-income countries while promoting U.S. national security and economic priorities. To meet this mandate, the DFC has been given $60 billion in lending capacity to compete with state-directed investments from China. The DFC is poised to take the leading role in competing against Chinese investments, as it is capable of deploying large amounts of capital for high-risk projects in critical sectors where private investors might be hesitant to venture.[18]

The DFC has the potential to bring on massive amounts of private investment, through provision of political-risk insurance, funding for feasibility studies, and direct equity investments, mitigating risks and allowing them to pool resources from various sources, in stark contrast to the Chinese state-backed model.[19]

Despite that potential, the DFC's footprint in Latin America has been alarmingly small. Since 2020, it has managed to open only one regional office and invested just $4.4 billion in active projects across the entire region — a small fraction of what is needed and of China's $285 billion investment in the last two decades. Its most notable achievements in Latin America include a $150 million loan to expand the Puerto Bolívar container port in Ecuador and a $7.5 million investment (alongside IFC) in the Antigua-based Pomona Impact Fund.[20] While these projects may yield localized benefits, they are minuscule in scale and ambition when compared to China's $21 billion invested in Brazil alone in 2017, or its funding of multibillion-dollar megaprojects across the region.[21]

In short, the DFC's current efforts, while well-intentioned, fail to meet the moment. The U.S. risks ceding strategic ground not because it lacks resources, but because it refuses to fully deploy them.

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[18] Conor M. Savoy. 2021. "Mission Creep at the Development Finance Corporation." *Center for Strategic and International Studies*, September 20, 2021. Link

[19] Daniel F. Runde, "The Clock Is Ticking on DFC Reauthorization," *Center for Strategic and International Studies (CSIS)*, February 14, 2025. Link.

[20] U.S. International Development Finance Corporation. "DFC Commits $150 Million to Yilport Terminal to Expand and Upgrade Port Infrastructure in Ecuador." *Press Release*, May 5, 2023. Link.

[21] Lourdes Casanova. "The Challenges of Chinese Investment in Latin America." *World Economic Forum*, March 15, 2018. Link

These shortcomings can be attributed to the inherent flaws in the DFC. Firstly, the DFC is weighed down by bureaucracy and U.S. congressional expectations. Its ability to freely create and fund projects is entirely contingent on World Bank income category classification restrictions under which the DFC is only able to freely operate in Haiti, Bolivia, Nicaragua, and Honduras, otherwise requiring a national security waiver if they want to fund a project in a nation that falls outside the income classifications. "In June 2024, DFC forecast that it could lose current projects based on country-eligibility totaling approximately $1.4 billion."[22] These regulations restrict the flexibility of the agency in responding to changes in the geopolitical environment, while China can rapidly adjust and reassess at a moment's notice.[23]

Another issue with the DFC's operational strategies is its relative lack of funding and control over it. Though the $60 billion budget might seem substantial, it has to be spread out globally, and therefore in no way matches Chinese investments in LATAM; on top of the fact that the DFC has very little freedom to use the money as it sees fit without continual congressional oversight. Under current DFC guidelines, any deal over $10 million requires informal approval from every member of Congress through the congressional notification process. Additionally, any of the profits obtained from these projects don't return to the DFC, instead, they end up in the U.S. Department of the Treasury, limiting the DFC's ability to compound its successes.[24]

The coming months will be critical—not only in determining whether the DFC can emerge as a true competitor to China's Belt and Road Initiative, but also in determining whether it will continue to exist as a meaningful instrument of U.S. foreign policy at all. On September 23rd, 2023, the House of Foreign Affairs Committee introduced H.R. 8926, the DFC Modernization and Reauthorization Act of 2024, aiming to extend the DFC's authorization and increase its investment cap from $60 billion to $120 billion. As of March 15th, 2025, the bill is awaiting further legislative action, not having advanced to a full House vote or received consideration by the Senate. Failure to secure reauthorization before it expires in October 2025 could spell disaster for the DFC, hindering its ability to invest in critical long-term projects throughout Latin America and

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[22] Office of Inspector General, "Top Management Challenges Facing DFC in FY 2025," U.S. Development Finance Corporation, Link.

[23] *"DFC believes that one of its biggest challenges is that the BUILD Act ties country eligibility to the World Bank income category determinations. The World Bank updates its income classifications annually. Unfortunately, the World Bank does not provide any advanced notice of what countries might jump categories, leaving DFC in a reactive position."* (Office of Inspector General, "Top Management Challenges").

[24] Runde, "The Clock Is Ticking."

the globe. [25] Apart from the budget increase and reauthorization, the bill aims to expand the scope of the DFC, allowing it to operate in a broader range of countries, including certain high-income nations, allowing it to meet its mandate to promote U.S. national security and economic priorities.

If a strong enough bipartisan movement is generated behind the bill, Congress can truly implement necessary changes to the DFC to provide economic security for itself and Latin America.[26]

Policy Recommendations for DFC Reform

Firstly, the proposed changes introduced in the DFC Modernization and Reauthorization Act should be fully implemented, doubling the investment cap to $120 billion. Paired with this, the DFC should be allowed to retain its profits in order to reinvest and compound its progress, increasing the pool of funds it can pull from, in a similar fashion to the Export-Import Bank of the United States (EXIM) or In-Q-Tel (IQT)[27]. This should be followed by the easing of restrictions on DFC spending, increasing the value limit of deals requiring informal approval from $10 million to $200-250 million to provide the DFC with more fiscal flexibility. The World Bank income classification restrictions must be removed in order to allow investments in the most critical Latin American states, namely Brazil, Mexico, Chile, and Argentina, allowing the U.S. to promote critical infrastructure projects.

Secondly, the DFC should offer an alternative "Infrastructure-for-Resources" model, funding infrastructure in exchange for exclusive rare earth mineral agreements, allowing Latin American countries to develop their economies and supply chains. The DFC should fund strategic trade hubs in response to projects like the Chancay Megaport, investing in the U.S.-aligned trade routes along Ecuador, Colombia, and Mexico, furthering economic integration within and with Latin America. These agreements would be in stark contrast to China's, which often violate environmental and labor standards, putting Environmental, Social, and Governance (ESG) principles at the forefront of their operations, garnering support from both Latin American governments and their constituents.

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[25] U.S. House Foreign Affairs Committee. 2024. "McCaul's H.R. 8926: The DFC Modernization and Reauthorization Act of 2024 Passes Out of Committee," U.S. House Foreign Affairs Committee, Link.
[26] Runde, "The Clock Is Ticking."
[27] Runde, "The Clock Is Ticking."

Thirdly, the U.S. must invest in critical minerals and secure its supply chains by financing the development of mineral refining plants in Argentina and Chile, reducing dependence on China, and keeping the entire mineral supply chain within the Western Hemisphere. Following this, the DFC should fund local extraction projects and provide alternative U.S. supply chains to strengthen regional economies. The Inflation Reduction Act should incentivize U.S. manufacturers to prioritize Latin American supply chains by providing tax credits for EV batteries that use minerals sourced from Argentina and Chile, cutting out Chinese influence in rare earth minerals. Finally, the U.S. should position its investments as the sustainable, ethical alternative to China's environmentally damaging approach, prioritizing mining practices that reduce water consumption and implement transparency standards for all U.S.-backed mining projects.

Conclusion: The Cost of Inaction

If the U.S. continues down the current path of neglect, it might risk losing the critical partnerships and allies needed to secure its economic and strategic interests. The creation of the DFC has laid important groundwork needed to reverse current geopolitical trends and cement long-term alliances, but the agency must be empowered and reformed. The proposals set forth by the DFC Modernization and Reauthorization Act are critically important, and bipartisan action is needed.

In summary, the U.S. needs to pursue a more dynamic and more proactive strategy. Neglecting the importance of Latin America and shifting focus to distant challenges elsewhere threatens to leave the U.S. in an increasingly vulnerable position. The Western Hemisphere—especially Latin America—is the U.S.'s home, and if left unattended, Beijing will fill the vacuum, reshaping the region in its own image.

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