

Testimony before the U.S.-China Economic and Security Review Commission: "China in Latin America and the Caribbean"

Oliver Della Costa Stuenkel, Associate Professor of International Relations at Fundação Getúlio Vargas (FGV) in São Paulo, Brazil and Non-resident scholar at the Carnegie Endowment for Peace (CEIP) in Washington DC

Thursday, May 20, 2021

• What are China's most important goals in its relationship with Brazil and how important is Brazil to China's regional and global objectives? How does China's desire to secure Brazilian natural resources drive its economic, political, and security activities in the country?

China's engagement in Brazil is driven by two main goals. First of all, China hopes to diversify its energy imports and access large markets for Chinese products. Chinese investment is correlated positively with the natural resource wealth of destination countries. For example, China is the world's largest consumer of iron ore and niobium, both of which are vitally important for the country's urban development. Brazil, China's major trading partner in the region, is the number one producer of niobium and third largest source of iron ore. Similarly, China needs Brazilian soybeans to feed its population. Consequently, China Oil and Foodstuffs Corporation (COFCO), a state-owned Chinese food-processing company, has been highly active in the soybean trade with Brazil. As one of the world's major commodity producers, China sees Brazil as a long-term partner and a pillar in a more China-centric global economic system. While China will seek to compete with and outperform more advanced economies such as Germany -- by moving up the value-chain -- Beijing is aware that it will probably never cease depending on commodity providers such as Brazil.

Second, though less explicit and less visible, China seeks to rally support for international norms of independence, sovereignty and territorial integrity. Brazil, along with its Latin American neighbors, still influenced by their experiences with US unilateral interventionism, are generally inclined to ascribe similar importance and meaning to these norms. Mindful of deep-seated skepticism in Brazil of alliances and a strong interest in maintaining strategic autonomy, China has still fairly limited military engagement with Brazil, involving consultations, cooperation between military schools in the form of exchanges and short-term visits. The reason is simple: given the region's geographical proximity to the United States, Chinese policy makers consider Latin America to be part of the United States' broader sphere of influence, and establishing a military presence in the region at this stage could unnecessarily anticipate a great power conflict (which, it must be noted, many Chinese analysts consider to be inevitable in the long term). Beijing is well aware that several Latin American governments, including Brazil, are facing growing pressure on Washington against projects with security implications, and therefore seek to advance more quietly. Beijing is also careful not to comment on internal matters in Brazil, and usually seeks to deflect criticism and not take the bait when Brazilian policy makers criticize China.

Diplomatic ties have deepened since 2009, when the BRICS grouping became a political entity, involving yearly presidential summits, numerous minister-level meetings and, since 2016, the BRICS development bank. Brazil also joined the China-led Asian Infrastructure Investment Bank (AIIB) in 2015.

China has sought to deepen cooperation when specific opportunities arise. A good example is the Lava Jato corruption investigation, which began in 2014 and produced an earthquake in Brazil's business elite and weakened several former national champions, leading to an unprecedented opening for Chinese investors, able to take over several assets Odebrecht and other Brazilian giants were forced to sell. A majority stake in Rio de Janeiro's Galeão Airport, for example, was sold to China's HNA Group. A similar phenomenon became visible in the region as a whole, where Brazilian construction firms involved in corruption scandals shed key investments, such as Peru's Chaglla hydroelectric dam, which went to China Three Gorges. This reveals a familiar pattern of China engaging companies and countries in Latin America when they are most vulnerable, as has been the case over the past years in Brazil.

One key target in Brazil over the past years was energy, and there is some evidence that Chinese investments in this area are not entirely motivated by making quick profits, but rather form part of a broader plan, the so-called 'Global Electricity Interconnection', a subset of the Belt and Road Initiative. Chinese companies have spent around a quarter trillion US-dollars on energy projects around the world since 2000, roughly a fourth of that in Latin America. Indeed, particularly in the energy areas, Chinese investors seem to have overpaid in several instances, such as when China National Petroleum Corporation bought a 20% stake in the Comperj refinery in Rio de Janeiro state, suggesting strategic motives. Another possibility is that Chinese investors tend to be less influenced by short-term political considerations than others. Indeed, one standard response by Chinese investors about what they think about the risk posed by Bolsonaro is that they "think long-term", and therefore pay limited attention to the day-to-day debates in Brazilian politics.

Another new area where Chinese investments are transforming the Brazilian business landscape are technology firms. Companies such as Peixe Urbano, 99 Taxi and Nubank are now partly owned by Chinese companies (Baidu, Didi Chuxing and Tencent, respectively). Felipe Henriquez, a well-known tech entrepreneur, argued that while Brazilians had traditionally looked for investments in Silicon Valley, they now regarded China as a key source of finance. "China's influence has been very important. Latin America is more similar to China than to the U.S. When you go to China, you see what's going to happen in Latin America in five more years. Today, we look at China. We look at Meituan, at Alibaba and Tencent, to see what we can do in the future.", he argued in an interview. One of the key reasons why Chinese companies are so relevant for Brazilian entrepreneurs is that China addressed, several years ago, the same challenges that Latin America faces now: "the unbanked, no-credit scores, no phone-to-suddenly having smartphones."

• What are Brazil's goals for its relationship with China, and where are there frictions in the relationship?

Brazil's greatest benefits from the relationship to China are economic. Irrespective of what Brazilians think about China's political system, the Asian country's economic rise inspires awe in Brazil, especially considering the fact that Brazil's economy was bigger than that of China only four decades ago. During most of the time since then, China's economy has achieved double-digit growth almost throughout, while Brazil has seen two so-called "lost decades" without meaningful growth: the 1980s and the 2010s. While Brazil's trade with China was modest only two decades ago, the Asian country quickly became Brazil's main trade partner, a position it obtained in 2009. Total bilateral trade rose from about \$3 billion in 2001 to \$44 billion in 2010 and to about \$100 billion in 2019. This trend is expected to continue, given economic complementarities.

Since then, a broad consensus has emerged in Brazilian society that trade and investment ties to China are beneficial and must be protected, and even the election of Jair Bolsonaro, who embraced a pro-US and anti-China rhetoric during the campaign, has not affected this overall dynamic. There are, of course, those who point to the asymmetrical trade relationship which involves Brazil exporting commodities to China and importing value-added goods, but this is largely seen as a symptom of underlying challenges Brazil's economy faces. Despite Bolsonaro's systematic anti-China comments and his efforts to strengthen ties to the United States, US-Brazil trade has fallen to the lowest level in eleven years, while trade with China is booming. The Asian country is now the destination of 34.1% of Brazilian exports, a figure that is set to grow given China's relatively quick economic recovery from the pandemic. On the investment front, however, the United States continued to be a more important actor in Brazil than China, which has reduced its investments somewhat over the past years.

Brazilian policy makers also see China as a useful ally to offset US influence and improve Latin America's negotiating position vis-à-vis Washington -- a bit like Vietnam, South Korea or Japan, which seek closer ties to Washington to balance China's influence in its vicinity. To Latin American foreign policy makers, the best way to react to growing geopolitical tensions between the United States and China is thus obvious: Stay neutral and maintain cordial ties to both superpowers. Given Latin America's geographic proximity to the United States, growing economic dependence on China, and historic aversion to long-standing alliances that limit strategic autonomy, leaders across the ideological spectrum have largely decided to embrace a pragmatic stance and maintain friendly ties with both Washington and Beijing.

Bolsonaro therefore tasked his vice president, Hamilton Mourão, with protecting Brazil's ties to China. Along with most of Brazil's foreign-policy establishment, Mourão has long been an advocate of neutrality as tensions between Washington and Beijing have intensified. So even as Bolsonaro made deals with Trump over the past two years — including an agreement to facilitate trade and to consolidate the United States' role as leading investor in the country, a space cooperation agreement allowing the United States to use a launch site in Brazil, and the designation of Brazil as a major non-NATO ally — the country's economic dependence on China deepened considerably.

While anti-China sentiment is not as deeply rooted as anti-Americanism in Brazil, Bolsonaro is unlikely to have been the last Brazilian politician to stoke sinophobia, and it will likely be a low-hanging fruit for right-wing policy makers to mobilize their followers.

• How has China leveraged party-to-party engagement and other political influence activities to build influence and further its objectives in Brazil?

Over the past decade, China has promoted a large number of diplomatic initiatives involving Brazil, creating an unprecedented engagement on many different levels of Brazil's bureaucracy and foreign service. While only a decade ago most Brazilian bureaucrats had rarely if ever engaged with Asian counterparts, frequent engagement is now commonplace. The BRICS grouping is an example -- initially comprising annual meetings of presidents and foreign ministers that were largely symbolic. Today, however, the BRICS grouping involves around one hundred meetings per year, around fifteen of which involve the participation of ministers. Contrary to initial expectations that center-right governments in Brazil would reduce their engagement in the grouping, the grouping has only gained relevance: Michel Temer, who substituted Dilma Rousseff after her impeachment in 2016, participated in two BRICS Summits and several bilateral visits in Asia, but did not visit Washington DC a single time during his time in office. Despite frequently embracing an anti-China rhetoric, Brazil today needs the BRICS grouping to avoid diplomatic isolation.

Chinese diplomatic initiatives in the developing world have been long underestimated by Western observers. Many US analysts questioned to what extent China would be able to project soft power, pointing to its authoritarian nature and numerous domestic problems, ranging from pollution, corruption, and systematic repression of its minorities. Yet a closer analysis reveals that Chinese diplomatic initiatives do not aim to make Latin Americans seek to live in China or replicate China's political system. Rather, their goal is more limited yet remarkably effective -- Beijing merely seeks to make sure that its engagement in Latin America is seen in a neutral way. In the same way, China understands that the easiest way to project itself positively in Latin America is by emphasizing its policy of non-interference, marking a sharp contrast to the United States.

Considering the evidence, the strategy is working relatively well, and initiatives such as the China-Latin America think tank forum (launched in 2010), the China-CELAC Forum (launched in 2014) and the World Political Parties Dialogue (launched in 2016) are low-cost affairs but give the Chinese government a platform to project its message. The second China-CELAC Forum took place in 2018, during which participants agreed to deepen cooperation, as well as issuing a declaration supporting the Belt and Road Initiative. The BRI is quickly gaining visibility in Latin America, and several countries have recently signed bilateral agreements to participate in the initiative. As Shoujun Cui, the Director of the Center for Latin American Studies at Renmin University of China (RUC), wrote during the Trump presidency, reflecting confidence in China's strategy in Latin America,

In an era when the Trump administration insists "America First" and upholds trade protectionism, China's embrace of globalization encourages Latin American elites to

prioritize China in order to grow their economies and fill infrastructure gaps. As indicated by its second policy paper on Latin America, released in November 2016, China is committed to increasing its presence in Latin America in terms of trade, investment, and infrastructure cooperation. As Latin American countries are facing uncertainty prompted by U.S. policy, China's reassurance of continuous engagement resonates with the region's quest to attract investment and promote trade.

The same is true vis-à-vis BRICS. For years, Western analysts have tended to regard the BRICS grouping – comprising Brazil, Russia, India, China and South Africa – as either nonsensical or threatening. Indeed, after Brazil and Russia entered recession and growth in China slowed after 2014, Washington-based observers predicted the initiative's imminent demise. Yet the victory of Bolsonaro in Brazil shows how valuable the BRICS grouping has become to groups within Brazil that depend on stable ties to China. Despite frequent anti-China rhetoric on the campaign trail and attacks on a supposedly ideological foreign policy of previous governments that focused too much on ties to developing countries, Brazil not only continued to be part of BRICS, but Bolsonaro hosted the 11th BRICS Summit in 2019.

In 2004, Brazil and China created COSBAN (Comissão Sino-Brasileira de Alto Nível de Concertação e Cooperação) as an institution for bilateral dialogue and cooperation. COSBAN is chaired by the Brazilian Vice President and Chinese Vice Premier in charge of economic topics; it has eleven sub commissions and seven working groups. At the third COSBAN session in 2013, Brazil and China signed a ten-year development plan (“Plano Decenal Especial”) extending the CBERS (“China-Brazil Earth Resources Satellite”) program, easing Brazilian corn and beef exports to China and institutionalizing a Brazil-China dialogue about the United States. CBERS, in particular, can be understood as a source of Chinese soft power, particularly given its capacity to instill national pride and be used by the Brazilian government when speaking about significant technological achievements. COSBAN's political sub commission manages diplomatic relations between the two countries. The two foreign ministries' dialogue was elevated to a “Global Strategic Dialogue” in 2012 to exchange views on regional and international issues. COSBAN also accompanies the implementation of the Joint Action Plan signed in 2010 between Presidents Lula da Silva and Hu Jintao. Vice-President Mourão is in charge of COSBAN, which China watchers in Brazil consider to be an important platform to strengthen ties between the two countries.

In June 2017, the Brazil-China Fund for Production Capacity Expansion was launched as an additional mechanism to finance projects in Brazil. The project proposals are evaluated by a Technical Working Group and a Directive Committee, while Brazilian financial institutions eventually determine the projects' viability together with the China-LAC Industrial Cooperation Investment Fund (CLAIFUND). The Directive Committee is chaired by the Executive Secretary Chief of Staff, Executive Secretary of Parliament and Secretary General of the Foreign Ministry on the Brazilian side and three vice-ministers on the Chinese side; the committee in turn appoints the members of the working group. It gives primary consideration to project areas considered most important by the Brazilian government, including infrastructure, manufacturing, agribusiness and technology. In May 2018, the Brazil-China Cooperation Fund promised to finance five projects

with US\$ 2.4 billion. CLAIFUND, created in 2015 by Chinese Premier Li Keqiang with a total volume of US\$ 30 billion, is largely managed by China and primarily supports investments in energy, infrastructure, and finance. Finally, China set up the China-Latin America Cooperation Fund in 2014 for US\$ 5 billion and the China-Latin America Infrastructure Fund in 2015 for US\$ 10 billion.

Furthermore, China has repeatedly encouraged Latin American media organizations to expand to China and promised to train 500 Latin American journalists over five years in an effort to increase understanding of China among Latin American elites and general publics. The Chinese government has offered 6,000 scholarships, 6,000 internships, 400 employment offers to young Latin Americans and agreed to train 1,000 future Latin American leaders until 2021 through the “Bridges to the Future” program. There are currently 39 Confucius Institutes and 11 Confucius Classrooms in Latin America, with an estimated 50,000 attending their programs. These numbers are relatively small. In the United States alone, in comparison, there were at one point over one thousand Confucius Institutes over 500 Confucius Classrooms. Chinese news outlets such as Xinhua, People’s Daily, CGTN Spanish, and China Radio International are all operating in Latin America. But anecdotal evidence suggests that a significant part of the population – at least in Brazil -- has never heard the name of CCTV or CGTN.

• How has COVID-19 created opportunities for China to expand its influence and exert leverage in Brazil?

China has been able to deepen its influence considerably during the pandemic, largely due to a fast roll-out of Chinese-made vaccines or ingredients to produce covid-19 vaccines in partnerships with local laboratories such as Butantan in São Paulo. More than 80% of all vaccines administered in Brazil are Chinese-made, and Beijing has adroitly utilized this approach to project itself as a fellow developing country willing to export vaccines and share its knowledge at a time when developed countries like the United States were unwilling to do so. While there is some skepticism among the Brazilian public vis-à-vis Chinese vaccines, the lack of alternatives has allowed China to improve its image considerably.

China's 'vaccine diplomacy' possibly influenced other parts of the bilateral relationship. In 2020, the Trump administration had convinced Bolsonaro to join the U.S.-led Clean Network, an initiative to exclude Huawei that so far includes more than 50 countries, but in a humiliating backtrack, Bolsonaro later toned down his rhetoric against the Chinese telecommunication company and decided not to limit Huawei’s role in Brazil in what was seen as an effort to avoid delays in the delivery of Chinese-made COVID-19 vaccines.

• What are the implications of the Brazilian government’s use of Chinese surveillance and technology for internal security?

Washington’s attempt to frame its campaign against Huawei in Brazil as a defense of the rule of law, fair trade practices and concern about Brazilian internal security has not convinced many in the Latin American country. Quite the opposite: the topic has become politicized, eclipsing

legitimate concerns about the company's technology theft and possible ties to the Chinese government. The United States did not help its case when Huawei's CFO, Meng Wanzhou, was arrested in Vancouver, and Trump suggested that the United States might use her as a bargaining chip in its trade talks with China. Trump's comments vindicated those in Brazil who consider Huawei little more than a pawn in the trade war.

Today, critics can accuse anyone in Brazil who raises national security concerns about Huawei of blindly toeing the U.S. line in a geopolitical battle between a rising and a declining hegemon. A similar dynamic is discernible across the region, suggesting that the United States will fail to keep Huawei out of Latin American 5G networks. In Europe, concerns about the potential risk of Chinese spying for liberal democracies find genuine public resonance. By contrast, the U.S. undercut its warnings about Chinese meddling in Latin America when leading foreign-policy makers, including former National Security Adviser John Bolton, expressed their fondness for the Monroe Doctrine, the principle behind a long and traumatic history of U.S. interventions in the region. Considering that Latin American elites share a deep-seated concern about excessive U.S. influence in the region, but a relatively neutral stance vis-à-vis China, they have generally preferred to stay above the fray as the West's relationship with China has spiraled into open mistrust on matters of economic policy, technology, and national security.

As a result, Beijing's focus on the region's economic development has so far proved more attractive than Washington's attempts to depict Chinese mobile technology as a national and geopolitical security threat. In Brazil, where the NSA spied on former President Dilma Rousseff and her cabinet, leading Rousseff to cancel a formal state visit to Washington in 2013, U.S. warnings about Chinese spying ring hollow—not least because Rousseff's demand for a formal apology from President Barack Obama went unmet.

• What are the implications for the United States? What are your recommendations for Congressional action related to the topic of your testimony?

From a Brazilian perspective, Bolsonaro's diplomatic gamble to move closer to the United States is thought to have backfired, having produced few benefits to the Latin American nation. Heads of state in the region closely watched as Trump repeatedly humiliated Bolsonaro, for example when making surprise announcements about tariffs on Brazilian products. The lesson they drew was simple: betting on a partnership with Washington alone involved significant economic and political risks. Ranging from president Piñera's efforts to make Chile the region's main interlocutor with China to the Chinese military-run space station which began operating in Southern Argentina in 2018, governments in the region have therefore, overall, continued the trend of establishing deeper ties with Beijing. Of the seven countries that shifted ties from Taipei to Beijing during the Trump presidency, three of them -- the Dominican Republic, El Salvador and Panama -- are in Latin America, and pressure on Paraguay is growing to do the same; largely due to its limited access to covid-19 vaccines. In the realm of 5G, the United States' frequent warnings of Huawei and at times overt pressure tactics, referring to unspecified "economic consequences" for Latin American countries if they decided not to ban the Chinese

telecommunications company, has had only a limited impact, and few countries in the region are expected to heed Washington's advice on the matter.

The election of Joe Biden is a unique opportunity for Washington to implement a better strategy of responding to Beijing's growing influence in Latin America -- one that avoids counterproductive antagonization, emphasizes the opportunities and shared interests between Latin America and the United States, and avoids making Washington look desperate and unwilling to support the region's economic development.

Most importantly, the Biden administration should stop giving Latin American policy makers public advice vis-à-vis China. From Santiago, São Paulo or El Salvador, it sounds patronizing, arrogant and dishonest, given the many positive economic consequences trade with China has had in Latin America over the past two decades. Indeed, the Biden administration should implement a rule that US Ambassadors or leading US policy makers should not speak about China in public at all, considering how self-defeating such rhetoric is. That is notably true even if the US concerns are genuinely relevant, like when they talk about the negative environmental impact of Chinese investments or the risks depending on Huawei poses to privacy. For example, while long forgotten in Washington, few Brazilians have forgotten about the NSA's decision to spy on former president Rousseff -- and Obama's refusal to apologize for it. US insistence in badmouthing China rather than promoting its own strengths makes Washington look desperate and afraid of competing with China.

Avoiding the strident anti-China rhetoric, which crowded out virtually everything else, would provide more visibility to a positive US agenda laying out how joint challenges can be addressed jointly -- in areas such as human rights, the environment, strengthening civil society, the fight against corruption, but also in the realm of economic aid as Latin America faces its most profound economic crisis in more than a century. In the same way, the United States could use its convocatory power -- its capacity to bring political leaders together -- to help promote a frank regional debate about the multiple migratory crises afflicting Latin America, as well as about ways to rethink the war on drugs and against transnational crime, which victimizes hundreds of thousands of young Latin Americans every year.

The 2021 Summit of the Americas is a unique opportunity for the United States to lay out its new approach to Latin America and forge a regional agenda. Rather than promoting lofty but ultimately unattainable goals -- as has been done in the past --- the United States should use the meeting to nudge regional leaders to restart a dialogue that has all but broken down over the past years. President Bolsonaro has so far refused to speak to his Argentine counterpart Alberto Fernández, and Mexico's leader Andrés Manuel López Obrador has yet to visit a single Latin American country. The reasons for such a complete collapse of even symbolic dialogue are complex, but there is no doubt that US presidential diplomacy could go a long way to help overcome the crippling polarization between Latin American governments. Unless leaders are willing to initiate a basic dialogue between each other, none of the urgent regional challenges -- ranging from the Venezuelan and Central American migratory crises, the environmental crisis in Brazil, transnational crime and a poverty rate nearing 40% -- can be addressed successfully.

Biden's diplomatic skills will be of particular importance when it comes to Brazil, where Jair Bolsonaro, the self-styled "Trump of the Tropics", has repeatedly attacked the Democrat during the campaign trail for his comments on deforestation in the Amazon forest. Striking a balance between pressuring Brazil to adopt more stringent environmental rules without pushing it into the arms of China -- which is careful never to criticize Brazil's controversial environmental policies -- will require, above all, quiet diplomacy, rather than public threats, which Bolsonaro uses to mobilize his radical followers, as seen during a public spat with France's president Macron last year.

Finally, a US return to the WHO, a more generous policy to help poor countries gain access to masks, ventilators and vaccines against covid-19 will go a long way in countering China's growing influence in Latin America.

Given their economic complementarities, it is natural that trade between China and Latin America will grow further over the coming years, allowing China to consolidate its influence to some extent. Even if Latin American expectations that Chinese demand for commodities will save the region from the worst -- like it did after the global financial crisis in 2008 -- will be partly frustrated, economic ties to China may help mitigate the impact of the current collapse to some extent. Yet if Washington plays its card right, focuses on its strategic advantages over China -- rather than fighting China on Beijing's turf -- it can become a far more trusted and influential partner to Latin America as the region is charting its geopolitical course.