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*Comparisons and Interdependencies*

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# Chinese engagement in Latin America and Europe:

## *Comparisons and Interdependencies*

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### Abstract

This paper examines Chinese commercial, political, and security engagement with Latin America and the Caribbean, comparing it with similar engagement in Europe. It finds evidence that PRC engagement globally is driven by a strategy focused on re-orienting the world to the economic benefit of the People's Republic of China (PRC), with nonetheless important political, institutional, and security engagement in support of these objectives and the consequences of their pursuit. It finds common elements in China's pursuit of secure sources of supply, markets and technology across regions, its use of the PRC government supporting roles, with differences reflecting the governance and political structure of each partner, the economic opportunities available, and the imperatives of geography. It finds that PRC "soft power" over political and business elites in both regions is significant, based more in the expectation of benefit than an alignment of values, and thus can coexist with mistrust of the PRC. It finds that Europe and Latin America can gain insights from examining Chinese engagement in each other's regions. It also finds that engagement in each impacts the other through the roles of Chinese companies as both competitors and partners of Western European ones in both regions, and through intraregional supply chains and the flows of funds through mergers and acquisitions by China of stakes in those companies.

## Introduction

In recent months, the government of Romania has notably pushed back against political and economic courtship from the People's Republic of China (PRC), in turning away from the PRC for a badly needed nuclear energy project, 5G telecommunications network, and participation in the 2021 Europe-wide "17+1" forum with the PRC. Romania's experience calls attention to patterns of Chinese courtship and resistance to it that are common both across Europe, and also in other parts of the globe, including Latin America.

From the perspective of Washington, PRC engagement with Europe is often analyzed in very different terms than Chinese activities in Latin America, and by very different groups of scholars. Analysis of China-Europe engagement in the US most frequently focuses on the EU and PRC interest in its markets and technology. China-Latin America engagement, by contrast, frequently emphasizes PRC pursuit of commodities and influence in the U.S. "backyard."<sup>2</sup> While both perspectives are partially valid, comparing PRC engagement with Europe versus Latin America yields both unexpected parallels, as well as useful insights from both the contrasts between Chinese engagement in the two regions, and the interdependencies between them in their China relationships. Such analysis also highlights important differences in China's engagement between subregions, individual states, and sectors, as well as commonalities across them. It thus calls attention to elements of China's strategy and style that transcend region, and factors that influence the PRC approach in both regions, including partner nation economic structure and governance, historic experience with China, and geographic strategic position. In short, such comparative analysis thus provides important insights both into patterns of China's global engagement, as well as promising ideas in the formulation of policy by the US and partners in both regions in response.

The present work examines patterns of PRC engagement across Europe, versus in Latin America, with attention to both commonalities in China's goals in each, how their pursuit and the associated results vary, and why.

## PRC Global Objectives, Imperatives, and Engagement Style

The PRC's overarching objectives for its global engagement is arguably the restoration of China as a civilizational power, wealthy, modern and strong, with the Chinese Communist Party in an unquestioned position of governance over that Chinese state.

While achieving these goals has military, societal control, and political components, the focus of China's global strategy for doing so is principally economic: restructuring of the global order to support the PRC accumulation of wealth and associated power.<sup>3</sup> In doing so, China uses its State-Owned companies as a key instrument, positioning them to capture as much as possible of value added in economic activities from extracting commodities to selling high-end goods and services to building and operating the multidimensional infrastructure that connects the global economy.

The path the PRC has chosen to build its wealth within the interdependent world order, generates four imperatives: reliable access to commodities, foodstuffs to feed the 1.4 billion Chinese people, markets for Chinese goods and services (particularly in strategically valued sectors), and access to associated technologies.

The PRC engagement style in both Latin America and Europe, and elsewhere is marked by certain general characteristics. These include leveraging of the attractiveness of the large PRC market, its financial resources, and the appeal of Chinese companies as local partners. It also includes a significant role for the PRC government in coordinating large multi-sectoral deals that are more difficult for governments of free market economies. It includes using the Chinese government's domestic regulatory powers for implicit or explicit bargains to support the efforts of its companies in their negotiations abroad.<sup>4</sup>

At the firm level, similarities in the PRC approach to different regions are supported by the fact that the same PRC-headquartered State Owned Enterprises (SOEs), with imperatives and style stemming from those Chinese roots, are engaging in multiple parts of the world.

While the PRC government supports the advance of its SOEs as the repository of wealth, commercial and technological capability in advancing the Chinese cause, it often "guides from behind," setting general policy direction, allowing its SOEs to take the initiative, then getting behind them, or making corrections, as it becomes apparent what works and what causes problems.

With respect to these SOEs and other Chinese businesses, PRC-based companies in both Europe and Latin America are advancing in their learning through participation as stakeholders "on the ground" where they operate, acquiring key capabilities through internal processes, partnerships, and strategic acquisitions where necessary. Sometimes the advance involves acquiring minority shares rather than a majority

stake of a targeted firm, affording the opportunity to learn in a less politically exposed way before proceeding to majority ownership. In Latin America, this can be seen with acquisition by Chinese firms of minority stakes in firms such as Perenco,<sup>5</sup> Galp,<sup>6</sup> CBMM,<sup>7</sup> and SQM.<sup>8</sup>

Chinese companies are further evolving in how they engage, moving from buying companies with proven commodity reserves in sectors such as petroleum and mining, to merely extract resources, to participating in the riskier and more technically complex process of exploring and developing those fields. Similarly, PRC-based companies are transitioning from merely building physical infrastructure such as roads, railroads and bridges, to operating it often through Public-Private Partnership contracts. The latter implies a more intensive, longer-term relationship with local governments, labor forces and communities, creating expanded opportunities for learning, influence, and conflict.

In general, as this work will show, the most significant variations in China's pattern of engagement are not between regions such as Europe versus Latin America, per se, but between parts of each region possessing different characteristics, such as factor endowments, markets, technological level and sophistication of local companies and historical legacies.

On one hand, in parts of both Latin America and Europe, particularly in Eastern and Central Europe, weaknesses in institutions and commitments to transparency, democracy and institutional processes, combined with urgent need for development assistance, has given the PRC and its companies important openings for business and political influence.

On the other hand, the negative historical legacy of domination by an external communist power which suppressed individual liberties and freedom of discourse, has arguably made some Eastern European countries more sensitive than their Latin American counterparts to PRC authoritarian practices at home and abroad. Compounding the effect of such sensitivity, the perceived security threat from Russia in much of Eastern and Central Europe has arguably made governments more open to aligning themselves with the US and more cautious regarding the PRC, since these governments have an interest in leveraging the US and NATO to balance the Russian threat.

## PRC Engagement Seeking Commodities and Foodstuffs

In Latin America and the Caribbean Chinese companies have played an important role as purchasers of the regions petroleum, minerals and agricultural products.<sup>9</sup> Particularly after 2010 PRC-based companies expanded their position on the ground in the petroleum and mining sectors, including not only Venezuelan oil, but also expanded participation in the petroleum industry in Argentina, Brazil, Ecuador, Peru, Guyana, and Mexico, among others.

PRC Chinese mining participation includes purchases of Chilean copper and potassium nitrate, \$15 billion worth of mining investments in Peru,<sup>10</sup> mining investments in southern Ecuador, Argentina, Brazil, and bauxite mining in the Caribbean basin. In strategic minerals, it includes a significant Chinese presence in lithium, including Tianqi's 25% share of the *Sociedad Química y Minera* (SQM) lithium operation in the north of Chile, Gangfeng's operation of the Cauchari-Olaroz project in Argentina,<sup>11</sup> Gangfeng's assumption of majority control of the Bacanora mine in Mexico's Sonora desert,<sup>12</sup> and Xinjiang TBEA's activities in the Uyuni salt flats in the south of Bolivia.<sup>13</sup> Through a minority stake in the company *Companhia Brasileira de Metalurgia e Mineração* (CBMM), Chinese investors also have a role in the extraction of niobium in Brazil,<sup>14</sup> one of the few locations outside the PRC where it is commercially viable.

In agriculture, the PRC is the largest export market for Brazilian soybeans and Argentine beef, and an increasingly important market for Ecuador's shrimp, and sugar from El Salvador and the Caribbean basin. Since 2014, PRC-owned companies Nidera and Noble have leveraged the purchasing power of parent company China National Cereals, Oils and Foodstuffs Corp (COFCO) to advance their position in the sector. PRC-based fishing companies are active in Peru, off both the Pacific and Atlantic coasts of South America, and are key users of ports in Uruguay. PRC-based forestry companies such as China Greenheart and Bai Shan Lin are active in the interior of Guyana and Suriname, and more recently, in Uruguay.

Within Europe, like Latin America, PRC interest in the region as a supplier of commodities and foodstuffs varies between more technologically developed Western European countries and the rest. On one hand, wealthy Chinese consumers have become a key source of demand for European brand-name luxury products. By contrast, newer EU entrants and Non-EU states generally sell the PRC far less, with a much greater focus on the export of lower value added goods. As examples, 94%

of Montenegro's exports to the PRC were mining products, as were 60% of North Macedonia's, and 70% of Bulgaria's. Serbia's exports to the PRC were dominated by agricultural products. Not all agricultural exports, however, are strictly low value added. Georgia, like Chile in South America, has developed a niche market in China for its wines.<sup>15-</sup>

Similarly, there are limited examples of integration by both Latin American and Eastern and Southern European countries at a higher value-added point in Chinese supply chains. Croatia exports transport vehicles to China, while Romania exports industrial machinery, optical and medical apparatuses, electrical machinery, and vehicle parts and components.<sup>16</sup>

Beyond the issue of the composition of exports to China, the overall level of such exports to China from the less wealth countries of Europe are lower than their greater physical proximity to China (*vis-à-vis* Latin America) would predict.<sup>17</sup> Reflecting such dynamics, Eastern Europe's push for greater Chinese purchases of its agricultural goods becoming a particular theme at the February 2021 17+1 summit.<sup>18</sup>

In both Europe and Latin America, the PRC has used its considerable financial resources to buy interest in Western suppliers with key technologies and valued brands. With the brand name companies from Western Europe, however, the PRC hosts more stores within the PRC itself, as well as copying their brand-name products. In other parts of Europe, however, as in Latin America, the focus of PRC investment is more on secure source of commodity supply. In Romania, for example, Chinese companies are acquiring local agricultural firms, particularly those involved with grains.<sup>19</sup>

## Markets

In Latin America, the significant number of middle income countries and populated urban centers have made it increasingly important as a market for Chinese goods, as PRC-based companies have diversified beyond selling to the US and the higher income countries of Western Europe and Asia.<sup>20</sup> Latin American states, like many Eastern European ones, are thus attractive to Chinese companies as a market for entry-level goods competing on the basis of price, including autos, consumer electronics, and household goods. This also includes cell phones and other telecommunication devices and consumer electronics, as well as clean energy technology, such as electric cars and buses, which the Chinese have sold from Chile to Brazil and Uruguay and beyond.



Western Europe, by contrast, has long been a market for PRC consumer goods as its companies incorporated new technologies and capabilities moved up the value chain. Indeed, a study by the Hungary-based think tank CEECAS estimates that within Europe, the nations of the EU have received the greatest portion of Chinese investment, driven by the attractiveness of their markets and technologies.<sup>21</sup> For Western Europe, however, such investments have been blocked, to a degree, by government strategic investment screening mechanisms.

The non-EU states of Eastern Europe, on the other hand, arguably resemble Latin America with respect to China's interest in their potential as middle income markets, open to products competing on price.

### **Infrastructure Orientation**

In Latin America, the PRC orientation toward “connectivity” as a central tool for its advance can be seen in the 19 countries from the region that have joined the Belt and Road project since it was extended to the Western hemisphere with Panama's membership in 2018. Within that focus on connectivity, however, Chinese companies have evolved from building roads, railroads and other land infrastructure (often through loans to politically sympathetic populist governments), to pursuing contracts in more advanced, strongly institutionalized countries such as Colombia and Chile, often through vehicles such as public private partnerships that allow Chinese companies to capitalize on their financial contributions to the project, although correspondingly increasing their level of project risk.<sup>22</sup>

In recent years the PRC has won important public-private partnership (PPP) projects in Colombia such as the highway from Medellin to the Gulf of Uraba, and more recently, the \$4.5 billion Bogota metro.<sup>23</sup> In Chile, in April 2021, a Chinese company was awarded a PPP contract to upgrade a segment of Chile's important Highway 5 from Talca to Chillin.<sup>24</sup>

In the port sector Chinese activities in Latin America include six Hutcherson Port operations in Mexico, three in the Bahamas, three in Panama, and one in Argentina.<sup>25</sup> China Merchant port owns the Port of Kingston Jamaica.<sup>26</sup> In Ecuador, PRC-based China Harbour is subcontracted to port operator DP World to build the port of Posorja,<sup>27</sup> intended as the country's new commercial gateway to the Pacific. PRC-based companies are involved in the operation and expansion of four major Brazilian

ports, including a major multimodal agricultural port project in the port of São Luis.<sup>28</sup> China Minmetals is similarly leading a Chinese consortium to build the \$3 billion Chancay minerals port on Peru's Pacific coast.<sup>29</sup> Chinese consortiums have further proposed major multimodal ports and free trade zone facilities in El Salvador, and in Manzanillo, in the Dominican Republic.

With respect to riverine infrastructure, the China Communications Construction Company (CCCC) company China Harbour is dredging an important river route in the Peruvian amazon, while CCCC subsidiary Shanghai Dredging is deepening a strategic corridor of the Paraguay and Parana river<sup>30</sup> which serves as the riverine access point for five South American countries, even while it works other dredging contracts across the same river in neighboring Uruguay.

In the electricity sector, PRC-based companies have made significant advances in generation, transmission and distribution infrastructure across the region. In generation, they have worked a large number of projects in the renewables area. Among these are building and supplying components and financing for wind and solar farms, including Latin America's biggest photovoltaic complex, Cauchari, in the north of Argentina,<sup>31</sup> and a proposed new 1.1 gigawatt facility in Açú, Brazil.<sup>32</sup> Chinese firms have also built numerous hydroelectric facilities in the region, including six projects in Ecuador, three Bolivia, two in Argentina,<sup>33</sup> two in Peru,<sup>34</sup> and two attempts in Honduras. China National Nuclear Corporation is also building its Hualong-1 nuclear reactor in Argentina's Atucha complex,<sup>35</sup> and is interested in building a reactor in Brazil's Angra facility.

With respect to transmission, Chinese firms have particularly focused on high-voltage long-distance lines, with Chinese firms installing transmission infrastructure from connecting the Belo Monte hydroelectric facility to the south of Brazil, to a \$191 million high-voltage connection completing Uruguay's power distribution ring.<sup>36</sup> Since 2010, Chinese firms have invested tens of billions of dollars to buy electricity transmission assets in Brazil.<sup>37</sup> In Peru, through Yangtze Power's 2019 \$3.6 billion acquisition of Luz del Sur,<sup>38</sup> PRC-based firms have acquired approximately half of the energy infrastructure of the greater Lima area. Most recently, through five successive acquisitions in Chile (Transelec, Atiaia, Pacific Hydro, Chilquinta, and State Grid's purchase of Compañía General de Electricidad (CGE) from Spain's Naturgy),<sup>39</sup> PRC-based companies have obtained control over 57% of Chile's entire power grid.<sup>40</sup>

In the telecommunications sector in Latin America, the PRC-based companies Huawei

and ZTE have become major suppliers to Latin America's commercial providers and government entities, and are positioned to play a significant role in 5G.<sup>41</sup> China's position is important not only as a strategic, high-value added technology and a source of leverage as a type of infrastructure, but also because, pursuant to the PRC 2017 National Security Law, the PRC government has delegated itself the authority to confiscate data of Latin American or other global users to advance its commercial and other strategic interests.

During the Covid-19 pandemic, the PRC overcame obstacles placed against the inclusion of Huawei in 5G auctions by Brazil and the Dominican Republic, among others, through linking expedited access to Covid-19 vaccines to those countries' abandonment of commitments to exclude Huawei from their 5G networks.

In e-commerce, the Chinese rideshare company DiDi Chuxung is active in multiple countries across the region, including Brazil, Columbia, Chile, Panama, the Dominican Republic, and Argentina, among others. For a modest investment, the company provides employment to thousands across the region as drivers, while also collecting sensitive data on them, and the travel of their passengers.

In a similar fashion, the Chinese company Alibaba is a growing competitor to Amazon, MercadoLibre and other firms for the dominance of Ecommerce and the supply of consumer demand in Latin America and elsewhere, including door-to-door delivery in the region.

Turning to Europe, the location of the region as the original Western anchor of China's Belt and Road Initiative has made China's focus on connectivity in the region even more directly relevant than that in more distant Latin America.

In Europe, as with its pursuit of other markets, the PRC has arguably had more success in winning infrastructure projects in the less strongly institutionalized countries principally outside the EU. With the help of acquisitions, despite increasing concern and pushback from the EU, China has advanced across the region. Signature cases include the acquisition of the Greek port of Piraeus by PRC-based shipping company COSCO, followed by effort to transform it into the biggest port in Europe.<sup>42</sup> Indeed, the PRC now has a presence in 13 ports in the region<sup>43</sup> including the key European maritime hub of Rotterdam,<sup>44</sup> but also extending to projects in the Georgian Black Sea port of Anaklia, the Ukrainian ports of Pivdennyi and Chornomorsk, the Moldovan port of Giurgiulești, the Bulgarian port of Burgas, among others.<sup>45</sup>

In Europe, as in Latin America, only a small fraction of announced PRC infrastructure projects proposed have actually gone forward. Indeed, the European think tank MERICS estimates that only \$715 million in Chinese projects have been completed in the region to date, with \$3 billion more in projects in progress.<sup>46</sup> Among the major infrastructure projects announced, there has been a significant variation in which countries have received them. They have generally gone more toward populist regimes, with Hungary receiving \$3.6 billion in Chinese projects in 2020, while others such as Latvia have received almost none.<sup>47</sup>

With respect to the specifics of project financing, while China has “bought into” the EU through acquisitions, its loan-based projects tied to the use of Chinese companies and workers have gone to populist regimes outside the EU who, like leftist populists and smaller states in Latin America, do not have better options.<sup>48</sup> Indeed, as in Latin America, China has set up an “investment fund” in addition to the Belt and Road’s Asia Infrastructure Investment Bank (AIIB) for the nations of Eastern Europe to turn to Chinese companies for their projects.<sup>49</sup> The Eastern Europe-based think tank CEECAS estimates that 75–85% of projects are financed by Chinese loans, and such loans may reach 8% of the GDP in Montenegro, 12% in Serbia, 10% in Bosnia-Herzegovina and 7% in North-Macedonia.<sup>50</sup>

Such financing has also become increasingly problematic for the countries incurring it. Montenegro, for example, is facing serious fiscal constraints due in part to an expensive loan-financed contract for an economically questionable road connecting its coast at Bar to neighboring Serbia.<sup>51</sup> As seen in Latin America, but for different reasons, the Montenegrin government is reportedly now considering turning to a PPP contract structure to complete the project, which would, in turn, give the PRC a more extended presence in the country as operator of the critical infrastructure as a toll road.<sup>52</sup>

Eastern European countries have also increasingly begun pushing back on PRC participation in major infrastructure projects. Romania, for example, chose to exclude Chinese companies from participation in key physical infrastructure projects over a lack of EU-style credentials indicating their ability to successfully perform the project work.<sup>53</sup>

In the electricity sector, in Europe like Latin America, Chinese companies are actively pursuing wind and solar<sup>54</sup> generation and transmission projects.<sup>55</sup> In Europe, by contrast to Latin America, however, nuclear power plays a far greater role, with

projects being actively pursued by the Chinese. Nonetheless, in nuclear energy, Eastern European countries have begun to push back. In January 2021, Czechia excluded China National Nuclear Corporation (CNNC) from a nuclear reactor project.<sup>56</sup> Romania similarly reversed a prior decision to contract CNNC for \$8 billion<sup>57</sup> to build two nuclear reactors at its Cernavodă,<sup>58</sup> after a European consortium had pulled out.<sup>59</sup>

With respect to telecom infrastructure, while PRC companies Huawei and ZTE have an important role across the region, their role in 5G across Europe has been mixed, with Great Britain temporarily seeking to exclude Huawei from its 5G rollout, prompting the PRC to defund major British infrastructure projects there.<sup>60</sup> Most Eastern European countries have signed onto Washington's "Clean Networks" initiative, excluding Chinese companies such as Huawei from 5G.<sup>61</sup> Romania was one of the countries to exclude Huawei from its networks, including 5G, over security concerns.<sup>62</sup>

## **Military Engagement**

In the military realm, PRC engagement with Latin America is arguably both more cautious, and more extensive than its engagement with Europe.

In Latin America, Chinese arms companies such as NORINCO have leveraged political alignment with anti-US populist governments such as Venezuela, Bolivia, Argentina, and (previously) Ecuador to sell a significant quantity of military end items to the region.<sup>63</sup> These have included providing radars, K-8 fighters, and Y-8 and Y-12 small military transport aircraft to Venezuela, radars, military trucks and assault rifles to Ecuador, K-8 fighters, Z-9 helicopters, and armored vehicles to Bolivia, and armored vehicles to Argentina.<sup>64</sup> Currently, the PRC is further in talks with Argentina to sell that populist regime its FC-1 fighter, which would be the most sophisticated Chinese military end item sold in the region to date.<sup>65</sup>

Beyond Latin America's populist leftist regimes, the PRC has also sold a more limited quantity of military goods to other countries in the region. These include providing an offshore patrol vessel (OPV) to Trinidad and Tobago,<sup>66</sup> and a truck-mounted multiple launch rocket system to Peru.<sup>67</sup> In order to build its goodwill and market position, the PRC has also regularly donated, rather than selling, limited quantities of military trucks, construction equipment, police cars, motorcycles and other equipment to a broad range of other security forces in the region.<sup>68</sup>

The states of Western Europe, with their own highly regulated and protected arms industries, and with their associations with the North Atlantic Treaty Organization (NATO), generally have not bought Chinese equipment, although several populist Eastern European countries have, to some degree, paralleled the Latin American experience through purchasing limited quantities of equipment from the PRC and accepting some donations for their security forces. In 2020, for example, Serbia purchased 6 CH-92A Chinese combat drones and an unspecified number of Chinese FK-3 surface to air missiles,<sup>69</sup> as well as receiving Covid-19 related military donations.<sup>70</sup>

An interesting contrast between Europe and Latin America is that China has leveraged the breakup of the Former Soviet Union to acquire important military capabilities from former member states, particularly the Ukraine, that would have been far more difficult to acquire from Russia. China bought its first aircraft carrier, the *Lionang*, as well as ship and aircraft engines, critical for the modernization of its capabilities, from the Ukraine.<sup>71</sup>

Beyond equipment, in Latin America, virtually all of the region's militaries have sent personnel to training and professional military education courses in the PRC, including short courses at its National Defense University in Beijing, and longer Command and General Staff courses at its Army and Navy mid-level military schools in and outside Nanjing. Similarly, Latin American PME and other institutions at all levels have sent delegations to the PRC for professional exchanges, and some Latin American institutions have hosted and trained small numbers of Chinese People's Liberation Army (PLA) personnel. These include close US ally Colombia, which hosted PLA personnel in its *Lanceros* special forces course in Tolomaidá.<sup>72</sup> It also includes Brazil, which hosted PLA members at its respected jungle warfare school<sup>73</sup> as well as at its peacekeeping institute, CCOPAB.

Beyond training, education and institutional visits, the PRC has also sent its military ships to the region for port calls, including three separate missions by its hospital ship "Peace Arc" to the region (in 2011, 2015 and 2018-2019), sent PLA peacekeeping forces to Haiti from 2004 through 2012, and has conducted limited military exercises in the region with Chile and Peru, among other activities.<sup>74</sup> China has notably not, to date, sought to establish anti-US military alliances in the region, or military bases as it has done in Djibouti, in Africa. Its restraint in Latin America likely reflects PRC deference of the proximity of Latin America to the United States, and the desire to avoid both the provocative effect and expense of a base that the People's Liberation

Army (PLA) is not yet in a position to use.

In Europe, Non-EU states in Europe, and to a lesser extent, those of the EU, have followed the Latin American pattern in sending personnel to Chinese schools, and conducted institutional visits, although the EU has arguably placed more emphasis on the later. Serbia, among others, has agreed to send its personnel to programs in the PRC, and to work with it to set up a school of traditional Chinese medicine within the Serbian Armed Forces.<sup>75</sup>

As in Latin America, and as with arms sales, China–Eastern Europe military institutional cooperation and visits has arguably been more extensive with more populist regimes, such as that of Viktor Orbán in Hungary, which in March 2021, hosted China’s Defense Minister Wei Fenghe to strengthen bilateral military ties.<sup>76</sup>

As in Latin America, the PLA has not sought to establish a base in or near Europe, likely for the same reasons. As with the US in Latin America, the PRC wishes to avoid the provocative effect that establishing a base in the region would have on its business partners, as well as the expense of a facility that the PRC is not yet in a position to use.

### **Political Engagement and Soft Power**

In Latin America, the PRC has arguably used political engagement to support its economic objectives. Although leftist populist regimes such as Venezuela, Ecuador, Bolivia and Argentina have generally been more receptive than others to PRC government-to-government proposals, security cooperation and other sensitive areas, the PRC has been careful not to develop alliances with those nations that could be perceived a threatening to the West.

Across Latin America, as elsewhere, the PRC has used the lure of access to its markets and the attractiveness of partnering with PRC-based firms, to induce governments and businesses to censor themselves in order to avoid undercutting loans and investment from and business with Chinese companies.<sup>77</sup>

China’s people to people diplomacy has also influenced its position with political and economic elites, and populations in Latin America. The PRC’s 39 Confucius Institutes and 18 Confucius Classrooms in the region have arguably become centers of recruitment for identifying future Latin American leaders with a strong interest in China studies and an aptitude for learning the difficult Mandarin Chinese language

and the Chinese character set. Through the Hanban relationship with the Confucius Institutes, thus, the PRC government offers the most promising of the region's Asia-facing young scholars the opportunity for language and university study in the PRC. They return, inherently grateful to the Chinese government for its role in enabling their careers. This is important as they come to dominate the limited number of positions in China-facing parts of their government's bureaucracies, or the local business elite, or the scholarly community with sufficient knowledge to speak with authority and shape the discourse about the PRC in their countries.

Beyond Confucius Institutes and academic programs, the PRC uses the International Liaison Department (ILD) of the Chinese Communist Party to bring Latin American political party and other government representatives to China on goodwill-building missions. Other quasi-governmental affiliated organizations bring journalists, and think tank personnel to the PRC. While such trips may not convert the recipients of such generosity into pro PRC propagandists, it does subtly pressure them to self-censure their more critical comments about the PRC and its system, or at least to refrain from actively working to resist PRC activities in the Americas, lest the comments or activities of such Latin Americans offend the Chinese government and businesses, thus undermining the ongoing access or other benefits from the PRC which is important to those invited, for their ongoing career success.

Beyond trips, the PRC often purchases advertising supplements in Latin American media, such as in the Chilean newspaper *La Tercera*.<sup>78</sup> Chinese media often also provides state-produced video feeds free of cost to television and internet news services in the region, which are too often accepted uncritically by regional news services not as PRC-crafted propaganda, but as objective news, shaping the way in which the PRC and its leaders are presented in images.

The collective impact of self-censorship by hundreds of key individuals and institutions across the region, combined with the distortion of news coverage over the long run is to undermine Latin America's ability to clearly define and effectively mobilize against objectionable PRC behaviors, or to position the region to bargain effectively with the PRC to secure the country or region's own best interests from that engagement.

Such limitation of debate also extends to the suppression of expressions of disapproval by Latin American governments and elites with respect to PRC actions in its own territory, or in its Asian neighborhood more broadly, including PRC repression of Uighurs in Xinjian, elimination of self-rule and repression of democracy in Hong



Kong, or PRC construction and militarization of artificial islands in the South and East China Seas.

Latin America's readiness to avoid speaking ill of the PRC when business with China or other benefits are potentially at stake, arguably reflects the region's historic detachment from the activities of states in other parts of the world that do not directly affect the region.

Turning to Europe, in its own bilateral political engagement with the PRC, the region parallels Latin America in its broad range of orientations toward the PRC, both within and beyond the EU. Leaders such as Serbia's Aleksander Vucic and Hungary's Viktor Orban have paralleled Latin American populists such as Hugo Chavez or Evo Morales in their relative embrace of China.<sup>79</sup> Nor is such receptivity to the PRC exclusively a characteristic of non-EU states. Within the EU, Greece has shown a particularly positive orientation toward the PRC, joining the Belt and Road Initiative in 2019.<sup>80</sup> Czechia's Miloš Zeman has also showed a very positive orientation toward China, as has Germany's Angela Merkel, who has visited the PRC 12 times since 2005, in the context of numerous major German companies focused on the China market, possessing Chinese stakeholders, or both.<sup>81</sup>

In general, the nature of PRC influence in non-Western Europe resembles that of Latin America, driven by hopes for Chinese loans, investment projects, or hooking up with a Chinese partner for to do business in the region. The EU, however, specifically contrasts with Latin America in that there Chinese influence is arguably more influenced by access to the Chinese market, and Chinese stakeholders in European companies. Nonetheless, the effect of PRC limitation of discourse is the same.

Another contrast between the two regions, in the specifics of the lure of China, is the role of tourism as an economic attractor. For Europe, particularly in the less wealthy states of Central and Eastern Europe, the potential importance of attracting Chinese tourists is arguably greater than Latin America, particularly given the relatively smaller distances between China and the region. Currently, in addition to the customary European tourist destinations attractive to China of the United Kingdom, France, and Germany, Chinese are increasingly traveling to Croatia, Estonia and Hungary, among other destinations.<sup>82</sup>

In educational affairs, Central and Eastern Europe parallel Latin America with a modest number of Confucius Institutes which play an important role in recruiting

the region's youth for studies in China through Hanban scholarships. Approximately 250 persons from each of the Baltic states, for example, are estimated to have been brought to the PRC on such scholarships in recent years.<sup>83</sup>

As with Latin America, the relative limited funding for China studies programs in Central and Eastern Europe create the risk that China-funded programs and China-trained scholars dominate the discourse in these countries regarding the nature of China.<sup>84</sup>

Europe lists 132 Confucius Institutes, more than three times as many as Latin America, although these are disproportionately in Western Europe. In general, like Latin America, most Central and Eastern European States have one or two Confucius Institutes. Some but not all China-friendly states have more. China-friendly Hungary, for example, has five, and Belarus has six, although China-friendly Serbia has only two.<sup>85</sup> There is also a regional Confucius Center in Hungary,<sup>86</sup> paralleling the one for South America in Chile.

Within Europe, Western European countries generally have many more Institutes per country, including Spain with 8, Italy with 12, Germany with 19, and the United Kingdom with 30.<sup>87</sup> Nonetheless, in recent years, attitudes toward Confucius Institutes and their activities in Western European countries has become more critical.

As with Latin America, beyond Confucius Institutes, China's People-to-people engagement with Europe includes outreach to political leaders and think tank professionals, including Chinese Communist Party International Liaison Department programs such as "Bridge for the Future" and the "China-CEEC Young Political Leaders' Forum."<sup>88</sup>

With respect to Chinese media influence in Europe, as in Latin America, the PRC invites reporters (principally from non-Western European countries) to the PRC for educational trips. Such as transporting Baltic State reporters to Tibet. As in Latin America, the Chinese in Europe also purchase advertising supplements in local media, with one example being the centrist Polish paper *Rzeczpospolita*. As in Latin America, but in a bolder fashion, the PRC has even purchased media outlets themselves, as seen in Czechia.<sup>89</sup>

By contrast to Latin America, Western Europe's protectionism, pride in its own historical legacy, and the strength of its environmental and human rights interests has arguably caused it to take a more aggressive stance regarding PRC activities,

including the recent suspension of the China EU free trade deal over Chinese activities in Xinjian.<sup>90</sup>

As part of Europe's unique historically legacy, particularly among the nations of the East, concern over the influence of Russia (a factor largely absent in Latin America), incentivizes individual states to seek close relationships with the US, distancing themselves from engagement with the PRC that Washington might find of concern.<sup>91</sup>

## Multilateral Engagement

In multilateral diplomacy, the PRC plays an active role in a range of Latin America-facing institutions, including the United Nations Economic Commission on Latin America and the Caribbean (ECLAC) and the Inter-American Development Bank (IADB). Effectively, China works to ensure that the intellectual products of these institutions are not critical of PRC interests, and where possible, seeks projects within the organizations such as joint loan funds with the IADB in support of PRC agendas.<sup>92</sup> Indeed, in May 2021, the head of the IADB, Mauricio Claver Carone, expressed concern regarding PRC exercise of influence within the institution.<sup>93</sup>

With respect to regional political bodies, China's tool of choice has been the Community of Latin American and Caribbean States (CELAC). Although the PRC has been an observer in the Organization of American States (OAS) since 2004, it has preferred to make CELAC its primary multilateral instrument for engagement with the region, as it has done with FOCAC in Africa and the 17+1 forum in Europe. For China, a key benefit of CELAC is that it lacks standing institutions, making it easier for the PRC to broadcast its agenda through the body, rather than having to negotiate with an entity more able to advance a collective Latin American position.

By comparison to Chinese engagement in Latin America, the European Union brings an inherent level of coordination as a multinational entity in facing the PRC. Arguably for this reason, paralleling Latin America, since 2012, the PRC has tried to use the 16+1 mechanism (expanded with Greece 17+1), with its CELAC-like lack of permanent institutional representation, to engage with a less coherent entity.<sup>94</sup> As with China-CELAC engagement, the European think tank CHOICE characterizes the 17+1 as a "hub and spoke approach to "multinational bilateralism."<sup>95</sup>

In recognition of China's attempt to use 17+1 to "divide and conquer" Europe, the

governments of the region have arguably begun to push back. In the February 2021 17+1 meeting, six members sent their Foreign Ministers rather than heads of State, despite heavy PRC lobbying to send their top executive.<sup>96</sup>

For Romania, within Eastern Europe, the political relationship with the PRC has been complex, with governments both courting it as an economic partner, while also pushing back. Romania's consciousness of the long-term threat from the PRC is arguably fueled by its own experience with dominance by an external Communist government, the nation's forced integration into a foreign economic system, and the suppression of discourse during the Communist period. As with other parts of Eastern Europe, that historical experience arguably has facilitated Romania's recognition of subtle PRC pressures, including the decision by Romanian President Klaus Iohannis not to personally attend the 2021 17+1 summit, despite considerable PRC pressures to do so.<sup>97</sup>

Complimenting Romania's recognition of the China threat, its government's attention to the renewed threat posed by Russia, as discussed previously, arguably helps make Romania and other East European states more receptive to the desires of the United States, due to its desire to maintain a strong bond with NATO. Indeed, Romania's hosting of a US base and an anti-ballistic missile shield against Russia further strengthens its incentives to maintain alignment with Washington, particularly on uses that impact its security partnership such as keeping its networks free of potentially compromising Chinese systems,<sup>98</sup> considerations not as directly relevant in the security calculations of most Latin American governments.

### **Europe-Latin America Synergies Regarding the PRC**

Beyond the comparisons that can be made between Chinese engagement in Latin America and Europe, the dynamics of both are influenced by the economic and other interdependencies between the two regions as each engages the PRC. EU-based companies, for example, have a substantial position in Latin America, in sectors from petroleum to electricity transmission to manufacturing to logistics, and are thus impacted adversely by China's advance. They are also impacted positively by that advance, as partners in joint ventures with PRC-based companies, and beneficiaries where the Chinese have purchased stakes in those ventures from European firms.

European auto manufacturers such as Volkswagen and Mercedes, even while

partnering with the Chinese elsewhere, are impacted by the advance of Chinese cars in competition for the Latin American market. Such competition includes numerous sectors, such as petroleum with Eni, Total and Shell, to telecommunications with Erikson and Telefonica (although both use Chinese equipment), to maritime logistics with Hapag-Lloyd and Maersk (including Hamburg Süd, which it has owned since May 2019). Competition between Chinese and European firms in Latin America also include Shanghai Dredging's displacement of Belgian firm Jan do Nul for a strategic contract to dredge the Paraguay-Paraguana river corridor.<sup>99</sup> In banking in the region, Chinese firms such as China Construction Bank and ICBC compete to a degree with established European banks such as Spain's BBVA and Santander. European and Chinese firms also compete for the Latin American market in satellite development and space launch, including Thales vying with Great Wall Industries Corporation (GWIC) to provide satellite launch services for countries such as Argentina and Chile.

Examples of partnerships between Chinese and European firms in Latin America, in the midst of such competition, include Sinopec's investment in Repsol's activities in the Brazilian petroleum sector, Sinochem's purchase of a \$3.1 billion stake in the Brazilian holdings of the Norwegian company Statoil,<sup>100</sup> State Grid's purchase of electricity transmission assets of AES in Brazil, and more recently its purchase of the Spanish company Naturgy's holdings in Chile. In construction, collaboration includes China Communications Construction Corporation's (CCCC) purchase of a 30% stake in the Portuguese company Mota Engil, with multiple operations in Latin America.<sup>101</sup>

## Conclusions

This work's examination of and comparison of Chinese engagement in Latin America and Europe illustrates that each region can gain important insights from examining patterns of Chinese activity in the other, seeking to understand both common patterns of Chinese behavior across both regions, and differences that highlight impacts on Chinese corporate and government decision-making and success. It also highlights the interdependence between Chinese engagement in both regions, principally through the nexus of Western companies that are active in both.

The patterns of Chinese engagement in both Latin America and Europe, suggests that PRC influence, through the lure of its loans, investments, purchasing power and partnerships, and augmented by the role of the Chinese government in putting

together cross sector deals, heightens the importance of those countries to engage with the PRC and its companies through a framework of transparency, national planning, strong institutions, and enforcement of national laws.

The experience of Latin America and Europe further suggests that the long-run danger of generally economically-oriented PRC influence goes beyond the accumulation of benefit to PRC-based SOEs and other Chinese actors over domestic ones with respect to who gets the biggest part of the value added from economic activities. This study suggests a danger, found in both regions to varying degrees, to the long-term freedom of expression domestically and internationally. It similarly suggests a long-term tendency from engagement with the PRC toward corruption, the erosion of democratic institutions, and the consolidation of power by authoritarian governments aligned with the PRC.

For Latin America and Europe, the pushback against Chinese engagement by select states such as Romania emphasizes how a shared, historically rooted understanding of the challenge to democracy and self-governance from a partner's subtle attempt to mute criticism can be an important cornerstone in recognizing and resisting the threats posed by China's economic envelopment.

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## Endnotes

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