

Populism, China, and Covid-19

Latin America's New Perfect Storm

By R. Evan Ellis

The strategic environment of Latin America is in the early phases of a profound, negative transformation reflecting the combined effects of three of the most powerful global forces of our era: (1) the spread of a new, populist model for capturing democratic states with vulnerable institutions and transforming them into authoritarian regimes with expanded levels of elite-sanctioned criminality; (2) the Covid-19 pandemic's profound, multi-dimensional, long-term blow to the region; and (3) China's advances in pursuit of its economic ambitions, which have profound economic and political consequences for its partners. Each of these factors has been the subject of considerable discussion in both the media and academic forums over the past year, but the significant consequences for the region of their mutually reinforcing effects are only just beginning to be understood.

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Populism in Latin America, on both the right and left, has always been nurtured by corruption, inequality, and lack of opportunity. Those endemic factors lead populations to lose confidence in the ability of traditional politicians and parties—and democratic governments and governance—to **address the challenges of their countries**. During the twentieth century, the lifespans of populist governments—including those of Getúlio Vargas in Brazil, Juan Perón in Argentina, and José María Velasco Ibarra in Ecuador, among others—were consistently truncated due to the negative economic dynamics their policies unleashed, which resulted in protests, instability, and institutional counter-reaction.

The **new twenty-first-century style of populism** pioneered by Hugo Chávez in Venezuela, which has since been adapted in Ecuador, Bolivia, Nicaragua, and Argentina, is arguably more dangerous and virulent than its predecessor. First, its model for capturing the state and sustaining populist elites in power is more effective: after increasing and exploiting popular frustration with corruption and economic performance to take power through electoral means, the new populists exploit societal ambivalence toward democratic procedure to

transform those democratic institutions from within. In Venezuela, Ecuador, and Bolivia, the new leaders have arguably tended to progressively eliminate checks and balances on power, such as by appointing loyalists to administrative, legislative, and judicial organs. At the same time, **the new elites alter procedures** so as to decrease transparency and facilitate corruption, generating a new ruling class whose wellbeing and future liberty is tied to continuation of the populist leadership. These leaders change laws and often enact policies whose practical effect is to undercut the independence of the media and the economic base of those who would challenge them. To **further protect the regime** against the military (which has regularly intervened in Latin America's history to stop such changes), they prioritize loyalty over capability in military promotions, foment conflict within and decentralize military structures, and otherwise make it more difficult for security institutions to act collectively against the regime. They co-opt the military leadership, creating armed groups of loyalists, and may build relationships with criminal and insurgent groups to give them independent stakes in the regime's survival.

In addition, the new model of twenty-first-century populism uses a combination of state and criminal resources, social media, and grassroots organization to subvert other countries by piggybacking on legitimate social grievances and popular protests to destabilize the targeted regimes. For instance, Cuba and Venezuela have arguably exploited and weaponized legitimate discontent to destabilize democratic governments in an attempt to help left-wing populists seize power in **Ecuador, Chile**, and (to a lesser extent) **Colombia** in October 2019.

Covid-19's Destabilizing Effect

The Covid-19 pandemic, which has devastated Latin America and the Caribbean, has significantly weakened the region's already fragile and corrupt democratic institutional frameworks. The virus, which has **killed over 750,000** in the region as of March 2021 and caused a **7.7 percent decline** in the region's GDP in 2020, has inflicted long-term damage to its economies, permanently shuttering vulnerable businesses, pushing many from the middle class into poverty, and increasing inequality. The United Nations Economic Commission for Latin America and the Caribbean estimates that economic progress in the region has been set back **as much as 14 years**.

The pandemic has further multiplied already abundant sources of disillusionment with Latin American governments, including citizens' justifiable grievances over the inability of public healthcare systems to prepare for the pandemic. These corrupt and inefficient systems have responded poorly—such as by purchasing emergency medical supplies at inflated prices, **mismanaging closures** of the economy and other measures to contain the virus, and making poor choices in procuring and distributing vaccines—in a corrupt process that has involved much “line jumping” **by political and other elites**.

Adding to future problems, the region's dramatic fall in revenue and its massive increase in spending to respond to the crisis—and associated needs of displaced and vulnerable populations—have left governments **saddled with massive debt**, which will **hamper their ability to respond** to the persistent needs and economic distortions left by the virus. Meanwhile, criminal organizations, many of which lost their primary sources of revenue such as drug trafficking or the smuggling of people and goods when border closures cut off their routes, are **strengthening their positions** by expanding into illicit activities such as extortion, kidnapping, and cybercrime, which they can further build upon once public life resumes.

Such dynamics have already produced an **escalating wave of unrest** across the region, from the **burning of Guatemala's Congress building in November** to mass protests in **Argentina** and **Chile over the summer**, as well as protests by the Minga (a group of Indigenous, Black, labor, and other movements) in **Bogotá** in October—though the precise relationship between the pandemic and the protests are different in each case.

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The multiple sources of discontent toward the region's governments increase the risk of left-wing populist exploitation of upcoming elections. The most imminent include the second round of **Peru's general elections**, and Chile's election of a new **Constituent Assembly** that will consider fundamental changes to the nation's constitution. Elections are also on the horizon for **Honduras in November 2021**, Colombia in **March 2022**, and in Brazil in October 2022, each of which will present opportunities for left-wing populist governments to come to power.

Ironically, while Covid-19 is helping to destabilize democratic governments in Latin America, it has simultaneously bolstered authoritarian ones. In both Venezuela and **Nicaragua**, for example, the pandemic **helped those regimes restrict movement** and social gatherings, also making vulnerable populations more dependent on them for food and other basic needs.

An Opening for China

China's expanding role in Latin America and the Caribbean further contributes to the destructive dynamics playing out in the region. While the People's Republic of China (PRC) and its companies aggressively pursue their economic interests in countries on all parts of the political spectrum, the region's left-wing populist regimes have presented China with particularly important opportunities (and **challenges**).

As demonstrated in Venezuela and Ecuador, and later in Bolivia and Argentina, when left-wing populist governments consolidate power in undemocratic ways and act against established local and Western economic interests, investors then flee those countries. The resulting evaporation of new loans and investments by Western institutions make the populist regime more likely to turn to the PRC and its companies, which might purchase the country's commodities, exchange these goods for Chinese **products** and **projects**, loan the regime money, and provide it technical support.

While the PRC is generally reluctant to establish Cold War-style military or political alliances, the ideological orientation of the left-wing populist regimes makes them relatively open to seeking agreements with the PRC. If Beijing sees a deal as advantageous to the PRC and its companies, it usually remains neutral regarding its counterpart's political orientation, level of corruption, and human rights abuses or other shortcomings—so long as the Latin American partner refrains from excessively criticizing the PRC or questioning it on redline issues such as Taiwan, Hong Kong, Tibet, or its mass imprisonment of Uighurs in Xinjiang.

The region's left-wing populist regimes are also particularly attractive business partners for the PRC because their efforts to centralize control around the populist leader increase opportunities for negotiating "government-to-government" deals and other special arrangements. These regimes' efforts to decrease transparency also reduce the number of qualified legal and technical personnel on the Latin American side to evaluate the deals, which is instead done by appointed regime loyalists. These factors make it easier for the PRC to secure advantageous deals by offering personal "side benefits" to the populist government's

negotiators and their families and associates. Such corruption has been on display in problematic loans-for-oil deals in **Venezuela** and **Ecuador** and similar infrastructure contracts in **Bolivia**.

In addition, left-wing populist governments are generally more amenable to incorporating Chinese “smart city” surveillance models, even though their architectures and the presence of untrusted vendors such as Huawei put the security of governmental, company, and individual data **at risk**. For example, Chinese firm ZTE has helped Venezuela institute the “**fatherland identity card**” program to track citizens’ voting records, medical history, and other metrics that the regime uses to adjust their public benefits. Similarly, Chinese companies CEIEC and Huawei have developed the **ECU-911** intelligent surveillance system in Ecuador and the **BOL-110** system in Bolivia. CEIEC has also helped the Maduro regime in Venezuela maintain power by **obtaining information on** the activities of members of the opposition.

For the left-wing populist regimes that are still consolidating their power, resources from the PRC are particularly valuable. Without Chinese financing, the regimes would be far more vulnerable to pressure from both Western governments and institutions regarding their anti-business and anti-democratic behaviors, as well as to resistance from other parts of the government and civil society.

As in previous populist eras, and as particularly **showcased in Venezuela**, the policies of the new left-wing populist regimes fuel corruption, worsen administrative inefficiency, and undermine the economy. Now, however, continuous infusions of Chinese money mean that by the time it becomes apparent a particular populist project is economically unsustainable, the populist leaders have co-opted would-be opponents in their corruption schemes, eliminated government and civil society resistance, and “coup proofed” their regimes. At this point, they have so completely entrenched themselves in control that attempts to remove them from power are not only difficult but could release unpredictable, potentially violent, and chaotic results.

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In Venezuela, the Maduro regime has further consolidated its control, undercutting the legislative powerbase of the de jure government of Juan Guaidó through **sham elections** in December 2020. **China, Iran, and Russia**, increasingly confident in the regime’s survival, are expanding their **purchases of Venezuelan oil** and expressing support for the de facto Maduro regime. In Argentina, the left-wing Peronist government of Alberto Fernández and Christina de Kirchner is taking an increasingly aggressive stance in regional politics and toward the **International Monetary Fund**. Meanwhile, it is accelerating its deals with the PRC, signing \$4.7 billion worth of contracts in December 2020 to continue Chinese companies’ work **on the Belgrano Cargas rail system** and another in April 2019 to renew Argentina’s intent to purchase a **Hualong-1 nuclear reactor** for its Atucha III complex.

In Bolivia, the new Movement for Socialism (MAS) government of Luis Arce has jailed the previous interim president, **Jeanine Añez**. As with the Peronists in Argentina, the MAS in Bolivia has a well-established network of Chinese business partners, **built during the prior MAS government** of Evo Morales, that enables it to ignore U.S. and Western indignation over Bolivia’s renewed populist course.

In Peru, it is possible that **radical left-wing candidate Pedro Castillo** could be elected president in the second round of Peru’s national election on June 6, 2021. A Castillo victory will likely set the stage for an expanded PRC presence in the country, where Chinese companies already have a **substantial presence in the mining and petroleum sectors**, are a key **Covid-19 vaccine provider**, and are currently building a **\$3 billion new minerals port, Chancay**.

In Mexico, the left-wing government of Andrés Manuel López Obrador (AMLO) and his National Regeneration Movement (MORENA) party has been taking an increasingly populist stance against private investment in both the **electricity** and petroleum sectors. Despite rising violence and the expanding influence of the Sinaloa and Jalisco New Generation cartels, the government has also willfully undercut its relationship with the United States, passing a new **national security law** in December 2020 that impedes the ability of the U.S. Drug Enforcement Administration (DEA) and other law enforcement organizations to work in the country by stripping them of diplomatic immunity. In November, the AMLO government also **obligated the United States to extradite** General Salvador Cienfuegos—Mexico’s former minister of defense, who was arrested in Los Angeles on drug charges—only to **drop the charges** in January after putting U.S. sources and methods at risk by **publishing U.S. Department of Justice intelligence regarding the case**.

While China may never become a substantial purchaser of Mexican exports such as oil or pork, it is well-positioned to provide loans (as it has **previously offered to do**) to help AMLO expand the capacity of Mexico’s costly national oil company, Pemex. Indeed, the PRC already has a strong presence in the sector, helping Mexico extract oil in the **offshore Perdido basin** and build the signature **Dos Bocas refinery**. Similarly, Chinese investors have expanded their presence in Mexico’s renewable energy sector, with China’s State Power Investment Corp (SPIC) **purchasing Zuma Energia in November 2020**, and in lithium mining, with China’s Gangfeng partnering with Mexico’s Bacanora to develop **the Sonora lithium deposit**. China is also playing a key role in the construction of AMLO’s signature **“Mayan Train”** across remote portions of the south of Mexico. Together, these projects signal that the PRC is looking to expand and consolidate its position in a Mexico that is increasingly desperate for investors.

In Chile, Chinese companies already have a substantial presence in the mining, electricity, and other sectors but are poised to benefit from a more left-wing future government. Although Chile has benefited from relatively strong institutions even while alternating between center-right and social-democrat governments for the past two decades, the country’s **ongoing protests** since October 2019 and the election of a new Constituent Assembly in May—which could produce a substantially revised constitutional framework—set the stage for left-wing populists to be voted in power in subsequent elections.

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Nor does the region’s vulnerability end there. The PRC has limited commercial ties with Honduras, which continues to recognize Taiwan instead. Nonetheless, that could change after the country elects a new president in September 2021. The sitting president, Juan Orlando Hernández, is at high risk of being indicted in the United States for narco-trafficking before then. The **principal candidates** include Yani Rosenthal, just released from jail for a drug-related conviction; Nasry Afsura, under investigation for embezzlement; and left-wing populist Xiomara Castro, who would likely assume a more favorable stance toward both Venezuela, and could even consider establishing diplomatic relations with the PRC.

In Brazil, where the economic and health crisis of the Covid-19 pandemic continues to deepen, embattled far-right president Jair Bolsonaro could face a serious challenge in the October 2022 elections from former president Luiz Inácio Lula da Silva of the left-wing Workers Party, who is again eligible to run for the presidency since his conviction on corruption charges **was dismissed in March 2021**. Despite significant resistance to China’s advance in Brazil, it was under Lula and his left-wing protégée Dilma Rousseff that the PRC and its companies made some of their most significant advances in the nation’s petroleum, min-

ing, agriculture, ports, financial, and other sectors—leading Brazil to receive more than **half of all Chinese investment** going to Latin America.

Tasks Facing the Biden Administration

To its credit, the recently elected Biden administration has **promised \$4 billion in new assistance** to Honduras, Guatemala, and El Salvador and paid heightened attention to the countries of the region. Much more is needed to hold the advances of China at bay, including improved, expanded, coherent initiatives to strengthen governance and fight corruption in the region—which may help its residents see the benefits and viability of democracy and free markets. Latin America also needs to better incentivize and facilitate private sector investment in the region and leverage the enormous purchasing power of the United States and like-minded allies such as the European Union, Japan, South Korea, Australia, and India.

In the near term, however, the Biden administration needs to prepare for the grim reality that any such assistance is likely to be too little, too late. The United States needs to prepare for a new configuration of governments that are far less cooperative in political, law enforcement, and other domains; less democratic, more corrupt, and struggling to combat criminal activity; and more welcoming of China and other U.S. rivals such as Russia and Iran. In all likelihood, this will mean expanded migration to the United States and threats to U.S. national security emanating from poorly or alternatively governed spaces in the region. It is a frighteningly plausible outlook, and those charged with the national security of the United States must think through its implications. Even while doing our best to avoid such a grim future, policymakers in Washington must begin to plan for how to protect the country's core national interests when many of the presumptions regarding an abundance of cooperative, non-threatening neighbors no longer apply. ■

R. Evan Ellis is a Latin America research professor with the U.S. Army War College Strategic Studies Institute. The views expressed herein are strictly his own.

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