China, the US, and Latin America: Pursuing Self-Interest Shouldn't Imply Self-Destructive Choices

Illustration/Diálogo

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From October 22-25, 2023, I had the honor to be a speaker in an event on the relationships of the People's Republic of China (PRC) and the U.S. with Latin America and the Caribbean. The event was hosted by the prestigious Latin America Center for China Studies (CELC) of the respected Andres Bello University in Santiago Chile, on the heels of Chilean President Gabriel Boric's trip to the PRC for the 10th Annual Belt and Road forum, and an important bilateral meeting with President Xi Jinping.

Marcos Cordeiro.

As I told my colleagues at the event, China's advance in Latin America and the region's response is not, as commonly believed, a "competition" in which the United States seeks to "block" the right of sovereign countries in the region to engage with whom they wish. Nor should the region see it as an "auction" in which our neighbors passively select the most attractive offer among competing suitors.

The United States, as part of the Western Hemisphere, has an inherent interest in the well-being of the region, through bonds of geography, commerce, and family. The resonance that issues such as drugs and migration have in U.S. domestic politics highlight that what happens in the region affects its northern neighbors. It is natural and legitimate for the United States to respectfully talk with our partners in the Western Hemisphere about decisions that impact our shared neighborhood.

For me, U.S. interests in the Western Hemisphere are consistent with the region's pursuit of its self-interest regarding the PRC. Yet, as with interpersonal relationships involving suitors, the region's "self-interest" (and dignity) involves more than throwing itself into the arms of who offers it the biggest package of gifts. The region owes it to itself to honestly access its own condition, and the character of its suitors to decide what types of interactions, with who, will be healthiest for its development, sovereignty, democracy, and the rights of its citizens over the long-term.

Engaging with the PRC does bring potential benefits, as well as substantial risks. The problem is that too often, in pursuing hoped-for benefits, the elites making the deals overestimate the realistic "up-side," and their ability to manage the risks. They are helped in "selling" what they have done to their people, by the symbolism of "big shiny objects" — a stadium, a hotel, or a highway. Such discussions rarely include the details of who ultimately benefits from the construction and operation of such projects, who pays, what the alternatives were, or the environmental and social costs of the activity.

The ability to benefit from engagement with the PRC depends on something too often lacking in the region: a framework of transparency, a government that has maintained viable options with multiple partners, and strong institutions for planning projects, evaluating contracts and competing bids, and for supervising the compliance of those it selects with their contractual commitments and applicable laws.

"Populist" countries which turn to the PRC after "burning their bridges" with Western institutions and investors, and who engage through politicized institutions without checks and balances or the possibility of oversight over their deals, are the least likely to secure the hoped-for benefits of deals with the Chinese. The interactions with the PRC by the regimes of Hugo Chávez, Nicolás Maduro, Rafael Correa, and Evo Morales are littered with examples of Chinese deals gone bad, including the disastrous Coca Coda Sinclair Dam in Ecuador, the abandoned Tinaco-Anaco railroad project in Venezuela, and any number of dam and highway projects in Bolivia, including those in which then President Morales' former mistress Gabriela Zapata represented the Chinese construction company CSCE as country manager.

Some in Latin America seek how to "benefit" from perceived "U.S.-China competition." Brazil has increased its sale of low value-added agricultural products to the PRC as the later seeks to purchase less from the PRC. Mexico hopes to benefit from expanded "nearshoring" investments from both Chinese and Western companies, interested in continued access to the U.S. market within the framework of the U.S.-Mexico-Canada free trade agreement (USMCA). Countries in the region also hoped to benefit from PRC investments in strategi sectors like renewable energy, lithium, electric vehicles, telecommunications, and other digital technologies.

Securing such benefits, while possible, almost universally depend on adept management through strong institutions. The active role of the Chinese state and Communist Party in helping its companies to achieve their interests in strategic sectors, the adeptness of those companies in negotiating contracts and coordinating among themselves, and their greater latitude to offer bribes and other particularistic benefits increases the importance that their Latin American counterparts have the greatest possible institutional and technical ability and bargaining position to ensure that the deal is economically viable, creating equitable benefits for the country both during "construction," and with whatever is left behind. Unfortunately, the institutional weaknesses and opportunity for public graft in much of Latin America increases the probability that the "win-win" deals benefit the Chinese, and the local elites who sign them, at the expense of the long-term interest of the country. This is the same pattern that has occurred repeatedly through the region's history, but the particularly aggressive style of the PRC in pursuing its commercial and strategic interests increases the degree to which such deals can disadvantage the region. The current slowing of PRC economic growth as a consequence of the crisis in its real estate sector and a legacy of debt overhang, is only likely to increase the degree to which PRC-based companies seek their own benefit from such deals. At the same time, the deepening economic and political crises of Latin American governments, including the self-exclusion of some regimes from market-oriented development options will only decrease the prospects that their negotiations with the PRC produce projects with lasting net benefits for the country.

The U.S. government lacks the tools of the authoritarian PRC state for pushing companies to invest in areas that serve its strategic interests. Yet it has the ability and historic precedent of helping the region to strengthen its institutions, combat corruption, and maintain transparency and a level legal playing field to help the region secure enduring benefit from whoever the region chooses to economically engage with. Indeed, the region's experience in being taken advantage of by the populist appeals of its elites should make its people suspicious of enormous deals with the PRC, justified in the name of its 1.4 billion people, or "escaping Yanqui imperialism," without competitive procurements or a transparent exposition of their terms. A common theme in Latin America's history is that deals that seem too good to be true, usually are.

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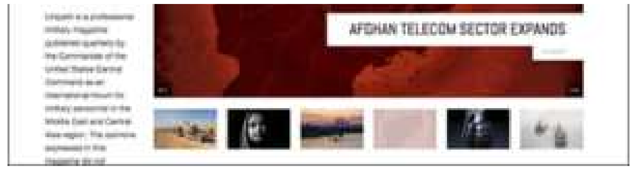
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