Jack D. Gordon Institute for Public Policy Kimberly Green Latin American and Caribbean Center

Executive Summary GOING LOCAL:

An Assessment of China's Administrative-Level Activity in Latin America and the Caribbean

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This executive summary highlights key findings from an in-depth study titled *Going Local: An Assessment of China's Administrative-Level Activity in Latin America and the Caribbean*. This executive summary and the longer analytic report were produced by Margaret Myers.

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EXECUTIVE SUMMARY

Local-level engagement is becoming an increasingly central feature of the broader China-LAC relationship, as Chinese central government, quasi-governmental, provincial, commercial and other actors seek to engage more extensively in LAC markets, shape external views of China, and advance China's various policy objectives and political interests, including vis-à-vis Taiwan. Though prompted by Chinese government policy, the nature of this engagement is exceedingly wide-ranging, however, featuring a complex cast of generally uncoordinated characters with distinct interests and approaches. The outcomes at the subnational are also distinct. Some local-level partnerships have been exceedingly productive, resulting in numerous commercial deals and other forms of cooperation. Others have yet to produce concrete results, despite many years of exchange.

It should also be noted that Chinese government and commercial entities are not necessarily prioritizing local-level activity over other levels of diplomatic engagement in the region. Instead, various forms of diplomacy are employed to different degrees in different political and economic environments. Central government interaction is still preferable in Maduro's Venezuela, for example, and even arguably plays an increasingly important role in Mexico, where Mexican President Andrés Manuel López Obrador has largely consolidated authority since his election in 2018. China has sought to support projects that have been promoted by López Obrador himself, including the Dos Bocas refinery and Tren Maya.¹ In addition, many, though not all, of China's exported surveillance systems have been approved and are managed by central government authorities, including Ecuador, Uruguay, and Venezuela, sometimes through coordination with these countries' interior ministries.² Indeed, in most LAC countries, bilateral and local-level engagement are happening simultaneously, to 'cover all bases,' so to speak, and as part of an exceedingly adaptive approach to regional relations.

Why is China engaging with LAC at the subnational level?

- The often-fractious nature of LAC domestic politics, whether in the region's centralized or decentralized systems of government, solvent or ailing economies, has led Beijing to pursue 'multi-tiered' foreign policy in the region, which aims to **expand the channels through which Chinese actors are able to engage with LAC decision-makers**, including at the local level.
- For many Chinese companies and governmental entities, local-level engagement is a promising approach, especially in those countries where government-to-government deal making isn't possible, whether because of a country's governance

structure or regulatory environment, or when broader geopolitical considerations limit progress at the bilateral level.

- A considerable portion of China's local-level undertakings should nevertheless be viewed as exploratory exercises. As one interviewee described it, China's administrative-level activity " is as much a commercial reconnaissance mission as anything else."³ Indeed, much of the outreach conducted by Chinese government and even provincial-level institutions and authorities appears to be undertaken without specific commercial objectives in mind, but rather to lay the groundwork for eventual deal-making, or else to cultivate favorable views of China and Chinese political interests, including vis-à-vis Taiwan.
- In theory, local-level engagement can also help China to ensure a degree of project continuity even in the midst of sometimes-problematic political transitions. China Eximbank issued a loan directly to Jujuy province to avoid the possibility that the Argentine central government would withhold funding for the Cauchari solar project over political differences. In many cases, local-level officials are not beholden to the sorts of geopolitical considerations that can limit deal making at the central government level.
- Chinese companies may also believe that locally proposed projects are less prone to controversy than those occasionally proposed by central government officials in LAC. Local level deal making is more likely to 'fly under the radar,' so to speak, attracting relatively limited media attention, especially if deals and cooperative activities are relatively small in scale.
- **Growing local-level engagement in LAC is also possibly a function of competitive behavior among Chinese provinces.** As Liu and Qian (2020) have noted, China's "[p]rovincial governors compete rigorously to accomplish better local economic growth and to execute central policies, which include promoting more [overseas foreign direct investment] as part of the central government's 'going global' and BRI policies."⁴
- In addition to all of this is a clear policy mandate for enhanced local-level activity. Local-level engagement is identified as an area of focus in China's two policy papers on LAC, released by China's Ministry of Foreign Affairs (MOFA) in 2008 and 2016. The concept also features in the China-CELAC Forum Cooperation Plan, which was released in 2015, and in bilateral policy documents.

What is the nature of China's local-level activity in LAC?

A review of dozens of cases of Chinese administrative-level activity across the LAC region and in distinct economic sectors, as well as interviews with numerous central-level and local-level LAC officials and LAC and Chinese scholars, reveal few distinguishable patterns in China's local-level outreach. Engagement is initiated by different actors in different instances. Chinese actors who play pivotal roles in some LAC localities are entirely absent in others. In some examples of subnational activity, relationships are exceedingly productive and in others they yield few tangible results. Some general observations can nevertheless be made about the main Chinese and LAC actors involved, prominent avenues for subnational engagement, and nature and extent of Chinese locallevel activity across the region. They include the following:

- China's local-level outreach in LAC is not centrally coordinated in most instances. 0 China's central government actively promotes and shapes diplomatic engagement at the regional, bilateral, and local levels in LAC through policy pronouncements and by standing up institutions to carry out diplomatic and commercial objectives overseas. Engagement at the local level has been emphasized in a recent LAC policy documents, including the China-CELAC Forum's 2015-19 five-year plan. When engaging with LAC localities, however, the various Chinese government and quasi-governmental institutions tasked with local-level outreach are seemingly afforded a considerable degree of autonomy. In addition, Chinese central government and quasi-governmental organizations rarely operate in concert at the LAC local level, but independently, and when opportunities arise. Chinese companies also often operate on their own accord in LAC localities, driven in most instances by profit-based motivations. Provincial outreach is similarly uncoordinated, whether by China's central government or among officials from different provinces. Some provinces have nevertheless been effective in assembling delegations of provincial-level governmental, quasi-governmental, and commercial representatives that have forged strong ties to LAC locales and generated key deals in infrastructure, tech, and extractive sectors.
- Formal platforms for local-level engagement serve an important convening function and provide the opportunity for Chinese and LAC representatives to advance key economic and political interests. These include platforms developed by the Chinese central government, such as those associated with the China-CELAC Forum, as well as those developed by overseas Chinese organizations and other groups at the local level. Platforms developed by quasi-governmental entities, such as the Chinese People's Association for Friendship with Foreign Countries (CPAFFC), allow for wide-ranging participation, including by representatives from Taiwan-allied nations, who have taken part in mayoral and other delegation visits to China, for example. Formalized university partnerships are also an area of focus at the local level,

especially as a product of broader 'twinning' relationships. Academic conferences held by partner institutions frequently host LAC and Chinese government officials and commercial sector representatives, facilitating critical networking opportunities.

- China's local-level engagement with LAC is not a new development. Subnational activity dates back to the early 2000s in some cases, including in the Coquimbo, Chile Henan, China relationship profiled in the case study section of this paper. Local-level activity is naturally growing, however, as Chinese companies become increasingly adept at navigating different administrative levels in LAC, often marketing tech products that are appealing to local-level administrators. The basing of Chinese companies in LAC also presumably facilitates 'multi-tiered' engagement with the region. And Chinese community leaders in LAC, such as Wang Hexing, president of Professional Association of Chinese Businesspeople in Chile, who have in many cases forged local-level ties, are increasingly prolific. In some cases, the region's various 'twinning' relationships, established over the course of the past two decades, are also bearing fruit.
- China's 'twinning' (*hermanamiento*), or 'sister cities/provinces,' relationships in LAC, such as the Jujuy-Guizhou relationship, have also been exceedingly productive in certain cases, but are generally established once initial local-level engagement is already underway. The Henan, China and Coquimbo, Chile sister regions relationship was established after Henan government entities first engaged with Coquimbo. In other cases, 'twinning' relationships are established at the behest of companies seeking opportunities in local markets.
- Despite the wide range of Chinese actors tasked with overseas engagement, as indicated below, many of these relationships are initiated by LAC officials, who view Chinese banks and companies as being integral to the development of their respective regions, or else to advancing specific projects. LAC embassy officials in China, LAC chambers of commerce, governors, mayors, and other local government officials are among those in LAC who have actively developed some of the more extensive local-level linkages with Chinese entities. Very recently, governors of certain Brazilian states reportedly reached out to China directly to seek assistance with their respective Covid-19 responses, bypassing the central government, which has been publicly critical of China and its handling of the Covid crisis.⁵ The governor of Argentina's Jujuy province has also played a central role in crafting a productive Jujuy-China relationship, as indicated in the Jujuy case study below.
- Chinese local-level outreach is apparent across the entire region, including in smaller countries. Yet **the bulk of activity would appear to be focused in those countries**

where local leadership has considerable authority over commercial deal making or else some influence over central government decision-making. It is no coincidence that much of China's local-level activity is centered in Argentina, for example, where provinces and cities represent sizable economic markets, and where local governors and mayors are legally able to carry out their own foreign policy. Brazil is another country where decision-making authority is relatively decentralized. In much of the rest of LAC, mayors and governors raise little of their own revenue and have little decision-making authority over major project development.⁶ The current push for greater decentralization in Chile could possibly boost China-Chile local-level interaction, as officials look to Chinese companies to advance key projects.⁷

- Scholarly analysis also suggests that China's outreach at the local level is also 0 prominent in countries, whether in LAC or elsewhere, that have strained relations with China. China's relatively extensive local-level outreach in Mexico may indeed be related to historical tensions between the two countries. In fact, Hearn suggested that much of China's local-level engagement in Mexico in the early 2000s aimed to address trade-related challenges.⁸ Stallings identified a pattern of increased Chinese political engagement and relationship development after 2013 with countries such as Chile, Colombia, Costa Rica, Mexico, Panama, Uruguay, and Brazil, where China lost considerable economic leverage post-commodity boom. As China's leverage decreased, Stallings noted, "the relevance of linkage has increased..." The fostering of FTAs in LAC during this timeframe was as much about linkage as about markets, she argued.⁹ Custer has noted that "sister-city relationships are more likely to be developed with cities in countries with which China does not have extensive security or strategic relationships,"¹⁰ and where China perhaps feels the need to export a positive image of itself.
- Chinese administrative-level outreach is less apparent in small countries in LAC, although examples certainly exist. The governor of the province of Panama, for example, has extensive relations with officials in an array of Chinese cities, according to one Panamanian interviewee.¹¹ Panama is a bit of an outlier among the region's smaller countries, however, having for many years been a priority investment destination Chinese companies operating in LAC, as well as a critical Taiwan ally until 2017.¹² In an interview with the author, Jamaican journalist Jevon Minto postulated that Chinese companies don't need to do local-level outreach in places like Jamaica because the companies that are doing most of the work there (e.g., China Harbor Engineering Corporation) are "already well-established."¹³
- Local-level engagement is part of a broader, 'multi-tiered' approach to diplomatic outreach in the LAC region. The examples of Chinese company-to-state and state-tostate coordination in LAC remain extensive, despite growing activity at the local level.

How are local-level ties established?

The Chinese actors involved at the LAC local level are numerous, including Chinese central government and quasi-governmental entities, provincial authorities, and company representatives, among others. The ways in which government and quasi-governmental actors engage are generally dictated by their specific missions, albeit with a seemingly wide range of objectives in mind, whether commercial, political, or social in nature. Chinese commercial actors, on the other hand, engage through a comparatively wide range of channels at the local level, though generally in support of business development. They do so independently in some instances, often through local company offices and occasionally at the behest of LAC local governments. In other cases, Chinese officials and/or governmental or quasi-governmental organizations actively promote Chinese goods and services. Many of the relationships examined in this report were also prompted by personal relationships, cultivated over the course of many years. Individual Chinese and LAC officials, businesspeople, and others have been central to the development of local-level ties.

The following are primary avenues through which subnational relationships have been fostered in LAC, although multiple actors and numerous forms of outreach are often evident in China-LAC local-level relationships, especially in those cases where engagement has been apparent for a number of years.

a. Linkages generated by Chinese central government and quasi-governmental bodies

An exceedingly wide range of Chinese government bodies are officially responsible for cultivating ties at the subnational level in foreign countries. Of these, **Chinese embassies** play an active role in developing networks of commercial and other critical contacts at the local level.

The **China Council for the Promotion of International Trade (CCPIT)** is among the more active institutions at the administrative level in LAC. As one of China's core "national people's organizations" under the direct supervision of the government, the CCPIT is a quasi-governmental organization dedicated to promoting foreign trade and investment. Although the organization's mission does not explicitly mention activities at the subnational level, CCPIT frequently engages with LAC localities when carrying out trade and investment promotion activities.

The Chinese People's Association for Friendship with Foreign Countries (CPAFFC) is also exceedingly active at the local level in LAC, having facilitated numerous local-level

contacts and agreements. Although its stated mission is to further people-to-people ties between China and the world, CPAFFC frequently plays a role in China's subnational deal making by putting foreign actors in contact with Chinese businesspeople and other counterparts, including through 'twinning' arrangements between cities and provinces in China and LAC.

The **Overseas Chinese Affairs Office (OCAO)**, which was incorporated into the United United Front Work Department in 2018, and the **China International Center for Economic and Technical Exchanges (CICETE)** have also occasionally featured in China-LAC local-level outreach. As University of Melbourne professor Adrian Hearn noted in his 2013 analysis of China's social engagement programs in LAC, for a number of years, "the Overseas Chinese Affairs Office (OCAO) enlist[ed] the assistance of Chinese diaspora communities in LAC nations to achieve a wide range of objectives, economic, political, and cultural.¹⁴ CICETE, which is affiliated with the Chinese Ministry of Commerce, has focused primarily on the implementation and coordination of technical cooperation with international organizations, but is also occasionally present at the LAC local level.

b. Local-level linkages generated by LAC central government organizations and companies

In some cases, China's local-level activity in LAC is coordinated by **LAC central government bodies or state-owned enterprises**. In Costa Rica, for example, the Instituto Costarricense de Electricidad (ICE), Costa Rica's government-run electricity and telecommunications service provider, entered into a partnership with GEPDI, a provincial subsidiary of the state-owned China Electric Equipment Group (CEEG), to advance a smart city project in Heredia. GEPDI secured its contract with ICE through a public tender to provide fiber optic connections to 150,000 households in the Heredia province, approximately six miles north of San José.¹⁵

c. Chinese province-led engagement

Chinese provinces have also played a significant role in China's local-level engagement in LAC, often through 'twinning,' or sister cities/provinces arrangements. Given their relative economic weight, China's provinces and cities have been successful in establishing ties with LAC central governments.

d. Chinese company outreach at the local level in LAC

Chinese companies also engage directly with LAC local-level officials, although it is difficult to determine whether they do so at the behest of LAC officials or on their own

accord. Given the wide range of Chinese actors apparent in specific localities at any given time, it is difficult to discern whether Chinese companies are opening doors for engagement from Chinese government delegations and quasi-governmental entities, such as CCPIT, or vice versa. Regardless of the order of events, a wide range of Chinese companies are effectively developing networks of contacts in LAC localities. This is especially true of Chinese tech companies, although in the tech space many are responding to demands from local-level authorities, just as the Carnegie Endowment's Steven Feldstein discovered in the case of Thailand. ¹⁶ In other cases, companies such as Huawei, sometimes in conjunction with LAC partners, actively peddle new technologies to LAC municipalities.

e. LAC local-level outreach to China

A considerable portion of China-LAC local-level engagement is also prompted by local organizations or officials in LAC, including **LAC governors and mayors**. Brazilian states are particularly active in outreach to China.

f. Other notable channels for Chinese subnational engagement

Universities and Confucius Institutes are among the other notable points of contact in China-LAC local-level engagement. In addition to educational channels, technology and other fairs or expos in China have played a prominent role in showcasing Chinese technologies and other solutions to would-be central- and local-level partners. Delegations from LAC central governments, provinces/states, and cities frequently travel to China to take part in these events. Overseas Chinese organizations, such as the Professional Association of Chinese Businesspeople in Chile, have been integral when forging ties in certain cases.

What are the effects of China's subnational engagement with LAC?

China's local-level engagement is certainly capable of creating more opportunities for Chinese companies, including by facilitating—over the course of many years, in some cases—networks of personal contacts in LAC countries that increasingly trust in China's model, and may very well seek out Chinese participation in key projects or other endeavors.

It is unclear to what extent China's commitment to local-level outreach is considerably boosting China-LAC deal making, however. Jujuy, Argentina stuck a wide range of deals with Chinese companies and other entities, but other partnerships have failed to deliver concrete results. The Coquimbo case, highlighted in the full text, is especially exemplary in this respect, reflecting a commitment to long-term local-level partnership despite a relative lack of concrete commercial outcomes. Efforts to engage with a wide range of actors at the local level would appear to create an increasingly permissive environment for future Chinese activity, with local-level engagement sometimes reinforcing efforts at the central government level and vice-versa.

Whether China's local-level activities are limiting opportunities for other international or domestic companies largely depends on the extent to which deals are being made, but also on the sector in which Chinese companies are engaging. In some cases, few other commercial actors are interested in proposed projects. In the case of the Agua Negra tunnel, however, Henan Transport Investment Group has arguably had something of an advantage as a possible partner in the project—the result of Coquimbo's strong ties to Henan. Other interested parties include CRS, a consortium comprising China Railway Tunnel Group (a subsidiary of CREC) and Benito Roggio e Hijos; Ingenieria y Construccion Sigdo Koppers and OHL; and Rovella and Condotte.¹⁷

In addition, the direct channels that Huawei and ZTE have established at the local level, supported at times by Chinese government and quasi-governmental outreach, could very well advantage these companies, whether in terms of identifying local-level demand for certain tech products or in efforts to market key technological platforms to local-level officials in LAC.

In other cases, U.S.-China competition is possibly encouraging of enhanced Chinese locallevel activity. Huawei's \$800 million smart phone factory in Brazil's São Paulo state was prompted not only by existing, extensive ties between São Paulo state and China, but also by ongoing U.S.-China tensions related to 5G telecoms deployment. The factory was announced as Brazil was considering Huawei as a possible bidder in the country's upcoming 5G auction.¹⁸

Chinese debt issuance to local-level governments for Chinese projects is rare, and so far has not been clearly problematic for localities. China's concessional loan to Jujuy, which covered 85 percent of the Cauchari solar project, was generally regarded as a good deal at the time, even though Jujuy already held relatively high levels of debt, according to the *Buenos Aires Times*.¹⁹ Depending on the loan terms, more financing at the local level could be problematic for already highly indebted localities. Demand for Chinese finance, including among local officials, may rise in the coming years, as LAC constituencies are faced with the prospect of economic austerity measures.

Chinese actors also occasionally face challenges in their local-level dealings, despite many examples of seemingly successful China-LAC local-level engagement. Local-level opposition to Chinese deals has been evident for many years in LAC, especially in relation to agricultural and extractive sector projects. Another notable challenge, as mentioned by

University of California-Irvine's Gustavo Oliveira, is that local connections generally fade when new local leaders are elected or appointed. In the case of Brazil, there is often a considerable lack of transition between exiting and new administrations at the local level.²⁰

However, Chinese government and quasi-governmental organizations and Chinese companies will continue to prioritize local-level engagement based on a belief that 'shaping the external environment' through the cultivation of networks of friendly contacts will create key opportunities for Chinese actors in the future, whether in the commercial or political realms. Certain aspects of Chinese local-level engagement are clearly described in Chinese literature as a means to attain China's national diplomatic goals,²¹ whether shaping perceptions of Chinese technology, reducing Taiwan's influence, or advancing other policy interests.

¹ "Chinese banks providing financing for Mexican refinery: ambassador," *Reuters*, 13 January 2020, <u>https://www.reuters.com/article/us-mexico-china-refinery/chinese-banks-providing-financing-for-mexican-refinery-ambassador-idUSKBN1ZC2FM</u>; "Sino-Portuguese consortium to build first section of Tren Maya network," *Railway Gazette*, 28 April 2020, <u>https://www.railwaygazette.com/news/sino-portuguese-consortium-to-build-first-section-of-tren-maya-network/56366.article</u>.

² Paul Mozur, Jonah M. Kessel, and Melissa Chan, "Made in China Exported to the World: The Surveillance State," *The New York Times*, 24 April 2019,

https://www.nytimes.com/2019/04/24/technology/ecuador-surveillance-cameras-police-government.html; Berwick, Angus, "How ZTE helps Venezuela create China-style social control," *Reuters*, 14 November 2018, https://www.reuters.com/investigates/special-report/venezuela-zte/.

³ Personal interview with Myers on condition of anonymity, virtual, July 2020.

⁴ Mengheng Liu & Xingwan Qian, "Provincisl Interdependence and China's 'Irrational' Outward Foreign Direct Investment," *Springer Nature*, June 16, 2020.

http://faculty.buffalostate.edu/qianx/index_files/provincial%200FDI-QianLiu2020.pdf.

⁵ Marina Lang, "Brazil's state governors open their own channels with China," *Dialogo Chino*, 13 August 2020, <u>https://dialogochino.net/en/trade-investment/36888-brazils-state-governors-open-their-own-channels-with-china/</u>.

⁶ "Bello: The growing importance of Latin America's mayors," *The Economist*, 3 October 2020, https://www.economist.com/the-americas/2020/10/03/the-growing-importance-of-latin-americas-mayors.

⁷ Omayada, Aline & González, Pablo, "The US\$15 billion of distressed provincial bonds that no-one is talking about," *Buenos Aires Times*, 4 September 2019, <u>https://www.batimes.com.ar/news/economy/the-us15-billion-of-distressed-provincial-bonds-that-no-one-is-talking-about.phtml</u>.

⁸ Adrian H. Hearn, "China's Social Engagement Programs in Latin America," *Journal of Iberian and Latin American Research* (2013) Vol.19, No.2, pp. 239–250.

⁹ Barbara Stallings, *Dependency in the Twenty-First Century?: The Political Economy of China-Latin America Relations* (New York, NY: Cambridge University Press, 2020), p. 67.

¹⁰ Custer, Samantha et al., "Ties that Bind: Quantifying China's public diplomacy and its 'good neighbor' effect," *AidData*, June 2018, <u>http://docs.aiddata.org/ad4/pdfs/Ties_That_Bind--Full_Report.pdf</u>.

¹¹ Personal interview with Myers on condition of anonymity, virtual, September 2020.

¹² Personal interview with Myers on condition of anonymity, virtual, September 2020.

¹³ Personal interview with Myers, virtual, August 2020.

¹⁴ Adrian H. Hearn, "China's Social Engagement Programs in Latin America," *Journal of Iberian and Latin American Research* (2013) Vol.19, No.2, pp. 239–250.

¹⁵ 《粤企携手哥国建设智慧城市_第 A06 版:时局·观察/专题》, Nanfang Daily,

^{, 21} October 2019, https://epaper.southcn.com/nfdaily/html/2019-10/21/content_7828108.htm.

¹⁶ Steven Feldstein, How Much Is China Driving the Spread of AI Surveillance? Carnegie Endowment for International Peace, 2019, pp. 13–15, The Global Expansion of AI Surveillance, www.jstor.org/stable/resrep20995.7. Accessed 24 Sept. 2020.

¹⁷ "Chile-Argentina Agua Negra Tunnel Progress," World Highways, 16 February 2018, https://www.worldhighways.com/wh8/news/chile-argentina-agua-negra-tunnel-progress.

¹⁸ Gabriela Mello, "China's Huawei to invest \$800 million in new Brazil factory," Reuters, 9 August 2019, https://www.reuters.com/article/us-huawei-tech-brazil/chinas-huawei-to-invest-800-million-in-new-brazilfactory-idUSKCN1UZ1B6

¹⁹ "The US\$15 billion of distressed provincial bonds that no-one is talking about," Buenos Aires Times, 9 April 2019, https://www.batimes.com.ar/news/economy/the-us15-billion-of-distressed-provincial-bondsthat-no-one-is-talking-about.phtml

²⁰ Personal interview with Myers, virtual, August 2020.

²¹ Michele Acuto et al. January 2016. "City Diplomacy' and Twinning: Lessons from the UK, China and Globally."