

**CHINA'S ROLE IN LATIN AMERICA
AND THE CARIBBEAN**

HEARING

BEFORE THE

SUBCOMMITTEE ON WESTERN
HEMISPHERE, TRANSNATIONAL
CRIME, CIVILIAN SECURITY,
DEMOCRACY, HUMAN RIGHTS,
AND GLOBAL WOMEN'S ISSUES

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CHINA'S ROLE IN LATIN AMERICA AND THE CARIBBEAN

THURSDAY, MARCH 31, 2022

U.S. SENATE,
SUBCOMMITTEE ON WESTERN HEMISPHERE,
TRANSNATIONAL CRIME, CIVILIAN SECURITY,
DEMOCRACY, HUMAN RIGHTS, AND
GLOBAL WOMEN'S ISSUES;
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:06 a.m., in Room SD-106, Dirksen Senate Office Building, Hon. Tim Kaine presiding.

Present: Senators Kaine [presiding], Menendez, Cardin, Shaheen, Markey, Schatz, Risch, Rubio, and Hagerty.

OPENING STATEMENT OF HON. TIM KAINE, U.S. SENATOR FROM VIRGINIA

Senator KAINE. I would like to open this hearing of the Senate committee with the longest name in the Senate, the Senate Foreign Relations Subcommittee on Western Hemisphere, Transnational Crime, Civilian Security, Democracy, Human Rights, and Global Women's Issues.

Even if we did an acronym it would be long, but it is a really important committee and we have got a great hearing today, and I think it is going to be well attended.

I welcome two distinguished panels of witnesses for this hearing on China's role in Latin America and the Caribbean, and the importance of U.S. engagement in the region.

I want to thank my ranking member, Senator Rubio, for his help in crafting this hearing, for his dedication to advancing American interests and values in the Western Hemisphere. We have worked together on these issues during my entire time in the Senate and I really value his focus and his partnership.

We are pleased to convene this hearing on the important topic. East-West issues receive outsized attention in the media and in our own foreign policy work, and that is understandable, but North-South ties are every bit as important because of the inextricable political, cultural, and economic bonds we share with our neighbors throughout the Americas.

Last year, I had the privilege of traveling to Mexico, Ecuador, Colombia, and Guatemala. Senator Portman and others were with me. It was a bipartisan CODEL in July. We saw a region dev-

astated by the pandemic and eager not just for American vaccines, but for deeper American engagement and leadership.

We also saw how China has increased its own engagement throughout the region, accompanied by an aggressive public diplomacy campaign promoting Chinese propaganda.

China pushes the narrative that it is a benevolent patron or that it is a template for economic development while achieving what it terms long-term social stability.

China's genocide against the Uighur people in Xinjiang and the harassment of Uighurs abroad, clearly, shows the Western Hemisphere and the rest of the world just what China's vision of development and social stability really looks like.

I am thinking of Virginia's large and vibrant Uighur-American community, many of whom have family members targeted by the Chinese government or face harassment and threats right here in the United States.

Beijing's genocide against the Uighurs shows that China's vision of stability is not truly for all of its people, and China's engagement in the Americas has some cautionary tales that we need to understand.

Ecuador, for example—nearly 20 years ago, former president, Rafael Correa, promised modernization for Ecuador, embracing Chinese loans and infrastructure projects in exchange for its oil.

Fast forward to today, Ecuador now lives with the Chinese financed and built dam that is not fully operational despite being opened in 2016. The Coca Codo Sinclair Dam required over 7,000 repairs. It sits right next to an active volcano, and erosion continues to damage the dam.

The dam also caused an oil spill in 2020 that has impacted indigenous communities living downstream, and all that is on top of the billions of dollars that Ecuador still owes China.

The Ecuador case is just one example, but as China continues its quest for natural resources and raw materials throughout the region, including lithium in places like Argentina, Bolivia, and Chile or copper in Peru, these countries have to take the Ecuador example very, very seriously.

Beyond its economic engagement, we know China also wants to increase diplomatic and security engagement accompanied by a concerted effort to protect soft power through its public messaging and influence activities. As we discussed at our last hearing on vaccine diplomacy, China quickly exerted its influence in Latin America and the Caribbean following the outbreak of the pandemic, despite the fact that China sold—did not donate, but sold most of its vaccines to the region. It successfully created the impression that the vaccines were, in fact, donated.

I am interested in hearing from our witnesses from the Department of State, USAID, the Development Finance Corp., and our second panel of private expert witnesses about how the U.S. is responding to Chinese engagement in the region and how we are deploying the elements of our toolkit.

I have been critical of China in these opening comments, but one area I have to praise them they are deeply, deeply engaged in the region, and we often hear from regional leaders, we would much rather deal with you than with China, but they tend to be at the

table in a more aggressive way, and so we need to talk about the threat, but also the opportunities for U.S. to have deeper engagement.

Let me now turn it over to Ranking Member Rubio for his remarks before I introduce the panel.

**STATEMENT OF HON. MARCO RUBIO,
U.S. SENATOR FROM FLORIDA**

Senator RUBIO. Thank you, Mr. Chairman, and thanks for your—to your staff for working closely with mine to make sure that this came about, and I want at the outset to recognize six students from Florida International University who are here from Miami. I am also an adjunct professor there.

Everybody—I try to make sure—I do not grade the papers, but they used to all get A's because they are all voters. They do not let me grade anymore, but it is a great university and I am happy they are here and able to watch this today.

The Western Hemisphere is in a period of extraordinary upheaval. It has got a host of economic problems. Obviously, they have been exacerbated by COVID-19 and it has put a tremendous burden on many of these countries in the region. Without urgent action, this economic downturn could last for a decade.

Voters in the region know this, by the way, and so that is why you have seen them more willing than ever to turn to the promises—hollow promises—of change in places like Argentina and Peru and Chile and Honduras and, increasingly, in Mexico as well.

Unfortunately, many of these newer leaders in the region have expressed admiration for the Communist Party and China's model, even as they turn a blind eye and, in many cases, are supportive of the regimes that are creating tremendous suffering in Cuba and Venezuela and in Nicaragua.

Beijing sees this and they are seizing the opportunity to grow both their influence and their power in the Western Hemisphere. As an example, their Belt and Road Initiative uses massive infrastructure loans and projects to lure nations into economic and political dependency debt traps. That has now spread to Argentina, Brazil, Barbados, and Panama.

In their annual report last year, the bipartisan U.S.-China Security and Economic Review Commission found that the Communist Party of China is taking advantage of its economic importance and political relationships to encourage governments across the region to make domestic and foreign policy decisions that favor the CCP and undermine democracy and free markets in the region.

According to that same report, by the way, the Chinese Communist Party's armed wing, the People's Liberation Army, is seeking to deepen its engagement in the region by funding the construction of ports and space programs and other dual-use infrastructure that, frankly, is pretty clear it appears to have no economic purpose, but—or to have a limited economic purpose, but could serve as future operating bases, even a rotational basis, for a hostile navy close to our nation's shores.

Moreover, the Chinese Communist Party is actively exporting its governance model across the hemisphere. It has conducted party-

to-party engagements with political parties in places such as Chile, Argentina, Cuba, Venezuela, Mexico.

These engagements' express purpose is to teach foreign political parties the superiority of China's authoritarian system. Their intentions in the region is not to be active because they want to make life better for people living in the Western Hemisphere. They care only about power and influence. They do not care about stability or economic development.

So even as increasing exports to China boost the economies of some of the nations in these regions, the Communist Party of China is pushing countries to remain dependent on mining and other—and the export of other natural resources instead of partnering with them to develop and industrialize their economies.

It is encouraging them to weaken or even break their own environmental, social, and governance regulations by promising them increased investment from China in return, and they do this because they know that chaos in Latin America and the Caribbean would severely hurt us, destabilize us, who they view as their primary and central rival.

If cartels have greater operating freedom to send drugs and violence across our border, it worsens the opioid and fentanyl epidemic and gang violence in our communities. If more countries go the way of Venezuela, Nicaragua, and Cuba, you will see massive new waves of illegal immigration and human trafficking that is associated with it.

We simply cannot afford to let the Chinese Communist Party expand its influence and absorb Latin America and the Caribbean into its private political economic bloc. That would leave our country worse off and ensnare the people of Latin America and the Caribbean into a generation of suffering and repression.

I am hopeful that our nation will begin to address this threat head on and seriously to revitalize our engagement in the region with that in mind.

In February, I introduced the Western Hemisphere Security Strategy Act with Chairman Menendez. It is the beginning of doing just that. It would enable the U.S. to more effectively resist drug traffickers and authoritarian governments, including those of China and Russia, through arrangements with other regional governments.

I hope others on this committee co-sponsor this critical step in pushing back against the Communist Party of China and their influence efforts in the region, and I hope to learn from our witnesses today on what else Congress can do and pursue to further address the challenge posed to us by the Chinese Communist Party in Latin America and the Caribbean.

Thank you, Mr. Chairman. Thank you to our witnesses for being here.

Senator Kaine. Let me now introduce the witnesses and then we will hear from each of you an opening statement and proceed with questions.

First, Kerri Hannan. Kerri is a career member of the Senior Foreign Service, is the Deputy Assistant Secretary for Public Diplomacy, Policy, Planning, and Coordination.

She covers issues related to the People's Republic of China for the Bureau of Western Hemisphere Affairs. Her prior overseas assignments include Bolivia, Argentina, and India as well as spokesperson at the U.S. Embassy in Kabul.

Ms. Hannan has an undergraduate degree in zoology and a master's degree in Latin American studies with a concentration in tropical conservation, all from the University of Florida.

Peter Natiello. Peter currently serves as the Senior Deputy Assistant Administrator in the U.S. Agency for International Development Bureau for Latin America and the Caribbean.

Before that, he served as USAID's mission director in Kabul, Afghanistan. He has extensive experience in Latin America with USAID as the mission director in El Salvador, Colombia, and Bolivia. He also managed USAID's democracy and conflict mitigation portfolio in Ecuador.

Finally, Andrew Herscovitz is the Chief Development Officer at the U.S. International Development Finance Corp., the DFC.

He is a career minister in the Senior Foreign Service and served overseas as mission director—deputy mission director and regional legal adviser for USAID in multiple countries in Latin America and the Caribbean from 2002 to 2013.

It is great to have you all before us to discuss this important issue, and I would like to ask you to make your opening statements in the order that I introduced you.

Ms. Hannan.

STATEMENT OF KERRI HANNAN, DEPUTY ASSISTANT SECRETARY FOR PUBLIC DIPLOMACY, POLICY, PLANNING, AND COORDINATION, BUREAU OF WESTERN HEMISPHERE AFFAIRS, U.S. DEPARTMENT OF STATE

Ms. HANNAN. Chairman Kaine, Ranking Member Rubio, distinguished members of the committee, thank you for the opportunity to testify on the department's efforts related to the PRC's engagement in the Western Hemisphere.

The issue remains one of our most pressing challenges and one that requires close coordination with our interagency colleagues, international organizations, and allies and partners around the world.

Just as important, it requires strong cooperation between the Administration and Congress, so I welcome continued engagement on these issues with the committee and the chance to be with you today.

Our strategic goal remains promoting a more democratic, inclusive, secure, prosperous, and climate resilient Western Hemisphere aligned with U.S. values and interests.

The pandemic has exacerbated the hemisphere's long-standing challenges of inequality, corruption, and weak democratic institutions, rendering the region more vulnerable to the PRC's aggressive and coercive tactics.

We do not respond to this challenge by trying to force countries to choose between the United States and China, but, rather, by proving that we are better partners committed to advancing shared interests and values.

We work with our allies and partners to help their democracies deliver for their people. We insist the PRC respect our hemisphere's democratic values and international labor, social, environmental standards as it engages in the region.

As the Secretary laid out in his speech in Quito last October, we are helping the region's democracy deliver across all fronts. Our efforts seek to deliver mutual benefits for our partners, not one-sided deals.

The Summit of the Americas in June, whose theme is building a sustainable, resilient, and equitable future, will provide a critical opportunity for the President to gather the region's democratic leaders in the agreed outcomes to promote a prosperous and democratic hemisphere.

The Summit will provide concrete solutions to challenges that our partners face on issues like recovering from the pandemic, creating good-paying jobs, and transitioning to a green future.

We also work with like-minded democratic allies and partners from outside the hemisphere. The European Union, Japan, the Republic of Korea, and Taiwan all help promote stability and growth in the region.

With 8 of Taiwan's 14 official diplomatic partners in our hemisphere, one of our top goals remains countering the PRC's aggressive campaign to induce countries to switch recognition to Beijing.

On the economic front, we focus on ensuring competitive and transparent investment environments that help level the playing field for U.S. companies.

We sent more than two dozen U.S. technical delegations to the region since 2018 to share best practices on procurement reform, foreign investment screening, and other initiatives that make countries attractive, competitive business environments.

These trainings help our partners ensure their engagements with the PRC meet high standards on transparency. We need to work with partners to help ensure regional investment remains transparent, competitive, and private sector driven while upholding environmental and social safeguards.

On security, the proliferation of PRC-linked telecom and surveillance equipment in the region highlights risks to human rights, national security, and privacy. Many of our technical delegation engagements have focused on ICT, including 5G and cybersecurity.

While the PRC's military presence in the region remains limited, we must maintain our position as the region's principal security partner, including in military cooperation from training to equipment sales.

We must also counter the PRC's propaganda and disinformation campaigns in the region. We saw and countered PRC-affiliated social media accounts attempting to redirect concerns about COVID-19 toward bogus claims that it originated in the United States. We are doing the same as we see PRC efforts to spread disinformation about Russia's further invasion of Ukraine.

The Global Engagement Center works with us and our field-based officers to address propaganda and disinformation and we build resilience through targeted support to independent civil society organizations and journalists.

We are also laying a foundation so that rising generations in the hemisphere know PRC disinformation when they see it and reject it. The Young Leaders of the Americas Initiatives expands ties between emerging entrepreneurs and U.S. counterparts to support job creation and economic growth.

The Department's academic—Academy for Women Entrepreneurs provides women the tools they need to turn their ideas into successful businesses, and the 100,000 Strong in the Americas Innovation Fund supports educational exchanges that strengthen the link between education, workforce development, and social inclusion to address opportunity gaps.

The Western Hemisphere's commitment to democracy has never appeared more urgent as Russia tramples on Ukraine's democracy and threatens to export the Ukraine crisis to the Americas by expanding its military cooperation with Cuba, Nicaragua, and Venezuela.

Our region has, with a few exceptions, condemned Russia and supported our efforts to urge Russia to immediately cease its war against Ukraine and seek a diplomatic resolution.

Our allies and partners have seen the stark contrast between our position on Russia's further invasion and the PRC's position as PRC diplomats elevate the Kremlin's propaganda and seek to protect Russia from condemnation at international bodies.

Thank you for this opportunity and I look forward to your questions.

[The prepared statement of Ms. Hannan follows:]

Prepared Statement of Ms. Kerri Hannan

Chairman Kaine, Ranking Member Rubio, distinguished members of the Committee: Thank you for the opportunity to testify on the Department's efforts related to the PRC's engagement in the Western Hemisphere. The issue remains one of our most pressing challenges and one that requires close coordination with our inter-agency colleagues, international organizations, and allies and partners around the world. Just as important, it requires strong cooperation between the Administration and Congress, so I welcome continued engagement on these issues with the Committee and the chance to be with you today.

Our strategic goal remains promoting a more democratic, inclusive, secure, prosperous, and climate-resilient Western Hemisphere, aligned with U.S. values and interests. The pandemic has exacerbated the hemisphere's longstanding challenges of inequality, corruption, and weak democratic institutions, rendering the region more vulnerable to the PRC's aggressive and coercive practices. We do not respond to this challenge by trying to force countries to choose between the United States and China, but rather by proving that we are better partners committed to advancing shared interests and values. We work with our allies and partners to help their democracies deliver for their people. We insist the PRC respect our hemisphere's democratic values and international labor, social, and environmental standards as it engages in the region.

As the Secretary laid out in his speech in Quito last October, we're helping the region's democracies deliver across all fronts. Our efforts seek to deliver mutual benefits for our partners, not one-sided deals. The Summit of the Americas in June—whose theme is "Building a Sustainable, Resilient, and Equitable Future"—will provide a critical opportunity for the President to gather the region's democratic leaders and agree to concrete outcomes to promote a prosperous and democratic hemisphere. The Summit will provide concrete solutions to challenges that our partners face on issues like recovering from the pandemic, creating good paying jobs, and transitioning to green future.

We also work with likeminded democratic allies and partners from outside the hemisphere. The European Union, Japan, the Republic of Korea, and Taiwan all help promote stability and growth in the region. With 8 of Taiwan's 14 official diplomatic partners in our hemisphere, one of our top goals remains countering the PRC's aggressive campaign to induce countries to switch recognition to Beijing.

On the economic front, we focus on ensuring competitive and transparent investment environments that help level the playing field for U.S. companies. We sent more than two dozen U.S. technical delegations to the region since 2018 to share best practices on procurement reform, foreign investment screening, and other initiatives that make countries attractive, competitive business environments. These trainings help our partners ensure their engagements with the PRC meet high standards on transparency. We need to work with partners to help ensure regional investment remains transparent, competitive, and private sector driven, while upholding environmental and social safeguards.

On security, the proliferation of PRC-linked telecommunications and surveillance equipment in the region highlights risks to human rights, national security, and privacy. Many of our technical delegations and engagements have focused on ICT and cybersecurity. While the PRC's military presence in the region remains limited, we must maintain our position as the region's principal security partner, including in military cooperation, from training to equipment sales.

We must also counter the PRC's propaganda and disinformation campaigns in the region. We saw and countered PRC-affiliated social media accounts attempting to redirect concerns about COVID-19 toward bogus claims of its originating in the United States. We are doing the same as we see PRC efforts to spread disinformation about Russia's further invasion of Ukraine. The Global Engagement Center (GEC) works with us and our field-based officers to address propaganda and disinformation. We build resilience through targeted support to independent civil society organizations and journalists.

We are also laying a foundation so that rising generations in the hemisphere know PRC disinformation when they see it and can reject it. The Young Leaders of the Americas Initiative (YLA) expands ties between emerging entrepreneurs and U.S. counterparts to support job creation and economic growth. The Department's Academy for Women Entrepreneurs (AWE) provides women the tools they need to turn their ideas into successful businesses. And the 100,000 Strong in the Americas (100K) Innovation Fund supports educational exchanges that strengthen the links between education, workforce development, and social inclusion to address opportunity gaps.

The Western Hemisphere's commitment to democracy has never appeared more urgent, as Russia tramples on Ukraine's democracy and threatens to export the Ukraine crisis to the Americas by expanding its military cooperation with Cuba, Nicaragua, and Venezuela. Our region has, with a few exceptions, condemned Russia and supported our efforts to urge Russia to immediately cease its war against Ukraine and seek a diplomatic resolution. Our allies and partners have seen the stark contrast between our position on Russia's further invasion and the PRC's position, as PRC diplomats elevate the Kremlin's propaganda and seek to protect Russia from condemnation in international bodies.

Thank you again for this opportunity. I look forward to your questions.

Senator KAINE. Thank you, Ms. Hannan.

Mr. Natiello.

STATEMENT OF PETER NATIELLO, SENIOR DEPUTY ASSISTANT ADMINISTRATOR, LATIN AMERICA AND CARIBBEAN BUREAU, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, WASHINGTON, DC

Mr. NATIELLO. Chairman Kaine, Ranking Member Rubio, and distinguished members of the committee, thank you so much for the opportunity to testify today, and what a nice surprise to have this group of FIU students with us today.

We were together yesterday and our—Samantha Power, our administrator, signed an MOU last week at FIU to support our mutual cooperation.

For decades, USAID has been a steadfast and reliable partner to the people of Latin America and the Caribbean to build a more democratic, prosperous, and secure region.

As close neighbors, we share interests, values, and goals. While the United States' partnership with the Latin American and Carib-

bean region remains strong, concerns about the PRC's growing footprint are real and warranted.

We have observed that the PRC's strategy in the Western Hemisphere is broad and includes economic ties, infrastructure investments, security sector support, education and research programs, as well as disaster and COVID-19 response assistance.

While Chinese investment has increased significantly, governments and citizens are increasingly aware of the downsides of working with the Chinese, while trust in the U.S. is growing.

According to the Americas Barometer Survey, trust in the PRC declined by about 18 percent for the period 2012 to 2021 and currently stands at about 38 percent, while, on the other hand, trust in the United States has rebounded significantly in recent years by more than 18 percentage points and now stands at over 55 percent.

Rather than assuming a defensive posture vis-à-vis the PRC's presence in the region, USAID uses foreign assistance to advance an affirmative American agenda that demonstrates the clear advantages of democracy, economic freedom, and the rule of law as the best foundations to foster the open, just, transparent, and sovereign societies we help to bolster in the hemisphere and around the world.

In Ecuador, El Salvador, Guatemala, and Honduras, USAID is working with host governments and the private sector to create a welcoming environment for private investment. This will level the playing field for American and allied investors.

USAID is also expanding its work in the digital space to offer partner nations secure alternatives with respect to 5G technology and cybersecurity. For example, in Peru USAID provides technical assistance to the Ministry of Transport and Communications to help strengthen digital security, data governance, digital innovation, and 5G radio spectrum policy frameworks.

We are concerned, too, about the PRC's manipulation of the information space, which is why USAID plays a key role in providing unbiased and objective information to inform citizens about the role of the PRC and other external actors in the region.

USAID assistance supports civil society and independent media to promote transparency, encourage investigative journalism, and counter mis- and disinformation.

USAID's long history of providing both urgent humanitarian assistance and long-term development assistance to countries throughout Latin America and the Caribbean has been a hallmark of the United States' close partnership with the region.

In times of need, such as the COVID-19 pandemic, we have stood up high-impact programs to address the terrible health and economic effects of the crisis.

To date, the United States has provided approximately 65 million COVID vaccine doses to the region with more on the way at no charge and with no strings attached. That is more vaccines than any other country has delivered in the region. USAID's technical assistance has been important for getting those vaccines into arms around the region.

Now, more than ever, the United States must stay on course to remain the lead partner in the region's development. While the PRC will continue its efforts to gain influence in the region, the

United States maintains an extraordinarily unique and powerful relationship with Latin America and the Caribbean, characterized by unparalleled family, historical, cultural, and trade ties.

These serve to bind the fate of the United States with its closest neighbors and constitute important assets upon which we must continue to build bonds of trust and partnership.

We are a community with shared democratic values and experiences. By working with our allies and partners in accordance with our approach to development we can continue to strengthen the Western Hemisphere's democracies, its prosperity, and its security.

We are clear eyed about the autocratic alternative, which we know is terribly destructive to freedom and well-being.

Thank you, and I look forward to your questions.

[The prepared statement of Mr. Natiello follows:]

Prepared Statement of Mr. Peter Natiello

Chairman Kaine, Ranking Member Rubio, and distinguished members of the Committee, thank you for the opportunity to testify on the influence of the People's Republic of China (PRC) in the Latin American and Caribbean (LAC) region.

For decades, the U.S. Agency of International Development (USAID) has been a steadfast and reliable partner to the people of Latin America and the Caribbean (LAC) to build a more democratic, prosperous, and secure region. As close neighbors, we share interests, values, and goals. USAID is glad to be part of a whole-of-government approach to countering PRC influence in the region.

While the United States' partnership with the LAC region remains strong, concerns about the PRC's growing footprint are real and warranted. We have observed that the PRC's strategy in the Western Hemisphere is broad and includes economic ties, infrastructure investments, security sector support, education and research programs, as well as disaster and COVID-19 response assistance.

For example, Chinese companies, which often have close ties to the Chinese Communist Party (CCP), invested over \$130 billion in the region over the past two decades, with significant investments in Brazil and Peru in particular. Most PRC investment in the region is in energy, extractives, and infrastructure. The China Development Bank and the China Export-Import Bank have provided nearly \$140 billion in loans since 2005.

We are concerned about the coercive, exploitative, and predatory tactics that the PRC often employs. For example, when Ecuador defaulted on its debts under the Correa administration, the PRC provided a lifeline with loans and financing. Chinese state-owned banks have provided Ecuador with an estimated \$8 billion or more in non-transparent loans with undisclosed conditions, while Chinese companies have provided other forms of financing. The loans were used to fund a number of public works projects, several of which are now under investigation due to questionable standards and lax planning. The Coca Codo Sinclair Dam in particular was riddled with cracks and caused significant erosion. Moreover, the PRC negotiated debt payment plans that require Ecuador to hand over the vast majority of its extracted petroleum to China—that is up to 80 to 90 percent of its oil production by some estimates. This constrains Ecuador's own economic development and sovereignty.

While Chinese investment has increased significantly over the past two decades, governments are increasingly aware of the downsides of working with the PRC and continue to approach the U.S. as their partner of choice. USAID tracks perceptions of the PRC across Latin America and the Caribbean through its support of the Americas Barometer public opinion survey. According to the survey, trust in the PRC Government declined from 58.2 percent in 2012 to 38.2 percent in 2021, while trust in the United States Government declined less precipitously from 65 percent to 56.7 percent over the same period. However, trust in the United States Government has rebounded significantly—by more than 18 percentage points—since its low of 38.6 percent just 2 to 3 years ago.

To remain the LAC region's partner of choice, USAID, as part of the whole U.S. Government approach, does not take a coercive, manipulative approach like the one the PRC promulgates. We advance an affirmative American agenda that demonstrates the clear advantages of democracy, economic freedom, and rule of law as the best foundations to foster the open, just, transparent, and sovereign societies we want to see in the hemisphere and around the world.

USAID focuses its assistance on transparent and fair procurement reform to attract sustainable private investment; financial and transactional assistance for energy and infrastructure investment; cybersecurity support; combatting China's illegal fishing practices; climate change and disaster resilience; and the democratic rule of law and anti-corruption. USAID is notably looking at the Caribbean, where PRC interest has been growing, but is not yet as deeply entrenched as it is in many other parts of the region, giving us a greater opportunity to be effective with our comparatively modest resources.

We are putting our plan into action. In the Dominican Republic, where a reform-minded government has publicly committed to more transparent and accountable governance, USAID is working with the U.S. Army Corps of Engineers (USACE) to develop a competitive and fair tendering process for a major infrastructure improvement project at the Port of Manzanillo. This will level the playing field for American and allied investors.

In Ecuador, El Salvador, Guatemala, and Honduras, USAID is working with host governments and the private sector to create a welcoming environment for private investment by strengthening public procurement systems in the infrastructure, energy, or telecommunications sectors, with the goal of increasing their transparency, efficacy in the use of public funds, and adherence to international best practices. USAID is working with all stakeholders in the implementation, monitoring, and evaluation of these efforts and raising public awareness of the relevance and importance of efficient and transparent business transactions.

USAID is also expanding its work in the digital space to offer partner nations secure alternatives with respect to 5G technology and cybersecurity. USAID's Innovation, Technology, and Research Hub is helping advance cybersecurity and connectivity objectives in the region. For example, in Peru, USAID provides technical assistance to the Ministry of Transport and Communications to help strengthen digital security, data governance, digital innovation, artificial intelligence, and 5G radio spectrum policy frameworks. In the Eastern and Southern Caribbean, USAID is conducting a Regional Digital Ecosystem Assessment, which identifies cybersecurity vulnerabilities, while advancing improvements to the broader enabling environment for digital development.

To support democracy, transparency and the free flow of information, USAID works closely with civil society and the independent media to strengthen their capacity to engage in oversight and promote accountability, amplify their voice, sustain operations, and conduct their work in safety. We have seen PRC efforts in the region to promote a distorted or misleading version of Chinese history and project a positive but incomplete picture of the PRC's motives in the region. USAID's partners play a key role in providing unbiased and objective information to inform citizens about the role of China and other external actors in the region. Among other elements, USAID assistance involves support to counter laws and policies that seek to restrict civil society's ability to operate; support for core activities—such as social audits, investigative journalism, countering mis- and disinformation—and organizational strengthening; and support for digital and physical security. This work is backed by research that examines information ecosystems and the influence of external actors to inform potential policy and programmatic responses.

USAID's long history of providing both urgent humanitarian assistance and long-term development assistance to countries throughout Latin America and the Caribbean have been a hallmark of the United States' close partnership with the region. U.S. assistance, embodied in the USAID handshake of partnership and the FROM THE AMERICAN PEOPLE tagline, is well recognized by the citizens of Latin America and the Caribbean for the spirit of generosity and support it represents. For decades, USAID has helped the region quickly respond to natural disasters—such as hurricanes, earthquakes, volcanic eruptions, and disease by providing life-saving relief like food, safe drinking water, medicines and shelter. Our development programs have helped build sustainable incomes, develop health systems, and expand educational opportunities. Citizens of the region know we are a steadfast partner who will be there at their time of need. China does not provide this kind of assistance.

In times of major need, such as the COVID-19 pandemic, we have stood up cross-cutting programs to address the health and economic impacts of the crisis. To date, the United States has provided approximately 65 million COVID-19 doses to the region with more on the way—with no strings attached. That is more vaccines than any other country has delivered in the region. To help get shots in arms, USAID has helped prepare countries to receive, distribute, and administer COVID-19 vaccines. USAID is helping countries implement national vaccination plans, including supporting health ministries with distribution plans, training vaccinators, estab-

lishing vaccination sites, cold chain management, communication strategies, and data strengthening.

Overall, USAID has mobilized \$524 million for the COVID-19 response across 29 countries in Latin America and the Caribbean to not only support vaccine delivery, but also to shore up the broader clinical, public health, and humanitarian response to the pandemic's impacts. We are mobilizing to address the pandemic's economic and broader secondary impacts as well. This includes responding to rising levels of food insecurity, and supporting the economic recovery of marginalized communities, migrants, and refugees with everything from job training and business financing to business development support.

Now, more than ever, the United States must stay on course to remain the global leader in international development. While the PRC will continue its efforts to gain influence in the region, the United States maintains an extraordinarily unique and powerful relationship with Latin America and the Caribbean, characterized by unparalleled family, historical, cultural, and trade ties. Those all serve to keep the fate of the United States bound with its closest neighbors and deepen our relationship beyond just a strategic partnership. We are a community with many shared democratic values and experiences.

USAID works day in and day out to strengthen these relationships. By working with our allies and partners, we can continue to make the entire Western Hemisphere stronger, more prosperous, and more secure.

Thank you, and I look forward to your questions.

Senator KAINE. Thank you very much.
Mr. Herscovitz.

STATEMENT OF ANDREW M. HERSCOWITZ, CHIEF DEVELOPMENT OFFICER, U.S. INTERNATIONAL DEVELOPMENT FINANCE CORPORATION, WASHINGTON, DC

Mr. HERSCOWITZ. Good morning, Chairman Kaine, Ranking Member Rubio, and distinguished members of the subcommittee.

Thank you for inviting the U.S. International Development Finance Corporation, known as DFC, to testify today on our efforts to catalyze private investment in Latin America and the Caribbean.

DFC brings values-driven, high-quality investment support to the region and plays an important role in the whole of government approach to countering the People's Republic of China.

DFC partners with private businesses and banks to mobilize capital in support of sustainable economic growth, poverty reduction, and development that advances U.S. foreign policy interests.

These objectives converge in Latin America and the Caribbean, a region with significant infrastructure needs, high rates of inequality, and pressing development needs in a region where the PRC has devoted increased attention.

We offer companies transparent and accessible financing options that advance development, including equity investments, loans, loan guarantees, political risk insurance, and technical assistance.

DFC has more than a \$10 billion portfolio in the region and just last year we did \$2.2 billion more. We are excited to use a recent new robust congressional appropriation to ramp up our support for projects in energy, transport, ICT, and other infrastructure as well as health care, agriculture, and financial services.

We are especially focused on providing credit to micro, small, and medium enterprises in the region. These businesses are central to the region's recovery from COVID-19 and they are central to creating the jobs that create economic and political stability and that prevent migration.

The way DFC deploys capital sends a strong message that the U.S. cares about local communities and the environment. Our financing tools reinforce good governance, avoid unsustainable debt levels, and promote inclusion.

These are American values, values and practices that set DFC apart from others. DFC's model is one of partnership and empowerment, unlike other models that involve manipulating, taking, polluting, and exploiting.

While the PRC, largely, finances the work of Chinese companies or provides unsustainable debt to governments, DFC provides financing directly to the people and the businesses of Latin America and the Caribbean, as well as to U.S. companies, U.S. companies that also believe in our high standards and who also care about the development of the people in the countries where they operate.

DFC prioritizes transactions that improve the lives of the poorest and marginalized populations. Doing so advances both development and our foreign policy goals. The PRC prioritizes only the prosperity of the PRC, often to the detriment of the prosperity of the local people.

That is why the U.S. is the preferred partner. By improving the lives of people, DFC transactions foster political and economic stability, which helps cement market-oriented reforms and rule of law.

It is important to note that while the BUILD Act asked DFC to prioritize low and lower middle income countries, upper middle income countries make up the bulk of the countries in the region.

By statute, our work in upper middle income countries must be designed to produce significant development outcomes.

I have included in my written testimony examples of projects that illustrate DFC's approach and demonstrate a sharp contrast with the PRC. These projects have a strong focus on local needs and economic empowerment.

They advance objectives like reducing migration flows by expanding credit access in Central America for businesses, by providing alternatives to coca production in the Andes, and supporting Venezuelan migrants in the region.

One example of a development infrastructure project in DFC's portfolio was a project in Brazil to modernize public lighting, expand internet connectivity, and mitigate flooding risk.

Thank you again for the opportunity to discuss how DFC's work represents a positive democratic alternative to state-directed investments by authoritarian governments. DFC advances foreign policy and development goals.

I also thank my fellow witnesses on the panel for their partnership. We work closely with their agencies to identify new deal flow, to provide complementary technical assistance for DFC-supported transactions, and to create an enabling environment for private investment in the region.

I look forward to your questions.

[The prepared statement of Mr. Herscowitz follows:]

Prepared Statement of Mr. Andrew Herscowitz

Good morning, Chairman Kaine, Ranking Member Rubio, and distinguished Members of the Subcommittee. Thank you for inviting U.S. International Development Finance Corporation, known as DFC, to testify today on our efforts to catalyze private investment in Latin America and the Caribbean. DFC brings values-driven and

high-quality investment support to the region and plays an important role in a whole-of-government approach to countering People's Republic of China (PRC) engagement.

DFC's mission is to partner with the private sector to mobilize capital in support of sustainable, broad-based economic growth, poverty reduction, and development that advance U.S. foreign policy interests. Congress created DFC with an objective to provide foreign markets a robust alternative to state-directed investments by authoritarian governments and strategic competitors. These two objectives converge in Latin America and the Caribbean: a region with significant infrastructure investment gaps, high rates of inequality, and pressing development needs, and a region where the PRC has devoted increased attention. It is a U.S. Government priority to offer the private sector in the region high-quality, transparent, and accessible financing options that advance economic development. DFC pursues this objective by supporting impactful private-sector projects with equity investments, loans, loan guarantees, political risk insurance, and technical assistance.

DFC has more than \$10 billion invested across Latin America and the Caribbean in key sectors such as financial services, healthcare resiliency, and agriculture. And we want to do more. Thanks to the robust appropriation that Congress provided to DFC, we aim to ramp up our efforts to drive new private project investments. In Fiscal Year 2020, DFC committed \$2.2 billion across 22 transactions in the region. DFC continues to seek out eligible projects in energy, transportation, healthcare, financial services, and information and communications technology sectors. The Corporation has devoted a significant proportion of its regional portfolio to providing micro, small, and medium enterprises (MSMEs) access to the credit they need to scale up operations and hire staff. DFC's MSME finance projects are especially critical in a region like Latin America and the Caribbean, where MSMEs continue to be the primary drivers of employment, and where the economy has contracted by seven percent since the start of the COVID-19 pandemic in 2020.

DFC's model is to mobilize private capital in a way that upholds the highest social and environmental standards, reinforces good governance, avoids unsustainable debt levels, promotes inclusion, and contributes to sustainable and broad-based economic growth in the areas we work. That is a value proposition our competitors are unable to offer, and we believe our values and practices set DFC apart as a much better partner for developing countries. Unlike the PRC, DFC's efforts seek to empower our partner countries, helping them take advantage of and control their own resources. DFC's model is one of partnership and empowerment—not one of taking and exploiting. While the PRC largely finances the work of PRC-controlled entities or provides unsustainable debt to governments, the DFC model allows us to provide financing directly to the people and businesses in Latin America and the Caribbean.

DFC supports transactions that improve the lives of the poorest and most marginalized. We prioritize these transactions for two reasons. First, the PRC is not taking on these critical transactions, choosing instead to prioritize its own prosperity. Our work to address the needs of local populations first and foremost is what sets us apart as a preferred partner. Second, by supporting these populations and improving their livelihoods, DFC helps foster political and economic stability which helps cement market-oriented reforms and rule of law; we can advance both development and foreign policy through these transactions. It is important to note that while the BUILD Act asks DFC to prioritize low and lower middle-income countries, upper middle-income countries make up the bulk of the countries in Latin America and the Caribbean. By statute, our work in upper middle-income countries must be designed to produce significant developmental outcomes.

Several DFC-supported transactions demonstrate clearly how DFC can serve as a robust alternative to PRC investment in the region. For example, in Colombia, DFC provided a loan guaranty in support of a project that helps Venezuelan migrants and host communities achieve greater economic independence through expanded access to banks and financial services. DFC provided a guaranty to two Colombian financial institutions (Bancamia and Crezcamos) to promote inclusive financing for these populations. DFC also is investing in projects that promote rural development in Colombia and Peru, helping provide licit economic alternatives to the coca cultivation that weakens local governance and leads to cross-border narcotics flows.

In northern Central America, DFC is closely attuned to the challenges that drive migration and is supporting transactions that address the root causes. Again, the PRC has not shown interest in these kinds of transactions that promote economic prosperity. These transactions also advance U.S. foreign policy objectives. For example, DFC provided a \$100 million direct loan to the Central American Bank for Economic Integration (CABEI) to fund financial institution intermediaries in El Salvador, Guatemala, and Honduras, which will then on-lend to MSMEs economically

impacted by the COVID-19 pandemic. DFC is also supporting transactions that expand access to finance for women in northern Central America, and we recently hosted a town hall in the region in support of DFC's women's economic empowerment initiative, known as the 2X initiative.

In addition to these highly developmental transactions that reach down to individuals most in need, DFC also is pursuing investment in infrastructure, recognizing the significant financing gaps and the extent to which strategic competitors have prioritized such investment. The Inter-American Development Bank (IDB) estimates that \$2.2 trillion in infrastructure spending is needed by 2030 for Latin American and Caribbean countries to meet the UN's Sustainable Development Goals, which include access to water and sanitation, reliable sources of energy, transportation, and internet connectivity. DFC cannot tackle the scale of this challenge alone, which is why partnerships with other government agencies, private sector entities, G7 countries, and multilateral financial institutions are essential.

One example of a recent project that typifies DFC's infrastructure objectives is Smart Rio, a project to modernize, maintain, and operate the public lighting system and install and manage smart city infrastructure in the city of Rio de Janeiro, Brazil. DFC is supporting this project with a guaranty of up to \$267 million. The project will lead to energy savings of 60 percent per year compared to the current system through the retrofit or addition of 450,000 public lighting units with LED technology. The smart city infrastructure will include 4,000 remote sewage monitors to aid in adaptation to and resilience against flooding risks, 6,000 smart traffic lights, and 5,000 public Wi-Fi access points. Nearly three-quarters of capital expenditures of the project will flow to neighborhoods below the city's median income. This project touches on two of priority sectors: climate and digital technology. Smart Rio was awarded the concession for the project after a competitive tender, beating out two other bids, one of which was submitted by a Chinese consortium backed by Huawei Technologies.

Another example of a high-quality, DFC-supported infrastructure transaction is a road project in Colombia that helps farmers and businesses access markets. DFC's \$350 million local currency guaranty in support of Sacyr's social bond issuance mobilized capital for the construction and operation of a toll road that promotes linkages between poorer regions in northern Colombia and economic centers, while encouraging local financial participation and investment. These types of DFC investments have the potential to crowd in additional investment in other private sector projects, including in the agricultural and manufacturing sectors, by lowering costs of doing business.

Under the BUILD Act, DFC prioritizes investments in low and lower-middle income countries. One result of this work is in Belize, a lower-middle income country, where DFC provided a political risk insurance policy in support of a \$364 million Blue Bond for Ocean Conservation. The innovative debt conversion, which DFC made possible through \$610 million in political risk insurance (covering loan principal and interest), will provide sovereign debt relief and simultaneously fund projects in support of Belize's commitment to protect 30 percent of its ocean. These projects advance ocean protection, fisheries management, and climate adaptation and mitigation. This approach is a major contrast from the PRC approach in that DFC is providing sovereign debt relief, whereas PRC transactions typically cause sovereign debt stress.

DFC aims to increase electricity access for at least 10 million people by 2025 and increase internet access for 3 million people, among other goals. These development goals align with the needs in the Latin America and Caribbean region, where more than 20 million people are without electricity access and more than 80 million people rely on firewood and charcoal for cooking. Thirty-two percent of the Latin American and Caribbean population, or 244 million people, have no internet access. Stronger health systems are urgently needed in a region where, despite constituting only 8 percent of the global population, 28 percent of global COVID-19 pandemic deaths have occurred.

It is in our foreign policy interest to address these challenges, and it is also in alignment with DFC's development mandate. Countries in Latin America and the Caribbean are critical partners in promoting prosperity, stability, and development throughout the Western Hemisphere, and the impacts of severe weather events, pandemics, and economic crises can be felt at our borders. Progress has been achieved as emerging economies have adopted market-based reforms that ease the cost of doing business and improve the investment climate. But much work still remains, and corruption and human rights continue to be paramount concerns for DFC and the U.S. Government. The U.S. Government is working in a coordinated manner to accelerate progress towards prosperity and stability, with the U.S. Department of State and the U.S. Agency for International Development as key part-

ners in fostering an enabling environment for private investment, and DFC using its project support tools to provide additional impetus for investment.

Thank you again for the opportunity to discuss how DFC's work in the region represents a positive, democratic alternative to state-directed investments by authoritarian governments. I look forward to your questions.

Senator KAINE. Thank you, Mr. Herscovitz, and we will begin a round of 5-minute questions and I will begin with you, Ms. Hannan.

A lot of the competition with China in the hemisphere and around the world comes down to messaging and information. Talk to us about—you testified briefly about this in your opening comments—how your agency's public messaging strategy to counter China and how do you engage with the Global Engagement Center to accomplish that goal.

Ms. HANNAN. Thank you, Chairman, for your question.

China spends at least five times as the United States does on public diplomacy and influence activities, but despite their inroads into the region, the U.S. still is the preferred shared values in the region. We consistently are the preferred partner.

They bring every tool of the state and private sector to spread disinformation and we aim to puncture their narrative by offering open research and to build resilience and limit the space where the PRC manipulation can thrive.

They have established media cooperative agreements with partners and we have seen journalists self-censor themselves or be encouraged by embassy officials not to tell the truth or shine a light on PRC malign activities.

We seek to share credible third party research with influencers and journalists. We partner with the GEC to do this. We have programs in the region that are strengthening the resilience of populations, civil society, investigative journalists, as well as empowering governments to recognize and push back on disinformation and propaganda. I would also recognize Canada as a critical partner in this region addressing disinformation. We work with them closely.

One other thing I will point out is that there are 63 Confucius Institutes in Latin America, but there are over 120 American spaces run through our embassies, the binational centers. It is a tool where we are able to share our values.

We have Fulbright exchanges. I already mentioned Academy of Women Entrepreneurs and our Young Leaders, all of which allow us to build strong relationships and share the values that we have outlined before.

Thank you.

Senator KAINE. Thank you.

Mr. Natiello, one of the issues that comes up a lot in Latin America now is the fact that many of our Latin American countries have been supportive of Taiwan and then that leads to significant pushback from the PRC.

Can you talk about USAID's work with Taiwan, especially in Latin America?

Mr. NATIELLO. Thanks for that question, Senator.

USAID seeks to actively partner with Taiwan around the region. We currently have several ongoing activities with Taiwan around Latin America and the Caribbean.

A couple examples to share with you today. We are working with Taiwan in Guatemala on youth development, workforce training, helping young people to find jobs. Taiwan has been a solid and reliable partner in that effort.

In terms of Honduras, we have also worked with the Taiwan embassy in Tegucigalpa and we continue to look for ways to collaborate on agricultural development in Honduras.

Specifically, we are hoping to collaborate via a recently launched USAID Feed the Future project and we hope to strengthen—work with Taiwan to strengthen agricultural market systems to expand economic opportunities and sustainably reduce poverty, which is one of the primary drivers of migration and food insecurity in Honduras.

Last, we have worked closely with Taiwan on women’s economic empowerment in the Caribbean, specifically in St. Lucia, Saint Vincent and the Grenadines, St. Kitts and Nevis as well.

We are also negotiating—we are in the process of negotiating a memorandum of understanding with the Taiwanese at the level of USAID worldwide just to cement this partnership so that we can continue to work together on development in Latin America and also around the world. Thank you.

Senator KAINE. Excellent. Thank you.

Ms. Hannan, finally, for you. In your opening testimony you referred briefly to the Summit of the Americas in Los Angeles in June, an exciting opportunity, the U.S.’ first hosting of the Summit in more than 20 years.

There is so much that we could focus on in that Summit. To what degree do you think there will be a focus on countering Chinese influence, if not as a direct topic at least addressed as we are talking about ways that the U.S. can more deeply engage in the Americas?

Ms. HANNAN. Certainly. Thank you for the question.

The Secretary laid out his vision with his speech in Quito that our aim is to support democracies in the region so that they can deliver for their people based on our shared values, and the agenda we have laid out at the Summit, the five areas of focus, all are primarily aimed at that objective.

I expect disinformation will be a topic we talk about in a broader sense as it relates to COVID and more about the resilience and ability to address disinformation, in particular.

I think that is relevant to this conversation, as well as the need for continued partnership and opportunity for foreign direct investment and finding ways so that these countries and our partners and allies in the region can access either U.S. or private sector-led investment.

All of that is some of the objectives we hope to come out of the Summit that will help.

Senator KAINE. Great. Thank you very much.

Senator Rubio.

Senator RUBIO. Thank you.

Deputy Secretary Hannan, the SOUTHCOM has concerns that the PLA and their activities in Latin America and the Caribbean. In a hearing they had before the Senate Committee on Armed Services the SOUTHCOM commander, General Laura Richardson,

reported that the PLA donates security equipment and provides training to gain access and win favor with security forces in the region.

She also said that the PLA is seeking to establish global logistics and basing infrastructure in our hemisphere in order to project and sustain military power at greater distances.

My question is twofold. First, how is the State Department seeking to counter this growing military-to-military ties between the PLA and regional militaries, and how is the department interacting with SOUTHCOM and other executive departments in educating countries in the region on the risks of increasing ties to the PLA?

Ms. HANNAN. Thank you, Senator Rubio, for the question.

We remain the preferred partner—security partner—in the region over the PRC. We collaborate closely with DoD, SOUTHCOM, and NORTHCOM on security and defense. General Richardson went into greater detail about the value of IMAT and FMF funding to allow the U.S. to continue to partner, train, and equip military and security forces in the region.

We are working to help show that—to ensure that the PRC military does not gain a foothold in the region in any kind of way that would undermine sovereignty or security of our partners.

We maintain that deep network and aim to point out that the PRC's ambitions do not stop in the economic space. They are, potentially, a direct threat to the national security and we continue to work diplomatically with our allies and partners to raise awareness about the PRC's broader goals and objectives.

We are continuing to have those conversations.

Senator RUBIO. The NDAA, the National Defense Authorization Act, for 2022 supported language that required the State Department to report to Congress by June of this year on efforts by China to expand its presence and influence in Latin America and the Caribbean.

Can you tell us what the status of that report is and when it will be completed?

Ms. HANNAN. I cannot, but I will check with my team and get an answer to you.

Senator RUBIO. Mr. Natiello, let me ask—the National Endowment for Democracy report on soft power in Latin America and the Caribbean they describe the CCP program for reporters and media workers to encourage people-to-people exchanges. These are nothing, but communist-driven junkets to expand their ideology throughout the region. What programs are we working with at AID to counter this?

Mr. NATIELLO. Thank you for the question, Senator Rubio.

USAID absolutely shares this concern about these closing democratic spaces in places like Venezuela, Nicaragua, certainly, Cuba, and one of the interventions or one of the investments that we fund in that context is just supporting the free flow of uncensored information, fact-based information, to citizens in those countries.

We work closely with journalists. We do journalist training. We support them with things like investigative journalism. We do protection of journalists as well because many journalists in these places work under serious threat and they are in harm's way.

One example that I could provide is work that we have done in Ecuador with Ecuadorian journalists to investigate, to analyze, and to report on the issue of illegal and unregulated fishing off Ecuador's coast and we do that because we want to ensure that Ecuadorian citizens have fact-based information upon which they can make decisions about China and countries like China and whether they want their country working with them.

That is one example of the kind of things that we do with journalists around the region on the issue of free flow of information and investigative journalism. Thank you.

Senator RUBIO. Mr. Herscovitz, let me—the PRC has made the most inroads in their strategic investments in places like Chile, Uruguay, Panama, the Bahamas. It does it by offering financing for infrastructure projects through its Belt and Road Initiative that are otherwise unsupported by American or other international investors.

Is the DFC ready to finance projects in those countries as an alternative to BRI lending?

Mr. HERSCOWITZ. Thank you for the question, Senator.

Many of the countries that you have mentioned are high income countries and DFC does not currently have legislative authority to support investments in the high income countries, but we continue to look for opportunities to support strategic investment, whether it is in infrastructure, mining, or other strategic investments that will advance U.S. values.

Senator RUBIO. That is why we have an Inter-American Development Bank. Is not the fact that they are classified as high income an argument for supporting a capital increase to the Inter-American Development Bank and its private sector arm, IADB Invest, which does not have those restrictions?

Mr. HERSCOWITZ. In terms—you are asking whether or not we should be supporting an increased investment in the Inter-American Development Bank? Is that your question?

Senator RUBIO. That is right. If those countries do not qualify for the programs you are offering because they are classified as high income, the alternative would be IADB Invest.

Mr. HERSCOWITZ. I would defer on that question to our colleagues at the U.S. Treasury who are making the recommendations about our interactions with the regional development banks.

Senator KAINE. Thank you.

By WebEx, Senator Cardin.

Senator CARDIN. Mr. Chairman, thank you very much, and let me thank our panel.

I want to follow up on Senator Rubio's point, but from a slightly different perspective. Yes, we have countries in our hemisphere that are problematic as it relates to values and democracy, such as Venezuela, Cuba, and Nicaragua, but we pride ourselves in our hemisphere of countries that pride on being democratic and supporting the same values that we do.

When we saw the image of President Xi with President Putin at the Olympics, that should have had a powerful message about China's priorities, where Mr. Putin at that time had already planned the invasion into Ukraine.

Since the invasion in Ukraine, China has been on the wrong side of history. We know China uses soft power. We know about the Confucius Institutes. We know about people-to-people. Senator Rubio was talking about some of that use of soft power.

My question, I guess, to Secretary Hannan is that are we taking advantage of the fact that the countries of our hemisphere generally support us in regards to promoting democracy and Western values and making it clear that China's intentions are well beyond just setting up a nice relationship with people to people, but to control through economic issues or military issues the future of what country will dictate value globally in setting the rules? It seems to me that is a powerful tool that we have in our hemisphere. I am curious as to whether we have a strategy to utilize that.

Ms. HANNAN. Thank you, Senator.

I would like to point out that 27 member states joined the U.S. and voted for the March 2 U.N. General Assembly resolution condemning Russia's actions in Ukraine and those same countries joined us in supporting the March 24 U.N. General Assembly resolution expressing concern about the humanitarian situation in Ukraine.

China abstained on both those resolutions. China is, clearly, out of step with the Western Hemisphere and the great majority of our partners who do view—when it comes to the views of this invasion.

We have continued to partner with our allies and partners in the region to point that out, to show that we are the preferred partner and share the same values. It really is a campaign of desperation by the Russians, and the PRC amplifying their bio lab or other disinformation is ludicrous and untrue.

We also continue to stand with the people of Nicaragua, Cuba, and Venezuela, where authoritarian governments that have Russia's backing have stifled democratic aspirations. This is a top priority for us to continue to support democracies in the region. Thank you.

Senator CARDIN. I appreciate your statement on that, but I was looking to some specific action strategy here as to how we are making it clear to our traditional partners in our hemisphere that when they set up the Belt and Road Initiative, when they do economic ties with China, they are supporting Mr. Putin. They are supporting a way of life that is contrary to the values we all stand for.

Yes, we want to have good relations with all countries. That is not the issue, but the issue is that they are naive about China's ultimate intentions.

It would seem to me we need a much more aggressive policy wrapped in our values to make it clear it is time to make decisions on what side of values you are going to stand on. Again, we do not want to cut off ties between countries with China, but it goes well beyond that with China's strategy in our hemisphere.

It does not seem to me that we have a strategy to really counter this moment in history where China is on the wrong side of history and is assisting Mr. Putin in the atrocities that are taking place in Ukraine.

Ms. HANNAN. Thank you, sir. We do use every diplomatic, economic, and public diplomacy as well as foreign assistance that we have to counter China's influence in the region, and we think that

every government—and share this point regularly—that they need to make good decisions when it comes to providing for its citizens and protecting national interest and who they choose to partner with when trying to deliver on those promises to their populaces.

Senator CARDIN. I appreciate that. I would hope that we would have a more definitive response, considering where we are at this moment in history with Mr. Putin violating every international norm in his campaign in Ukraine, and China on Mr. Putin's side.

It seems to me that presents us a unique opportunity, particularly with our closest friends in our hemisphere. I recognize that USAID has a role here and so does the financing arms, but it seems to me all of us have to recognize that this is a moment in history to decide on what side you are going to stand on, on good or evil, and China has made that decision and we should we should capitalize on that.

Thank you, Mr. Chairman.

Senator Kaine. Thank you, Senator Cardin.

Next up is Senator Schatz.

Senator Schatz. Thank you, Mr. Chairman. Thanks to all of the testifiers.

China's BRI energy project financing provides the money for about 70 percent of the world's coal projects over the next 5 years. We all know that Xi Jinping announced that China will no longer build coal plants abroad.

Given the propensity of the CCP to go back on its word, Ms. Hannan, what do we do about monitoring the fidelity to that pledge? Assuming that they will try to go back on their word, what tools do we have to provide alternatives in the hemisphere to the continued financing of coal and other fossil energy projects via China?

Ms. Hannan. Thank you very much for your question, Senator.

We have seen recent U.S. investments in critical infrastructure, including development of ports and data science centers. I cannot really speak today to the specific issues of coal. I am happy to go back and get an answer for you and provide that to you directly.

Senator Schatz. Okay. Well, listen, that is one of their primary means of economic control and relationships that they develop, and so I would like a fulsome response.

[EDITOR'S NOTE.—The requested information referred to above follows:]

We recognize that the PRC serves as a significant investment partner for the region and will continue to raise concerns and distinguish ourselves from risky PRC critical infrastructure projects and investments that do not adhere to international best practices, environment, labor, and safety standards. The United States actively supports the region's efforts to diversify away from coal and heavy fossil fuels. We also support efforts to adapt to the negative impacts of climate change through programs such as the President's Emergency Plan for Adaptation and Resilience (PREPARE). The United States continues to encourage the adoption of renewable energy resources and increased private sector investment in clean energy infrastructure projects via fair and transparent tender processes.

Under the Build Back Better World initiative, we will also focus efforts on promoting values-driven, high-quality, transparent, and catalytic infrastructure with climate infrastructure among the priorities. Under the Caribbean Energy Security Initiative, the State Department and the U.S. International Development Finance Corporation (DFC) supported the first-ever Caribbean energy sector loan guarantee of \$25 million for clean energy projects across the region. The Department helped

Ecuador design and conduct transparent tenders for wind and solar projects, which submitted applications to the DFC for potential financing.]

Senator SCHATZ. Mr. Natiello, it looked like you wanted to respond to this.

Mr. NATIELLO. I am sorry I gave that impression, Senator.

I would simply say that USAID's focus, really, here is on helping our partner nations in the region modernize their energy systems, their energy grids, and their energy mix to include much more renewable energy.

The Caribbean is way too dependent on fossil fuels. That is a vulnerability for them. They know that, particularly today when the price of oil is so high.

So USAID has for some time now been focused on helping them to just diversify the mix of their energy sources and help them shift over to renewables.

Senator SCHATZ. I think we have a 2- to 4-year window to move into this space in the hemisphere to take advantage of President Xi's promise.

I think after that all bets are going to be off and there is a pretty good likelihood that they may go back on their word, and so the more that we can move into that space and provide economic alternatives and fuel and energy security for the region, it will meet our climate objectives, but it also aligns very nicely with our national security and diplomatic objectives.

I want to talk about deforestation. China's imports of agricultural commodities drive more deforestation globally than any other market, including the United States and the EU combined. This has enormous implications for Latin America and beyond.

I introduced the FOREST Act, which creates a framework for the federal government to deter commodity-driven illegal deforestation around the world, but until the bill becomes law, what can the State Department do, Ms. Hannan, to reduce demand for these commodities and their climate impact?

Ms. HANNAN. The PRC has demonstrated that what it wants is access to raw materials worldwide, whether it be wood or lithium or any other material that allows them to continue to support—and they also are aggressive in looking for food—food resources.

We continue to seek to work with like-minded partners and allies to offer higher-quality and transparently procured government infrastructure investment that will provide an alternative to PRC programs in the region.

Senator SCHATZ. Just so we are clear, I am talking about commodity-driven deforestation because we have the Lacey Act. We have some measure of an international regime. It does not work perfectly around forest products themselves, but the primary driver of deforestation internationally is that they clear cut and then grow commodities as agricultural inputs, primarily soy.

So we need to get a collective strategy around that. First, we need to pass my bill. I know every member of every committee says we need first to pass my bill, but failing that, the State Department has plenty of tools to implement a strategy.

I will just offer one last question for the record regarding CCP influence on press freedom, which I look forward to your answer on. Thank you.

Senator KAINE. Thank you, Senator Schatz.

Next up is Senator Shaheen.

Senator SHAHEEN. Thank you to Senators Kaine and Rubio for holding this hearing today, and Senator Rubio, it is great to have these students from Florida who are here. Next time bring some women with you, will you?

[Laughter.]

Senator SHAHEEN. We want to make sure that women participate in foreign policy as well.

I do not know if everybody can see this. It is kind of low, but we will hold—yeah. This is a—picture is worth a thousand words.

This was handed out in the Armed Services Committee about a year ago by SOUTHCOM and it shows Chinese influence in Latin America, and because you are far away you cannot really see what the key says, but this dark area, those countries are all members of the Belt and Road Initiative. There are 19 of 31 countries that have joined that.

The stars are an indication of where China is involved in port projects, and 29 are ongoing and completed that China is involved in with port projects. Twenty-five of 31 countries host Chinese infrastructure projects and there have been 44 heads of state meetings with Latin American leaders by China since 2015.

They have a goal of \$500 billion in trade by 2025. That dwarfs what we are looking at in the United States and I think this is important to show the challenge that we face. While I appreciate all of your testimony this morning and think it is very helpful, I think we have got to be realistic about what we are facing and this, clearly, indicates the challenge.

I wonder if any of you could speak to what you think the main reasons are that so many Latin American and Caribbean countries have signed on to the Belt and Road Initiative.

Ms. Hannan.

Ms. HANNAN. Thank you for the question.

The partners and allies in the region want to deliver to their populations. There is a \$150 billion infrastructure deficit in the region right now and low-cost, state-backed loans are very appealing to our partners.

What we do when the PRC aims to capitalize on these potential vulnerabilities that have been aggravated by the pandemic, we focus on helping them to deliver an investment climate where U.S. and trusted private sector-led investment can take place.

We want to support the recovery of the region from the pandemic. We raise concerns about BRI projects, that they do not respect international standards or regional standards when it comes to labor, environment, and social practices.

What we do try to do, we have sent over two dozen technical delegations to the region to help with procurement and investment screening. We do what we can to help our partners be able to deliver and create an environment where private-led investment and—or U.S. companies have an environment where they can offer up alternatives to these governments.

Senator SHAHEEN. One area, obviously, that is very important for us as we are trying to address American support and influence is

in ambassadors, and I would point out that my understanding is China has ambassadors in every country in Latin America.

Can you tell me how many countries that we currently have ambassadors in?

Ms. HANNAN. I believe there are 29 embassies and 23 consulates where we have either an ambassador or principal officer.

Senator SHAHEEN. Do we have ambassadors approved for those countries?

Ms. HANNAN. We currently have, I believe, eight that are pending and we have four slots open, but we have very talented *chargés d'affaires* that are working at those embassies and still carrying the mission forward that we have.

Senator SHAHEEN. You would agree that it is really important for us to get those ambassadors appointed, and I think that speaks to this committee's work and the need to move on those nominations as soon as we can get them.

Ms. HANNAN. Thank you for raising that.

Senator SHAHEEN. Let me also raise a concern about COVID because one of the things that is pictured on this map is that it says that eight countries are producing, using, testing, or interested in purchasing Chinese COVID-19 vaccine.

Mr. Natiello, you talked about the importance of our sharing our vaccine and the interests that people have in countries with having the vaccines that are being produced in the United States because they are more effective.

It is very disturbing to me that we have a COVID bill pending in the Senate. Five billion of that was to go to help address vaccine distribution in countries around the world and my understanding is that that got dropped out last night in terms of the package because of objections from our Republican colleagues.

I wonder if you could talk about how important it is for us to continue to share vaccines with countries that need the COVID vaccine.

Mr. NATIELLO. Thank you for that, Senator. As Administrator Power has said many times, it is critical that we help keep our neighbors safe because that keeps us safe.

So we, at USAID, with other parts of the U.S. Government have worked hard to get those 65 million donated vaccines into arms. The job is not done yet. We continue to work hard on it. The Administration's goal is 70 percent of the population in the region and around the world having two doses by September.

So we are not there yet so we continue to need to not only donate vaccines—it is one thing to get vaccines on the tarmac at the airport. It is a whole another thing, as we all know, to get it in somebody's arm.

So USAID provides significant technical assistance to governments around the region to do that, to work on the cold chains, to work on the logistics, to work on the planning, et cetera. The resources that the U.S. taxpayer and the Congress have generously provided us with have been extraordinarily helpful to meet this challenge. Thank you.

Senator SHAHEEN. Thank you. My time is up.

I assume you would agree with me that it is a real loss if we are not able to provide that additional support to continue to distribute those vaccines in countries where they are needed.

Mr. NATIELLO. Yes. Thank you.

Senator SHAHEEN. You do not need to answer that. It was a rhetorical question. Thank you.

Senator KAINE. Thank you, Senator Shaheen.

Senator Risch is next, and I understand Senator Risch has a valuable guest with him.

Senator RISCH. Actually, I do. My grandson is with me today. He is on a break. So thank you for that.

First of all, let me associate myself with the remarks of Senator Shaheen. I completely agree that we need ambassadors in these countries.

Look, I was a governor. I understand you cannot govern without having your team in place. We spar over that all the time on this committee and it is unfortunate it gets caught up in the politics that it does.

I appreciate the remark of the State Department that we have very talented chargés in these places. That is really important, but it is no substitute for having the ambassador. We all know, as we deal with these countries, that the head of state, particularly, he or she wants to deal with the ambassador, not with a chargé.

Anyway, I agree with you, Senator, and we continue to work on it. It is cumbersome and it is probably at some point in time we are going to have a look at moving these along quicker.

I mean, I watched in the last Administration and this Administration. I suspect we are going to get to the end and there is going to be some countries that never did have an ambassador during that period of time.

Thank you to the ranking member and chairman of this subcommittee for holding this hearing. I think it is really important in that most Americans really have no idea about how ubiquitous the Chinese influence has become around the world.

We have to deal with it all the time. We are not surprised every time we cross their track, but I think most Americans are fully uninformed with that.

Even more importantly is the investment and the trade that takes place with China, and we are told that in this region the United States is the largest investor. When I talk about the region, I am talking about the Western Hemisphere and also the Caribbean.

We are told the U.S. is the largest investor in the region, yet China has become the largest trade partner in the region, and it really, really ought not be that way.

Mr. Natiello, could you talk for a minute about: a) how this has happened; and b) how we reverse it?

Mr. NATIELLO. Thank you, Senator.

What I can say on that is that USAID's focus has been on really helping our partner nations in the region to help create the enabling environment and a level playing field for greater U.S. investment in the region.

We do that through things like transparent—reforms to procurement codes to ensure that procurements are fair, they are trans-

parent, that there is a level playing field and we do it—again, we do that around the region.

One example I could share with you is what we recently did in Colombia with an energy auction where we helped the Colombians understand the best approaches and the best rules for approaching the challenge of energy auctions and increasing the supply of clean energy in their economies.

That led to nine firms stepping up. None of those were Chinese. Several of those were U.S. firms. They came in with bids that were 15 percent below the market price for energy in Colombia.

It was a win in terms of investment. It was a win in terms of trade. It was a win in terms of the environment. That is just one example of the kind of things that USAID does around the region on trying to enhance investment.

Senator RISCH. I appreciate that.

Mr. Herscovitz, this is more in your wheelhouse. You want to take a run at this?

Mr. HERSCOWITZ. So one of the things that I thought was wonderful about the BUILD Act when you created DFC is that you lightened up the U.S. nexus requirement where previously we were only supporting transactions where there was some strong U.S. nexus.

While it seems counterintuitive that lightening that up would actually create opportunities for U.S. businesses, let me explain why this is great.

What we see in a lot of countries is that there are sometimes family-owned businesses or businesses that existed for a long time that are often bidding on the infrastructure projects and other types of projects.

When we have that connection to that local company that then gives us insights into trade and investment leads. I think back to a time when I visited a company in Ghana once and it was a Power Africa-supported transaction that was not a U.S. developer, but they sat down and they put up on the screen 19 different U.S. companies that were providing services or other types of products on that transaction.

So one of the things we have been doing increasingly at DFC is we have been doing town halls and working closely with USAID and State Department to identify these types of local companies so that we can increase that two-way trade and also identify trade and investment leads for U.S. companies.

Senator RISCH. Thank you. I think it is critical we focus on this. I mean, this is a situation that is in our own backyard and gotten away from us and, obviously, it will be a challenge, but we need to focus on it.

My time is up. Thank you, Mr. Chair.

Senator KAINE. Thank you, Senator Risch.

Next up is Senator Markey.

Senator MARKEY. Thank you, Mr. Chairman.

I mean, this is all pretty simple to me. China has a plan. We do not have a plan. If we want countries to be grateful to us for providing a vaccine that does work, we have to fund it. A vision without funding is a hallucination.

So they are going to go—they are pragmatists in all these countries all around the world. Are we going to do it or not? Are we going to signal that we are in the game or are we not? Very simple.

We have now got a bill. We call it the COMPETES Act. We know it is the China bill. Actually, we do not—not supposed to say that word. Why is that? Because our semiconductor industry failed us, just totally failed us.

So the American taxpayer is going to have to bail them out. That is sad. That is not a plan. That is not a plan that our country had or our companies had.

We are stalling on passing a bill that could create a clean energy revolution in our country. Why is China in these countries? They want their natural resources. They want the lithium. They want the other sources.

If Donald Trump says we are not going to increase the fuel economy standards of the vehicles which we drive, if he says we are not going to have standards for solar and wind, then our companies all say, we are not going to have a plan because we will not have to have a plan to go to other countries in order to get the natural resources that we want.

Meanwhile, China says what a great economic opportunity for us to move into the future. Thank you, American private sector. Thank you, American automotive industry, for not wanting to improve your fuel economy standards. Thank you to the Trump administration for stopping, slowing down dramatically, the deployment of wind and solar in our country. Great, but do not be surprised that they are going to Chile, that they are going to Bolivia, that they are going to Argentina to lock up these resources.

I will just give you some really scary, scary, scary numbers. There are 86 million tons of identified lithium resources on the planet—on the planet. Forty-nine million of the 86 million are in the Golden Triangle. That is Argentina, Bolivia, Chile.

What is our plan? If I asked you to describe what our plan is in order to make sure that those resources are directed towards American industries and interests and that we are doing it in an environmentally sound way, not the way the Chinese do it, what is our plan?

China has a plan. We are better than China, but we cannot beat them without a plan and that is where we are right now. Then they use that, that economic leverage, as a way to influence politics and then the politics says no longer should you be supporting Taiwan. Just back off and be with us in the U.N. on other issues as well.

It is a pretty simple formula, but there is just no way that this is not in any way tied to what the corporate side of our country wants. So in China they put together the plan. Then they unleash their private sector.

Here, we have been let down. Four years of Trump was a disaster. These natural resources have been gobbled up all around the world. It is a broader story. The semiconductor crisis is a story that should have had an American plan. We did not have a plan.

I mean, my God, we are going to vote American taxpayers' money in order to subsidize what should have been the wealthiest compa-

nies in the world. Why? Because we are afraid of China and Taiwan and the semiconductor industry in China. Where is our plan?

You are down there. You are trying to do your job, and I guess what I would do is just ask one question. I know that one-third of the funding from the Development Bank is intended to be focused towards our climate-related issues.

Could you talk a little bit about that, and what is the plan for us to be dedicating those resources in the years ahead and, hopefully, we will get full funding from all the members of the committee.

Otherwise, we are going to be in total violation of the first law of holes, which is when you are in one stop digging, because the holes we are in do not find lithium. They do not find any other valuable resources.

We are just absolutely going to have crisis after crisis, all related to our lack of planning. If you would, I would love to hear what the plan is for the bank.

Mr. HERSCOWITZ. Thank you, Senator, for the question.

I think as we have all learned, both from the COVID pandemic as well as from the current war in Ukraine, the importance of diversifying the global supply chain and bringing some either home or closer is something that we all agree on and DFC has been very aggressive in that regard.

Even when we look at the issues of solar supply chain, we have taken very seriously the issue of the treatment of the Uighurs in Xinjiang, to try to see where we can find opportunities to produce solar outside of that area as well.

Recently, the DFC approved a \$500 million transaction to produce solar panels that do not rely on polysilicon with First Solar, a U.S. company with operations in Ohio and Arizona.

We continue to look for these opportunities to diversify the supply chain, working on critical minerals as well and other—the other types of minerals and inputs that are going to be important for us to look towards the future and having a much more diverse energy and technology supply.

We are also looking at other technologies as well that will allow us to be leaders in the future. A lot of the leading technologies in the renewable energy space are coming from the United States. We look at things like long duration energy storage, hydrogen production.

So we continue to work closely with U.S. companies and international partners to see what we can do to take that long-term view so that we are not set up for failure in the future.

Senator MARKEY. Okay. All I would say in summary is if we do not pass this climate package right now, there is going to be a lot of crocodile tears that are going to be shed in another 3 or 4 years saying, oh, how did we get in this situation where China now controls all these additional sources as well.

Of course, that just translates into politics. That is how they buy their way in and, by the way, it helps their economic security and it helps their national security at the same time and it actually helps them to be the leader on climate security because they will be the leaders in these critical clean energy areas.

It is a lose-lose-lose-lose, and, ultimately, we lose our moral authority as well because we are not at the table saying we are actually doing it. You cannot preach temperance from a barstool. You got to have a plan and we do not have a plan.

So we can have the hearings on semiconductors or lithium or all-electric vehicles. We can have all—what happened, how did it all go wrong. There is no plan and they are capitalizing upon it, and a lot of it just comes back to this clean energy agenda and the natural resources that are needed.

Thank you, Mr. Chairman.

Senator KAINE. Thank you.

Senator HAGERTY.

Senator HAGERTY. Thank you, Senator Kaine.

Senator Markey, just a follow-up point on your concern on semiconductors.

I share your concern on our strategic posture with semiconductors and I want to thank you and all the members of this committee for supporting the legislation that I put forward, along with Senator Kaine, to shorten the permitting process for semiconductor fabrication plants here in America.

We took the FAST-41 language from the infrastructure program, applied it to strategic industries like chip fabrication here in America and, essentially, we will take a 5-year permitting process and compress that down to 18 months.

We are not going to skip any processes, but we are going to make the process better and more efficient. That will make us more competitive. It does not require subsidies to do that. So if you think about the pace of technology change in semiconductor industries this is going to help us a great deal.

I would like to turn my first question for this panel to Deputy Assistant Secretary Hannan and I would like to talk to you about something that is a deep concern for me as an American, as a parent, what has been happening here.

According to the Center for Disease Control and Prevention, drug overdose deaths in America just over the past year have now exceeded 100,000 young Americans. We read about it every day.

Mexico remains the major transit and production point for the illegal drugs that are coming into this country and behind all of this is the Chinese Communist Party, who are routing fentanyl and the precursor chemicals to make fentanyl into Mexico.

Back in the—back at the G-20 that was held in Buenos Aires, I was actually dialed into the call as we were preparing for a meeting between President Xi and President Trump.

President Trump told President Xi he wanted to stop the flow of fentanyl coming into America. President Xi agreed to this, but he never agreed to stop sending the fentanyl and its precursors into Mexico, and what we see now with the collapse of our southern border is a dramatic increase in the flow.

As I mentioned, 100,000 deaths from overdose just this past year. It is the largest killer of young people in America today and I am very, very concerned that this has now become a major national security crisis.

This drug epidemic that is killing tens of thousands of Americans is becoming a national security crisis here in America and I would

like to know, Secretary Hannan, specifically, what percent of the drugs coming across the border include fentanyl coming from China?

Ms. HANNAN. Sir, I would have to get you that exact number. I do not have it in hand.

Senator HAGERTY. Does the State Department have this information?

Ms. HANNAN. I would have to check with my colleagues in INL and others to confirm that.

Senator HAGERTY. Given the level of the epidemic that we have got right here, given the fact that this is a war that is being waged by the Chinese Communist Party through Mexico on our youth, I think the State Department ought to have this data at its fingertips.

I hope that you will get this to my staff as soon as possible because if we cannot know the numbers how do we hold China accountable? Do you have a plan to hold China accountable for this?

Ms. HANNAN. We work closely with all of our partners in the region to address the various issues that we face with the PRC, this being one of the most important, as you have indicated.

We will continue to dialogue with the Mexicans and to hold—make every effort we can to hold the Chinese accountable for what they are doing in this.

Senator HAGERTY. Could you sort of set aside the State Department-ese? Rather than partners and dialogue, can you tell me what entities you are partnering with to address the fentanyl and the precursors that are coming into Mexico and are coming across this border to kill our kids?

Ms. HANNAN. I am going to include that in my answer to you when we provide you the numbers, sir.

Senator HAGERTY. I am shocked that you do not have a ready answer for this. Given the magnitude of the problem, this should be first and foremost in terms of your priorities. It, certainly, is in mine.

Next question, I would like to talk about the DFC.

Mr. Herscovitz, last week I wrote to the CEO of the DFC, Scott Nathan, noting that the year-long increase in energy prices makes it clear that America energy's role in the global market is critical for both our national security and for the health of the economy, and dependence on strategic adversaries like China and Russia and their allies like Venezuela—depending on them for our energy means makes us unacceptably vulnerable.

American energy companies have world-leading expertise in all sectors and the DFC should be encouraging their efforts in all sectors.

My first question is what efforts are the DFC undertaking to help fund and enable investments that would encourage U.S. companies to deliver cheap, reliable, and environmentally responsible energy for the world, including fossil fuel, nuclear fuels, and the mining industries?

Mr. HERSCOWITZ. Thank you, Senator, for the question.

DFC's current development strategy has set a very ambitious goal of doing \$10 billion of investment in the energy sector. We also recognize the importance of not just energy for development and for

production, but for energy access as well. We also have a goal of making sure at least 10 million people get access to electricity from the work that we are doing.

Our approach with respect to energy still remains, largely, technology agnostic. We look at a few factors. Number one, we have to look at what resources the country has and what makes sense for the country itself.

The transactions have to be commercially viable. We do not support any technology for the sake of supporting a technology, but we want to make sure that this is something that the private sector would support.

We want to make sure there is a diverse mix of energy resources as well. Some countries are blessed with fossil fuels. Some countries are blessed with wind and the sun. We really look to see what makes sense both domestically, but regionally as well. To extent that we can encourage countries to trade power so they get greater efficiency that is important to us as well.

We look forward to continuing to working with you and engaging with you in this area.

Senator HAGERTY. My great concern is that I do not want us to miss opportunities where we could help a country move incrementally in the right direction and in that void have other nations that perhaps do not have our environment front of mind, come in with dirtier solutions when we have an opportunity to incrementally help just because we are so focused on maybe an end goal that technologically just is not appropriate for the nation we are trying to help at that time.

Mr. HERSCOWITZ. We prioritize development and geopolitical significance in the work that we are doing, as laid out in the BUILD Act, and this is why we continue to look at all technologies.

Senator HAGERTY. Thank you. Thank you, Mr. Chairman.

Senator KAINE. Thank you, Senator Hagerty.

Chairman Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman, and with authoritarian regimes threatening freedom, prosperity, and democracy in the Western Hemisphere and around the world, this hearing could not be more timely. I thank you and the ranking member for holding it.

Across Latin America and the Caribbean, China is using everything from finance to fishing to technology, even vaccine access, to influence a greater and greater share of its abilities within the hemisphere.

In the face of these challenges, the United States cannot stand idly by. We have to do more to compete in the region and we have to stop taking our own hemisphere for granted.

That is why last Congress I introduced the Advancing Competitiveness, Transparency and Security in the Americas Act. It was the first ever legislation focused on strengthening U.S. competition in Latin America and the Caribbean.

It expanded our financial tools and diplomatic presence. It countered corrosive economic practices. It worked to secure the region's physical and digital infrastructure and it boosted support for civil society across the Americas, and I am pleased to see many of its

provisions were included in the U.S. Innovation and Competition Act, which we are on the verge of passing.

They are important steps as we deal with authoritarian threats, but we cannot stop there, and I have a real concern. I have heard some of the testimony or questions raised by some of my colleagues. I share them.

China is aggressively all over the hemisphere. I cannot tell you how many leaders in the hemisphere I have been talking to as they face the challenges of energy and are ill-equipped to deal with those challenges.

We see the challenges we are having ourselves. I understand the President just announced a million barrels a day released from the SPRO, but they do not have a SPRO. In countries like some of these countries—the Dominican Republic, the Caribbean, and others—that effect can create civil unrest. If the prices spike up, we are going to have a huge problem.

We have a huge problem coming out of the pandemic with the reality that IMF requirements, without being eased and extended over time—not relieved, not forgotten, but eased and extended over time, these countries not going to be able to meet it.

Look what we did to spend to try to meet the pandemic in our own country. They do not have that ability, and we see the consequences of this in civil unrest as we saw in Colombia when it was pursuing an IMF-related element.

It just seems to me that we do not have a strategic comprehensive plan. So when China goes and says to one of these countries—I will not mention them, but the President told me himself—we will give you \$400 million—when China says, we will finance your energy costs, the reality is that we may not be able to go dollar for renminbi, but at the end of the day, we are going to have to have a much more robust response.

I think of the IADB, for example, as an entity that can help us meet that response, but for some reason, the Administration seems to have a challenge working with the IADB, even though the IADB from everything I have seen in their agenda so far is doing everything the Administration would want to see and finally kicked out China, to a large degree. China was using the IADB as their sales agency in the hemisphere. Imagine that. Mind boggling. Our directors there, basically, allowed it to happen.

Thankfully, there is new leadership there that is moving in a different direction, leadership that includes Taiwan, which I am sure China will not be happy about.

Deputy Assistant Secretary Hannan, do you agree that the Inter-American Development Bank plays a critical role in sovereign lending? Would not a capital increase expand that role?

Ms. HANNAN. I leave that to my colleagues at USTR to comment on that, but I do agree that we need to find additional financing mechanisms in Latin America to give our partners there more ability to partner with other outlets than just the PRC.

Senator MENENDEZ. Unless I am mistaken, your title says you are the Deputy Assistant Secretary for Diplomacy, for Policy, for Planning and for Coordination of the Western Hemisphere. Why can you not speak to that question?

Ms. HANNAN. We have a broad strategy to address China in the region that touches on all of the issues that you have raised, as well as the remainder of the senators on the—the honored senators.

I am reluctant to comment on another agency's goal, but I do think we need to see increased opportunities for U.S.-led and other private sector to invest in the region.

Senator MENENDEZ. It is shocking to me that you cannot comment on the Inter-American Development Bank as a tool that is very viable because—I do not know. The DFC has some tools, but it is limited, depending upon the nature of the country's development or not, whether it can participate in it or not.

What are we going to use? Because if China is doing all of this and all of us see it up here, if we can see it—and it is not our job to be in the midst of this day in and day out as it is your job—then something is wrong. There is a clear disconnect.

Let me ask you, maybe that you can answer this one for me. The U.S. Coast Guard has called illegal, unreported, and unregulated fishing, otherwise known as IUU fishing, the primary global maritime security threat. IUU fishing fuels drug trafficking. It perpetuates forced labor practices. It threatens biodiversity, sovereignty, economic livelihoods of affected countries.

The People's Republic of China is the largest perpetrator of IUU fishing. An expansive report by the Associated Press last fall implicated China's distant water fleets and IUU fishing in Latin America and the Caribbean.

Chinese flag vessels in the region increased at least thirteen-fold between 2009 and 2020, and the report documented them engaging in extensive illegal fishing off the coasts of Argentina, Chile, Ecuador, and Peru.

What concrete steps is the State Department currently talking and planning to take in coordination with the interagency and alongside our diplomatic partners in the region to confront Chinese IUU fishing in Latin America and the Caribbean?

Ms. HANNAN. Thank you for the question, Senator.

In addition to SOUTHCOM, JIATF South, and Coast Guard's efforts to enable our partners to address IUU fishing, we are doing a lot to draw media attention to this pernicious problem as coastal countries in Latin America, including Ecuador, Chile, and Argentina all are experiencing unsustainable PRC fishing practices as well as the distant water fleet off the coast of Argentina.

We are pressuring the PRC to be transparent, to enforce their own zero tolerance policy, and fulfill their state responsibilities. It is an environmental threat. It is a threat to food security. We worry about forced labor on the fishing vessels, and we also are looking forward to a new opportunity to partner, to support the CMAR, which is the eastern tropical Pacific marine corridor that the countries of Ecuador, Costa Rica, Colombia, and Panama announced at the COP26 as an interesting regional initiative to help protect a more than 500,000 square kilometer region that is critical to fisheries as well as environmentally important.

Senator MENENDEZ. They seem to be able to, Mr. Chairman, to do it with impunity. Something is not working in terms of our engagement in this regard in our own hemisphere, and for these

countries fishing is a critical element of both sustenance as well as national income.

I will look forward to working—to have a more aggressive response and I will save my question for digital authoritarianism for the record.

Thank you, Mr. Chairman.

Senator Kaine. Thank you, Chairman Menendez, and thank you to the first panel of witnesses.

When the when the hearing ends, I will just remind everyone that if members of the committee have questions they can submit them by the close of business tomorrow, April 1, and I would encourage members of the first panel to respond promptly to those questions if asked.

Thank you for appearing today.

Let me now ask the witnesses on panel two to come forward. As you are coming forward, I am going to introduce you and then you can be ready for your opening statements.

We have a second panel of private witnesses to talk about this important topic, and I want to introduce Ms. Margaret Myers, who is the director of the Asia and Latin America Program at the Inter-American Dialogue, and also Dr. Evan Ellis, who is the senior associate at the Americas Program at the Center for Strategic and International Studies, and the Latin America Research Professor with the U.S. Army War College.

Ms. Myers established the Inter-American Dialogue's China and Latin America Working Group in 2011 to examine China's growing presence in Latin America and the Caribbean. She has published numerous articles on Chinese leadership dynamics, international capital flows, Chinese agricultural policy, and Asia-Latin American relations.

She received her bachelor's degree from the University of Virginia, conducted graduate work at GW Zhejiang University of Technology, and the Johns Hopkins University/Nanjing University Center for Chinese-American Studies.

Dr. Ellis—Evan Ellis—is a senior associate at the Center for Strategic and International Studies, a research professor of Latin American studies at the U.S. Army War College Strategic Studies Institute, and he focuses on the region's relationships with China and other non-Western Hemisphere actors as well as transnational organized crime and populism in the region.

He has previously served as Secretary of State's policy planning staff with responsibility for Latin America and the Caribbean, as well as international narcotics and law enforcement issues. He recently published a timely book on this topic, "China Engages Latin America: Distorting Development and Democracy?"

I want to thank both of you for joining, and in the order that I introduced you please now deliver opening statements. Then we will move to questions.

STATEMENT OF MARGARET MYERS, DIRECTOR OF THE ASIA & LATIN AMERICA PROGRAM, INTER-AMERICAN DIALOGUE, WASHINGTON, DC

Ms. MYERS. Good morning. I would like to thank Senator Kaine, Senator Rubio, and the other distinguished subcommittee members for the opportunity to be here today.

The Latin American and Caribbean region has never been a top priority region in China's foreign policy. It was the last to be included after the Arctic in the Belt and Road Initiative.

Yet, after two decades now of extensive economic and political engagement, China has, over time, established a degree of influence over aspects of decision-making in many parts of the region, as we have established already.

Most of this influence, I would say, is indirect. It comes from strong economic ties and occasional dependence on China's export market. With economics in mind, many Latin American governments have a vested interest in accommodating China where possible.

As a result, we have seen countries adjust regulations to attract more Chinese companies and even effects on democratic governance, as some leaders feel at liberty to erode democratic institutions, knowing that they will still be able to access Chinese capital even if they do so.

Other influence, as we have noted, is more direct in nature, aimed at shaping views of China and of China's positions on wide-ranging policy matters.

We are seeing a major push to grow educational exchanges, media outreach, security cooperation, tech policy coordination, and outreach to establish and up and coming officials and policymakers, all in an effort to increase and enhance China's soft power across the region.

In other cases, China has used the tools at its disposal to advance political aims. Vaccines, as we have noted, were used to reward or discourage decision-making on Taiwan, for example.

China's influence is not automatic, of course. Some countries have pursued resource governance policies and policies of diversification that helped them to avoid dependence on any one partner.

In others, like Mexico, China's economic influence is relatively negligible, and even in countries such as Venezuela and Cuba, which depend heavily on China's assistance, officials in those countries have sometimes resisted some of China's many proposals, much to China's disdain.

On another note, I would suggest that China-U.S. competition in Latin America need not be entirely zero sum, but, in practice, China's approach to deal making, its courting of local officials, and delivery of often heavily subsidized goods and services has, in many cases, limited prospects for other companies, including regional companies.

China's growing economic leverage also increasingly limits the U.S. ability to promote certain policy priorities in the region, including in the area of democratic governance.

The U.S. Government, many of the esteemed senators here and individual companies have worked hard to address what many per-

ceive to be an increasingly competitive investment environment and to strengthen hemispheric ties.

There is more that needs to be done. Looking ahead, I naturally recommend more engagement with Latin America starting with a focus on making the Summit of the Americas a resounding success.

We all know that there are multiple competing commitments at play right now, but unless we play even more in the Latin American region we have little chance of competing effectively.

We must also make clear that our Latin America policy is focused on enhancing U.S.-Latin America cooperation based on shared interests and not just motivated by U.S. competition with China.

I would also say that as China's activity in the region evolves, and it is evolving rapidly, U.S. policy and messaging must evolve accordingly. There are some important areas of continuity in the China-Latin America dynamic. The region remains of critical importance to China's food and energy security and is a critical market for China's high value added goods.

We are now seeing an important focusing of Chinese investment and trade in a specific set of industries, which are mostly high-tech and innovation related.

China's engagement is also localizing. We are seeing more connections forged at very local levels in Latin America and by wide-ranging actors. This has facilitated Chinese engagement during some of the very earliest phases of project development, presenting a major challenge for us from the competitiveness perspective.

China financial cooperation is also changing in important ways. Then, finally, we must consider Latin American and Caribbean views of China when addressing China's engagement with the region.

Regional governments are, in many cases, very aware of the challenges associated with China's model of finance and investment, but the U.S. must still tread carefully, I would argue, when applying pressure on Latin American governments to limit economic options and partnerships with China because doing so, even when a viable alternative is provided and even if it has been successful so far and is important will increasingly be interpreted not as helping, but as harming regional development prospects.

What we can do is to work to expand our economic, educational, security related, climate specific, media related, medical, trade, you name it, cooperation and technical activities, and also work to establish cooperation with Latin America on areas of shared concern about Chinese engagement, whether we are talking about corruption, which is a big one, or illegal fishing, which has been noted, or persistently imbalanced trade relations with China, among others. Doing this in partnership with like-minded nations will only strengthen our overall effectiveness.

Thank you very much for the opportunity.

[The prepared statement of Ms. Myers follows:]

Prepared Statement of Ms. Margaret Myers

I would like to thank Chairman Kaine, Ranking Member Rubio, and the other esteemed committee members for the opportunity to testify on the current state of China-Latin America and Caribbean (LAC) relations.

As China's engagement with LAC continues to evolve, this is a critical moment to assess the type, scale, and effect of Chinese activity in the region, and to formulate a well-reasoned U.S. policy response. To aid in this process, I offer a few observations, as requested, on the nature and implications of China's engagement and influence in LAC at present, views on U.S. and allied nation responses, and some thoughts on U.S. policy options.

GAUGING CHINA'S INFLUENCE IN LATIN AMERICA AND THE CARIBBEAN

China has Sought To Influence Views and Decision-Making in LAC Through Multiple Mechanisms and with Various Objectives in Mind

To date, China has sought to shape views and decisions among Latin American and Caribbean (LAC) audiences through traditional and social media campaigns, expansive educational cooperation, targeted engagements with the region's established and up-and-coming policymakers, officials, and opinion leaders, and through policy coordination and military exchanges, among many other forms of public diplomacy, security cooperation, and commercial outreach. The following are just some of many examples of China's efforts to shape outcomes in LAC.

Media Engagement

China's social and traditional media engagements have featured for over a decade in LAC but have expanded in recent years. Media engagement was a prominent feature of China's outreach during the Covid-19 pandemic, for instance. Much of China's pandemic-era work in this area fell to its embassies, which, in addition to coordinating donations and sales of PPE and vaccines in the LAC region, labored to convey approved messages about China's experience with Covid-19 and its pandemic outreach. This was accomplished through a range of communications platforms, including embassy communiqués, television interviews, press conferences, op-eds authored by Chinese ambassadors and published in local media outlets, and Twitter posts. In fact, at the request of Beijing, Chinese embassies in Argentina, the Bahamas, Cuba, and Peru set up new Twitter accounts in the early months of the outbreak to communicate key messages directly to local publics. More effective, perhaps, in delivering Chinese views and other content to LAC audiences are the multiple media sharing arrangements that Chinese outlets have negotiated with LAC counterparts in recent years. These range from photo sharing agreements to much more extensive multi-media sharing arrangements with Xinhua, for instance.

Recent Chinese messaging in the region has focused on communicating positive views of China's initial handling of the pandemic, detailing China's pandemic relief efforts, critiques of U.S. domestic and international policy, and responses to international criticism of China's human rights record in Hong Kong and Xinjiang, among other matters. As it turns out, Chinese narratives are sometimes the only narratives available in LAC media on certain issues of interest to China, including analysis related to Hong Kong and Xinjiang.

On the issue of human rights, Chinese embassies in Argentina, Antigua and Barbuda, Bolivia, Chile, Colombia, Cuba, the Dominican Republic, Ecuador, Grenada, Guyana, Peru, Suriname, and Uruguay used their websites, social media, and interviews published in media outlets to comment on China's rights-related achievements. In July 2020, many delivered key points from a Chinese Ministry of Foreign Affairs article titled "What's False and What's True on China-related Human Rights Matters." In August 2020, another article, "Fact check: Pompeo's fact-twisting China speech versus the truth," was circulated by Chinese embassies in LAC. Both articles suggested that China's successes in containing Covid-19 demonstrated the country's unflinching commitment to human rights.

Despite a growing media presence, China is still very much experimenting with the forms and features of its media outreach in LAC. Evidence of "wolf warrior diplomacy"—an aggressive style of diplomacy adopted by some Chinese officials—featured prominently in the first few months of China's global Covid-19 outreach, but China's more aggressive posturing slowed by summer 2020, lending some credence to Bates Gill's summer 2020 claim that China's diplomats were reined in as Beijing understood it had overreached with many audiences around the world. In a June 2021 speech to the Politburo study session, Xi signaled a possible throttling of wolf warrior-type outbursts, calling on the country's leaders to engender a "trustworthy, lovable, and respectable" image for China. Xinhua later suggested that the country adopt a "humble" approach in its relations with the outside world. The Party may very well have noted, as a Yale University study did, that the aggressive messaging associated with wolf warrior diplomacy was not as effective as promotional messaging in moving public opinion on China. At present, China's media platforms are

focusing far more extensively on delivering a message of solidarity, multilateralism, and cooperation, referencing China's commitment to Covid-19 collaboration.

Educational Partnerships

China's expansive partnerships with LAC high education and technical institutions, including exchange agreements and jointly developed studies and research centers, also potentially shape relations with and views of China, although some of these arrangements are far more productive than others. Cross-regional educational cooperation is of considerable interest to both Chinese and LAC actors, but as I indicate in a study co-authored with Brian Fonseca for Florida International University, Chinese engagement is largely motivated by a government-led interest in developing expertise in Latin American and Caribbean studies, and an enduring commitment to building Chinese soft power throughout LAC, including through educational exchanges and cultural and technical outreach. China's Ministry of Education has indicated its commitment to strengthening diplomatic ties and exporting elements of China's educational system through exchanges, international educational cooperation, and greater participation in educational standards-setting institutions.

Policy Coordination

China's efforts in the area of 'policy coordination' are also potentially influential. 'Policy coordination'—in addition to infrastructure development, trade facilitation, and several other forms of connectivity-enhancing engagement—is considered a central feature of the Belt and Road Initiative (BRI) and encompasses everything from climate change and industrial cooperation, for instance, to consultations on tech policy, investment policy, and regulatory landscapes. In some cases, policy coordination involves little more than a memorandum of understanding suggesting continued discussion on topics of mutual interest. Some forms, including recently proposed China-Ecuador ministerial deliberations on debt restructuring, may lead to favorable results for LAC nations. More problematic, perhaps, are efforts to coordinate views on internet governance or human rights, for example, where China's approaches differ considerably from those in much of the LAC region, and among the U.S. and allies outside of the region. Also of some concern, especially from an environmental perspective, are efforts to encourage regional governments to rethink regulations in sectors of long-standing economic interest to China. For example, in 2020, Chinese embassy officials in Bolivia reportedly suggested that the government rethink its mining sector regulations to encourage more Chinese investment. There is evidence of governments eroding regulations elsewhere in the region to attract Chinese investors.

'Multi-Tiered' Diplomacy

The cultivation of people-to-people ties—yet another element of the BRI—is another prominent area of focus at present. This is carried out through what I have termed a "multi-tiered" approach to diplomacy, wherein numerous Chinese governmental, quasi-governmental, commercial, and other actors engage with LAC at the regional, bilateral, and, increasingly, local (state/provincial and municipal) levels. This is frequently carried out through formal channels, such as the China-CELAC Forum or the Sino-Brazilian High-Level Commission (COSBAN), among many other platforms. Another considerable portion of China's diplomatic outreach is relatively ad hoc, especially at the local level, where an extensive array of Chinese actors—commercial and public sector, central government-affiliated and provincial—are engaging when and where opportunities present themselves. For Chinese companies and governmental entities, local-level engagement is a promising approach, especially in those countries where and where states, provinces, or municipalities have considerable decision-making authority, and where government-to-government deal making is not possible, whether because of a country's governance structure or regulatory environment, or because broader geopolitical considerations limit progress at the bilateral level. With Mexico's current policy uncertainties in mind, China's Ambassador to Mexico Zhu Qingqiao recommended that China's funds and enterprises increase communication and interaction with local governments and open new markets through local projects.

In some cases, local-level engagement has been exceedingly productive. Just 5 years of interaction between Chinese actors and representatives from Jujuy, Argentina resulted in the signing of major renewable energy, surveillance technology, lithium exploration, and big data projects, for instance. As a result, even when China is not particularly influential at the national level in LAC, Chinese actors may very well achieve some influence over local politics and policymaking, based either on the possibility of investment (or personal reward, in some cases) or else by delivering projects of interest to LAC localities.

Security Cooperation

China's increasingly extensive engagement with LAC militaries should be understood as a part of a much broader effort in the area of 'people-to-people diplomacy,' albeit with very different implications than connections through educational institutions and cultural forums, for example. China's more than 200 military visits to the region, the China-CELAC High-Level Defense Forum, educational exchanges between military academies, Chinese tech company engagement with military institutions, and satellite and other cooperation are nevertheless part of a broader proliferation of diplomatic, commercial, and educational activity that features across most all economic sectors and in multiple areas of policy interest.

Isolating Taiwan

As evident in recent years, China continues apply pressure in various forms on Taiwan allied nations in LAC. In addition to offering economic incentives to Taiwan's remaining allies in the region, as it has done for many years, China also recently used the prospect of PPE and vaccine deliveries to either reward or discourage government decision-making on Taiwan and other matters of political interest to China. The timing of a vaccine donation to Guyana led some to speculate that the Caribbean nation was rewarded with the doses after deciding to close a new Taiwanese commercial office. And in Brazil, China reportedly halted the shipment of raw materials necessary for the São Paulo-based Butantan Institute to produce China's CoronaVac vaccine after Brazilian President Bolsonaro suggested that China disseminated COVID-19 as a tactic of biological warfare.

China's Efforts To Shape Views and Decisions in LAC Have had Varied Effects

The effects of China's outreach in these many of these areas are not always entirely clear. Despite extensive efforts among Chinese and LAC actors to boost coordination and cooperation in multiple arenas, views of China in the region do not appear to be much better now than they were in the recent past. According to Pew Research findings from 2019, Latin America viewed China more favorably on average than did most other regions, with about half of respondents approving of Chinese engagement and half disapproving. But as Vanderbilt University's most recent LAPOP survey has noted, in 2021 only 38 percent of LAC participants suggested that they trusted China's Government (down from 55 percent in 2016/17), although those who indicated limited trust in China's Government also sometimes had positive views of China's political influence in the region.

LAC views of China's Covid-19 assistance are also difficult to gauge, given the pandemic's limitations on public opinion polling. China's PPE deliveries were met with considerable gratitude by many, although some in the region indicated concern about the quality and cost of Chinese PPE shipments. China's vaccine sales were also initially viewed as critical to regional survival rates and eventual economic recovery, though views changed somewhat as evidence surfaced about the efficacy rates of various vaccines. China's pandemic-era assistance, though allocated according to LAC needs and pandemic trends, also effectively achieved some Taiwan-related and possibly also commercial objectives. Many dozens of Chinese companies and other partners (e.g., sister cities and provinces) worked amid the pandemic to underscore their commitment to certain LAC communities. The pandemic also presented some opportunities for China's tech and pharmaceutical companies to showcase relevant technological and other capabilities.

The impact of China's media outreach is also probably varied. In an Inter-American Dialogue report on China's Covid-19 diplomacy, one Caribbean-based interviewee suggested that China's media outreach has had little effect on regional views of China. And a Mexican interviewee with ties to local media suggested that op-eds by Chinese ambassadors, whether about COVID-19 or other topics are barely read at all. In addition, most of Chinese embassy Twitter accounts have few followers. However, if China is delivering the only messaging in LAC media on issues related to Hong Kong and Xinjiang, for example, as has been the case in many countries, this bodes poorly for informed debate on these topics across much of the region.

China's educational partnerships in LAC differ considerably in scale, scope, and commitment among partner institutions—the likely result of varying levels of interest and available resources among interested parties. Some amount to little more than a statement of intent or broad MOU, which may not result in substantive engagement. Among those that engage in productive collaboration, some focus mainly on student or faculty exchanges, offering scholarships to some LAC students for study in China. Others attempt a more expansive agenda, including collaborative research and research center development, including in some areas of commercial and strategic interest to China. Some Chinese and LAC institutions, such as Jinan

University (which had signed agreements with at least 10 Latin American universities and other educational and cultural institutions by 2016), Fudan University in China, and the Universidad Nacional Autónoma de México (UNAM), have several or more of these partnerships in place. Others have focused on partnerships with just one or two universities or other institutions in China or LAC.

The effects of China's local-level engagement would also appear to vary on a case-by-case basis. In some instances, local-level partnerships have been exceedingly productive, whether by advancing deal-making or positively shaping views of China and Chinese companies. However, linkages are also sometimes forged by Chinese and LAC actors without clear objectives in mind, and with few overall interactions. The long-standing Coquimbo, Chile-Henan, China relationship is one example, with regional exchanges having taken place over the course of 15 years, presumably based on mutual interest in possible mining sector cooperation, though without clear evidence of commercial activity. These more limited collaborations (including with overseas Chinese communities) may still lay the groundwork for eventual deal making, however, or else help to cultivate favorable views of China and Chinese political interests.

China's Indirect Influence—The Product of Expansive Economic (Especially Trade) Ties With Many LAC Countries—Will Also Likely Shape LAC Decision-Making in the Coming Years

Despite China's many efforts in the areas mentioned above, most of China's influence over decision-making in the region is very likely indirect in nature—the result of LAC's strong and sometimes dependent economic ties to China, and a related desire to accommodate China's interests where possible. According to Boston University, in 2020, China accounted for over one-third of the region's extractive exports—a record level—and one-fifth of the region's agricultural exports. With these dynamics in mind, even in Brazil, where ties are relatively strained at the moment, there have been many efforts among those charged with actually doing business and managing relations with China, to maintain a certain positive momentum in the relationship.

China is also seemingly more influential in those countries that have strained relations with the U.S. and its allies, and which have limited access to international capital markets. Venezuela and Cuba are obvious examples, although China has been frustrated with progress on economic reforms in both countries. Argentina and Ecuador have also occasionally depended on Chinese capital, leading to some decisions favoring Chinese companies and interests. In 2015, Argentina's Ley 27 approved a decision by the Argentine Government to grant Chinese companies no-bid contracts if they brought relevant finance to bear in support of project development.

China also ensures some degree of influence by investing in sectors that are deemed of critical importance to the region's development, or which align well with leaders' own development agendas. China has been treated favorably by Peru's anti-trust authorities based on expectations that Chinese companies will invest more extensively in the country's electricity generation and distribution industries, at a moment when many others are not. China's low-cost AI and telecommunications offerings are also viewed favorably by many in the region, including cash-strapped local governments.

In other cases, it's merely the *possibility* of Chinese investment that gives China a seat at the table. The mere prospect of more Chinese economic engagement has been enough to convert three Taiwan allies over the past 4 years, even though there is wide variation in the sorts of benefits that Taiwan allies receive when they establish diplomatic ties to China. China's offerings to the Dominican Republic have paled in comparison to the range of initial deals struck in Panama, for example.

ENSURING ROBUST U.S.-LAC RELATIONS IN A SHIFTING GEOPOLITICAL ENVIRONMENT

China's evolving outreach and direct and indirect influence over LAC policy-making have considerable implications for U.S. influence and interests and for U.S. and other company competitiveness in the region. As a result, the U.S. and its allies have worked both independently and collaboratively to allocate resources for projects and initiatives that aim to support U.S. and ally interests while also advancing LAC development objectives. This includes the development of legislation intended to boost U.S. competitiveness and economic engagement with LAC, encourage the development of regional supply chains, provide financing for infrastructure and other investment in the region, and expand institutional capacity building in LAC, as well as other initiatives and measures.

More can nevertheless be done to strengthen U.S.-LAC ties in the midst of growing Chinese competition. I offer the following initial recommendations.

Stay Abreast of the Ways in Which China's Engagement With LAC Is Changing

As China's activity in LAC evolves, U.S. policy and messaging on China-Latin America relations must evolve accordingly.

There are some important areas of continuity in the China-LAC dynamic. The region remains of critical importance to China's food and energy security interests, and regional markets are still vitally important to China as it looks to export ever-higher quantities of high-value-added goods. As a result, trade continues to underpin the relationship, and has even grown in importance as a share of LAC global domestic product amid the pandemic.

However, as China prioritizes domestic and overseas investment in 'quality' projects and promotes deals in sectors aimed at advancing China's own growth priorities, we are seeing an important focusing of Chinese investment and trade activity in a specific set of industries and products/services, including in renewable energy, electricity transmission and smart grids, telecommunications, artificial intelligence, cloud computing, lithium mining and processing, and other sectors and industries related to technology and innovation. The focusing of investment and trade activity in these sectors will impact the region different ways than the sorts of multi-billion-dollar, trans-continental infrastructure projects that Chinese companies and leaders tended to propose with some frequency 5 years ago and more.

Of importance to U.S. commercial actors is China's growing influence not just on government-level decision-making but also on local-level engagement, which, as earlier noted, is carried out over the course of many years in some cases, and by a host of Chinese actors and institutions. In some instances, these linkages have positioned China to engage with LAC actors during the very earliest phases of project development—before public tenders have been announced, and even when project ideas are first being conceived, in some instances. China's efforts in the areas of 'multi-tiered' diplomacy, and Chinese company access to low-cost Chinese finance, subsidies, and other incentives, will continue to affect U.S. firm competitiveness in key sectors.

U.S. policymakers must also note key changes in Chinese financing in LAC. Though still active in the region, China's policy banks are no longer the main providers of Chinese credit to LAC. Policy bank lending has rapidly declined from a peak of \$20 billion in 2010 to barely any activity at all over the past 3 years. Loans from China are instead being supplied by a wider range of Chinese actors—private equity funds (sometimes backed by the policy banks), Chinese companies, China's sovereign wealth fund, China's commercial banks, the Silk Road Fund, and the AIIB, for example. These loans are issued to Chinese and LAC companies and are usually smaller than policy banks loans. They are often frequently issued with project 'bankability' front of mind.

The various mechanisms that China employs to achieve desired commercial and political aims will also evolve in the coming years. It will be critical to study these developments, including the extent to which they affect views of the U.S., or are otherwise effective in shaping outcomes in China-LAC relations.

In LAC, Ensure That Policy is More Focused on Prospects for Enhanced U.S.-LAC Cooperation, Based on Shared Interests, Than on U.S. Competition With China

A strong showing at the Summit of the Americas will be critical to underscoring U.S. commitment to strong relations with the LAC region, based on long-established partnerships, enduring economic ties, and extensive and shared interests. Much effort should be placed on ensuring a successful Summit and countering the notion that the U.S. has retreated from the region.

At this juncture, the U.S. must aim not to replace China, but to engage with the region in those areas where the U.S. and LAC can effectively support each other aims, whether in the economic realm, on skills development and educational exchange, in the area of security cooperation, or on climate change mitigation and adaptation, among other areas of interest. There are many areas where the U.S. has worked, over the course of many decades, to establish strong cultural, educational, security-based, economic and other linkages to the region. The maintenance and continued development of these linkages must continue to be prioritized.

Considering that the U.S. (and the DFC, USAID, and other relevant institutions) have many global commitments, it may be necessary to focus resources in LAC on program and project development in specific sectors and countries where positive outcomes are most attainable. Where possible, the U.S. should aim to develop key economic projects, of course, but also to encourage capacity building partnerships with regional governments and civil society—whether carried out by U.S. experts, U.S. allies, or through triangular cooperation involving regional actors—in support of best outcomes in infrastructure project management, tech implementation, and to strengthen independent media, among other areas.

The simplification of processes and procedures required to access U.S. assistance would also importantly improve U.S. institutional agility, in the face of “China speed,” but is also critical considering that many LAC nations do not have the resources available to apply for or navigate the DFC process, for instance.

Consider LAC Views of China When Addressing China’s Engagement With the Region

LAC governments are aware of the challenges associated with China’s model of finance and investment. The region has taken stock of empty promises, projects-gone-wrong, and the problems associated with China’s model of large-scale, no-strings-attached finance. In Bolivia, for example, the China-backed Rosita dam project was formally suspended amid protests against the project’s lack of prior consultation with affected communities. The Coca-Codo Sinclair dam project in Ecuador has been the subject of environmental, labor-related, and technical scrutiny, and has had lasting effects on views of Chinese construction in Ecuador.

Even so, the U.S. must tread carefully when applying pressure on LAC governments to limit economic options and partnerships with China, noting that doing so, even when a viable alternative is provided, will in many cases be viewed not as helping, but as harming LAC development prospects. If don’t too frequently, it will also undermine the U.S.-Latin America trust and prospects for future cooperation.

LAC will continue to view China as an exceedingly valuable, though imperfect, economic partner. This dynamic is unlikely to change in the coming years, especially as China proposes projects in sectors—electrification, renewable energy, digitalization—deemed essential to the region’s economic recovery. The U.S. should nevertheless identify and work to expand cooperation on areas of shared concern about Chinese engagement. Some examples include the effect of China’s style of deal-making on already high levels of corruption in certain countries, China’s involvement in illegal fishing, and the region’s persistently imbalanced trade relations with China. Regional actors will presumably be more open to cooperation with the U.S. to address these and other areas of areas of shared concern.

Senator KAINE. Thank you, Ms. Myers.
Dr. Ellis.

STATEMENT OF DR. EVAN ELLIS, SENIOR ASSOCIATE, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES, WASHINGTON, DC

Dr. ELLIS. Thank you, Chairman Kaine, Ranking Member Rubio, distinguished committee members.

In the past two decades, PRC-based companies have invested \$160 billion in Latin America. Twenty-one of our neighbors there have pledged themselves to China’s Belt and Road Initiative.

The PRC is attempting to rewire the region to its own economic benefit, securing access to commodities and markets, capturing the value added for itself, and focusing on connectivity.

In the port sector, PRC-based companies are involved in 40 major projects. China has multiple wind, solar, and hydroelectric facilities, albeit with problems. Indeed, Ecuador’s Coca Coda Sinclair Dam, as noted previously, had over 7,600 cracks, plus caused massive erosion, rupturing one of that nation’s major oil export pipelines.

In Chile, PRC-based companies control an unprecedented 57 percent of electricity distribution. Growing PRC presence in digital architectures is an intelligence concern, given China’s history of intellectual property theft and cyber espionage.

In December 2021, for example, Microsoft exposed hacking by PRC-based Nickel, whose targets included companies in 16 Latin American countries.

In telecommunications, Huawei has grown its Latin American presence for two decades and is now poised to dominate 5G networks. PRC-based companies have a growing role in the region’s e-

commerce including Alibaba and the fintech company Nubank. The Chinese rideshare company, DiDi Chuxing, has half of the market in Latin America, capturing data on passenger movement and finances.

Chinese surveillance and control systems such as ECU-911 and BOL-110 capture similar sensitive data, as do the 10 PRC-built “smart cities” currently in the region. PRC-based Hikvision has taken over Syscom, Mexico’s largest security systems company.

The airport scanners from China’s Nutech capture data on the devices that pass through them. In Chile, PRC-based Aisino almost won the right to manage the company’s entire civil registry.

In Argentina, a PLA-operated deep space radar may capture communications from passing satellites. The PRC further promotes its interest through Latin American institutions. As noted previously, IADB President Mauricio Claver-Carone has called out the PRC for the use of its bank membership to win contracts for Chinese firms.

In security engagement, the PRC is a significant provider of military goods to the region, including fighters, transport aircraft, and radars for Venezuela, helicopters and armored vehicles for Bolivia, and military trucks for Ecuador.

Argentina may acquire FC-1 fighters, the most advanced PRC aircraft yet sold to the region. Officials within the PLA naturally plan for how they would use Latin America in a future war, leveraging the knowledge and relationships that they build today through their interactions in the region to do so.

To this end, the PRC has made 20 military deployments to the region and PLA leaders have visited 200 times since 2000. In people-to-people diplomacy, as noted previously, China’s 44 Confucius Institutes attract those with the interest to learn Chinese, bringing the best of Latin Americans to study in the PRC on Hanban scholarships, after which they often secure China-facing positions in their own governments.

The 2022–2024 China-CELAC plan promises 5,000 such scholarships for Latin America’s leading students. The PRC also engages the region’s academics, journalists, politicians, and officials through luxurious paid trips to China.

In pursuing its interests in the region, China also acts, importantly, as noted by this committee, as an incubator of authoritarian populism, providing the loans, investments, and commodity purchases that give liquidity to anti-democratic actors such as Venezuela as they consolidate their power and hijack democracy.

China also provides the mechanisms to help its authoritarian friends once in power stay there. In Venezuela, China’s CEIEC helped the Maduro regime to spy on the opposition. In Cuba, Huawei Technologies helped to cut off protesters from the outside world during the July 2021 national uprisings.

With respect to Taiwan, 8 of the last 14 countries in the world that recognized the ROC are in the Western Hemisphere. Every flip facilitates the expansion of Chinese activities in that country through the signing of nontransparent MOUs.

The PRC strategically benefits from Russia’s provocative actions as well in the region, most recently its threat to deploy military

forces whether or not China and Russia coordinate on these matters.

My recommendations, five.

Number one, help our partners to engage the PRC with transparency on a level playing field and through strong institutions.

Two, exclude Chinese vendors from sensitive digital domains, yet provide viable commercial alternatives to the PRC there.

Three, support better government databases on the performance of the PRC and its companies.

Four, rethink the rules that constrain the agility of agencies like Development Finance Corporation to provide alternatives.

Five, fully leverage the June 2022 Summit of the Americas to advance a bold and resource-backed approach to partnership with the region.

Thank you. I look forward to the committee's questions.

[The prepared statement of Dr. Ellis follows:]

Prepared Statement of Dr. Evan Ellis

Chairman Kaine, Ranking Member Rubio, distinguished members of the Senate Foreign Relations Subcommittee on Western Hemisphere, Transnational Crime, Civilian Security, Democracy, Human Rights, and Global Women's Issues, good morning. I am honored to share my views with you and the committee on the increased presence in Latin America and the Caribbean of the People's Republic of China (PRC), PRC-based companies and entities, and the impact on U.S. national security interests and those of our partners in the region.

I appear before the committee in my personal capacity. My views do not necessarily represent those of my employer or the U.S. Government.

OVERVIEW OF PRC ENGAGEMENT IN LATIN AMERICA

PRC economic, political, institutional, and security engagement with Latin America and the Caribbean has increased substantially in the past two decades. PRC-based companies have invested more than \$160 billion in the region.¹ The PRC's two major policy banks (China Development Bank and China Export-Import Bank) have lent \$136 billion for projects there.² PRC trade with the region in 2020 was \$314 billion, more than 17 times the level when the PRC was accepted into the World Trade Organization in 2001.³ In terms of such commerce alone, the PRC is now the number one partner with every country south of Costa Rica, or number two behind Brazil.

Reflecting the lure of the PRC for our neighbors in Latin America and the Caribbean, since 2017, 21 states in the region have pledged themselves to the PRC "Belt-and-road Initiative. The most recent was Argentina, which formalized its membership in February 2022 during a state visit to the PRC by its President Alberto Fernandez.⁴

In the almost 20 years I have followed the evolution of Chinese engagement with Latin America and the Caribbean, I have become increasingly concerned by its complex effects on the region, with which we are bound by ties of geography, commerce, and family.

To avoid misstating the serious challenge before us, I do not believe the Chinese Communist Party is pursuing a malevolent plot to impose its system of governance on the Western world. Rather, through the agency of its companies, and the support and coordination of its Communist regime, the PRC is attempting to "rewire" the region and the world to its own economic benefit.⁵ As part of that process, the PRC uses economic and other levers to intimidate and silence its critics, and to coopt political and economic institutions in the region to serve its ends own ends.

In support of those efforts, the PRC is employing a range of political, institutional and other engagement efforts. One element of particular importance for this committee, is that the People's Liberation Army (PLA) is working in Latin America and the Caribbean, engaging with our partners, in order to give its military increasingly global reach, building capabilities, relations and options to operate in the Western Hemisphere, in the event that reactions by the U.S. and other Western nations to its economic and other ambitions leads to military conflict.

PRC INTEREST IN LATIN AMERICAN RESOURCES

With respect to economic engagement in Latin America, PRC-based companies are pursuing sources of supply for commodities in the region, from petroleum, iron and copper to strategic materials such as lithium and niobium.

As in other parts of the world, PRC-based companies are expanding their physical presence in Latin American supply chains, from extractive operations, to processing, storage, to logistics, to increase their security of supply, and maximize the degree to which Chinese companies, secure the value added from those operations.

In the lithium sector, strategically important for batteries for electric vehicles and other green technologies, PRC-based companies are active in each of the four Latin American states with significant current or potential lithium reserves.

In Argentina, currently the most productive country for lithium extraction in the region,⁶ the Chinese firm Ganfeng has majority ownership of the Cauchari-Olaroz lithium project.⁷ In addition, PRC-based Zijin mining spent \$960 million to acquire Neo lithium, with its Tres Quebradas project in Cajamarca province.⁸ Just this month, Zijin broke ground on an important new operation there to include a \$380 million lithium carbonate plant.⁹

In Chile, the Chinese firm Tianqi owns a \$4.1 billion, 25 percent share of the SQM lithium project in the Atacama Desert.¹⁰ In January 2022, the Chinese company BYD won a concession from the Chilean Government for a new lithium project.¹¹

In Bolivia, Chinese firms TBEA and Ganfeng are positioned to play a role in the exploitation of in major deposits¹² such as Coipasa and Pastos Grandes, if the Bolivian Government of Luis Arce makes participation sufficiently lucrative to take viable proposals with viable technologies forward.

In Mexico, the same Chinese company Ganfeng has acquired complete control of the Bacanora lithium project in the Sonora desert,¹³ which could become Latin America's biggest lithium operation. Ganfeng's newly acquired position sets up a conflict with the populist government of Andres Manuel Lopez Obrador, who has threatened to nationalize the sector.¹⁴

The tendency of PRC-based companies to cut corners with respect to local labor, environmental and other regulations, and to display a lack of sensitivity in their engagement with local communities, governments, and vulnerable peoples has made them the focus of protests by a range of local groups. Examples include the pushback against Chinese operations in the \$6 billion Las Bambas mine, forcing the temporary shutdown of the facility in December 2021.¹⁵ Such cases also include Rio Blanco, in Piura, where protests against the Chinese-operated mine led to killings, and ultimately, the closure of the mine.¹⁶ They also include the Mirador project in Ecuador, where resistance by the local community, and national protests forced a similar shutdown.¹⁷

PRC FOCUS ON LATIN AMERICAN STRATEGIC MARKETS

Beyond resources, Chinese firms are also pursuing access to Latin American markets, particularly in lucrative strategic sectors, including digital technologies, manufacturing, construction services, "green energy" technologies and biotechnology among others. Recent examples include a commitment by Great Wall Motors to invest \$1.8 billion in Brazil in that country's electric car market.¹⁸ Similarly, PRC-based companies have sold over 410 busses to the Chilean transportation system, which now has more such vehicles than any country outside of China.¹⁹

PRC objectives in both resource and market-oriented pursuits are understandable to any Latin American who has read Raúl Prebisch,²⁰ Immanuel Wallerstein,²¹ or Fernando Henrique Cardoso:²² the PRC desire to ensure that its companies realize, to the extent possible, the value added of acquiring and transforming those resources, producing those products, and providing those services, for itself. The risk for our Latin American and Caribbean neighbors, as often predatory Chinese companies, backed by the PRC Government, pursue those objectives in a Latin America with great needs, weak institutions, and corruptible individuals, is that PRC success leaves the Chinese on top, the West out, and Latin Americans serving as mid-level managers, technicians, workers, or customer service personnel in Chinese-owned operations.

DOMINATION OF CONNECTIVITY AS A PRC STRATEGIC CONCEPT

At the core of the PRC pursuit of its economic objectives in Latin America and elsewhere is "multidimensional connectivity," as reflected in China's use, since 2013 of the "Belt and Road initiative" to both shape and explain the nature of its eco-

conomic engagement with the world in terms of mutually beneficial flows of goods, money and ideas, and the Chinese construction of infrastructure to enable them.²³

In Latin America, as elsewhere, the PRC focus on connectivity includes the construction and operation of transportation infrastructure such as roads, train and metro lines,²⁴ ports and engineered river connections.²⁵

In the port sector, PRC-based companies are involved in at least 40 major projects in the region,²⁶ including seven operations by Hutchinson Port Holdings in Mexico, three in the Bahamas, three in Panama, and one in Buenos Aires.²⁷ In addition to Hutchinson's projects, PRC-based firms are involved in four ports in Brazil,²⁸ including China Merchants Port 2017 acquisition of TCP Participações,²⁹ as well as a project to expand São Luis into a megaport.³⁰ Other significant PRC port initiatives in the region include the new \$3 billion Chancay mineral port in Peru,³¹ Posorja in Ecuador (where China Harbour is contracted to DP World for the \$1.2 billion port expansion),³² China Merchant Port Holdings' April 2020 acquisition of full ownership of the Port of Kingston, Jamaica,³³ and the role of PRC-based investors in the expansion of the port of Berbice, Guyana.³⁴ Chinese investors have also expressed interest in a multi-billion port, free trade zone and tourism project built around La Union, with El Salvador's populist government.³⁵

Beyond transportation infrastructure, PRC projects also include a range of other types of connectivity, such as the generation and transmission of electricity. The PRC's increasingly dominant role in the Latin American electricity sector,³⁶ especially in renewable energy, is particularly relevant for the U.S. and this committee, insofar as such position sets up the PRC and its companies to disproportionately benefit from U.S. funding of green energy development in the region, if proper care is not taken in how such deals are structured.

Chin's significant and growing role in the region's electricity sector includes construction of six hydroelectric facilities in Ecuador,³⁷ three in Bolivia,³⁸ two in Honduras³⁹ and ownership of the Chaglla hydroelectric facility in Peru.⁴⁰

Even while the PRC has played an increasingly significant role in hydroelectric projects in the region, the record of its companies on project quality, performance, community relations and the environment has been problematic at best. The \$2.2 billion Coca Coda Sinclair dam in Ecuador, built by the PRC-based firm Sinohydro in troublesome proximity to an active volcano, had hundreds of identified engineering defects,⁴¹ including over 7,600 cracks.⁴² Its construction had an impact so severe on the region's hydrology that it caused the re-routing of the Coca river,⁴³ leading to the rupture of one of Ecuador's major oil export pipelines, spilling 15,000 gallons of petroleum, affecting 150,000 people.⁴⁴ Nor was this the first such problem for Chinese hydroelectric facility builders, even in Ecuador.⁴⁵ China Water and Electric was fined and removed from the Toachi-Pilatón project for poor performance,⁴⁶ while China National Electric Engineering Company was similarly fired from the Mazar Dudas and Quijos projects.⁴⁷

In solar and wind energy, PRC-based companies are involved with the two largest photovoltaic projects in the region: the Cauchari photovoltaic complex in Jujuy Argentina,⁴⁸ with a new phase agreed to during Argentine President Alberto Fernandez' visit to China in January 2022,⁴⁹ as well as a \$1 billion, 1.1 Gigawatt solar project being expanded by Chinese firms near Açú, Brazil.⁵⁰ Other examples of new Chinese wind and solar projects include the Potrero del Clavillo-El Naranjal solar and wind farm, and the Cerro Arauco wind/solar park in La Rioja, Argentina,⁵¹ both advanced by Argentine President Fernandez January 2022 state visit to China.

In nuclear energy, Argentina's Government has contracted China National Nuclear Corporation (CNNC) for an \$8 billion project to build a new design Hualong-1 nuclear reactor in the Atucha nuclear complex.⁵² Given repeated PRC problems with quality, safety and performance on its projects in the hydroelectric and other sectors, it is chilling that CNNC's Argentine venture will be the first time it has attempted to build this relatively new reactor design outside of the PRC.⁵³ In addition, PRC-based companies have previously expressed interest in building a nuclear reactor in the Angra complex in Brazil,⁵⁴ something that could become more realistic if, as expected, the Workers Party and its candidate Luiz Ignacio Lula da Silva return to power there in this October's national elections.

With respect to electricity transmission, beginning in 2010,⁵⁵ Chinese companies State Grid, China Three Gorges, and State Power Industrial Corporation (SPIC) have invested tens of billions of dollars in electrical transmission infrastructure in Brazil.⁵⁶ In Peru, Chinese companies hold approximately half of power distribution capabilities in the greater Lima area, following the \$3.6 billion, 2020 acquisition of Luz del Sur by Yangtze Power.⁵⁷ In Chile, five major Chinese acquisitions in recent years, including the purchases of Compañía General de Electricidad (CGE), Transelec, Atiaia, Pacific Hydro, and Chilquinta,⁵⁸ together give PRC-based compa-

nies control of an unprecedented 57 percent of the country's electricity distribution capacity.⁵⁹ Chinese companies are now moving forward with important electricity transmission and distribution projects, including a \$191 million high voltage connection from Tacuarembó to Salta, Uruguay,⁶⁰ plus \$1.1 billion in work for State Grid on the power grid of Buenos Aires.⁶¹

Beyond electricity, the PRC's increasing and multidimensional role in the connectivity of the region further includes telecommunications. That advance includes the much-discussed role of Chinese components and solutions in 5G architectures currently being rolled out across the region,⁶² such as Huawei's pilot "5G city" project in Curitiba, Brazil.⁶³ It also includes more than 20 years of growth and learning in the region by Huawei, ZTE, and other PRC-based companies in supplying a range of components to the region's telecommunications architectures, from phones to servers and routers to fiber optic connectivity.⁶⁴

Beyond telecommunications as a form of digital connectivity, PRC-based companies also play a significant and growing role in the region in a broad range of eCommerce activities. These include Jack Ma's Alibaba, Fintech companies with partial Chinese ownership such as NuBank,⁶⁵ as well as China-based non-traditional banking firms such as Fosun.⁶⁶

The PRC further has a significant and expanding role in Latin America-based space architectures and space cooperation. The PRC has built and launched a communication relay satellite and two earth observation satellites for Venezuela,⁶⁷ as well as a communications relay satellite for Bolivia,⁶⁸ and a microsatellite, Pegasus, for Ecuador's prior populist government. PRC-based companies have also played a key role in the outfitting ground control facilities for those satellites and the training of their space-oriented personnel.

In Brazil, the PRC has collaborated in building, and has launched, five satellites under the China-Brazil Earth Research Satellite program.⁶⁹ Indeed, the latest such launch occurred in December 2019 during the administration of China-skeptic Jair Bolsonaro.⁷⁰

The PRC has further built a deep-space radar facility in Neuquén, operated by personnel of the People's Liberation Army (relatively standard for Chinese space operations),⁷¹ but with only sporadic access by Argentine Government personnel.⁷² While the facility appears consistent with the needs of PRC lunar and other deep space missions to maintain communication with objects under a rotating earth, it has the potential to capture communications from other satellites in orbits that pass over it.⁷³

Chinese space-sector activities in Latin America also include Argentina's participation via ground communication facilities, in its Beidou satellite-based global navigation system,⁷⁴ as well as a PRC launch of remote sensing satellites, made by the firm Satellogic for Argentina.⁷⁵

In short, PRC-based companies play an increasing role in the connectivity that underlies the very fabric of almost every dimension of Latin American economies.

China's expanding presence in such connectivity is a concern for two reasons: First, PRC-based companies have consistently shown a disposition to leverage participation in one area, to advance the interest of Chinese companies in others, often with the facilitation of the PRC Government. As a consequence, the strategic dominance of Latin America's connectivity by PRC-based companies positions them to advance their position across a range of other parts of the region, capturing the associated value added for their benefit.

Second, the increasing presence of PRC-based companies in the region's digital infrastructure significantly expands risks of intelligence exploitation by the Chinese against both government and commercial targets. While PRC-based companies such as Huawei may claim that they would never turn over their user's data to the Chinese Government,⁷⁶ such claims are contradicted by the PRC laws to which they are subject. Specifically, the PRC's 2017 National Security Law obligates its companies to hand over information deemed relevant to PRC security.⁷⁷ Moreover, the PRC has a long history of intellectual property theft against Western companies, and the government has been publicly called out by the U.S. Justice Department for turning a blind eye to cyberespionage against commercial targets outside the PRC.⁷⁸ As an example, in December 2021, Microsoft froze the accounts of the Chinese cyber-hacking group Nickel, whose targets included companies in 16 Latin American countries.⁷⁹

The opportunity for the PRC to access sensitive government, commercial and personal data from Latin American and Caribbean digital networks is only increasing. In addition to the previously noted ubiquitous Chinese presence in telecommunications and space, other vulnerabilities include the expanding footprint in the region of the Chinese rideshare company DiDi Chuxing, which currently has approximately half of the ride-share market in Latin America, operating in Mexico,⁸⁰ Brazil,⁸¹ Co-

lombia,⁸² Chile,⁸³ and the Dominican Republic.⁸⁴ The potential risks posed by Didi was publicly expressed in a letter by six members of this Congress to senior members of the Biden administration,⁸⁵ as well as reflected in an investigation into DiDi, publicly acknowledged by the Defense Department.⁸⁶

Vulnerabilities to potential Chinese Government and commercial espionage further include the increasing presence of Chinese surveillance and control systems across the region. At the national level, these include ECU-911 in Ecuador and BOL-110 in Bolivia, among others. In Mexico, in January 2022, the PRC-based Hikvision took over Syscom, Mexico's largest telecommunications and security systems company.⁸⁷

Other risks include the increasingly ubiquitous role of Chinese scanner technology in airports and other sensitive sites across the region, such as that owned by the Chinese firm Nutech. Such technology, if accessible to the PRC through backdoors and digital connectivity, potentially provides those with access to the objects scanned, including computers, smartphones and other electronic devices, the potential ability to compromise them.⁸⁸

In yet another dimension of the challenge, smart cities offerings from PRC-based companies are proliferating in the region.⁸⁹ As with other digital technologies, if there is the possibility of remote access to this data through backdoors, or even processing of the data on remote PRC-based servers, such systems potentially provide the PRC-affiliated operators access to sensitive financial, location, movement and other personal data of millions of the region's residents, including its government officials and corporate executives. PRC-based companies currently have smart cities initiatives in at least seven Latin American countries: Mexico, Ecuador, Venezuela, Argentina, Uruguay and Brazil.

Vulnerabilities from the expanding PRC digital footprint in the region also include the proliferation of Chinese-run data centers across the region. These manage sensitive personal, corporate and even government data. Huawei, for example operates data centers in at least three Latin American countries: Mexico, Chile and Brazil,⁹⁰ where the Chinese firm Tencent also operates a data center since November 2021.⁹¹ Indeed, in Chile, the PRC-based company *Aisino* almost won the right to manage the country's entire Civil Registry.⁹²

PRC USE OF INSTITUTIONS IN ITS STRATEGY

PRC engagement with Latin American and Caribbean institutions is a key supporting element of its strategy there. As seen in other parts of the world as well, the PRC works with institutions in the region to neutralize opposition to its advance, and where possible, coopt those institutions to facilitate the advance of PRC interests. This pattern can be seen in China's leveraging of the Interamerican Development Bank (IADB), since it joined the institution in January 2009. Beyond a notable decrease in the critical tone of the IADB's analytical products since the PRC became part of the IADB Board, the institution's increasingly cozy relationship with the PRC included an attempt by the PRC to host a 2019 executive meeting of the bank's directors in Chengdu, China. The initiative ultimately fell through when the PRC refused to respect the wishes of its Latin American board members, by not giving an official visa to attend the meeting to Ricardo Hausmann, the representative of the de jure Venezuelan Government of Juan Guaido, ultimately leading to board to cancel the meeting in Chengdu.⁹³

The PRC has also worked with the IADB to set up a "co-financing fund" in parallel with Chinese banks, for projects of interest to Chinese companies.⁹⁴ In May 2021, the bank's current President Mauricio Claver-Carone spoke out against the PRC's use of its role in the IADB to win a disproportionate share of contracts for PRC-based firms.⁹⁵

The PRC's key multilateral tool for engagement with the region has been the Community of Latin American and Caribbean States (CELAC). Although the PRC has been an active observer member at the Organization of American States (OAS) since 2004,⁹⁶ it has arguably chosen CELAC to advance its agenda because the body brings together the entirety of the region while excluding the United States and Canada. The PRC also arguably favors CELAC due to the organization's lack of a permanent secretariat or other standing bureaucracy, the absence of which facilitates the PRC's ability to advance its own agenda through the institution, while minimizing the risk that its Latin American partners in the organization will be able to effectively coordinate a collective bargaining position toward China to advance their own interests.

The PRC has used its interactions with CELAC to create a broad range of vehicles for interacting with the region, including 22 official "China-CELAC forums."⁹⁷ Such venues allow the PRC to engage with the region on a range of issues from tele-

communications to biotechnology, to agriculture to infrastructure to space to local government, among other areas.

In December 2022, at the third triannual China-CELAC summit, the PRC published the 2022–2024 China-CELAC plan for its engagement in the coming years.⁹⁸ Although the intentions behind PRC proclamations in such documents are not always clear, and while not all of its commitments may produce tangible results, the 2022–2024 China-CELAC plan, like the 2015–2019 plan⁹⁹ and 2019–2021 plan¹⁰⁰ which preceded it, provide some indication of PRC priorities for engaging with the region. In the most recent plan, for example, the PRC expression of interest in working with Latin America in digital technologies, space, and renewable energy should be of interest to this Committee.

PRC SECURITY ENGAGEMENT WITH LATIN AMERICA AND THE CARIBBEAN

PRC security engagement with Latin America and the Caribbean is openly acknowledged in its 2008¹⁰¹ and 2016¹⁰² policy white papers toward the region, and more indirectly in its 2015¹⁰³ and 2019 Defense Strategy White Papers.

The PRC is a significant, if not the largest, provider of military goods to the region, with authoritarian populist governments such as Venezuela, Ecuador under Rafael Correa, Bolivia under Evo Morales, and Peronist governments in Argentina being the region's most important purchasers of Chinese arms.¹⁰⁴ Major deals have included the sale of K-8 fighter aircraft,¹⁰⁵ Y-8 and Y-12 military transports,¹⁰⁶ and JYL-1¹⁰⁷ and JY-27A radars to Venezuela;¹⁰⁸ the sale of six H-425/Z-9 helicopters¹⁰⁹ and 31 armored vehicles¹¹⁰ to the populist regime of Evo Morales in Bolivia, and the sale of radars, plus some 709 military trucks¹¹¹ and 10,000 rifles to the populist regime of Rafael Correa in Ecuador.¹¹²

The current Peronist government in Argentina has budgeted to acquire the Chinese FC-1/JF-17 fighter which, if the transaction occurs, would be the most advanced PRC-built aircraft sold to the region to date.¹¹³

Beyond populist states, PRC-based military goods companies have also sold 27 Type-90B truck-based multiple launch rocket system to Peru,¹¹⁴ as well as an offshore patrol vessel (OPV) to Trinidad and Tobago.¹¹⁵

The PRC also regularly sells or gifts less sophisticated equipment to militaries and police in the region.¹¹⁶ Examples include trucks, military construction equipment donated to the Guyana Defense Force in 2017,¹¹⁷ police cars donated to the Guyana Police Service that same year,¹¹⁸ 200 motorcycles donated to the Trinidad and Tobago Police Service in 2019,¹¹⁹ and 140 motorcycles and 8 ATVs donated to the Dominican Republic military and police that year,¹²⁰ among others.

Beyond arms sales, the People's Liberation Army has maintained a regular, if not continuous, presence in Latin America that is more significant than commonly recognized. It includes at least three separate multi-port visits by the PLA hospital ship Peace Arc in 2011, 2015, and 2018–2019,¹²¹ participation of PLA military police for 8 years in the MINISTUH peacekeeping operation in Haiti,¹²² PLA attendance at elite Latin American military schools such as the Lanceros course in Colombia,¹²³ the Jungle Warfare Course¹²⁴ and the renowned military peacekeeping institute CCOFAB¹²⁵ in Brazil. It also includes regular institutional visits by PLA personnel to virtually every country in the region that the PRC recognizes.

In the military portion of the PRC's "people-to-people" diplomacy, PLA leaders have visited the region at least 200 times in the past two decades.¹²⁶ Reciprocally, the PRC also regularly brings Latin American defense and police officials to China for training and military education activities, not unlike what it does with other Latin American government, business, and academic figures, as noted earlier. Prominent military examples include bringing Latin American and Caribbean armed forces personnel to the 3 to 5-week training courses that the PLA conducts in its National Defense University in Changping, inviting students to its select year-long Army and Navy Command and General Staff programs in the greater Nanjing area,¹²⁷ and bringing Latin American cadets into its regular military academy, among other activities.

I do not expect the PRC in the near term to seek a formal military alliance agreement or military base, as it did in Djibouti, in Africa.¹²⁸ This is not because of PRC benevolence or peaceful intent, but rather, because, given the cost and provocative effect of bases and military alliances, it has only made such commitment when its growing capabilities and global military reach were adequate to defend them. The PRC is not yet in such a position to do so in the Western Hemisphere.

Despite likely PRC restraint in pursuing military bases in the Western Hemisphere, as in other areas, it is adept in advancing incrementally by cautiously "testing the waters." To this end, it was significant that the PRC expressed interest in participating in a \$300 million polar logistics base being constructed by the Argen-

tine military in the extreme south of that country, in Ushuaia.¹²⁹ The Argentine Government currently indicates that the PRC will not be involved in its construction or operation of such a base, but it is important to keep attention on the matter.

Whether or not the PRC overtly seeks a military base in the Western Hemisphere, it is logical that officials within the PLA plan for how they would fight a global conflict with the United States or other Western powers if called upon to do so. It is thus not unthinkable that the PLA analyzes how they could leverage their commercial and military presence and relationships in the Western Hemisphere in such time of conflict, and what they could do now, to do so more effectively in the future.

Options for the PLA in operating in the Western Hemisphere in the context of a future conflict with the U.S. could include deploying intelligence assets or special forces into the region to create diversionary crises, or to put U.S. deployment and sustainment flows and the U.S. homeland itself at risk.

If, in the context of a war with the PRC, the United States suffered grave losses in the opening phase, such as the sinking of multiple aircraft carriers and other capital ships, it is not inconceivable that some regimes hostile to the U.S. in the Western Hemisphere could conclude that the U.S. might not be willing to incur the high costs and nuclear escalation risks to pursue a protracted conflict with the PRC to complete victory. From such a conclusion, those anti-US regimes might decide that now was the time to set themselves up for a future payoff by “betting on the PRC.” If, in that context, one or more such regime decided (or were obliged to) grant the PRC access to their ports, airfields, and other facilities, the knowledge of those militaries and relationships with them that the PRC has today would play a major role in how rapidly and effectively the PLA could make use of those facilities to threaten the U.S. homeland.

THE ROLE OF PRC SOFT POWER IN ADVANCING ITS STRATEGIC OBJECTIVES

PRC influence in Latin America and the Caribbean is significant. A February American University survey of Latin American opinion leaders, for example, found that 78 percent of those surveyed believed China’s influence in Latin America to be high, and 86 percent saw its influence on the Latin American economies as high.¹³⁰

Despite such indicators, the nature of PRC influence, is arguably often misleadingly compared with the very different bases of U.S. soft power in the region. The latter, as discussed by authors such as Joseph Nye,¹³¹ is primarily built on consensus and affinity, the identification of our Latin American neighbors with the U.S. or principles such as democracy, human rights and free markets. In a similar fashion, a non-trivial number of Latin Americans find elements of Chinese culture and work ethic worth emulating. Perhaps more concerning, some in the region draw lessons from the PRC’s authoritarianism and state-led predatory economic approach in confronting challenges of development, insecurity, or disorder in their own societies.¹³²

The PRC’s greatest “soft power” influence comes from the expectation of gain, on the state, company and sometimes personal level, from potential access to the PRC market, or being a partner or beneficiary in a Chinese project locally.¹³³ As an illustration, Peru’s Attorney General’s office is currently investigating irregularities in the granting of 15 contracts to Chinese firms under the current government of Pedro Castillo.¹³⁴

Importantly, such benefits-based PRC influence coexists with distrust by Latin American elites who understand that the Chinese can be predatory partners, yet downplay U.S. warnings, believing that they can manage the risk in order to reap the associated rewards. More dangerously, some find it convenient to dismiss U.S. concerns as mere “great power competition,” so that they can take the Chinese money,¹³⁵ to their gain, although often to the detriment of their countries.

People-to-people diplomacy is an area in which the Chinese arguably secure important objectives. The PRC currently has 44 Confucius Institutes in the region, including eight in the sparsely populated Caribbean.¹³⁶ These Confucius Institutes principally act as gatekeepers, for attracting youth of the region oriented toward China, identifying those with the talent and perseverance in learning the mandarin language and Chinese script. The PRC Government offers the most promising of these students full scholarships, through the PRC cultural promotion organization Hanban, to study in the PRC. Because of the paucity of youth in the region with deep language of the Chinese language and country, those who graduate these programs often go on to become key technocrats and leaders in the China-facing portions of their Foreign Affairs and Commerce ministries, or in the PRC-oriented portion of the country’s leading companies. As a result, a not insignificant portion of PRC-facing technocrats in Latin American governments come to owe their prestigious economic and bureaucratic positions to the PRC.

In the most recent 2022–2024 China-CELAC plan, the PRC committed some 5,000 scholarships for Latin American students, plus 3,000 “work opportunities,”¹³⁷ This commitment was the continuation of the 6,000 scholarships for Latin Americans that the PRC committed to in the 2015–2019 plan,¹³⁸ and the 6,000 it offered in the 2019–2021 plan.¹³⁹

However concerning, such scholarships only touch the surface of the insidious challenge of PRC “people-to-people diplomacy. Beyond Confucius Institutes and associated Hanban scholarships, PRC outreach includes a significant, if unknown number of engagements in which agents of the PRC Government and/or Chinese Communist party bring the region’s leading China-facing academics, think-tank professionals, businesspersons, journalists and even politicians to the country for luxurious trips built around the façade of academic exchanges. These include both individual events and collective gatherings such as the China-Latin America Think Tank Forum. The International Liaison Department of the Chinese Communist Party plays a key role in such outreach, both in bringing senior Latin American Congresspersons and political leaders over to the PRC and working with key Latin American elites in their own country as de facto lobbyists, whether trying to persuade their governments to flip recognition from Taiwan to the PRC or coordinating on other political or economic matters of interest to the PRC.¹⁴⁰

CHINA AS AN INCUBATOR OF AUTHORITARIAN POPULISM

With respect to the strategic political effects of PRC engagement with the region, the dynamic that most concerns me is the inadvertent, sometimes deliberate role of the PRC as an “*incubator of authoritarian populism*” as the Chinese Government, Communist Party and PRC-based companies pursue their interest in the region.

To be clear, the populist authoritarian governments that have come to power in Latin America to date, including Hugo Chavez in Venezuela, Rafael Correa in Ecuador, and Evo Morales in Bolivia, have done so by exploiting discontent with the inability of their predecessors to effectively address endemic corruption, inequality, insecurity, and disappointing economic performance in their societies. Once in power, however, as those populist governments followed an often Cuban and Chavista-inspired path to hijack democratic institutions, consolidate power, and move against the private sector and free press, they have been aided in that effort by the ability to leverage PRC resources in the form of purchases of their commodities, associated loans, and occasional investments, to keep them afloat. In borrowing alone, as Chavez in Venezuela, Correa in Ecuador and Morales in Bolivia consolidated their power, PRC-based policy banks provided those governments \$62.2 billion, \$18.4 billion, and \$3.4 billion respectively.¹⁴¹

Skeptics who see populist regimes as naive business ventures for PRC-based companies miss the point; in Venezuela, Ecuador, and Bolivia, and as documented by an excellent Vanderbilt University study on 100 Chinese debt contracts with foreign governments, PRC-based companies have proven adept at structuring deals in ways that ensure that they get paid¹⁴² even while imposing questionable constraints on the sovereign decisions of their partners,¹⁴³ and even as the populists have defaulted on everyone else. In the end, dealing with such regimes has arguably been difficult for the PRC-based companies involved, including problems on a range of issues from contract completion to personal security. Nonetheless, such engagements have also been beneficial for those companies. They have arguably secured favorable deals negotiating terms with politically receptive, isolated regimes, in often non-transparent government-to-government interactions in which their populist counterparts have brought political loyalists rather than knowledgeable technocrats to the table.

In the ongoing relationship, the Chinese, for their part, have reciprocally provided benefits to their populist authoritarian friends that help them maintain themselves in power. This includes selling Venezuela the armored vehicles used to repress democratic protesters, based on the industry using such vehicles to help the PRC repress its own population. Examples include the VN-4s and “Rhino” armored vehicles used in May 2019 to crush democratic protesters,¹⁴⁴ as well as those with unfolding barricade doors, used in January 2020 to wall off access to the Venezuelan Congress and shut out Juan Guaido and other democratically elected members of Venezuela’s Congress.

PRC-based companies have also provided technologies to help authoritarian partners in the region monitor and control their populations, just as the PRC controls its own.¹⁴⁵ Recent examples include support to the de facto Maduro regime in Venezuela from the Chinese electronics company CEIEC to spy on de jure President Guaido and his political supporters,¹⁴⁶ implementation by Chinese telecommunication firm ZTE of the Fatherland Identity Card system,¹⁴⁷ which the government

made obligatory not only to vote, but also to obtain rations of scarce foodstuffs and other basic goods (the famous “CLAP”) boxes,¹⁴⁸ and to receive scarce Chinese and Russian vaccines against Covid-19.¹⁴⁹

In Cuba, Chinese telephones and data management systems supplied by Huawei to the state telecommunications firm ETECSA, based on the same technologies the PRC uses to control its own population,¹⁵⁰ proved instrumental in the Cuban Government’s response to unprecedented nationwide protests in July 2021,¹⁵¹ by digitally isolating the protesters from each other, and from the outside world.¹⁵²

The collective result of such economic, military and technical support to the PRC’s populist authoritarian friends has arguably been the extended survival of their regimes. In the process the PRC has contributed to a hemisphere with fewer democratic governments, ever less disposed to cooperate with the United States on issues important to our security from transnational organized crime to migration, to corruption and human rights.

THE PRC DIPLOMATIC STRUGGLE WITH TAIWAN

Since the election of the Democratic Progressive Party (DPP) government in Taiwan in January 2016, the PRC has resumed efforts to actively persuade governments in the region to switch diplomatic recognition from Taiwan to the PRC. It has done so by offering a range of financial and other incentives, often working through its Chinese Communist Party-sponsored “United Front” organizations in the targeted countries.¹⁵³

The abandonment of Taiwan by the Panamanian Government of Juan Carlos Varela in June 2017, by the Dominican Republic Government of Daniel Medina in May 2018, and by the Salvadoran FMLN Government of Salvador Sanchez Ceren in August 2018, was consistent with the pattern observed in the prior the flip by the Costa Rican Government of Oscar Arias in May 2007. In each case, the change was not only diplomatic, but facilitated the significant expansion of PRC activities in the country through the signing of (often non-transparent) Memorandums of Understanding opening the recognizing country to activities by PRC-based countries in key sectors such as electricity, telecommunications and construction, even by buying-off politically well-connected elites by facilitating PRC purchases of limited quantities of the traditional exports of that country, such as fruit or coffee, often connected to those well-connected elites.

In the cases of Panama, the Dominican Republic and El Salvador, the firm response to the changes by then-U.S. ambassador to El Salvador Jean Manes, including the recall of U.S. senior diplomats from the three for consultations, arguably led to both the PRC and its partners in the region to proceed with greater caution. That caution was reinforced by the election of more U.S.-oriented governments in both Panama (Nito Cortizo, elected in May 2019) and in the Dominican Republic (Luis Abinader, elected in July 2020). In each case, the incoming governments, more attentive to U.S. concerns, facilitated reviews of some of the more questionable deals with the PRC signed by their predecessors. Nonetheless, each ultimately continued to engage economically with the PRC and its companies in the areas where it made sense. Further delaying the PRC advance in these cases, the Covid-19 pandemic also impeded the ability of the PRC to proceed with some of its promised investments. As the region pushes beyond Covid-19, China is positioned to make important economic advances in each. In Panama, for example, China Harbour is set to continue previously suspended work on the fourth bridge over the Panama Canal this year.¹⁵⁴

In the case of Nicaragua’s December 2021 recognition of the PRC, the PRC has moved with unusual caution in announcing major new projects and agreements. Nonetheless, the reappearance of Chinese Nicaragua Canal promoter Wang Jing in November 2021, shortly before the change,¹⁵⁵ coupled with Wang’s close relationship with the Ortegas’ son Laureano, who led the delegation to Tianjin China to negotiate Nicaragua’s flip to the PRC,¹⁵⁶ makes it likely that Wang Jing’s reappearance means that some Nicaragua Canal-related Chinese investments could be part of the path forward for that country.

In Paraguay, President Mario Abdo-Benitez helped to publicly expose the PRC’s unsuccessful attempt to change the country’s diplomatic recognition to the PRC in exchange for expedited access to China’s Covid-19 vaccines.¹⁵⁷

In Honduras, the campaign commitment of incoming President Xiomara Castro to recognize the PRC¹⁵⁸ makes it likely that its government could eventually flip as well, even though the President has committed not to do so for now.¹⁵⁹

The change in Honduras and/or Guatemala’s diplomatic posture would then shift the strategic focus of PRC attention to the Caribbean Basin, where all remaining states recognizing the PRC with the exception of Paraguay would then be located.

In the Caribbean, Haiti is particularly vulnerable to flip, with the mentioned Presidential replacements to the current interim government of Ariel Henry expressing interest in relations with the PRC. The Government of St. Lucia, whose present Labor Party government previously recognized the PRC, is also arguably vulnerable to change if it sees a plurality of its neighbors are doing so as well.¹⁶⁰

PRC diplomatic advance is important not only because it opens the door for an associated expansion of economic and other influence, but also because it is destabilizing to the status quo in Asia. As the number of states in the world that recognize Taiwan decrease toward zero, amidst ever increasing PRC military superiority over its island neighbor, the temptation for the PRC to forcibly incorporate Taiwan into its territory, and the prospect of an associated conflict that could involve the United States, and possibly nuclear weapons, grows.¹⁶¹

THE PRC'S SPECIAL AND INCREASING ATTENTION TO THE CARIBBEAN

The ongoing PRC efforts to reorient the global economy and institutions to its benefit, as well as China's struggle to diplomatically isolate Taiwan, and PLA preparations for the possibility of an eventual conflict with the United States all lead to a particular PRC interest in the Caribbean.

For the PRC, the Caribbean has particular importance, as the southeastern maritime approach to the United States which is at the same time, a key logistics hub for the U.S. economy, and the location of the vast majority of the countries in the hemisphere that continue to diplomatically recognize Taiwan.

The PRC wishes to have a strong economic and political presence in the subregion without provoking the United States, for the same reason that it wishes to exclude rival powers such as the United States from the strikingly similar strategic geography that its own southeastern maritime approach, including the straits of Malacca. It is thus not surprising that in its 2022–2024 plan for engagement with the region, the PRC gave particular, if largely unrecognized, attention to the “small island states” of the region.¹⁶²

The fact that the PRC has located 8 of its 44 Confucius Institutes in the Caribbean is out of proportion to the relative population of the region and the size of its economies, as is the number of ports, highway projects and tourism investments that it maintains there. Operations of note include the previously mentioned three PRC port operations in the Bahamas, the China Merchant Port operation in Kingston,¹⁶³ port work in Berbice, Guyana,¹⁶⁴ the \$4.2 billion Baha Mar tourist resort,¹⁶⁵ over \$1 billion of highway projects in tiny Jamaica alone,¹⁶⁶ the Amaila Falls hydroelectric facility and multiple infrastructure projects in Guyana, interest in the Atlantic LNG refinery in Trinidad and Tobago,¹⁶⁷ and plans by China Harbour to construct a drydock there,¹⁶⁸ just to name a few.

It is also arguably not by coincidence that a significant portion of the PLA military engagement detailed previously has occurred in the Caribbean, including the PRC's 8-year deployment of military police to Haiti under MINUSTAH, its frequent gifts of vehicles and equipment to Caribbean defense and police forces, its sponsorship of training and institutional visits by their leaders to the PRC, and its inclusion of multiple Caribbean port calls in each of the three deployments of its military hospital ship to the region.

PRC COORDINATION WITH U.S. ADVERSARIES

Due to the PRC's strategic economic interests in access to sources of supply, markets, and technologies, it has generally attempted to disassociate itself from provocative statements and actions by anti-U.S. regimes in the region such as those by the Hugo Chavez and Nicholas Maduro regimes in Venezuela. Nonetheless, the PRC strategically benefits from the survival of such regimes, which both distract its rival the U.S.,¹⁶⁹ and undermines the prevalence of region-wide consensus on a Western-style democratic rules-based order that would benefit the U.S. Thus, insofar as authoritarian populist governments take reasonable steps to protect the interests of PRC-based companies and pay off past debts, the PRC has not been in a hurry to help the U.S. to bring about more responsible, less criminal forms of government in these countries,¹⁷⁰ even as the PRC simultaneously works to maintain the impression that it is cooperating with the U.S.

With respect to Russia and Iran, there are few overt indications that the PRC cooperates overtly with those governments in Latin America in the ways that it sometimes does in other parts of the world.¹⁷¹ Nonetheless, as with in-region U.S. adversaries such as Venezuela, Cuba and Nicaragua, the PRC strategically benefits from Russia's provocative actions in the region, such as its periodic deployment of nuclear-capable Tu-160 backfire bombers and other military assets,¹⁷² and most recently, the threat by Deputy Foreign Minister Sergey Ryabkov that the deployment

of Russian forces to Venezuela or Cuba could not be ruled out,¹⁷³ followed by the March 2022 military cooperation agreement signed between Deputy Prime Minister Yuri Borisov and his Venezuelan counterpart.¹⁷⁴

In the current Ukraine conflict, Russia's actions strategically benefit the PRC, insofar as they distract the West and force it to consume time and resources on matters other than responding to the PRC advance in the region (and globally), even while Russia's actions also weaken itself, making it more dependent on the PRC, including as a purchaser of Russian oil and foodstuffs, even while forcing it to work through the PRC for financial transactions as Russian banks lose access to the SWIFT system.¹⁷⁵ Russia's military campaign in the Ukraine, as well as western sanctions and other actions against Russia further allow the PRC to observe Russian vulnerabilities, in order to minimize its own vulnerabilities to a likely similar Western response if, as is possible in the coming years, the PRC attempts to incorporate Taiwan into its territory.

Such benefits to the PRC notwithstanding, it is nonetheless hurt to some degree by the effects of the international crisis in the prices of petroleum and food, both of which the PRC must import in significant quantities, as well as the fragility of the global economy and financial system in general, upon which demand for Chinese products, and other aspects of the PRC economy depends.

Finally, in Latin America, as elsewhere, the war in the Ukraine arguably forces the PRC to proceed more cautiously, due to its desire not to be associated with Russian aggression, particularly after having made uncharacteristically strong statement with Vladimir Putin in Beijing during the Olympics, before the degree of Putin's mismanagement of the Ukraine invasion, and the associated brutality of Russian actions against civilian populations and associated war crimes,¹⁷⁶ was exposed.

THE U.S. RESPONSE AND AREAS FOR IMPROVEMENT

In my research and writings since the early 2000s on Chinese engagement with Latin America and the Caribbean, I have observed the U.S. response evolve from concerned observation to stronger actions and messaging to our partners. I have seen good and creative initiatives under both Republican and Democratic administrations, but believe that we have consistently been lacking in four areas:

1. An adequate and sustained level of resources for both strategic thinking, and economic, security and other engagement in the Western hemisphere, given its enormous importance to U.S. prosperity and security.
2. Adequate data for our leaders in Congress, the President and his or her senior representatives, the State Department, the Defense Department, and other federal agencies to support their engagements with Latin American and Caribbean publics about the relative performance of and behaviors of concern by PRC-based companies, as well as the PRC state and its intelligence services in the region.
3. An appropriate combination of flexibility and resources, within specific U.S. Government organizations, such as the Development Finance Corporation, USAID, Commerce, and the Defense Department, to better empower them to provide timely, attractive alternatives to often predatory or risky partner engagements with the PRC; and
4. Effective coordination at the Federal agency level, beyond policy documents, in formulating integrated whole-of-government initiatives to respond to the PRC challenge.

RECOMMENDATIONS FOR U.S. STRATEGY AND POLICY

Pursuant to my observations in this hearing thus far, in my personal capacity as an analyst, I respectfully offer my recommendations for increasing the effectiveness of the U.S. response to PRC activities in Latin America and the Caribbean:

1. Do not seek to block our Latin American and Caribbean partners from routine commercial and political engagement with the PRC so long as they are transparent, conducted in accordance with the rule-of-law and a level playing field, even if the results occasionally make us uncomfortable. Attempting to do so is both not realistic and would likely generate resentment and a counter-productive response from our partners.
2. Do more to ensure that the interactions between our partners and the PRC that do occur are indeed conducted with transparency, in a rule-of-law framework on a level playing field, and through strong partner government and re-

gional institutions. Doing so has both a component of *persuading* our partners, and one of *enabling* them.

- a. On the persuasion side, the U.S. should do more with interagency efforts to discourage partners from engaging in the types of back-room, government-to-government deals with the PRC and its companies that may benefit the PRC and partner representatives signing the deal, but not their countries. Tools that the U.S. can use more aggressively to discourage bad partner behavior in this area include State Department public diplomacy and visa policy (and associated sanctions), Treasury OFAC sanctions, and U.S. Justice Department Investigations targeted at individuals engaged in illegal behavior, where merited.
 - b. On the enabling side, the U.S. should expand and resource State Department-led programs to strengthen our partners institutions and processes, including anti-corruption initiatives, project planning support to partner nations, contract evaluation, and enforcement of environmental, labor and other partner laws on the back end. Such initiatives will not “keep the Chinese out of Latin America,” but rather, will help channel that engagement in ways that is most healthy for our partners and the region, while better positioning the U.S. as helping our partners succeed, as a reflection of the joint stake that we have in the prosperity of our common neighborhood, the Western Hemisphere.
3. In areas of digital technologies, where the presence of untrusted PRC-based vendors could compromise government and leader personal information undermining the ability of our partners to make sovereign decisions, the U.S. should make explicit efforts to keep PRC-based entities out, leveraging whole-of-government tools. Such efforts could include making clear our need to stop sharing certain types of intelligence information if our partners’ incorporation of PRC-based vendors such as Huawei cause their networks to become untrustworthy. Similarly, we can explain our inability to promote certain investment programs where such partner incorporation of Chinese vendors into their networks would make the intellectual property of the investing entity vulnerable. In applying such pressures, however, we must both be more effective in communicating to our partner and the broader community “why” we are doing such things. Moreover, where possible, the U.S. should also work to ensure the viability of alternative solutions from U.S.-based companies. Where there are not such viable solutions, it should work with like-minded democratic partners to identify alternatives from trusted companies in democratic partner nations, respectful of privacy and intellectual property rights, such as Ericsson or Nokia.
 4. With respect to information, the U.S. should do more to ensure the creation of both government and other databases on the performance of PRC-based companies relative to their competitors. Such efforts could collect data on associated issues of contract disputes involving PRC-based companies, conflicts with affected communities and workers, and non-compliance with labor, environmental and other commitments. The collection of data should also include evidence of dissatisfaction with the managerial practices of PRC-based companies operating in the region, and cases of intellectual property theft by those companies from their competitors. It could also usefully include information about Latin American and Caribbean politicians and other government officials from the region who go to the PRC on trips sponsored by its government. Data collection efforts should also include the identification of senior leaders in the China-facing portions Latin American Foreign and Commerce ministries and PRC-relevant regulatory organizations who have received their education in the PRC, or other significant benefits from the country. Data collection should similarly include PRC military and other security sector activities in countries the region, including specific military and police leaders receiving PRC-funded trips, abusive activities by PRC diplomats in the region, and cyberespionage and cyber-hacking tied to the PRC Government and its companies. Such information should be available to support both interactions by U.S. senior leaders with our partners, as well as U.S. public diplomacy and engagement with our neighboring nations more broadly, so that the U.S. can talk more credibly and empirically with them about the risks of engagement with the PRC.
 5. With respect to resources, laws and regulations, I respectfully submit that not only does the U.S. need to significantly expand resources dedicated to this hemisphere to effectively compete, but we also must re-think some of the rules which constrain our agility to do so. I applaud the Development Finance Corporation as a powerful potential tool in competing with the PRC yet perceive

that it has become excessively constrained by limits regarding the income level of the countries that it can engage with and the types of projects that it can support, at the cost of paralyzing the DFC role as an effective tool for channeling private sector resources to provide healthy, transparent alternatives to PRC funds. In a similar fashion, U.S. military education and training programs (IMET) and other DoD security assistance engagement build invaluable relationships and offer powerful incentives for our partners to not engage with the PRC in ways that undercut their ability to work with us in the security realm. Such programs also help us to help our partners succeed in controlling the corrupting influences of narco-trafficking and other criminal organizations, which is good not only for the U.S., but helps our neighbors show their people that democratic governance works. In the process, their success helps to keep at bay authoritarian populist alternatives to democracy that also serve to open the door to problematic types of engagement with the PRC, among other difficulties. Yet as with DFC, Title X DoD security assistance funding, and in particular, Section 333 activities, are arguably hampered with an excess of requirements that limit DoD agility in adapting our engagements to the needs of our partners.

6. With respect to the broad messaging themes of U.S. public diplomacy involving the PRC in Latin America, I believe that Russia's invasion of the Ukraine, including its indefensible tactics and war crimes,¹⁷⁷ in conjunction with the PRC statement of solidarity with Russia in on the eve of its invasion (a friendship that "knows no limits")¹⁷⁸ creates an opportunity for the United States to remind the world that democracy, human rights, and legal commitments must mean something, if the global institutional order that has brought today's security and prosperity is to remain viable. The war unleashed by Vladimir Putin's ambitions in the Ukraine lays bare the implications of the PRC attempt to assert moral neutrality "types of democracy," and reminds us a world in which nothing can be declared bad, ultimately leads to a violent, insecure, Hobbesian chaos of "might makes right." In the same vein the PRC avoidance of condemning Russian aggression,¹⁷⁹ including Russia's killing of more than a thousand Ukrainian civilians¹⁸⁰ (and probably far more), deliberately destroying their cities, and brutally displacing more than 10 million Ukrainians from their homes,¹⁸¹ even as the PRC profits commercially from Russia's international isolation, should lead us to remind our Latin American neighbors of past PRC statements of fraternity with the Ukrainian people, which sound remarkably similar to PRC rhetoric in Latin America, and ask, "Where is the PRC in Ukraine's hour of need today? Where will it be for you, when you are no longer useful to it?"
7. Finally, I believe that the upcoming June 2022 Summit of the Americas in Los Angeles is an important opportunity for the U.S. Government to leverage the lessons of Russia's Ukraine invasion, Covid-19, and other aspects of the shifting strategic environment in Latin America to reach out to the region, whose conditions affect all of us, with a renewed spirit of partnership.

Distinguished members of the Subcommittee, thank you for your time and attention, and the opportunity to share my analysis with you today.

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Senator KAINE. Dr. Ellis, thank you. We will begin a 5-minute round of questions and let me begin.

I want to associate myself, first, with comments made by Senator Shaheen about vaccine diplomacy. The vaccine diplomacy from the United States to the Americas was extremely positive.

I traveled with six senators—three Democrats and three Republicans—to the region last July right as the U.S. vaccines were being delivered throughout the Americas, and in four countries—Mexico, Ecuador, Colombia, and Guatemala—we heard great appreciation for the U.S. vaccines. The fact that they were free was really appreciated, the fact that they were high quality, the gold standard. They did not feel as confident about the vaccines, either the Sinovac or the Sputnik vaccines.

They were disturbed in their dealings with China and Russia over vaccines because vaccines would be promised and then not delivered and if somebody said something about Taiwan then suddenly a contract would be cancelled.

That really seemed like a moment where we were very, very aggressive and in a way that was really appreciated to offer these high-quality vaccines in the Americas, and so the notion that we are going to do a COVID bill and stop doing something that really was seen in a smart way in the region I am disturbed to hear that. I had not heard that, Senator Shaheen, before you mentioned it.

What I want to ask is, what is the awareness of Latin American leaders about the dangers of entanglement with China? When we were in Ecuador, for example, so Ecuador had gone a very pro-China direction 20 years ago, but what they have seen was the Chinese investments, often in infrastructure projects, were poor quality, that very controversial dam project.

China’s oil drilling in the Amazon led to significant environmental challenges. The illegal fishing—I mean, China illegal fishing is, basically, just vacuuming up, fishing around the Galapagos,

which is part of Ecuador, in a way that is very disturbing and environmentally damaging.

So there was an election a year ago in Ecuador and 70 percent of the national legislature was kicked out and a new president was enacted, a president who strongly wants to orient toward America and the near complete turnover of the national level parliament also reflected sort of after 20 years were going the wrong direction and there was a real revulsion at the entanglement with China.

How broadly is that sentiment? Is the Ecuador story well understood? Are other nations experiencing the hard realities as they get deeper entangled with China? Or is China still kind of on the ascendancy in the Americas with more and more nations gravitating toward them?

Ms. MYERS. I can start. Thank you very much, Senator, for the question.

My sense is—it is a terrific question and my sense is that this really is an evolving thing and really varies on a country by country basis.

Ecuador is, perhaps, the best example here of a country that has begun to come to terms with the challenges associated with doing business with or interacting from a financial or investment perspective with China, and one need only travel the road from the airport to Quito where every day there are a lot of accidents because of challenges with the actual engineering of that road to know why many Ecuadorians feel this way.

In other cases, there is far less sensitivity to some of these challenges, or these challenges are well known, but the judgment is that so much needs to be done on the economic front, particularly at this juncture when countries are facing very, very dire economic challenges coming out of the COVID-19 crisis.

Really engaging with all partners who are willing is the only viable option and so that has tended to be the judgment, regardless of well known and well documented concerns about some of China's practices.

I think a really excellent example here is that of Colombia, wherein you have major flows of, obviously, Venezuelan migrants coming into the country and some of that related to China's continued support for the Maduro regime, and yet very, very little interest in relating China at all to that problem and, in general, in the media and in discussions about China-Colombia relations a very, very positive overall view.

Dr. ELLIS. Senator Kaine, you ask a very important question, I think, that goes to the heart of the challenge that we have today.

Number one, in general, our Latin American partners know that Chinese activities tend to be predatory. They oftentimes distrust the Chinese, but so much of the Chinese soft power comes with the informal or formal expectation of benefit, not only at the country level, but also oftentimes at the corporate or individual level.

That often leads our partners to say, well, we know we have to worry about the Chinese, but we think we can take the risk because we want the Chinese money. That problem then leads, oftentimes, to undercutting our messaging.

As you pointed out, in the Ecuadorian case, there are three areas in which we need to highlight the vulnerabilities. Certainly, num-

ber one is with respect to messaging or calling out the leaders who would take the oftentimes nontransparent and occasionally corrupt deals, to discourage them through whole-of-government initiative to do so, also to put more information out there by those who are hurt in those countries by the deals for that, and also to push for transparency, strong institutions in whole-of-government really limit the space for doing so.

As you pointed out, sir, the Ecuadorian case, beginning with Lenin Moreno and continuing with Guillermo Lasso, is very important in that respect, because of the things that we talked about. The Coca Codo Sinclair Dam really shows the cost to the Ecuadorian people—but there are also a series of others. I think Toachi Pilaton also had problems. Minas-San Francisco had problems. Other dams were actually canceled, and the story continues across the region.

So we need to do a better job, actually, at making both public databases as well as having good talking points to really—talk about the comparative behavior of Chinese companies as well as the comparative behavior of Chinese personnel to make our messaging more effective to those partners in the region and tell those stories.

Senator KAINÉ. Thank you both.

Senator RUBIO.

Ms. Myers, I guess—I take from your testimony, what you were referring to—and I sort of talked about this yesterday in an interview that I did.

So you are a country. Your economy needs to be developed. You have needs. You need roads. You need this. You need that. Here comes a Chinese business subsidized by the state offering you not just to construct the project, obviously, with their workers, but to finance it, and in some cases, frankly, some cash under the table for some of the decision-makers as well.

The result is they understand China is a threat. They may not be big fans of China, per se. They may be worried about what it means long term, but, politically, it is tremendously beneficial to be at the ribbon cutting of this great new project that is financed.

There may be a debt trap, but that will be somebody else's problem down the road, not when they are in office anymore and, in some cases, frankly, maybe you or some of your friends got some added benefits from it.

It is hard for us to compete against that. We cannot bribe government officials in some of these countries and we do not have a system in which we can go in and create infrastructure projects and finance some of those if the dollars or the money that it generates does not justify it. In essence, it has to be a justified project.

In the case of China, it seems—that is really my question—how much of this is they are willing to do projects that may not make sense from a market standpoint because it makes sense for them from a geopolitical standpoint?

Ms. MYERS. It is a fantastic question and, indeed, both Evan and I and many others who are studying this particular issue are committed to trying to understand the primary motivations behind a lot of these major infrastructure projects, whether they are com-

mercially viable or not, whether they have a very strong strategic rationale or not.

You are right. I mean, in many of these cases, especially, for example, the La Union port in El Salvador is a perfect example where it is not a commercially viable project and would very much seem to be of interest to China for strategic reasons.

So how does one compete with that, especially when it is of interest to whatever government in power and there may be kickbacks involved and China's speed involved and something to announce to an electorate, perhaps, in advance of the next presidential election? It is a very, very challenging thing to do.

What can the U.S. do in this particular instance? I mean, we can work probably not necessarily in El Salvador, but in a lot of countries, too, on capacity building, on ensuring accountability, on ensuring transparency and procurement processes, on making sure that all—there is, as we say, a more even playing field and a lot of this work is being done by State right now. I think it needs to be amplified considerably.

We also need to work with media to absolutely highlight those instances of projects gone wrong—Chinese projects gone wrong because of corruption. These are not well understood. They sometimes just fall off the radar when they are in a period of protracted stasis or are canceled altogether and few understand why, and a lot of that is related to corruption or a failure to have a fully transparent procurement process.

That needs to be well understood as well through media articles and reports that are published in Spanish or Portuguese. Also being there, in many cases, not just for unviable commercial—from a commercial perspective—projects, but viable ones. China is still the only company—Chinese companies are the still the only ones in the room, the only ones submitting bids or submitting bids that are competitive. It is a matter of also being at the table.

There are a number of things, I think, ongoing that we can do and then, perhaps, enhance to better our position in this particular respect without copying China's problematic model.

Senator RUBIO. Mr. Ellis, let me ask you this in the brief time I have left. One of the things that is being talked about a lot these days is supply chains, and I think one of the things that Americans have learned through the pandemic is how dependent we are on things that are made halfway around the world and if there is a pandemic over there, they have to close factories, if containers get backed up.

Frankly, in the future, if they decide to cut us off because we are in conflict with China, we do not get some of these essential products that range from things critical to our national security to commercial products that people grew accustomed to and now are wondering why they cannot find.

It strikes me that to the extent, obviously, I believe, that we want to bring some of that manufacturing capacity to the United States that is something that we should prioritize.

There are, perhaps, some functions that will never be cost effective to do here because of where they are, but it strikes me that given the fact that so many of that—much of that is imported into North America, to the extent that those supply chains cannot be

in the United States, why can they not be in Honduras and Guatemala and other countries, in Haiti, in other—Dominican Republic—that would, certainly, benefit from this, and I think deals with a number of things, including economic opportunity, stems migration flow or the need to migrate, and so forth.

What are the impediments standing in the way of supply chain capabilities moving, some of them at least, to this hemisphere where, theoretically, you have young populations that could fill those jobs much the way that Southeast Asia started to do 25, 30 years ago?

Dr. ELLIS. Senator Rubio, you make a very important point. Certainly, such decisions are generally in the hands of the private sector in terms of where to put their investment, and there are other options such as managing inventory to offset some of these great risks that we have seen in supply chains from the Pacific. Nonetheless, certainly, if you take a look at Mexico, with a relatively good infrastructure or at least transportation infrastructure, plus qualified populations for work, and you see similar opportunities in Central America and elsewhere, there is absolutely every reason to think that, through our trade policy and through encouraging of investment that we should be able to at least get a portion of that coming in the right direction and, in the process, help the region.

Part of the difficulties have already come up today. On the one hand, you have, really, our two key bodies—Development Finance Corporation, which should be, I would argue, far more agile, and I would say that some of the restrictions that we have put on DFC have made it difficult for it, despite the very good progress that it has already made in increasing its portfolio.

On the other hand, in my personal judgement, and as the committee has already brought up, there is also the issue of what can we do to better increase the capital or support the IADB, and, frankly, what can we do in other areas also to better work with our partners.

It goes beyond just the economics, but it also goes to working with our partners on security collaboration and other issues, and also dialoguing more effectively with some of our partners who are shooting themselves in the foot.

For example, Mexico should be one of our most important partners for increasing that nearshoring and yet, at the same time, we have, unfortunately, an Administration there—Andres Manuel Lopez Obrador—who is doing everything possible to make his nation's electricity, including green electricity, more expensive and less viable, pushing up costs to produce in Mexico as an alternative.

I would argue that there are a range of things that we need to do to bring about that nearshoring to the benefit of our hemisphere and for Americans.

Thank you for the question, Senator.

Senator Kaine. Thank you.

Senator Hagerty.

Senator HAGERTY. Thank you, Senator Kaine.

I would like to thank Senator Rubio for raising that important strategic issue on supply chain nearshoring. I have traveled to Guatemala. There is a tremendous amount of interest there.

They have hired McKinsey there to help them figure out a strategy for this. Our trade agreements, whether they be the USMCA that has a lot of potential, or old trade agreements that could be updated, present some opportunity, but also our development finance entities could do a lot more.

I would like to turn my attention to something that Senator Menendez mentioned in the previous panel because I would like to follow up on it.

I would like to highlight the points that you made, Dr. Ellis, because you went through a litany of areas where China is, basically, dominating in a region that is in this hemisphere, whether it is raw material access, dominating 5G, the rideshare market—I did not realize they taken over half of that in Latin America—the energy markets, the fact that Hikvision is taking over data collection there.

This is our backyard. This is our hemisphere that we are talking about and China is, literally, eating our lunch.

The thing that concerned me greatly in the last panel—I know that the two of you were not here—but we were being addressed by the Deputy Assistant Secretary for the Western—for Western Hemisphere Affairs for Public Diplomacy, Policy, Planning, and Coordination.

Yet, she could not tell me or tell this panel the metrics that should be used. She did not even know where the fentanyl was coming from that is coming across, the number-one killer of youth in our nation. The State Department is not measuring this.

How do you hold somebody accountable? How do you hold a nation accountable? How do you hold the Chinese Communist Party accountable for killing our youth when you do not know how much is coming across this border or why?

She was unable to articulate a plan or comment on the key levers that should be used in this policy planning. I am talking about the IADB, the DFC. We have got so many levers that should be brought together in the form of policy, planning, and coordination to have a comprehensive plan to address the very aggressive posture that China is taking in our own hemisphere. Yet, we do not have that plan.

I think we, clearly, need to elevate this as a committee up the chain to get a plan from the State Department. They have the titles. They have the role on paper, but all we heard today was a solution of perhaps raising media awareness of China's behavior when it comes to illegal fishing. That is unacceptable.

I appreciate the fact that you are highlighting the problem. It has become very clear to all of us, and I think we need to get more accountability from our own government entities from a coordination standpoint so we can better use these tools and where the tools are inadequate that will inform us on how to improve those tools.

Thank you.

Senator KAINE. Thank you, Senator Hagerty.

Senator Hagerty, you would have—your comments really would have resonated with the Armed Services Committee hearing that we had last week with the director of SOUTHCOM, who just continually was very candid about being the most under-resourced and

the lowest priority AOR and that even in this area of drug trade we know so much more about where drugs are coming than we have the capacity to stop because they are under resourced when it comes to Coast Guard assets and others.

I think this issue of—in this area that is so critical in the dollars, in where our diplomats go, in the attention that we pay in terms of hearings—we have had good attendance at this subcommittee hearing. We all have to up our game. I completely agree with you on that.

I want to thank the witnesses for your testimony and for the fact that you have really focused on this issue for a very long time. We need you.

If there are more questions for either of the panel of witnesses, the record for the hearing will remain open until the close of business tomorrow, February 1, 2022. I would ask members to direct their questions by that time and I would ask the panelists to ensure that questions are answered promptly.

Thanks again for participating in this hearing.

To my colleagues, staff, and to our witnesses, the hearing is adjourned.

[Whereupon, at 11:59 a.m., the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

RESPONSES OF MS. KERRI HANNAN TO QUESTIONS SUBMITTED BY SENATOR JAMES E. RISCH

Question. Eight countries in Latin America and the Caribbean (out of 14 countries worldwide, including the Vatican) recognize Taiwan. Honduran President Xiomara Castro has pledged to keep relations with Taiwan for now, despite an earlier electoral campaign pledge to establish relations with the CCP.

What are the Administration's efforts for the countries in the region to maintain their current diplomatic relations with Taiwan?

Answer. As a fellow democracy, Taiwan serves as an essential partner in a region where most countries share our values. We support Taiwan's diplomatic and unofficial relationships across the Western Hemisphere, including in Honduras. Together, we support good governance, transparent investments, and economic growth in the region with likeminded countries. The Administration—through our sustained commitment to the Western Hemisphere—bolsters the region's coalition of resilient democracies that champion our shared values. We work closely with our allies and partners to lend expertise and resources toward the region's pandemic recovery, including support for greater vaccine availability, high-standard infrastructure investment, and transparent economic development.

Question. The CCP appears to be seeking to establish logistics and basing infrastructure in the Western Hemisphere in order to project and sustain military power at greater distances. What is the Administration doing to highlight the negative influence this type of influence has in destabilizing the region?

Answer. The United States and democratic Western Hemispheric countries share a close relationship based on shared values and interests. The PRC's military engagement with the Western Hemisphere remains limited but growing. We must maintain our edge in security and defense cooperation and sales to the hemisphere. We collaborate with this region in these critical sectors and voice U.S. concerns about the national security implications of undertaking sensitive cooperation or projects with the PRC.

Question. Please explain the Western Hemisphere Bureau's assessment of the impact on illegal migration flows through Central America as a result of ending Title 42 removal authority.

Answer. In March 2020, the Centers for Disease Control and Prevention (CDC) invoked a section of Title 42 of the U.S. Code to address public health, not immigration, by requiring the immediate expulsion of non-citizen single adults and families

to protect Americans from the spread of COVID-19. Currently, a substantial proportion of all non-citizens encountered at the Southwest Border are currently expelled pursuant to the Title 42 public health Order. The Department of State (DoS) will work with the Department of Homeland Security and other federal agencies to prepare for the potential increase in irregular migration should the CDC lift its Title 42 Public Health Order. DoS will continue to monitor ongoing migration movements throughout the Western Hemisphere by working closely with governments in the region on our shared responsibility to enhance collaborative efforts to strengthen humane migration management, provide protection to those who need it, and reduce irregular migration throughout the hemisphere.

Question. Please explain your Bureau's understanding of the links between illegal migration and illicit drug trafficking across Mexico and Central America.

Answer. The Department continues to work with partner governments in Mexico and Central America to address the complex flows of illicit drugs in the region, including across the U.S. southern border. We work with governments in the region to ensure law enforcement and messaging tools related to drug trafficking, as well as to human trafficking and migrant smuggling, remain relevant and responsive.

Illicit drug trade and irregular migration are both symptoms of endemic corruption; one of the key factors our Root Causes Strategy seeks to address. We remain committed to working with partner governments throughout the Western Hemisphere to address the root causes of irregular migration and forced displacement and to strengthen humane migration management systems in collaboration with governments, civil society, and international organizations in the region.

Question. Please explain your Bureau's assessment of the impact that ending Title 42 would have on law enforcement efforts to combat drug smuggling across the U.S.-Mexico border.

Answer. The Department works closely through our embassies in the Western Hemisphere to strengthen partner governments' efforts to detect, intercede, and prosecute efforts to traffic drugs to the United States through our shared border with Mexico. U.S. efforts and cooperation with Mexican counterparts to combat drug smuggling across our shared border will continue to be a top priority. The ending of the Title 42 order will not affect our focus on the issue.

Question. What actions is the Administration taking to meaningfully curb the flow of Chinese chemical precursors used to manufacture opioids in Mexico?

Answer. We continue to work with a range of international partners and press the People's Republic of China (PRC) at the highest levels to enhance oversight of its chemical industry, improve information sharing, strengthen customs enforcement, and implement "know your customer" standards to restrict sales of narcotics-related precursor chemicals. In March, members of the United Nations Commission on Narcotic Drugs, including the PRC, voted to support a U.S. proposal to internationally schedule three fentanyl precursor chemicals and adopted a U.S.-sponsored resolution addressing the diversion of uncontrolled chemicals and designer precursors. The Department funds the International Narcotics Control Board's (INCB) Databank on Precursor Chemicals, which supports real-time international law enforcement cooperation to prevent diversion and illicit manufacture of precursor chemicals and remains an important tool in helping meaningfully disrupt narcotics flows.

Question. IDB President Claver-Carone has called for a capital increase as the IDB seeks to promote economic growth and good business practices to counter the malign influence of China in the Western Hemisphere. Does the Biden administration support a 10th general capital increase for the IDB?

Answer. On March 28, the United States supported a resolution of the IDB Board of Governors to "reaffirm their commitment to the IDB Group and its continued critical role in promoting sustainable social and economic development and reducing poverty and inequality throughout Latin America and the Caribbean." The United States expressed support for a renewed investment in IDB Invest, accompanied by operational and institutional reforms across the IDB Group, and greater ambition on climate to create a more effective and impactful IDB Group to assist the region in overcoming its challenges and seizing the opportunities that the 21st century presents. We look forward to receiving from IDB management a proposal for a new vision and business model for IDB Invest as mandated by the IDB Board of Governors.

RESPONSES OF MR. PETER NATIELLO TO QUESTIONS
 SUBMITTED BY SENATOR JAMES E. RISCH

Question. Currently 20 out of 33 countries in Latin America and the Caribbean have signed on to the CCP's Belt and Road Initiative. What specific actions is the Administration taking to highlight the consequences of the CCP's non-transparent and coercive economic, financial, and lending practices in order to counter its negative influence in the region?

Answer. In Latin America and the Caribbean, USAID is using Countering Chinese Influence Fund (CCIF) resources to combat malign Chinese influence and promote transparency and accountability in projects associated with the People's Republic of China's debt-trap diplomacy and the Belt and Road Initiative. For example, the "Promoting Security and Freedom of Expression for Media Activity," implemented by the International Center for Journalists, is being implemented in the region to highlight the consequences of the CCP's non-transparent and coercive economic, financial, and lending practices by providing a safe space for journalists when controls on media tighten and governments monopolize information. The "Promoting Security and Freedom of Expression for Media Activity" intends to achieve that by 1) development of online secure platforms for investigative journalists in Latin America to promote safe online collaboration and cross-border investigation; 2) empowerment of investigative journalists with the skills and tools they need to improve the quality of investigations, work safely and securely, and be more effective in a multimedia environment including by highlighting non-transparent and environmentally unsound investments by the PRC; and 3) creation of a regional clearinghouse for investigative journalism, linking national investigative journalism centers into a powerful regional voice for journalists.

Additionally, through regional activities such as the Communities Resilient to Disinformation Building Local Engagement (CREDIBLE) Activity, USAID is working to increase digital and media literacy among youth and other target populations and rebuild the relationship between youth and their local communities with local media to strengthen civic culture, inform political processes, and build resilience against disinformation and misinformation. By building the capacity of investigative journalists, a free media, youth, and civil society, communities and governments can shed light on the most damaging effects of the PRC's actions.

USAID programs in Ecuador, Mexico, Honduras, and others are working with partner governments, civil society organizations and the private sector to strengthen public financial management systems and procurement practices, as well as put in place effective business regulations to ensure that these types of transactions are more fair, competitive, and transparent from the outset. Additionally, fair and transparent procurements receive a stronger response from U.S. companies, enabling greater U.S. private investment in the region.

RESPONSES OF MR. ANDREW HERSCOWITZ TO QUESTIONS
 SUBMITTED BY SENATOR JAMES E. RISCH

Question. What is the Administration doing in order to bring about more near sharing opportunities in the Western Hemisphere region in order to counter the effects of supply side issues resulting from Chinese production?

Answer. DFC continues to meet with governments and private companies from Latin America and the Caribbean, including from those countries involved in the Alliance for Democracy and Development, to identify opportunities to support manufacturing and diversification of the global supply chain. It should be noted, however, that the BUILD Act restricts DFC from providing support to transactions that could have a significant adverse effect on U.S. employment. DFC supports projects that help make Latin America and the Caribbean a more attractive location for U.S. companies to invest, which indirectly supports objectives of increasing manufacturing capacity of Western Hemisphere countries. For example, DFC is working to expand access to critical infrastructure, such as roads that connect goods to markets and energy projects that lower costs and increase the competitiveness of companies. In addition, DFC is supporting micro-, small-, and medium-sized enterprises (MSMEs) growth as they are the primary driver of jobs in the region.

RESPONSES OF MS. KERRI HANNAN TO QUESTIONS
SUBMITTED BY SENATOR MARCO RUBIO

Question. In February, I introduced the *Western Hemisphere Security Strategy Act* with Senators Menendez and Cassidy to address the growing frequency of attempts by bad actors, including the Chinese Communist Party, to influence the Western Hemisphere. The bill requires the Secretaries of State and Defense to develop a multiyear strategy to enhance diplomatic engagement, security assistance and military-to-military cooperation with the countries of Latin America and the Caribbean, consistent with SOUTHCOM Commander General Laura Richardson's statements pointing out the growing disparity in capabilities of SOUTHCOM with adversarial states in the region.

Is the State Department supportive of this legislation?

Answer. The Department continues to review this legislation. We agree on the important role our military-to-military cooperation with the countries of Latin America and the Caribbean plays in supporting our shared priorities in combating problematic influence in the region. We collaborate closely with the Department of Defense and SOUTHCOM on effective responses to these ongoing attempts to influence the Western Hemisphere. We look forward to working with Congress on our joint priorities.

Question. Can you tell me what the State Department's plan is for ensuring that the United States and our allies are able to address growing PLA presence and military capabilities in the region?

Answer. The United States and democratic Western Hemispheric countries share a close relationship based on shared values and interests. The PRC's military engagement with the Western Hemisphere remains limited but growing. We must maintain our edge in security and defense cooperation and sales to the hemisphere. We collaborate with this region in these critical sectors and voice U.S. concerns about the national security implications of undertaking sensitive cooperation or projects with the PRC.

Question. As I mentioned in the hearing, the National Defense Authorization Act for fiscal year 2022 required the State Department to report to Congress, by June 2022, on efforts by China to expand its presence and influence in Latin America and the Caribbean.

What is the status of that report and when it will be completed?

Answer. We continue to work on the report ahead of the June 2022 requested deadline.

Question. In your view, how do countries in Latin America and the Caribbean view China's economic engagement, specifically though BRI in the region?

Answer. We understand the People's Republic of China (PRC) has increased its presence in the region over the last decade and recognize countries consider the PRC a significant trade and investment partner. The PRC remains the top trade partner for Brazil, Chile, Peru, and Uruguay and is second, after the United States, for several other countries. PRC-based companies have invested, and development banks have provided loans, to help develop energy, mining, and other infrastructure sectors in the region. PRC practices show that Belt and Road Initiative (BRI) projects may not end up being good deals for host countries. PRC firms often conspire with corrupt officials to win contracts, and they exploit governments with precarious finances, aggravated by the pandemic, by offering lower-cost technology and state-backed financing.

Question. From the Department's outreach, can you describe which countries have expressed concerns with their existing BRI agreements with the PRC?

Answer. We engage closely with partners in the region to discuss concerns when PRC companies do not adhere to international best practices for environmental, labor, and safety standards. However, we respect the sovereign right of each nation to make choices about its domestic plans and we do not oppose PRC engagement and investment throughout the region. We will continue to echo the long-standing calls from capitals in the region that PRC actions must respect local laws and interests, particularly regarding the human rights of all people, including workers, and protections for the environment. We will also continue apprising countries of the risks associated with untrusted vendor investment in critical infrastructure and sensitive sectors.

Question. What assistance and support has the Biden administration provided to countries that are concerned with their existing Belt and Road agreements?

Answer. The United States seeks to advance our positive economic agenda for the Western Hemisphere, including through supporting high-quality investment in infrastructure that meets international standards and economic development that creates jobs essential for regional pandemic recovery. The Department continues to work with government counterparts and share resources and expertise that support a safe and equitable COVID-19 response, entrepreneurship, and sustainable infrastructure. With likeminded partners and allies, we offer higher-standard, transparently procured and governed infrastructure investment alternatives that uphold labor, environmental, and social safeguards and foster inclusive growth in line with international best practices, including through initiatives like Build Back Better World and the Deal Teams Initiative. We raise concerns and distinguish ourselves from risky PRC critical infrastructure projects and investments. We advocate for a level playing field for all investors. As part of this undertaking, we consistently advocate for our partners to conduct due diligence on public projects and advise our partners about the risks of opaque PRC investment. We also advise countries on a range of issues related to building sustainable and secure digital ecosystems, including 5G spectrum allocation/auction approaches, procurement policies incorporating lifecycle cost and trust considerations, and investment screening mechanisms ensuring new technologies do not jeopardize security.

Question. Could a capital increase for the IDB help support infrastructure development in the region and support strategic competition with China?

Answer. The IDB is a vital source of development finance, and we support its role as a high-quality alternative to unsustainable borrowing from the PRC and other creditors.

Question. What is the Administration's current position on an IDB capital increase?

Answer. On March 28, the United States supported a resolution of the IDB Board of Governors to "reaffirm their commitment to the IDB Group and its continued critical role in promoting sustainable social and economic development and reducing poverty and inequality throughout Latin America and the Caribbean." The United States expressed support for a renewed investment in IDB Invest. We look forward to receiving from IDB management a proposal for a new vision and business model for IDB Invest as mandated by the IDB Board of Governors.

Question. The People's Republic of China has passed several laws that explicitly require Chinese companies to hand over any data they have to the Chinese Communist Party and its security services on demand. There's no limit to the data that is shared and can include personal information, spending habits, even genetic information. Earlier this week, Senator Young and I sent a letter to Secretary Blinken raising concerns about these laws and their implications for American diplomats and service members that may use Didi Chuxing, a Chinese ride-hailing service. Didi plans to expand to countries in the Western Hemisphere.

Has the State Department warned staff that detailed information about their commutes, trips and location could be shared real time with PRC intelligence services should they use Didi or other digital services provided by Chinese companies?

Answer. Mandatory pre-deployment training provides State Department staff with awareness of the PRC's overwhelming and pervasive electronic and physical surveillance of residents, both PRC nationals and foreigners. We ensure State Department staff are warned that the PRC captures vast troves of personal information and spending habits via the application processes for mandatory bank and cell phone accounts, as well its extensive visa application process, for example. Mission China staff receive in-depth personal security briefings on arrival to China.

Question. Is the State Department prohibiting staff from using these services given the danger they pose to their security?

Answer. The State Department does not prohibit staff from using the Didi app, or other apps like WeChat, which are similarly intrusive and pervasive. The *Health Code* app, for example, enables the PRC Government to identify users who have been potentially exposed to COVID-19 and issues QR codes that enable a user to travel to and within China. Because *Health Code* is mandatory and embedded within WeChat, prohibiting U.S. diplomats from using certain apps, would, in some cases, make it impossible for them to serve in China. Other apps requiring extensive registration information are used for school-related programs, ordering goods, and food delivery, for example. The Department continuously assesses all potential actions to mitigate against threats to the safety of U.S. diplomats and disruptions to U.S. diplomatic operations in the PRC and around the world.

Question. Has the State Department incorporated information about this danger into travel information it provides to American citizens traveling to countries where Didi operates?

Answer. The State Department's April 11, 2022 Travel Advisory for China cautions that PRC security personnel carefully watch foreign visitors and may place U.S. citizens under surveillance, including in cars and taxis, which "may be monitored onsite or remotely." Travel advisories for other countries, including those where Didi operates, do not provide information on digital services provided by PRC companies.

RESPONSES OF MR. ANDREW HERSCOWITZ TO QUESTIONS
SUBMITTED BY SENATOR MARCO RUBIO

Question. How much funding did the DFC invest in Latin American and Caribbean countries throughout 2021?

Answer. DFC committed \$2 billion across 31 transactions in Fiscal Year (FY) 2021. DFC committed \$2.2 billion across 22 transactions so far in FY 2022.

Question. In which countries did the DFC make those investments

Answer. In FY 2021, DFC committed support to transactions in Brazil, Belize, Ecuador, El Salvador, Paraguay, Guatemala, Colombia, Argentina, Mexico, Costa Rica, Peru, Jamaica, and Suriname. In addition, DFC committed support to two regional transactions whose scope was not limited to one country.

Question. How much is the DFC planning to invest in Latin America and the Caribbean in 2022 and for 2023?

Answer. DFC has a pipeline of 36 projects that have either a high or medium probability of execution in FY 2022. High or medium probability is defined as greater than 50 percent. The potential value of DFC support for such transactions in FY 2022 exceeds \$1 billion.

Question. Can you provide examples of which countries you are projecting to invest in 2022 and 2023?

Answer. DFC's pipeline of projects with high or medium probability of execution in FY 2022 are located in El Salvador, Honduras, Brazil, Colombia, Dominican Republic, Ecuador, Guatemala, Guyana, Mexico, Paraguay, and Peru.

Question. Do these projections take into account the need to provide countries with alternatives to BRI financing?

Answer. Yes. Providing alternatives to financing provided by the People's Republic of China is an important consideration for DFC as it develops its pipeline of transactions in the region.

Question. As I said in the hearing, the People's Republic of China is prioritizing strategic investments in national infrastructure projects in countries that are barred for DFC investment by the high and upper-middle-income restrictions in the 2018 BUILD Act.

If DFC is not able to finance projects in those countries as an alternative to BRI lending, should the U.S. should aim to provide alternative financing through the Inter-American Development Bank (IDB), which does not have these same restrictions?

Answer. The Inter-American Development Bank (IDB) Group is a DFC partner. In 2019, DFC signed a memorandum of understanding (MOU) with the Group's private sector arm to enhance collaboration in Latin America and the Caribbean with a goal of jointly catalyzing up to \$10 billion of investment in the region's development. We will continue working with the IDB Group to identify developmental transactions in the region. Questions regarding U.S. participation in international financial institutions like the IDB are best answered by the U.S. Department of the Treasury. As an example, we worked jointly with the IDB Invest and FinDev Canada on structuring a DFC transaction to provide subordinated loans in the amount of \$390 million to Banco Davivienda S.A. (Davivienda). The operation, with a tenor of up to 10 years, will strengthen Davivienda's equity position and support its growth, including in their SME portfolio which is one of their priority segments. These loans funding will be used to provide new working capital, investment capital and fixed assets to Davivienda's customers in the small and medium enterprises (SME) and women's SME portfolios, which have been affected by the current health and economic crisis due to the global pandemic. DFC's provided \$250 million out of the \$390 million.

Question. Would another capital increase for the IDB complement DFC's programs to support investment in development projects across the Western Hemisphere?

Answer. Questions regarding U.S. participation in international financial institutions like the IDB are best answered by the U.S. Department of the Treasury.

Question. What efforts has DFC made to refer and recommend to the IDB potential investment projects in places where the DFC cannot invest?

Answer. DFC is implementing the 2019 MOU with IDB Invest to enhance collaboration in Latin America and the Caribbean with a goal of jointly catalyzing up to \$10 billion of investment in the region's development. DFC teams are in regular contact with the U.S. Executive Director and U.S. counselors at the IDB.

Question. Is there recurring interaction on this front, or would you describe it as more ad hoc?

Answer. DFC's work with IDB is regular and recurring. DFC and IDB teams meet quarterly to discuss pipeline and opportunities to collaborate.

Question. Yesterday, reporting indicated that President Biden is seeking to invoke the Defense Production Act to encourage domestic production of critical minerals for electric-vehicles and batteries needed for the renewable energy industry. While I am a firm advocate of making more products in the United States and revitalizing our domestic industry, Latin America also has a part to play in this field. The majority of lithium used in American battery manufacturing comes from Chile, Argentina and other countries in the region. We can benefit both our economy and strengthen economic ties with Latin America by encouraging more mining projects in these countries.

What can you tell me of DFC's efforts to date to support the development of the mining of critical minerals in Latin America?

Answer. DFC shares your goal of supporting diverse supply chains for critical minerals and is sourcing transactions in the mining sector that advance this objective. One example of a project that DFC supported is a \$25 million investment in TechMet Limited, a technology metals company, to increase its investment in Brazilian Nickel, PLC (Brazil Nickel) which owns a cobalt and nickel project in Northeastern Brazil. Brazilian Nickel produces critical minerals specifically for lithium-ion batteries. DFC's \$25 million investment is being utilized for the development of the first phase of commercial production, creating jobs in one of the country's most underdeveloped regions. This project will play a role in securing supply chains for minerals that are critical for clean energy technologies. It will comply with DFC's high Environmental, Social and Governance (ESG) standards, and the production process used will require lower upfront capital expenditures than traditional processes. DFC will explore opportunities to support transactions that similarly support the mining of critical minerals in Latin America.

Question. How is the DFC supporting other nearshoring initiatives in the Western Hemisphere?

Answer. DFC continues to meet with governments and private companies from Latin America and the Caribbean, including from those countries involved in the Alliance for Democracy and Development, to identify opportunities to support manufacturing and diversification of global supply chains. It should be noted, however, that the BUILD Act restricts DFC from providing support to transactions that could have a significant adverse effect on U.S. employment. DFC supports projects that help make Latin America and the Caribbean a more attractive location for U.S. companies to invest, which indirectly supports objectives of increasing manufacturing capacity of Western Hemisphere countries. For example, DFC is working to expand access to critical infrastructure, such as roads that connect goods to markets and energy projects that lower costs and increase the competitiveness of companies. In addition, DFC is supporting micro-, small-, and medium-sized enterprises (MSMEs) growth as they are the primary driver of jobs in the region.

RESPONSES OF MS. KERRI HANNAN TO QUESTIONS
SUBMITTED BY SENATOR BILL HAGERTY

Question. Deputy Assistant Secretary Hannan, what percentage of drugs entering the United States from Mexico include fentanyl ultimately originating in China, including consideration of the precursors and components used to make it? What is the strategy to hold China accountable for the flow of fentanyl coming into the United States through Mexico? What entities is State Department partnering with

to address fentanyl and its precursors in Mexico that ultimately flow into the United States?

Answer. It remains difficult to accurately pinpoint the sources of all precursor chemicals used to manufacture synthetic drugs trafficked into the United States. Some chemicals are not scheduled and thus, legal to sell and ship. Illicit actors hide their activity by routing chemicals through other countries and companies and fraudulently mislabeling shipments to hide chemical identities. Further complicating this situation is the ease with which illicit drug manufacturers can utilize multiple synthetic pathways and alternative unscheduled chemicals to avoid regulations. We refer you to the Drug Enforcement Administration and Customs and Border Protection for the most authoritative seizure and trafficking data.

The Department of State continues to press the People's Republic of China (PRC) at the highest levels to enhance oversight of its chemical industry and to expand information sharing, strengthen customs enforcement, and implement "know your customer" standards to restrict sales of narcotics-related precursor chemicals. We are actively working with international partners such as Mexico, Canada, India, the Netherlands, Australia, the Republic of Korea, and others in Europe to improve international cooperation. We have successfully worked at the United Nations Commission on Narcotic Drugs, with support from the PRC, to internationally control fentanyl precursor chemicals.

In Mexico, we partner through the U.S.-Mexico Bicentennial Framework for Security, Public Health, and Safe Communities to reduce diversion of precursor chemicals and curb production of synthetic drugs, including with the Mexican Navy, Army, Customs Agency, Federal Attorney General's Office, Foreign Ministry, Secretariat for Public Security and Citizen Protection, the Federal Commission for Protection against Sanitary Risks, the National Commission Against Addictions, the Financial Intelligence Unit, and state-level law enforcement and justice institutions.

RESPONSES OF MR. ANDREW HERSCOWITZ TO QUESTIONS
SUBMITTED BY SENATOR BILL HAGERTY

Question. How is DFC specifically enabling opportunity for American fossil fuel, nuclear, and mining industries and preventing projects in countries in Latin America and the Caribbean from falling into the arms of adversaries, with far more negative environmental impact?

Answer. Gas-fired and nuclear electric generation have the potential to increase access to healthcare, markets, and other basic services. In the Latin America and Caribbean region, more than 20 million people are without electricity access and more than 80 million people rely on firewood and charcoal for cooking.

DFC will consider highly strategic or highly developmental energy projects that would greatly support economic growth in the poorest countries and advance U.S. national security interests.

In line with the Biden administration's energy and climate policies, DFC is open to supporting nuclear energy technology projects. We recognize that nuclear power provides the promise of zero emission baseload generation at scale. Because of the extremely high costs of conventional nuclear power, however, DFC's financing tools are limited in this area. We are particularly interested in pursuing opportunities to support innovation in the nuclear space, such as small modular reactor (SMR) technology, or other small and modular installations that can be completed in lower-cost and more expeditious staging.

DFC shares your goal of supporting diverse supply chains for critical minerals and is sourcing transactions in the mining sector that advance this objective. One example of a project that DFC supported is a \$25 million investment in TechMet Limited for its downstream investment in Brazilian Nickel, PLC (Brazil Nickel) that will support the expansion of Brazil Nickel's cobalt and nickel mine in Northeastern Brazil to produce products specifically for lithium-ion batteries. This project will play a role in securing supply chains for minerals that are critical for clean energy technologies. DFC will explore opportunities to support transactions that similarly support the mining of critical minerals in Latin America.

Question. What are some of DFC's key efforts to help bring supply chains back to this hemisphere and away from China?

Answer. DFC continues to meet with governments and private companies from Latin America and the Caribbean, including from those countries involved in the Alliance for Democracy and Development, to identify opportunities to support manufacturing and diversification of the global supply chain. It should be noted, however, that the BUILD Act restricts DFC from providing support to transactions that could

adversely affect U.S. employment. DFC supports projects that help make Latin America and the Caribbean a more attractive location for U.S. companies to invest, which indirectly supports objectives of increasing manufacturing capacity of Western Hemisphere countries. For example, DFC is working to expand access to critical infrastructure, such as roads that connect goods to markets and energy projects that lower costs and increase the competitiveness of companies. In addition, DFC is supporting micro-, small-, and medium-sized enterprises (MSMEs) growth as they are the primary driver of jobs in the region.

Question. What more can Congress do to help DFC boost American enterprise in this hemisphere and simultaneously in our competition with China?

Answer. We are greatly appreciative of the work that Congress has already done to allow DFC to provide a values-driven and high-quality alternative to investment by the People's Republic of China. Thanks to the robust appropriation that Congress provided to DFC in FY 2022, we are ramping up our efforts to drive new private project investments. We would appreciate Congress' careful consideration of the President's FY 2023 Budget Request, which would provide sufficient appropriations to DFC to allow it to further develop its portfolio, place staff overseas in the Latin America and Caribbean region, and make impactful investments across the region.

