



# Center for a Secure Free Society Global Dispatch



## The Dragon and the Condor: Beyond China's Economic Influence in the Americas

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**M**ainstream analysis of China's presence in Latin America almost exclusively concentrates on economics rather than politics, and often disregards military or security issues entirely. Chinese economic penetration of the Western Hemisphere, which includes products, services, loans, and investments, has grown considerably since Hu Jintao first visited Brazil, Argentina, Chile, and Cuba in 2004. This progress has also brought growing concern about the People's Republic of China's (PRC) strategic objectives as well as its non- or extra-economic activities in the region. One significant area is the almost imperceptible but steady increase in Chinese intelligence activities in Latin America.

There are two primary reasons why the Western Hemisphere is important to China. First, the PRC's Going Global strategy singled out Latin America as a major source of critical commodities for a growing Chinese economy. Consequently, prices rose for crude oil, natural gas, iron ore, copper, soybeans, and other commodities benefiting regional economies, especially during the downturn of 2008-2009. Second, Latin America and the Caribbean are strategically positioned in the United States' "backyard," and any changes there will have a major impact on US national security.

In this Dispatch, we examine China's growing regional influence from a geostrategic perspective, examining such activities as the building of the Nicaragua Transoceanic Canal, the implications of the Belt and Road Initiative, and the intelligence capabilities afforded by Beijing's use of cyberspace and fiber optic cables to augment its other activities in South America. As a country grows economically, it is likely to increasingly project its power through military and political means as well, and that is certainly true of a country now acknowledged as the second largest global economy. It is also clear that China's strategic objectives and interests are well beyond the economic realm, and that they raise considerable national security concerns for the US as well as for other nations in the hemisphere.

## Going Global

**T**he presence of the PRC in Latin America dates to the early 60s, when Castro's Cuba became the first Latin American country to establish relations with Beijing. Argentina, Brazil, Chile, Mexico, and Peru all followed suit in the early 70s,<sup>1</sup> recognizing the PRC at the expense of Taiwan. In contrast, twelve other countries\* favored Taiwan, though Costa Rica\* would later alter its policy in favor of Beijing in 2000.<sup>2</sup> Nevertheless, much of the

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region established diplomatic relations with Beijing, constituting a triumph for Chinese diplomacy in the Western Hemisphere.

At first, these relationships were purely symbolic; Latin American cooperation with China was primarily influenced by the United States' rapprochement with Beijing and brought the country minimal economic gain. However, the late 90s brought a change in China's approach to its relations with Latin America, as its economic policies adopted in the 80s began to bear fruit and it shifted focus to amassing natural resources (mainly agricultural and mining resources) and energy supplies (petroleum and gas) that would help to sustain economic growth. Following the shift to commercial pursuits, cooperation between the regions became more regular.<sup>3</sup>

China is now the top trade partner for Brazil, Chile, and Peru.<sup>4</sup> After the 2008

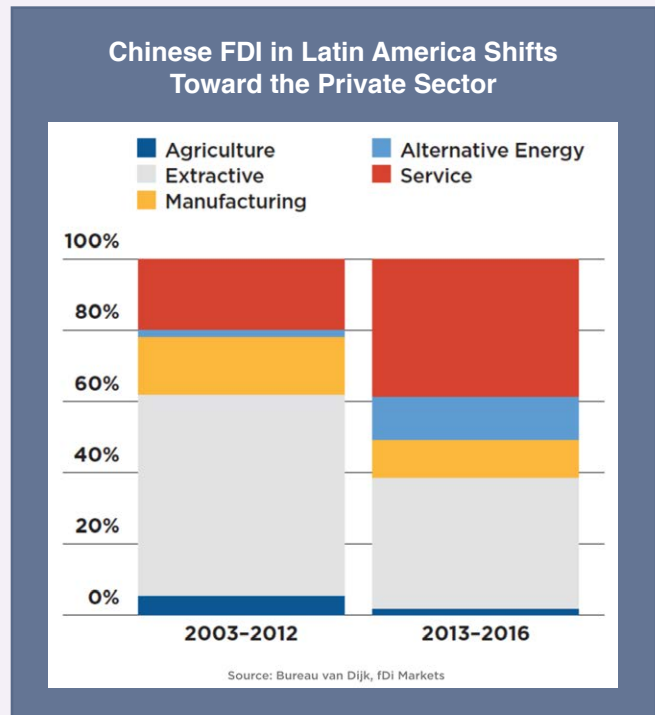
\*Panamá, Costa Rica, Paraguay, Haití, El Salvador, the Dominican Republic, Honduras, Guatemala, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, and Belize. After seeing the benefits Costa Rica has reaped from its cooperation with the People's Republic of China, several other Central American countries are reconsidering their recognition of Taiwan.

financial crisis curtailed US demand, China began investing overseas to create new opportunities for trade. Since then, China's investment in Latin American economies has progressed steadily. According to a report from the Atlantic Council, "cumulative flows of Chinese FDI (foreign direct investment) in Latin America have reached over \$110 billion, with \$60 billion to Brazil alone."<sup>5</sup>

Originally, Chinese investments focused on extractive industries (petroleum, natural gas, minerals, and other natural resources) to help feed China's growing industrial machinery. Upon closer scrutiny, the data show that Chinese FDI has since shifted towards the service sector:

Investments in extractive industries accounted for more than 60 percent of the total Chinese FDI in the region from 2003 to 2012, but dropped to 37 percent in the following four years (2013-2016). Investments in the service sector jumped from 21 percent of Chinese FDI from 2003-2012 to more than 50 percent the following four years (with alternative energy included).<sup>6</sup>

In part, this shift reflects a change in China's economic slowdown and a strategic orientation to prompt growth throughout the Chinese economy. China's new target areas for investment in Latin America are in commercial, mining, agriculture, tourism, and infrastructure sectors. Particularly in this last area (infrastructure), China has proposed wide-ranging projects such as the Central Bi-Oceanic Railway through Brazil and Peru, an underwater fiber optic cable connecting China to Chile, and the Nicaragua Interoceanic Canal. This last project in Nicaragua has brought internal controversy, as its proposed course runs through an indigenous area. It has also prompted disputes with neighboring countries such as Costa Rica, which declared unenforceable an International Court of Justice ruling between the two countries.<sup>7</sup> To date, none of these Latin American projects involving Chinese interests have been completed.<sup>8</sup>



## Nicaragua: Beyond Economics

China's economic clout has allowed it to pursue other strategic objectives which many analysts consider critical to reshaping the regional balance of power. Trade, investments, loans, and debt swap opportunities provide China with the means to meet its geopolitical goals. Debt can be leveraged through infrastructure investments to the benefit of the PRC in economic, geopolitical, and even military matters. When reviewing China's extension of generous credits, loans, investments, and debt relief to authoritarian and anti-US regimes, the real nature of large infrastructure and other projects must be examined for ulterior motives.

In 2013, President Daniel Ortega announced the resurrection of the Nicaragua canal project under the management of Chinese billionaire Wang Jing's private start-up investment firm, Hong Kong Nicaragua Development (HKND) company.<sup>9</sup> The canal is supposed to connect the Pacific and Atlantic

oceans, crossing through Lake Nicaragua. Despite the Nicaraguan government's assertions that the project continues as planned, its progress has been minimal and marked by growing discontent from the country's small landowners, who fear construction will result in expropriation of their land.<sup>10</sup>

Additional concerns include environmental and social issues; Nicaraguan farmers also fear the irreversible impact that construction of the canal could have on agriculture and their lifestyle.<sup>11</sup> Similar objections have been made by indigenous communities, which have charged the government with committing fraud and falsifying documents to secure an arrangement with HKND.<sup>12</sup> Accusations of corruption continued to multiply as President Ortega's son was named to the commission in charge of handling negotiations between the government and HKND and the administration signed a new law that critics claim contradicts the Nicaraguan Constitution.<sup>13</sup>

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In 2012, Nicaragua's National Assembly passed Law 840, also known as the "Canal Law," formally approving the construction of the Nicaragua Interoceanic Canal.<sup>14</sup> The vote passed, on a contentious party line vote, without any prior public consultation or debate within the Nicaraguan National Assembly. Simultaneously, the Ortega government passed a "concession law" granting a no-bid contract and exclusive rights to HKND to

"design, develop, engineer, finance, construct, possess, operate, maintain and administer" the Canal for 50 years with an option to extend for another 50 years.<sup>15 16</sup>

According to the former Secretary General of the Ministry of Defense under the Bolaños Administration, Felix Maradiaga, the Nicaragua Canal's hidden purpose could be to create a special zone that gives China extra-territorial authority within the country.<sup>17</sup> This potential "state within a state" would allow the Ortega regime to fund various projects with foreign governments or companies under a special jurisdiction that would exempt projects from all oversight of the current legal system.<sup>18</sup>

The Nicaragua Interoceanic Canal, as well as the irregular process by which the project has developed, present an excellent example of how Chinese companies have leveraged political rapprochement with Latin American countries to their own benefit and to the detriment of local populations, regardless of Beijing's supposed goal of pursuing a win-win strategy with the region's nations. It also raises questions about the PRC's plans for long-term geopolitical repositioning and projecting power in a new horizon.

## Belt and Road Initiative

The Nicaragua canal and similar large-scale infrastructure projects in Ecuador and Venezuela, for instance, raise serious concerns about the extent and motive behind China's permeation in the Western Hemisphere. These concerns are increasingly relevant as China continues to promote ever-larger investments in the Americas.

In Santiago, Chile, at the January 2018 China-CELAC<sup>‡</sup> ministerial meeting, China announced plans to invest in the region as part of its Belt and Road Initiative (BRI), adding to over \$140 billion already

<sup>‡</sup>Community of Latin American and Caribbean States

invested by China's policy banks.<sup>19</sup> The BRI is a grandiloquent infrastructure-driven economic development strategy proposed by the PRC's President Xi Jinping and underlying a push to establish a China-centered trade system. The initiative focuses on infrastructure investment projects (e.g., railway and highway construction) with attendant investments in automobile, real estate, energy, and iron and steel components. Initially focused on Asia, the initiative has extended beyond the region to include other continents.

While overtly intended to develop infrastructure as a means of reducing physical and regulatory barriers to trade and subsidizing China's state-controlled firms at home and abroad, the BRI raises serious enquiries about the PRC's long-term interests and objectives abroad. Legal and territorial concessions by partner countries such as Nicaragua, Bolivia, Venezuela, Ecuador, and others in the Americas, as well as disregard for environmental and labor conditions, highlight the magnitude of Chinese penetration in these countries.

## The Dragon's Eyes and Ears

Given China's propensity for centralized authority, it is often difficult to distinguish between state-controlled companies and PRC government agencies. Several companies are known to be closely associated with the People's Liberation Army (PLA) and the PRC's Ministry of State Security's Bureau Number 17 (also known as the Enterprise Division), which organizes and manages numerous MSS-owned and operated front companies.<sup>20</sup> This makes it extremely difficult to differentiate China's economic activity with its political-military activities.

The extension of China's involvement in other spheres gives rise to the logical

assumption that the PRC will eventually augment these activities with intelligence operations in accordance with its long-term interests in Latin America. Based on China's known objectives in the region and its activity in other latitudes, one can deduce that its regional intelligence operations would aim to:

1. Protect its political, commercial, and security interests against potential threats;
2. Identify commercial opportunities for Chinese companies in the region;
3. Keep track of regime opponents;
4. Monitor Taiwan's activities in the region;
5. Collect information on US military technology and doctrine;
6. Conduct cyberwarfare; and
7. Carry out corporate espionage.<sup>21</sup>

Unlike Russian intelligence, which has an extensive history linking it with local communist parties and front-organizations, Chinese intelligence operations have left no open-source evidence of traditional human-source espionage activities in Latin America. In part, this may be explained by the absence of strong Chinese communities in the region. Russian intelligence, upon which Chinese strategy is based, has made good use of local Russian- and communist-friendly communities

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to penetrate target societies for intelligence purposes, but the Chinese diaspora in the region lacks the necessary access to local power structures to provide the same kind of support to Beijing. Moreover, the Chinese

tendency to distrust non-Chinese actors and focus instead on targeting recruits from a relatively small and insignificant diaspora further hinders its efforts to develop an effective human intelligence network in Latin America.

Nevertheless, the United States should remain vigilant towards the prospect of Chinese espionage activity in the hemisphere, particularly corporate espionage. According to the Center for Investigative Journalism (CIPER),<sup>22</sup> Washington first began to follow Chinese activity in Latin America with the signing of the 2005 Chile-China Free Trade Agreement. According to a leaked diplomatic cable,<sup>23</sup> the US expressed its concern over the agreement, suggesting that China might use

strategy have already been reported in other countries in the Western Hemisphere. For example, in 2012 Canadian reporter and Xinhua correspondent Mark Bourrie claimed that the agency had used him to collect information on opponents of the Chinese regime in Canada.<sup>27</sup>

In fact, Xinhua is considered one of the civil institutions responsible for carrying out investigations, analyses, and intelligence operations<sup>28</sup> on the part of the Chinese government and forms part of the regime's foreign propaganda machine.<sup>29</sup> The extent of Xinhua's activity and that of other Chinese actors operating in seemingly innocuous roles should not be overlooked by the US and other countries wary of foreign espionage.

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Chile to access US military secrets. Exchanges between officials and future combined military exercises with Chile could provide China with access to information on North American strategy and tactics, as well as the technology behind their arms systems.<sup>24</sup>

According to CIPER, the size of the Chinese embassy in Chile also raised concern among American officials. With 22 recognized diplomatic officials, the PRC embassy in Santiago counted as one of the largest in Latin America.<sup>25</sup> Also, Xinhua News Agency, the country's official press organization, has a significant footprint for a country like Chile.<sup>26</sup>

The presence of Chinese journalists abroad merits special attention given the country's likelihood to emulate Soviet-era tactics such as using journalism as a cover for intelligence personnel. Examples of this

## **Cyberwarfare: China's Asymmetric Advantage**

China's lack of a robust human intelligence network in Latin America will continue to weaken traditional intelligence collection efforts modeled after Russian tactics. What China lacks in human intelligence, however, it makes up for in strong cyber warfare capabilities against which Latin American countries with cybersecurity and critical infrastructures are ill-prepared.<sup>30</sup>

In 2012, a serious case emerged of Chinese-connected industrial espionage taking place in Latin America. A report by computer security firm ESET declared that tens of thousands of industrial and other blueprints were stolen from several Peruvian companies using malware, which was traced to Chinese e-mail accounts. ESET researcher Righard Zweinenberg claimed this was due to Chinese industrial espionage.<sup>31</sup> The virus was localized to Peru but spread to a few neighboring countries before it was contained.<sup>32</sup> While the immediate objective of this cyber act was clearly industrial espionage, the scope and direct links to Chinese accounts raised several serious questions about PLA

## Proposed China-Chile Underwater Fiber Optic Cable



A redesign of a presentation slide shown during a New China TV broadcast on July 7, 2017.

Chinese communications hub for the region and, according to Huawei executives, give Chile greater opportunities and reduce internet costs. Nevertheless, there are some doubts as to the latter claims as the main traffic for Chile's internet users is with the US and Europe, and not Asia.<sup>37</sup> For Chinese firms in the region, providing an alternate flow of traffic gives them more freedom and lowers costs. Also, from a security perspective, it allows them greater confidentiality and reliability in communications since they will be operated by Chinese firms, and won't be routed through third parties.

and Chinese intelligence activities in South America.

In general, the region's cybersecurity infrastructures are underdeveloped and outdated. What's more, cybersecurity coordination between private and public sectors is either scarce or nonexistent.<sup>33</sup> These vulnerabilities enable third parties to use computers and networks in Latin America to capture useful information and carry out cyber-attacks against other states.

For this reason, the arrival of Chinese tech companies seeking widespread investment projects in Latin America has attracted significant attention from the US and other countries. Particularly noteworthy is the laying of a fiber optic submarine cable between China and Chile,<sup>34</sup> managed by telecommunications giant Huawei.<sup>\*\*</sup> Calculated to run between 12,000 and 15,000 miles long and cost up to US\$650 million,<sup>35</sup> the cable will presumably provide speedier Internet connections and reduce broadband costs in Chile, particularly in rural and poor communities.<sup>36</sup>

The cable would convert Chile into a

Another proposed fiber optic cable would unite the southern cone of Chile with the mainland. Running from Punta Arenas to Puerto Montt, it would involve some 3,000 km in a zone of difficult geography and climate.<sup>38</sup> Currently, the southern region is connected to the rest of Chile via satellite and through a less-than-reliable fiber optic cable running through Argentina. This second new cable project would bring the country together through an integrated fiber cable trunk line, promoting regional integration and lowering costs.<sup>39 40</sup>

This presents serious security concerns since Punta Arenas is the embarkation point for many logistical and other operations related to research bases in the continent of Antarctica. The town hosts numerous scientific and military missions from the US and UK, and information about these missions could easily be communicated by fiber optics to Chinese intelligence. While Huawei's fiber optic projects would surely help to position the conglomerate in the Latin American market, it would also provide access to a flow of information and greater security for China's own communications throughout the continent.

\*\*Tech Company founded by Ren Zhengfei, and ex-officer of the People's Liberation Army (PLA) and member of the Communist Party of China (CPC). It should be noted that the U.S. House Permanent Select Committee on Intelligence already concluded in 2012 that it could not grant Huawei access to critical infrastructure and software systems in the United States, because Beijing had the means, motive, and opportunity to use these companies and their teams as a base from which to launch information attacks on sensitive areas of U.S. national security or trade secrets.

## Implications for U.S. National Security

As previously mentioned, most Chinese communities in Latin America are small and have little local influence that would be of great use in the creation of human intelligence networks. Nevertheless, China is known for its strategic patience and is expected to begin carrying out intelligence operations in the Americas that build upon its current strengths. This is consistent with the activity of a major world player projecting power abroad, and is likely a long-term, multi-stage process meant to build China's intelligence capabilities in Latin America alongside its economic influence. This multi-stage process could look like the following:

### Stage 1:

Take advantage of Latin America's weak cybersecurity infrastructure to seize digital networks and gain access to politically and commercially advantageous information.

### Stage 2:

Station Chinese intelligence agents in embassies, consulates, and news agencies in the region, as well as among corporate personnel, particularly in tech companies that have access to information of interest.

### Stage 3:

Recruit locals to acquire information and gain influence. Possibly, use anti-American arguments and emphasize China as a partner of mutual benefit.

### Stage 4:

Carry out negotiations that appear commercially profitable, with the aim of establishing relationships and gaining access to technologies.

### Stage 5:

Position agents in immigrant groups planning to settle down and build relationships in the target country.

China's presence in Latin America will continue to grow not only in the economic sphere, but also in political, security, and cultural aspects. China's intelligence operations in Latin America will be carried out gradually and in stages, especially until Beijing can develop trusted human intelligence networks to support its activity. Nevertheless, China's mastery of cyberwarfare and corporate espionage already poses a threat to many of the region's countries, which lack adequate cybersecurity and protection of critical infrastructure.

The new 2018 US National Security Strategy presents China as a "strategic competitor" that wants to realign global power in their interests, potentially threatening the United States.<sup>41</sup> Attention must be paid to the PRC's various initiatives in the Western Hemisphere beyond what are described as economic ventures. The nature of the PRC's state-controlled industries and policy banks, its use of economic clout and power to achieve geopolitical objectives, its increase in cyber activity in lieu of human intelligence, and other critical issues suggest that a purely economic interpretation of China's activities in the Americas is inadequate.



# Notes

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