

U.S.-China Economic and Security Review Commission

Staff Research Report



November 5, 2015

China's Military Agreements with Argentina: A Potential New Phase in China-Latin America Defense Relations

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Acknowledgments: The author thanks R. Evan Ellis, Margaret Myers, and Richard D. Fisher, Jr. for their reviews of early drafts. These reviews do not imply any endorsement of this report's contents, and any errors should be attributed solely to the author.

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Table of Contents

Introduction	3
2015 China-Argentina Agreements	3
China-Argentina Defense Ties in the Context of Expanding Regional Military Engagement.....	6
Implications for the United States	8
Conclusion.....	13
Endnotes	14

Introduction

At the conclusion of a state visit to China by Argentine President Cristina Fernández de Kirchner on February 5, 2015, the governments of China and Argentina released a joint communiqué announcing prospective military sales and defense cooperation agreements extending beyond the scope of any made between China and a Latin American nation to date. If finalized, these agreements would significantly alter the scope of China's military exports to the region, representing a new level of volume, competitiveness, and technological sophistication and potentially creating inroads to other regional markets. This report seeks to outline the emerging details of China's recent agreements with Argentina, analyze their significance within the progression of China's military engagement with Latin America as a whole, and assess potential implications this progression may have for U.S. regional objectives.

2015 China-Argentina Agreements

China and Argentina publicized their objectives for defense cooperation following a four-day bilateral summit between top officials in Beijing in February 2015.¹ Importantly, this summit followed previous agreements that had elevated China-Argentina relations to a “comprehensive strategic partnership”^{*} and founded the “Argentine-Chinese Joint Committee on Cooperation in the field of Defense, Technology, and Industry”[†] in 2014.² A joint communiqué covering defense cooperation, released by both sides following the February 2015 summit, affirmed several military agreements previously developed by the Joint Committee and added a new prospective agreement regarding the sale of Chinese-made fighter aircraft to Argentina.³ Altogether, the summit and subsequent announcements unveiled or discussed several defense-related elements:

- *Aircraft:* China and Argentina announced for the first time their formation of a joint working group to assess the integration of Chinese-made fighter aircraft into the Argentine Air Force, which would upgrade its antiquated and deteriorating fighter fleet.⁴ This group was tasked with exploring Argentina's purchase of at least 14, but potentially as many as 20 FC-1[‡] or J-10 aircraft, both fourth-generation fighters manufactured by the Chengdu Aircraft Corporation, a subsidiary of defense conglomerate Aviation Industry Corporation of China (AVIC).⁵ China's coproduction with Pakistan of the FC-1, an inexpensive multirole combat aircraft,⁶ is likely of interest to Argentina's defense industry, which has valued direct industrial participation in defense procurement.⁷ As the FC-1 is less expensive and of significantly lower quality than the J-10, it would likely be a worthwhile purchase to Argentina only under coproduction terms.⁸ The J-10, a more advanced multirole combat aircraft, has been described in U.S. government publications as a “modern” fighter comparable in performance to U.S. fourth-generation jets.^{9,8} Although the J-10 would be

^{*} A “strategic partnership” was initially announced by then presidents Nestor Kirchner and Hu Jintao in 2004; current presidents Cristina Fernández de Kirchner and Xi Jinping upgraded the relationship to a “comprehensive strategic partnership” at a meeting in 2014. The February 2015 summit was the first held under the new terminology. China has established 47 “strategic partnerships” and 23 “comprehensive strategic partnerships” with countries around the world. *People's Daily* (English edition), “China, Argentina to Establish Strategic Partnership,” November 17, 2014. http://en.people.cn/200411/17/eng20041117_164230.html; Xinhua (English edition), “China, Argentina Upgrade Ties to Comprehensive Strategic Partnership,” July 19, 2014. http://news.xinhuanet.com/english/china/2014-07/19/c_133494807.htm; and Feng Zhongping and Huang Jing, “China's Strategic Partnership Diplomacy: Engaging with a Changing World,” *European Strategic Partnerships Observatory*, June 2014, 7, 18. http://fride.org/download/WP8_China_strategic_partnership_diplomacy.pdf.

[†] *The Argentine-Chinese Joint Committee on Cooperation in the Field of Defense, Science, and Technology is a sub-committee of the China-Argentina Inter-Governmental Standing Committee, founded when China and Argentina upgraded their relationship to a “strategic partnership” in 2014. Ministry of Foreign Affairs of the People's Republic of China, Foreign Minister Wang Yi and Foreign Minister Héctor Timerman of Argentina Chair First Meeting of Standing Committee between Two Governments, February 6, 2015. http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1235611.shtml.*

[‡] “FC-1” is the Chinese designation for this aircraft; “FC” is the export designation for Chinese aircraft. “JF-17” is the designation in Pakistan. All orders of the aircraft to date have been from the Pakistani Air Force, with none from the PLA Air Force. Based on a program originally launched by China, the aircraft has been jointly produced by both countries since 2003. IHS Jane's, “CAC FC-1 Xiaolong,” *All the World's Aircraft*, February 3, 2015, 1–2.

⁸ Chinese military analysts have emphasized the J-10B variant's advanced phased-array radar and ability to carry advanced Chinese-made air-to-air missiles as selling points. Zhao Lei, “J-10 Fighter Jet ‘Good Choice for Argentina,’” *China Daily* (English edition), May 18, 2015. http://usa.chinadaily.com.cn/2015-05/18/content_20750586.htm; Zhang Tao, “Expert: J-10 More Suitable for Argentina,” *China Military Online*, February 11, 2015. http://english.chinamil.com.cn/news-channels/china-military-news/2015-02/11/content_6351096.htm; and

more costly, since the summit Chinese military analysts have emphasized the advanced phased-array radar and air-to-air missiles of one variant in particular, the J-10B, as selling points (which variant Argentina is considering is unclear).¹⁰ Argentina has also explored aircraft purchases from France, Israel, Spain, Sweden, and Russia,¹¹ but has announced prospective deals only with China and Israel to date; which agreement, if any, will ultimately be fulfilled is unclear.¹²

- *Naval vessels:* As previously planned by the Joint Committee, China will construct five 1,800-ton P-18N corvettes for the aging and underinvested Argentine Navy,¹³ with up to three of the ships reportedly to be coproduced in Argentina.¹⁴ The corvettes will begin the Argentine Navy's new pointedly-named "Malvinas-class"¹⁵ of offshore patrol vessels, and an icebreaker and two tugboats will also be included in the deal.¹⁵ Argentina had considered purchasing ships from Brazil, Germany, and Spain over the past decade before opting for the P-18N, which was designed by China Shipbuilding Industry Corporation for export and sold to Nigeria previously.¹⁶ Delivery of the corvettes is expected to begin in 2017.¹⁷
- *Amphibious armored personnel carriers (APCs):* As the Joint Committee had also previously planned, China and Argentina will coproduce 100 or more 8x8 VN1 APCs, developed by Chinese defense conglomerate China North Industries Corporation (Norinco). Coproduction will take place in Argentina, and the vehicles are intended for marketing to other Latin American countries as well, according to Argentina's Minister of Defense.¹⁸ Argentina is opting for China's offer over Brazilian-made APCs (coproduced with Italian company Iveco¹⁹) in which it had been interested in the past, a blow to Brazil's regional export ambitions.²⁰
- *Military-to-military exchanges:* The communiqué also affirmed agreements previously established by the Joint Committee regarding officer exchange programs between the People's Liberation Army (PLA) and the Argentine Army, as well as PLA construction of field hospitals in Argentina.²¹
- *Space cooperation:* Announced in a separate communiqué but with military ties and potential dual-use implications, China will "build and man a new space tracking and control station[†] on a roughly 500-acre facility in the southern Argentine province of Neuquén."²² The facility will be built and operated by China Satellite Launch and Tracking Control General (CLTC), a subsidiary of the PLA General Armaments Department.²³ This station will provide China with a much-needed southern hemisphere node to communicate immediately with its satellites and spacecraft when they are positioned over the region, and thus download images or conduct orbital adjustments without waiting for them to fly over Chinese territory.²⁴ It will be particularly useful in tracking China's forthcoming unmanned missions to the moon and Mars.²⁵ Argentina will in return reportedly be able to use up to 10 percent of the station antenna's time and access imagery from China's surveillance satellites; this will likely be localized and cover a range of imagery types.²⁶
- *Other dimensions:* A host of other cooperative documents were signed at the summit, covering aspects of the China-Argentina partnership related to politics, economics, trade, finance, science and technology, space exploration, and tourism, among others.²⁷ China notably pledged to invest between \$5.8 billion and \$7 billion in Argentina to build two nuclear plants,²⁸ \$5 billion to help build hydroelectric plants, and \$2.5 billion to modernize railways, as part of a package valued at \$21 billion total.²⁹

Taken together, these agreements would involve each branch of Argentina's military and occur within the context of broadening engagement across all dimensions of the China-Argentina relationship. Three caveats regarding the feasibility of these developments must be emphasized, however:

Andrew Tate, "China's J-10 Advocated as Argentine 'Typhoon Beater,'" *IHS Jane's 360*, February 15, 2015.

<http://www.janes.com/article/49002/china-s-j-10-advocated-as-argentine-typhoon-beater>.

* "Malvinas" is the term used by Argentina's government for the Falkland Islands, which are administered as sovereign territory of the United Kingdom but claimed by Argentina.

† Technically this is termed a "telemetry, tracking, and control (TT&C) center," able to send and receive data relays. Kevin Pollpeter (Deputy Director, Study of Innovation and Technology in China Project, University of California Institute on Global Conflict and Cooperation), interview with Commission staff, March 9, 2014.

- None of these agreements entail actual legal contracts to date, with latest reports on the prospective aircraft acquisition indicating the working group has met to “explore” the purchase but has announced no decision.³⁰ Some sources, unconfirmed by official reports, state that Argentina has already abandoned its consideration of the FC-1 and may be leaning again towards Israel’s Kfir fighter,³¹ though Argentina’s record of constant on-again, off-again cycling through multiple fighter negotiations suggests the issue will only be finalized in the long-term upon actual delivery of the aircraft.³² Argentina has announced intentions to purchase Chinese-made APCs and Z-11 helicopters in the past, only to suspend the deals when problems arose.^{33,*}
- Argentina’s recent budget deficits and tenuous relations with international creditors, highlighted by a controversial “selective default” in June 2014,³⁴ may limit its ability to afford these purchases.† Argentina will reportedly require funding through commodity-backed loans from China to buy the FC-1 or J-10 aircraft,³⁵ the first time it will have borrowed on such terms.³⁶
- Argentina’s November 2015 runoff election may replace the current administration with a candidate from a center-right party who could be inclined to terminate these deals, although at the time of this writing polls predict a tight race between this candidate and a handpicked successor from Kirchner’s party.³⁷ There would be historical precedent for such a shift—prior to successive Kirchner governments, China-Argentina relations had been plagued by discontinuity between the policies of different Argentine administrations, suggesting bilateral relations may not maintain their momentum after a power transition.³⁸ Further, these prospective defense acquisitions have been unpopular among many military officers,³⁹ and approval for the space station was secured by the governing party in February only by a narrow margin after intense debate in Argentina’s legislature.⁴⁰

Argentina’s military modernization needs, the impending election, and a desire to continue improving ties with China overall will likely prompt a hard push by the Kirchner Administration to make continued progress in its remaining months in office. Should these programs be fulfilled, they would represent a profound change in the level of China’s arms sales to Argentina and the Latin American region overall, as demonstrated in the following section.

Figure 1: Summary of Prospective China-Argentina Agreements

	Air Force	Navy	Army	Space
<i>Platforms</i>	FC-1 or J-10 variant	Icebreaker (1), Tugboats (2), P-18N Corvettes (5)	APCs	Space Tracking and Control Station
<i>Total Number</i>	14–20 (if FC-1, likely coproduced)	7	100+ (coproduced)	1 (Neuquén Province)
<i>Estimated Cost (Argentina)</i>	\$30–40 million per FC-1; \$50 million per J-10 ⁴¹	\$42–50 million per P-18N, ⁴² others unavailable	Unavailable	50-year tax exemption granted to CLTC; roughly 500 acres made available for facility
<i>Estimated Cost (China)</i>	N/A	N/A	N/A	Reported \$300 million investment by CLTC; 10 percent of antenna’s time available to Argentina; ⁴³ employment of local workers and guards ⁴⁴

* The APC contract was suspended in 2008 due to problems with the four vehicles purchased for evaluation. The helicopter acquisition was halted in 2007 when France claimed the Z-11 was an illegal copy of a Eurocopter helicopter and threatened legal action against Argentina. R. Evan Ellis, “The Strategic Dimensions of Chinese Engagement with Latin America,” *William J. Perry Center for Hemispheric Defense Studies*, Perry Paper Series No. 1, 2013, 103–104.

† China has been a major creditor to Argentina since its 2001 default and through the 2014 episode, providing financing for large infrastructure projects and offering currency swaps to assist it with debt repayment. Argentina’s fiscal challenges are thus best viewed as a likely obstacle not to China’s willingness to finance these military deals, but rather to Argentina’s ability to justify undertaking these projects to its citizens. Davide Scigliuzzo, “Elliott Unit Extends Legal Fight on Argentina Debt to China,” *Reuters*, August 28, 2014. <http://www.reuters.com/article/2014/08/28/argentina-debt-subpoenas-idUSL1N0QY21O20140828>; Charlie Devereaux, “Argentina Said to Secure \$400 Million More in China FX Swap,” *Bloomberg News*, January 12, 2015. <http://www.bloomberg.com/news/articles/2015-01-12/argentina-said-to-secure-400-million-more-in-china-fx-swap>.

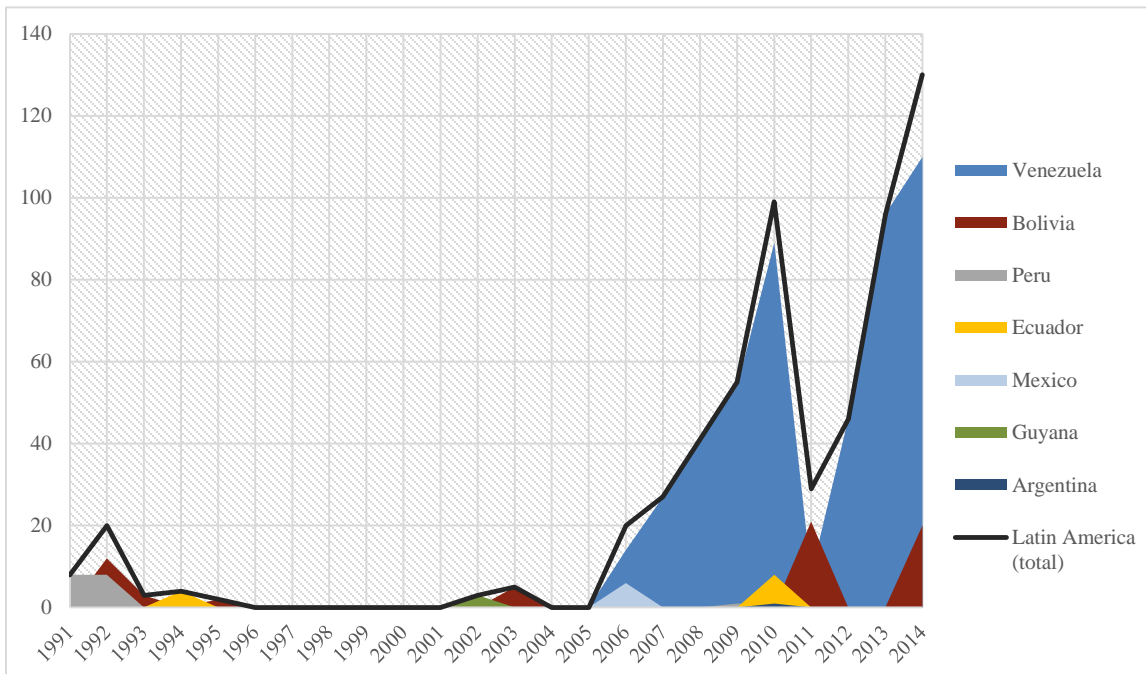
China-Argentina Defense Ties in the Context of Expanding Regional Military Engagement

Should China’s prospective contracts with Argentina be fulfilled, they would substantially increase both the value and sophistication of its arms exports to Latin America, and potentially create opportunities for future expansion.

Quantifying China’s Pending Arms Sales to Argentina

Though prices for China’s prospective deals with Argentina are difficult to gauge, estimates indicate that China’s military sales to not only Argentina, but also Latin America as a whole, would see a substantial increase should these deals be concluded. China’s past official military exports to Argentina have been negligible, valued at \$2.6 million for four older APCs delivered in 2010.⁴⁵ These sales contributed little to China’s total arms exports to the Latin American region, shown in Figure 2, which have grown over the past decade to a region-wide total of \$130 million in 2014.⁴⁶ For China’s newly announced agreements with Argentina, however, as listed in Figure 1 above, some sources have estimated a price of \$30-40 million per FC-1 fighter, \$50 million per J-10,⁴⁷ and \$42-50 million for each *Malvinas*-class corvette (estimated costs for the other vessels are unavailable).⁴⁸ Extrapolating from the \$2.6 million Argentina paid for the four more rudimentary Chinese-made APCs in 2010,⁴⁹ \$65 million could be a low estimate for the 100 or more to be coproduced under this agreement. The total value of these agreements can be estimated to range from approximately \$569 million to \$1 billion (or \$382 million to \$550 million in constant 1990 dollars, for comparison with the data in Figure 2).*

Figure 2: Value of Arms Imports from China, by Country, 1991-2014
Annual (US\$ millions, constant 1990 prices)



Source: Stockholm International Peace Research Institute, “The SIPRI Arms Transfers Database.”
<http://www.sipri.org/databases/armstransfers>.

* On the low end—assuming Argentina will purchase only 14 fighters (of the FC-1 variety rather than the J-10) and also assuming the lowest price for each platform, while not including the three vessels of uncertain value—these deals would still be worth a minimum of \$569 million if hypothetically aggregated into a single year. Adjusted to constant 1990 dollars for comparison with past data, this would be roughly \$382 million, well above the current single-year region-wide record of \$130 million in 2014. On the higher end, some sources indicate the entire package of arms sales, including training and support, could be worth roughly \$1 billion, or \$550 million in constant 1990 dollars, according to National Defense University scholar R. Evan Ellis. Notwithstanding the inclusion of the support package, this would represent an even more substantial increase over 2014 totals. R. Evan Ellis (Professor, Latin American Studies, U.S. Army War College Strategic Studies Institute), interview with Commission staff, August 17, 2015.

Either the high or low estimate of these agreements' value would thus vastly outpace that of any single year's military exports from China to either Argentina or the Latin American region as a whole. If spread over several years, these sales would still deliver a significant quantitative jolt to China's regional defense exports in the near term. In addition to these totals, the space facility agreement—not counted as an arms export but with potential military uses for both parties—has been reported by Chinese media to constitute a \$300 million investment by CLTC.⁵⁰

Qualitative Effects of China's Pending Arms Sales in the Context of Region-Wide Defense Engagement

China's prospective agreements with Argentina represent several "firsts" in its exports to the region and could potentially open doors to further growth. The development of China's military engagement with Latin America can be divided into three broad "phases," the third represented by these new potential contracts.

First Phase

The first phase, lasting approximately from the early-1990s to mid-2000s, saw the beginning of relatively low-level military sales and exchanges between China and Latin America; prior to this time there are few examples of any transactions at all.* Following the pattern of its commercial engagement, China began by selling relatively inexpensive low-end military goods such as clothing and personal equipment,⁵¹ then moved into offering more sophisticated items, culminating in sales of Y-12 light transport aircraft to Peru, surface-to-air missiles (SAMs) and towed guns to Bolivia, and SAMs and anti-tank missiles to Ecuador during this period.⁵² Overall sales remained low, as seen above in Figure 2, but other significant exchanges, including port visits by Chinese ships and officer exchanges with Chile, commenced during this period.⁵³

Second Phase

The second phase, running roughly from the mid-2000s to the present, saw annual sales grow to a height of nearly \$100 million in 2010,⁵⁴ accompanied by rapid advancement in other forms of engagement. Most significantly, these transactions involved higher-level goods such as L-15 trainer aircraft (Venezuela), K-8 trainer aircraft (Bolivia, Ecuador, Venezuela), Y-8 transport aircraft (Venezuela), air search radar (Ecuador, Venezuela), APCs (Argentina, Venezuela), infantry fighting vehicles (Venezuela), and short-range air-to-air missiles (Venezuela).⁵⁵ An increase in donations of defense goods, most notably to Peru and Columbia, occurred during this time period as well.⁵⁶

Here political alignments provided a valuable entry point for Chinese arms sales. Purchases have correlated with the "anti-U.S. foreign policy orientation of the purchasers" to a notable degree, according to National Defense University research professor R. Evan Ellis, with these buyers' political orientation and inability to acquire Western military technology driving their initial interest in Chinese imports.⁵⁷ Countries of the "ALBA" alignment,[†] and Venezuela in particular, have been responsible for the lion's share of Chinese arms imports, as shown in Figure 2.[‡] Contracts with these buyers enabled China and its defense companies to demonstrate reliability and move up the

* The publicly reported exceptions are exports of towed multiple rocket launchers to Nicaragua in 1985 and small arms to Bolivia beginning in 1987. Stockholm International Peace Research Institute, "The SIPRI Arms Transfers Database." <http://www.sipri.org/databases/armstransfers>; R. Evan Ellis, "The Strategic Dimensions of Chinese Engagement with Latin America," *William J. Perry Center for Hemispheric Defense Studies*, Perry Paper Series No. 1, 2013, 102.

† ALBA, or the "Bolivarian Alliance for the Peoples of Our America," is an intergovernmental organization initiated by Venezuela and Cuba in 2004 to provide alternatives to U.S.-supported political and economic initiatives in the region. It now has 11 member states: Antigua and Barbuda, Bolivia, Cuba, Dominica, Ecuador, Grenada, Nicaragua, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, and Venezuela. Of these, Bolivia, Cuba, Ecuador, Nicaragua, and Venezuela have purchased arms from China. Stockholm International Peace Research Institute, "The SIPRI Arms Transfers Database." <http://www.sipri.org/databases/armstransfers>; BBC News, "Colombia Detains Cuba-Bound Chinese Ship Carrying Arms," March 4, 2015. <http://www.bbc.com/news/world-latin-america-31723157>. Luisa Parraguez, Francisco Garcia Gonzalez, and Joskua Tadeo, "Latin America: Anti-US in Words, Not Deeds," *YaleGlobal*, October 1, 2013. <http://yaleglobal.yale.edu/content/latin-america-anti-us-words-not-deeds>; Bolivarian Alliance for the Peoples of Our America People's Trade Treaty, *Member Countries*, 2010. <http://alba-tcp.org/en/albatcp>.

‡ Not shown is Cuba, which has no registered imports from China in SIPRI's Arms Transfers Database, but was revealed in March 2015 to have some level of military trade with China when Colombian officials intercepted a Chinese vessel carrying undeclared munitions bound for Cuba, a situation described by China's Foreign Ministry spokesperson as "completely normal military trade cooperation." BBC News, "Colombia Detains Cuba-Bound Chinese Ship Carrying Arms," March 4, 2015. <http://www.bbc.com/news/world-latin-america-31723157>.

value-added chain, with Venezuela's K-8 aircraft purchase in 2008 (delivered in 2010) a particularly important breakthrough into the aviation market.⁵⁸

Military engagement expanded in other ways during this period as well. Meetings between senior military officials from China and Latin America increased, allowing leaders to build familiarity and explore possibilities for future projects.⁵⁹ The list of these exchanges prominently features ALBA nations, but high-level meetings also occurred with counterparts from Brazil, Mexico, Suriname, and Chile over this time period.⁶⁰ Most notably, November 2012 marked the first "China-Latin America High-Level Forum on Defense," in which senior defense officials from Bolivia, Cuba, Colombia, Ecuador, Paraguay, and Uruguay met in Beijing with Chinese counterparts, including China's Minister of Defense;⁶¹ a second forum was held in 2014.⁶² This phase saw lower-level interactions increase as well, comprising education and training exchanges, multilateral conferences and forums, and humanitarian missions; the last included China's role in the UN peacekeeping mission in Haiti from 2004-2012, a bilateral humanitarian exercise with Peru in 2010, and the deployment of China's "Peace Ark" hospital ship to the region in 2011.⁶³ Finally, a small PLA Navy flotilla participated in joint military exercises—China's first in the region—with the Chilean and Brazilian navies in 2013.⁶⁴

A Potential Third Phase

A third phase, launched by these pending agreements, may come to characterize China-Latin America military relations in the future. China's prospective contracts with Argentina establish several new benchmarks for regional arms exports: direct toe-to-toe competition with European and Russian suppliers; expansion outside the ALBA market; coproduction agreements for advanced end products; sales of high-end goods including fourth-generation fighters;* sales to all military branches, including a regional navy for the first time; and strategic space cooperation involving satellite control and imagery.

As foreign military sales additionally provide the opportunity to build credibility and demonstrate equipment before a wider audience,⁶⁵ the fulfillment of these deals may open doors for Chinese arms suppliers to reach the rest of the "mainstream" Latin American market as well. Past engagements evidence this trend—Venezuela was China's initial gateway for arms sales to ALBA,⁶⁶ and success with ALBA customers likely helped pave the way for these potential sales to Argentina.^{67,†} This phase, if achieved, would thus see China's arms sales continue to increase in volume, breadth, and sophistication, leveraging its key breakthrough transactions with Argentina.⁶⁸ Coproduction and regional marketing of FC-1 fighters or VN1 APCs with Argentina would be of particular interest to comparable buyers. Senior military exchanges, such as the Argentine delegation's February 2015 visit to Beijing in which military officials accompanied the president and helped formulate these agreements, would continue and expand as well.

Implications for the United States

China's extensive pending agreements with Argentina and their potential to usher in a new phase in China-Latin America defense cooperation present several implications for stated U.S. objectives in the region. The Obama Administration has emphasized four "pillars" in U.S. policy toward Latin America: "Promoting economic and social opportunity, ensuring citizen security, strengthening effective institutions of democratic governance, and securing a clean energy future."⁶⁹ Underlying this framework, according to the U.S. Department of State, is the United States' "interest in contributing to the building of stable, prosperous, and democratic nations" in the region.⁷⁰ Other official U.S. declarations have emphasized the end of the "era of the Monroe Doctrine" and a new focus on equal partnership, aimed at furthering mutual interests in fostering prosperity, security, democracy, and development.⁷¹ Given these objectives, four likely effects of China's rising presence in the region are of interest.

* The L-15, a trainer with the "features of a third-generation fighter jet" rather than a fighter, has been the most advanced aircraft sold to the region during the "second phase." Both the FC-1 and J-10 are significantly more sophisticated. Third-generation classification based on Aviation Industry Corporation of China, "L15 Advanced Trainer," 2015. <http://www.avic.com/en/forbusiness/militaryaviationanddefense/trainers/394356.shtml>.

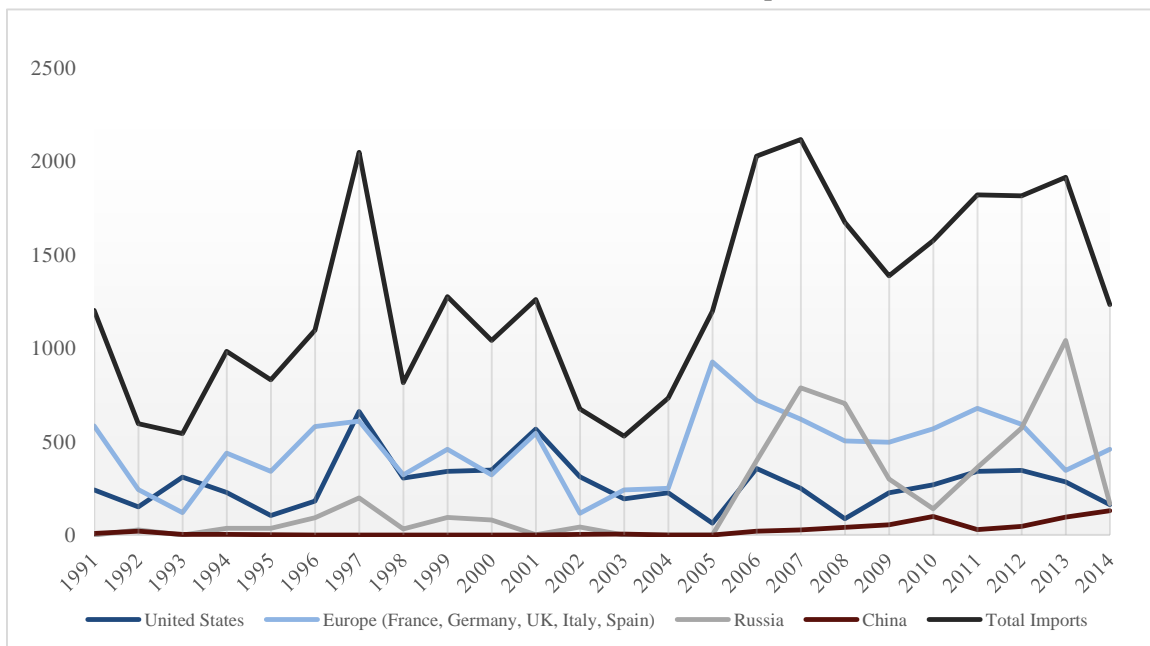
† In one example, Argentina's interest in Chinese-made VN1 APCs reportedly stemmed in part from the Venezuelan Navy's satisfaction with the vehicles. R. Evan Ellis (Professor, Latin American Studies, U.S. Army War College Strategic Studies Institute), interview with Commission staff, August 17, 2015.

Continued Constriction of U.S. Military Sales

A first area of impact is the potential for China’s arms sales to contribute to a reduction in U.S. regional market share, particularly if China’s breakthrough agreements with Argentina realize their potential as a “beachhead” for high-level sales to the rest of the region.⁷² Evidence shows that a constriction, while probable, would likely derive from multiple sources in addition to China and have only a limited effect on U.S. arms suppliers.

Future prospects for U.S. arms sales to the region are affected by four factors, informed by the broader context illustrated in Figure 3: Latin American arms imports have expanded over the past decade, but U.S. sales have not kept pace and have even declined in recent years. First, as the chart demonstrates, there are already multiple external players in the region—both Russian and European exports have surpassed those of the United States over the past decade. Like China, the majority of Russia’s military sales to Latin America—roughly 80 percent since 2006—have gone to Venezuela.⁷³ European countries such as France, Germany, Italy, Spain, and the United Kingdom have sold to customers more similar to those of the United States, and directly competed in at least one important instance: Brazil’s selection of Saab’s* Gripen NG fighter aircraft over Dassault’s Rafale and Boeing’s F/A-18E/F in early 2015 for a contract potentially worth \$4.6 billion.⁷⁴ U.S. arms suppliers will thus continue to have at least near-peer competitors to consider in the future, regardless of the impact of increased Chinese imports. Second, while China’s share of military exports to the region as of 2014 was relatively low and has competed more directly with Russian exports,⁷⁵ Chinese suppliers will likely begin to compete more with their U.S. counterparts if a “third phase” in its regional defense engagement is realized; importantly, Argentina is already considering some Chinese platforms in competition with European designs. Third, U.S. exports could face competition from emerging or aspiring Latin American arms suppliers—as noted previously, Brazil aims to begin exporting arms to its neighbors,⁷⁶ and Argentina has expressed interest in coproducing fighter aircraft and APCs. Finally, some experts assess that the United States has shifted its focus away from producing midrange-quality platforms of interest to many Latin American countries, noting that its last regional F-16 sale was to Chile in 2003,⁷⁷ a problem worsened by this increasingly crowded field of competitors. These factors will likely place continued pressure on the United States’ share of the regional defense market going forward.

Figure 3: Value of Latin American Arms Imports, by Exporting Country, 1991-2014
Annual (US\$ millions, constant 1990 prices)

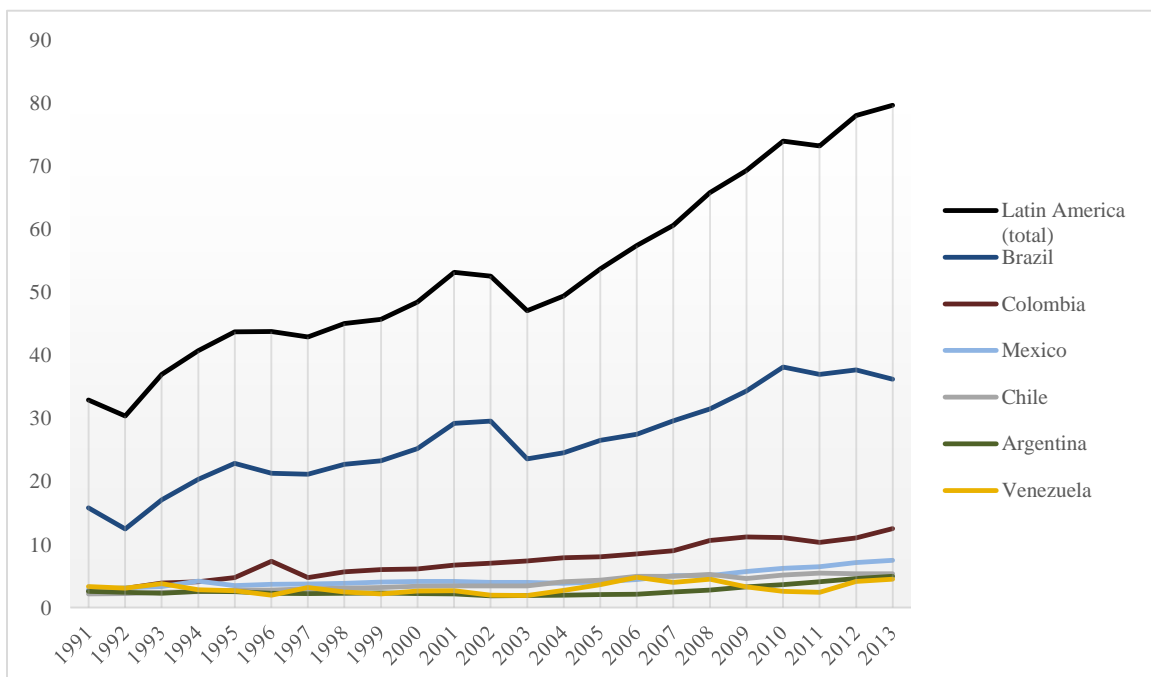


Source: Stockholm International Peace Research Institute, “The SIPRI Arms Transfers Database.”
<http://www.sipri.org/databases/armstransfers>.

* Sweden’s regional exports have been negligible and are thus not included in Figure 3; Saab’s contract with Brazil will change this in the future. Stockholm International Peace Research Institute, “The SIPRI Arms Transfers Database.”
<http://www.sipri.org/databases/armstransfers>.

Importantly, this constriction will likely have only a minimal impact on U.S. suppliers' bottom lines, based on three considerations. First, over the past decade Latin America has accounted for only 3 percent of U.S. military exports by value and has not averaged over 5 percent in a decade since the 1970s.⁷⁸ Second, only a small share of most Latin American defense budgets is assigned to procurement of foreign arms; the bulk goes toward operations, personnel, and upkeep costs.⁷⁹ Finally, defense industry-wide surveys of leading executives by both IHS Jane's and McKinsey in 2014 found pluralities in agreement that Latin American defense spending would see no change in the coming years, while fewer respondents predicted a continued slight increase.⁸⁰ Thus while some experts warn that a regional "arms race" may be brewing,⁸¹ or that perceptions of increasing external dangers may override budgetary concerns,⁸² more assess that spending will decelerate. The prominent regional spenders behind Latin America's recent growth in military outlays as shown in Figure 4—Argentina, Brazil, Chile, Columbia, Mexico, and Venezuela—each face near-term budget deficits,⁸³ and will likely find continued defense budget increases to be untenable. Thus while U.S. military suppliers can expect their sales to Latin America to constrict, they are unlikely to miss out on a continued boom in the region's military purchases.

Figure 4: Military Spending by Country, 1991-2013
Annual (US\$ billions, constant 2011 prices and exchange rates)



Source: Stockholm International Peace Research Institute, "The SIPRI Arms Transfers Database."
<http://www.sipri.org/databases/armstransfers>.

Potential Creation of a Security Hazard

A second impact of an expansion in China-Latin America defense cooperation could be the creation of a security "hazard"—referring to a source of risk in a harmless state and not in any sense a military threat*—in the region for the United States. China has rapidly developed ties with Latin America across "diplomatic, economic, cultural, and military" dimensions, as George Washington University professor and Brookings Institution senior fellow David Shambaugh writes.⁸⁴ Furthermore, China clearly takes a strategic approach to these engagements: a 2008 official white paper titled "China's Policy Paper on Latin America and the Caribbean" states that China views its relations with the region "from a strategic plane" and aims at a "comprehensive and cooperative partnership" across all sectors.⁸⁵ New requirements in China's 2015 defense white paper specifically assign the PLA to "actively

* Definitions of concepts such as "hazard" and "threat" differ widely among official and academic sources. This analysis utilizes a construct that defines "hazard" as referring to an actor or agent in a harmless state, and "threat" as referring to that actor or agent in a harmful state, with both "hazard" and "threat" representing sources of risk. This best captures the idea, present in many definitions, of a "hazard" as an "inactivated" source of risk; "intent" and "capability" are required to turn it into a "threat." Bruce Newsome, *A Practical Introduction to Security and Risk Management*, SAGE Publications, 2014, 51–57.

participate in both regional and international security cooperation and effectively secure China’s overseas interests” and “actively participate in the country’s economic and social construction,” among other roles,⁸⁶ underscoring the overlap between dimensions in China’s approach.

China’s “comprehensive strategic partnership” with Argentina and its relations with the region have been characterized by this multifaceted approach. At the February 2015 China-Argentina summit, for example, top leaders and multi-agency representatives discussed issues spanning multiple dimensions, just one of which was defense cooperation.⁸⁷ More broadly, China has become the region’s largest trading partner while launching an impressive array of investment projects, financing arrangements, and political engagements⁸⁸—many with ALBA governments largely disassociated from Western institutions⁸⁹—to go along with comparatively modest military sales. Through its private or state-owned firms, China is currently behind numerous regional infrastructure projects, including alternative routes to the Panama Canal,^{90,*} and has become a major player in the telecom markets of virtually every country in the region.⁹¹ One leading Chinese scholar has even advocated for Latin America’s inclusion in China’s “21st Century Maritime Silk Road” initiative.^{92,†} In the financial realm, China has kept Argentina afloat through its travails with international creditors via a currency swap arrangement since July 2014,⁹³ and is providing critical stability to the politically embattled governments of Venezuela and Ecuador with funding and investment aid.⁹⁴ In other dimensions, China has engaged in satellite programs with Brazil, Bolivia, Nicaragua, and Venezuela,⁹⁵ and held the first China-CELAC (Community of Latin American and Caribbean States) Forum ministerial meeting in January 2015.⁹⁶

The comprehensive and ostensibly strategic nature of China’s approach, involving a region in close proximity to the United States, requires the United States to carefully consider what security concerns may be involved. Some analysts have pointed out that in the long term China’s broad-based efforts could provide it with opportunities to deter the United States by holding it at risk in its own theater, or that China could at some point leverage its integration with the region for security objectives—drawing on individual nations’ economic dependence on China; thriving military-military relationships; familiarity with Chinese-built canals, ports, and railways; or access to the regional telecom infrastructure, largely built by Chinese firms.⁹⁷

The totality of available evidence, however, supports the view that at this time China sees its defense engagement as complementary to its diplomatic and economic efforts, but not as its primary emphasis or as a means to military ends. As Dr. Ellis states, “nothing in the public discourse of the Chinese leadership, policy papers, or debates suggests that Latin America is considered in the short term as a base for military operations.”⁹⁸ A security motivation is not evident in China’s stated intentions, which are empty of references to military interests in the region as described above; its activities, in which it has taken special care to avoid antagonizing the United States by not establishing a military presence[‡] or drawing too close to unfavorable regimes;⁹⁹ or its interests, as the much larger economic component of its balanced approach would be upended by such actions. Indeed, many experts see economic rather than security interests as the dominant motivation behind China’s approach to its relations with Latin America.¹⁰⁰ Seen through this lens, China’s defense contracts and engagements are most likely aimed at securing stable long-term political relationships—and, in turn, access to key regional resources—in line with its economic motivations. The concerns that do arise are best seen as incidental hazards, only threatening in the unlikely event of a serious conflict between China and the United States.

* These include three railway projects crossing Brazil and Peru, Columbia, and Honduras, respectively, as well as a canal crossing Nicaragua, although the status of these projects is uncertain. A Chinese state-owned firm has also submitted a bid for the next expansion phase of the Panama Canal itself.

† China’s 21st Century Maritime Silk Road initiative, first announced by President Xi in October 2013, represents an effort to expand international maritime transportation infrastructure and thereby bolster economic cooperation, in the spirit of the historic Silk Road. U.S.-China Economic and Security Review Commission, *Chinese Media Digest Vol. 2, No. 4*, March 27, 2015, 1. http://origin.www.uscc.gov/sites/default/files/Research/CMD_Vol%202_No%204_3%2027%2015_final.pdf.

‡ Only two candidates for such a presence exist: military police from the PLA did participate in the United Nations peacekeeping force in Haiti from 2004 to 2012, but this participation was temporary and under a multinational framework. Some analysts suggest China may have access to Soviet-built military intelligence communications facilities in Cuba, but this has not been confirmed. R. Evan Ellis, “The Strategic Dimensions of Chinese Engagement with Latin America,” *William J. Perry Center for Hemispheric Defense Studies*, Perry Paper Series No. 1, 2013, 106; David Shambaugh, *China Goes Global: The Partial Power*, Oxford University Press, 2013, 116.

Indirect Impacts to Stability and Governance

While presenting no direct security threats in the region at this time, China's broadening defense engagement in Latin America could raise two indirect impacts to U.S. regional interests:

- Direct or indirect recipients of Chinese arms who are otherwise largely isolated for political reasons, such as the governments of Cuba and Venezuela or the FARC rebels in Colombia,* might use them in ways unfavorable to U.S. interests. Venezuela has at times supplied the FARC, for example, and reportedly facilitated its indirect purchase of Chinese arms on one occasion.¹⁰¹ At the region-wide level, the degree to which Chinese state-owned arms suppliers such as Norinco take steps to ensure their weapons are not diverted to the black market is not clear.¹⁰² China's government has denied that such diversions occur, citing a series of regulations promulgated from 1996-2002 prohibiting such sales.¹⁰³ However, through means described by China's government as legitimate, Chinese-made arms have found their way to rebels in Colombia and South Sudan since this time¹⁰⁴ and were interdicted on their way to Cuba as recently as March 2015,¹⁰⁵ undermining these assurances.
- As growing economic relations with China have signaled to Latin American governments that economic development can be achieved without adhering to Western proscriptions,¹⁰⁶ states may also look to military ties as evidence that a strong defense can be realized apart from sharing U.S. objectives for regional stability and good governance. The political stances of several states in the region have been demonstrably altered by growing economic ties with China in the past: Costa Rica shifted diplomatic recognition from Taiwan to China in exchange for China's purchase of \$300 million in Costa Rican bonds in 2007;¹⁰⁷ Argentina has refused to negotiate with Western creditors in part due to alternative loans from China; and otherwise isolated governments such as those of Bolivia, Ecuador, and Venezuela have received sorely needed cash from China and been able to sustain their anti-Western orientation.¹⁰⁸ Expanding defense connections—in cases where they provide regional leaders with training, equipment, and financing options beyond what is otherwise available—could have similar effects.

Temporary Intensification of Falklands Dispute

The United States takes no position on the Falkland Islands dispute other than to encourage a diplomatic resolution of differences,¹⁰⁹ but its interests would be ill-served by increased tensions between the claimants—both U.S. allies[†]—and the strain this would place on its regional partnership efforts and on general regional stability.[‡] China's potential arms sales and space cooperation agreements with Argentina have already served to marginally intensify the dispute, and China publicly supports Argentina's claim to the islands, likely viewing it as analogous to its own claim over Taiwan.¹¹⁰

If fulfilled, these sales would likely lead to heightened levels of diplomatic tension between Argentina and the United Kingdom in the near term. Before its official agreements with China came to light, Argentina's mere interest in Russian Su-24 fighter-bombers prompted the United Kingdom to undertake an official review of the islands'

* According to the U.S. National Counterterrorism Center, the Revolutionary Armed Forces of Columbia (FARC) is "Latin America's oldest, largest, most capable, and best-equipped insurgency of Marxist origin." The group employs "bombings, murder, mortar attacks, kidnapping, extortion, and hijacking, as well as guerrilla and conventional military action against Colombian political, military, and economic targets." FARC is also heavily involved in drug trafficking and considers U.S. persons to be legitimate military targets due to the United States' support for Colombia's democratic government. The U.S. Department of State designated FARC as a terrorist organization in 1997. National Counterterrorism Center, *Revolutionary Armed Forces of Columbia (FARC)*. <http://www.nctc.gov/site/groups/farc.html>; U.S. Department of State, *Rewards for Justice – Reward Offer for Information on FARC Kidnapping of U.S. Citizen*, July 25, 2014. <http://www.state.gov/r/pa/prs/ps/2014/07/229796.htm>.

† The United Kingdom is a member of the North Atlantic Treaty Organization (NATO), while Argentina has been designated as a "major non-NATO ally" of the United States. United Kingdom Foreign and Commonwealth Office, "United Kingdom Joint Delegation to NATO." <https://www.gov.uk/government/world/organisations/uk-joint-delegation-to-nato>; Peter Baker, "Obama Upgrades Tunisia's Status as a U.S. Ally," *New York Times*, May 21, 2015. <http://www.nytimes.com/2015/05/22/us/tunisia-to-become-major-non-nato-ally-obama-says.html>.

‡ For context, Latin American countries generally—and those in Mercosur (Argentina, Brazil, Paraguay and Uruguay, with associate members Bolivia, Chile, Colombia, Ecuador, Venezuela and Peru) in particular—support Argentina's claim in the sovereignty dispute. Vaughne Miller, *Argentina and the Falkland Islands*, House of Commons Library Standard Note IA/5602, January 27, 2012, 12.

defenses and invest in small improvements, a move Argentina strongly criticized.^{111*} The United Kingdom also angered Argentina by blocking its purchase of the Swedish-made Gripen fighter, which contains U.K.-supplied components.¹¹² Actual purchases of Chinese platforms would thus likely spark further cycles of concern and criticism.

These tensions are unlikely to persist in the long term, however, let alone lead to an outright conflict or eventual transfer of the islands' sovereignty. Despite the potential billion-dollar value of these agreements, they would not provide nearly enough assets to tilt the military balance of power in Argentina's favor.^{113.†} Argentina's prospects for affording a further buildup are dim, as budget constraints would force it to finance this fighter purchase through borrowing, and the country faces long-term debt repayment challenges.

Conclusion

China's recent agreements with Argentina will prospectively feature the purchase or coproduction of fighter aircraft, APCs, and naval vessels; enhanced military-to-military exchanges; and the implementation of a space tracking facility tied to satellite imagery sharing. Together, these agreements would represent a new phase in China-Latin America military engagement if accomplished. China would for the first time in this region achieve coproduction agreements and sales of fourth-generation fighter aircraft, reach a non-ALBA market, compete quantitatively and qualitatively with top international sellers, sell to a naval armed service, and engage in strategic cooperation involving satellite imagery. These developments would mark an expansion of China's broader defense engagement with Latin America that would carry several implications for the United States. First, U.S. arms suppliers would likely see continued market share reduction, though this would be of minimal impact as less than 3 percent of U.S. arms exports go to Latin America and regional defense spending will likely plateau. Second, the United States may face a new regional security hazard, albeit harmless in the absence of an external conflict. Third, regional actors might use Chinese arms in ways unfavorable to U.S. interests or perceive their security options to have expanded. Finally, the Falkland Islands dispute might briefly and temporarily intensify, complicating U.S. diplomacy in the region and with the United Kingdom. Despite the rapid growth and proximity of China's defense engagements, however, they present no direct security threat to the United States, and China's statements, interests, and actions can be monitored to ensure regional hazards remain inactive going forward.

* While Argentina has declared its intention to recover the islands peacefully, its current government has ensured the issue maintains high public awareness through a series of rather tangential actions: giving its new corvette class the "Malvinas" name, placing the message "Las Malvinas son Argentinas" ("The Falklands are Argentina") on all public transport, and even making the islands the subject of Argentina's 50-peso note, all since November 2014. Ministry of Foreign Relations and Worship of the Republic of Argentina, *The Question of the Malvinas Islands*. <https://www.mrecic.gov.ar/es/la-cuestion-de-las-islas-malvinas>. Staff translation; Richard D. Fisher Jr., "China, Argentina Set for Defense Collaboration, Malvinas-Class OPV Deal," *IHS Jane's Defense Weekly*, February 1, 2015. <http://www.janes.com/article/48512/china-argentina-set-for-defence-collaboration-malvinas-class-opv-deal>; Harriet Alexander, "Argentina Rules All Public Transport Must State: 'The Falklands Are Argentina,'" *Telegraph*, November 20, 2014. <http://www.telegraph.co.uk/news/worldnews/southamerica/argentina/11243227/Argentina-rules-all-public-transport-must-state-The-Falklands-are-Argentina.html>; and BBC News, "Argentina Launches Falklands Currency Note to Mark Anniversary," April 3, 2014. <http://www.bbc.com/news/world-latin-america-26860278>.

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