



The Growing Presence of China in Latin America: Challenges and Opportunities



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Presentation to the:
Fundação Fernando Henrique Cardoso
São Paulo, Brazil

June 6, 2018





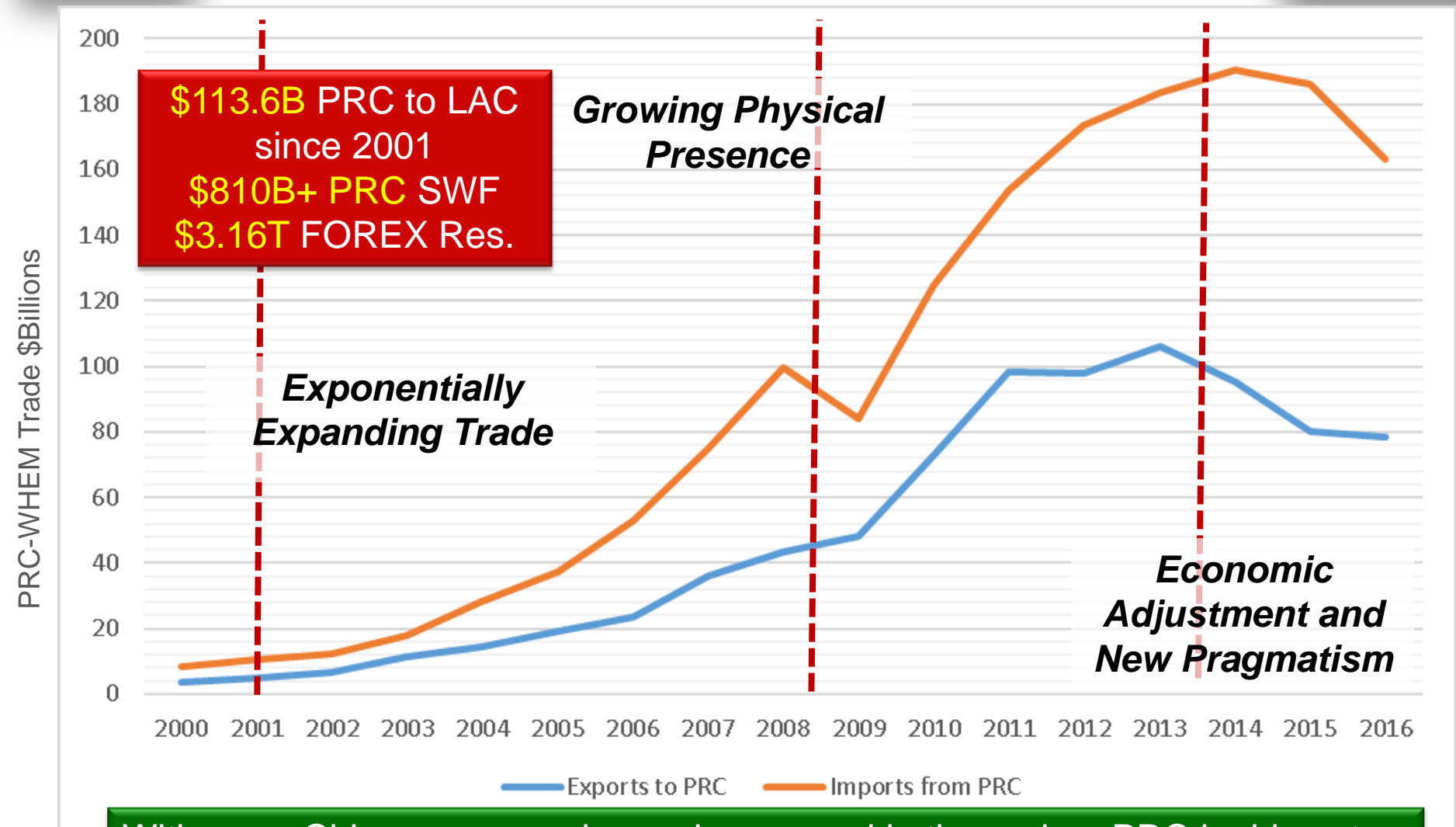
PRC Objectives in Latin America



- Principally **economic objectives** to **advance** the **rise/security** of the PRC
 - Relatively **transparent** in areas of focus / engagement vehicles:
 - Pres. Xi July 2014 **1+3+6** framework, Nov 2016 PRC-LAC White Paper
 - Access to
 - **Commodities**
 - **Food**
 - **Markets** (goods + services)
 - **Technology**
- **Strategic Shaping** of institutions not of China's making
 - **Promotion** (not just welcoming) of **Multipolarity** (eg. ALBA)
 - **Web of Friendships** (9 "*strategic partnerships*" ...all *upgraded*)
 - PRC-style **Multilateralism** (CELAC v OAS, BRICS+, AIIB/OBOR, FTAA-P v TPP)
 - Change to **International Financial Framework** (RMB use in LAC transactions, currency swaps, reserve agreements)



Phases of PRC-Latin America Engagement



With more Chinese companies and personnel in the region, PRC is driven to become **more interested** in the **conditions** and **internal affairs** of the region



PRC – LAC : **Strategic Trends** (1)



1. ↑ / Better Use of Commercial Presence (**\$113.6B** since 2001)
 - ↑ **Sophistication** of companies in LAC (**Uneven**: Huawei, Chinalco)
 - ↑ **risk assessment**: temporary *falloff in loans* to Ven., Ecuador?
2. OBOR comes to LAC: Logistics supports commercial advance
 - Panama → Caribbean (eg. Trinidad): Ports, shipping advances + air, road/rail projects
3. “Plan-Oriented” (*China-CELAC 2019-2021* joint action plan, 2015-2019 plan, **1+3+6** framework, request to Brazil to “plan”)
4. ↑ **Boldness** (eg. Xi “community of shared destiny,” “industrial autonomy” of LAC, ↑ cooperation on TOC, corruption & cyber)
5. Exporting a Development “Model” for LAC (*19th Party Congress*):
 - “example” + **consultations** to ALBA + **control system** exports
6. Soft Power through People-to-People: 200 member of LAC political parties to visit China, **6000+** scholarships (Hanban) [**2,000** to date]
 - **39 Confucius institutes** in LAC (incl **10 in Brazil**, 6 in Caribbean)



PRC – LAC : **Strategic Trends** (2)



7. Brazil as key focus of PRC investment
8. ↑ Strategic Tech Cooperation (eg. telecommunications, surveillance/control, nuclear, space & satellites)
9. Mil-Mil: ↓ Profile, but deepening (eg. PME), ↑ breadth, sophistication (arms sales), presence/visits, training & PME
10. ↑ Security cooperation x Organized Crime & corruption
 - *Pi Xiu* case in Argentina, Panama coordination
 - Explicit mention in 2019-21 China-CELAC plan
11. ↑ Activity Close to US: End to “diplomatic truce” with Taiwan (Panama, DR) → Likely aggressive new engagement close to US (CENTAM, Caribbean)
 - Complicated by AMLO impact on these + changing regional perception of US (TPP, NAFTA, STRATCOM)



Growing PRC Investment in Latin America



48,2 %



12,3 %



10,5 %



5,8 %



4,9 %



3,3 %



3,2 %

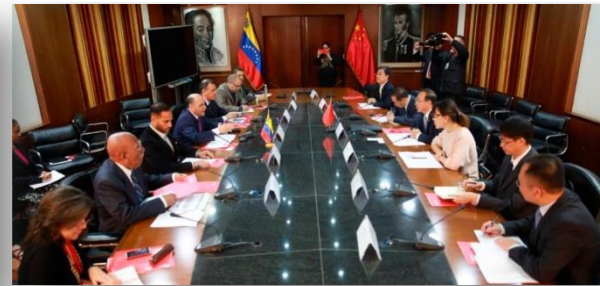


18,6 %



POR PAIS DE DESTINO	BRASIL	PERÚ	ARGENTINA	CUBA	JAMAICA	CHILE	MÉXICO	RESTO
MILLONES USD	54.849	12.372	10.587	5.800	4.927	3.306	3.212	18.610

Fuente: MONITOR DE LA OFDI DE CHINA EN ALC (2017)





Latest Commercial Trends: Brazil Takeoff (1)



Since 2003, **262 projects** → **\$55.4B investment** (**\$20.9B in 2017**)
+\$71.3B more announced

Electricity

- **SPIC**: São Simão, Pacific Hydro (\$2.5B), CEMIG interest in San Antonio?
- **State Grid**: Belo Monte approved (\$3.5B), Acq. of CPFL (\$10.8B), Electropaulo? (+\$40B in next 5 years in production & transmission?)
- **China Three Gorges** acquisition of Duke Energy (\$1B)
- **CNNC** completion of Angra 3 nuclear facility with Electrobras?
- **Electrobras** for sale / Chinese interest?
- \$1.5B in Solar & biomass planned?

Logistics:

- **CCCC**: Babitonga Bulk Terminal (São Francisco do Sul) + 2016 agreement with WPR Participações (\$700M: São Luis Maranhao)
- **CM Port** acquisition of TCP Participações (\$922M) → Paranagua container terminal
- **HNA** operation of Galeão Apt.; E-W train line? (interior → Porto do Sul)



Latest Commercial Trends: *Brazil Takeoff* (2)



- Other construction:
 - **Gezouba** → *Sistema Productor São Lourenço* (drinking water)?
 - Line 6 of **São Paulo metro**?
- Agriculture (big projects → small/nontraditional)
 - **Pengxin** 2016 Acq of **Fiagril** (\$290M), **Belagricola** (\$253M)
 - **CITIC/Yuan Longping** purchase of **Dow Agro Sciences** (\$1.1B)
 - **COFCO** purchase of **Revati** (Renuka) sugar refinery in São Paulo
- Finance: **CCB, ICBC, FOSUN** purchase of **Torre Sucupira** in São Paulo (\$140m); \$30B **swap**;
 - **Brazil-China Fund** (\$20B--May 2017), **\$10B CDB loan**, \$300M **Banco do Brasil**?
- Medicine: **China Meheco** in Ceará: \$4B in facility cstrn & equipment?
 - **Fosun** acq. **Notredame Intermédica** or **Hospital Aliança** in Bahia?
- Telecom: **China Mobile** → **Oi?**, **Huawei**, **Unicom** transatlantic cable?
- Education: **10 Confucius institutes** (next most is Mex w. 5/39 in LAC)



Latest Commercial Trends: In Latin America (1)



↑ Renewable energy: (loans, Work, components + local partner)

- Nuclear (Atucha +Angra 3?), Hydroelectric (**Brazil projects** + Rositas (C3G, CWE), Irivizu (Sinohydro-Cochabamba), **Chaglla** (Odebrecht→CTG \$1.4B), Rio Sta. Cruz AR (Gezouba), Coca Coda Sinclair, Patucha III, Aqua Zarca; Solar (Chile China Sky Solar (\$1B)), Wind energy.

Mining: Diversification Peru→AR, EC, Chile (Tianqui 24% of SQM for \$4.3B)

- Rare earth elements (CBMM, China Molybdenum Acq of Anglo American niobium ops for \$1.7B)

Petroleum: Diversification beyond Venezuela & Ecuador

- Peru (**CNPC** \$2B inv.); Mexico (**CNODC** *Perdido Basin*); Brazil (Libra, Petrobras-**CNPC** partnership); Argentina (Bridas+PAE in Vaca Muerte); Caribbean (Curaçao refinery: \$1.5MM); but Sinochem selling Peregrino?

Logistics: Renewed advances after stagnation of **Hutchison/Manta**...

- **Brazil projects+**; Colombia (Magdalena River by Sinohydro?)
- Panama (Margarita Island, cruise ship terminal, gas facility)
- Peru (COSCO \$2B **Chancay** port, **Ilo**?); AR (Belgrano, Aguas Negras tunnel)
- Bolivia: COSCO office in La Paz for Arica



Latest Commercial Trends: In Latin America (2)



Construction: Expansion beyond ALBA & Caribbean (*especially Brazil*):

- ↑ Sophistication + ↑ **own capital** (internal loans)
- **Public-Pvt partnerships** (Santiago roads, 4G (**Sinohydro**) en COL, JAM North-South Highway)

Manufacturing: Problems with CKD factories in Brazil (bad timing)...but progress in *smaller markets* (BYD, **JAC** Quito, **Foton** Bogota)

Banking: ↑ **Branch banking** (not just loans): **ICBC** (Brazil, Argentina, Mexico, Peru), **CCB** (Brazil, Chile), **BoC** (Panama, Mexico just approved)

New finance vehicles: CDB, Ex-Im → Brazil-China Cooperation Fund (\$20B), Fosun, Panama \$500M in "**Panda Bonds**"

Return of Diplomatic Struggle → New loans, investment, trade promotion?: (Africa → Panama → Dominican Republic → CENTAM/Carib?)

- **Panamá as Strategic hub** for new advance / rapid progress: Isla Margarita, logistics, Confucius institute, FTA



Expanding Activities in Telecommunications & Space



Telecommunications

- Advance of Huawei, ZTE in commercial products + contracts for **3G/4G** infrastructure
- South America → CENTAM, Caribbean, Mexico?
 - Xinwei/CooTel mobile net in NI [\$200M]

Surveillance systems: *ECU-911, Bol-110*, etc.

Space / Satellites

- Brazil – Interest in *Alcantara?*
 - 4 (CBERS) launched / **2 failures** → #6 in 2019 next?
- Venezuela – **3** (*Venesat-1, VRSS, VRSS 2* [Oct 2017])
 - Manuel Rios (BAMARI)[Guarico], Luepa (SE Bolivar)
- Bolivia - **Tupac Katari** (Dec 2013), **Bartolina Sisa** (2021?)
 - Amachuma [La Paz], La Guardia [Santa Cruz]
- Ecuador – **Pegasus** Microsat (Apr 2013)
- Argentina: **Neuquén** radar, **San Juan Observatory**, failed attempt for **ARSAT** ...but success with **Nusat**
- Chile: **FASAT** → Beidou? + 2nd **Paranal** observatory
- Mexico next?





Expanding PRC Military Engagement with Latin America and Caribbean



- Arms Sales:** Relationships + Defense Tech & support benefits (but only 6% of PRC exports sales)
 - Ven/ALBA→Beyond (Brazil **Frigate**, **SisGAAz components**?)
 - ↑ products (OPVs) / Gifts, offsets, trade shows
 - Inroads x Russians (eg. Peru T-90B, Ven VN-4)?
- Training and PME:** Relationship + Experience
 - NDU short courses→PLA Navy, Army **Command Schools** (Nanjing)→**Military Academy** (Beijing)
 - PLA to LATAM** for **tactical training**
 - Manaus, CCOPAB, Tolemaida** (Demining & **Lancers** (lite) courses
- PLA Presence:** Global engagement experience
 - MINUSTAH**→**Angel de la Paz** →**Peace Ark**” 2011, 2015, **2018?**→Combat exercise w Chile (Dec ‘13), **20th Naval Escort TF** – Cuba (Jan ‘16)



2015 **Defense Strategy White Paper:** Mil-Mil + defending economic interests



Opportunities & Challenges For Brazil and its Companies



Opportunities:

- PRC companies as source of **investment/loans, work, factor inputs** for local projects
- Vast PRC **market** as sales opportunity for local partner
- Chinese factor inputs in supply chain **increase competitiveness**
- PRC loans/investment as national **development** opportunity (infrastructure, local industry)
- Leverage x Western institutions (IMF, World Bank...)
- Leverage x US politically?

Challenges/Risks:

- **Outmaneuvered** by Chinese partners (PRC market, local projects, eg. Baha Mar)
- Extractivism, **dependence** → **deindustrialization?**
- Ownership & decisions, returns to capital West → PRC (not to LAC)
- **Leverage/pressure** by PRC government / firms
- **Impediment of democratic discourse** (Taiwan/Tibet, criticism of Chinese firms by companies, think tanks, government)

Questions? Comments

For more information

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