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

R. Evan Ellis

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:
  - 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)

For more information, contact Dr. R. Evan Ellis  Tel: 703-328-7770   Email: r_evan_ellis@hotmail.com
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.

For more information, contact Dr. R. Evan Ellis  Tel: 703-328-7770  Email: r_evans_ellis@hotmail.com
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


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)

For more information, contact Dr. R. Evan Ellis  Tel: 703-328-7770  Email: r_evan_ellis@hotmail.com
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**

<table>
<thead>
<tr>
<th>Country</th>
<th>Investment Amount (Millions USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brasil</td>
<td>54,849</td>
</tr>
<tr>
<td>Perú</td>
<td>12,372</td>
</tr>
<tr>
<td>Argentina</td>
<td>10,587</td>
</tr>
<tr>
<td>Cuba</td>
<td>5,800</td>
</tr>
<tr>
<td>Jamaica</td>
<td>4,927</td>
</tr>
<tr>
<td>Chile</td>
<td>3,306</td>
</tr>
<tr>
<td>México</td>
<td>3,212</td>
</tr>
<tr>
<td>Resto</td>
<td>18,610</td>
</tr>
</tbody>
</table>

For more information, contact Dr. R. Evan Ellis  
Tel: 703-328-7770  Email: r_evan_ellis@hotmail.com
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)
• 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 Paolo
• 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 cstn & 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)
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 (Gezoubia), 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

For more information, contact Dr. R. Evan Ellis Tel: 703-328-7770 Email: r_evans_ellis@hotmail.com
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

1. 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)?

2. 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 & Lanceros (lite) courses

3. 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

For more information, contact Dr. R. Evan Ellis  Tel: 703-328-7770  Email: r_evangel_ellis@hotmail.com
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)

For more information, contact Dr. R. Evan Ellis  Tel: 703-328-7770  Email: r_evans_ellis@hotmail.com
Questions?
Comments

For more information
Please Contact:
Dr. R. Evan Ellis
Tel: 703-328-7770
Email: r_evan_ellis@Hotmail.com