Presentation of Evan Ellis at the Latin American Program Event:

Chinese Companies in Latin America: Economic and Strategic Dimensions

October 1, 2014
Woodrow Wilson Center
Washington, DC
China on the Ground in Latin America

R. Evan Ellis

Presentation for the Woodrow Wilson Center

Washington DC
1 October, 2014
The New Chinese Physical Presence
In Latin America and the Caribbean

**Extractive industries**
- Principally petroleum and mining sectors

**Agriculture**
- Including timber and fishing industries

**Construction**
- Gifts, Loan-Backed Projects, Investments with Chinese Chinese Capital

**Manufacturing and Retail**

**Technology and Services**
- Including *Telecommunications, Banking, and Logistics*

Began to take off in approximately 2009 as a confluence of underlying developments + global crisis. Each sector has its own dynamics, role of local partners, etc.

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(A) **Obstacles to Market Entry**
- Resistance to *mergers* and acquisitions
- Winning competitive public bids
- Obtaining required government approvals for projects

(B) **Operational Challenges**
- Relationship with the local labor force and *subcontractors*
- Relations with *local authorities* and *communities*
- Resistance from *environmentalists, indigenous* groups, and *others affected* by ongoing projects
- Challenges from *crime, violence* and *insecurity*

**Similar** to challenges faced by *other* foreign companies entering the region…but compounded by differences in *language & culture*
## Challenges – *Extractive Sectors*

<table>
<thead>
<tr>
<th><strong>Market Entry</strong></th>
<th><strong>Day-to-Day Operations</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>M&amp;A</strong></td>
<td>General</td>
</tr>
<tr>
<td>• Blocking of China Minmetals from acquiring <strong>Noranda</strong> (2004).</td>
<td>• Shougang – <strong>Marcona</strong> (1992-) labor problems</td>
</tr>
<tr>
<td>• Failure of CNPC bid to acquire <strong>Pan American Energy</strong></td>
<td>• CMC – <strong>Sierra Grande</strong> (2010) – Water shortage</td>
</tr>
<tr>
<td>• But success of the CNOOC acquisition of <strong>Nexen</strong> - $15.5B (2013)</td>
<td>• Andes - <strong>Tarapoa</strong> (2006)</td>
</tr>
<tr>
<td><strong>Approval of Projects</strong>:</td>
<td>• Colquiri – <strong>Potosí</strong> (2012)</td>
</tr>
<tr>
<td>• <strong>Mirador</strong> – Tongling (2012)</td>
<td><strong>Complaints over the number and types of jobs given</strong></td>
</tr>
<tr>
<td>• <strong>Rio Blanco</strong> (2011)</td>
<td>• Petroriental - <strong>Orellana</strong> (2007)</td>
</tr>
<tr>
<td>• But also partial successes: <strong>Toromocho</strong> (Chinalco)</td>
<td><strong>Impact of the mine on the environment and on the community</strong></td>
</tr>
</tbody>
</table>

**Crime and violence**

- Emerald – **Caquetá** (2010-2011) 24 attacks + kidnapping

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Challenges - Agriculture

<table>
<thead>
<tr>
<th>Market Entry</th>
<th>Operations</th>
</tr>
</thead>
</table>
| • Many projects announced but **not realized** (2011): Sanhe Hopefull, Chongqing ($2.4B)  
  • Chongqing – Project in Bahia for **soybean processing**  
  • Failure of project by Beidahuang Nongken in Rio Negro ($1.5 MM)  
  • Fight between state-level host and national government  
  • Administrative **restrictions** against the acquisition of land by **foreigners**  
  • Brazil, Argentina, Uruguay  
  • Blocking of a project for a **soy oil plant** in Marowijne  
  • Opponent Ronnie Brunswijk | • Complant – Sugar refinery – Jamaican- Pan-Caribbean Sugar  
  • **Bad relations** with producers, the local community  
  • Bai Shan Lin – Criticism for failing to make promised wood processing investments, unauthorized export of logs |

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### Challenges - **Construction**

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<tr>
<th>Market Entry</th>
<th>Day-to-Day Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>- More difficulties in winning projects in competitive bids in well-institutionalized governments with access to capital</td>
<td></td>
</tr>
<tr>
<td>• China Harbour – Hidroituango</td>
<td>- AFECC – San Jose stadium – Diversion of resources</td>
</tr>
<tr>
<td>- Change in political power of partner</td>
<td>- Not enough local workers employed:</td>
</tr>
<tr>
<td>• Guyana – Amaila Falls (China Railway Road), CJIA (China Harbour)</td>
<td>• Palisadoes Road (China Harbour)</td>
</tr>
<tr>
<td>- Deception by local partner</td>
<td>• Georgetown “Mariott” (Shanghai Construction Group)</td>
</tr>
<tr>
<td>• Punta Perla</td>
<td>- Dispute over not receiving bonus</td>
</tr>
<tr>
<td>- Accusations of Corruption + Use of own personnel by Chinese Companies</td>
<td>• JDIP road projects</td>
</tr>
<tr>
<td>• Cayman Islands Port (China Harbour)</td>
<td>• Toachi-Pilaton hydroelectric project</td>
</tr>
<tr>
<td>• CCCC: Ruta 32 in Costa Rica</td>
<td>- Environmental damage / impacts on the community / compensation</td>
</tr>
<tr>
<td>- Not many problems in ALBA</td>
<td>• Chone dam (Tiejsu) (2013)</td>
</tr>
<tr>
<td>• But Coca Coda Sinclair</td>
<td>• Patauca III (2013)</td>
</tr>
<tr>
<td>- Excessive use of own personnel</td>
<td>• Belo Monte (State Grid 2011)</td>
</tr>
<tr>
<td>• Caribbean – Political opposition to Baha Mar</td>
<td>- Robbery/Crime: AFECC,</td>
</tr>
<tr>
<td>• Brazil – Switch from Exlm Bank to BDC for Gasene pipeline project</td>
<td>• China Railway Road – Chaguaramas (Nov 2012)</td>
</tr>
</tbody>
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### Challenges: Manufacturing and Retail

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<tr>
<th>Market Entry</th>
<th>Day-to-Day Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Tax avoidance</td>
<td>• Not yet many data points</td>
</tr>
<tr>
<td>• JAC, Chery (Brazil)</td>
<td>• Expectations of <em>labor force</em> + Access to other markets</td>
</tr>
<tr>
<td>• FAW (Mexico)</td>
<td>• <em>Effa Motors</em> - Montevideo</td>
</tr>
<tr>
<td>• Competition</td>
<td></td>
</tr>
<tr>
<td>• <em>Dragon Mart</em> (Cancún)</td>
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</tbody>
</table>

**Importance of Local Partners – Knowledge / Access, Legal Status, occasionally Resources**

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## Challenges: Technology and Services

<table>
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<th>Market Entry</th>
<th>Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Telecommunications:</strong> Fear of illicit cyber activities (Huawei, ZTE)</td>
<td></td>
</tr>
<tr>
<td><strong>Banking:</strong> Management by local personnel</td>
<td></td>
</tr>
<tr>
<td>• Purchase of Standard Bank (ICBC)</td>
<td></td>
</tr>
<tr>
<td>• Now the same challenge with the purchase of BicBanco by CCB?</td>
<td></td>
</tr>
<tr>
<td><strong>Logistics:</strong></td>
<td></td>
</tr>
<tr>
<td>• Fear of malevolent intent:</td>
<td></td>
</tr>
<tr>
<td>• Concession for Cristóbal and Balboa (HPH) (1999)</td>
<td></td>
</tr>
<tr>
<td>• Economic power/monopoly concerns:</td>
<td></td>
</tr>
<tr>
<td>• Farfán (HPH) (2008)</td>
<td></td>
</tr>
<tr>
<td>• Purchase of the Gran Bahamas Port Authority - GBPA (HPH)</td>
<td></td>
</tr>
<tr>
<td><strong>Telecommunications:</strong> Generally no more than normal – Operating with a “local face”</td>
<td></td>
</tr>
<tr>
<td><strong>Logistics:</strong></td>
<td></td>
</tr>
<tr>
<td>• Disputes with the government over responsibilities and control:</td>
<td></td>
</tr>
<tr>
<td>• Manta (HPH)</td>
<td></td>
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<tr>
<td>• Security and organized crime</td>
<td></td>
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<tr>
<td>• Port of Lázaro Cárdenas (HPH)</td>
<td></td>
</tr>
</tbody>
</table>

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Question of the *Response of The Chinese Government*

- **Different perspectives** from different Chinese orgs.
  - MOFCOM, MFA, MINDEF, etc.

- **Unlikely to resemble US** response
  - *Shadow* of the US
  - Different normative context
  - Different Chinese *cultural style*

- Leveraging PRC “soft power”
  - Expectations of financing and market access
  - Future global importance of PRC
  - Chinese companies as local employers and taxpayers

- **Balance between dynamics** accelerated by presence:
  - *Conflict* vs. *influence* vs. *learning*

- Question of “non-interference” in the sovereign affairs of foreign countries

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Questions?
Comments?
Growth of PRC-LAC Trade
Imports & Exports - 1995-2012

Source: International Monetary Fund, 2013

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# Growing Importance of the PRC as a Trading Partner for LAC Countries

<table>
<thead>
<tr>
<th></th>
<th>Exports to PRC</th>
<th></th>
<th>Imports from PRC</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>6</td>
<td>3</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Bolivia</td>
<td>18</td>
<td>8</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Brasil</td>
<td>12</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Chile</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Colombia</td>
<td>36</td>
<td>5</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>26</td>
<td>2</td>
<td>13</td>
<td>8</td>
</tr>
<tr>
<td>Ecuador</td>
<td>120</td>
<td>6</td>
<td>16</td>
<td>11</td>
</tr>
<tr>
<td>El Salvador</td>
<td>44</td>
<td>32</td>
<td>38</td>
<td>32</td>
</tr>
<tr>
<td>Guatemala</td>
<td>44</td>
<td>28</td>
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<td>29</td>
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<tr>
<td>Honduras</td>
<td>52</td>
<td>13</td>
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</tr>
<tr>
<td>México</td>
<td>25</td>
<td>7</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>123</td>
<td>28</td>
<td>19</td>
<td>25</td>
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<tr>
<td>Panamá</td>
<td>27</td>
<td>14</td>
<td>31</td>
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<tr>
<td>Paraguay</td>
<td>13</td>
<td>14</td>
<td>23</td>
<td>25</td>
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<tr>
<td>Perú</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Uruguay</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Venezuela</td>
<td>37</td>
<td>3</td>
<td>3</td>
<td>--</td>
</tr>
</tbody>
</table>

Source: Enrique Dussel Peters (UNAM), Based on data from COMTRADE (2013)

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Chinese Strategic Objectives Toward LAC

• Secure the rise of a strong, unified China within the imperatives of the strategic context of globalization within which China is “Re-Emerging”
  • Objectives principally economic, yet still strategic, imperfectly coordinated by the national Government
    • Access to reliable sources of primary products
    • Assuring ability to feed the population
    • Markets for Chinese goods and services
    • Access to technology and global information flows
  • While avoiding an international coalition opposing the “rise” of the PRC

Xi has changed the style of pursuing these objectives vis-à-vis Hu, the balance between pursuing opportunity and caution

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Assertive Diplomacy in U.S. “Backyard”

- June 2013 Costa Rica-Trinidad & Tobago-Mexico Trip en route to summit with Obama in Sunnyland
- China-CELAC Summit
  - Like FOCAC in Africa
  - A vehicle for expanding business, educational and cultural programs, more than meaningful common political positions
- July 2014 Xi ALBA-Argentina-Brazil Trip
  - Including BRICS forum, China-CELAC summit, and sidebars with Evo Morales, Ollanta Humala

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Key Points of July 2014 Xi Trip

- **Brazil** – 54 Agreements
  - BRICS Bank ($50B capitalization + $100B foreign currency reserve)
  - Re-launch of (expanded) $20B “Regional Development Fund”
  - New ships for CVRD

- **Argentina** – 20 Agreements
  - $4.7B in loan-funded construction for Santa Cruz River hydroelectric projects
  - $2.1 billion first phase of previously stalled Belgrano-Cargas rail project
  - $11B new currency swap
  - Possible nuclear cooperation
  - Relationship upgraded to comprehensive strategic partnership
  - “Sympathy” for Ar. position in debt negotiations with US court

- **Venezuela** – 30 Agreements
  - $4B in new money for heavy investment fund
  - Plans for 3rd Satellite

- **Cuba** – 29 Agreements – Biotech, health, energy, nickel, sugar, tourism, TV
  - Forgiveness of $6B in debt to Chinese banks
  - Expansion of Port of Santiago
  - Future investment in Mariel Free Trade Zone

A “Cash-on-the-table” approach to gain access and influence?

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Impact of PRC Engagement on the Strategic Environment of the Region

- Re-orientation of the priorities and attention of political and business elites, and populations of the region
- Reshaping of the physical infrastructure and commercial patterns of the region, with associated impacts on human interactions and crime
- Chinese companies as local actors with interests in the outcomes of local government decisions
- The question of special protection for Chinese communities in the region
- Impacts on trans-Pacific organized crime
- Extended life of populist regimes
- Erosion of US monopoly as arms supplier and principal security partner
- Ideological polarization over how to most effectively engage Asia
- New cooperation and conflict dynamics between extra-hemispheric actors in the region
- Changed strategic calculus for the United States in the event of a global conflict with the P.R.C. (Chinese strength from arms and tech, Chinese options for covert ops, asymmetric attacks, basing, less support for US from the region).

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Question of *Protection* of Overseas Chinese *Communities*

- **Suriname**
  - Papitam (2009)
  - Maripaston (2011)
- **Guyana**
  - Linkage of Chinese communities w. External Chinese “Threat”
- **Argentina**
  - BsAs (2006, 2013)
- **Dominican Republic**
  - Santo Domingo (2013)
- **Venezuela**

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Transpacific Organized Crime

- Extortion of Chinese communities by groups w. ties to PRC
- Trafficking in persons: smuggling Chinese into the US or Canada
  - Triad-Zetas collaboration (eg. Tapachula)
  - Perceived expansion of communanities with new construction projects in Caribbean->tension (eg. DomRep, Suriname, Guyana)
- Trafficking in narcotics and precursor chemicals
  - Sinaloa ephedrine from China, India
  - Cocaine Latin America->Hong Kong
- Trafficking in contraband goods
  - Colon FTZ, Tri-Border Area, etc.
  - Also minerals going other way (Madre de Dios, Michoacán)
- Arms trafficking
- Money laundering – ↑options: goods, financial vehicles, projects

No evidence of PRC government involvement
…But danger of new forms of collaboration between Chinese, Latin American TCOs

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Conclusions

• Chinese companies in Latin American and the Caribbean have experienced important challenges in almost all of the sectors in which they have attempted to establish operations...from extractive industries, to agriculture, to construction, to manufacturing and retail, to telecommunications, banking, logistics and others...in the entry phase, as well as in conducting operations.

• Common Themes
  • Mistrust of the intentions and fear of the power of the Chinese at market entry
  • Disputes over employment of local persons
  • Impacts on communities (involving compensation) / the environment
  • Security (especially in extractive sectors, construction, and logistics)

• The new physical presence of Chinese companies has introduced an important new political and social dynamic in the region.
  • It has created new imperatives for the Chinese government, to exercise its growing influence to aid its companies and personnel.

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