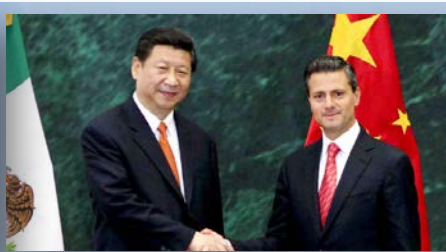




Presentation of Evan Ellis at the Latin American  
Program Event:

# **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.



# Categories of Challenges



## (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*



<i>Market Entry</i>	<i>Day-to-Day Operations</i>
<p>M&amp;A</p> <ul style="list-style-type: none"><li>• Blocking of China Minmetals from acquiring <b>Noranda</b> (2004).</li><li>• Failure of CNPC bid to acquire <b>Pan American Energy</b><ul style="list-style-type: none"><li>• But success of the CNOOC acquisition of <b>Nexen</b> - \$15.5B (2013)</li></ul></li></ul> <p>Approval of Projects:</p> <ul style="list-style-type: none"><li>• <b>Mirador</b> – Tongling (2012)</li><li>• <b>Rio Blanco</b> (2011)</li><li>• But also partial successes: <b>Toromocho</b> (Chinalco)</li></ul>	<p>General</p> <ul style="list-style-type: none"><li>• Shougang – <b>Marcona</b> (1992-) labor problems</li><li>• CMC – <b>Sierra Grande</b> (2010) – Water shortage</li><li>• Andes - <b>Tarapoa</b> (2006)</li><li>• Colquiri – <b>Potosí</b> (2012)</li></ul> <p>Complaints over the <i>number and types of jobs given</i></p> <ul style="list-style-type: none"><li>• Petroriental - <b>Orellana</b> (2007)</li></ul> <p>Impact of the mine on the <i>environment</i> and on the <i>community</i></p> <ul style="list-style-type: none"><li>• <b>Puebla</b> (2012)</li><li>• <b>Toromocho</b> (2014)</li></ul> <p><b>Crime</b> and <b>violence</b></p> <ul style="list-style-type: none"><li>• Emerald – <b>Caquetá</b> (2010-2011) 24 attacks + kidnapping</li></ul>



# Challenges - *Agriculture*

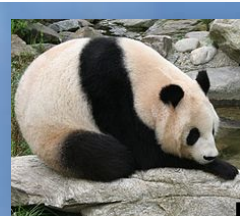


## *Market Entry*

- 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*

## *Operations*

- **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**



# Challenges - *Construction*



## *Market Entry*

- More difficulties in winning projects in **competitive bids** in **well-institutionalized** governments with **access to capital**
  - China Harbour – **Hidroituango**
- Change in political power of partner
  - Guyana – **Amaila Falls** (China Railway Road), **CJIA** (China Harbour)
- Deception by local partner
  - **Punta Perla**
- Accusations of Corruption + Use of own personnel by Chinese Companies
  - **Cayman Islands Port** (China Harbour)
  - CCCC: **Ruta 32** in Costa Rica
- Not many problems in ALBA
  - But **Coca Coda Sinclair**
- Excessive use of own personnel
  - Caribbean – Political opposition to **Baha Mar**
  - Brazil – Switch from ExIm Bank to BDC for **Gasene pipeline** project

## *Day-to-Day Operations*

- **AFECC** –San Jose stadium – Diversion of resources
- Not enough **local workers employed**:
  - **Palisadoes Road** (China Harbor)
  - **Georgetown “Mariott”** (Shanghai Construction Group)
- Dispute over not receiving **bonus**
  - **JDIP** road projects
  - **Toachi-Pilaton** hydroelectric project
- Environmental damage / impacts on the community / compensation
  - **Chone dam** (Tiejsu) (2013)
  - **Patuca III** (2013)
  - **Belo Monte** (State Grid 2011)
- Robbery/Crime: **AFECC**,
  - China Railway Road – **Chaguaramas** (Nov 2012)



# Challenges: *Manufacturing* and *Retail*



## *Market Entry*

- *Tax avoidance*
  - JAC, Chery (Brazil)
  - FAW (Mexico)
- Competition
  - *Dragon Mart* (Cancún)

## *Day-to-Day Operations*

- Not yet many data points
- Expectations of *labor force* + *Access to other markets*
  - *Effa Motors* - Montevideo

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



# Challenges: *Technology* and *Services*



## *Market Entry*

- **Telecommunications:** Fear of illicit cyber activities (Huawei, ZTE)
- **Banking:** *Management* by local personnel
  - Purchase of **Standard Bank** (ICBC)
  - Now the same challenge with the purchase of **BicBanco** by CCB?
- **Logistics:**
  - Fear of *malevolent intent*:
  - Concession for **Cristóbal and Balboa** (HPH) (1999)
  - *Economic power/monopoly concerns*:
  - **Farfán** (HPH) (2008)
  - Purchase of the Gran Bahamas Port Authority - **GBPA** (HPH)

## *Operations*

- **Telecommunications:** Generally *no more than normal* – Operating with a “*local face*”
- *Logistics:*
  - *Disputes with the government* over responsibilities and control:
    - **Manta** (HPH)
  - *Security and organized crime*
    - Port of **Lázaro Cárdenas** (HPH)



# 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



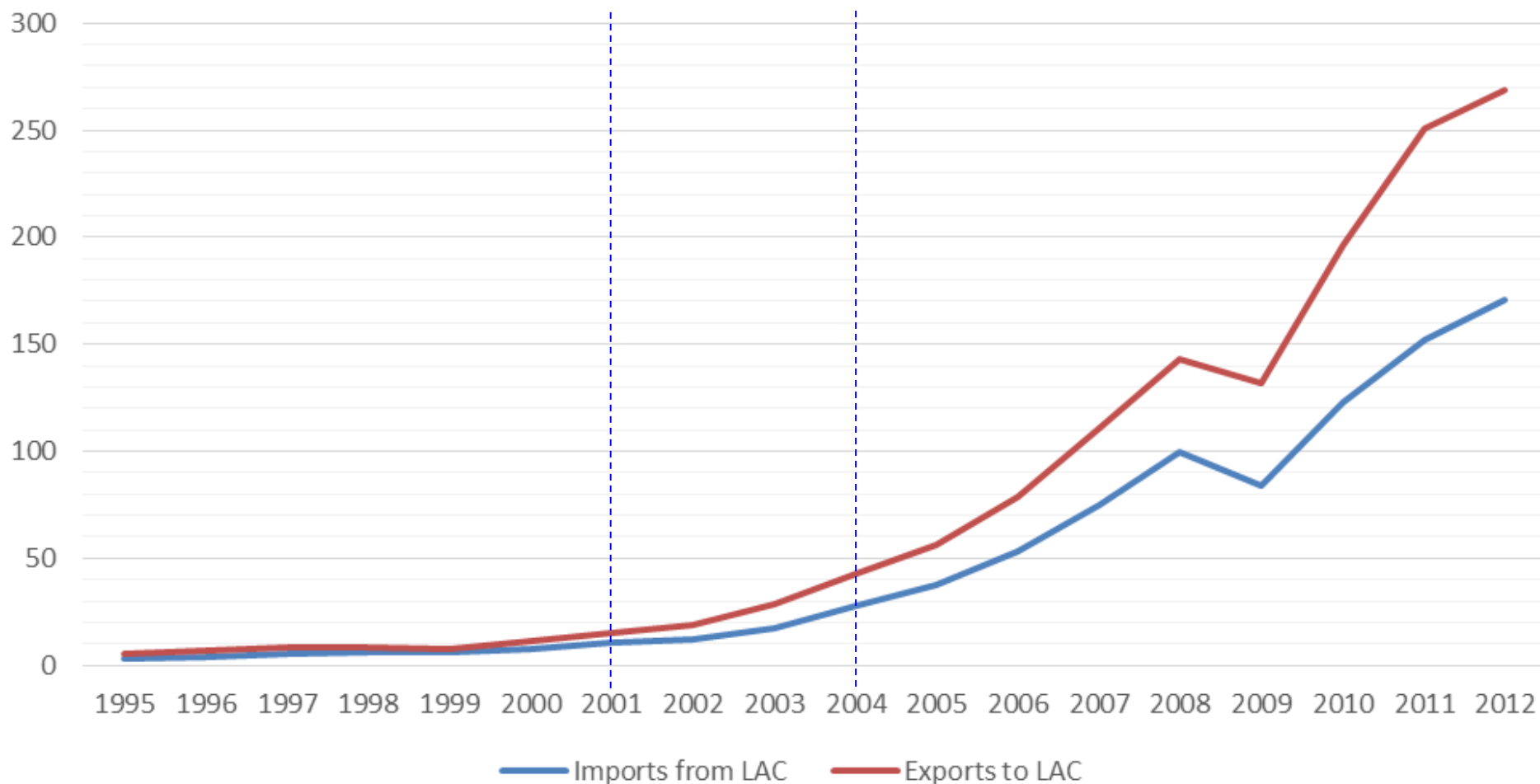
# Questions? Comments?



# Growth of PRC-LAC Trade Imports & Exports - 1995-2012



PRC Trade with Latin America and the Caribbean 1995-2012



Source: International Monetary Fund, 2013





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



	Exports to PRC				Imports from PRC			
	2000	2009	2011	2012	2000	2009	2011	2012
Argentina	6	3	2	3	4	3	2	2
Bolivia	18	8	8	9	7	6	3	2
Brasil	12	1	1	1	11	2	2	1
Chile	5	1	1	1	4	2	2	2
Colombia	36	5	4	2	15	3	2	2
Costa Rica	26	2	13	8	16	4	2	2
Ecuador	120	6	16	11	129	4	2	2
El Salvador	44	32	38	32	21	6	4	4
Guatemala	44	28	28	29	17	3	3	3
Honduras	52	13	--	--	17	6	--	--
México	25	7	3	4	6	2	2	2
Nicaragua	123	28	19	25	91	6	3	3
Panamá	27	14	31	--	22	2	1	--
Paraguay	13	14	23	25	3	1	1	1
Perú	4	2	1	1	8	2	--	2
Uruguay	4	2	4	3	10	3	3	3
Venezuela	37	3	3	--	18	4	2	--

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



# 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**



# 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**



# 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 3<sup>rd</sup> 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**?





# 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).*



# Question of *Protection* of Overseas Chinese *Communities*



- *Suriname*

- *Papitam (2009)*
- *Maripaston (2011)*



- *Guyana*

- *Linkage of Chinese communities w. External Chinese "Threat"*

- *Argentina*

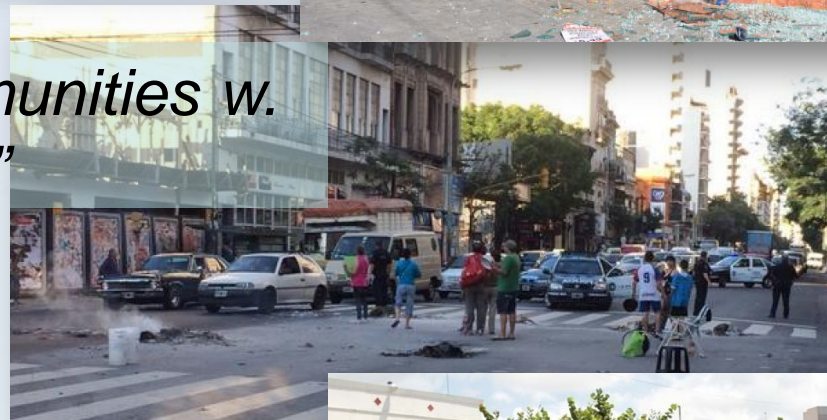
- *BsAs (2006, 2013)*

- *Dominican Republic*

- *Santo Domingo (2013)*

- *Venezuela*

- *Valencia, Maracay (2004)*







# 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 communities 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



# 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.*