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Summary

The last decade saw a sharp acceleration in the pace of trade and FDI flows between China and Latin American countries, (Latam), with a narrow focus on raw materials and food. The reasons for this development are clear: China is a major importer of raw materials and food and most of these countries are major exporters of these commodities. As the relationship of these countries with the US have been testy, China is trying to develop its own position of influence including the "Road and Belt "initiative being expanded to Latam. There are concerns that this concentration on a few sectors will help perpetuate dependence on China, which, however, has met with problems with some of its Latam projects rejected.

Investment Conclusions

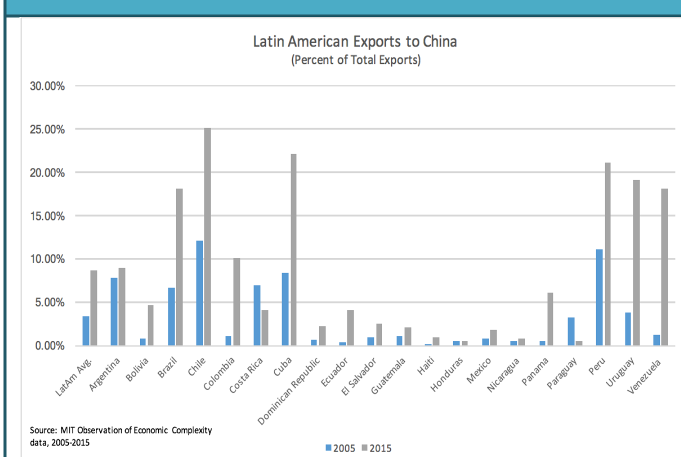
Ecognosis first addressed this topic in issue No. 30, 9/2/15.The main emphasis of China's trade initiatives has been to establish secure and long term sources of iron ore and other metals as well as wheat, maize, soya and meat. The FDI initiatives have focused not only on extraction but also on infrastructure investment especially in transport, ports and related, an initiative, which matches China's thrust to become a major maritime trading power. It would follow that purely local Latam paper investment opportunities would be company specific and tempered by the fact that nearly all the Chinese FDI is state-owned or state driven.

China's trade with Latam

Grasping the nettle directly, the main issue of China's thrust into Latin America is that by developing a quasi-monopoly status in imports will make some of these economics unduly dependent on China, or at least on China's economic cycles.Secondly, China is also buying political influence through subsidised infrastrture investments which favour China's global strategic and political plans and not just trade with these countries.

Figs 1 and 2 show a summary of the rise of China in the exports and imports of Latam and of some Carribean economies, 20 all told in 2005 and 2015. We update some of these numbers in the text.Of these, the sharpest rises of China- dependent exports from 2005 to 2015 (ranging apprx. 17.0% to 25.0% of total exports) were registered by Brazil,Chile,Peru, Uruguay and Venezuela, although the latter is very special case of oil exports coupled with large indebteness to China.Cuba is also a special case because of its political position.The case of import penetration is more widespread with increases from 2005 to 2015 of between apprx 16.0% to 28.0% of all imports, but with more countries involved including Argentina, Brazil, Chile,Venezuela, Peru, Colombia and Uruguay. A brief update of these figures to the situation in 2017 would indicate a continuing rise of this China dependency.For example in 2015 about 8.0% of all the Latam's exports went to China, rising to an estimated 10.0% in 2017 while the figure for imports rose from about 16.0% in 2015 to an estimated 18.%. in 2017.In 2016 Brazil's imports from China accounted 17.0% of total while exports to China accounted for 19.0% of all exports.The Belt and Road Initiative (BRI) of China has now been firmly extended to Latam.This initiative involving extensive infrastrcture investment in order to facilitate wider trading links across Asia, parts of Eurpore and Africa, has raised suspicions.BRI is considered a scheme serving China's global aspirations and substituting China in the shrinking role of the US in global economic and financial matters, a process helped by Trump !

Fig.1 Latam exports to China as percent of total, 2005 &2015

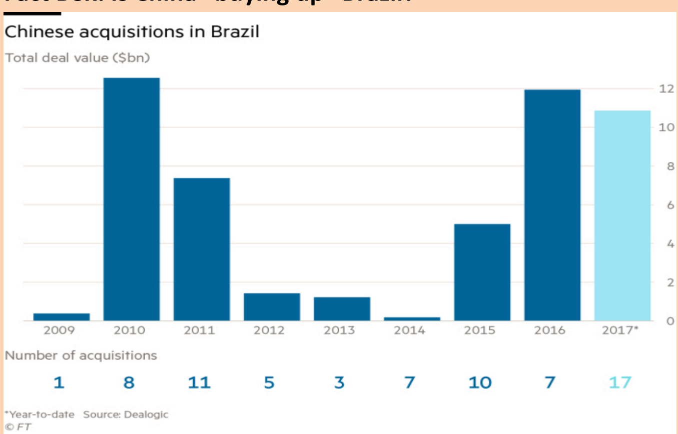


Source: Global Americans

Here come capital investments

When it comes to FDI China's importance to Latam and the Caribbean (LAC) continues to be very important in extractive industries. China now purchases over one-fifth of all of LAC's extractive exports, which extractive goods account for over half of LAC's exports to China. Chinese investment and finance in LAC is also heavily focused on extraction. Mining, drilling, and refining accounts for over half of Chinese mergers and acquisitions in LAC, and coal, oil, and natural gas account for over half of public-sector lending, a record $17.2 billion in 2017 (Source: Boston University Global Programs, BUGP)
China's investment in **Brazil** has drawn attention because of its extent and size. Sinopec and CNOOC have invested in Brazil's offshore oil, while Sinopec bought 40% of Repsol Brazil for USD 7.1bl.China's State Grid Corporation has a USD 12.3 bl deal to buy control of Brazil's CPFL Energia, while China Merchant paid USD 1.2bl to buy a 90% share in the TCP group.

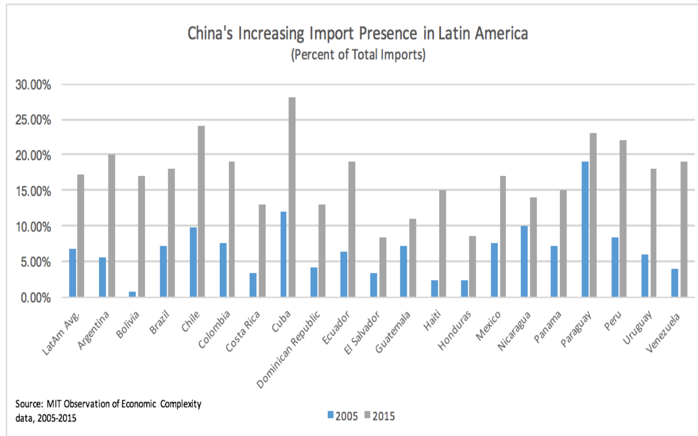
Fact Box: Is China "buying up" Brazil?



Source FT, Dealogic, Nov.2017

There is also the issue of loans. Between 2007 and 2014 Chinese banks have lent about USD 120 bl to Latam, half of which went to Venezuela. Despite the backing of these loans by oil, China had to renegotiate them with Venezuela at least twice, and still has USD 16.0 bl of doubtful loans outstanding.
Chinese FDI in Latam has not always met with success. A Two Ocean railway from Brazil to Peru met with strong opposition on economic and environmental grounds. An ambitious project to dig a substitute Panama canal in Nicaragua has come to nothing. Other rail projects In Colombia, Venezuela and Mexico were abandoned. There is also the poor example of what can happen with Chinese FDI in the case of a Sri Lankan port, which, having failed commercially, the government had to lease the port back to the Chinese and use the funds to repay the costs of the project.

Fig.2 Latam imports from China as % of total, 2005&2015



Source: Global Americans

In sum: Good for China or Latam or both ?

The table below summarises the core issue of the China-Latam trade in terms of the perentages involved and, hence, of the role of FDI.China's trade and FDI concentrate on extractive industries and the infrastrcture necessary to support them.The Latam recipients on the other hand, import more sophisticated products from China with higher value added.Hence China's initiatives are seen as prolonging and encouraging Latam's dependence on extraction exports at the cost of the development of higher value added local industries which are being competed away by the cheaper Chinese imports.

LAC exports to China 2011-5		LAC imp. from China 2011-5	
Soybeans etc	19.2%	Telecom equip.	9.7%
Iron ore	16.8%	Data processing equip.	3.8%
Crude petroleum	11.8%	Optical instruments etc	3.3%
Copper	11.4%	Ships, boats	3.3%
Copper ores	10.0%	Other electircal equip.	2.3%
Total top 5	69.2%	Total, top 5	22.5%

Source:BUGP, China- Latam Econ. Bulletin 2017

It can, however, be argued that China will pursue its own interests, and its trade and FDI are not strctured in order to suit the development needs of Latam countries.China buys its Latam imports in open markets and its FDI offers to Latam can always be rejected. Equally, the exporters to, and recipients of FDI from China have in China a source of steady inflow of revenues and capital funds.Andrew Freris (writing completed 12/2/2018)