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AGRICULTURAL DEVELOPMENT BANK OF CHINA

中信银行
CHINA CITIC BANK

国家开发银行
China Development Bank

招商银行
CHINA MERCHANTS BANK

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THE EXPORT-IMPORT BANK OF CHINA

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CHINA'S FINANCING IN LATIN AMERICA AND THE CARIBBEAN

Edited by
Enrique Dussel Peters

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FOREWORD

There is no doubt that over the past few decades, China has stood out as a crucial part of the globalization process and has served as a fascinating model for the internationalization of emerging markets. Its robust and comprehensive performance as related to economic growth, international trade and financing, foreign direct investment, as well as technological innovation, has contributed to strengthening ties with other developing countries, focusing on poverty reduction, growth acceleration and, last but not least, the narrowing down of their respective development gap with the industrialized economies.

Its relationship with the Latin America and Caribbean region has been diversified through the opportunities arising from the south-south cooperation, further consolidating the region's ties with China during the recent decade. China's growing focus on Latin America is also reflected in the introduction of the two policy proposals –the "1+3+6 cooperation framework" and the "3.3 cooperation model" launched by Beijing in 2014 and 2015 respectively– along with the extension of the Belt and Road Initiative to Latin America.

Such close relations have been complex. The global context of pronounced uncertainty about the future of multilateral cooperation, along with the moderation of China's economic expansion

rate as a result of a policy adjustment that was adopted in order to shift their growth model to one relying more on consumption and less on investment, have spurred the greatly export-dependent region to address the challenges of infrastructure and innovation, boost productivity and competitiveness and diversify exports.

With all these challenges in mind, and as a regional institution owned by emerging countries, CAF-Development Bank of Latin America has played an important role in the region by promoting sustainable development and international integration. Our services and operations are carried out under the framework of a comprehensive development agenda, focused on five major strategic areas: efficiency, equity, sustainability, institutional structures and integration.

Being one of the most important sources of multilateral financing in Latin America, together with the IDB and the World Bank, CAF currently provides approximately one third of the region's development financing, especially in transport, communications and energy infrastructure sectors.

In that sense, CAF is determined to play a catalytic role in strengthening the approach between Latin America and the Caribbean and China. In that context, CAF has established collaborative relationships with important official partners, including the Ministries of Finance and Foreign Affairs, the Central Bank, the Eximbank, the Chinese Development Bank (CBD) and the Fund for Industrial Cooperation (CLAIFUND). Over the years our Organization has held several editions of annual conferences and high-level cooperation forums on Sino-Latin American investment with our partners from

China. We firmly believe that it is crucial to continue consolidating this type of dialogue in order to exchange development experience and best practices so as to identify new cooperation opportunities.

With the purpose of enhancing economic and social development in the areas of infrastructure development and productivity, our institution has also carried out several co-financing projects in Bolivia, Brazil and Colombia partnering with local governments

and Chinese entities from policy banks to enterprises. We reaffirm our full commitment to continue working towards attracting Chinese resources and expertise to the region that will guarantee quality investment and value-added trade.

The region must tap into this historic opportunity to ensure that the gains derived from its natural resources are extended to its human capital and international competitiveness through quality infrastructure investments, innovation and technological transfer. The present juncture, in which it is our pleasure and honor to participate, offers an opportunity to rethink global and regional partnership strategies and to put greater emphasis on quantifying the magnitude and composition of Chinese development finance to the Latin American region, as well as examining the impacts of such finance on the growth, stability, and sustainable development of Latin American economies.

Luis Carranza
President of CAF – Development Bank of Latin America

INTRODUCTION

Enrique Dussel Peters

China's global economic presence has solidified in the first two decades of the 21st century: it has not only become the biggest economy since 2014 –according to the purchasing power parity (PPP) by the International Monetary Fund–, the major exporter, the most dynamic importer, as well as the second source of foreign direct investment outflows in the world, among other noticeable recent socioeconomic trends. In parallel, China's banking system has also pushed forward: in the last years China's top banks by assets –Industrial and Commercial Bank of China (ICBC), China Construction Bank Corporation (CCB), Agricultural Bank of China (ABC), and Bank of China– have also taken the top international spot.

In addition, China's socioeconomic presence has deepened and widened in the last two decades in Latin America and the Caribbean in practically every imaginable item: from Confucius Institutes, tourism, substantial cultural and academic exchanges to a very dynamic cooperation between governments, and their respective legislative powers. China's economic presence in LAC has also been particularly relevant in terms of trade, foreign direct investments, and infrastructure projects.

The goal of this book is to focus on China's financing in LAC during 2000-2018, taking into account former analysis and research by the Academic Network of Latin America and the

Caribbean on China (Red ALC-China) and the Center for Chinese-Mexican Studies (Cechimex) of the School of Economics of the National Autonomous University of Mexico (UNAM). A particularly relevant conclusion taken from these studies is that the analysis of the socioeconomic LAC-China relationship in the 21st century has to deepen and differentiate between trade, foreign direct investment, infrastructure projects, and financing, which will be the topic of this book.

The two sections of the book and its 17 chapters all acknowledge and begin with a brief historical and socioeconomic understanding of the relationship between a certain country or institution with China. Former results and publications by Kevin P. Gallagher and his research team at Boston University in the last decade –and, more recently, another one with Margaret Myers at the Inter-American Dialogue– have not only contributed with statistics –specifically with the China-Latin America Finance Database–, but also with a group of detailed analysis in this field; all authors use these results as an important basis for their respective chapters. In addition to the general background of each chapter, they all make an effort to present and analyze the specificities of China's financing by institutions, specific transactions and details on the conditionalities of financing, sectors, and other publicly available information. In most of the cases, authors also held interviews with Chinese banks, firms and/or institutions on topics related to the transactions in order to support the quantitative and qualitative analysis of this book.

Within this framework of analysis, the first four chapters of Section I present a conceptual discussion on foreign financial flows (Esteban Pérez Caldentey and Juan Carlos Moreno-Brid), specificities of China's financing in Europe (Carlos Marcuello Recaj), as well as a group of institutional characteristics of Chinese policy and development banks in general, as well as in LAC (in the respective chapters by Xiaoyu Song and Rubén Hernández Cordero). These chapters allow for a deeper understanding of concepts and theoretical discussions on financing, as well as international case

studies of Chinese financing and banking institutions, all of them relevant for Section II.

Section II, with 13 chapters, deepens the specificities of China's financing in the region. The first four chapters of this section examine a group of regions and regional issues relevant to the LAC-China relationship regarding financing. Gina Caballero concentrates on current conditions and challenges for regional institutions to improve co-financing schemes, while Rebecca Ray, Kevin P. Gallagher and Cynthia A. Sanborn present details of China's financing in the Andean Amazon based on a group of transactions and their conditionalities; Jevon Minto makes an effort to understand details of China's financing in the Caribbean –also based on a group of case studies–, while Luis Vargas Montoya, Marlen Rodríguez Morales, and Rafael Arias Ramírez discuss Chinese financing in Central America. These regional studies are followed by nine national case studies: Argentina (Leonardo Stanley), Brazil (Celio Hiratuka and Simone Deos), the case study of the Belo Monte Transmission Line Project in Brazil (Shoujun Cui and Zheng Zhang), Uruguay (Gustavo Bittencourt), Bolivia (Adriana Zapata Rosso), Ecuador (Diana Castro Salgado), Colombia (Benjamin Creutzfeldt), Venezuela (Carlos Eduardo Piña) and Mexico (Enrique Dussel Peters). The order of the articles is presented from a South-North geographical perspective of LAC.

The results of the respective chapters make a vital contribution to understanding the details of several conditions and challenges regarding China's financing in LAC, and thus substantially enrich discussions and proposals in this field of research and policy-making. A group of results of the respective chapters stand out.

First, the quality and quantity of China's financing in LAC has to deepen in the future. As with previous research on trade and foreign direct investment by Red ALC-China and Cechimex, as well as many other public, private and academic institutions in LAC and China, even basic statistics on China's financing in LAC are still practically non-existent. While it is true that the contribution of Gallagher and Myers is substantial, it only reveals information for two banks: China Development Bank (CDB) and the Export-

Import Bank of China. All chapters in this book not only account for differences in amounts and conditionalities, but they also detail new financing sources in LAC: from Chinese firms to additional Chinese banks and binational funds, among others. From this perspective, future research should considerably improve statistics on Chinese financing in the region. The topic is not only relevant from a methodological and academic perspective, but it may also contribute to a much more in-depth understanding of the volume of financing –classified by Chinese institution, country, year, specific destination, conditionalities, etc.–, its socioeconomic impact and a specific dialogue between LAC and China that will in turn improve and enhance this relationship.

Second, Chinese financing in LAC –since it has also been analyzed for trade and foreign direct investments– will not present exponential growth rates in time: in the last years, also as a result of a high concentration of financing in Venezuela, Brazil, Argentina and Bolivia, China's financing to LAC has fallen substantially during 2015-2018. This trend is a result of policies in China and economic problems in the respective countries. While it is true that China's financing in LAC can pick up and increase in the future –it has even reached its highest levels of 2010 with around $35 billion–, it is also true that most of LAC countries, for different reasons, practically have not received any Chinese financing at all. As discussed in several of the chapters of Section II, there is an enormous demand for external financing in LAC –potentially from China– and thus increasing China's financing presence in the region.

Third, and except Venezuela, China's increasing financing presence in LAC has not led to a "debt trap" for the respective LAC countries. The chapter on Venezuela by Carlos Eduardo Piña suggests China's relevance in financing imports and investments in the energy sector, while Diana Castro Salgado highlights the significant debt of Ecuador with China as a result of a group of infrastructure projects, among other reasons. Nevertheless, and considering that China has surpassed the World Bank and the Inter-American Development Bank as the main external financing source, for most of the nations of the region China's financing

is still secondary compared to other regional and international debt sources.

Fourth, the transactions and case studies in Section II particularly reflect a significant heterogeneity regarding the conditionalities of Chinese financing in LAC. In general, and so far, most of Chinese financing in LAC has been channeled to countries with difficulties and limitations in access to international financing, such as Argentina, Ecuador, and Venezuela in different periods of the last two decades; Brazil is a notable exception. Other countries such as Colombia, Mexico, and Uruguay, on the contrary, have practically not received any critical financing from China, also as a result of an important competition within the countries and the possibility of certain firms to obtain financing directly in international markets. From this perspective, Chinese financing in LAC presents a widespread scenario: from loans directly guaranteed by specific commodities (oil, for example in Venezuela) and relatively high-interest rates above LIBOR (London Inter-Bank Offered Rate) to conditions strictly according to each national market such as in Mexico. In this case, even, instruments agreed by the governments of Mexico and China have been administered by the International Finance Corporation of the World Bank.

Fifth, in the LAC-China relationship it is crucial to understand institutional details regarding leading Chinese financing institutions such as CDB, Export-Import Bank of China, ICBC, ABC, Bank of China, as well as Chinese Funds in LAC –both regionally (such as several Community of Latin American and Caribbean States CELAC (CELAC)-China Funds), and binationally. From an academic, institutional, and policy-making perspective there is little knowledge and understanding regarding the expertise, units, and officials in these banks on LAC. While recognizing these limitations, one of conclusions that the authors of this book had in common is that in general Chinese financing in LAC lacks transparency, and, thus, monitoring and evaluation. Chinese financing institutions in LAC –and globally– part of an essential learning process: while most financing is channelled through government to government transactions, there is a small but increasing number

of co-financing schemes and even with external administrations (see the chapters of Gina Caballero and Enrique Dussel Peters).

Sixth, LAC and China should substantially increase investments in institutions specialized on detailed topics such as financing. As Red ALC-China, Cechimex and other institutions have insisted, there an increasing gap in terms of socioeconomic dynamism and institutions in LAC and China that generate factual knowledge and understanding of this concrete and specific conditions, for example in terms of trade, financing, foreign direct investments and infrastructure projects. Unless this gap –between detailed and effective institutional knowledge and socioeconomic growth– is closed, constant socioeconomic tensions between LAC and China will arise.

Seventh, and considering China's proposal of a "globalization process with Chinese characteristics" and the Belt and Road Initiative (BRI) since 2013, it is in the interest of LAC and China to allow for a concrete learning process, specifically in terms of China's financing in LAC. There is no doubt that it can increase importantly –also based on its high savings rate and LAC's important demand for financing– considering the already existing financing experiences. Otherwise, BRI, and other financing experiences –such as the Asian Infrastructure and Investment Bank (AIIB) and even the BRICS (Brazil, Russia, India, China and South Africa) initiative– might prove insufficient for LAC.

Finally, and eight, several of the chapters reflect on the fact that Chinese financing in LAC are in general channeled to Chinese investments, trade and infrastructure projects. Nevertheless, several case studies also show that Chinese banks participate in syndicated loans with other Chinese and international banks that do not necessarily require Chinese clients and suppliers. Future research should also concentrate on Chinese financing institutions and their ability to allow for local, national and international suppliers and clients.

Red ALC-China and Cechimex, from this perspective, invites all readers to integrate to these debates and discussions in LAC and China. Institutional and individual contributions to these debates are most welcome.

SECTION I.

CHINA´S FINANCING IN THE WORLD: THEORY, INSTITUTIONS, AND INTERNATIONAL CASE STUDIES

FOREIGN FINANCIAL FLOWS AND THE BALANCE OF PAYMENTS CONSTRAINT ON LATIN AMERICA´S GROWTH

A THEORETICAL AND EMPIRICAL ANALYSIS

Esteban Pérez Caldentey and
Juan Carlos Moreno-Brid

Introduction

The growth performance of developing economies is closely associated with the workings of the existing international financial order. Given the limitations of their productive structure, the tides and fortunes of developing countries –including those of Latin America– depend to an important extent on their ability to generate sufficient foreign exchange to cover their day to day transactions and long-term development needs: imports, interest payments and profit transfers, etc. Given that they do not have the capacity to issue a reserve currency, i.e. a means of payment accepted in the global economy, developing countries must strive to earn it through foreign trade and in international capital markets.

Latin American countries, and semi-industrialized economies in general, need to import capital equipment, machinery and in some cases even key raw materials and inputs such as oil and natural gas to build up their infrastructure, and boost their productivity and output growth potential. It follows that their economic performance depends on their capacity to earn sufficient foreign exchange to finance such imports. In other words, their exports plus their inflow of foreign capital must be sufficient to

meet the import needs compatible with their economic growth requirements.

As has been stressed by the Structuralist School –the Economic Commission for Latin America and the Caribbean (ECLAC) in particular– and the balance of payments constrained growth literature, in the long-run, the rate of expansion of a country's GDP is determined by the combined influence of its import requirements, the demand and composition of its exports, its capacity to attract foreign capital and the evolution of the real exchange rate.[1] In this sense some countries face an external constraint. In fact, their performance in global trade markets and the response, not only of the external but also the domestic financial markets, affects and restricts their scope for carrying out domestic policies, including fiscal, exchange rate and monetary policies. This is the main reason why the growth performance of small open economies, as well as their development pattern, has been and continues to be shaped to great extent by the vicissitudes of their external sector. Thus any macroeconomic policy package, including monetary, fiscal and other tools, that does not take into account this fact, ultimately ends up most likely in a failed experiment and brings the external sector to the forefront of any economic analysis or discussion.

There are five ways in which the external constraint on growth can be eased: (i) a permanent increase in the rate of growth of external demand, (ii) a permanent improvement in the terms of trade, (iii) a persistent depreciation of the real exchange rate, (iv) the implementation of policies for structural change in the countries of the periphery, and (v) a permanent increase in the rate of growth of long-term financial flows. This paper deals with the fifth alternative and evaluates whether in the case of Latin America the

1 This definition is based on McCombie and Thirlwall (1999:49), according to whom countries face an external constraint when their performance in foreign markets and the response of the financial markets to this performance restrict growth to a rate lower than external conditions require. This definition applies as long as the economy grows at a rate lower than the one compatible with full employment. In this case, the organization of the global economic system, including its financial architecture, has a restrictive bias and prevents countries subject to external constraints from realizing their growth potential.

increase in financial flows is a viable and relevant option to overcome the external constraint on economic growth. We analyze this issue at the theoretical level and examine the empirical evidence on the dynamics and composition of financial flows to Latin America. At the theoretical level, the paper presents an extension of the balance of payments constraint model to take into account foreign capital flows and their impact on long-term growth. For the empirical part we present a taxonomy of financial flows to Latin America and identify their positive and negative aspects.

The conclusion is that the composition of financial flows in Latin America poses significant challenges to overcoming the balance of payments constraint, which is in line with the findings of the theoretical part. Under plausible assumptions foreign financial flows can soften the external constraint as long as the growth of foreign liabilities is kept under control in the sense that an economy can maintain a growth path with a given trade deficit as a proportion of GDP. Foreign financial flows do indeed have, in theory, the capacity to become a helpful ally to a developing country in its struggle to overcome the external constraint on its growth path. This is however not automatic. Whether it actually happens, or not, depends on economic policy and political considerations determined by both the recipient country and the one that is the source of financial flows.

Foreign Financial Flows and the External Constraint: A Theoretical Analysis

Based on some of Harrod's contributions to the analysis of the interrelations between the dynamics of an open economy and its trade performance, AP Thirlwall put forward, four decades ago, a parsimonious analytical model that showed how the balance of payments tends to be a binding constraint on the long-term rate of expansion of real GDP in semi-industrialized nations. In its simple version, the model assumed away all financial flows and concluded that the rate of growth of an economy is bounded by, on

the one hand, the ratio of its income elasticities of exports to imports and, on the other hand, by the dynamism of foreign demand. This model came to be known as Thirlwall's Law, and was subsequently extended by Moreno-Brid (1998-99) and by McCombie and Thirlwall to consider the influence of foreign financial flows and a non-zero current account deficit bounded as a proportion of GDP. The model thus extended captures ample evidence of semi-industrialized nations inserted on long-term growth paths compatible with persistent trade deficits that are rather constant relative to GDP with significant foreign capital inflows.

Both contributions put forward alternative stock-flow models, allowing for long-term net capital inflows and a non-explosive foreign debt/income ratio. For the concerns of the project within which our chapter is embedded –i.e. understanding the potential relevance of China as a source of financial support to promote long-term growth in Latin America– Moreno Brid's model may be a useful starting point. It consists essentially of the following four equations;

(1) $\dot{x} = \eta\,(\dot{p}_d - \dot{p}_f) + \pi\dot{z}$

(2) $\dot{m} = \psi\,(\dot{p}_f - \dot{p}_d) + \xi\dot{y}$

(3) $\dot{B} = 0 = (\gamma\dot{m} - (\gamma - 1)\dot{x} - \gamma(\dot{p}_d - \dot{p}_f)\text{-}\dot{y})$

(4) $\mu = \dfrac{\dot{p}_f m}{(\dot{p}_f m - \dot{p}_d x)}$

Where the variables include $\dot{x}$= rate of variation of real exports; $\dot{m}$= rate of variation of real imports; ; $\dot{p}_d$ rate of variation of domestic prices (domestic inflation); $\dot{p}_f$= rate of variation of external prices (imported inflation); $\dot{e}$= rate of variation in the nominal exchange rate; and $\dot{z}$= rate of variation of external real income in the rest of the world; $\dot{y}$ rate of variation of real domestic income. The parameters comprise: ψ, η= price elasticities of exports and

imports, $\psi, \eta < 0$; ξ, π; = income elasticities of exports, and imports $\xi, \pi > 0$;

Equations 1 and 2 are the conventional functions for exports and imports. Eq. (2) specifies that the long-term balance-of-payments constraint is defined as a constant trade deficit as a proportion of GDP, where such proportion is expressed as B. Finally, to facilitate the algebraic expressions, identity (4) defines the proportion of imports relative to the trade deficit as μ.

The solution of this model gives the following expression of $\dot{y}_b$, the long-term growth of GDP consistent with a trade deficit that is invariable as a proportion of GDP.

$$(5) \quad \dot{y}_b = \frac{[\mu\,(1+\psi+\eta)-\eta](\dot{p}_d-\dot{p}_f)}{\xi\mu-1} + (\mu-1)\frac{\pi\dot{z}}{\xi\mu-1}$$

In addition, given that by construction[2],

$$\mu = \frac{1}{1-\theta}$$

Where θ is the initial ratio of the value of exports relative to imports (by assumption smaller than 1.0)

$$\theta = \frac{p_d x}{p_f m}$$

Then equation 5 can also be expressed as:

$$(6) \quad \dot{y}_b = \frac{(1+\psi+\theta\eta)\;(\dot{p}_d-\dot{p}_f)}{\xi-(1-\theta)} + \theta\frac{\pi\dot{z}}{\xi-(1-\theta)}$$

Clearly, as equation 6 shows, in this extended model the balance of payments constrained growth rate is influenced by the initial magnitude of the trade deficit. By assuming away long-term variations of the real exchange rate, then Moreno-Brid derived the revised version of Thirlwall's Law as:

2 As Moreno-Brid (1998-99) explained: the non-negativity [of the denominator] is met if the structure of the domestic economy is such that an increase in real domestic income [that is not the result of a surge of exports] will unavoidably lead to a higher trade deficit.

$$(7)\quad \dot{y}_b = \theta \frac{\pi \dot{z}}{\xi - (1-\theta)}$$

In this expression it is rather straightforward to derive that, as long as the income elasticity of imports is higher than one $(\xi > 1)$ the existence of significant net inflows of foreign capital does allow a semi-industrialized country to achieve a higher long-term rate of expansion of its productive activity than otherwise.

The original paper, in order to explore the stability properties, provided a dynamic analysis of this extended model summarized by two equations: the import demand function,

$$(8)\quad \dot{m} = \psi(\dot{p}_f - \dot{p}_d) + \mu \dot{y}$$

and equation 9, derived from equations 1 and 3, that represents all pairs of growth rates of GDP and of imports –given the real exchange rate– that satisfy the balance of payments constraint of maintaining a trade deficit as a constant proportion of GDP.

$$(9)\quad B = \{\dot{y}, \dot{m})/\,[0 = \dot{m} - \theta\pi\dot{z} - ((1+\theta\eta)\ \ (\dot{p}_d - \dot{p}_f) - (1-\theta)\dot{y}]\}$$

The thrust of this theoretical model is that foreign financial flows may allow a semi-industrialized nation to maintain a higher long-term rate of economic expansion than it would have if it were not allowed the possibility of running a persistent trade deficit, bounded as a proportion of GDP. However, foreign capital cannot finance growth paths that imply explosive trade deficits as a proportion of GDP, for this sets the economy on an unsustainable path of external indebtedness that sooner or later ends up triggering a balance of payments crisis and growth collapse. Remember too that foreign investment in financial instruments or otherwise will sooner or later be accompanied by profit transfers and interest payments abroad, i.e. foreign exchange outflows that put additional pressure on the balance of payments. Foreign capital flows assuage, but do not remove, the balance of payments constraint. Ultimately, the effective way to remove it is by boosting

fixed capital formation with active industrial policies that bring about a structural transformation of the economy that leads to a lower ratio of imports/exports income elasticities.[3] Foreign capital can help to carry out, or to accelerate, such structural transformation through direct investment (FDI) that boosts the recipient economy's productive capacity and international competitiveness, with more modern technology that allows an upward shift in its position in global value chains and strengthens the domestic producers presence in local and world markets. Having put forward this theoretical framework that shows how foreign capital flows have the potential to contribute to a better long-term growth performance for any developing economy, we proceed in the next section to examine the actual performance of financial flows in our region using a taxonomy that we found most useful from a policy perspective

The Taxonomy of Financial Flows to Latin America: An Empirical Analysis

A breakdown of foreign capital flows shows that private flows have become the main source of financing for Latin American and Caribbean developing countries and the main component is foreign direct investment (FDI). Indeed, for the region, FDI has traditionally been the largest component of financial flows, including remittances and official development assistance. In absolute terms, net FDI flows to the region averaged $5.6 billion in the 1980s, $33 billion in the 1990s and $134 billion so far in the 2000s. In relation to total flows, FDI reached 90%, 47.4%, 65.7% and 53.6% of the total, respectively, during the periods corresponding to 1980-1989, 1990-1999, 2000-2007 and 2010-2018.

3 Certainly a monetary policy to avoid the systematic appreciation of the real exchange rate is necessary.

Table 1. Latin America and the Caribbean: Foreign Direct Investment, Private Portfolio Investment, Official Development Assistance, Other Official Flows and Remittances (1980-2018)

(Averages in millions of US dollars and percentages of total flows)

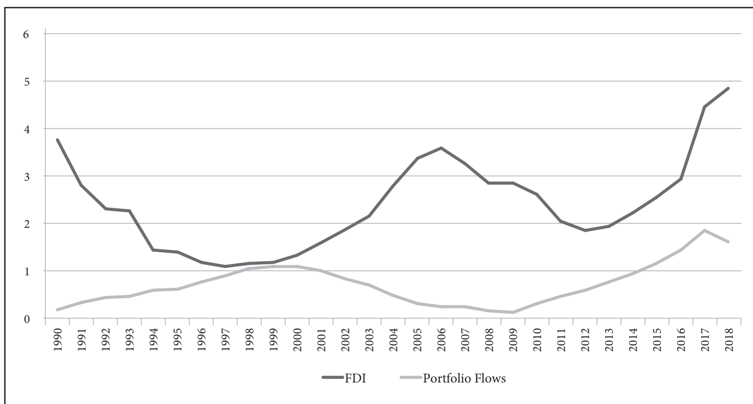
	1980-1989	1990-1999	2000-2007	2008-2009	2010-2018	2000-2018
	In millions of US dollars					
FDI	5,626	33,315	55,626	85,438	134,628	96,186
Portfolio flows	-273	31,130	-725	13,550	74,948	36,623
Other net investment	-5,802	-13,241	-17,601	-18,571	-36,993	-26,889
Remittances	3,561	13,720	41,351	60,321	68,510	56,213
Official development aid	3,121	5,329	5,959	8,854	10,166	8,151
Total	6,232	70,254	84,610	149,592	251,260	170,283
	As a percent of the total					
FDI	90.3	47.4	65.7	57.1	53.6	56.5
Portfolio flows	-4.4	44.3	-0.9	9.1	29.8	21.5
Other net investment	-93.1	-18.8	-20.8	-12.4	-14.7	-15.8
Remittances	57.1	19.5	48.9	40.3	27.3	33.0
Official development aid	50.1	7.6	7.0	5.9	4.0	4.8

Source: author´s elaboration based on Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators, and International Monetary Fund (IMF), World Economic Outlook, various years.

FDI is generally considered a long-term and stable source of finance for development with a significant potential to generate economic growth by strengthening, augmenting and modernizing, the stock of fixed capital formation in the recipient country. In particular, and as was illustrated in the preceding theoretical section, FDI can generate spillover effects and positive externalities that in many ways may increase long-term economic growth. However, in practice, FDI is highly pro-cyclical. Moreover, in fact it has proven to be more volatile than portfolio flows. Figure 1

shows a ten-year rolling coefficient of variation for 1990-2018 for net FDI and net portfolio flows. As can be seen, FDI has a higher coefficient of variation than portfolio flows and in this sense shows more volatility (see figure 1).

Figure 1. Latin America and the Caribbean. Rolling Coefficient of Variation (10-year window) in Net Foreign Direct Investment (FDI) and Net Portfolio Flows (1990-2018)



Note: each observation in the figure corresponds to a ten-year rolling period.

Source: author´s elaboration based on IMF (2018).

The volatility of FDI flows is heightened by the way such flows are measured for the purposes of balance-of-payments accounts. According to standard computations (IMF, Balance of Payments Manual, Fifth Edition, 2007), FDI includes not only the financial flows associated with equity and green field investment but also intra-company flows. According to Avdjiev et al. (2017:2) "borrowing and lending between affiliated entities of the same non-financial corporation" can easily transform into quicksilver capital and "hot money" and are for all practical purposes a disguised form of short-term portfolio flows. In the case of Latin America and the Caribbean, intra-company loans represent an important component of FDI. An analysis for the period 2000-2017 shows that these account for 30% of total FDI gross inflows.

Of crucial importance is the fact that a substantial share of FDI originates from tax havens, which tends to contribute to, and explain, its volatility.

In addition, as pointed out in the theoretical model, virtually any type of FDI inherently generates persistent outward flows ("leakages" in the current account of the balance of payments) in the form of profit repatriations, thereby reducing their net contribution to alleviating the external constraint. Thus, even a "once and

Table 2. Latin America and the Caribbean. Foreign Direct Investment by Major Receiving Countries

(Percentages of total investment in the region and of GDP, averages 2008-13)

	Percent of total FDI for LAC	Percent of GDP
By sub-region		
South America	67.1	3.1
Central America	8.5	5.7
Caribbean	2.4	1.8
By country		
Argentina	5.6	1.6
The Bahamas	0.3	2.4
Bolivia	0.5	2.1
Brazil	45.5	3.7
Chile	4.6	5.7
Colombia	6.7	4.2
Costa Rica	1.8	5.4
Dominican Republic	1.8	3.5
Guatemala	0.8	1.8
Honduras	0.8	6.2
Mexico	20.9	3.0
Panama	3.3	9.2
Peru	4.8	3.6
Trinidad and Tobago	0.3	0.6

Source: author´s elaboration based on ECLAC (2018).

for all" investment, carried out by a foreign company in any given year, brings about a persistent net outflow of foreign exchange in all subsequent years. In Latin America and the Caribbean, in the past ten years (2009-2019), these outflows have averaged 63% of total FDI gross inflows and 10% of total exports of goods and services. FDI profit repatriation constitutes an important factor that generates pressure against the reduction of the external deficit. It is therefore of extreme importance that FDI is carried out effectively and efficiently in industries, and in activities, which significantly improve the growth capacity and net-export potential of the receiving economy. This, unfortunately, is far from guaranteed.

FDI flows to Latin America and the Caribbean (LAC) are highly concentrated geographically and by sector. South America receives the lion's share, accounting for 67.1% of total FDI in LAC. Central America receives 8.5% of all FDI coming into the region. By country, FDI goes mainly to the larger economies; Brazil, Mexico, Chile, Colombia, Argentina and Peru account for 82.5% of total FDI flows to Latin America and the Caribbean (see table 2).

FDI is also highly concentrated by sector, going mainly to resource-based manufacturing, the services sector, including financial activities, electricity, gas and water, transport, storage and communications and technology, and the extractive industries. The latest available estimates show that in 2016-2017, the natural resources (hydrocarbons and mining sectors), manufacturing and services sectors received 10%, 41% and 48%, respectively, of total FDI flows.

In spite of the importance of FDI as a source of finance, so far it has had little impact on innovation and local knowledge capacities. Such a pattern hampers, instead of enhancing, the region's productivity performance. Contrary to what has been argued by the strongest defenders of capital account liberalization, FDI has not necessarily promoted technology and knowledge transfers in a significant way. Certainly there are notable exceptions, but in general the way globalization has worked, and continues to work, leads FDI and international demand to "freeze" or "lock" the region into its traditional specialization and competitiveness patterns

based on commodities and on low productivity sectors. On average the region spends roughly 0.5% of GDP on Research and Development activities, four times less than developed economies. In Mexico, the figure is even lower. And what is most disconcerting is that the LAC region is just a marginal player in terms of FDI associated with research and development. It accounts for only 4% of such operations worldwide.

As the situation stands today, the second most important source of external finance for development is remittances. On average for the period 1980-2018, they accounted for 37% of all financial flows. As in the case of FDI, the importance of remittances is heterogeneous and highly concentrated when the focus of analysis is at the country level. Remittances represent a key source of external finance and balance-of-payments liquidity for many small economies, including those of Central American and Caribbean countries, amounting in some cases to over 10% of GDP. This percentage is even greater when we take the analysis to a subnational level, since some federal entities are far more significant than others as sources of emigration.

In countries where remittances are such an important component of national income, a major challenge for development is to channel these resources into productive activities, while recognizing that remittances used for consumption purposes do improve living standards for the receiving population, an important part of which is living in conditions of poverty. Mobilizing remittance resources for development also requires reducing the average costs of transferring funds. To do so requires greater information, transparency, competition and cooperation efforts; all such actions require a strong policy and regulatory commitment by the State, prudently carried out so as not to deter the sending of remittances.

The third most important source of foreign finance for the region is portfolio flows. In the period 1990-2018, they represented roughly 20% of total flows to the region. Short-term portfolio flows are known for their volatility. Actually their contributions to sudden-stop capital episodes and balance-of-payments crises are fully recognized and traumatically experienced in the region.

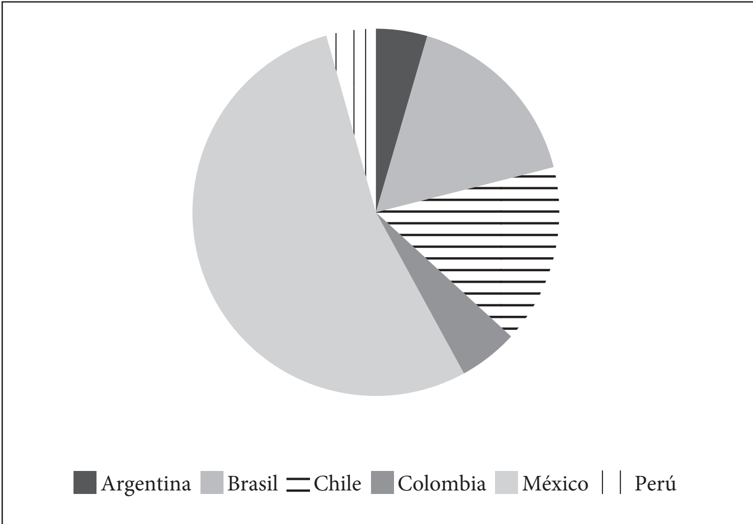
Until the Global Financial Crisis (2008-2009), short-term capital flows mainly took the form of cross-border bank loans which was the most important form of international financial intermediation. In the aftermath of that crisis, the rate of growth of cross-border bank loans declined significantly. When comparing the periods 2001-2008 and 2010-2018, for the United States, the Euro Zone and Japan, the available data shows that the rates of annual expansion of cross-border bank lending declined from averages of 14.6%, 16.7%, and 16.0%, respectively, to 7.5%, -1.0%, and 4.8% .

The slack in cross-border loans was taken up by the bond market. Available data for the period 2000-2018 for the United States, the Euro Zone and Japan shows that their combined lending to non-residents through their respective bond markets increased from $1.8 trillion in 2000 to $3 trillion at the end of 2008 and reached $6 trillion by December 2018. Since the beginning of Quantitative easing (QE) policies by the FED and the accumulation of bank reserves by the FED, the European Central Bank and the Bank of Japan, the share of international bond markets in total lending has risen steadily from 40% to 48% of global credit to non-residents.

In the case of Latin America, the international bond market has become an important source of finance for the non-financial corporate sector. Between the first quarter of 2009 and the first quarter of 2019, the amount outstanding of international debt securities increased from $76 billion to $317 billion dollars. At the country level México, followed by Brazil and Chile, accounts for the bulk of the stock of outstanding debt securities (54%, 17% and 16% of the total, respectively).

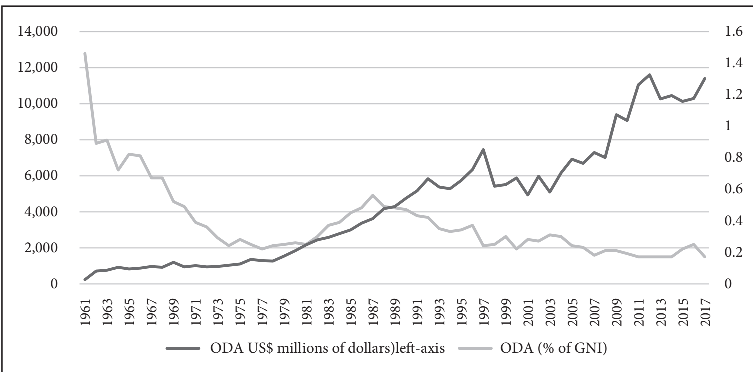
Indebtedness in the bond market can have significant macroeconomic effects within a given economy depending on the importance of the non-financial corporate sector –in particular, the state of its balance sheets– and on the external context. The evidence provided by Pérez-Caldentey et al. indicates that, on average, for the countries mentioned above, bond-issuing firms represent 33.9 percent of total assets, 35 percent of expenditure on short-term investment and 40.8 percent of expenditure on long-term investment.

Figure 2. Selected Latin American countries. Amount Outstanding of International Debt Securities in the Non-Financial Corporate Sector (2009Q1-2019Q1) (percentage of the total)



Source: author´s elaboration based on Federal Reserve Economic Data (FRED 2019).

Figure 3. Latin America and the Caribbean. Official Development Assistance (1960-2018) (percentages of Gross National Income and billions of dollars)



Source: author´s elaboration based on OECD (2019) and World Bank (2019).

The evidence also shows that firms that have issued debt in the international bond market are highly leveraged, measured as the ratio of assets to equity which is on average 0.8 for the latest available year. This makes firms highly susceptible to curtailing investment in the face of unfavorable external circumstances, including a rise in international lending rates. As is well known, given the relationships between rates and present values, an increase in interest rates translates into a fall in the price of a bond. Thus, any expectation of an increase in interest rates will lead to a reduction in the holdings of bonds to avoid a capital loss. This can translate into a reduction of lending via the bond market. Both transmission mechanisms may be at work thus reducing some private firms' expenditures on long-term fixed assets and capital investment.

The smallest and least dynamic component of financial flows is official development aid (ODA). When measured as a percentage of GDP, ODA flows now represent 0.18% of the region's (Gross National Income) GNI –a large drop from the 0.4% or thereabouts seen in the 1970s, 1980s and 1990s (see Figure 3). At the same time, the region's share in global ODA flows has fallen from 15% in the 1980s and 1990s to about 8% in the 2000s.

The aggregate ODA figures hide large disparities between countries, as the relative level of ODA still varies widely, from 0% (Trinidad and Tobago) to roughly 17% (Haiti) of Gross National Income (GNI) for 2000-2013. At the sectoral level, ODA goes mainly to social services, economic infrastructure and productive activities, which account for 37%, 12% and 12% of the total, respectively. Donors' allocations of ODA by country are guided not only by geopolitical criteria but also by income of the recipient countries. In this regard, the criterion equates development with income per capita. Specifically, countries above a certain threshold of income per capita are considered to have "graduated", i.e. to have achieved adequate institutional and economic development including relatively unrestricted access to private capital markets so that they do not need ODA. In this sense, the threshold is taken to represent a country's capacity to pursue sustainable long-term development without having to resort to aid. Attainment of the income per

capita threshold, which currently stands at $12,745, triggers the beginning of a discussion on whether the country meets the criteria for graduation, a discussion that looks beyond the income proxy to reach a decision. Graduation is thus taken to capture the willingness of foreign capital markets to lend, measured mainly by "country risk".

The World Bank also considers a country's vulnerability to shocks, for which export concentration and the economy's size are taken as proxies. Overall, the empirical analyses conclude that, as countries become wealthier, develop higher quality institutions and become more creditworthy, they tend to rely less on World Bank financing for their development needs (Heckelman et al. 2011).

However, income per capita by no means fully captures a country's capacity to sustain long-term economic growth without recourse to aid, nor does it provide a representative measure of its level of development. Indeed, empirical analysis of finance for development shows that the group of middle-income countries is highly heterogeneous and that their development entails not only improving living standards but also achieving sustainable and inclusive growth capable of overcoming their strikingly painful social and economic inequalities. It also implies fostering conditions to create and establish political, economic and social systems that will promote respect, diversity, human dignity and equality; such conditions may or may not be adequately considered by credit rating agencies.

The downward trend in the relative share of the middle-income countries, and in particular of Latin American and Caribbean countries, in overall ODA should be reversed. In our view, many of them must continue to receive external financial resources to support their fight against poverty, their efforts to adapt successfully to shifts in the global economy –including climate change– and to achieve higher long-term growth rates. With regard to Latin America and the Caribbean, consideration should be given to the fact that 60% of those living in poverty and 50% of the indigent live in upper-middle-income countries. Recall that at the global level, middle-income countries as a group are home to the majority of

the world's poor, by both income and multidimensional poverty measures (Sumner 2012). Furthermore, some of the region's economies, particularly the smallest ones, remain highly vulnerable to external shocks and face acute difficulties in their struggles to transform their productive structures and thus be able to better alleviate, and hopefully finally eliminate, the external constraint on their long term economic growth potential. External financial flows may make a major contribution to the developing world and to Latin America in particular, to meet this major development challenge. At times, when finance for development from the USA and the EU is in a downward trend, alternative sources such as China are an opportunity that should be carefully considered. Whether economic policy and political economy considerations from both sides can be positively aligned for all participants is a key practical question the answer to which is a work in progress.

Conclusions

Like other countries that do not issue an international reserve currency, the Latin American and Caribbean economies have binding balance of payments constraints to their economic and social development. However, due to their import requirements to achieve their development goals and the state of their productive export structure, they need to finance persistent deficits in their balance of payments. As suggested in the first section of this paper, balance of payments constrained growth models should be developed on the basis of this stylized fact. Taking this fact into account also means that external constraint models should consider the financial side of the balance of payments as a core component of their analysis. As the second section of this paper indicates, financing a current account deficit has become a challenging task.

An analysis of the composition of financial flows shows that private flows have become the main source of financing for Latin American and Caribbean developing countries. Official assistance flows have declined over time and represent, on average, a bare 0.2%

of gross national income for Latin America and the Caribbean. For its part foreign direct investment (FDI), which is the most important of private flows, has several drawbacks. FDI has become highly unstable and is concentrated in a few sectors which prevents the creation of forward and backward linkages throughout an economy. Also, as it is driven by the profit motive it is not necessarily directed to where it is most needed. Finally, due to the fact that inter-company loans represent an important share, FDI has in fact taken on the character, at least in part, of a short-term speculative flow. Lastly, short-term flows are driven, to a great extent, by debt in the non-financial corporate sector, which in the case of some economies has reached very high levels, thus undermining their potential.

The European Union has become, since the past decade, the main source of foreign direct investment for the region (ECLAC 2018) accounting for approximately 43% of all foreign direct investment. China remains a modest contributor in spite of being one of Latin America's main trading partners, and that the Chinese government offers favorable financing to several countries on the continent. As far as the major banks in China are concerned, no Latin American country represents a large portion of its loans. In fact, only 0.82% of all loans made by these banks goes to LAC. Available data shows that between 2004 and 2019 loans from China to Latin America (mainly to Argentina, Bahamas, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Peru, Dominican Republic and Venezuela) were only 136 million dollars in 2004 and reached a peak of $11 billion in 2014 before levelling off to roughly 4 billion in 2018. All in all, China is not one of the main providers of external finance to Latin America and the Caribbean, so that the major developed countries, the United States and those in Europe, continue to be the main external funding sources for the region's economic and social development.

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THE EVOLUTION, STATUS, AND FUTURE OF CHINESE FINANCING IN EUROPE

Carlos Marcuello Recaj

Introduction

China's growing global presence is one of the most important developments in recent economic history and it has resulted in several trends: a fast increase in its trade with the rest of the world, especially since its incorporation into the World Trade Organization in 2001; the country's increasing investment abroad, both directly and, more recently (since the global crisis of 2008-2009), in infrastructure; and, simultaneously, an increase in Chinese financing in other countries through institutional loans and the purchase of public debt. Projects such as the China-Latin America Finance Database, an effort by The Dialogue, a think tank, and Boston University, or the China-Africa Research Initiative at Johns Hopkins University were established to analyze Chinese loans to Latin America and Africa, respectively. However, there is no similar initiative to comprehensively analyze Chinese financing in Europe, which, although not as significant, is already having considerable economic impact and, more importantly, geopolitical outcomes. Accordingly, this contribution aims to shed light on the issue.

The growing presence of Chinese financing in Europe is a broad, complex and multi-faceted phenomenon. Some of its most crucial milestones –such as the establishment of Chinese (commercial,

institutional and multilateral) banks in Europe, Chinese financing of the European energy sector, Chinese involvement in Eastern Europe and the Balkans, and the purchase of European public debt by China– will be outlined below. The third section is an analysis of Italy, the first major European country to support the Belt and Road Initiative (BRI), the investment and infrastructure program that seeks to connect China with Europe, the Middle East, and Africa.

The China-Europe Relationship

The European Union, an economic giant with an outstanding standard of living, has never been –nor is it likely to become– a consolidated political bloc with a projection that surpasses the geopolitical interests of its member states, especially the most powerful. China, a superpower that effectively manages the form and substance of international relations, negotiates fundamental issues with countries or blocs alike, granting little role to the Union's institutions. However, both parties organize an annual EU-China Summit, now past its 21st edition. In the last summit, held in April 2019 in Brussels, both committed to continue strengthening their so-called 'strategic partnership'. The president of the European Council, Donald Tusk, observed at the end of the event: "Negotiations have been difficult, but ultimately fruitful. We managed to agree on a joint statement, which sets the direction of a partnership based on reciprocity. This was our common effort and it is our common success" (European Council 2019). Furthermore, the Chinese state news agency Xinhua reported the attendance of Prime Minister Li Keqiang to the Summit in Europe, but devoted more time to explaining the importance of the so-called "16+1 Cooperation", which was furthered in a meeting between China and the countries of Central and Eastern Europe (CEEC), held immediately after its meeting with the EU (Xinhua 2019/a). Authors such as Chang and Pieke (2018) identify several paradoxes in the EU-China relationship, such as a deep

interconnection that coexists with significant differences in values. Furthermore, they emphasize, the bilateral and regional approach that China takes in its relations with Europe does not help a common strategy.

Beyond political ties and contradictions, China and the European Union maintain intense economic relations based on trade and investment. According to official European data (Eurostat 2019), China is the second-largest trading partner of the European Union, only behind the United States. The EU, for its part, is China's main trading partner. The Chinese middle class, one of the main drivers of global economy, massively consumes German cars or French and Italian luxury products. McKinsey (2019) observes that by 2017 China already accounted for 18% of global consumption and 50% of global growth in car sales from 2010 to 2017.

Table 1. Main Trading Partners of the EU

Trade in goods 2018 (in millions of euros)

Country	Exports	Imports	Total	Balance of Trade
USA	406,372	267,270	673,642	139,102
China	209,906	394,698	604,604	-184,792
Switzerland	156,484	108,890	265,374	47,594
World	1,955,746	1,980,361	3,936,107	-24,615

Source: author's elaboration based on European Commission (2019).

In addition, since 2016, China has been ranked as the second-largest foreign investor in the world, and the European Union is the second most important destination for Chinese investment, far behind Asia, which receives the bulk of it. Likewise, the EU countries are essential investors in China. Since the 1990s, China has emerged as a relevant commercial actor and has now become the most important one in the world. Part of China's export strength is explained by European foreign direct investment (FDI) which, along with US and Japanese investment, has been deployed throughout China since Deng Xiaoping began to liberalize and internationalize the Chinese economy with reforms that started in 1978.

However, it was not until well into the 21st century that China began to massively invest abroad, particularly in Europe, where it mainly acquired strategic assets, technology, brands and real estate, and it started to invest in infrastructure, along with long-term loans (Jia 2017). With an accumulated stock of more than $140 billion dollars, Chinese FDI in Europe reached its peak in 2016 and has dropped considerably over the past two years. The main reasons for this decrease can be found within China itself: Beijing maintained its control over capital outflows, pressurized highly leveraged companies to sell their assets abroad and reduced liquidity in the financial system (MERICS and Rhodium Group 2019).

Table 2. Chinese FDI in Europe Ranked by Country (2000-2018) (in billions of euros)

1	UK	46.9
2	Germany	22.2
3	Italy	15.3
4	France	14.3
5	Netherlands	9.9
6	Finland	7.3
7	Sweden	6.1
8	Portugal	6.0
	Others:	19.8
	Total:	**147.8**

Table 3. Chinese FDI in Europe from 2010 to 2018 (in billions of euros)

2010	2.1
2011	7.9
2012	10.2
2013	6.7
2014	14.7
2015	20.7
2016	37.2
2017	29.1
2018	17.3
Total:	**145.9**

Source: author's elaboration based on MERICS and Rhodium Group (2019).

In March 2019, the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy published the joint communiqué EU-*China: A strategic outlook*, in which they encourage member countries to back actions such as the following: cooperating with China to support effective multilateralism as promoted by the United Nations, achieving a more

balanced and reciprocal economic relationship with China, and detecting and raising awareness about the security risks posed by Chinese investment in critical assets, technologies and infrastructures (European Commission 2019). Rios (2019) points out that the awareness that the Sino-European relationship is tilted in favor of China is beginning to take root in European states and large companies. Germany, China's largest trading partner in Europe, has tightened its rules on foreign investment in some sectors with the aim of protecting critical infrastructure and companies related to defense and high technology. However, other less vigorous EU countries, such as those in southern and eastern Europe, have seen China as a resource *in extremis* for obtaining capital through the sale of companies affected by the euro crisis. When nobody else invested in Europe, China was willing to, Ríos points out. In fact, the weaker economies in the Union found an ideal partner in China.

Dussel Peters (2015) points out that the "omnipresence" of China's public sector makes it a substantial and powerful agent both nationally and in its relations with foreign countries. The Chinese State, through the Commission of State-Owned Assets (SASAC), directs some of the most important corporations in the world and plays a key role in the external economic expansion of the country. Likewise, China's main financial institutions, based on public capital and directly dependent on the State Council, faithfully follow the geopolitical, economic and commercial objectives of the regime, led since 2012 by Xi Jinping, General Secretary of the CCP and President of the People's Republic of China. In this regard, EU institutions and member states are aware of the markedly interventionist nature of the Chinese economy, despite the growth of the private sector's share in the country's GDP in recent decades, and its open attitude towards the global economy, which is of late greater than that shown by the United States under Donald Trump.

The Presence of Chinese Banks in Europe

Hernández (2016) describes the Chinese banking system as "peculiar", pointing to two main characteristics: on the one hand, it is highly concentrated, with the five main commercial banks representing 41% of the assets in the country; on the other hand, the presence of the public sector is decisive given that the State, through national, provincial or local institutions, controls 86% of those assets. The commercial banks provide services to families and businesses in China, although their international presence has been on the rise, including in Europe. Among the most important are the Industrial and Commercial Bank of China (ICBC), the Bank of China (BOC), the China Construction Bank (CCB), the Agricultural Bank of China (ABC) and the Bank of Communications (BoCom). The political development objectives of China's institutional banks, also under government supervision, are at the service of the regime both inside and outside the country. The two most important are the China Development Bank (CDB) and the Export-Import Bank of China (China Exim Bank or CHEXIM). Special mention must also be made of recently-created international banks led by China in a budding attempt to establish an alternative to traditional multilateral financial institutions, something that the institutional and commercial banks also attempt in practice. These entities are the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB).

In July 2019, the AIIB's first meeting outside of China was held in Luxembourg. According to the Spanish newspaper *El País*, the president of the AIIB, Jin Liqun, stated to the more than 2,000 people attending the event: "Europe and Asia are physically bound to each other. Yet tough terrain impedes this geographical affinity, hampering exchanges in commerce, investment, and culture. Now is the time to improve our connectivity in all its dimensions" (El País 2019). Choosing to hold the event in this tiny country –a relevant financial center– was not a coincidence. According to the Luxembourg Herald (2018), the country is already home to seven large Chinese banks, and will increasingly serve as a center for

European operations as the UK prepares to leave the Union. China therefore sees Luxembourg as a more neutral option than France or Germany (Luxemburg Herald 2018).

Table 4. Headquarters of Major Chinese Banks in Europe

		Year Founded	Headquarters in Europe (official or de facto)	Offices in other European Countries
Commercial banks	Industrial and Commercial Bank of China (ICBC)	1984	Luxembourg	Austria, Belgium, Czech Republic, France, Germany, Italy, Luxembourg, Netherlands, Poland, Spain, Switzerland, United Kingdom
	Bank of China (BOC)	1912	Luxembourg	France, Germany, Hungary, Italy, Luxembourg, Netherlands, Poland, Portugal, United Kingdom
	China Construction Bank (CCB)	1954	Luxembourg	France, Germany, Ireland, Italy, Luxembourg Netherlands, Poland, Spain, Switzerland, United Kingdom
	Agricultural Bank of China (ABC)	1951	United Kingdom	Germany, Luxembourg, United Kingdom
	Bank of Communications (BoCom)	1908	Luxembourg	Czech Republic, France, Germany, Italy, Luxembourg, United Kingdom
Institucional banks	China Development Bank (CDB)	1994	United Kingdom	Belarus, United Kingdom
	Export-Import Bank of China (CHEXIM)	1994	France	France

Source: author's elaboration based on official bank websites (2019).

Le Corre and Seplucre (2016) suggest that the beginning of 2014 marked the onset of a significant presence of Chinese banks in Europe, at a time when competition was growing between the four major financial centers of the European Union: London, Frankfurt, Paris, and Luxembourg. What is at stake is how to benefit more quickly and abundantly from the internationalization of the Chinese currency, the renminbi, which is seen to have great potential. According to experts from the Hampton Group, "The influence of Chinese banks in Europe, which has become increasingly

noticeable and increasing for some time now, is an extension of the growing role they already play on other continents" (Hampton Group 2018).

The European Commission, in its Joint Research Center report on China (2019), indicates that China's cross-border banking claims in the EU amounted to $279 billion dollars in 2017, up from $210 billion dollars in 2010. Chinese claims on loans and deposits represent 7% of EU banking groups' claims from non-EU investors. In addition, in 2017 China was the fourth-largest foreign lender with $19 billion dollars (4.4% of the European syndicated loan market). This share has grown more than six times in the last 10 years. The report also shows that, when Chinese owners purchase a European firm, the acquisition is followed by lending. This was the case with Pirelli, which was acquired by the China National Chemical Corporation in 2015. In 2016 and in 2017, Pirelli obtained two syndicated loans, with Chinese banks playing a major role for the first time. The aforementioned Chinese company is a big state corporation –known as SOEs (state-owned enterprises)– and in alliance with Chinese public banks, it provides another example of how the country's policies of investment and financing abroad follow a strategy coordinated by the Chinese State.

Chinese Financing in the Energy Sector

One of the most relevant developments in global finance over the last two decades has been the rise of China as an international lender, particularly in the field of energy. China has become the world's largest financier in the sector through its two main institutional banks, the China Development Bank (CDB) and the China Exim Bank. Kong (2019) defines this process in terms of the economic needs of the Asian giant and its foreign investment strategy, fully aligned with the Chinese Communist Party's central planning. China finances energy projects in Europe and other parts of the world to continue feeding its economic growth, and the incessant increase in consumption by its middle class, which is

continuously growing. In the last 18 years, says Kong, Chinese funding in the energy sector has been widely distributed around the world, with Asia, Latin America, the Caribbean, Europe, and Central Asia being assigned roughly similar loan amounts. According to the author, this contradicts a geopolitical theory, because China's actions, in this case, are not based on logic and basic economic need, although those remain part of a well defined and planned strategy. In the words of Gallagher (2017), "The globalization of Chinese energy finance is entirely an outcome of an orchestrated effort by the Chinese state."

The China Global Energy Finance Database, at Boston University, accounts for $244.2 billion dollars lent to the energy sector in countries around the world by the CDB and China Exim Bank from 2000 to 2018. The region comprising Europe and Central Asia is the largest recipient of these loans, at $76.8 billion dollars, although this figure includes loans to Russia, which alone accounts for almost $42.7 billion dollars. This amount is part of the rationale of the intense political and economic relationship between these two great emerging powers in recent years. Strictly in terms of the 'old continent' (i.e., leaving out Russia, the Caucasus countries and central Asia) almost $16 trillion dollars can be accounted for as follows:

Table 5. European Energy Projects Financed by China (2010-2016)

Country	Year	Project Name	Type of Energy	Lending Bank	Amount per Loan	Amount per Country
United Kingdom	2015	HPC Nuclear Project	Nuclear	CDB	$7,8 B	$7,8 B
Ukraine	2010	Gas to Coal Projects	Coal	CDB	$3,5 B	$3,5 B
Bosnia & Herzegovina	2011	Tuzla 7 Lignite Power Plant	Coal	CHEXIM	$882 M	$2,1 B
	2012	Ugljevik 3 Power Station	Coal	CDB	$782 M	
	2015	Stanari Power Plant	Coal	CDB	$444 M	

Serbia	2012	Kostolac B2 (retrofit), Kostolac B3 (new), and Expansion of Drmno Mine	Coal	CHEXIM	$608 M	$905 M
	2014	Loznica Thermal Power Station	Gas	CDB	$255 M	
	2016	Ulog HPP (HPP Ulog Hydroelectric Power Plant)	Hydropower	CDB	$42 M	
Bielorrusia	2013	Revamping Minsk CHP Plant No. 5	Gas	CDB	$260 M	$827 M
	2008	Berezov Combined Cycle Power Plant	Gas	CHEXIM	$378 M	
	2010	Vitebsk Hydropower Plant	Hydropower	CDB	$189 M	
Italy	2010	Various GSF Solar Parks	Solar	CDB	$730 M	$730 M
Bulgaria	2012	Various Projects Including KARLOVO, 50.61MW POBEDA and 29.3MW CHERGANOVO	Solar	CDB	$126 M	$126 M
				Total:	**$15.996 M**	

Source: author's elaboration based on Boston University (2019).

Chinese Presence in the European Periphery

As previously indicated, the European Union is a sort of confederation or association of independent states which, while having decided to transfer part of their sovereignty to community institutions, maintain autonomy in the bulk of their national and international relationships. Thus, each country designs its relations with China on the basis of its own judgments and interests. Despite differing economically and demographically from the superpower, they always act under the theoretical equality of condition as independent countries. Newsmedia such as *Business Insider (2019)* point to a strategy or conspiracy in Beijing to pit the countries of the European Union against each other by promoting bilateral ties. What they leave out is that other countries in the world, and of course other great powers (the United States, Russia, India) as well, do the same and are not accused as often as China of undermining the construction of the Union.

The European Commission, in an attempt to present the official version of a common strategy towards China, issued a fact sheet, in

June 2017, called *Frequently Asked Questions on EU-China relations*. The document concludes: "EU coherence and a strong, clear and unified voice are vital on the big policy issues *vis-à-vis* China as well as the maintenance of the rules-based international order. China is a strong partner, pursuing different strategies and goals in its own interest. Dealing with China, therefore, requires a comprehensive approach, one that ensures maximum impact. Ensuring a high level of coordination and cohesion in all areas of engagement is the way forward for the EU and its Member States to effectively deal with China." Just weeks before, in May 2017, the Delegation of the European Union to China had issued a document entitled *Belt and Road Forum - EU common messages (Delegation of the European Union to China 2017)* where it stated: "A level-playing field for trade and investment based on full adherence to market rules and international norms is a critical condition if we want to maintain the political momentum for better connectivity in Asia and between Europe and Asia –and reap the full benefits." The position of the Commission is influenced by the most powerful countries in it –essentially Germany, the United Kingdom, and France– which have recently been concerned about links with China, for trade, investment, and cyber security reasons.

However, EU guidelines have not prevented the consolidation of initiatives such as the 16+1 Cooperation. Founded in 2012, this working group of sixteen countries from Central and Eastern Europe together with China began as a Beijing initiative for promoting trade relations, investment and financing in these countries within the framework of the Belt and Road Initiative. Of the 16, 11 are members of the European Union (Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia) and five are European countries not part of the EU (Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia). Since the formation of the group, eight annual summits have taken place, the last one in April 2019 in Dubrovnik, Croatia.

Some small countries such as Serbia or Montenegro have already received notable loans from China, thus standing out as

active partners of the Asian giant in the region. For example, a loan of 689 million dollars granted by the China Exim Bank was used in the reconstruction of the Podgorica-Kolasin highway. As Tonchev (2017) notes, southeast Europe is not a very attractive market for China, either in terms of size or economic stability. However, the region can act as a vital transport corridor for the Belt and Road Initiative, which explains Chinese interest. Other countries with larger and more advanced economies, such as Poland, and other eastern members of the European Union, see China as a reliable partner with great potential and therefore as a healthy option for diversifying their economic relations. Bulgarian Prime Minister Boyko Borisov pragmatically summarized this in 2017, saying: "We have the rare fortune of linking two great economic powers, the EU and China. This will allow us to advance in numerous projects. The more projects we carry out, the more prosperous and competitive the region will be" (La Vanguardia 2017).

Hurley et al. (2019) point out that the Belt and Road Initiative's financial expansion around the world, and particularly in the European countries mentioned, must apply multilateral standards regarding debt sustainability. This would be an opportunity for China to adopt more sustainable lending practices in its bilateral

Table 6. Some European Countries Vulnerable to Debt with China (in millions of dollars)

Country	GDP	PPG Debt	PPG ED	Debt to China	BRI Lending Pipeline
Montenegro	4,374	3,412	2,406	200	1,535
Albania	11,864	8,696	4,069	100	0
Belarus	47,407	25,552	17,588	3,094	3,828
Ukraine	93,270	79,186	50,832	1,590	2,475

Source: author's elaboration based on Hurley et al. (2019) and World Bank, IMF, authors' estimates based on publicly available sources and the various databases cited.

PPG Debt = Public and Publicly Guaranteed Debt; ED = External Debt; PPG ED = Public and PubliclyGuaranteed External Debt.

Note: All GDP and debt statistics reflect 2016 or end-2016 values, with the exception of the lending pipeline, which reflects estimated values post-2016.

agreements and stimulate productivity growth through strong infrastructure investments.

Another European periphery country, Greece, has also been key to Chinese strategy. The country's severe economic crisis in the past decade and its need to repay successive rescue loans issued by the EU and the IMF, via massive privatizations, provided an opportunity for Chinese finance. In 2016, the giant COSCO (China Ocean Shipping Company) acquired majority shares in the Athenian port Piraeus in order to convert it into the BRI's main European port, as a way of introducing Chinese goods more quickly into the heart of Europe. As Müller-Markus (2016) suggests, long term intra-European relationships could be affected by such moves. The most powerful European ports in Germany, the Netherlands and Belgium, are now in competition with Piraeus, thereby elevating the strategic importance of Greece.

Purchase of European Public Debt by China

Another relevant aspect of China's world economic presence is its purchase of public debt (i.e., government bonds) from other countries. The importance of the Asian giant as the first foreign holder of US bonds is well known. In May 2019, the US Department of the Treasury estimated Chinese possession at $1.1 trillion dollars –an amount approximately equivalent to the GDP of Spain– and about 5% of all US bonds (Investopedia 2019). However, unlike the United States, which declares the composition of holders of its public debt, neither individual European countries nor EU institutions report such a figure. Therefore, any analysis can only be based on what is published by prestigious media outlets based on official statements or leaks. In February 2012, with the euro crisis in full swing, Reuters reported the statements of Zhou Xiaochuan, then governor of the People's Bank of China, who stated that the Chinese State would continue to invest in the public debt of EU countries and trust in the European currency, which at the time was facing great uncertainty (Reuters 2012).

In January 2011, the then Chinese Vice Premier (and current Prime Minister) Li Keqiang, officially visited Spain, which was at the time facing economic difficulties. Just before the visit, the Spanish newspaper *El País* published an article written by Keqiang himself, which states: "China supports the measures adopted by Spain for economic and financial restructuring, with the firm conviction that it will deliver general economic recovery. On our part, we are willing to explore all possible and practical means of cooperation together with our Spanish counterparts. Since China is a reliable long-term investor in European, and mainly Spanish, financial markets, we trust the financial market in Spain, which has resulted in an acquisition of [part of] its public debt, an action that we will continue to pursue in the future" (El País 2011). Furthermore, in 2010, Reuters had published a statement by the then Chinese Premier, Wen Jiabao, who said: "With its foreign exchange reserve, China has already bought and is holding Greek bonds and will keep a positive stance in participating and buying bonds that Greece will issue" (Reuters 2010). In the absence of official figures by either government, these top Chinese leaders acknowledged that China had in fact bought public debt from European countries, and that there was an intention to continue doing so.

Hypothetically, one could say that China's purchase of the public debt of peripheral European countries (contemptuously called the "PIGS") could contribute to the economic stability of the European Union. Structural problems persist in southern Europe, but it is clear that the situation has now improved, compared to the first half of this decade. The situation in countries that received economic-financial bailouts from EU institutions (with the support of the International Monetary Fund) between 2010 and 2012 has generally improved, moving from uncertainty and panic to relative tranquility. Greece, Portugal, and Ireland required massive aid and draconian interventions, while Spain, the fourth economy in the eurozone, required the rescue of only part of its financial system. We know that, parallel to these bailouts, China bought sovereign bonds from these peripheral European countries, although we do not know to what extent. However, this process has

been accompanied by an increase in Chinese foreign direct investment in the region, of which we do have official data. The euro crisis –today theoretically in recovery– was an opportunity for a China with tremendous surplus capital. The Asian giant went on to invest in the public treasuries of southern European states, which were suffering terrible deficits and whose public debt instruments had meager ratings, despite the fact that they continued to fulfill obligations to their lenders. Apart from public accounts, the real economies of these countries were severly affected by the crisis, to a greater extent than countries in central and northern Europe, where the productive sector is generally more diversified. Furthermore, following three years of rescue measures (2010-2012), the years up to 2015 saw a boom in Chinese investment in southern Europe (MERICS and Rhodium Group, 2019).

The Case of Italy

Since the end of the Second World War, Italy had a succession of governments that supported moderate political options and were committed to the construction of the European Union, of which it is a founding member. However, in June 2018, an unusual populist coalition came to power, some of whose members are very critical of EU policies. The republic thus became the first major European country to foster a discourse removed from Brussels, heading controversies on issues such as budget stability and immigration. In its relations with China, the Italian government has also distanced itself from the "official" stance. This is not a minor issue, because Italy is not one of the medium or small economies of the 16+1, nor is it just any other State among the 28 in the Union. It is a member of the G7, the fourth European economy in terms of GDP (third in the eurozone), and one of the largest industrial and exporting powers in the world. Bloomberg (2018) pointed out that the European Union is now more worried about Rome than about Brexit (Bloomberg 2018). Moreover, despite its problems, Italy is the only nation in southern Europe that financially contributes, in real

terms, to the Union. Chinese leaders are aware of the importance of this country, so they have pursued advancing symbolic and practical links since the arrival of the new government, which is more than willing to deepen ties with China. In fact, on March 23, 2019, the Italian Prime Minister Giuseppe Conte and Chinese President Xi Jinping solemnly signed a memorandum of understanding on the Chinese Belt and Road Initiative, a move that has generated misgivings among other Western powers.

Italy was thereby opening itself to the Belt and Road Initiative, becoming the first major European country to sign a memorandum of this kind. The signed agreements will allow, for example, the Italian oil company Eni to collaborate with Bank of China to seek reserves in the country. Both parties also expressed their willingness to join efforts within the framework of the Asian Infrastructure Investment Bank (AIIB) to promote connectivity *per* the mission and functions of the AIIB. Italy's decision to advance along this financial and investment path with China makes sense in view of the general state of the country's infrastructure. Italian highways, bridges, ports, and airports are in a state that is hardly in keeping with the country's status as a Western economic power. In August 2018, a massive bridge in Genoa collapsed, killing 41 people. The director of the Construction Technologies Institute, Antonio Occhiuzzi, warned that such phenomena are occurring with "worrying regularity" and proposed to undertake a kind of urgent Marshall Plan for Italian infrastructure (Consiglio Nazionale delle Ricerche 2018).

In July 2019, the First Italy-China Finance Dialogue was organized in Milan, chaired by Chinese Finance Minister Liu Kun and his Italian counterpart, Giovanni Tria. It involved a round of high-level financial talks aimed at increasing cooperation in the financial sector, while reiterating support for bilateral economic relations. The Chinese news agency *Xinhua* noted that "Italy's private banking group, Unicredit, signed a deal with the CHEXIM, while Italy's insurance regulator IVASS signed a third one with the China Banking and Insurance Regulatory Commission (CBIRC)" (Xinhua 2019/b).

Table 7. European Countries and their Relationship with China (up to July 2019)

		EU Member	Eurozone Member	G-7 Member	Memorandum Bealt and Road Initiative	16+1 Member	Participates at AIIB Bank
1	Germany						
2	U.K.						
3	France						
4	Italy						
5	Spain						
6	Poland						
7	Netherlands						
8	Belgium						
9	Switzerland						
10	Sweden						
11	Romania						
12	Austria						
13	Norway						
14	Czechia						
15	Ukraine						
16	Ireland						
17	Portugal						
18	Greece						
19	Hungary						
20	Denmark						
21	Finland						
22	Slovakia						
23	Belarus						
24	Bulgaria						
25	Serbia						
26	Croatia						
27	Lithuania						
28	Slovenia						
29	Luxemburg						
30	Latvia						
31	Bosnia & H.						
32	Estonia						
33	Albania						
34	Cyprus						
35	Macedonia						
36	Moldova						
37	Kosovo						
38	Malta						
39	Iceland						
40	Montenegro						
41	Monaco						
42	Liechtenstein						
43	Andorra						
44	San Marino						

Source: author's elaboration, countries ranked from highest to lowest GDP (CIA 2019).

Conclusions and Recommendations

It is essential to examine the nature of ties between China and the European Union at this convulsive and crucial moment in history, marked as it is by the geopolitical and economic tensions between the Asian giant and the United States, the consequences of which are already emerging in global economic growth statistics and in the evolution of international trade. In this context –with the Trump administration committed to protectionist measures– the Asian giant is intensely working to revive the old trade routes through which the Chinese empire once exported silk and tea to Europe via Central Asia. This new and modern silk route has been envisaged in terms of the transnational megaproject Belt and Road Initiative, driven by China's formidable financial and technical resources, one in which Europe plays an essential role.

As noted earlier, China promotes its initiatives in the region primarily through bilateral relations and working groups that go beyond the European Union. Its economic size and financial muscle undoubtedly give it a position of power which only the United States can hope to overshadow. Besides, the singularity of its political system and its public interventionist economy give it dynamism and strength that are difficult to challenge. There are voices from within EU institutions, and in some of its most important countries, that are committed to coordinating European strategy in the face of China's economic and financial progress in the continent. Simultaneously, there has been an increase in efforts by other European nations that prioritize their own national interests in their relations with the Asian behemoth.

Defining clear strategies and making decisions in this area requires accurate information in addition to precise data. It is necessary to promote institutional and academic programs that account for –and gather more and better information about– Chinese loans to European countries in all productive spheres, and beyond BU's commendable China's Global Energy Finance. There are important universities throughout Europe with their own centers for Chinese studies. These could be valuable agents in the compilation and

analysis of data, although this is a complex process that requires considerable resources and high statistical professionalism, conducted in the face of evident limitations and obstacles.

In this context, it is also necessary to organize seminars and conferences that deal with the phenomenon of Chinese financing in Europe –as have been held on the subject of foreign direct investment– in order to bring the issue to the attention of the general public. In fact, for some years now, several thorough studies dealing with the latter have been published. Universities, business schools, and international consultancies have addressed Chinese investment in Europe in terms of figures, characteristics, and motivations. The same, then, could be done with regard to financing.

On a separate note, the Belt and Road Initiative, together with AIIB's potential and China's general financial strength, can become a source of development and stability in the Eurasian region, and also in Africa, a continent where Europe also has considerable interests. It could be said that the economic progress of Africa, driven by Chinese investment and financing, can directly and indirectly benefit a Europe interested in the economic stability of the continent. This interest stems from a desire to contribute to the development of a win-win situation, and, of course, to moderate the flow of African immigration to the old continent, both a humanitarian tragedy and a source of growing political controversy that feeds populisms.

We should also mention that China's current financial model is robust, dynamic, and directly aligned with the geopolitical and economic objectives of the Chinese state. As previously explained, the bulk of Chinese banking depends directly on the State Council, and therefore on the leadership of the CCP, whose guidelines also define other trends in China's economic expansion abroad: namely trade in goods and services, foreign direct investment, investment in infrastructures', and the financial rollout discussed here. These particular institutional conditions are essential to understanding the evolution of China's influence in the world. Moreover, European authorities and experts have to keep in mind that, although the Chinese currency has not yet come to eclipse the dollar or the euro as an international currency of reference, there are other

indicators that do account for the financial potential of this superpower. On the one hand, the reserves of foreign exchange and gold according to the CIA's *The World Factbook* continue to place China at the top of the world, with $3.2 trillion dollars in 2018, an amount equivalent to Germany's annual GDP and double volume of Japan, at second place with $1.3 trillion. On the other hand, China's current account balance amounted to $165 billion dollars in 2017, surpassed by Germany ($219 billion dollars), and Japan ($196 billion dollars).The growth of Chinese exports is subsiding due to a change in the economic model designed to prioritize consumerism and internal investment but continues contributing to China's astonishing surpluses.

Chinese capital is both seen as a threat and an opportunity. I am more inclined to believe the second, writing from the perspectives of intellectual humility, economic pragmatism, and political realism. China is already a global economic player of the first order, and Europe, together with the United States, has contributed significantly to the progress of the Asian giant through its institutional support for the reforms of the last four decades, and through an exponential increase in commercial, investment and financial ties. China's political influence and economic clout in Europe is a consequence of its economic strength, but also of the policies that both the institutions of the Union and each of its member states have legitimately and consciously implemented, as well as continuously negotiated with China. The key is for Europe to seize the opportunity found in Beijing's surplus capital, and to counterbalance, through cooperation and mutual respect, the drive for competitiveness and growing innovation in the Chinese economy.

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FINANCING OF CHINA´S POLICY BANKS IN LATIN AMERICA AND THE CARIBBEAN (2000-2018)

Xiaoyu Song

In the past twenty years, China's economic, trade and investment cooperation with Latin American and Caribbean (LAC) countries has developed rapidly. At present, China is the second largest trading partner in the region, and after Asia, LAC has become the second largest destination for Chinese overseas investment. As economic and trade relations between China and LAC have become increasingly close, a prosperous scenario of trade and investment as well as financing has emerged. Since 2005, China's financing activities in the region have intensified, specifically the number of financing projects from Chinese public banks (almost all the institutions that offer financing in LAC are public ones) and the amount of money involved have attracted attention worldwide. Two Chinese policy banks alone –the Export-Import Bank of China (Exim Bank) and the China Development Bank (CDB)– have provided more than 141 billion US dollars (Gallagher and Myers

2019)[1] in loan commitments to LAC countries which accounted for almost all Chinese financing in the region during 2005-2018, CDB has participated in 80% of these(ECLAC 2018:22). It is estimated that this figure is also higher than all other financing received by LAC from institutions such as the Inter-American Development Bank (IDB), the World Bank and the Development Bank of Latin America (CAF), during the same period.

In order to better understand this phenomenon, this research paper will focus on the main financing programs of the two aforementioned Chinese policy banks –CDB and Exim Bank–, by introducing their specific characteristics and how they operate. Of course, such financing resources are fundamentally different from other conventional financing projects in the world, since they are financial resources which originate from the Chinese public sector. This study will, therefore, also discuss the specific meaning or impact of such financing on Latin American countries. To fulfil this research objective, the analysis will be presented in two sections. The first, will examine the current programs of the CDB and Exim Bank in Latin America and explain how they work. The second, will review the financing programs (or products) from Exim Bank and consider their concrete application requirements.

1 The China-Latin America Finance Database (Gallagher and Myers 2019) is a collaboration between Inter-American Dialogue and the Global China Initiative at Boston University's Global Development Policy Center. This example is one of the few publicly available statistics about Chinese financing in LAC, if not the only one. It includes aggregated data such as year, lender, distribution by country and sector destinations of the financing of the CDB and Exim Bank. It should be noted that the statistics taken from these bank do not include disaggregated data on individual cases of Chinese financing in the region. At present, there are still no Chinese open sources on Chinese financing in LAC, either aggregated or disaggregated. In the future, the creation of a database of Chinese financing in LAC, organized by cases, would help to enable more specific and detailed research. It is therefore important to state that this research paper is based on a bibliographic review (mainly taken from newspapers) of a selection of cases whose information is available for public consultation.

Financing from the China Development Bank

The China Development Bank (CDB) was established in 1994 and is a policy financial institution that sits directly under the leadership of the State Council of China. The CDB is currently the world's largest development financial institution in term of assets, and is China's largest foreign investment and financing cooperative bank as well as being a medium and long-term credit bank and bond bank. Furthermore, it is currently the largest Chinese-funded bank in Latin America's investment and financing cooperation.

In the last ten years of its business development, the CDB has established a network of two representative offices and eight country working groups in LAC. It has provided more than $100 billion dollars of loans to more than 200 multi-bilateral cooperation projects in 18 countries in Latin America, including Brazil, Venezuela, Ecuador, Peru, Argentina, Cuba, Mexico, Colombia, Chile, Bolivia, Uruguay and Costa Rica. These loans have been mainly directed towards the areas of infrastructure, energy, mining, manufacturing, electricity, and communications as well as some specialist areas such as aerospace and high technology. In an attempt to support the economic and social development of LAC countries, the CDB has also set up a scholarship to support students from the region to carry out long-term studies in China (Xinhua 2019).

Below is a detailed review of each of the main financing programs and products operated by the CDB in LAC.

China-Caribbean Infrastructure Special Loans

At the third China-Caribbean Economic and Trade Cooperation Forum in September 2011, the then Vice Premier Wang Qishan announced, on behalf of the Chinese government, that the China-Caribbean $1 billion dollar infrastructure loan (中国加勒比基础设施专项融资) would be launched as part of six policy initiatives. Subsequently, in June 2013, during his visit to Trinidad

and Tobago, President Xi Jinping announced another $1.5 billion dollars which would form part of China-Caribbean Infrastructure Special Loans. The aim of these loans is to further strengthen the financial and investment cooperation between the two countries. The financing is mainly used for infrastructure projects in the Caribbean which include national highways, ports, airports, railways, electricity, energy, transportation, urban public facilities, communications, free trade parks, construction, agriculture, environmental protection, tourism, and logistics, amongst others.

The project development can be completed by the government, an enterprise from the project country, or a Chinese-funded enterprise, who submit a formal loan application to the CDB. The loan application must provide all of the relevant information about the project, including, but not limited to, information about the borrower, the total investment requested by the project, the amount of money applied for, the financial status of the borrower or shareholders of the project company, the project financing structure, the loan terms, the loan use, the repayment and guarantee method, and the project schedule, etc. After receiving the project loan application, the CDB will first conduct a preliminary review of the project, and for those who pass the preliminary review, will then subject the applicants to a process of due diligence and a project review. The project review report is then submitted to the CDB's loan committee and once approved, the CDB negotiates with the project party in order to implement the signing of a loan agreement (CDB 2016).

One representative case of the use of these special loans can be found in the Jamaica North-South Expressway project, a construction that connects Jamaica's Spanish Town with its touristic center Ocho Rios. The total length of the highway is 65.19km and the design speed is 80km/h. The total investment for the project was $611 million dollars , and the application for medium and long-term loans currently stand at $426 million dollars plus 200 million yuans. The project is the first infrastructure Build-Operate-Transfer project (BOT) implemented by Chinese enterprises in LAC.

China-Latin America Infrastructure Special Loans

In July 2014, President Xi Jinping announced at the China-LAC leaders' meeting that China would formally implement a special loan (中拉基础设施专项贷款) of $10 billion dollars directed towards infrastructure, and that this loan would be overseen by the CDB. Since then, the State Council has increased the loan to $20 billion dollars. It will be used to support infrastructure projects in LAC, including energy, roads, communications, ports, logistics, electricity, mining, and agriculture.

The project development, loan application and loan approval process are consistent with the China-Caribbean Infrastructure Special Loans (see below). One example of the use of this loan can be found in the reparation project of the Belgrano freight railway in Argentina. In July 2014, during Xi's visit to Argentina, the CDB took the opportunity to sign a loan agreement with the Ministry of Finance in Argentina. The total contract value of this project was $2.47 billion dollars. The project, overseen by contractors China Machinery Engineering Corporation (CMEC) is divided evenly into supplies and civil engineering. It of particular note because the supplies provided include the procurement of rail materials, rail track, track materials, vehicles, large construction machinery and vehicle accessories, brought specifically from China. The civil works section of the project includes 1500km of railway track renovation and 300km of track improvement. It is currently the largest railway reparation project under construction in LAC and the amount invested equals the cost of repairing 10% of the total mileage of the Argentine railway (CMEC 2016).

China-Latin America Productive Capacity Cooperation Fund

In May 2015, at the China-Brazil Business Summit, Premier Li Keqiang announced the establishment of a China-Latin America Productive Capacity Cooperation Fund (中拉产能合作基金) of $ billion dollars. This fund would be used to finance multi-

bilateral cooperation in the improvement of production capacity and manufacturing equipment. The China-Latin America Production Cooperation Investment Fund Co., Ltd. was incorporated in Beijing and on June 16, 2015, it officially started operations. The Fund was initiated by the People's Bank of China, the State Administration of Foreign Exchange (SAFE) and the CDB, and was jointly funded by SAFE and the CDB. The medium to long-term development investment fund, established in accordance with the Company Law of the People's Republic of China, consists of a first phase of $10 billion dollars, in which the foreign reserve has also invested $6.5 billion dollars. The use of the fund is concentrated in the fields of manufacturing, high technology, agriculture, energy and mining, infrastructure and financial cooperation in Latin America.

The Ilya and Jubia hydroelectric power stations are two connected cascade hydropower stations in the Paraná River basin at the junction of São Paulo State and South Mato Grosso State in Brazil, with a total installed capacity of 4,995 million kilowatts. The Brazilian hydropower project generally adopts a 30-year franchise model in which the government selects the power company for operation and maintenance through competitive procedures and then returns it to the government at the end of the 30-year period. In October 2015, the Brazilian government issued a tender notice and just 42 days later, the Three Gorges Group successfully raised the $3.7 billion dollars needed for their bid through a loan from the newly established China-Latin America Production Capacity Cooperation Fund. In addition to its own technical experience, the support of the Fund has also played an important role in the success of mergers and acquisitions (M&A) (SINA 2016).

China-Brazil Productive Capacity Expansion Cooperation Fund

In June 2015, Vice Premier Wang Yang announced the launch of a China-Brazil Productive Capacity Expansion Cooperation Fund in Brazil (中国巴西扩大产能合作基金). The fund will stand at

$20 billion dollars, and China will invest $15 billion dollars to support the production capacity of cooperation projects. In October 2016, the China-Latin America Fund and its Brazilian counterpart formally signed a memorandum of understanding regarding the fund. On May 30, 2017, the fund, which is overseen by the China-Latin America Fund, started operations.

Sovereign Loans

In addition to the aforementioned exclusive funds established for LAC, the CDB also offers various financing products for countries in the region, including sovereign loans. In this case, the borrower is usually the central government of a sovereign state or the central bank of this state and is therefore concerned with promoting the socioeconomic development of the borrower country (financing the infrastructure, livelihood housing, hydropower, communication, agricultural development, education and health, transportation, energy, etc.). For example, the CDB and the Ministry of Finance of Ecuador have launched four phases of a total of $7 billion dollars in sovereign financing cooperation to support economic and social development in Ecuador, and the Ecuadorian government has arranged financial repayments through the state's budgetary procedures (China-CELAC Forum 2016).

Corporate Financing

In corporate financing, borrowers are usually powerful state-owned or private companies that finance corporate capital expenditures and daily working capital needs. For example, the Development Bank and Petrobras of Brazil have carried out three large-scale financing cooperation projects, mainly concerned with Brazilian development strategy and partly for the procurement of Chinese equipment and services, which total $18 billion dollars.

In 2008, as a result of the international financial crisis, oil prices fell sharply, and Petrobras urgently needed large sums of money to support business development. In 2009, the CDB provided $10 billion dollars to finance to its investment in oil exploration, mining and refining, and to promote the expansion of cooperation between Brazil and China's oil and gas companies. The CDB's financing effectively eased the tension on Petrobras' chain of capital and promoted the continued healthy development of the company's business. Between 2010 to 2019, the Brazilian company has exported 200,000 barrels of crude oil to China daily. At the same time, it has stimulated the export of equipment such as shipbuilding and deep-sea drilling platforms in China, as well as the export of service contracts such as engineering contracting.

M&A Loans

The CDB can provide financing to merger and acquisition (M&A) companies that may be used to pay for M&A transaction prices and fees. For example, in 2014, the CDB led a consortium (including the Industrial and Commercial Bank of China and the Bank of China) that financed nearly $7 billion dollars to support the China Minmetals Group to take the lead in implementing the acquisition of the Las Bambas copper mine in Peru, the largest ever mining acquisition made overseas (Sohu 2015).

Project Financing

Such financing is often used for the development of large infrastructure projects such as power generation, roads and airports, as well as exploration of energy and other natural resources. A specific project will be used as the financing object, and the source of repayment funds comes from the future income of the project's operations; the assets and income rights related to the project are understood

to be collateral of the El Dorado International Airport in Bogota, Colombia.

In order to meet the growing demand for passenger and cargo transportation, in 2009, OPAIN, the international airport franchise company, entrusted the CDB and the Inter-American Development Bank to jointly lead a syndicated loan to support the airport expansion project. The total investment of the project was $1.16 billion dollars, and the financing demand $400 million dollars. The CDB, the IDB and the CAF jointly supported the expansion project with a loan of $175 million dollars and the airport agreed to a source of repayment via its operating income. After the completion of the project, it is estimated that passenger numbers in El Dorado International Airport will increase by 45% in 2027 and cargo transportation volume will increase 47%. The project is the first offshore airport project financed by the CDB and the first syndicated loan cooperation generated between the CDB, the IDB and the CAF (Hebei Business 2018).

Export Credit

When borrowers seek to finance the export of large domestic machinery, full sets of equipment, large-scale engineering projects and other products for overseas importers (via buyer credit) or domestic exporters (via seller credit), generally insurance provided by China Export-Credit Insurance Corporation (Sino Sure), is required. For example, in 2012, the Development Bank provided Venezuela's national oil company with $500 million dollars in buyer credit for its purchase of petroleum equipment from China.

Bank Credit and Loan Transfer Credit

In cases of bank credit and loan transfer credit, borrowers tend to be strong banks, and they are therefore used as a loan-to-loan support mechanism to assume responsibility for ultimate repayment

obligations or to supplement their own working capital. The Development Bank aims to establish strategic partnerships with key local banks in key partner countries. For example, in 2007, the Development Bank provided a $750 million dollar loan to the Brazilian National Development Bank in order to support the 954km Brazilian Kasene gas pipeline project of the Sinopec International Engineering Company.

In addition, in April 22nd, 2019, the China Development Bank took the lead in setting up a development financial cooperation mechanism between China and LAC. This is the first multilateral financial cooperation mechanism established between China and Latin America. Among the founding members are the Latin American Foreign Trade Bank, the Argentine Investment and Foreign Trade Bank, the Ecuadorian National Development Bank, the National Foreign Trade Bank of Mexico, the Peruvian Development Finance Corporation, the National Bank of Panama, and the National Development Finance Corporation of Colombia. The mechanism aims to further strengthen links between various institutions, to give play to their respective advantages, to deepen cooperative working processes, and to promote a higher and closer level of China-Latin America financial cooperation.

Financing from the Export-Import Bank of China

The Export-Import Bank of China is a state-owned policy bank, under the direct leadership of the State Council, which supports China's foreign economic and trade investment, and international economic cooperation.

China-Latin America Cooperation Fund

In July 2014, President Xi Jinping officially announced the launch of the China-Latin America Cooperation Fund (中拉合作基金) during his visit to Brazil and promised to contribute $5 billion

dollars to it. In April 2015, the State Council took the decision to increase the financing to $10 billion dollars. The fund was specifically built by the Export-Import Bank of China and officially started operations in January 2016. Presented by the Chinese government, it is a private equity investment fund that specifically targets the LAC and is both "government-led [and] market-oriented" (CLAC FUND 2019). The fund will invest in Latin America's energy resources, infrastructure construction, agriculture, manufacturing, technological innovation, information technology, capacity cooperation and other fields through the use of equity and creditor's rights.

The China-Latin America Cooperation Fund was initiated by the Chinese government, and it invested $5 billion dollars at its launch. The fund consists of two parts: the first, is China's co-financing fund for LAC into which the Chinese invested $2 billion dollars and entrusted to the IDB the provision of financing support for projects in the fields of education, water and energy in the region. The second, is the "Equity Investment Fund" and in this China participated with an investment of $3 billion dollars, which was implemented by the Exim Bank of China. The "Equity Investment Fund" is mainly invested in six areas: energy resources, infrastructure construction, agriculture, manufacturing, technological innovation, and information technology (China-CELAC Forum 2019).

Foreign Aid Concessional Loans and Preferential Export Buyer's Credit

China's foreign aid concessional loans and preferential export buyer's credit are preferential financial arrangements granted by the Chinese government to the governments of developing countries. The Exim Bank of China is the sole contractor of the "two preferential" loan businesses designated by the Chinese government. The borrowers of the "two preferential" loans are generally sovereign institutions of the borrowing country. In some cases,

financial institutions or other institutions that are designated by the relevant government and approved by Exim Bank can also be borrowers, but they must be guaranteed by their sovereign institutions (Exim Bank 2019).

The foreign aid concessional loan is a medium-to-long-term low-interest loan that is provided by the designated financial institutions of the Chinese government and takes the form of government assistance which contain gifts. The target audience are developing countries that have established diplomatic relations with China. In RMB, the foreign aid concessional loan can provide 100% financing for the project's business contract. The total amount of preferential loans for LAC countries is $10 billion dollars, which is divided into foreign aid concessional loans and preferential export buyer credit.

The preferential export buyer's credit is a specific loan with certain preferential conditions for the promotion of economic and trade cooperation and the use of export buyer's credit. The target audience are developing countries that have established diplomatic relations with China. In dollar terms, the financing ratio does not, in principle, exceed 85% of the project business contract amount. In other words, the borrower is required to provide self-raised funds at a minimum of 15% of the overall amount of the contract.

The loan project must be formally submitted by the borrowing government. The Exim Bank is responsible for collecting information pertaining to project evaluation and conducting corresponding evaluation work. Once a foreign aid concessional loan project has passed the review, the results must be reported to the Ministry of Commerce for the People's Republic of China. After the Ministry of Commerce has arranged for the signing of the intergovernmental framework agreement, the Export-Import Bank then signs a specific loan agreement. When, at last, the preferential export buyer's credit project passes the review and the borrowing government is notified in writing by the Chinese government authorities, the Export-Import Bank then signs a specific loan agreement.

The aforementioned loan lending process is largely used by the sovereign institution of the borrowing country that has the right to

borrow abroad. A financial institution or enterprise may be designated by the borrowing government as the borrower, although it must at the same time be guaranteed by the sovereign institution. The term of the loan is divided into a grace period and a repayment period. During the grace period, the interest must be paid but the loan does not need to be paid. The repayment period sees a repayment made once every six months. The loan interest rate is kept at a fixed interest rate and interest is charged once every six months. The management fee is charged at a time in proportion to the agreed amount. The commitment fee is charged semi-annually and based on a certain percentage of the undrawn amount of the commitment.

The International Economic Cooperation Loan

The international economic cooperation loan refers to the implementation of the "Belt and Road" initiative, international capacity and equipment manufacturing cooperation, and the internationalization of the renminbi. It creates favourable conditions for Chinese enterprises to "go global", promotes international economic and financial cooperation, and enhances China's economy and international financial influence. In line with the principle of mutual benefit, local and foreign currency loans can be provided to overseas borrowers with large international or regional influences or other related capital needs. They can also be provided to further promote the export of Chinese products, technologies and services (Exim Bank 2019).

Foreign Contracted Project Loan

The foreign contracted project loan refers to the loan provided to the enterprise for funds required for the implementation of foreign contracted projects. Supporting objects in this case include Chinese borrowers and foreign borrowers. Chinese borrowers must

either be an enterprise registered as part of China's industrial and commercial administration, with an independent legal status and qualifications in foreign engineering contracts, or a Chinese-funded enterprise that is registered overseas but that meets the qualification requirements stipulated by the laws and regulations of the country or region in which the project is located. Foreign borrowers can be overseas financial institutions, the Ministry of Finance or an agency authorized by the government of the importing country. The contractor of the foreign contracted project loan, issued by the Exim Bank to the foreign borrower, should be an independent enterprise (legal person) in China or an overseas subsidiary that controls or participates in shareholding or is participating in the joint venture. The shareholding ratio should either not be less than 30% or should be relatively controlled (Exim Bank 2019).

The commercial contract for the foreign contracted project is signed and must be approved by the state approval authority if necessary; and the proportion of the total export value of domestic contract equipment, such as domestic equipment, materials, technology, labour, management, design, auditing, consulting and other related services, cannot be less than 15%. The Chinese products, technologies and services outlined for purchase should be in compliance with the relevant Chinese regulations, and those of the importing countries. In addition, the number of commercial contracts issued for foreign contracts cannot be less than $1 million dollars. When the borrower is an international multilateral financial institution, but is part of a country which forms part of the member states that has not yet established diplomatic relations with China, Exim Bank must obtain consent from the Chinese government before the application is accepted.

Conclusions

In a relatively short time, two Chinese policy banks, the CDB and Exim Bank, have managed to become relevant financial influences in LAC through their various financing programs and products. Currently, the financing received by Latin American countries from the CDB and Exim Bank has exceeded the financial support offered by international and regional financial institutions such as the World Bank, the IDB and the CAF. In particular, during 2005-208, the CDB provided more than $100 billion dollars of loans to more than 200 multi-bilateral cooperation projects in 18 different countries in Latin America and it is now the largest Chinese-funded bank in Latin America's investment and financing cooperation. These funds were channelled through a series of specific programs designed for LAC countries. They include: China-Caribbean Infrastructure Special Loans, China-Latin America Infrastructure Special Loans, the China-Latin America Productive Capacity Cooperation Fund and the China-Brazil Productive Capacity Expansion Cooperation Fund, which in total account to financing of $67.5 billion dollars. In addition, the CDB has produced various credit products for LAC countries and companies, such as sovereign loans, corporate financing and M&A loans. They have furthermore provided project financing, export credit, bank credit and loan transfer credit to the LAC.

Finally, another important financing institution in China in LAC is Exim Bank. Its main financial cooperation program with the LAC is the China-LAC Cooperation Fund, which has $10 billion dollars. It manages products such as foreign aid concessional loans, preferential export buyer's credit, international economic cooperation loans and foreign contracted project loans. Both Chinese and Latin American companies are able to make use of these financing resources depending on the criteria of the projects they to carry out and only then when they meet the very specific requirements established by the lender.

In general, the criteria for evaluating borrowers of the two policy banks are coherent and closely linked to the criteria of regulatory

institutions in the Chinese public sector, such as the National Committee of Development and Reform (NCDR), the Ministry of Commerce (MOFCOM) and the State Administration of Foreign Exchange (SAFE). They are institutions that have the final say in deciding who may or may not be authorized and by whom, as well as the amount of money that the project should be financed. In the case of LAC, the first explicit requirement, among many, is that the borrower must be from a country with diplomatic relations with the People's Republic of China. In other words, those that do not, have any access to this type of financing. In addition, when the borrower is an international multilateral financial institution, but is from a country which forms part of the member states that have not yet established diplomatic relations with China, this specific case must be revised by the relevant banks and the Chinese public sector. This is one of the qualitative differences that distinguish China's financings from those of other international and regional sources.

A second notable point regarding Chinese financing is that it always requires borrowers to use a certain percentage of Chinese suppliers in their projects. Take the Exim Bank's foreign contracted project loan, the contractor of the loan should be an independent enterprise (legal person) in China, or an overseas subsidiary that controls or participates in the shareholding of the project (not less than 30%), or s in the joint venture. Similarly, the proportion of the total export value of domestic contract equipment, such as domestic equipment, materials, technology, labour, management, design, auditing, consulting and other related services, cannot be less than 15%; and even the standards of the Chinese products, technologies and services earmarked for purchase must be in compliance with the relevant Chinese regulations.

Thirdly, Chinese financing is highly concentrated in the industrial sector. Almost all financing programs focus on projects in the sectors of infrastructure, energy, minerals, agriculture, etc. There are even two specific programs for productive capacity cooperation and equipment manufacturing –the China-LAC Productive Capacity Cooperation Fund and the China-Brazil Productive Capacity

Cooperation Fund–, which, in total have $50 billion dollars of financing. The intensity of financial support in these areas, and over a short period of time, reflects China's significant interest in ensuring and diversifying sources of natural resources and reinforcing the national economy under a "new normal", which promotes equipment, engineering, design, and services, etc. abroad, as proposed by the Belt and Road initiative. It is for this reason that a concentration of Chinese financing in LAC can also be observed in Brazil, Venezuela and Ecuador, to name but a few.

However, despite huge financing flows in the last decade, very little is known about the performance of these financing programmes and products. Little is known, for example, of what percentage of loans or credits granted have been paid in a timely manner, especially when the precarious financial and liquidity situations of several countries in the region are taken into account. In addition, there exists almost no statistical disaggregated data available from provider banks, which has proven tricky even in the creation of this research paper. This is especially true in the case of commercial banks in China, that are also public, and that have a growing presence and participation in the LAC. Besides this lack of transparency, it is also not helpful that the enormous financings have an objective evaluation which improves their performance, in addition, they are resources that come from public properties and within China, a country that still requires recourses to resolve and improve a whole host of socioeconomic issues that affect the daily lives of its 1.3 billion inhabitants.

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THE CHINA DEVELOPMENT BANK AND FINANCING IN LATIN AMERICA

Rubén Hernández Cordero

Introduction

Over the past decades, China's infrastructure has been significantly improved, shifting it from a country with a huge gap in infrastructure to one with a substantially reduced one. China was able to make this change by correctly coordinating its policy makers, State Owned Enterprises and banks.

In 1994 policy banks were established so that they could focus on financing big infrastructure projects. The China Development Bank (CDB) played a leading and catalytic role in economic development by financing Chinese infrastructure projects. These projects gave the CDB significant expertise in setting up financial schemes for different businesses, helping to create investment and financing mechanisms, technical assistance, risk mitigation and guarantee, etc. With the expertise they acquired, and by implementing a coordinated strategy, the CDB became a key player in the internationalization of Chinese firms and Chinese foreign direct investment (FDI).

We can see that CDB's cross-border credits were mainly allocated in countries rich in energy and resources. It established specific loan terms to secure resources and to reinforce the Chinese FDI strategy. The CDB experience in Latin America and the Caribbean

(LAC) region is a good example of how, given the omnipresence of the public sector in Chinese firms and banks, a strategy can be coordinated to achieve investment in LAC.

This analysis intends to put into perspective the CDB's activities in Latin America and the Caribbean using quantitative data from the "China-Latin America Finance Database" (Gallagher and Myers 2019), CDB's Annual Reports and qualitative data and descriptions of CDB policies related to Chinese strategies in Foreign Direct Investment that go beyond the Belt and Road Initiative. There are many publications on CDB's lending activities like the studies by Erica Downs (2011), Zhang Ying (2012), Yonzhong Wang (2016) and Stephen Kaplan and Michael Penfold (2019). This article is divided into three sections: (1) The China Development Bank in perspective, with a short description of this policy bank and its history, (2) The China Development Bank in Latin America, that explains CDB's current strategy and brief descriptions of the Venezuelan, Brazilian and Argentinian cases, and finally (3) Conclusions about CDB's role in Latin American financing and its relationship with the Chinese public sector.

The China Development Bank in Perspective

What is the China Development Bank?

The China Development Bank (CDB) is one of the biggest financial institutions and the largest policy bank in China. As one of the three development banks in China, CDB has, for the last 25 years, been financing big projects in key sectors such as energy, communications, infrastructure, water, highways, railways, airports and private projects within China and abroad.

By the end of 2018, CDB's total assets amounted to 16,179 billion RMB or approximately $2,440 billion dollars (CDB 2018:6). To appreciate this figure, we can compare CDB's total asset value to that of other financial institutions: by the end of 2018 it was 0.58 times ICBC's, 0.75 times BOC's, 0.93 times JP Morgan's, 1.3

times Citi's, 26 times the International Finance Corporation's; 19 times IADB's (Inter-American Development Bank) and 35 times Citibanamex's[1].

The China Development Bank within China's Financial System

The CDB is one of the biggest players in the Chinese financial system. For analytical purposes, the Chinese banking system can be divided into four parts (Hernández Cordero 2014):

1. Large commercial banks. Five banks make up this category.The top four of these are currently (July, 2019) also the four largest banks worldwide: ICBC, China Construction Bank, Agricultural Bank of China, and Bank of China (Khan:2019). Indirectly, the Chinese government is the main stockholder.
2. Joint-stock commercial banks. This category corresponds to medium size commercial banks. They play an important role in financing municipal projects, state owned enterprises and the general public. Local governments, and indirectly the central government, are the main stockholders. Some of these banks are the China Merchants Bank, CITIC Industrial Bank, Shanghai Pudong Development Bank, China Minsheng, Huaxia, Everbright, and Guangdong, among others.
3. Policy banks. Financial institutions oriented to productive loans, i.e., lending to key sectors of the economy, project finance and long term loans. The China Development Bank, the Export Import Bank and the Agricultural Development Bank are the three policy banks. These banks adhere to the

1 By the end of 2018, JP Morgan's total assets were $2,622 billion (JP Morgan 2018:2), Citi's total assets were $1,917 billion (Citi 2018:3); IFC's total assets were $94.272 billion (IFC 2018:113); Inter-American Development Bank's assets were $129.459 billion (IADB 2018:2); Citibanamex's total assets were $1,309 billion Mexican pesos (Banamex 2018:3)

Ministry of Finance and the State Council decisions as to which sectors should be promoted.

4. Other financial institutions. This category includes smaller financial institutions such as local banks and cooperatives. It is oriented to commercial loans through different products. Local governments are the main stockholders under various schemes.

The five largest commercial banks' share of the banking system's total assets was 37%; the joint-stock commercial banks' share was 18%; and the policy banks' 9.8%. Amongst the policy banks, CDB is the largest one accounting for 6.15%. Together, the five largest commercial banks and the three policy banks in China, represent 46.8% of the Chinese financial system. This is a huge concentration in just a few banks, and in all of them government is the majority stockholder, revealing a clear omnipresence of the public sector in China's banking business (CBRC 2016:204; ADBC 2017:4; ICBC 2018:20; BOC 2018:27).

China Development Bank, a Brief History

The CDB is a result of several policy reforms that took place during the nineteen nineties. The banking system couldn't fulfill all the financial needs of an economy undergoing deep economic reforms. Therefore, the People's Republic of China established in 1994 three banking institutions to implement financial sector reforms: (1) The China Development Bank; (2) The Export-Import Bank of China; and (3) The Agricultural Development Bank of China.

Established as a state-owned development finance institution (CDB 2018:3), the CDB depends on the State Council and is focused on promoting economic growth in key sectors (CDB 2018:3). Through CDB's lending activities, it can directly influence the key sectors that the State Council wants to promote and has been a dynamic player in developing financing to stabilize cyclical economic fluctuations (China Daily 2010). Supporting policies

through policy or development banks, freed the big commercial banks to lend on a commercial basis. Not only is CDB arguably the best performing bank in China, but it also has a rapidly expanding global footprint (Downs 2011:7) and expertise in managing big loans and projects.

By the second half of the 90's, the CDB concentrated on core construction projects and the way the development banks were doing business was through directing large sums of free or low-cost funds to finance projects or companies selected by the government that were considered to be in key sectors (Ying 2012:16). This allocation of credit without risk management was inefficient since some of the projects were not financially viable and thus unable to repay the loans. Therefore, when the Asian financial crisis hit, it became evident that the government and financial authorities needed to address financial risk in order to prevent negative effects on stability and development (Ying 2012:17). By 1998 the CDB implemented three reforms to its business model: promoting infrastructure and not only construction; and incorporating risk prevention and risk reduction. After these reforms the quality of CDB's assets improved rapidly (Ying 2012:118).

As the Chinese economy became more dynamic, the market required a sufficient and strong financial sector to meet financing needs. Therefore, after 1998 the Chinese financial sector not only implemented business reform, it also began using new financial mechanisms and instruments that allowed the financial institutions to create credit to meet market needs (through different mechanisms as credit structuring, due diligence, treasury, debt raising in bond markets, etc.).

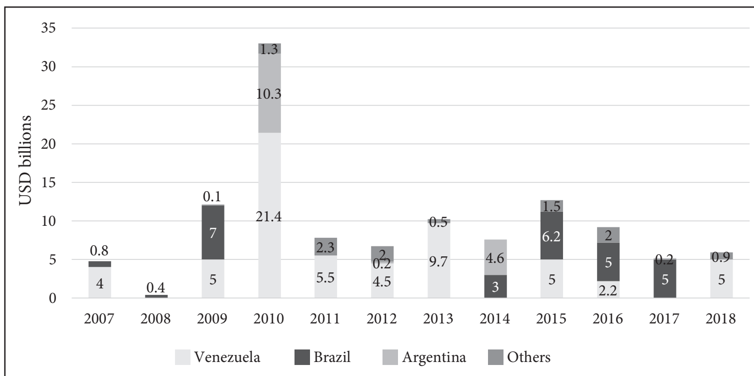
After 2005, the CDB became a player in the "going out" strategy by using three mechanisms: (1) providing financing to Chinese firms for foreign energy and mining investments; (2) financing development of infrastructure to deliver energy and material supplies to China; and (3) providing credit to foreign energy and mining companies, while assuring upstream equity positions or equipment manufacturing contracts (Downs 2011:26-28). In the next section we will see which of these strategies were applied in the LAC region.

The China Development Bank in Latin America

According to the Global Development Policy Center of Boston University, since 2005 the CDB and Ex-Imp Bank have provided more than $141 billion in loan commitments to Latin America and the Caribbean (LAC). CDB commitments were $115 billion (81.7%) and Ex-Imp Bank $25.8 billion (18.3%). In 2018 alone, both institutions issued $7.7 billion in loans to the LAC region (Boston University 2018). Over the same period, the IFC issued commitments for $5 billion to the LAC region (IFC 2019).

In 2009 and 2010, the CDB extended lines of credit to Brazil, Ecuador and Venezuela. The loans issued were secured by revenue earned from the sale of oil at market prices to Chinese national oil companies. In a period when the global economy was facing a liquidity and credit scarcity, the CDB leveraged China's financial resources, to secure the energy China needs for its long-term economic development, through energy-backed loans; therefore CDB became a key player in China's "going out" strategy (Downs 2011:38). Figure 1 shows to which countries the CDB has disbursed loans since 2007. Venezuela got 54.03% of all CDB's commitments, Brazil 23.68%, Argentina 13.20% and Ecuador 8.15%.

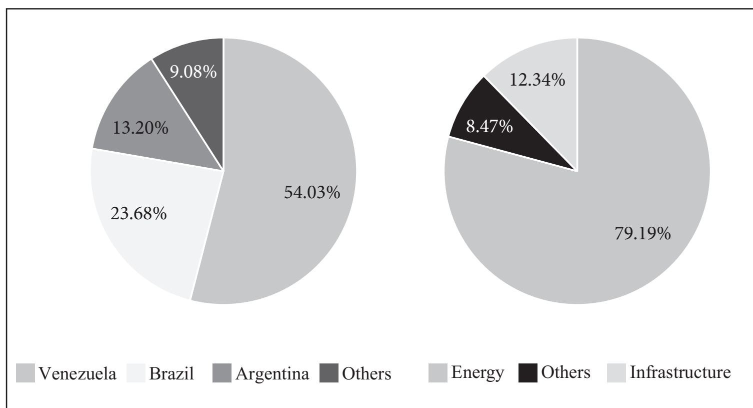
Figure 1. CDB - Total Amount of Loans to LAC by Country (USD billions)



Source: author's elaboration based on Gallagher and Myers (2019).

Figure 2. CDB-Loans to LAC Countries by Country 2007-2018 (% share)

Figure 3. CDB - Loans to LAC Contries by Type 2007-2018 (% share)



Source: author´s elaboration based on Gallagher and Myers (2019).

Figure 3 shows the sectors CDB has been financing in the LAC region. Seventy nine percent of the commitments issued went to energy projects, 12.34% to infrastructure and the remaining 8.47% to government, mining and others. During this period, CDB loans for energy projects amounted to $91.3 billion, 50.7% of those commitments went to joint fund tranches and renewals, 16.6% to oil-related projects and 7.5% to energy generation projects (Gallagher and Myers 2019).

There is a high level of coordination between lender, borrower, governments and companies along with a clear Chinese strategy to disburse loans to those LAC countries with key resources and commodities. This coordination is possible because of the alignment of interests, and this alignment can only be achieved through the omnipresence of China's public sector not only in the foreign direct investment strategy but also in the banking business. Omnipresence of the public sector in the banking business is a fundamental condition to bring financial resources to investment projects in the LAC region where the financial systems are not big enough and where the risks make it unattractive to other financial institutions.

The China Development Bank is able to support China's "going out" strategy because of the structural reforms that allowed the CDB to achieve better risk analysis, efficient management of resources, access to the bond market, and project finance expertise.

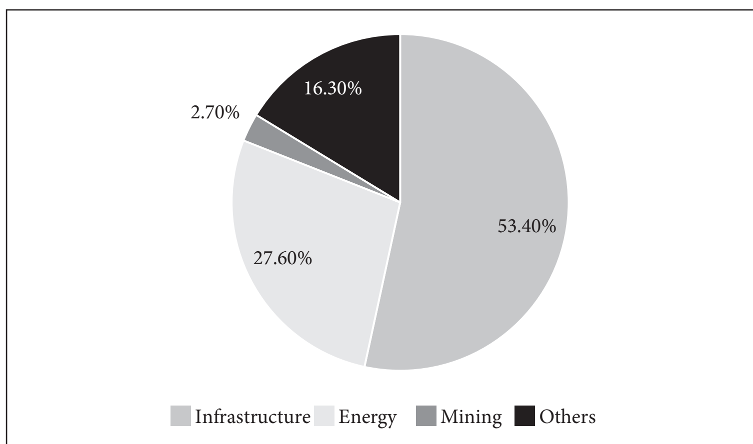
Analysis shows that the CDB's loans are concentrated in three countries. The sum of loans to Venezuela, Brazil and Argentina, is $104 billion since 2007 (90.9% of total CDB lending to the LAC region). The following is a brief description of how some of these loans were carried out, what conditions were established, what sectors were focused on and, considering what is stated in the previous section, what type of strategy is behind them and the importance of the public sector's omnipresence in achieving proper coordination among all participants.

Venezuela: Loans-for-oil Deals

On the eve of the global financial crisis (2007-2008), the former Venezuelan President Hugo Chavez and Chinese President Hu Jintao laid the foundations of the China-Venezuela bilateral relationship and opened a new chapter in China's foreign direct investment and banking business in the LAC region. In Venezuela, "China policy banks secured their lending with loan-for-oil-deals, wagering that the country's oil production capacity was a sufficient guarantee for debt repayment. China also hoped to gain a foothold in the Latin American energy sector by offering Venezuela cheap loans (and) development financing…" (Kaplan and Penfold 2019:3).

Since 2007, the CDB has issued commitments in Venezuela for $62.3 billion. Figure 4 shows that 53.4% has gone to infrastructure projects, 27.6% to energy projects, 2.7% to mining and 16.3% to other projects (see Figure 4). By borrower, it is mainly Venezuela's government with a share of 64.3%, the state-owned enterprise PDVSA with 34.2% and the state-owned mining company CVG 1.6%.

Figure 4. CDB-Loans to Venezuela by Type 2007-2018 (% share)



Source: author's elaboration based on Gallagher and Myers (2019).

Also, we can see that $50.3 billion of CDB's commitments went to the Joint Investment Fund. Wang (2016: 9) explains how this Fund was conceived: "The governments of China and Venezuela established the China-Venezuela Joint Investment Fund (JIF), administered by BANDES (Bank for Economic and Social Development), to finance infrastructure and social projects in Venezuela. CDB contributed two-thirds of the fund to JIF, and Venezuelan financial institutions provided the remaining one-third".

The JIF has a total value of $50.3 billion structured in three tranches and a long-term facility: (1) tranche A, signed in 2007 for $4 billion, renewed in 2011 and 2013; (2) tranche B signed in 2009 for $4 billion, renewed in 2012 and 2014; (3) tranche C, signed in 2013 for $5 billion; (4) a long term facility signed in 2010 for $20.3 billion.

The projects financed by the JIF include: (1) the Simón Bolívar satellite, (2) urban infrastructure –five metro lines (two in Caracas and one each in Los Teques, Valencia and Maracaibo), (3) infrastructure –a train from Cúa to Encrucijada, (4) highways –the Gran Mariscal de Ayacucho highway, (5) and some other minor projects (Wang 2016: 9)

Erica Downs (2011) conducted research on the mission sent by the CDB to Venezuela to determine if they would be able to pay back the oil-backed loans and to make policy recommendations to the Venezuelan government so they would be better able to control inflation and attract more investment. Unfortunately, CDB's oil-backed loans to Venezuela have faced several default risks, due to the collapse of oil prices and Venezuela's subsequent crisis (Wang 2016:9). The results of these huge loans can be analyzed through the oil production of the China-Venezuela joint ventures. Between 2008 and 2016 the biggest joint venture had produced an average of 130,000 barrels of oil per day; PDVSA alone produced more than 2 million barrels per day (Piña 2019:12). Therefore, Venezuela acquired big but restrictive loans to only marginally improve oil production.

Brazil: Saving (or not saving) Petrobras

Brazil is the second largest recipient of CDB's disbursements in the LAC region. Since 2005 Brazil had received $23.816 billion; 94.6% of the total commitments went to energy projects and just 5.4% for agriculture. The CDB approach to Brazil's market came through negotiations with Brazilian State-Owned Enterprises. Back in 2007, the CDB closed a deal with the Brazilian Development Bank BNDES to finance the 946 km "Gasene" pipeline in Brazil (Gasene is a Petrobras subsidiary). The $750 million loan was used to hire Sinopec to execute the work on the pipeline (Petrobras 2007).

In 2009, the CDB signed one of three oil export revenue-backed loans in the amount of $7 billion contracted directly with Petrobras to finance pre-salt oil fields. The terms and conditions of these contracts were oil-revenue backed guarantees very similar to subsequent loans disbursed to Petrobras. The way these loans operate is through an account that Petrobras holds at CDB. Therefore, Petrobras is required to maintain a minimum account balance equivalent to six months of interest payments (Downs 2011:38).

Back in 2014 and 2015, the Brazilian State-Owned Enterprise, Petrobras signed a bilateral cooperation agreement for $3 billion and $1.5 billion (Petrobras 2014). The 10-year financing arrangement involves the sale and leaseback of two offshore oil production platforms operated by Petrobras (EFE 2015).

The most recent loans were issued in 2016 and 2017 to Petrobras. One of them assigned $5 billion to debt financing with specific commodity-backed conditions for repayment by supplying oil to a Chinese SOE for the next ten years (LatinFinance 2016). The second loan of $5 billion went to debt financing as Petrobras was facing a massive maturity of obligations; it was agreed that repayment would be in cash or oil at China's request (Reuters 2016).

In the Brazilian case, we can observe the coordinated strategy of Chinese companies regarding interest alignments. Concerning procurement, there was a clear CDB preference for tying the loans to purchases of Chinese equipment, which clashed with the Brazilian government's plan to develop local supply chains for Brazil's oil industry. The final agreement stipulates that a certain amount must be used to purchase oil equipment from China (Downs 2011:48). Also in play is the CDB's dual strategy of pursuing the "going out" strategy and at the same time minimizing the credit risk through loan valuation in terms of oil, so that CDB is not affected by the borrower's operative risk.

Argentina: Financing a Railway Dream

In general, the Argentina-China relationship evolved from one centered on trade (and commodities) to a multidimensional one (Stanley 2018:93) as the result of a coordinated Chinese strategy. Like the LAC region as a whole, Argentina has a large deficit of investment. The yearly average infrastructure investment as part of GDP from 2000 to 2015 was 2.7 per cent, which is far below the recommended 6 percent for replacement requirements. As Stanley (2018:81) notes, Argentina doesn't have the capabilities to meet these infrastructure demands and with an adverse macroeconomic environment and institutional crisis, Argentina cannot

attract investors to develop the infrastructure agenda that was designed by the former president Kirchner and now expanded by Macri. On the other hand, Chinese firms offered a whole coordinated package of solutions (with some implicit conditionalities) for infrastructure projects that included firms with expertise developing project finance, constructors, suppliers and financing.

The China Development Bank is part of this solution package and, between 2007 and 2017, had disbursed a total amount of $15.2 billion to projects like train systems, acquisition of train cars, renewable energy projects, hydroelectric power plants and SME development.

The relationship between CDB and the Argentinian government started back in 2007 with the signing of a $30 million credit to the Argentinian Bank of Investment and Foreign Trade (BICE) for export sector development. This credit was renewed in 2010 for the same amount.

On July of 2010, the CDB signed two more credit agreements with Argentinian government. CDB agreed to lend Argentina's Ministry of Economy and Public Finance $273 million to buy 20 high-speed trains and 220 passenger cars from China CNR Corp (Bloomberg 2010). The second credit was a syndicated loan for a total amount of $1 billion for revamping Argentina's railway system. One more credit was signed in 2014 for railway infrastructure development and to purchase locomotives, train cars and supplies for the Belgrano Cargas line.

At the beginning of 2019, the CDB closed a deal with the Argentinian government for $236 million to buy 200 train cars. As approved by official decree, the Argentinian government will buy the train cars from the Chinese company Qingdao Sifang, Co. Ltd. (El Cronista 2019). This credit will improve the Roca line services raising its capacity to transport people and materials by 20% (La Nación 2019).

The CDB has lent to energy projects as well. The first credit for this purpose was signed in 2012 for $200 million and was designed to finance renewable projects. The second credit was signed in 2014 for $2.499 billion for the construction of a hydroelectric

power plant. The term was 15 years to repay the loan with profits from energy sales and a Chinese company was hired for the 66 months of construction (Reuters 2014).

Finally, the Argentine experience is a perfect example of how China's coordinated strategy has evolved from commodity extraction to high aggregate value activities such as infrastructure. China has become a key political and financial partner for trade, infrastructure, and energy. As long as China provides a coordinated package to Argentina, the Argentinian government will be able to achieve its infrastructure agenda and reduce the investment gap.

Conclusions

Chinese financing in the Latin American region has followed a similar pattern in recent decades: investing in governments, state-owned enterprises, extractive industries, infrastructure, and energy and in just a few countries (Americas 2019). This is a safe way of lending money, as it is sovereign risk and China has experience in project finance for these kinds of ventures. But as the previous section shows, there are three missing parts, to be considered, when we talk about Chinese firms investing and lending in LAC: (1) the high level of coordination; (2) how the OFDI has evolved from commodity extraction to high aggregate value activities such as infrastructure, services and manufacturing; and (3) the new players.

One: Coordinated Strategy

The degree of coordination that exists in each of the transactions that have been carried out is a common denominator in the three examples discussed above. Let's think about what had to happen so that the CDB would grant each of these lines of credit to the Latin American countries. For the subscription of the credits, the door had to be opened through diplomacy to structure the project with

a Latin American government or company; Chinese firms were integrated into the value chain for the project and for the execution a Chinese firm had been hired. With all the variables aligned, then the bank granted the loan, but not before ensuring the risk and the repayment of the loan. Each of the stakeholders was contemplated in each transaction. It is only possible to coordinate a strategy involving billions of dollars with a fundamental ingredient: the omnipresence of the Chinese public sector[2].

The Chinese public sector is omnipresent both in the Chinese firms that invest in Latin America, i.e. the firms that develop and execute the projects, and in the banks that are facilitating that the investments are carried out. In the first section we discussed the three ways the CDB was positioning itself to become a key player in the "going out" strategy: (1) CDB has provided financing to Chinese firms for foreign energy and mining investments in the LAC region; (2) the CDB has financed the development of infrastructure to deliver energy as in the Brazilian "Gasene" pipeline; and finally (3) the CDB has provided credit to foreign energy and mining companies under conditions like those in the Brazilian Petrobras development of a pre-salt oil field with specific commitments to buy supplies from Chinese firms and the Argentinian Railway project that involved construction, supplies and trains provided by Chinese firms.

Since 2007 the CDB has disbursed 42 loans to the LAC region; all these projects were only possible given the high level of coordination and the omnipresence of the public sector which determines where the strategy should be focused. But it is important to point out that even though the public sector is defining the road map for the CDB, the institutional framework developed inside CDB plays a fundamental role in the decision making. This means that the CDB is working towards becoming a full market-oriented development bank by implementing clear corporate governance, team and risk management, transparency, becoming a player in the

2 "China's public sector presents a complex structure of interlinked institutions under the leadership of the CPC that formulates, implements, finances, and evaluates long-term national development goals" Dussel Peters (2015: 66)

debt market to support new transactions, and so on. Therefore, the CDB relies not only on how the public sector prepares the field for future investments but also on how efficiently its own internal structure functions.

Two: OFDI is Changing

Chinese OFDI is changing. As noted in previous sections, at the beginning of the China-LAC relationship, China was essentially a commodity extraction oriented investor allocating financial resources to key Chinese projects in extractive industries. During 2000-2010 the share of raw materials in OFDI changed and new sectors such as manufacturing and services started receiving a bigger share of Chinese OFDI to LAC (Dussel Peters 2019:7). In the previous sections we analyzed some of the projects financed by the CDB in LAC. As some of these countries were unable to close their investment gap, or to attract financing to develop supply chains to sustain huge investment projects, and since China already had expertise from doing project finance in the mainland and in some other developing countries, China was able to invest in these new sectors in a coordinated way.

There are many examples of how trade oriented or extractive oriented relationships evolved into multidimensional partnerships in LAC. The China-Argentina case is an example of how some Latin-American governments accepted China as a new key trade-economy-infrastructure-energy partner to achieve their political agendas. The China-Brazil relationship is another example of how a trade oriented relationship soon evolved into an OFDI and financial relationship. Reducing the infrastructure and services gaps required financing for big projects and opened opportunities for Chinese firms to invest in new key sectors.

Since 2013, the Belt and Road Initiative has massively benefited Chinese infrastructure projects worldwide. Even though Chinese OFDI flows have been going to various LAC countries, there are still existing barriers in some cases, such as the lack of

coordination between China and some Latin American governments in terms of trade, investment, competence and regulation. This has increased the already high level of complexity involved in structuring infrastructure project finance. As Dussel Peters notes (2019:70) "China offers turnkey projects, including all necessary parts of these infrastructure projects (including banking), but poses massive challenges in terms of local and national integration and development".

Finally, we can observe an interesting change in Chinese transactions with LAC countries; back in 2016 the public firms with transactions in LAC accounted for 84.25% of the total value of these transactions, but by the end of 2018 the percentage had dropped to 6.26% (Dussel Peters 2019:8). Therefore, Chinese private firms became key players in the LAC region and probably will have an effect on OFDI flows as private investment will search for projects with IRR in dynamic sectors with better risk conditions and solid institutional frameworks. In the same way, the banking business may have to adapt to changes in OFDI flows but since the public sector is extremely large in the Chinese banking system, the omnipresent Chinese public sector will probably continue to lead the strategy in the new sectors and with new players.

The purpose of this article is to describe how the CDB has made agreements with some Latin American governments and companies and not to judge whether these operations have been beneficial or not for Latin American economies. The CDB case may be a good example of how the omnipresent Chinese public sector coordinates complete strategies even though institutions like the CDB are gaining some independence in their self-management. Hopefully, this short description will open new discussions about the Chinese banks' lending in the LAC region and how policy makers should approach the use of Chinese financial resources to boost regional development.

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SECTION II.

CHINA´S FINANCING IN LATIN AMERICA AND THE CARIBBEAN

WHY CO-FINANCING IS MUCH MORE THAN JUST POOLING RESOURCES IN THE CHINA-LATIN AMERICA COOPERATION

Gina Caballero

China's financing activities in Latin America have proliferated over the past two decades. Its concentration on infrastructure and energy sector has become a source of worry and distress. In regards to China, Chinese policy and commercial banks have been reconsidering their dealings with the region and are looking to diversify operations to more countries. Globally, Latin America has become an essential recipient of Chinese financing, yet it has also been focusing on several mega-projects. According to new studies, China's infrastructure financing can contribute to reducing spatial inequalities and boosting economic activity. However, due to their vastness they are also prone to environmental damage, conflicts with local communities and corruption. The benefits of Chinese financing could be maximized while the risks might be fewer if Latin America also invests in the cooperation. However, co-financing between Chinese and Latin American financial institutions has been limited to only three facilities and a handful of projects. Despite the interest and resources, co-financing opportunities are being constrained by two major complications. The first one arises from the lack of ownership Latin America has of its development cooperation with China. The second has more to do with the underdevelopment of the region's infrastructure sector. Co-financing in the China-Latin America cooperation

is, therefore, much more than just pooling resources. In order to understand the different connotations of this, the following analysis will first provide some background on the implications of China's financing in the region and the different co-financing arrangements being used in the cooperation.

Further on, this paper will examine the challenges faced in increasing co-financing and it will look to the new Multilateral Development Banks (MDB), the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB), for the tools and practices they use for developing infrastructure as an asset class. The approaches will be compared to the ones regional MDBs deploy for identifying the ways in which co-financing between China and the region can be further supported. The last section concludes with some policy suggestions.

China's Financing in Latin America Continues to Raise Eyebrows

Since 2005, as reported by the Inter-American Dialogue and the Global China Initiative at Boston University's Global Development Policy Center (GDP), Chinese policy banks have provided the region with over $140 billion dollars in financing Latin America has also become receiver of China's total provision of official finance. According to AidData, China's total commitment of Official Development Assistance (ODA) and Other Official Flows (OOF) was more than $350 billion dollars between 2000 and 2014, almost the same as the $394.6 billion committed by the United States during the same timeframe. In this period Latin America became the third largest recipient of China's official financing, with $53.389 billion dollars. The region accounts for 15% of China's total official financing, but in terms of projects its share decreases to 7%. These numbers are a product of the mega-projects China finances in a couple of countries in the region. Consequently, Cuba, Brazil, Venezuela, Argentina and Ecuador are among the ten top countries with larger average project size financed by China.

In Argentina, for instance, the average is $773 million dollars, though projects like the $2 billion dollar financing for rehabilitating the Belgrano Train line are above that amount. In other regions, China's total official financing is also primarily geared towards transport and storage, as well as energy generation and supply. Given the backbone these two sectors have for increasing growth and productivity in an economy, China's financing could open new avenues for development. To assess this, AidData introduces a dataset of geo-located Chinese government-financed projects situated in 138 countries between 2000 and 2014 and studies their effect on the spatial distribution of economic activity by measuring the projects' impact on dispersion in nightime light intensity. The data finds that Chinese financing of transportation infrastructure projects, in particular, reduces inequalities within and between regions, while spurring economic activity. This is also the case in Argentina with the Belgrano Train Line, which is encouraging the development of other regional connectivity projects (Stanley 2018).

Even if infrastructure projects can generate economic spillovers, their sheer magnitude can also make them prone to social conflicts, environmental damage, corruption and debt servicing problems. Latin America has not been exempt from these frictions. Venezuela alone is an example of how without transparency and accountability everything that can go wrong with Chinese financing does go wrong. Just as Venezuela faces a debt trap, China without knowing what it was getting into, now faces a creditor trap (Kaplan, Stephen and Penfold 2019). In other cases social tensions have been the challenge, such as in Peru where the Fuerabamba tribe blocked access and jeopardized production in Las Bambas mine, controlled by MMG –subsidiary of China Minimetals Corporation (RPP 2019). Overall Chinese infrastructure investments still need proper enforcement of environmental and social guidelines (Gransow 2015). China is indeed in a learning process constructing infrastructure projects in the region, and, therefore, needs to improve communication, engagement with different actors, due diligence and standards (Dussel Peters, Armony and Cui 2018).

Nevertheless, Latin America itself needs to become more active and embrace its role as a development partner in the cooperation. A fundamental way of doing that is for Latin America to also invest in the cooperation and thus earn a more significant say in defining scope and priorities. Co-financing with Chinese banks, therefore, can be a powerful tool to offset risks and reap more benefits from China's financing in Latin America. To be clear, co-financing here is used with the definition provided by the IMF: "The joint or parallel financing of programs or projects through loans and grants to developing countries provided by commercial banks, export credit agencies, other official institution in association with other agencies or banks, or the World Bank and other multilateral financial institutions". Co-financing is essential and useful for bringing together resources, knowledge and expertise from different partners in order to tackle development challenges. There are two types of co-financing, official and commercial. Official co-financing catalyzes resources from mainly multilateral and bilateral development agencies, and export credit agencies for public sector lending. Commercial co-financing attracts resources from commercial finance institutions for governments and the private sector to obtain debt financing on commercial terms. Table 1 shows the arrangements used in the China-Latin America cooperation.

The new wave of reforms targeting China's financial sector could be a source for broadening and making more sophisticated financial cooperation with the region. Recent developments in the China-Latin America cooperation also back this. The second White Paper the Chinese government issued on its policy towards Latin America and the Caribbean again stresses the importance of financial cooperation and also mentions the role regional financial institutions could have for expanding it under a wider range of instruments (China's Policy Paper on Latin America and the Caribbean 2016).

Table 1. Characteristics of Official and Commercial Co-Financing in the China-Latin American Cooperation

Type	Scope	Benefits	Arrangements
Official co-financing	Mobilizes loans for projects and grants for technical assistance operations in the public sector.	• Coordination and efficiency in processing • Low transaction costs • Harmonized and transparent reporting mechanisms	**a)** **Project-specific**: case by case basis **b)** **Trust funds:** grants committed for a specific number of countries or/and focus area (i.e., energy efficiency)
Commercial co-financing	Helps commercial partners mitigate risks when investing in development.	For borrowers (governments and private sector): • Additional resources for closing financing gaps • Better terms for debt financing • Lowering fixed costs and simplifying negotiations • Access to longer financing terms For co-financing partners: • Streamline processes by sharing due diligence, financial, technical, environmental and social safeguards • Share and mitigate risks • Reducing rescheduling risk in case of external debt crisis in borrowing country	**a)** **Loan syndication:** A/B loans; multilateral institution acts as the lender of record (A loan) and commercial banks take part in the B tranche. B loans enjoy the same privileges and immunities as A loans, which includes exemption from restrictions on currency conversions and on remittances of interests, payments and repatriation of principal, and exemption from withholding taxes.

Source: author's elaboration based on Asian Development Bank (ADB) and CAF.

Co-Financing Between China and Latin America

Co-financing, however, has not been very predominant between Chinese and Latin American financial institutions. The first co-financing deal was a $150 million dollar short-term loan CAF Development Bank of Latin America and China Development Bank (CDB) provided in 2008 to Cemento Argos, a leading company in the cement industry in Colombia. Each institution

contributed $75 million dollars. The second co-financing came when China joined the Inter-American Development Bank (IDB) in 2009. From its unqualified contribution of $350 million dollars for 0.004% of IDB's shares, $75 million dollars were given to the Inter-American Investment Corporation (IIC and the private sector arm of IDB) for the establishment of the China-IIC SME Equity Investment Trust Fund, and in which IIC contributed another $75 million to finance small and medium enterprises through equity and quasi-equity instruments (Mueller and Li 2018). Up to now, all of the co-financing between Chinese and Latin American banks has been through official facilities or on a project-to-project basis.

The largest co-financing facility is the $20 billion dollar China-Brazil Fund, of which $15 billion are funded by the China-LAC Industrial Cooperation Investment Fund (CLAIFUND) and the remaining$5 billion by the Caixa Econômica Federal (Caixa) and the National Economic and Social Development Bank (BNDES). Financing terms are decided on a project-to-project basis and are organized to give both sides a say in reviewing and approving projects (Ministry of Planning, Development and Management of Brazil 2019). In size the second largest co-financing facility is the $2 billion dollars China Co-financing Fund for Latin America and the Caribbean (hereafter the China Fund) established by IDB and the People's Bank of China (PBOC). It is the second phase of the first fund China created for the region in 2012; the $5 billion dollar China-Latin America Cooperation Fund. The first phase corresponds to the $3 billion dollar private equity fund run by an asset management company of China Exim Bank. The one with IDB aims at complementing the bank resources for projects that reduce poverty and inequality, promote private sector investment, improve competitiveness and social welfare, as well as programs designed to mitigate climate change in the region. From the PBOC contribution, $500 million dollars are destined to co-finance public sector loans, while the remaining $1.5 billion dollars are allocated for private sector entities. On behalf of the PBOC the State Administration of Foreign Exchange (SAFE) acts as the implementing agency for the fund and is responsible for

Table 2. Projects Financed with the China Co-financing Fund

Project description	Financing structure	Country/sector
Loan to Difebal S.A. for the construction of the 213km Melo Tacuarembo 150 Kv transmission line in order to improve and upgrade the existing transmission network of the country	**Financing package:** $100 million with a 15 year tenor **A/B loan- USD** A loan: • IDB Invest- $10 million • IDB- $30 million • China Fund- $20 million B loan: • Commercial Bank- $25 million Equity: • $15 million • 85/15 debt-to-equity ratio	Uruguay, Energy
Loan to Banco Financiera Comercial Hondureña S.A (Ficohsa) to increase finance for SMEs, especially women-led.	**Financing package:** $30 million **Subordinated loan USD:** • IDB- $12 million • China Fund- $6 million • OFID- 12 million	Honduras, Financial institutions
Loan to DPWorld Posorja S.A. for the construction, operation and maintenance of the first phase of the Multipurpose Terminal of the Posorja Port, southwest of Guayaquil	**Financing package:** 377 million with a 15 year tenor **Loan in USD:** • IDB Invest- $147 million • China Fund- $50 million • Others- $180 million	Ecuador, Transport
Loan to Eco-business Fund S.A. to increase finance to businesses contributing to biodiversity conservation and the sustainable use of resources	**Financing package:** 60 million with 6 year tenor **Subordinated loan in USD:** • IDB-IDB Invest- $40 million • China Fund- $20 million	Latin America and the Caribbean, Financial Institutions
Loan to Cubico-Alten for the design, construction, commissioning and operation of two solar PV plants in Aguascalientes with a 290MW capacity that connects to the national grid	**Financing package:** $75 million with a 20-year tenor **Loan in USD:** • IDB- $27 million • IDB Invest- $18 million • Canadian Climate Fund- $20.25 million • China Fund- $9.75 million	Mexico, Energy
Loan to Durli Group in Brazil and Paraguay for the construction, operation and maintenance of a new leather manufacturing plant in Brazil, and another one in Paraguay	**Financing package:** 3$8 million for Brazil + $9 million to Paraguay **Brazil loan in USD:** • IDB Invest- $13.8 million • Chinese Fund- $4.2 million • Cordiant Capital, Inc- $20 million **Paraguay loan in USD:** • IDB Invest- $6 million • China Fund- $3 million	Brazil, Manufacturing

Source: author's elaboration based on IDB, and IDB Invest.

approving co-financing projects. Table 2 compiles a sample of projects being co-financed with the China Fund. The variety of projects in different sectors abides by the agreed scope for the establishment of the China Fund. Some of the projects are structured in A/B loans and others through parallel loans. In most of the funds, the China Fund has had a catalytic effect mobilizing greater resources for financing sustainable development in the region. The fund is also used in countries that do not have diplomatic relations with Beijing, like Honduras. In the pipeline there are also proposed operations in Nicaragua and El Salvador. This contrasts with other financing vehicles China has created for the region, which demand official diplomatic recognition.

The last co-financing mechanism China has provided for the region is the $1.2 billion dollar IFC China-Mexico Fund for equity, equity-related and mezzanine investments in Mexican private companies. It was established in 2014 with the support of China Investment Corporation (CIC), and so far it has invested in the wireless telecommunication developer Altan Redes and the oil and gas company Citla Energy. Although it is not administered by a regional bank, the IFC China-Mexico Fund offers the possibility of more "extra-regional" institutions participating in financing arrangements between China and the region, as mentioned in the Second Ministerial Meeting of the China-CELAC Second Forum, held in Chile in January 2018. In terms of other co-financing arrangements, Chinese and Latin American banks have only cooperated in a handful of projects. As identified in *Table 3*, most of the co-financing has been commercial and led by the Industrial and Commercial Bank of China (ICBC) in Argentina, which can be explained by its presence in the country after its takeover of Banco Santander in 2011. The other projects have been in Colombia, but the development of the Ituango hydropower plant has been mired by engineering, environmental and social problems (Parkin 2018).

Considering the magnitude of China's financing in the region, co-financing has been very limited. On one hand, facilities have been difficult to set up. Though China's membership in IDB has facilitated the establishment of their two co-financing facilities, their

Table 3. Co-Financed Projects Between Chinese and Latin American Banks

Project description	Financing structure	Country/ sector	Year
A short-term loan to Cemento Argos to partially finance construction of a new cement production line in Cartagena	Total financing: $150 million **Loans** CAF- $75 million CDB- 7$5 million	Colombia/ Productive	2008
Loan to Pan American Energy for financing part of the company's investment program in exploration and production of oil and gas in the Cuenca Golfo San Jorge	Total financing: $237.5 million **A loan** CAF- 50 million **B loan 187.5 million** • ICBC • Banco Itau • BBA • Natixis • Credit Agricole	Argentina/ Energy	2014
Financing to Greenwind S.A. for the construction, operation and maintenance of the Corti Wind Farm	Total financing: $104 million **A loan** IDB Invest- $31.5 million **B loan $72.5 million** • Banco Santander • ICBC	Argentina/ Energy	2017
Financing to Renova S.A. for expanding the company's plant soybean crushing capacity	Total financing $410 million **A loan** IDB Invest- $75 million IFC- $205 million **B loan $130 million** • Rabobank • FMO • ING • Santander • Natixis • ICBC • ABN • AMRO • Itau	Argentina/ Agriculture	2017
Loan to Empresas Públicas de Medellín S.A. to develop the Ituango hydropower plant with an installed capacity of 2,400 MW	Total financing $1 billion **A loan** • IDB- $300 million • China Fund- $50 million **B loan $650 million** • ICBC • KFW • CDPQ • IPEX • BNP Paribas • Sumitoro Mitsui Banking Group • BBVA • Banco Santander	Colombia/ Energy	2017

Source: author's elaboration based on IDB, IDB Invest, and CAF.

constitution has not been automatic and it has required patience and hard work. Before the China Fund, IDB tried to establish a $1.8 billion dollar equity investment platform for Latin America and the Caribbean with China Exim. Despite IDB approving $153 million dollars for the platform and having in place three asset managers for the funds, the initiative failed (IDB Press release 2012). On the other hand, opportunities have not materialized despite the great interest banks from both sides have in increasing co-financing. If it is not because of a lack of interest or resources, what might it be?

The main barriers frustrating co-financing partnerships are the availability of projects in the region, the different operating practices that Chinese and Latin American banks have, and their different approaches to cooperation. As to the first one, and as discussed, Chinese institutions are often after mega projects. CLAIFUND for example seeks ticket sizes of around $250 million dollars, in which its participation is of at least $50 million dollars (Caballero 2019). In Latin America it is not easy to find projects of such a scale. If there are some, especially in the infrastructure sector, these are not bankable projects and need more feasibility studies Chinese institutions either by mandate or preference (i.e., for commercial banks) finance projects that have a Chinese element; or participation of a Chinese company. Regarding operating practices, there are two sets of difficulties. First, at the project level project assessment is different; for Chinese institutions to seriously consider a project and submit it to their respective committees, the project's financial management needs to turn over complete documentation of its overall feasibility. While in Latin America a green light from a project committee is required for lenders and borrowers alike to complete all the legal and viability documentation. So, whereas in Latin America financial institutions ask if a project might be of initial interest, their Chinese counterparts organize a whole team from various departments to get all the details of the project. Risk management varies as well; Chinese banks want to play it safe and so they feel more comfortable when the financing is tied and when a sovereign guarantee is backing projects. In the

region, however, procurement processes are critical for ensuring a transparent and competitive bidding process. And although they still have some faults, efforts should only be made to strengthen them. Another concern for Chinese financial institutions is FX risks as loans and funds for Latin America are denominated in American dollars. Secondly, at the management level, the scheduling for approvals differs on both sides. As submission of documentation is also different, once a project is approved in Latin America, it has yet to start the whole approving process in China, which can also be slow and tedious, like in the delays that were responsible for CDB losing its share in the financing led by the IDB of the expansion and modernization of El Dorado airport in Colombia. For other initiatives, for example funds, the support of entities such as NDRC, MOFCOM or MOFA could prove decisive. This would require a great extent of coordination and consultation on behalf of Latin American institutions, which are often not aware of the complexity of the Chinese system. And while all is negotiable with Chinese partners, it is imperative to know when to seize the opportunity to subscribe deals. This is especially true considering the frequent changes Chinese institutions undergo. For example, CLAIFUND was at the beginning of 2019 merged with the China-Africa Fund for Industrial Cooperation (Peng, Wang and Gang 2019) or at China Exim departments were restructured and now operate by industry rather than regional areas. Lastly, due to the different cooperation approaches China and Latin America have, their interactions are lacking effectiveness. This can be explained by the short history of engagement that the two sides have compared to the one China enjoys with other regions, like Africa (Brautigam 2017). However, mainly because of the limited understanding Latin America has of the South-South Cooperation (SSC) nature of its relations with China. Although SSC is a prominent concept in all of the documents and policies China issues for the region, Latin America is not fully aware of the non-altruistic drive of Chinese cooperation (Caballero 2019). Instead a "pattern of passivity" seems to permeate its interactions with the Asian country, which might be attributed to the traditional

aid architecture, which weakens the agency of recipients as they try to maximize aid flows (Ross 2012). A fact that becomes visible when the region waits for China to define cooperation initiatives or when it hands proposals to China as if they were addressing Western financial institutions Or like when the former president of Peru, Ollanta Humala, met with PM Li Keqiang in Beijing in April 2013, and he called upon China's intention to establish a cooperation fund for the region, despite the fact that the NDRC had been waiting for Latin American suggestions for its setup since it was announced by Wen Jiabao in CEPAL in 2012. On another front, the lack of strategies in the region for dealing with China affects the quality of engagement. This has many implications, but to name just two: firstly, without clear directives and an arrangement that will put them in place perspective on cooperation with China is lost. Thus, sometimes the desired or actual participation of Chinese banks in projects does not reflect their appetite for co-financing; they can take much bigger portions than what they are assigned. Secondly, without a strategy there is no internal coordination for pooling additional resources to projects that might already have a Chinese company participating in them. These barriers reveal the lack of a shared value system that could help China and Latin America understand each other. As a result, their financial cooperation is constrained, hindering the mobilization of greater resources to the infrastructure sector in the region and the chances of it triggering development. In light of this, AIIB and NDB are strategic partners not only for bringing fresh expertise to financing development, in particular the infrastructure sector, but also to raising the quality of cooperation between Chinese and Latin American financial institutions. Already AIIB and NDB have demonstrated an interest in co-financing in the region. IDB has signed MOUs with both for strengthening cooperation, while NDB is co-financing its first project with CAF in the Pará state in Brazil for developing urban mobility. Also, IDB and CAF along with AIIB and other MDBs, like ADB and the European Investment Bank, have agreed to establish the Multilateral Cooperation Center for Development Finance (MCDG) promoted by

China's Ministry of Finance. The MCDF aims to create a platform for fostering high-quality and sustainable infrastructure and connectivity investments in developing countries through information sharing, capacity building and project preparation. The last function is expected to mobilize resources from the parties involved with the purpose of financing pre-feasibility and feasibility studies, as well as environmental and social assessments in order to enhance a pipeline of bankable projects (Zou 2019). AIIB and NDB participation in the infrastructure financing of the region could also further crowd in private sector resources. A research paper from IDB Invest found that after the presence of a syndicated loan with the participation of a MDB in a given country-sector-year, the number of loans, the amount of syndicated lending, the average number of lending banks per loan, and the average loan maturity increase in the following years. The effects were even more prominent for infrastructure loans and when MDBs directly mobilize others to partner in transactions. Per this analysis, the co-financing of projects with AIIB and NDB in the region could mobilize more resources by sharing risks, while signaling and demonstrating financing opportunities to others. Moreover, there is a strong momentum for cooperation with the new MDBs, as investment needs in Latin America's infrastructure sector will rise to $4.2 trillion dollars between 2017 and 2035, according to projections from McKinsey Global Institute. The cooperation could be crucial for developing infrastructure as an asset class in the region. As in other parts of the emerging and developing world, Latin America has yet to crowd-in private capital to close its huge infrastructure gap. The resources at hand are considerable; as of 2017 institutional investors have $80 trillion dollars in assets under management (Jemima 2017). In Latin America alone, the assets held by institutional investors rise to $1 trillion dollars or about 20% of the regional GDP (OECD 2013). Their participation in the financing of infrastructure projects is only 3% (Serebrisky et al. 2015), even though the investment characteristics of infrastructure projects, like long-term and stable cash flows, less exposure to business cycles, and partial inflation-hedge, are good for their investments.

How then can Latin American development banks team up with AIIB and NDB to create an appropriate environment to increase private investment in infrastructure? The focus would be in two areas: 1) technical capacity and 2) innovative financial instruments. The first one would encompass the strengthening of regulatory capacity, which could be facilitated by exchanges of knowledge and best practices of adequate legal, tax, governance and accounting frameworks that attract investment into the sector. At the same time, it could concentrate on project preparation for the development of a pipeline of bankable projects. In this regard, AIIB and NDB have valuable experience in setting up project preparation funds for reviewing and improving feasibility studies, conducting environmental, legal, financial, social and technical assessments and analysis; among others (Caballero 2019). Second, innovative financial instruments could be explored to further crowd in private resources to infrastructure projects. One way to do so could be by combining concessional finance from donors or other parties with resources from development banks and private/commercial investors. A joint report by the Development Finance Institutions (DFI) Working Group on Blended Concessional Finance for Private Sector Projects found that of the $8.8 billion dollar projects by DFI with blended concessional finance, $3.3 billion dollars were mobilized from the private sector, $1.2 billion dollars from concessional resources and $3.9 billion dollars from DFI. Again, one of the most targeted sectors was infrastructure; and the report also found that in Latin America it was crucial for concessional finance. Hence, there is room to explore for using blended concessional finance in the region and in conjunction with China and the new MDBs.

Another way would be to learn from the practices each is applying towards making infrastructure an asset class and exploring which ones could be integrated and adapted to a regional context. AIIB, for instance, is creating an Asia ESG Enhanced Credit Managed Portfolio of $500 million dollars that comprises corporate bonds issued by infrastructure-related issuers and green bonds, where proceeds are geared towards sustainable infrastructure and

other productive sectors. At the same time, it has appointed an asset manager to launch the Environmental, Social and Governance (ESG) Market Initiative in order to catalyze ESG investing strategies and build capacity, with the purpose of developing the debt capital market in Asia for infrastructure-bonds. The NDB, on its part, has issued two RMB –denominated green bonds, including the first one by a MDB in China, and its proceeds are used to finance green projects in China with local currency. With this the NDB is minimizing the mismatch foreign financing creates between the income in local currency generated by infrastructure projects and the servicing of debt obligations in external currency. In the region, there are also new efforts for developing infrastructure as an asset class. The IDB, for example, using the A/B loan structure has created B-bonds to facilitate finance from institutional investors. In the structure the B-loan portion is sold to a special purpose vehicle (SPV), which issues B-bonds and privately places them in institutional investors (Nicoletti 2018). CAF is also innovating with the A/B loan structure and has created debt funds in Colombia and Uruguay, which can integrate local currency and USD (CAF 2018). The scope of these two lines of cooperation; technical capacity and innovative financial instruments fall into line with the Roadmap to Infrastructure as an Asset Class which the G20 under Argentina's presidency developed in 2018. It could also be supported with AIIB under the umbrella of the MCDF. In that spirit, both lines could complement each other so that the new and regional MDBs could engineer financial instruments that crowd-in private funding in the development of infrastructure as an asset class in the region. The undertaking could also contribute to further channeling Chinese funds oriented towards the region, as well as other institutional investors interested in the development of sustainable and high-quality infrastructure in Latin America. Improving the investment environment for infrastructure in the region could also increase co-financing opportunities for development finance institutions from both sides.

Conclusions and Policy Suggestions

Latin America is becoming an important destination for Chinese financing, although it continues to be focused on a few countries. Similar to China's financing in other parts of the world, the country has favored the infrastructure sector of the region through mega-projects. As has been examined, Chinese financing could generate significant spillovers for reducing spatial inequalities and boosting economic activity. Given the magnitude and complexities of infrastructure projects, Chinese financing in the sector is also prone to environmental damage, conflicts with local communities and corruption. These pros and cons are not alien to Latin America. Considering the huge infrastructure needs in the region, Latin America should continue to encourage and facilitate China's financing in the sector. By no means does this translate into a hands-off approach. Quite the contrary, it implies an active participation from regional actors in defining the scope and priorities of China's presence in its infrastructure sector. Instead of waiting for aid, it requires the region to invest in the cooperation.

Therefore, through co-financing Latin America could reap more benefits and offset risks from Chinese infrastructure financing. Up until now, however, official and commercial co-financing between Chinese and Latin American banks has been limited to three co-financing facilities and only a handful of projects. China's membership in the IDB has enabled the setup of two co-financing facilities. But it has certainly not been the driving factor. On the other hand, Brazil has committed resources for the China-Brazil Fund, which increases its screening of funded projects. On a project-to-project basis, most of the co-financing has been arranged through A/B loans with the participation of ICBC, mainly in Argentina.

Nevertheless, the limited availability of projects in the region, the different operating practices Chinese and Latin American banks have, and their different approaches to cooperation, are constraining co-financing opportunities. Beyond that they underlie two main complications Latin America has in its development

cooperation with China. First, the region still does not have ownership of this cooperation, therefore, it does not invest enough in it. So instead of engaging with Chinese counterparts on an equal footing, there is the expectation that Chinese financing will flow with the same instructions and defined objectives as it does from Western donors, all while China awaits the region's proposals for making cooperation more effective. Although it is true that China and the region do not share a value system for understanding each other, the ones that should be defining and maneuvering for the region's development priorities should be the region's actors themselves.

The second complication arises from the fact that infrastructure is still not developed as an asset class in the region. This means that the challenges the region is facing for crowding-in private resources are also similar to the ones for attracting more sustainable and high-quality infrastructure financing from China. For example, FX risks and the limited pipeline of bankable projects are both constraining factors. Hence, in the endeavor for developing infrastructure as an asset class in the region, Latin American development banks could team up with the new MDBs, the AIIB and NDB.

Just as in Latin America, AIIB and NDB are operating in the emerging world where private sector financing is needed to cover infrastructure needs. In Latin America alone, institutional investors hold assets that are the equivalent of 20% of the region's GDP, yet they are only financing around 3% of its infrastructure projects. As studies suggest the participation of MDBs could mobilize more private resources to infrastructure projects either through blended concessional financing or by sharing risks and indicating financing opportunities to others. The new presence of AIIB and NDB in the development landscape of the region could be put to play for creating a more favorable financing environment for the sector. It would be wise, therefore, to invite AIIB and NDB to participate, as observers, in the cooperation platforms China and Latin America have established, so that they can also better understand the dynamics of the relationship.

With this orientation, two streams of cooperation could be opened with the new MDBs which fall in line with the G20 Roadmap to Infrastructure as an Asset Class. Along with AIIB, they could be run under the MCDF, of which IDB and CAF are members. First, cooperation could embrace technical capacity in order to facilitate exchanges of knowledge and best practices on the regulatory realm. The experience AIIB and NDB have had in establishing project preparation funds could also be a reference for the creation of a similar mechanism between China and Latin America. Second, regional financial institutions and the new MDBs could draw lessons from their respective approaches for facilitating private sector financing in infrastructure. For example, an SPV using A/B loan structures could attract Chinese funding and through transactions open new opportunities for co-financing with AIIB and NDB. Having a regional MDB co-financing the A tranche, Chinese investors as B participants would benefit from MDB's immunities and privileges, therein mitigating risks. The SVP could also embrace a strong ESG component for ensuring high-quality and sustainable financing from China. At the same time, co-financing mechanisms could be explored among the MDBs for financing high-quality infrastructure and connectivity projects.

In this way, there could be more co-financing opportunities that target the infrastructure sector of the region, while enabling an environment for matching the appetite institutional investors have for the investment characteristics of infrastructure projects. So, why is co-financing much more than just pooling resources in the China-Latin American cooperation? Because it is about tackling the internal challenges the region has not only for fully developing its infrastructure, but also for owning its development cooperation with China.

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MANAGING RISK IN CHINESE OVERSEAS DEVELOPMENT

LESSONS FROM THE ANDEAN AMAZON

Rebecca Ray, Kevin P. Gallagher and Cynthia A. Sanborn

As Chinese banks become increasingly active in South America, it is prudent to take stock of the lessons and experiences of development finance institutions (DFIs) that have a history of working in the region. The Amazon basin in particular is rich in cultural and ecological heritage, and a source of significant local, national, regional and global economic benefits. Key to maximizing those benefits is both an understanding of the significant risks associated with development finance in the region and how to prevent and mitigate these risks. China has become a valuable and sought-after partner for development finance in Latin America; therefore, past lessons can help ensure that Chinese development finance is, in the long term, beneficial for China and host countries alike.

For the last several years, we have convened a team of scholars to examine the environmental and social standards as well as performance of Chinese policy banks' finance infrastructure in Amazon-basin countries. These standards have then been compared with those of their western peers. This team includes colleagues from Boston University's Global Development Policy Center, the Universidad del Pacífico in Lima, Peru; the Facultad Latinoamericana de Ciencias Sociales in Quito, Ecuador; and the Instituto de Estudios Avanzados en Desarrollo in La Paz,

Bolivia.[1] Together, this interdisciplinary team has conducted high-level regional analyses and case studies across four countries in order to determine the scope and variety of safeguards including their practical application. This chapter gives an overview of the findings of this multi-year project.

The history of DFIs in Amazon basin countries is one rife with challenges. Over time however, DFIs operating in the region, including those of China, have learned to navigate some of these challenges in order to maximize mutual benefits and to prevent and mitigate risks. While no single DFI has proven to be a complete success, the assembled evidence demonstrates that a strategy of deference to host country standards neither serves the interests of DFIs nor those of host countries and communities. Rather, the most successful projects tend to occur when DFIs, host country governments, and other actors establish *mutually-reinforcing networks* of support and accountability.

China and Development Finance in Latin America and the Caribbean

Chinese policy bank loans have grown to become a major source of development finance in Latin America and the Caribbean (LAC). Since 2009, Chinese policy banks have provided between one-fifth and one-half of all sovereign loans to LAC governments from DFIs. In one year alone –2010– they accounted for more than half of all development finance inflows to the region. While the World Bank and Inter-American Development Bank significantly increased their lending during the recent global financial crisis of 2009, and the Banco de Desarrollo de América Latina has kept to a fairly even path of growth, Chinese DFI lending can be volatile, with high values appearing when particularly advantageous lending opportunities arise.

1 A range of works, including Andersen et al. (2018), Dammert (2018), Klinger (2018), and Vallejo et al. (2018) will be referenced throughout this paper.

Table 1. Sovereign Approvals from Major DFIs in LAC, 2008-2017 (billions of USD)

	Chinese Policy Banks			Western MDBs				China/ Total
	CDB	CHEXIM	Subtotal	World Bank	IDB	CAF	Subtotal	
2008	0.4	0.0	0.4	10.2	9.1	3.3	22.7	2.4%
2009	12.1	0.7	12.7	13.7	14.6	5.6	33.9	26.9%
2010	32.9	2.7	35.6	13.4	11.4	5.8	30.6	53.2%
2011	7.8	0.1	7.9	4.8	9.4	4.5	18.7	28.7%
2012	6.7	0.3	7.0	7.5	9.9	4.6	22.0	23.3%
2013	10.2	3.9	14.0	4.6	11.8	5.5	21.9	37.5%
2014	7.6	5.4	13.0	5.2	10.7	5.1	21.0	36.3%
2015	9.2	12.2	21.4	6.0	9.2	5.6	20.8	49.3%
2016	9.2	1.0	10.2	6.1	9.3	6.5	21.9	30.3%
2017	5.2	1.0	6.2	5.1	12.4	6.4	23.9	20.0%
2018	5.9	1.8	7.7	4.0	14.3	7.4	25.6	23.0%

Note: World Bank includes sovereign loans from the International Bank for Reconstruction and Development and International Development Association.
Source: author´s elaboration based on Gallagher and Myers (2019) and Multilateral Development Banks annual reports.

The sector profile of Chinese development finance in LAC is not identical to that of traditional western MDBs, as Table 2 shows. Following the methodology developed by Yuan and Gallagher (2018), Table 2 shows the sector distribution of each major DFI's approvals in LAC from 2011 to 2015. It defines "infrastructure" as construction projects designed to facilitate transportation, energy, water or wastewater, and communications. It defines "sustainable" according to the definition developed by the International Development Finance Club (IDFC 2018), an umbrella organization of which all of the DFIs in Table 2 are members. Hydroelectric dams, however, are a special case: IDFC (2018) defines them as sustainable only when they can demonstrate a net reduction in carbon emissions. To operationalize this overarching definition, Table 2 uses guidelines from the Kyoto Protocol's Clean Development Mechanism (CDM 2018), which declares dams to be potentially carbon-reducing if their power density ratios (MW of capacity per km^2 of reservoir surface area) are equal to or greater than four.

As Table 2 shows, in comparison to the World Bank or IDB, Chinese DFIs have dedicated a greater share of their credit to industry and a smaller share to direct support of social programs. In this regard, they resemble CAF. This finding is reflected in Humphrey and Michaelowa (2013), who argue that the environmental and social safeguarding processes used by the World Bank and IDB for higher-risk projects can influence the types of loans these banks attract, prompting a shift in their portfolios toward social programs. CAF and China's DFIs adopt deferential approaches to environmental and social risk management (ESRM) and as a result are vulnerable to attracting more riskier projects, a possibility discussed in more detail below.

Table 2. DFI Finance in LAC by Sector and Sustainability Classification, 2011-2015

	CDB ($41.5b)	CHEXIM ($22.3b)	IBRD ($25.6b)	IDB ($56.8)	CAF ($52.7b)
Sustainable infrastructure	*14.8%*	*6.6%*	*12.7%*	*14.4%*	*10.8%*
Energy	9.8%	5.4%	0.7%	4.7%	2.3%
Transportation	5.0%	1.2%	4.3%	2.5%	3.1%
Water	0.0%	0.0%	7.7%	7.2%	5.3%
Conventional infrastructure	*4.8%*	*18.1%*	*9.6%*	*15.5%*	*14.3%*
Energy	3.7%	4.5%	2.8%	2.6%	4.3%
Transportation	1.1%	13.6%	6.8%	11.5%	9.4%
Other	0.0%	0.0%	0.0%	1.3%	0.6%
Non-infrastructure	*80.4%*	*75.3%*	*77.7%*	*70.1%*	*74.9%*
Industry	37.4%	27.3%	4.3%	21.6%	58.2%
Social	0.0%	5.2%	23.5%	17.8%	1.0%
State	42.9%	42.8%	49.8%	26.7%	14.6%
Other	0.0%	0.0%	0.1%	4.0%	1.2%

Note: Sustainable infrastructure is defined according to IDFC (2018); hydroelectric dams, which are not described in detail by IDFC (2018), are defined as sustainable if their power density ratios (MW of capacity per km^2 of reservoir surface area) are equal to or greater than four, in conjunction with CDM (2018).
Sources: author´s elaboration based on Gallagher and Myers (2019), Ray and Kamal (2019).

Interestingly, CDB and CHEXIM do not have similar profiles regarding their sustainable infrastructure. These two DFIs demonstrate the greatest, and the least, emphasis on sustainable infrastructure, respectively. CDB's sustainable infrastructure lending has been mostly focused on hydroelectric plants, which the UN Framework Convention on Climate Change considers to be "sustainable" as long as their reservoirs flood a relatively small area of land (or none at all, in the case of run-of-the-river plants) in relation to their power generation capacity. By contrast, CHEXIM has been particularly active in financing roads, ports, and airports, especially in Caribbean nations. The remainder of this chapter will focus on sustainability considerations of infrastructure finance, and how Chinese DFIs fit into this sector in Amazon basin countries.

Sustainability of Infrastructure Finance in the Amazon Basin

Infrastructure expansion, such as paving roads through wilderness areas, often generates severe impacts on ecosystems and species, ranging from deforestation to illegal mining (Laurance et al. 2015). Energy projects can have similar impacts. Huge changes caused by the construction of large dams can lead to the loss of aquatic biodiversity, coastal erosion, and other problems. These environmental impacts are exacerbated when local regulations are relatively weak. For example, in the Brazilian Amazon, every kilometer of legal road in wilderness areas is often accompanied by three kilometers of *illegal* roads (Barber et al. 2014). Even improvements of local roads and highways may exacerbate the negative impacts as better road conditions facilitate heavier and faster traffic, especially during the rainy season, which increases threats to local communities and ecosystems (Benítez-López, Alkemade, and Verweii 2010; Laurance, Goosem and Laurance 2009).

Hydroelectric power plants, though they may at first glance appear to be a source of clean energy, can also accelerate climate change. Comprehensive reviews of estimates find that topical hydroelectric plants can emit 2 or 3 times more emissions than gas,

oil, or coal plants (Barros et al. 2011). This is due partly to the significant methane emissions associated with anaerobic biodegradation as a result of turning forest land into reservoirs, and partly due to further deforestation as a result of the construction of new roads and infrastructure associated with these dams (Fearnside 2012, 2015).

Beyond its role in mitigating climate change, the Amazon rainforest plays a crucial role as the home and the source of livelihood for forest-dwelling people. As Seymour and Busch (2016) state, tropical forests serve a dual purpose of mitigating climate change and supporting human development. Recent estimates suggest that approximately 1 million indigenous people currently live in the Amazon basin (GITPA 2005; Heck, Loebens, and Carvalho 2005; INE 2011; INEI 2016; Kambel 2007; Renshaw 2007; Reyes and Herbas 2005; SIAT-AC, n.d.). Tens of thousands of additional indigenous and other traditional community members depend on forests for hunting, fishing, and gathering. Tree cover loss within the Amazon basin has often been associated with displacement of these communities. For example, Brazil's Polo Noroeste highway project, financed in part by the IBRD in the early 1980s, resulted indirectly in the arrival of approximately a half-million new settlers into the Amazon rainforest, which in turn led to the displacement of existing communities. The resulting social conflict garnered international attention and inspired both the IBRD and IDB to adopt new safeguards, ushering in the modern era of environmental and social risk management (ESRM) in DFIs (Blanton 2007; Eckholm 1984; Rich 1994).

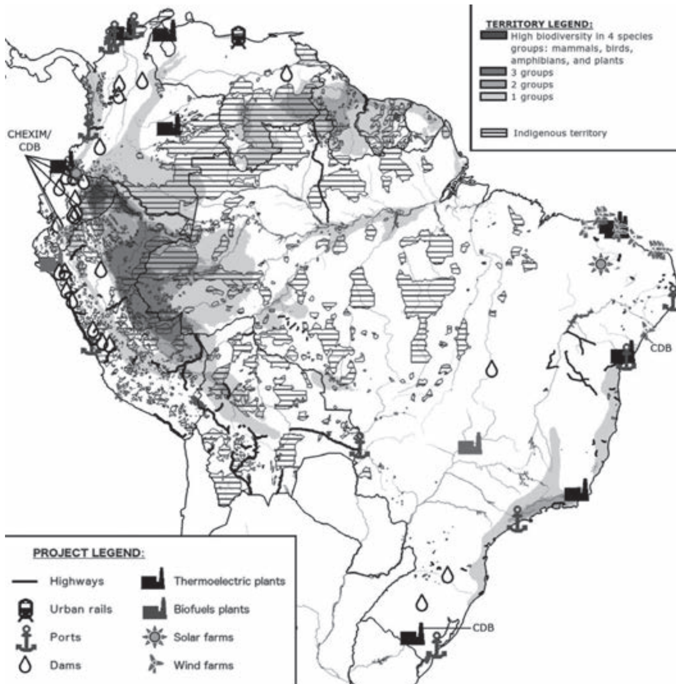
The social role of forests is especially important in the western Amazon. This area, located on both sides of the border of Brazil with Peru and Bolivia, is known as the "uncontacted frontier," and is home to the world's highest concentration of uncontacted and voluntarily isolated indigenous communities (Survival International, n.d.). While social conflict may arise whenever any new section of the Amazon is opened to development, in the case of the uncontacted frontier the risks are even higher, as uncontacted tribes by definition have not been exposed to many diseases

common in other areas (Shephard et al. 2010; Kimmerling 2008). Tropical forests –particularly those found in the western Amazon– are both socially and environmentally indispensable. For this reason, it is important to examine whether the ESRM strategies employed by international DFIs and national governments are effective in ensuring sustainable, and broadly-shared development.

The Infrastructure Boom in Amazon Basin Countries

Over the last decade, and particularly since the end of the recent global commodity boom, Amazon basin countries have welcomed

Figure 1. International DFI-Financed Infrastructure Projects in Amazon Basin Countries, 2000-2015



Source: Ray (2018).

Note: "International DFIs" excludes DFIs operating within their home countries.

an infrastructure boom. Figure 1 shows the international DFI-financed infrastructure projects in these countries from 2000 to 2015. This boom is characterized by a growing presence of Chinese finance, and a mixed record of environmental and social safeguards in managing project risk.

Chinese policy banks –the China Development Bank and the Export-Import Bank of China– are relative newcomers to the world of DFIs and hold ESRM strategies that are largely deferential to host country standards. Table 3 shows the adoption of common safeguards among DFIs that operate internationally in Amazon basin countries. The CDB and CHEXIM use a similar array of safeguards to Brazil's Development Bank, although they have a much larger portfolio of projects and therefore have a more significant impact on the region's borrowing decisions.

Table 3. Selected Safeguards for Infrastructure Projects

	MDBs					NDBs Operating Abroad		
	IBRD	IFC	IDB	IIC	CAF	CDB	CHEXIM	BNDES
Environmental impact assessments (EIAS)	X	X	X	X	X	X	X	X
Compliance with host-country env. standards	X	X	X	X	X	X	X	X
Consultation with affected indigenous communities	X	X	X	X			X	
Consent of affected communities		X	X					
Formal grievance mechanisms	X	X	X	X				

Notes: The IDB requires consent of affected communities only in cases of involuntary resettlement. CHEXIM's prior consultation requirements were enacted in 2016, too late to be incorporated into the case studies here.
Sources: author´s elaboration adapted from Gallagher and Yuan (2017); CAF (2016), and CHEXIM (2016).

This deferential approach can falter when host countries do not enforce their own regulations and thus leave Chinese DFIs overly exposed to social, environmental, and reputational risks. Furthermore, deferential ESRM approaches may attract risker projects, which are unable to withstand more stringent due diligence processes used by other DFIs. In fact, host country governments may seek out financing from newcomer DFIs like China's for especially risky projects, or after those projects have failed to secure financing from MDBs. For example, Ecuador's Coca-Codo Sinclair dam and Bolivia's (now-suspended) Rositas dam followed this pattern. If this scenario becomes a common path for Chinese

Table 4. Environmental Impacts from Case Studies and DFI-Cancelled Projects

Country	Project	Environmental Damage
Bolivia	Rurrenabaque -San Buenaventura bridge (IDB)	IDB participation cancelled after a formal grievance was filed alleging an inadequate EIA.
	Montero-Yapacaní highway (IDB)	Uncontrolled deforestation, despite specific IDB requirements for a flora census and relocation of affected fauna.
	TIPNIS highway (BNDES)	BNDES participation cancelled amidst protests regarding its impact on nature preserves.
Ecuador	Coca-Codo Sinclair dam (CHEXIM)	Sedimentation, reduced water flow, and reduced fish stocks downstream, including at the San Rafael waterfall; non-compliance with environmental audit requirements to monitor these impacts.
	Baba multipurpose dam (IDB)[1]	Elevated heavy metal reservoir contamination from nearby plantation runoff and affected fish stocks, both to an unknown extent as studies ceased despite a continued mandate for them.
Peru	CVIS highway (CAF)	Widespread deforestation from informal mining settlements enabled by the road.
	Inambari dam (BNDES)[2]	Project cancelled amidst protests regarding expected heavy deforestation and community displacement.

Notes: [1] The Baba dam project was initially financed by the IDB, which later cancelled its participation.

[2] The Inambari Dam was initially announced as a BNDES-supported project, but as the project itself was cancelled, BNDES participation was never formalized.

infrastructure finance, it may leave Chinese policy banks vulnerable to attracting riskier projects. By contrast, CHEXIM added a prior consultation requirement in 2016, signaling that perhaps Chinese DFIs are learning the importance of this type of due diligence. Overall, this infrastructure surge has been associated with significant social and environmental risk; however, that risk is hardly uniform across all Amazon basin countries. Since the year 2000, the introduction of environmental and social safeguards have been associated with important improvements to the environmental profile of infrastructure projects in the region. For example, Ray (2018) finds that the presence of safeguards guaranteeing prior consultation with affected indigenous communities are associated with significantly less project-related deforestation, regardless of whether they are enacted by the DFI financing the project or the host government. The best outcomes –with the least project-related deforestation– were observed where *both* the DFI and national government had these safeguards in place. Thus, DFIs and national governments have a joint responsibility to manage infrastructure projects and serve as an insurance against each other's failings.

The infrastructure surge has also been marked by social conflict. Every case study covered by this project suffered from setbacks due to conflicts over community displacement, water contamination, and /or labor conditions that did not meet national legal standards or ESRM frameworks. Table 5 outlines the triggers of this conflict in each case. Chinese policy banks are not alone in financing projects that later develop environmental and social problems. However, as mentioned above, their relatively deferential ESRM framework may leave them particularly vulnerable.

Ecuador's Coca-Codo Sinclair (CCS) dam offers a sobering example of a Chinese DFI-financed project in which oversight fell to the state, and in which the sharing of information among CHEXIM, contractors, and local government might have prevented significant social conflict. CHEXIM, which practices a deferential approach to Enterprise Security Risk Management, financed the project in 2010, but by 2011, workers had already filed 26

TABLE 5. Triggers of Social Conflict Among Case Study Projects

Country	Project	Social conflict trigger
Bolivia	La Paz-Oruro highway (CAF)	Low quality and lack of safety of final road.
	Montero-Yapacaní highway (IDB)	Unpaid workers and subcontractors from contractor leading to abandonment of project.
	San Buenaventura-Ixiamas highway (IBRD)	Unpaid subcontractors from contractor leading to abandonment of project.
Ecuador	Coca-Codo Sinclair dam (CHEXIM)	Fewer local jobs than expected Unsafe working conditions
	Baba multipurpose dam (IDB)1	Community displacement Inadequate replacement of old livelihoods Less water available for well-dependent households
Peru	CVIS highway (CAF)	Community displacement and water contamination from new informal mining settlements.
	Inambari dam (BNDES)2	Community displacement

Note: [1] The Baba dam project was initially financed by the IDB, which later cancelled its participation.

[2] The Inambari Dam was initially announced as a BNDES-supported project, but as the project itself was cancelled, BNDES participation was never formalized.

official labor complaints with the Ecuadorian government. One major theme of these complaints was the inadequate attention paid to workers' safety, which ultimately contributed to the deaths of 13 workers when a platform collapsed. Another problem, related to the quality of water provided for worker hydration and showers at the camp, was blamed by health personnel for subsequent outbreaks of typhoid fever and bacterial infections among staff. These formal complaints and reports of health problems, led to multiple strikes, and eventually the national Labor Minister Francisco Vacas had to visit the worksite in order to try and resolve the issues at hand. Fieldwork interviews with workers show that after Minister Vacas' visit, conditions improved dramatically. Water quality ceased to be a concern, and workers even mentioned their appreciation for perks including free internet and a volleyball court. Clearly, in this case intervention by national government helped address serious workplace concerns. However, CHEXIM might have been able to avoid these problems altogether if they

had managed to establish their own standards and worked with the national government to ensure that these standards were met.

Notably, while DFIs with active and deferential ESRM frameworks all appear in Tables 4 and 5, the types of obstacles they faced were quite different. When DFIs defer to their national counterparts, host governments and contractors can face pressure to cut corners in order to save money, time, or even to save face. For instance, the case of the CAF-financed Southern Interoceanic Highway (CVIS for its initials in Spanish) in Peru is an example of *saving time*, as a Supreme Decree exempted the project from some of the usual feasibility study requirements applicable to transportation projects. The Bolivian highway connecting La Paz and Oruro (also financed by CAF) suffered from efforts to *save money*, since an inability to adapt to rising asphalt prices led to shortcuts on road safety and quality. Finally, the particularly ambitious "showcase" projects such as Ecuador's China-financed Coca-Codo Sinclair dam created a strong desire to *save face*, by falling short of transparency requirements such as the mandate to publish relevant environmental audits for enabling stakeholders to monitor the project's progress and impacts.

Meanwhile, DFIs with more active ESRM approaches tend to face problems related to the implementation of standards. For example, in two IDB cases, despite the bank pulling its support after it emerged that project plans did not meet bank standards, the project continued with the help of national government funds. These cases show that just as DFIs with deferential standards (such as China's policy banks) allow elevated social and environmental risk in their project portfolios, even DFIs with ambitious standards cannot guarantee the outcome of their lending without also establishing a mutually-reinforcing network between DFIs and government ministries.

Obstacles in the Project Cycle

This project uncovers three key areas in which international DFIs and national governments commonly fell short of implementing their stated safeguards and risk management strategies:

- Inadequate stakeholder engagement;
- Environmental impact assessments (EIAs) that come late in the process and do not incorporate all aspects of projects or all types of risks; *and*
- Project governance that is lacking in transparency and accountability.

Nonetheless, we also find evidence that positive efforts in these three areas –though not perfectly implemented in any of the case studies examined here– can mitigate social and environmental costs. For example, Peru's CVIS highway project included concessional financing from CAF to help the national government establish oversight bodies for land titling, a crucial step in limiting land trafficking and community displacement as new areas became accessible.

Stakeholder Engagement

By 2015, all of the national governments studied here –and about half of the DFIs– had publicly committed themselves to the principle of prior consultation with affected indigenous communities. However, infrastructure for the purpose of stakeholder consultation extends beyond the confines of prior consultation between central governments and indigenous communities: active engagement of local communities –indigenous or otherwise– can be crucial to avoiding conflict in the future. Furthermore, the existence of stakeholder engagement requirements does not guarantee that the process is conducted in such a way as to discover unforeseen risks or ensure that affected communities' concerns

are adequately incorporated into project design. As the IDB itself notes in a recent publication, *effective* engagement requires not only information sharing but also the opportunity for stakeholders to impact project design and implementation (Kvam 2017). For this reason, we find that when both a project's DFI and its national government have stakeholder engagement requirements, these two bodies can serve as a *mutually reinforcing network* of support, a guarantee against either entity's inability to ensure an adequately open working process.

CVIS serves as a stark example of the risk of inadequate stakeholder engagement when only one party requires it. CVIS segments 2 through 4 were approved in 2005, with financing from CAF, which defers to national ESRM regulations but also offers concessional financing to help reach those standards. CVIS was backed by a broad national coalition, including local elites, lumber interests, and financiers. A smaller "conservation coalition" of actors concerned with indigenous, environmental, and small-scale agrarian interests did not succeed in stopping or significantly altering project plans, although these issues were subsequently incorporated into complementary projects to build state capacity.[2] While these efforts may have prevented worse outcomes, in a scenario reminiscent of Brazil's experience with the Polonoroeste project of the 1980s (referenced above), the resulting highway led to significant deforestation due to land speculation and related illegal logging and mining. In this major Amazonian highway project, environmental and social concerns were marginalized during project planning, and as a result, the measures taken to address these issues were effective only at the margins of other, more significant, outcomes.

2 For an analysis of the framework of "growth coalitions" and conservation-oriented countercoalitions, see Rudel and Horowitz (1993) and Rudel (2005).

Comprehensive EIAs

As Table 3 shows, every major international DFI active in the Andean Amazon requires EIAs before projects can be approved. Nonetheless, most of the projects studied in our case studies experienced significant environmental degradation, including deforestation, water contamination, and affected nature preserves, as detailed in Table 4.

One reason why infrastructure projects continue to have adverse environmental impacts despite EIA requirements is that EIAs are not necessarily required to be *comprehensive*; in other words, they may not be required to take into account the direct and indirect risks of entire projects. EIAs can also be quite limited in scope, with different project segments receiving scrutiny separately. This partial approach to EIAs can result in environmental risks being missed.

Comprehensive EIAs can alert planners to the ways in which risks in one part of a project may affect other parts of the project. In Ecuador, for example, the IDB planned to finance the construction of the Coca-Codo Sinclair dam but pulled out following the eruption of the Reventador volcano. After the IDB withdrew, CHEXIM took on both parts of the project through separate loans with separate EIAs. Instead of a mutually-reinforcing network, the relationship between the national government and lender formed a mutually-enabling network. CHEXIM enabled Ecuador's pursuit of the project without having to take into consideration all of its environmental risks, while Ecuador enabled CHEXIM to take on unnecessary reputational and relationship risks in its work in the region. In cases such, despite all the relevant parts of the project receiving finance from the same source, interacting risks between different parts of a project were disregarded.

Finally, DFIs and national governments can form mutually-reinforcing networks by working to increase coherence throughout the project cycle. In every infrastructure case study examined in this research project, transparency and accountability mechanisms either faltered or were absent, leading to the social conflicts listed above in Table 5. Many of the cautionary examples cited here also show government actors torn between conflicting incentives of expediting projects versus managing their risks. Those incentives are better aligned in projects that operate sufficient transparency so that all stakeholders can reach the same expectations, are aware of the project´s commitments, and therefore feel a sense of accountability towards those commitments.

The Ecuadorian Coca-Codo Sinclair dam, discussed earlier for its inadequate environmental impact assessment, furthermore, shows the danger of insufficiently transparent commitments. Although in the course of the project no formal free, prior and informed consent (FPIC) process occurred –as the nearby communities are not indigenous– project representatives did carry out a "socialization" process of sharing plans with local stakeholders. Subsequent interviews with residents in the surrounding communities show that the socialization process gave a near-universal impression of promises of local employment as well as opportunities for local small businesses to supply food, lodging, and other services to the dam construction workforce. However, as no precise commitments were made regarding these expectations, significant social conflict later erupted when it was revealed that "local" employment was defined in such a way as to include Ecuadorian workers from other parts of the country, rather than expanding employment opportunities for workers from the immediate vicinity or even the greater Amazonian region of Ecuador. Furthermore, many community members who were relying on expectations created by the "socialization" process, and who had borrowed heavily to establish or expand catering or restaurant businesses, or to expand their houses to rent out rooms, were

later excluded from opportunities to sell these services to construction workers.

Once clear commitments and expectations have been established, the enforcement of these is crucial and requires the participation of all parties. In case studies associated with this research project, where performance commitments were clearly stated at the outset of projects, gaps in accountability measures meant that these commitments were ultimately not met. As Fox (2007) and Daniel et al. (2016) point out, DFI accountability measures often lack specific sanctions for unfulfilled commitments or require communities and other stakeholders to navigate complex layers of bureaucracy embedded in formal grievance mechanisms, leaving them with few options in cases of conflict.

On this point, the Coca-Codo Sinclair dam again serves as a cautionary example. From 2009 to 2011, the project's environmental monitoring occurred through a specially-organized municipal oversight committee. But midway through construction, that monitoring was folded into the contractor's responsibilities, and public access to related environmental reports diminished significantly. Accountability to stakeholders was therefore effectively supplanted by a self-regulation system.

Discussion and Recommendations

Chinese DFIs have been a crucial source of much-needed infrastructure finance in Latin America. As they continue to expand their presence in the region, it is wise to take stock of the examples described here in order to both maximize the benefits of such a relationship while also limiting the risks. This research has identified a series of key measures that can help prevent and mitigate risk in the Andean Amazon:

- The incorporation *of stakeholder engagement* early on in the project development process can help protect against environmental degradation. For example, those projects that

took place within regulatory frameworks that guaranteed the right to prior consultation for affected indigenous communities were associated with significantly less deforestation than those projects that did not. However, projects that neglected to heed communities' needs were associated with greater environmental damage, serious social conflict, and the loss of millions of dollars of potential business for DFIs due to relationship and reputation damage.

- Pursuing comprehensive environmental impact assessments (EIAs) can alert international DFIs and national governments to a variety of risks; especially when they are built into the early parts of the project development process. Environmental damage can be serious even when it is indirect, for example, through new migration into sensitive territories. When DFIs and governments limit the scope of EIAs, they may expedite project planning in the short term, but also leave themselves vulnerable to unforeseen environmental, social, and political risk. For example, Peru's Southern Interoceanic Highway (CVIS), which was financed in segments with separate DFIs and separate EIAs for each segment, led to the overall impact of the project not being taken into account.
- Policies and processes related to ESRM should emphasize transparency and accountability, with built-in measuring and monitoring instruments. Where project plans or follow-up reports are inaccessible, stakeholder participation becomes impossible. Neither is it realistic to expect commitments to be fulfilled if stakeholders cannot monitor progress. In cases where contractor obligations are not clearly established, and where a lack of transparency prevents civil society from monitoring outcomes, performance can fall short of commitments, leaving communities with unmet needs in terms of employment, safety, and even access to the infrastructure itself.
- These methods are far too onerous for any one party to take on alone. Our work suggests that mutually-reinforcing networks of project planning and oversight between

international DFIs, national governments, and civil society are needed.

- DFIs face social and environmental risks that can be mitigated by early identification, consideration, monitoring, and engagement. While some DFIs have built-in ESRMs, others rely on host country standards and would benefit from an early understanding and incorporation of those standards.
- Governments have social and environmental standards that reflect the priorities of their citizenry but often need institutional capacity assistance to successfully implement these standards, as well as accountability mechanisms to ensure that these standards are met. Civil society organizations may have specialized knowledge and their input may improve project outcomes, however, there is a need for greater transparency from governments and DFIs in order to enable them to participate in the project process. Communities have intimate knowledge of local terrain as well as cultural or workplace expectations, and academic scholars can contribute with cross-cutting research. However, in order for this knowledge to be shared both of these groups need to be incorporated into the project planning process.

The challenge of uniting the strengths of the aforementioned actors and addressing their limitations may require the involvement of regional platforms such as COSIPLAN (the South American Infrastructure and Planning Council) or ACTO (the Amazon Cooperation Treaty Organization), or barring such initiatives, leadership from international DFIs, whose experience allows for information sharing across networks of related projects. This type of preemptive due diligence need not run counter to China's Five Principles of Peaceful Coexistence. In fact, proper risk assessment prior to and during major infrastructure project rollouts will help *ensure* peaceful coexistence, through incorporating greater understanding and stronger cooperation into the project process. Through case studies and analysis, our work shows that only by working together early in the project planning processes, can these

actors successfully navigate the many risks intrinsic to infrastructure building in the Andean Amazon and beyond.

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EXAMINING THE LENDING PRACTICES OF CHINESE POLICY BANKS IN THE CARIBBEAN (2000-2018)

Jevon Minto

Introduction

This paper estimates that between 2000 and 2018, Chinese policy banks made loan commitments of 8.9 billion dollars to governments and state-run companies in nine countries in the Caribbean Community (CARICOM). These countries: Jamaica, Antigua and Barbuda, Barbados, Guyana, Trinidad and Tobago, Dominica, Suriname, The Bahamas and Grenada are the only members of CARICOM, (made up of twenty countries[1]), with diplomatic ties to the People's Republic of China (PRC). Of the forty-five projects analyzed, the China Export and Import Bank (CHEXIM) financed 94% of these projects; 4% of the projects were financed by the China Development Bank (CDB) and the remaining 2% by the Industrial and Commercial Bank of China (ICBI). Chinese state-to-state funding in the region was the lowest on record in 2018, with approximately 241.6 million dollars in loans from the China Development Bank and China Eximbank to CARICOM governments and state-owned enterprises. Seven of these projects, estimated at 4.2 billion dollars, have either become white elephant

1 This takes into consideration the 15 full members of the Community and its five associate member states.

projects, canceled due to environmental concerns or have been put on hold due to legal and/or sustainability concerns. This raises several issues relating to the feasibility studies that inform the decisions of these banks. As is the case throughout Latin America, Chinese finance to CARICOM focuses overwhelmingly on infrastructure development, with the sector accounting for 53% of all projects between 2000 and 2018 valued at 3.5 billion dollars. This is followed by mining and energy projects (13%), tourism (8%), port projects (6%), and several other multi-sectoral projects (17%). The largest project ever financed by Chinese policy banks is the controversial Baha Mar Resort development project in the Bahamas in 2010, costing 2.4 billion dollars. All the countries surveyed in this research, except the Bahamas, have joined the Belt and Road Initiative (BRI), in hopes of getting more concessional financing to close the domestic infrastructure gap. As Chinese Banks have come to experience the risks inherent in financing development in the Caribbean, they are becoming more stringent in their loan requirements. Amid these developments and the recent issuance of a debt sustainability framework under the BRI, could Chinese policy banks begin to curtail financing to the Caribbean?

Background and Methodology

Chinese lending activities throughout the developing world (including volume, sector concentration, associated risks, periods of flux, stagnation and increase) are well documented. In Africa, The China-Africa Research Initiative at the John Hopkins University School of Advanced International Studies has concluded that since 2000, China has provided 143 billion dollars in loans to fifty-five African countries (Bräutigam and Wang 2016). In the Oceania region, the Lowy Institute traced 6 billion dollars in Chinese official financial flows to fourteen countries since 2002 (Brant 2018). Since 2012, Latin America and the World Program at The Inter-American Dialogue has engaged in a comprehensive annual assessment of Chinese loan commitments to Latin America and the

Caribbean (LAC). Among the key findings emanating from their reports are that since 2005, Chinese policy banks (mainly the CDB & the EXIM) have extended more than 141 billion dollars in loan commitments to the region and state-owned firms. In terms of concentration, Chinese financing is mainly in energy and infrastructure. Venezuela, Brazil, Ecuador, and Argentina have emerged as the top recipients of that lending (Gallagher and Myers 2019).

In the Caribbean, quantitative and qualitatively assessments are poorly documented and understood. None of the Inter-American Dialogue reports produced since 2012 give prominence to the Caribbean. This can be partially explained by the fact that these studies exclude loans under 50 million dollars. A second explanation is the exclusion from these studies of several other sovereign states with diplomatic ties to the PRC (Dominica, Antigua and Barbuda, and Grenada). In this analysis, fifteen loans under 50 million dollars were spread amongst all nine states, amounting to 545.95 million dollars. Thus, this study fills an important gap but also derives inferences and insights from the annual reports of the Inter-American Dialogue while mimicking its methodology. The findings from this study make a compelling case for a higher level of specialization in the wider Sino-LAC relationship, because, despite the significant expansion in China and Latin America relations, trade, investment and development assistance patterns are heterogeneous throughout the different sub-regions (Dussel Peters, Armony and Cui 2018).

To compile this list and include the forty projects analyzed in this report, the database of the Inter-American Dialogue was consulted in addition to the China Global Energy Finance Database of the Boston University and the Monitor of China's OFDI in Latin America and the Caribbean. Independently, several budget statements presented before the parliament of the countries studied in this article were consulted; in the case of Trinidad and Tobago, the Annual Economic Survey reports published by its Central Bank were consulted. In the case of Suriname, CARICOM's Dutch-speaking member state, several reports from its Debt Management Office were surveyed, which provided detailed information on

Foreign Loan Agreements. A wide variety of other publicly accessible sources were also consulted, from newspaper articles across the region to Government-issued press releases.

This paper is divided into three sections. This first section provides a general overview of China's relationship with the member states of CARICOM, taking into consideration their historical ties, political alignment and economic cooperation, and ends by looking at the role of Chinese policy banks in the deepening of the bi-regional partnership. Section II provides a comprehensive analysis of China´s financing in the nine countries surveyed. It examines the main Chinese banking institutions present; providing calculations on composition and characteristics of Chinese loans to the region and looks at primary and secondary sector concentrations; examining the narrative surrounding debt sustainability and providing an analysis of the outlook of the future as more and more Caribbean countries sign up to the Belt and Road Initiative (BRI). Section III concludes the discussion whilst highlighting the main conditions and challenges in the China-Caribbean relationship and provides policy suggestions.

Trade, Investment, Finance and Historical Underpinnings of Sino-Caribbean Relations

China-Caribbean relations date back to the nineteenth century with the introduction of Chinese laborers on sugar plantations throughout the region following the abolition of slavery (Dong 2015:205). Since then, relations have expanded and developed amid several socio-political and economic milestones at an international level. In the twentieth century the 1949 founding of the People's Republic of China (PRC), the liberation of Caribbean states from colonialism and the 1971 expulsion of the Republic of China (Taiwan) from the United Nations (UN) and its sub-organizations, are among the main factors that shaped China-Caribbean relations. After the PRC replaced Taiwan as a UN member state, Sino-Caribbean relations expanded as several CARICOM states

establish diplomatic ties with the PRC; Jamaica and Guyana (1972), Suriname and Trinidad and Tobago (1974), Barbados (1977), Antigua and Barbuda (1983), the Bahamas (1997), Dominica (2004) and Grenada (1985, 1989, 2005). It is important to note that at the time of writing this article, five Caribbean states[2] still maintain diplomatic ties with Taiwan. During the decade that followed the 1990s, China and several Caribbean states (Barbados and Jamaica included) signed bilateral investment treaties followed by Bahamas, Guyana, Trinidad and Tobago in the 2000s. The twenty-first century witnessed a substantial expansion in Sino-Caribbean relations with high-level delegations from both sides exchanging visits to seek funding and find investment projects coupled with a more institutionalized partnership, as seen in the 2005 establishment of the China-Caribbean Economic and Trade Cooperation Forum and the China-Caribbean Joint Business Council (Bernal 2013). With these developments, the trade investment and development assistance volume also increased, with notable fluctuations.

Trade between the Caribbean and China moved from 167 million dollars in 2000 to 1.7 billion dollars in 2014, representing an 18.2% annual growth increase, more than ten times the figures from 2000 peaking at 2.3 billion dollars in 2016 (Maier, McLeod, Peters and Amos 2017). Chinese Outward Foreign Direct Investment (OFDI) in the Caribbean is minuscule compared to the wider Latin American region. A report published by the Atlantic Council and the Organization for Economic Cooperation and Development (OECD) found that since 2003, Chinese firms have invested over 110 billion dollars in the region but that the Caribbean attracted less than 10 billion dollars of that amount between 2001-2016 (Avendano, Melguizo and Miner 2017). In addition to trade and OFDI, Chinese development assistance has become a centerpiece of its relationship with the Caribbean, with that country providing more and more bilateral, regional, and multilateral assistance to CARICOM states and institutions. The growing provision of assistance is influenced by the China-Taiwan diplomatic

2 St. Vincent & the Grenadines, Belize, Haiti, St. Kitts & Nevis and, St. Lucia.

rivalry (Díaz 2016:150), a reduction in aid flows from traditional development partners to the region due to a reclassification from a lower-middle to a middle-income country (Bourne 2015:27). Notwithstanding these developments, China-Caribbean relations do not match the breadth and depth of the relations between China and the rest of the region. There are several reasons for this, with resource endowment being the main differentiating factor mainly because "the resources in the Caribbean are not as rich as those available in the rest of Ibero-America, and the Caribbean's capacity to absorb Chinese imports are limited compared to the rest of the region" (Dong 2015:205).

The Role of Chinese Policy Banks

Behind the substantial deepening of China-CARICOM relations is the Import-Export Bank of China (CHEXIM), and the Chinese Development Bank (CDB). They have emerged as two of the most important players in the growing Sino-Caribbean relationship, pumping billions of dollars into fostering the rapid expansion of Chinese trade and investments across the region. These banks perform this function in-keeping with their role as tools of the government whose loans are used to support the policy objectives of the State. These two banks are amongst the most important overseas creditors for China as they come to dominate overseas lending. Between 2000 and 2017 they were responsible for more than 75% of all direct cross-border lending activities (Horn, Reinhart and Trebesch 2019). The China Exim Bank is ranked as the world's third-largest export credit agency (ECA), providing as much as 130 billion dollars in government export financing support in 2018. With this lending trajectory, the US EXIM Bank warned in its 2018 annual report that China is leading a new export lending arms race by "weaponizing" its ECAs. According to the report, "The Chinese export credit system's performance over the last ten to fifteen years has impressed upon other ECAs a sense of urgency to change policies and programs or risk losing access

to large swaths of key markets" (Ekblom 2019). CDB is the world's largest development finance institution (Gallagher 2016). Created during the 1994 reform period, these banks are both owned by and subordinated to the Chinese State council and explicitly support China's policies at home and abroad. They offer loans mainly to fund infrastructure, energy, and mining projects (Gransow 2015; Gallagher 2016). Although these two institutions form an integral part of China's export finance infrastructure, they differ in their roles. The CDB supports China's macro policies by advancing loans to foreign projects that will acquire goods and services from China's major strategic companies. CDB's credit lines offer exclusively market-based interest rates (Alves 2012:101). The policies that it supports are outlined in the five-year plans and focuses on sectors such as electric power, roads, railways, petroleum and petrochemicals, coal, ports, telecommunications, and agriculture. On the other hand, The EXIM Bank seeks to help Chinese companies obtain investment opportunities abroad through the provision of export credits to Chinese companies, loans for overseas construction and investment projects, and concessional loans to foreign governments (Gallagher 2016). It is also a mandate of the policy bank to provide concessional loans with low interest rates (Gallagher, Irwin and Koleski 2012).

Estimates of Chinese Financing in the Caribbean

Since 2000, Chinese policy banks have extended an estimated 8.9 billion dollars in loan commitments to the nine member countries of the Caribbean Community (CARICOM) with diplomatic ties to the communist state. This study finds that almost 90% of this figure was disbursed in the second decade of the current century, with only 1.1 billion dollars reaching the region between 2000 and 2009. A loan in 2010 of 2.45 billion dollars provided by CHINA Exim towards the construction of the controversial Baha Mar casino-based resort in the Bahamas accounts for 27% of the 8.9 billion dollars. After these commitments peaked at 2.8

billion dollars in 2010, they have dropped to new lows, falling to 241.6 million dollars in 2018. Last year only three countries; Trinidad and Tobago, Antigua and Guyana received financing from Chinese policy banks. Figures in 2018 were the lowest on record since 2012 and the fifth-lowest since the beginning of the current century. This drop is consistent with a larger trend across the wider Latin American region. Margaret Myers and Kevin P. Gallagher (2018) observe that "Chinese state-to-state finance in Latin America dipped to a five-year low in 2017, the same year [that] Chinese overseas investment also slowed, largely due to new capital controls on overseas investments put in place by the Chinese government to maintain financial stability." A decision by the Jamaican Government not to borrow any new loans (Henry 2019) also led to the decline mainly because every year since 2010, Chinese policy provided on average 348 million dollars in financing to Jamaica or Chinese firms in the island nation, primarily in the form of multi-year infrastructure projects. To put that into perspective, in 2016, the Caribbean Development Bank (CDB) approved a loan and grants of up to 306 million dollars for nineteen borrowing member countries, the highest approved loan between 2010 and 2016 (CDB 2017). Despite the decline last year, there are indications that flows could recover in 2020 and beyond. There are several projects that Chinese banks are being asked to finance; a 220 million dollar international airport in the Dominica (Dominica News Online 2017); a 205 million dollar airport in Suriname (Chickrie 2018) and Jamaica signed a Memorandum of Understanding earlier this year with the China Harbour Engineering Company (CHEC) for a new multi-year infrastructure termed the Greater Infrastructure Development Programme, GIDP (OPM Communications 2019). In Guyana, authorities are exploring the development of a deepwater port project and the construction of a highway to cut transport times to northern Brazil by providing a faster route to the Panama Canal (Youke 2019). In Antigua and Barbuda the Government has signed an agreement with Chinese investors to build a major resort and residential development project valued at 740 million dollars, which is set to include a

manufacturing hub (Escarfullett 2018). While in Grenada, the CDB is helping the country draft a multibillion-dollar national development strategy (Chen 2017). In the following order, Bahamas (2.6 billion dollars), Jamaica (2.2 billion dollars), Trinidad and Tobago (1.1 billion dollars), and Suriname (709 million dollars) received the most financing from Chinese policy banks. Grenada received the least amount at 79 million dollars. This study cannot provide conclusive data on the average interest rate at which Chinese policy banks lend to the region, such financing terms are rarely made public when projects are announced. Of the forty-five projects analyzed for this research, only nine had data on financing conditions; six projects, each with a transaction of 40 million dollars or over carried a 2% interest rate, five of these had a twenty-year repayment period and for the most part, a five-year moratorium. For the outstanding three, one had a 3.5% interest rate on a loan that was provided by the ICBI and a 98 million dollars loan issued to Suriname by China EXIM which had a 3% interest rate. The ninth project, valued at 340 million dollars, carried a 3% interest rate. Jamaica's Finance Minister has indicated that 99% of the loans secured from China are at fixed interest rates of 2 and 3%, which "are among the lowest interest rates in our entire loan portfolio" (Bryan 2018). If this holds true region-wide, the outstanding thirty-six projects should carry similar interest rates. Two other notable findings of this research were two land for loan deals in the construction of the North-South Highway project in Jamaica and the construction and financing of the VC Bird Airport in Antigua and Barbuda.

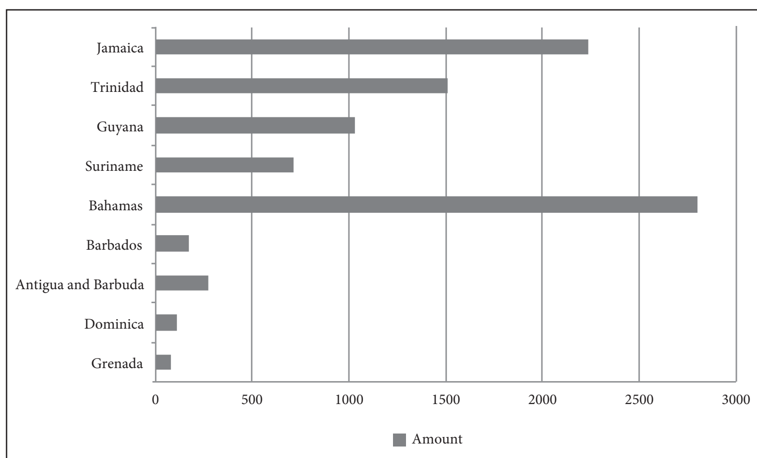
Table 1. Chinese Financing to CARICOM States (2000-2018)

Year	Borrowing Country	Borrower	Lender	Amount $USM	Purpose	Sector
2004	Suriname	Government	CHEXIM	43.35	Paramaribo Road Resurface	Infrastructure
2005	Jamaica	Government	CHEXIM	35	Trelawny Sports Stadium	Infrastructure
2005	Guyana	Government	CHEXIM	200	Skeldon Sugar Factory Modernization	Infrastructure
2006	Jamaica	Government	CHEXIM	2.5	Water Plant Rehabilitation & Expansion	Infrastructure
2007	Antigua	Government	CHEXIM	7.8	St. Joseph Medical Center	Health
2007	Suriname	Government	CHEXIM	215	Binder Layer Afobakka Road	Infrastructure
2007	Guyana	Government	CDB	46	Linden Bauxite Operations	Mining
2008	Guyana	Government	CHEXIM	40	Electricity Upgrade	Energy
2008	Antigua	Government	CHEXIM	40	Energy plant	Energy
2008	Jamaica	Government	CHEXIM	45	Montego Bay Convention Center	Infrastructure
2008	T&T	Government	CHEXIM	400	Alutrint Smelter Complex	Mining
2009	Jamaica	Government	CHEXIM	100	Trade Financing	Trade
2010	Bahamas	BMC Properties	CHEXIM	2450	Baha Mar Resort Develop	Tourism
2010	Jamaica	Government	CHEXIM	58.1	Palisadoes Shoreline Protection	Infrastructure
2010	Jamaica	Government	CHEXIM	340	Jamaica Development Infrastructure Programme	Infrastructure
2010	Guyana	Government	CHEXIM	32	Construction of Digital Network	Other
2011	Jamaica	Government	CHEXIM	71	Economic Housing Project	Housing
2011	Bahamas	Government	CHEXIM	58	Nassau Airport Expansion	Infrastructure
2011	Antigua	Government	CHEXIM	75	VC Bird Airport Expansion	Infrastructure
2011	Antigua	Government	CHEXIM	47	Wadadli Power Plant	Energy
2012	Guyana	Government	CHEXIM	130	Cheddi Jagan Airport Expansion	Infrastructure

2012	Bahamas	Government	CHEXIM	40	Abaco Infrastructure Projects	Infrastructure
2012	Suriname	Government	CHEXIM	47.3	100 Housing Projects	Housing
2013	T&T	Government	CDB	150	Couva Children's Hospital	Health
2013	T&T	Government	CHEXIM	85	Sporting Facilities	Infrastructure
2013	Guyana	Government	CDB	413.2	Amalia Falls Hydroelectric Plant	Energy
2013	Jamaica	Government	CHEXIM	352	Major Infrastructure Development Programme	Infrastructure
2013	Jamaica	CHEC	CHEXIM	456	North South Highway Project	Infrastructure
2013	Dominica	Government	CHEXIM	70	Hotel	Tourism
2013	Dominica	Government	CHEXIM	40	Multi-sectoral	Other
2014	T&T	Government	CHEXIM	750	La Brea Port	Port
2014	Grenada	Government	CHEXIM	13	St. Marks Flood Mitigation Project	Infrastructure
2015	Grenada	Government	CHEXIM	66	Maurice Bishop Airport Upgrade	Infrastructure
2015	Barbados	Government	CHEXIM	170	Sam Lord's Hotel Rehabilitation	Tourism
2015	Bahamas	Government	CHEXIM	250	The Pointe Hotel	Tourism
2015	Suriname	Government	ICBI	70.8	Road Project	Infrastructure
2016	Guyana	Government	CHEXIM	45.5	East Demerara Road Widening Project	Infrastructure
2016	Jamaica	Government	CDB	454	Alumina Refinery Opening/Upgrade	Mining
2016	Suriname	Government	CHEXIM	235	National Infrastructure Project	Infrastructure
2016	Suriname	Government	CHEXIM	98	Broadband Project	Other
2017	T&T	Government	CHEXIM	21.5	Acquisition of Patrol Vessel	Other
2017	Jamaica	Government	CHEXIM	326	SCHIP	Infrastructure
2018	Guyana	Government	CHEXIM	37.6	Expansion of Digital Network	Other
2018	Antigua	Government	CHEXIM	100	Cargo & Port Harbor	Port
2018	T&T	Government	CHEXIM	104	Industrial Park	Port

Source: author's elaboration based on data gathered from sources outlined in methodology.

Figure 1. Chinese Finance to CARICOM by State $USM (2000-2018)

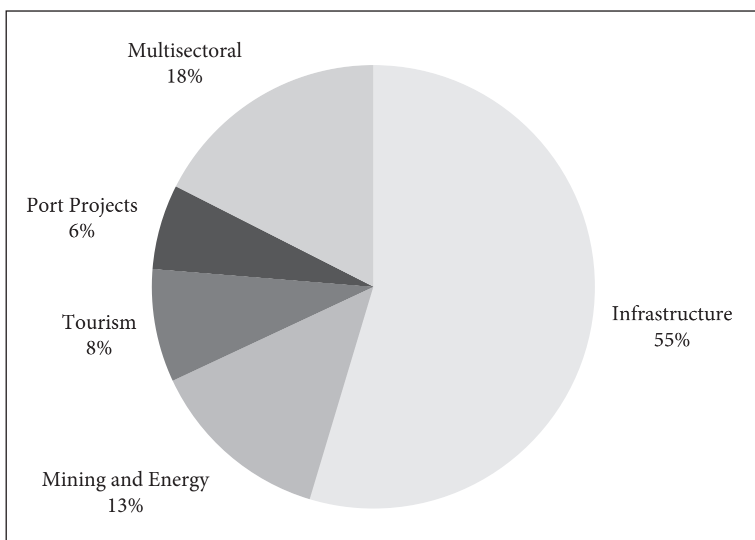


Source: author´s elaboration based on Table 1.

Sector Concentration

53% of the 8 billion dollars that Chinese policy banks extended to the region were focused on infrastructure projects, 6% on port projects and 13% in the mining and energy sector. This trend followed the pattern observed by researchers in Latin America, Africa and the Oceanic region. Gallagher 2016 provides a useful explanation when he writes that "CDB & CHEXIM provide financing in these sectors because they seek to directly support economic growth rather than social welfare." It is also in accord with the mission statement on the website of the EXIM Bank which states that its projects must "be able to generate foreign exchange revenue and create jobs in the borrowing country, hence the focus on supporting infrastructures such as energy, transportation, telecommunication projects and high-efficiency sectors such as manufacturing, processing, and agriculture in the borrowing country." Tourism as a sector received 8% of all loans provided to the region by these policy banks. The remaining 17% was spread across soft sectors such as housing development, health care and water and sanitation (see Figure 2 below).

Figure 2. Sector Concentration of Chinese Financing in CARICOM (2000-2018)



Source: author's elaboration based on Table 1.

The Caribbean's Infrastructure Gap, the BRI & "The Debt Trap" Debate

Chinese financing in the Caribbean is helping fill what the Inter-American Development Bank (IDB) calls "a sizeable infrastructure gap." In 2018 a report from the IDB said the region needed more sustained levels of investments to fill this "significant" need, which was "translating into deficient services" across several sectors. The report indicated that "to overcome these deficiencies, LAC countries needed to invest around 2 to 2.5% of GDP". In monetary value, the Caribbean Development Bank (ChDB) puts that figure at 21 billion dollars during the period 2014 to 2025 (Caribbean Development Bank 2014). Experts across the region argue that "more and better-targeted infrastructure investments can enhance growth prospects…and improving the efficiency of infrastructure services can complement investment efforts to help boost growth without burdening fiscal accounts." This need, according to theChDB, requires increased participation from the

private sector to complement creative solutions from the public sector. Between 2000 and 2018, Chinese policy banks contributed close to 5.5 billion dollars towards traditionally difficult infrastructure projects in energy, mining, roads, ports and bridges. A significant portion (1.5 billion dollars) was spent on six projects in 2013, the year with the single most projects across the region. In the same year, the Chinese President Xi Jinping announced the provision of 1.5 billion dollars to the existing China-Caribbean Infrastructure Special Loan when he visited the region. In 2011, the initiative was announced by the Chinese Government with funding of 1 billion dollars with the objective "to further strengthen cooperation in finance and investment between China and the Caribbean countries and improve infrastructure development in Caribbean countries." The loan is managed by the China Development Bank and finances transportation infrastructure: roads, ports, airports and railways as well as electricity, energy, transportation, urban public facilities, communications, free trade parks, construction, agriculture, environmental protection, tourism, logistics, and other infrastructure projects in the Caribbean. Under the special loan program, CDB says Chinese enterprises were getting an opportunity to use several financial modalities, including Build-Operate-Transfer (BOT) and Projects and Private-Public Partnerships, amongst other cooperation models, to carry out projects such as contracting, equipment export, long-term investment and operation management in the region. The maximum use of the "multiplier effect" in infrastructure projects promoted the sustainable economic and social development in the Caribbean and enhanced the overall level of cooperation between China and the Caribbean. Explicitly, this study does not take into consideration the 2.5 billion dollars that were pledged to the region under the loan program in the calculations of financing designated from policy banks to the region. This is due to the unavailability of data on its disbursement.

The BRI in the Caribbean

Since the launch of the Belt and Road Initiative (BRI) in 2013 and the 2018 invitation from China to the CELAC States to join the initiative, all CARICOM states with diplomatic ties to the mainland have signed up to it, except the Bahamas (Caribbean Council 2019). Bahamian officials have not given any indication regarding its non-participation in the project despite China's top diplomat in the country openly inviting the island nation to formally join the BRI. In a 2018 newspaper column, China's Ambassador to the country said by joining the BRI the Bahamas could unlock financing for "energy-efficient, low-carbon and renewable energy materials… projects on solar energy, wind energy, methane gas, hydroelectric power." After Jamaica signed up to the initiative in May this year, the Chinese Ambassador announced to the country that Beijing was ready to "build more high-quality, reliable, resilient, and sustainable infrastructure…that would position Jamaica as a significant player in the global and regional shipping and logistics industry." He also signaled that China was looking forward to "further deepen production capacity cooperation with Jamaica to improve mining and manufacturing industry, export, productivity, and speed up Jamaica's industrialization process (Clarke 2019)." When Trinidad joined the BRI, Chinese Premier Li Keqiang signaled that "China is willing to link the Belt and Road Initiative with the development strategies of Trinidad and Tobago to enhance cooperation in areas including infrastructure construction, energy, finance and agriculture" (Xuequan 2018). From these declarations, it appears for the first time that China-Caribbean relations could become more institutionalized instead of a purely bilateral interaction, becoming more coordinated under the BRI, nevertheless, this raises some concerns. Is the Caribbean part of the BRI or is the region "a natural extension" as Chinese officials posit? Ahead of the second Belt and Road Forum for International Cooperation (BRF) held in Beijing earlier this year a Chinese official indicated that "the BRI was never meant to be limited to certain countries along certain routes as the idea was

for participation and prosperity on a global scale ever since it was born." Ricardo Barrios (2019) characterizes this as an attempt by Chinese leaders to modify the discourse [around the BRI] to include LAC…consistently [referring] to the region as a "natural extension" of the Maritime Silk Road and an "indispensable participant" in the BRI's construction.

A Debt or a Creditor Trap?

China's presence in the Caribbean, like in the rest of the developing world, has sparked concerns that the country is laying a "debt trap" with its financing. Of the forty-five projects analyzed in this study, none displays evidence of "debt-trap diplomacy" which interprets China's overseas financial behaviors as state-driven political leverage to gain influence over other countries by bankrupting its partners and bending them to its will (Ma 2019). Critics often cite the case of Sri Lanka's Hambantota port, which the government had to hand over to Chinese state-owned companies in 2017 because it struggled to service the debt it took on (Brautigam 2019). But amongst these projects, a worrying trend has emerged, casting doubt on the lending practices of these policy banks while questioning whether they are growing increasingly reluctant or could become more circumspect in financing projects in CARICOM states. An estimated 4 billion dollars in loan capital to the region have either been shelved, derailed, closed or are teetering on the brink of closure (see Table 2). Meanwhile, in Antigua and Barbuda and Guyana, Chinese banks are showing signs of frustration in financing projects in the twin-island over debt sustainability concerns. In 2016, the CHEXIM rejected a 200 million dollars request from the Government of Antigua and Barbuda to expand a port project but provided an extended 50% of the requested amount to the Government. Up until 2014, Antigua and Barbuda owed 13 million dollars. The Prime Minister revealed that due to the arrears, CHEXIM was "about to blacklist Antigua & Barbuda," making the country "ineligible for further funding." In light of the foregoing, CHEXIM subjected the country "to a greater

level of scrutiny..." and loan requirements became "more stringent than they were because of the arrears that existed before" (Daily Observer 2016).

Table 2. Problematic Projects in CARICOM with Chinese Financing

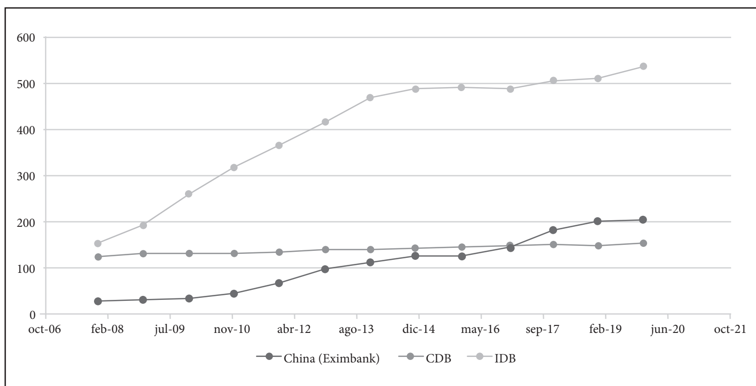
Project	Country	Loan Value $USM	Status/Comments
Couva Children's Hospital	Trinidad and Tobago	150	Completed since 2015 but remains closed.
Wadadli Power Plant	Antigua and Barbuda	47	Operational but defects in plant equipment
Alpart Alumina Refinery	Jamaica	545	Ongoing negotiations over future operations.
Smelter Complex	Trinidad and Tobago	400	Cancelled in 2010 due to environmental concerns.
Sam Lord's Hotel	Barbados	170	Stalled
Baha Mar Hotel	Bahamas	2,450	Developers file for bankruptcy protection in US courts.
Amalia Falls Hydroelectric Plant	Guyana	500	Stalled

Source: author's elaboration based on Table 1.

In the 1980s, Guyana became one of the world's most heavily indebted countries in the world when falling sugar and bauxite prices crippled state-run companies. The debt reached an unsustainable level which led the country to reach for an out-of-court settlement on the repayment of outstanding Government of Guyana bonds. By 2007, China granted the country approximately 15.3 million dollars in debt relief, bringing the total debt relief provided to Guyana by China to approximately 34.9 million dollars (Budget 2019). In part, this helped with the return of Guyana's debt stock "to a sustainable level for the first time since the country fell into arrears in the 1980s." Following the debt relief from China and other partners, the country warned that they "remained at risk with respect to debt distress since we still face the prospect

of a decline in the availability of concessional resources from our traditional development partners and remain vulnerable to potential external shocks (Ministry of Finance 2016)." While there are lingering concerns in the region regarding the sustainability of Chinese financing, the leaders of the region do not see China's extension of capital as a debt trap. Instead, they see it as a lifeline for the region's struggling economies given its low-interest rates, long repayment periods and absence of policy restrictions (Gallagher 2016). It is a loan formula that the region welcomes given its retreat and reduced access to the international capital markets as a result of deterioration in the credit rating of their debt and increases in risk premiums (Bourne 2015). The Prime Minister of Dominica, Roosevelt Skerrit argues that in providing financial assistance, "China hasn't sought to, as some others have done, impose its will on Dominica." In Jamaica, the Prime Minister has rejected suggestions of a debt trap, highlighting that the "loans secured from China are done at the best interest rates and that there is no need to fear Jamaica's relationship with China" (Chad Bryan 2018). A look at the external debt composition among CARICOM states also indicates that whilst China is among the largest private-sector creditors for the region, it is yet to become the main holder of Government debt. Using Guyana as an example, China

Figure 3. Guyana's External Debt Stock ($US)



Source: author's elaboration based on Guyana's annual public debt reports.

has surpassed the Caribbean Development (CDB) as the second-largest holder of the country's external debt but substantially lags behind the Inter-American Development Bank (IDB), see graphic 3 below. With the Chinese Financing Ministry issuing a Debt Sustainability Framework earlier this year for participating BRI countries, more stringent loan guidelines could apply to debt-burdened countries that seek financing from Chinese policy banks. Indeed, the framework was developed based on the International Monetary Fund, World Bank Debt Sustainability Framework to offer some response to accusations of debt-trap diplomacy along the BRI (Ma 2019).

Conclusion and Policy Suggestions

Chinese loan commitments to the Caribbean have declined substantially since 2010, even amid indications that its policy banks are becoming more circumspect in financing projects across the region. Already, more stringent loan requirements are being applied to Antigua and Barbuda and with the issuance of a new debt sustainability framework under the BRI, a new framework could emerge in China-CARICOM relations. On the hand, it has also emerged that projects funded by Chinese policy banks continue to be plagued by environmental concerns and due to issues with their commercial feasibility, an estimated 4 billion dollars in Chinese loan commitments have faced a wide range of issues, ranging from closure to being stalled. These concerns show no signs of going away. A 750-million-dollar project in Antigua and Barbuda, which is currently being discussed, is said to be threatening the habitat of critically endangered animals and putting the island at greater risk of hurricane damage (Gemma Handy). But with the issuance of a new debt feasibility framework under the BRI earlier this year, the problems derailing Chinese infrastructure financing in the region could be alleviated. Still, this will require concrete action from both sides. The following recommendations are useful: for China: (i) more emphasis must be placed on quality and

sustainability in investments; (ii) there needs to be more transparency around project financing and the hidden costs associated with doing businesses with state-owned firms. This could reduce the political risks that have become commonplace in bank-funded projects across the region and lower the probability of projects being canceled due to ballooning costs. For the Caribbean: (i) more consultations with stakeholders are required before the construction of mega Chinese-funded projects in the region. This could substantially lower tensions that have become commonplace; (ii) more transparent procurement methods are needed in awarding public contracts to Chinese firms; (iii) Chinese companies must be held accountable for compliance with environmental guidelines.

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CHINESE FINANCING IN LATIN AMERICA AND THE CARIBBEAN (2000-2018)

THE CASE OF CENTRAL AMERICA AND PANAMA

Luis Vargas Montoya, Marlen Rodríguez Morales and Rafael Arias Ramírez

Introduction

The present chapter seeks to analyze the diplomatic and economic relations between the People's Republic of China (PRC) and countries of Central America. Even though there is not a clear strategy, on behalf of this region, as to how to manage new relationships with China, the emergence of the Asian giant in international politics and international markets has compelled Central American countries to establish or consider establishing bilateral relations with this emerging power (Dussel Peters 2018).

The first country in the region to do so was Costa Rica in 2007, followed by Panama in 2017, and most recently El Salvador in 2018. Other Central American countries such as Guatemala, Honduras and Nicaragua have not yet established formal diplomatic relations, but they have influential private actors that have intensified pressure to begin relations with China (Dussel Peters 2018). The backdrop of geopolitical tensions and strategic competition between the United States and China has a lot to do with the differences among Central American countries regarding their relationship with China (IISS 2018).

In terms of trade, direct investment and financing policies, China has had an increasing interest in strengthening economic

relations with Latin America, not only because of the region's importance as a supplier of raw materials and primary goods, but also with the perspective of investing in and financing infrastructure projects and others in economic sectors in which the region has potential. In the case of Central America, Chinese interests have been associated to locational advantages that the region has to facilitate the logistics of Chinese trade and commerce in the Western Hemisphere, which are also connected to the possibilities for developing special economic zones and investing in projects to improve competitive positions in global chains (Urcuyo 2014). On the other hand, for Central American countries, China represents an immense market that offers opportunities for economic growth and to diversify trade partners, both in terms of exports and imports (INCAE 2014). This is particularly important for Central America, given the high dependence on the US market and vulnerability to US trade policies (Dussel Peters 2018).

China is particularly interested in Central America because of the region's locational advantages for the development of logistics for global trade. Investment in infrastructure has been the focus point for China's direct investments in Central America, specifically projects that could facilitate transportation through the Pacific Basin and the Panama Canal to reduce transactions costs and increase economies of scale. Likewise, financing projects related to the energy sector has been of interest for China; this is the case of the hydroelectric project Patuca III in Honduras (Urcuyo 2014). The following pages offer a more in-depth overview of these aspects of the political and economic relations between Central America and China.

The Relationship Between Central America and China

Diplomatic Relations

The rise of China as an economic power has been accompanied by a strong foreign policy that seeks to ensure Chinese interests worldwide. Establishing diplomatic and commercial relationships

with countries of strategic interest has been an important part of Chinese foreign policy. Countries with abundant natural resources and potential for vigorous development of the renewable energy sector have been important in sustaining China's economic growth (Arnson and Davidow 2011). Furthermore, Central America's geographic position has been of great interest given that it can facilitate trade routes and economic positioning for Chinese investments.

Aside from economic interests, a more historical and political goal has also been pursued by China in the region. The Chinese "one China principle" has also motivated the establishment of diplomatic relations with the region (Arnson and Davidow 2011). In this regard, ceasing diplomatic relations with Taiwan and establishing them with China has been an ongoing dilemma for Central American countries. Another factor that influences Central American countries in their management of Chinese presence in the region is the "sharpening rivalry between China and the US" (IISS 2018). Even though China could become an important alternative and market, the United States is still the most important economic partner and political actor in the region (Dussel Peters 2018).

It is commonplace to consider that China's economic expansion will also lead to a larger political role in the region. The possibility of Central America, and countries from the rest of Latin America, backing Chinese foreign policy has recently been a cause of concern for the United States government. This is specifically true with the Chinese Belt and Road Initiative which for now does not directly contemplate Latin America and the Caribbean as part of the plan, but the different investments in infrastructure in the region can raise questions as to how the initiative will evolve (IISS 2018).

Commercial Relations

In recent years, commercial relations between Central America and China have grown significantly, this has especially been the case for imports from China. Since 2012 China has become the third largest commercial partner for the region, only behind the United

States and the Central American Common Market, comprised of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua (Dussel Peters 2018). In terms of Central American exports to China, these are a lot smaller in volume than the region's imports from China. The only country that has been able to penetrate the Chinese market in a significant manner has been Costa Rica, which has accounted for over 50% of Central American exports to China (INCAE 2014).

An important technological gap, reflected by the trade deficit, characterizes economic relations between Central America and China. Costa Rica has been an exception given foreign direct investments, such as Intel, with technological spillovers and linkages with other economic activities in the service sector. As for the rest of the Central American countries, technological exports of middle or high value account for less than 1% of the total exports from the region (Dussel Peters 2018).

Chinese Investments and Financing in the Region

Some have argued that China's main interest in the region has to do with investments given the geographic characteristics of Central America and the logistical advantages it offers in terms of trade (Urcuyo 2014). In this regard, Central American countries also see this as a great advantage to establishing diplomatic relations with China, given the interest the Asian giant has in investing in sectors such as energy, transportation, technology and manufacturing (PROESA 2018; El Capital 2018).

Costa Rica, being the first country in Central America to establish both diplomatic relations and a free trade agreement with China, sought to deepen Chinese investment in transportation, energy, infrastructure and telecommunication through a pact signed in 2018 (Revista Summa 2018). This pact seeks to increases Chinese investment in the country which has decreased considerably since 2014.

In Panama, investments have been estimated to reach $2,585 million dollars in infrastructure related to ports and transportation (Ávila 2018). China has invested in a cruise ship terminal, a convention center and a new bridge for the Panamá Canal. Chinese companies such as Huawei have also made considerable investments in the Colón Free Zone. Investments are expected to continue given the geostrategic position of Panama and the Panama Canal, which has intensified the already existent rivalry between China and the United States, given the historical importance of the Panama Canal for the United States.

An important consequence of the diplomatic relations between Panama and China has been the increasing uncertainty related to the completion of a canal project in Nicaragua which has sought to rival the Panama Canal. This initiative was led by the HK Nicaragua Canal Development Investment and Chinese billionaire Wang Jing. Given an important loss of capital by the investment group, and Panama's introduction as a player in Central American relations with China, there is anxiety surrounding the funding and Chinese interest in the project (South China Morning Post 2018).

As for El Salvador, the third and most recent country to establish diplomatic relations with China, an unclear stance on behalf of the country's recently elected president Nayib Bukele, has produced doubts about the future of these relations (Diálogo Chino 2019). Possible investments have continued to be explored by both countries. For instance, during June of 2019 a group of Chinese investors visited El Salvador seeking investment opportunities with the institution in charge of promoting exports and foreign direct investments (Pastrán 2019). As for Guatemala, there has been little investment in comparison with the rest of the region, but there are also private efforts to attract Chinese investment to this country.

In Honduras, financing has been channeled into the energy sector; the Chinese company Sinohydro recently completed the Patuca III project which is the second largest hydroelectric dam in the country. The Patuca III was financed by a Chinese state-owned commercial bank, even though there were no formal diplomatic relations between these two countries.

This interest in the region seems to be articulated to the Chinese Belt and Road Initiative (BRI) which seeks to improve connectivity between Asia, Europe, Africa and the Middle East through financing projects and investments in infrastructure and the promotion of regional cooperation (Maliszewska and van der Mensbrugghe 2019). Even though Latin American countries, and specifically those in Central America, have not been formally contemplated in the BRI, it seems that investments and financing in the region seek to achieve goals that are consistent with the BRI strategy. In fact, China has been promoting the BRI with various countries, that have emitted statements and memorandums of understanding that support the initiative. This has made the scope of the initiative unclear as investments in the region seem to be articulated to this globalized strategy when Latin American countries have begun to formally and openly support the BRI[1] (IISS 2018).

Chinese Financing in Central America

One thing is clear, Chinese financing in Central America has been lower compared to that received by the rest of LAC; the latter have a greater number of transactions with Chinese financiers and over a longer period as empirical evidence and existing data show (Gallagher and Myers 2019). It has been documented that over the last decade China's financing has been concentrated in a small number of Latin American countries (Myers and Gallagher 2019).

We believe that one of the underlying reasons for the smaller presence of Chinese funding in Central America is that until 2007 none of these countries had diplomatic relations with China, which is a key factor for consolidating economic relations. Likewise, a historical diplomatic relationship with Taiwan has been a barrier for Central American countries to consolidate their relationship

1 Costa Rica and Panama have emitted memorandums of understanding in 2018 and 2017, respectively.

with China. Central America and the Caribbean have been the epicenter of the diplomatic competition between China and Taiwan, because this region concentrates almost all the countries that recognize Taiwan as an independent republic (Esteban 2018).

However, China's interest in the region has been growing derived from its shifting, yet complementary, intention to move from investing and financing in natural resources and raw materials to other sectors such as infrastructure, renewable energy, tourism and, in more general terms, special economic zones, for which Central America and Panama offer locational advantages (Myers and Gallagher 2019).

According to existing data, there are only two cases of Chinese financing in Central America. The first case is the hydroelectric project "Patuca III" in Honduras. The second is the rebuilding of a national road that connects the metropolitan area of Costa Rica with the main port on the Caribbean side of the country (Ruta 32).

With respect to the Patuca project, in September 2010 a Memorandum of Understanding (MOU) was signed between the Government of Honduras and the company Sinohydro, a Chinese government Engineering and Construction Company. In December 2010, Sinohydro presented the technical and economic proposal for the project, with an estimated investment of $300 million dollars required to begin construction, which generated optimistic expectations. In May 2011, the President of Honduras, Porfirio Lobo Sosa, placed the first stone on the site of the camp as a sign to start the construction of the Hydroelectric Project.

The project took off with a total investment of $350 million dollars, $300 million of which was a loan from the Industrial and Commercial Bank of China (ICBC), a state-owned bank. The remaining $50 million was provided by the government of Honduras. The term of the loan from ICBC was for 15 years with a grace period of five years and an interest rate of 4.5% (Dinero Hn 2018).

After delays for various reasons, in September 2015 construction was restarted and continued without problems (El Heraldo 2014). According to experts and reports, by the end of 2018 the project was 96% completed and its full operation expected during

the first semester of 2019 (Dinero Hn 2018; Frijins 2016). Despite several delays, as a result of difficulties to start operations, along with climatic and contractual factors, the authorities of the National Enterprise of Energy and Electricity (ENEE) assured the beginning of Patuca III's operations by the end of 2019 (Pastrán 2019). There is no certainty about the final cost of the project, because of the delays and overvaluation of costs and services. However, according to government reports, the project will conclude with an excess of $181.5 million dollars over the budgeted amount, bringing the total cost to $531.5 million (Construcción Pan-Americana 2019).

The other case of Chinese financing in the region was approved in 2015 in Costa Rica, as can be seen in the China-Latin America Finance Database (Gallagher and Myers 2019). A first phase of this funding started with the signing of a Framework Agreement, in which China offered to grant a Preferential Credit Line to Costa Rica. This agreement was established by the Costa Rican Ministry of Finance and the Export-Import Bank of China (China Ex-Im Bank). The China Ex-Im Bank is a development bank in charge of financing enterprises operating in the commercial sector (Hernández 2016). The Convention states that its objective is to strengthen friendly relations and economic and technical cooperation between the two nations. In this direction Dehart (2018:5) points out that "... a significant dimension of Costa Rica's economic motivation for partnering with China has been its desire to construct the infrastructure with which it can leverage its regional advantages into more global economic flows."

One aspect to note is that the agreement approved by both countries is preceded by the contract agreement CONAVI-CHEC-001, signed in June 2013. The National Roads Council (CONAVI, by its acronym in Spanish) of the Government of Costa Rica and the Chinese wholly state-owned enterprise (SOE) China Harbor Engineering Company Limited (CHEC) agreed that the latter would extend Route 32 of the Costa Rican road system (CGR, 2019). This route connects the Great Metropolitan Area of the country with the Caribbean coast, where Puerto Moín is located.

This port is Costa Rica's main maritime customs. Between 2011 and 2018, on average 32% of Costa Rica's exports were traded through these maritime customs which at the same time represented 86% of Costa Rican exports by sea (Procomer 2019). At this point, it is evident that the financing provided by China to Costa Rica was implicitly conditioned on contracting the Chinese company CHEC to carry out the project. This is consistent with the Chinese political strategy, whereby credit is a key element in promoting the participation of Chinese companies in strategic sectors in the region (Hernández 2016).

Turning now to the details of the project, the cost of the works reached $465 million dollars, of which approximately $14 million was applied to the designing stage and the remaining $451 million went to the renovation and construction works (CGR 2016). The maximum term of the credit line is 20 years at an interest rate of 3.5% per year (Law No. 9293). These results support the argument from some scholars that "Chinese banks are replacing the World Bank and Western Export Credit Agencies (WECAs) by offering lower-interest loans and generally better terms" (Gallagher, Irwing, and Kolesky 2012:4).

Once the contract was endorsed, CHEC considered they had the legal grounds to begin the environmental impact study required by Costa Rican laws, which was carried out by a company with Chinese capital. In December 2016, the project obtained the environmental viability approval and CHEC was authorized to begin work on it (CONAVI 2017).

The Route 32 rebuilding project is currently under way but is significantly behind schedule. Initially, its completion was programed for December 2018 and according to the last work plan, approved by the parties, it has been projected to be finished by mid-2020, if additional delays do not occur.

It is our understanding that the problems faced by the Chinese company and its counterpart in Costa Rica, in order to implement this project, demonstrate the lack of knowledge regarding the differences between the Costa Rican decision-making process and the role of the State, compared to the situation in China. As Dussel

Peters (2015) points out, these differences produce difficulties for defining and implementing bilateral initiatives.

Conclusions and Policy Suggestions

Although just over a decade ago some Central American countries such as Costa Rica and Panama began their diplomatic relationship with China, the impacts on trade, investment and financing have not yet reached the expected levels. In the area of financing, initiatives have been presented in several countries; however only two projects have been developed, one in Honduras and the other one in Costa Rica.

The difficulties in implementing Chinese funded projects in Honduras and Costa Rica show that, even when there are favorable opinions regarding the opportunities offered by Chinese funding, there are domestic challenges that may curtail China's interest in supporting potential projects. As DeHart (2018) argues, for the case of Costa Rica, Chinese financing is an opportunity for the country to expand and leverage its strategic domestic assets and geographic advantage. We consider that this is also true for the rest of the region.

Honduras was the first Central American country that received Chinese financing, even without having official diplomatic relations with China. However, the Patuca III project has faced challenges, which are explained by the project's lack of planning, administration and traceability by the parties involved.

Patuca III has faced three main challenges: first, the lack of resources; second, the delays and costs that exceeded the original budget; and third, unfavorable public opinion and discontent. At the beginning there were problems with shortcomings in terms of the resources needed for the project to be implemented. Later, there were controversies related to delays in the building process and the associated increasing costs, which had negative impacts on public opinion (Construcción Pan-Americana 2019).

In the case of Costa Rica with the rebuilding of the Route 32 project, the only Chinese financing ongoing in the country has faced

significant difficulties and delays which may also be expected to arise in future projects if the terms of understanding between the parties does not improve. This finding is consistent with that of DeHart (2018:3-4) who states that "…since 2007 Chinese infrastructure collaborations with Costa Rica have been the source of as much controversy as celebration…despite the apparent win-win combination of China's well-endowed state-owned infrastructure resources and Costa Rica's strong need for infrastructure, China-Costa Rican infrastructure collaborations suggest many challenges for the road forward."

One of the reasons behind the long period for the execution of a contract is the complexity of the decision-making process in Costa Rica. On the other hand, CONAVI points out the difficulties in the relationship with the Chinese company involved, due to cultural differences reflected in the working dynamics. Among other aspects, it was noted that the Chinese company has not carried out adequate planning, administration and traceability of the project which, as a result, has not advanced according to the original schedule. Another argument by CONAVI refers to the language barrier, which has made it difficult for the parties to communicate adequately on technical and legal issues (K. Solano, personal interview, August 20, 2019).

In terms of the energy sector, Costa Rica is recognized worldwide for its decarbonized energy matrix, making important advances; however, this does not include the energy consumed by the transport sector, where significant investments are required. However, for Costa Rica to take advantage of Chinese financing, it must implement institutional arrangements to simplify paperwork and establish clear and efficient procedures, seeking standards closer to those sought by the Chinese counterpart, without losing autonomy in the decision-making process in strategic sectors.

Both cases reveal the complexities of financing public projects in the region, especially regarding the decision-making process, mediated by multiple institutions participating with their own norms, which is not easily understood by the Chinese counterpart. The delays suffered by the projects are another common characteristic

in these two countries, where such delays are associated with a lack of planning and excessive regulation by the governmental institutions in charge. There are also similar problems regarding the discontent of local communities with the development of projects that have impacts on their resources and daily lives.

Chinese financing is critical for countries in the region, especially for those that have limited access to international financial resources and face serious fiscal imbalances (Myers and Gallagher 2019). Another element is the opportunity represented by the presence of the China-led Asian Infrastructure Investment Bank (AIIB) and the BRI for Central America. The AIIB and the BRI have a large amount of resources for financing projects in developing countries. In the region, only Costa Rica and Panama are affiliated to the BRI, while El Salvador is still considering it. According to Ray and Wang (2019:15) "It is likely that AIIB and BRI affiliations will continue to spread throughout the LAC region in 2019 and beyond"; this could open many doors to Chinese funding for the development of strategic projects in the region.

Likewise, if Chinese companies intend to continue financing successful projects in Central America, they must make greater efforts towards understanding the particularities of the decision-making process in the region, which varies from country to country. Additional efforts must be made to meet the expectations of the countries in the region, regarding planning, administration and traceability of the projects to be developed.

As for Chinese financing expectations in Central America, there are two elements which suggest that there is potential for further growth. One is that most countries in the region exhibit lags in priority areas for Chinese financing and investment, such as infrastructure, telecommunications and energy, representing a potential win-win situation. The other is directly connected to geo-economics and the opportunities for Chinese presence in a region with strategic locational advantages in the global economy.

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CHINA´S FINANCING IN ARGENTINA

Leonardo E. Stanley

Introduction

Argentina and the People´s Republic of China's (PRC) bilateral relations date from March 1972, after which the relationship grew steadily. However, the relationship has become increasingly economically significant since 2003, when Chinese demand created a soybean boom in the Pampas, permitting Argentina to recover from its worst economic crisis. Likewise, the arrival of Chinese investors to Argentina remained limited up until 2003 increasing after that and peaking in 2010. The presence of Chinese engineering and construction giants is expanding as Argentina´s infrastructure gap remains significant. Argentina's special relationship with China has gone beyond trade and investment flows, to increased involvement and financial links.

This chapter focuses on China´s financial involvement in Argentina during 2000-2018, though the bulk of investments started to arrive in the aftermath of the global financial crisis. During a visit to Latin America in July 2014, Xi Jinping enunciated the "*blueprint for the future*" (commonly referred to as "1+3+6") which aims to design a "roadmap for cooperation," with finance taking a central role. To accomplish the plan, it envisions three different channels: funds, credit loans and insurance. As for the case

of Argentina, Chinese bank loans and Beijing financial assistance is now paramount to transform the People's Bank of China (PBoC) as Argentina's lender of last resort[1].

China has transformed into a global financial powerhouse, hosting the world's most extensive banking system (in terms of financial assets to GDP). Chinese banks' cross-border claims, additionally, now exceed the amount intermediated by traditional financial centers such as Switzerland or Luxembourg (Cerutti and Zhou 2018). China's leading position in global sovereign markets is undoubtedly shocking, accounting for a quarter of total bank lending to emerging markets in order to become the world's first official lender (Horn et al. 2019). The bulk of the Chinese financial system remains in state hands and their main entities under government (national, regional or local) control (Hernández Cordero 2016). Chinese financial expansion is not unrestrained from critical judgment and examination. An increasing number of scholars are claiming that China profits from its financial power[2]. For others, Chinese loan facilities have lead recipients to behave irrationally and forget their financial constraints ("Chinese debt trap" hypothesis). It is primarily the lack of transparency that characterizes Chinese funding development practices.

This chapter organizes around three main sections, followed by conclusions. The first section evaluates the bilateral swap agreements scheme, trying to explain why China has become an enthusiastic supporter of it. Argentina, a devoted partner, has become a leading example of the benefits generated by such a deal. In the second section, attention turns to Chinese loans, and why Argentina has become a primary beneficiary of them. Finally, we ask whether Chinese financial assistance influences the bilateral relationship and if we can observe a "Chinese debt trap".

1 The PBoC is the central bank of the People's Republic of China responsible for carrying out monetary policy and regulation of financial institutions in mainland China.

2 One of the leading exponents is Mike Pompeo, US Secretary of State, who blame for *"the predatory" lending practices and other "malign or nefarious" behavior by Beijing had injected "corrosive capital into the economic bloodstream, giving life to corruption and eroding good governance"* (Carvalho 2019). Rex Tillerson, who preceded Pompeo as the secretary, made a similar statement.

China and the Bilateral Swap Agreements

The global financial crisis made authorities in Beijing aware of the costs of relying on the US dollar, pushing to advance with the RMB internationalization. Accordingly, Chinese monetary authorities (PBoC) decided to actively sign a series of bilateral swap agreements (BSAs).

The BSAs framework is commonly seen as a way to deliver funds, a short-term response from one sovereign-nation to another facing a liquidity crisis. The swap line funding is aimed to replace or complement private funding, with little effect on net banks' positions, as the line is expected to revert in a short period. After the line activates (at the request of the borrower), parties interchange currencies (or a third currency is specifically chosen, usually the US dollar). Once reversed, central banks exchange back their currencies at the exchange rate of the initial transaction. The contractual agreement states, on one of the partners at least, for them to be an international currency issuer (Destais 2014).

The Chiang Mai Initiative (CMI), installed in the aftermath of the Asian crisis, represents an outstanding example of this type of financial cooperation, whose swap deals were an anchor in the US dollar. Years later, and following the global crisis, the US Federal Reserve Board would reinvigorate the mechanism, expanding in scope and funds. This crisis also lead to reconfigure the CMI initiative (now becoming Chian Mai Initiative Multilateralization), to increase available funds (up to $120 billion dollars)[3], and inserting a novel institutional structure to coordinate and supervise the line. The global financial crisis has undoubtedly helped to diffuse the scheme, observing around 160 swap arrangements around the world (Bahaj and Reis 2015).

3 Members countries later decided to increase funds ($ 240 billion), to raise the IMF linked portion to 30 percent of each member's quota (initially settled in 20%), and, to introduce a new precautionary line (CMIM-PL) towards crisis prevention.

Bilaterally in origin, however, swap lines do not necessarily express political relations between states but instead reflect commercial relations between national financial systems, endeavouring to provide liquidity (Merhling 2015). The scheme involves contractual, not institutional relationships between partners. Contrary to traditional IMF assistance packages, this particular tool does not introduce any kind of surveillance, nor conditions on the economic policies pursued by the beneficiary country (Merhling 2015). Swap lines are not a response to current account imbalances in the way that IMF loans operate (Bahaj and Reis 2015).

A different picture might emerge when analyzing China-led BSAs. The PBoC has already signed more than 100 swaps, with more than 40 different countries that jointly represent ¥1 trillion renminbi available for partners confronting liquidity problems - an amount competing with IMF resources (Bahaj and Reis 2018). One of the innate objectives of the program, however, is to integrate the RMB and China's financial sector with the global financial market. The bilateral scheme has been implemented to smooth offshore RMB market operations; henceforth, leveraging the ongoing RMB internationalization process. Independent of whether the line use might follow short-term liquidity reasons to solve the partner's structural needs, in both situations, the scheme responds to economic reasons. China's swaps, however, are not necessarily driven purely by economic consideration, but also by political concerns which might also come into consideration (Cheung 2016).

The first of the bilateral deals signed by the PBoC were made with the Bank of Korea in December 2008, amounting to ¥200 billion renminbi and having a maturity of 3 years. The agreement was designed as a liquidity channel favoring banks' operations in domestic currencies (Chinese RMB and South Korean won), instead of delineating to make the liquidity in dollars (McDowell 2019). A second agreement was signed in January 2009, with the Hong Kong Monetary Authority (HKMA), as the special island status permits the issuance of an independent monies by local authorities. In Latin America, the PBoC has accorded lines with the central banks of Argentina, Brazil and Chile.

The pre-announced fall of the currency peg, subsequent sovereign debt and financial crisis left Argentina as an international financial pariah. An unexpected commodity boom, however, helped to transform authorities' despair into hope and economic redemption. Even so, the government debt rescheduling proposal did not obtain total bondholder support and Argentina remained isolated from international financial markets. As boom turned to bust, the economy turned suddenly and fell short of funding. Prevented from market financing, China came to the financial rescue of Cristina Fernández's government. In March 2009, the PBoC and the Argentinean central bank (BCRA) signed a ¥70 billion renminbi ($11.0 billion dollars) swap agreement (a three-year maturity arrangement, ending in April 2012). The agreement allowed the respective countries access to credit (in practice, all coming from China), permitting companies of each of the signature parties to trade in their local currencies instead of US dollars. Five years later, during July 2014, both countries signed a second swap agreement (again, compromising $11.00 billion dollars)[4]. Contractual' financial specificities remained a secret, a practice commonly observed in several financial deals initiated by China (Carciofi 2015; Brenta and Larralde 2018; Horn et al. 2019). A year later a new administration arrived. Shortly after to calm the market the new government initiated a desperate attempt for the increase in international reserves. Mauricio Macri put Alfonso Prat-Gay and Nicolás Caputo[5] on a flight to Beijing to renegotiate a reciprocal agreement, which needed to be signed by the 15th of December, 2015. Regrettably, the new stabilization plan had an ideological bias which was unable to deal with all the macroeconomic constraints the government was going to face during the transition. Despite the macro inconsistency, international investors were highly enthusiastic with Macri and markets started to finance the transition. As the macro honeymoon waned, a deep currency crisis erupted in mid-2018. The sudden drain of external

4 The BCRA neither the PBC asked for the swap renovation, expiring on April 1st, 2012.
5 By the time N. Dujovne reported as Ministry of Finance, and N. Caputo in charge of the under-secretariat office at the Ministry.

reserves[6] pushed local authorities to ask China for further assistance: a 3-year extension, over the accorded swap line (BCRA - PBC)[7]. Unfortunately, the crisis persisted. Henceforth, at the G-20 meeting in Buenos Aires in November 2018, Mauricio Macri and Xi Jinping agreed to expand the original swap agreement up to ¥130 billion renminbi (¥70 billion renminbi from the original swap and ¥ 60 billion renminbi from the extension agreed with Xi Jinping during his state visit to Argentina). By increasing Argentina's foreign reserves the swap line permitted local authorities to sustain the peso-dollar exchange rate.

Alongside Hong Kong and South Korea, Argentina would count among the few reported Chinese partners using the swap facility (Cheung 2016). Argentinean central bank authorities were first in activating the line in October 2014 when they decided to withdraw $2.7 billion dollars. The BCRA used the line once again in November 2014, to keep up with the activation until September 2015 (by a monthly amount equivalent to $1 billion dollars) when the swap line was integrally used (Brenta and Larralde 2018). By the end of that year and to boost the central bank's foreign reserves, the elected Macri administration decided to exchange RMB into US dollars[8]. Remarkably, the latest swap line signed in November 2018 includes a conditional clause linking the activation (which is expected to be initiated by Argentina) to

6 The central bank responded to the rapid depreciation and spike in inflation by hiking interest rates to 45 percent and selling billions of dollars in foreign currency reserves to protect the peso –a practice that resulted in a sharp decline in reserves (Luc Cohen "Argentina's economic crisis explained in five charts" August 28, 2018. Reuters)

7 "The People's Bank of China and the Central Bank of Argentina renewed today its bilateral currency swap arrangement. The People's Bank of China (PBC) and the Central Bank of Argentina (BCRA) have agreed today the renewal for three more years of its bilateral currency swap arrangement. The first arrangement between the two central banks was established in 2009. In 2014 a new swap arrangement was signed, which was then amended in late 2015 with a supplementary agreement. The new agreement will continue strengthening the relationship between the two central banks and fostering the enhancement of financial conditions to promote economic and trade development between both countries" (BCRA - PBC. Press Release, July 18th, 2017).

8 In order to avoid exchange rate losses by the time of reversing the operation, the BCRA decided to blind itself buying RMB futures. Henceforth, at the time of the reversal (starting January 2016), Argentina re-integrate the equivalent in dollars

the approval of the IMF $50 billion dollars stand-by agreement (IMF 2018)[9]. Surprisingly the PBOC now recognizes an IMF surveillance role over the Argentinean macro.

By activating the line, Chinese funds would become an essential source of Argentinean foreign reserves. Initially representing 10% of the BCRA total international reserves, increasing by up to 35% by the end of 2015 to remain almost unaltered after that (Brenta and Larralde 2018). In other words, the process transformed China into Argentina's lender of last resort. The relevance of Chinese financial assistance reflects the central role China plays in Argentina's political landscape (Sevares 2015; Lauffer 2017; Girado 2017; Oviedo 2018; Brenta and Larralde 2018).

In September 2015, the PBOC officially designated ICBC as the clearinghouse in Argentina, permitting economic agents to settle trade or any other operation in local currency[10].

Chinese Financial Leverage, Direct Loans to Argentina

As claimed by Horn, Reinhart and Trebesh (2019), China's overseas lending is directly undertaken by the government (Horn et. al 2019:1). The development finance regime is constructed around four different types of assistance (aid, concessional loans, preferential interest rate loans and below-market interest rates) and originated at three various sources [Ministry of Commerce, People's Republic of China, China Export-Import Bank (CHEXIM) and China Development Bank (CDB)]. China's leading political banks, CHEXIM and CDB, dominate China´s overseas lending, with both having a major presence in Latin America. The CHEXIM issues concessional loans (as being part of Chinese official development assistance), showing fixed interest rates (usually 2-3%) and long-term maturity (15-20 years) (Jin, Ma, and Gallagher 2018).

9 If for any reason the Fund suspends or cancels the stand –by, the PBC would deter to supply funds (or to renovate the agreement).

10 The Argentinean clearing facility becomes the second in the region, after Chile.

The arrival of Chinese policy banks assistance in Latin America would prove predominant for a group of outsider financial pariahs; Argentina, Ecuador, and Venezuela, who have no access to international financial markets. If Brazil is added, then the group explains 91% of all credit made by the two political banks in Latin America. Chinese loans were indeed beneficial: interest rates were set below-market levels and neither bank placed political conditions on loans. Chinese financial agents often profited from the commodity-backed loan (CBLs) scheme, with oil the primary commodity used as credits to Venezuela, Ecuador and Brazil.

Argentina transformed into a significant recipient of China's financial diplomacy in Latin America, benefiting from direct (preferential and below market, interest rate) loans, which were mainly directed towards energy, public works, and infrastructure projects. CHEXIM and CDB were the principal originators, although in some specific loans other Chinese, commercial, financial institutions partnered them. As previously mentioned, lack of transparency characterizes Chinese loans, including those arriving in Argentina. It is widely observed that infrastructure-related loans have always accompanied Chinese contractors going global (tied procurement), financing the purchase of capital goods and equipment from Chinese companies (technological lock-in). The absence of commodity-backed loans, on the other hand, is what so far differentiates China and Argentina's financial relationship.

The first Chinese loan ($30 million dollars) arrived in January 2007 (to be renewed in 2010) and envisioned to promote Argentinean exports. Ten years later, the Argentinean Bank of Investment and International Trade (BICE) negotiated the first line with the Chinese CDB ($150 million dollars), a loan facility directed to small and medium enterprise (SME) development.

Railways modernization would become relevant among Chinese funding deals, starting in 2010 when the government of Cristina Fernández de Kirchner obtained a $10 billion dollars loan (15 years at the rate of 7.5%). Funds were granted by a banking consortium which included the CDB and CITIC and directed to the purchase of materials from the public –sector China Machinery

Engineering Corporation (CMEC)[11]. A further $2.1 billion dollars loan came in 2014 (still CFK on duty), but now benefiting the modernization of the Belgrano freight line ($2.47 billion dollars)[12]. Following the bilateral meeting held in Buenos Aires (in November 2018) the Macri administration obtained a new loan, now from the Ex-Im Bank, pushing to upgrade the San Martin freight railways network ($1.1 billion dollars)[13]. CRCC (China Railway Construction Corporation), which, on this occasion, would be the counterpart involved in the infrastructure works and the one providing the materials. Finally, the CDB has recently granted a $236 million dollar loan for the Argentina's purchase of 200 new EMU cars for the suburban Roca line ($1.18 million dollars each of the electric wagons), part of a total $277 million dollars rolling stock agreement with the Chinese manufacturer CRRC signed in 2018 (LatinFinance 2019). At the sub-national level, the government of the Autonomous City of Buenos Aires (CABA) obtained in August 2014 a $162 million dollars loan from the Ex-Im Bank (10 years, Libor + 3.8%), which was used in the purchase of 150 cars for Metro Line A.

Chinese banks have also actively participated in the PPP program launched by the Ministry of Transport and Public Works in 2018, accompanying and compromising to finance participating Chinese construction firms. China Construction America (CCA) seized the $2.14 billion dollar Argentina National Road B Line franchise project, whose public-private partnership project funding would be backed by a consortium of lenders conformed of ICBC and Sumitomo Mitsui Banking Corporation (Japan) (CSCEC 2019) and insured by China Cinda Asset Management. After

11 Funding was directed to the purchase of 20 high-speed trains, 200 passenger cars, service, and parts.

12 Half of the money will be used in the purchase of locomotives and train cars, the other half in renewing and repairing rails and tracks. Materials were also purchased to CMEC.

13 The loan is cataloged as preferential, with a 20-year repayment (5 years grace) period and reporting an interest rate of 3%. Noticeable, the new contract implied a critical cost reduction, with an original total of $2.4.

Argentina's financial turmoil, CCA became the only original bidder in obtaining funding to go ahead with the proposal.

Argentina had also asked China to finance a series of renewable energy projects. The first of which was accorded during the CFK administration in January 2012, totaling $200 million dollars directed towards the financing of a series of environmental-friendly projects. In November 2017 a new loan was obtained ($331million dollars, 15 years term, 3.5% interest rate), benefiting the C*auchari Solar Park* development. The Province of Jujuy is jointly developing the solar park and a consortium of Chinese firms (Power China, Shangai Electric and Telesun) at the moment, the largest of which is in South America.

A consortium of Chinese banks, China Development Bank (CDB), Industrial and Commercial Bank of China Limited (ICBC) and Bank of China Limited (BC), are financing the construction of two dams, La Barrancosa and Condor Cliff, to be located at Santa Cruz Province - Patagonia. Argentina is expected to start paying the $4.7 billion dollars loan in 2022 and the repayment is to be attached to electricity dispatch sales.[14]

During 2007-2018, Chinese bank loans to Argentina were between $16.853 million dollars (BU Database) and $19.054 million dollars according to our calculations. Whilst becoming a new and essential source of funding (particularly for infrastructure-related funds) China is not the only or most relevant source. As the table below shows, multilateral funding continues to play an important role in Argentina.

14 According to the BU database, the project involved a $ 2.49 million loan, which face an interest rate of Libor + 3,8 %. According to our sources, the loan totalizes $ 4.7 million dollars, amount provided by the CDB ($ 2,5), ICBC ($1,4), and the BOC ($ 0.8) (Stanley 2018).

Table 1. Argentina: Multilateral Financing

Source	Type	Amount (USD Millions)
ADC	All projects (2014-2018)	3.578,0
World Bank	Active Projects	6.763,0
IDB	Approved Projects	11.403,8
	Projects - Implementation phase	9.353,6

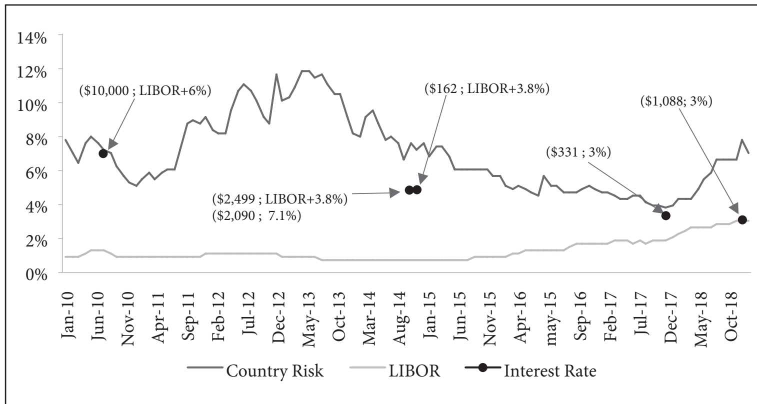
Source: author's elaboration based on CAF, IDB and WB data.

Chinese loans exhibited a preferential interest rate, slightly above LIBOR although below levels confronted by Argentina in international markets - as inferred after Argentina's country risk values. From the perspective of the financial institution being involved, so far, the CDB has participated in nine infrastructure projects and qualifies as the leading lender ($15.508 million dollars). CHIMEX's institutional presence, on the other hand, is relatively smaller (3 projects worth $1.581 million dollars) but had started to gain relevance in recent years. Besides these two largest political banks, other Chinese financial institutions have come to finance public works in Argentina such as ICBC, Bank of China and, CITIC. In all observable cases, Chinese financial entities were charging rates significantly below those Argentina might have obtained at market[15] . Beijing's financial predisposition, however, should not be thought of as a handout. As previously mentioned, loans have always been attached to particular infrastructure projects to be developed by Chinese contractors. What becomes more shocking however, is the presence of a contractual cross-conditionality clause associating both the Santa Cruz dams (a public work to be designed and constructed by Gezhouba, insured by Sinosure) and the Belgrano Cargas projects. The loan agreement was initially signed between the Ministry of Economy of Argentina and the

15 The CDB, for instance, charges above LIBOR levels but below the rate obtained by Argentina at international financial markets –as the local economy exhibits high levels of country risks. For the loan obtained by the government at the Santa Cruz dam project, for instance, exhibits Libor + 3,8 basic points. A similar loan at the market would be charged well above - considering Argentina risk position at EMBI.

following Chinese financial institutions; China Development Bank (CDB), Industrial and Commercial Bank of China Limited (ICBC) and Bank of China Limited (BC). Shortly after arrival to office, the Macri government put the whole project under review but ultimately forced the project to keep going to avoid the "cross-default" clause agreed in the case of the original financial agreement not being upheld. According to this clause and independently of the causes, if one project is being canceled, the banking conglomerate automatically suspends the other's financing.[16]

Figure 1. Argentina - Chinese Loans, Libor and Country Risk



Source: own elaboration, based on data bu-Pardee database, fred and Central Bank of Perú.

Despite not formally being a part of the Belt and Road initiative (BRI), Argentina attracted several Chinese construction and engineering firms. The infrastructure plan also induced the purchase of capital goods towards the modernization of the freight railway network, turbines for the operation of the Santa Cruz

16 In a letter sent on March 10th, 2016 Chinese banks warned the Argentinean government "delays or cancellations will result in the event of default under the KCHP Facility Agreement and will trigger the cross-default clause in the Belgrano Cargas Facility Agreement." So while the hydroelectric complex is already dependent on proper feasibility analysis, it also depends on the receipt of funds for other infrastructure works.

dams and solar power equipment for the Cachauri project. It is widely known that funding from Chinese political banks (CDB and CHEXIM) is backing these projects. Despite not qualifying for institutional adhesion (BRI) membership, the leading role played by Chinese firms and banks in Argentina´s infrastructure plan led to qualification, therefor being intrinsically attached to the fate of the BRI initiative in Latin America.

Conclusions and Policy Suggestions

China's growing role as a financial protagonist surprised some, however, it was not unexpected for many. What might be of surprise is the increasing financial influence obtained by China in Argentina, despite the more cautious attitude observed everywhere else in the region (Myers and Gallagher 2019). Influence, certainly relates to the swap facility line advanced by the PBoC to the Argentinean central bank. China is not alone in the financial rescue, complementing the IMF's $50 billion dollars stand-by arrangement.

Independently of the case, Argentina launched a desperate request for financial assistance –with all financial markets refusing to attend. China, by contrast, was there, ready to assist the Argentinean government independent of its legal status. The prospects of new (non-conditionality attached) financial flows signaled a new epoch, in which authorities were seen to switch to alternative legal stance as a victory after an ideological battle with traditional IFIs. Once the new, market-friendly administration arrived, Chinese financial assistance persisted, complementing traditional financial markets assistance to Argentina.

As discussed Argentina and China's bilateral relationship now goes beyond economic flows and stocks, with capital flows growing in relevance –including a sophisticated financial setting. Chinese financial entities (state-owned banks) are key actors of this setting, financing Argentina's ambitious infrastructure and public works program. Chinese financial involvement should be thought

of as being part of a long-term strategical vision of Beijing (Dussel Peters 2015).

Independently of not being a formal BRI member yet, Argentina transformed into a critical market for China's infrastructure-related firms. Chinese engineering and construction firms are starting to play an active role in Latin America, a pattern also observed among providers of capital goods such as solar power or railway machinery. What differentiates Argentina from countries like Chile, is the type of relationship being constructed. By splitting the project from its funding, Chile's contractual relationship is based on international bids and multilateral funding, assuring a higher degree of transparency. Bilateralism, on the other hand, might permit Beijing to target Argentina's financial necessities to assure their long-term objectives (such as reassuring the supply of commodities from *The Pampas*) (Armijo and Katada 2015)

Either directly or indirectly, deliberately or incidentally, China has undoubtedly started to influence Argentina's financial policy options. Whether because of a lack of transparency or a chronic anxiety for funds, Argentina has found in China a deep-pocketed partner ready to assist whenever needed. If contrasted to Argentina's external debt stock ($275.828 million dollars, the Chinese increasing financial influence remains low (INDEC 2019). Therefore, the "*Chinese debt trap*" hypothesis should be rejected. Chinese loans are not the only source of credit for Argentina but they are playing an increasingly relevant role in their infrastructure related projects.

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CHINESE FINANCING IN BRAZIL (2000-2018)

Celio Hiratuka and Simone Deos

Introduction

Although Brazil established diplomatic relations with China in 1974, economic relations between the two countries began to gain prominence, especially from the beginning of the 21st century. Influenced mostly by the fast transformations of the Chinese economy, these relationships have been undergoing a process of cumulative deepening.

Initially, the economic relations were concentrated on the trade dimension, with bilateral flows with China showing substantial growth from the early 2000s. Chinese demand for commodities and their influence on international prices, together with the consolidation of China as a significant producer and exporter of manufactured goods has turned this country into Brazil's leading trading partner. However, recently, there have been substantial changes in economic relations between the two countries, as other dimensions, in addition to the trade dimension, are becoming important.

The expansion of Chinese Outward Foreign Investments (OFDI) was felt in Brazil, mainly since 2010, with Chinese Investment flows showing signs of growth and diversification in terms of

destination sectors. Besides, infrastructure projects led by Chinese companies in Brazil have also been growing in recent years.

Following the deepening and more complex trend in trade and investment relations, there is also a growth in the finance dimension. The internationalization movement of Chinese companies around the world has been accompanied by the international expansion of their large public banks, a movement that has also been observed in the case of the entry of Chinese capital into Brazil. This chapter seeks to shed some light on this issue by exploring the principal dimensions and characteristics of the expansion of Chinese financial institutions into the Brazilian economy.

The chapter is organized into three sections in addition to this introduction. In section 2, the evolution of economic relations between Brazil and China is briefly outlined. Section 3 briefly characterizes the Chinese financial system and seeks to analyze financing operations of Chinese banks in the Brazilian economy in recent years, as well as the movement of expansion of Chinese Financial Institutions in Brazil. Finally, the last section seeks to highlight the chapter's key findings and emphasizes some policy suggestions, based on the previous sections.

Economic Relations Between Brazil and China Between 2000 and 2018. A Summary

Economic relations between Brazil and China underwent a process of fast growth in the first decade of the 2000s. Initially concentrated in trade flows, the relationship between the two countries reached a higher degree of depth and complexity since 2010, with Chinese direct investments in Brazil becoming more significant than before and the presence of Chinese companies more visible, although it has been concentrated in just a few sectors. It is in this context of greater maturity in bilateral relations that the topic of Chinese financing, which will be dealt with in section 3, must be understood. However, before moving on to that issue, a brief

survey of economic relations between the two countries will be presented.

Since the beginning of the 21st century, the growth of economic relations between Brazil and China has been concentrated mainly on the trade dimension. Within a decade, China became Brazil's leading partner, shifting the United States to the second position. To a large extent, this process was associated with the pattern and speed of the new Chinese development path, which, because it combined urbanization and industrialization processes, was extremely intensive in the use of mineral, agricultural, metallic and energy commodities (Farooki and Kaplinsky 2012; Glaeser et al. 2017).

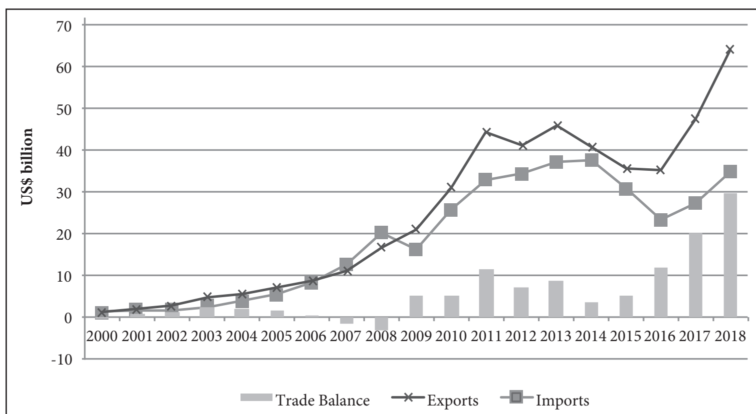
The extensive literature on the subject[1] highlights that Chinese demand for commodities has affected Brazil both by the increase in export volume and by the effect on international prices. On the other hand, China's development of an industrial structure with strong export capacity in several manufacturing sectors derived in a growing share in the Brazilian imports, resulting in a typically inter-industrial trade pattern, with exports from Brazil to China concentrated on a few primary commodities, and imports diversifying into a wide range of manufactured goods.

Figure 1 and Tables 1 and 2 show strong growth in bilateral trade. In 2000, Brazil's exports to China accounted for about 2% of total Brazilian exports (same percentage observed between 1995 and 1999), and China ranked 12th among the main destinations of Brazilian exports. In 2009, China was already the main destination, and in 2010 it represented 15% of all Brazilian exports. Growth was uninterrupted until 2011 when it reached 17% of total exports, and $44.3 billion dollars. From this year onwards, following the scenario of turbulence in world trade, Brazilian exports to China began to suffer more fluctuations, while maintaining the trend of increasing relative importance. After successive declines in 2014, 2015 and 2016, influenced mainly by the slowdown in

1 See, among others, Cunha et al. (2011); Hiratuka et al. (2012); Jenkins (2014); Hiratuka and Sarti (2016).

Figure 1. Brazil: Bilateral Trade and Trade Balance with China (2000 to 2018)

(US $ billion)



Source: author´s elaboration based on UnctadStats.

Table 1. Brazil: Main Exports Destinations (2000, 2010 and 2018)

(position in the ranking, value in $ million dollars and share in %)

	2000			2010			2018		
Exports	**Rank**	**Value**	**Share**	**Rank**	**Value**	**Share**	**Rank**	**Value**	**Share**
World		58,286	100%		201,915	100%		239,889	100%
China	12	1,085	2%	1	30,786	15%	1	64,206	27%
USA	1	13,390	23%	2	19,466	10%	2	29,133	12%
Argentina	2	6,238	11%	3	18,523	9%	3	14,951	6%
Netherlands	3	2,796	5%	4	10,228	5%	4	13,068	5%
Chile	11	1,247	2%	8	4,258	2%	5	6,389	3%
Germany	4	2,526	4%	5	8,138	4%	6	5,215	2%
Spain	13	1,008	2%	11	3,894	2%	7	5,151	2%
Mexico	9	1,712	3%	14	3,715	2%	8	4,505	2%
Japan	5	2,474	4%	6	7,141	4%	9	4,334	2%
India	40	217	0.4%	16	3,492	1.7%	10	3,910	1.6%

Source: author’s elaboration based on UnctadStats.

China's growth rates and falling primary commodity prices, exports resumed growth in 2017 and 2018. In this last year, it reached a record high of $64 billion dollars, which represented 27% of all Brazilian exports. This share was more than twice the share of exports to the United States, which reached $29 billion dollars and accounted for 12% of the total.

Regarding the imports, in 2000, China was the 11th largest supplier country to Brazil, and became the 2nd in 2010, representing 14% of total Brazilian imports. In 2012 it reached the 1st position, surpassing the United States. Despite the slowdown observed since 2011, imports from China continued to grow until 2014, in the amount of $37 billion dollars for that year. The Brazilian crisis, however, strongly affected imports, which fell to $23 billion dollars in 2016. In 2017 and 2018, imports from China resumed growth, totaling $ 34.7 billion dollars and representing 19% of all Brazilian imports. Considering total trade flow, the amount reached $98.9 billion dollars in 2018 and 23% of the total Brazilian trade, well ahead of the $58.4 billion dollars and 14% observed in the total trade flows with the United States.

Table 2. Brazil: Main Imports Origins (2000, 2010 and 2018)

(position in the ranking, value in $ million dollars and share in %)

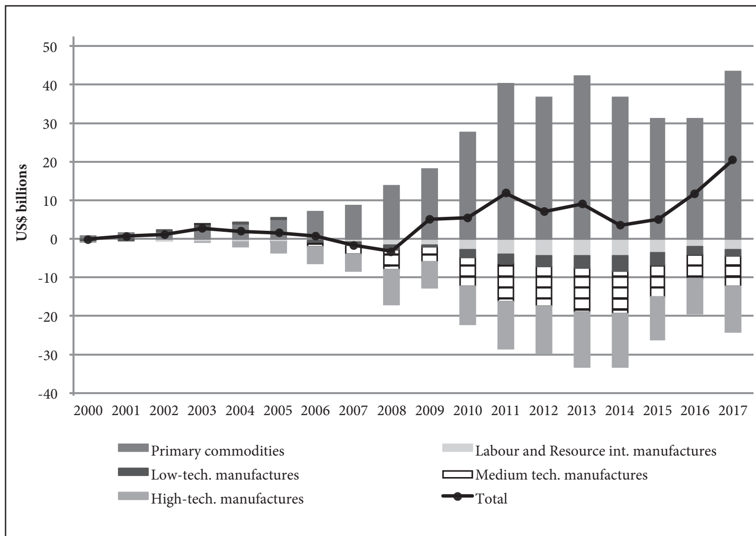
	2,000			2,010			2,018		
	Rank	Value	Share	Rank	Value	Share	Rank	Value	Share
World		55,601	100%		181,768	100%		181,231	100%
China	11	1,222	2%	2	25,595	14%	1	34,730	19%
USA	1	13,037	23%	1	27,277	15%	2	29,350	16%
Argentina	2	6,843	12%	3	14,435	8%	3	11,051	6%
Germany	3	6,843	12%	4	12,554	7%	4	10,557	6%
Korea, Rep.	8	1,437	3%	5	8,422	5%	5	5,381	3%
Mexico	19	754	1%	12	3,859	2%	6	4,909	3%
Italy	5	2,172	4%	8	4,844	3%	7	4,523	2%
Japan	4	2,961	5%	6	6,986	4%	8	4,356	2%
France	6	1,884	3%	9	4,812	3%	9	3,948	2%
India	33	271	0%	10	4,242	2%	10	3,663	2%

Source: author's elaboration based on UnctadStats.

Despite the extraordinary growth in bilateral trade, the observed trade pattern has raised concerns from several analysts, who draw attention to the high degree of concentration of Brazilian exports to China on primary commodities, while imports include a very diverse set of manufacturing products, including more sophisticated products with high technological intensity.

The difference in the profile of bilateral export and import flows can be seen in Figure 2. The trade balance, which has been favorable to Brazil over time, is a result of positive trade balances in primary commodities, mainly soybeans, oil and iron ore, which together accounted for about 82% of all Brazilian exports to China in 2018. Soy alone accounted for 42% of total exports. However, in manufactured products there is a high trade deficit. This deficit is concentrated mainly in products classified as high-tech (mostly electronics) and medium-tech (machinery and equipment, auto parts, chemicals, among others), but also in labor-intensive products (textiles, clothing and shoes).

Figure 2. Brazil and China. Trade Balance by Product Group, Classified by Technological Intensity (2000 to 2017) (in $ billions of dollars)



Source: author's elaboration based on UnctadStats.

The trade flows sectoral profile also influenced the impact of trade with China on employment in Brazil. On one hand, the large increase in Brazilian exports to China resulted in a strong increase in employment especially in the sectors associated with primary commodities or industrial products intensive in natural resources. In terms of quality of employment, this growth resulted in jobs in the low qualification strata, given the employment profile in the main export sectors, such as agriculture and food. On the other hand, imports from China have resulted in the loss of jobs in many manufacturing sectors, but concentrated in industrial segments such as electronics, electrical equipment and textiles, clothing and footwear. In these sectors the educational profile is slightly better than in the sectors that have experienced positive impacts, just as the salary in general is slightly higher. The net effects of trade relations with China produced a significant increase in employment, although with a contribution in terms of quality that was more concentrated in low-skilled and below-average wage jobs (Hiratuka 2018a)

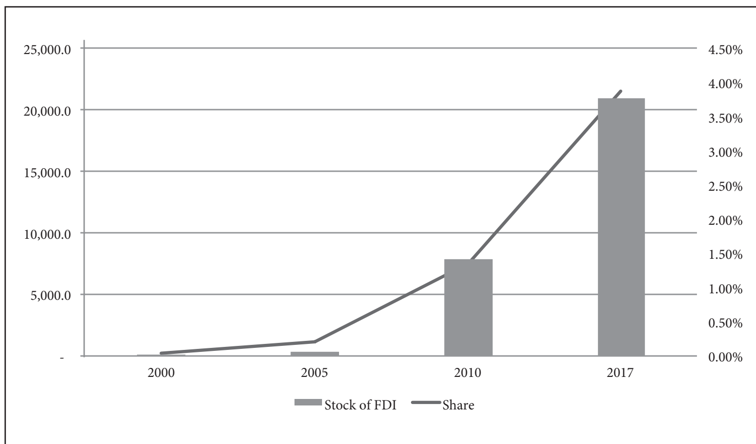
If the first decade of the 21st century was marked by the growth and consolidation of trade relations, since 2010 new dimensions have emerged in the relationship between the two countries, with the increased presence of Chinese companies in Brazil. This movement was anchored in China's greater diplomatic rapprochement with Latin America and Brazil, but it is mainly associated with the Chinese state-led strategy of promoting the internationalization of its large companies.

The quest to increase the degree of internationalization of major Chinese companies, especially state-owned companies, in the areas of infrastructure, oil, telecommunications, among others, as part of a state-led movement, began with the Going Global project and received strong impetus after the crisis. With the unfolding of the crisis and the reduction in the national growth rate, the international expansion movement sought to combine China's long-term strategy –to move to a less investment– dependent economy and to give more weight to consumption –in a context of lower growth rates (Hiratuka 2018b). In this transition process,

Chinese international insertion has combined multiple objectives, such as ensuring access to resources and raw materials, conquering and expanding foreign markets in order to compensate for the level of idle capacity resulting from reduced domestic market growth rates, the search to acquire innovative capacity and increase the degree of internationalization of Renminbi (Jaguaribe 2018; Kong 2019).

In Brazil, investments by Chinese companies increased significantly after the global crisis. According to information from the Central Bank, the stock of Chinese investments in Brazil was practically nil in 2000, remained at low levels until the middle of the decade and became more representative only from 2010 onwards, when it reached $7.8 billion dollars, but represented only 1.4% of the total FDI stock in the country. In 2017, total Chinese FDI stock rose to $21 billion dollars, reaching 3.9% of the total and making China the 9th largest investor (in terms of FDI stock) in Brazil (Figure 3).

Figure 3. Chinese FDI Stock in Brazil ($ millions of dollars and percentage of total)



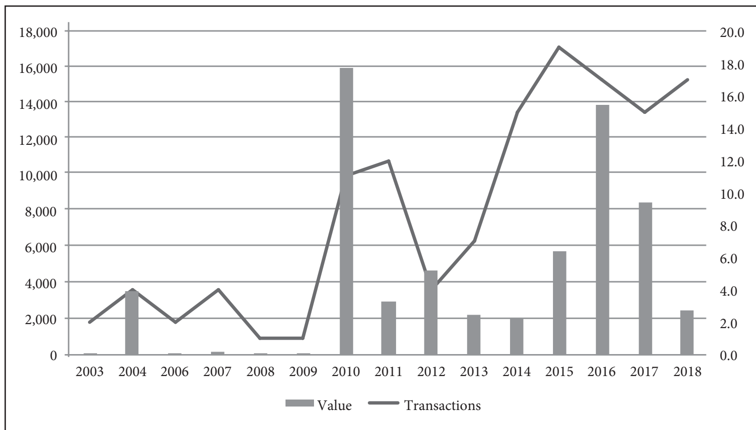
Source: author's elaboration based on Brazilian Central Bank data.

Some information on investment flows can be drawn by the China OFDI Monitor in Latin America –organized by the Latin American

and Caribbean Academic Network on China (Red ALC-China). As can be seen in Figure 4, between 2003 and 2009, Chinese investments in Brazil were still not significant in terms of values as well as in number of transactions. From 2010, however, there is an upward trend, albeit with strong fluctuations –influenced by some large operations.

Figure 4. Chinese Investments in Brazil

($ millions of dollars and number of transactions)



Source: author's elaboration based on China OFDI Monitor in Latin America (2019).

A sectoral diversification process accompanied the increase in investments from 2010. In addition to the mining and oil sectors, which concentrated investments until 2009, manufacturing, services, and infrastructure sectors also began to receive more Chinese investments (Kupfer and Rocha 2018; Hiratuka 2018). In the infrastructure sector, it is worth mentioning the importance of the electric power segment, with Chinese companies becoming significant players in Brazil (Junqueira 2017; CEBC 2017). In the 2014-2017 period, the electric power sector represented about 50% of the total invested by Chinese companies in Brazil.

Another noteworthy information is the striking predominance of public companies in the Chinese expansion movement towards the Brazilian economy. Considering the accumulated investments

over the period 2003-2018, Chinese State-Owned companies accounted for 83% of the total amount. Regarding the type of investment, mergers and acquisitions predominated over greenfield. This form of entry represented 86% of the total Chinese Investments and 90% of the total invested by Chinese State-Owned enterprises in the period.

The growing presence of Chinese companies in Brazil, coupled with the intense trade flow between the two countries, has resulted in deeper and more complex relationships. In this movement, the finance dimension also gives signs that it may become more important. The following section is devoted to the specific analysis of this dimension.

Chinese Financing in Brazil

The reform of the Chinese banking system began in 1978, in the context of the economic reforms launched by Deng Xiaoping. The period from 1979 to 1984 saw a process of redefining the role of the People's Bank of China (PBC), the Chinese Central Bank. In 1979, commercial banking activities, formerly carried out by the PBC together with Central Bank functions, began to be operated by three large public commercial banks that were then created: ABC (Agricultural Bank of China), BOC (Bank of China) and the CCB (China Construction Bank). A few years later, in 1984, a fourth large public commercial bank was created, the ICBC (Industrial and Commercial Bank of China), thus forming the so-called "big four." Initially, each of these banks financed a distinct sector of the economy and was an important channel for the exercise of government strategic planning. By the end of these five years (1979-1984) the functions of Central Bank (reserve currency creation and liquidity management) and the activities of commercial banks (bank currency creation) were institutionally separate, but strategically articulated. The basic structure of a system of currency and credit creation and management was set up and was able to finance the dizzying Chinese growth (Deos 2015).

The 1990s saw another critical set of transformations take place, notably with the creation of the Agricultural Development Bank of China (ADBC), the China Development Bank (CDB) and the Export Import Bank of China (EIBC), respectively, to finance agricultural reforms, to fund infrastructure projects and to support foreign trade.

In 1994, regulations on foreign investment in the financial sector were established, with rules for the entry of foreign banks into China. As Cintra (2009) points out, such a set of transformations was primarily conditioned by the United States-China agreement, signed in 1999, which signaled China's adherence to the World Trade Organization (WTO). To join the Organization in 2001, the government accelerated financial system reforms. However, regarding openness to foreign capital, a gradual movement was observed that sought to articulate more lasting strategic alliances within Chinese-led capital blocks. Foreign banking capital was "invited" to enter China with a perspective towards participating in the opening of capital from major Chinese banking institutions in partnership with Chinese domestic capital and, above all, the Chinese State, but under its control. In this sense, foreign capital became a partner, but a minority partner, in a planned opening project linked to the country's development project.

One could remember, for example, that the state-owned and tightly closed Chinese banking system was not directly hit by the global financial crisis of 2008 (Deos 2015). The share of assets held by foreign banks in total Chinese banking system assets was 2.4% in 2007 and fell to 1.3% in 2017.[2]

To analyze the movement of the international expansion of Chinese banking capital, it is essential first to bear in mind the relative size of Chinese banks. In 2018, by the volume of assets criterion, the Chinese Big Four were the four largest banks in the world, in descending order, ICBC, CCB, ABC, and BOC –despite having little international presence. According to 2017 UNCTAD World Investment Report (WIR) data, the Chinese ICBC, the world's

2 Data from the China Banking Regulatory Commission.

largest bank, ranked only 18th among the largest Financial Transnationals[3]. Among the 50 largest are, besides ICBC, BOC and CCB as well. Thus, while on the one hand, it is evident that the Chinese Banks constitute gigantic masses of capital that stand out on a global scale, on the other hand, it is noted that their domestic operation is, by far, the most significant part of their operations. The internationalization process of Chinese banks is indeed very recent and needs to be understood given that the most effective movement of Chinese capital outgoing is also entirely new, as it began only in the early years of the 21st century, as highlighted in the previous section. However, the increasingly evident presence of Chinese companies operating in various countries and regions and in several sectors around the world suggests the hypothesis of a growing internationalization of banking institutions, which would constitute a transfer, to the international scene, of the pattern of strong articulation in with which they operate domestically (Kong 2019).

A more significant presence of Chinese banks in Brazil was observed in the context of the growth of international financing operations by Chinese development banks, especially CDB and EIBC, for Latin America following the 2008 international financial crisis. Information compiled by China Latin America Finance Database recorded a cumulative amount of $141 billion dollars in financing for Latin America between 2005 and 2018 by the two banks mentioned. According to Gallagher (2016), Chinese banks' operations focused on complementary sectors to traditional lenders, such as the World Bank and the IDB, since they focused on large extractive, energy and infrastructure projects. Much of this funding has been associated with oil supply guarantees and has different characteristics from traditional sources since they carry less conditionality in terms of the required political reforms, although in many cases they are tied to imports from Chinese suppliers.

3 Classified according to the GSI - Global Spread Index - calculated as the square root of the Internationalization Index multiplied by the number of countries in which they operate. The Internationalization Index, in turn, is calculated as the number of external branches divided by the total number of branches (www.unctad.org).

Table 3. Chinese Finance to Brazil: CDB and EIBC

Year	Type	Borrower	Lender	Amount ($m)	Commodity-backed?	Payment period (yr)	Purpose	Other terms
2007	Energy	BNDES	CDB	750	No	15	GASENE pipeline in Brazil (subsidiary of Petrobras); loan through BNDES	-
2008	Energy	Government	CDB	356	No	-	Candiota power plant	EPC Contractor: China's Harbin Electric International Company
2009	Energy	Petrobras	CDB	7,000	Yes	10	Exploit pre-salt oil fields	150-200,000 barrels per day; partly--$3b for Chinese oil equipment; outside of the business plan, in which they will give preference to Chinese companies, Petrobras will use the money "to finance the acquisition of goods and services from Chinese companies."
2014	Energy	Petrobras	CDB	3,000	No	-	Bilateral cooperation agreement 1st tranche	-
2015	Energy	Petrobras	CDB	1,500	No	-	Bilateral cooperation agreement 2nd tranche	-
2015	Agricul ture	Government	CDB	1,210	No	-	To build a soy processing industrial line	-
2015	Energy	Petrobras	Ex-Im Bank	3,500	No	-	Bilateral Cooperation	-
2105	Other	BNDES	Ex-Im Bank	1,300	No	-	Sale of 40 E-195 aircrafts to Hainan-Tianjin Airlines	-
2016	Energy	Petrobras	CDB	5,000	Yes	10	Debt financing	Supply 100,000 barrels of oil per day to National United Oil Corporation, China Zhenhua Oil Co. Ltd. and ChemChina Petrochemical Co. Ltd for ten years.
2017	Other	Bank of Brazil	Ex-Im Bank	300	No	-	China-Brazil trade financing	-
2017	Energy	Petrobras	CDB	5,000	Yes	10	Oil production	supply 100,000 barrels of oil per day, over 10 years to Unipec Asia Company (Sinopec subsidiary)

Source: author's elaboration based on IAD-GEGI Public Database.

In Brazil, the information provided by the IAD-GEGI Public Database points to a total of $28.9 billion dollars in financing provided by the two Chinese Development Banks (Table 3) between 2007 and 2018. The amount of financing is quite representative when compared to the total volume of Chinese Investments analyzed in the previous section.

However, although in absolute terms the amount destined to Brazil was considerable and represented 22% of the total disbursement to the Latin American countries, considering the size of the Brazilian economy, the degree of importance becomes much smaller. Considering the total inflow of long-term external debt in Brazil between 2007 and 2018, the value of the Chinese banks' contribution represented about 6%. Moreover, comparing with the total disbursements accumulated in the period by the Brazilian Development Bank (BNDES), the values are not very representative either. CDB and EIBC financing were equivalent to 4.3% of the BNDES disbursement.

Considering the debate over the contribution of Chinese financing to raising different countries' indebtedness to unsustainable levels (Chellaney 2017), previous information reinforces the evidence pointed out by Ray and Wang (2019) that in the Brazilian case no evidence can be found that Chinese funding is leading the country to a debt trap.

Regarding sector distribution, it is possible to observe a large concentration in the energy area ($26.1 billion dollars), which accounted for 90% of the total. Also, of this total, there is the prominent role of credits taken by the oil company Petrobras –the largest Brazilian company in 2018. To this state-owned company only, a total of $25 billion dollars were granted between 2007 and 2018, of which 68% ($17 billion dollars) went to credit operations related to oil supply agreements (commodity-backed operations).

These data strongly suggest that Chinese development bank operations in Brazil adopt the strategy of ensuring access to natural resources necessary for the accelerated internal development of the Chinese economy. According to Kong (2019), Chinese dependence on imported energy increased from 4% in 2000 to 21%

in 2016. In the case of Petrobras, access CDB resources was particularly important after the loss of the investment grade in 2015 in the context of Brazil's political and economic crisis, combined with the fall in oil prices and the company-specific adverse effects caused by Car Wash Operation[4].

In the 2009 CDB operation with Petrobras, there is a noteworthy aspect. Of the total amount of $7 billion dollars for the pre-salt oil exploration, there is a portion –$ 3billion dollars– that should be used to purchase equipment from Chinese companies. Thus, if we take into account Chinese public banks' strategy abroad, it is possible to see the articulation of the objectives of guaranteeing access to energy resources (in this case, oil) and, at the same time, of expanding markets for Chinese supplier companies of goods and services.

In addition to development bank operations, which have dominated the role of Chinese banks in financing for Brazil, the operations of Chinese commercial banks also deserve more detailed analysis. The entry of Chinese commercial banks in Brazil began with the operations of BOC, which received authorization from the Brazilian Central Bank to begin its activities in 2010. In 2013, two more banks began operations in Brazil. While ICBC started its own operations with greenfield investments, CCB bought BIC Banco for $671 million dollars. Bank of Communications (BOCOM), in turn, began operating in Brazil in 2015 through the purchase of BBM for $157 million dollars. Finally, the Haitong Group, which acquired Banco Espírito Santo Investimento in Portugal, joined in 2015, and, through this operation, gained control over the operations of the Brazilian subsidiary.

Table 5 shows the evolution of some indicators pertaining to these four banks (BOC, ICBC, CCB, and BOCOM) from 2015 to 2018. The information shows slight growth in the period, in terms of assets, credit portfolio, and equity. As for the relative importance, these banks have, so far, a marginal share in the Brazilian

4 Anti-corruption operation triggered by the Brazilian Prosecutor's Office in 2014 and which has Petrobras at its epicenter.

banking system, as their assets in 2018 represented only 0.42% of the total banking system, 0.39% of the credit portfolio and 0.66% of the corporate credit portfolio. It is worth mentioning that the Brazilian banking system is highly concentrated, with the five largest banks holding 81.2% of total assets. Of the five largest banks, two are private and nationally owned, two are public and one foreign[5].

Table 4. Chinese Banks in Brazil, selected indicators (2015-2018)

	Total Asset	Credit Portfolio	Shareholder Equity
2015	28.4	9.4	1.8
2016	36.6	10.5	2.2
2017	31.1	11.1	3.2
2018	38.1	13.9	3.0

Source: author's elaboration based on Brazilian Central Bank.

Regarding their size and market position, it is possible to verify the difference between Chinese banks that entered Brazil by acquiring existing (M&A) banks from those that started greenfield activities. BOCOM, and in particular CCB, have relatively larger credit portfolios and a bigger customer base, inherited from the acquired financial institutions. Haitong, in turn, although it has entered into an M&A process, has acquired an investment bank aimed at corporate clients. In turn, BOC and ICBC have very small numbers of clients and operations aimed at corporate clients for providing support and financial advice to the operations of Chinese companies located in Brazil, and they also transfer external financial credit linked to the strong trade flow between the two countries.

5 Data from the Brazilian Central Bank. In the case of public banks, one has 100% public capital (Caixa Econômica Federal) and the other, Banco do Brazil, is a publicly-traded company, but the government is its controlling shareholder. National private Banks among the top five are Bradesco and Itaú and the foreign bank is Santander.

Table 5. Chinese Banks in Brazil. Selected Indicators 2018

Financial Institution	Credit Portfolio - Total	Credit Portfolio -Corporate Market	Number of Clients	Number of Operations
BOC	420	420	19	64
CCB	9,033	6,985	270,513	360,169
ICBC	514	514	15	28
HAITONG	326	326	22	75
BOCOM	3,584	3,458	1,726	2,468

Source: author's elaboration based on Brazilian Central Bank.

The strategy of focusing its activities on supporting the operations of Chinese companies in Brazil was spelled out in an interview given by the president of ICBC in 2015. According to the executive, the bank's strategy in Brazil was:

> to enjoy the maximum benefits that the ICBC Group offers and at the same time, take advantage of the fact that Brazil is one of the world's leading economies, follow the trade and financial guidelines, provide quality service to Chinese companies entering the global market, participate in strategic projects involving infrastructure and resources and focus on the business of Chinese companies on their way to the global market, becoming a benchmark in the area of energy resources. (...) ICBC Brazil's business is currently focused on trade transactions involving large volumes of commodities, especially exports of agricultural products. This business position, besides receiving a great demand from China and other countries, has internationally consolidated products, besides receiving several incentives from Brazilian regulators. The main clients are leading companies in the Sino-Brazilian bilateral trade agricultural segment in the soybean, coffee, meat, among others; the main operations carried out refer to trade finance (Lopes and Adachi 2015).

The other banks have a similar strategy. Haitong, for example, has sought to explore opportunities to financially advise Chinese

companies seeking to expand operations in Brazil. The institution advised China Gezhouba Group Corporation (CGGC) in the acquisition of the the São Lourenço Water Producer System concessionaire (SPSL), and the Pengxin group in the acquisition of Belagrícola (Rosa 2017).

That is, so far, the participation of Chinese Commercial Banks that entered Brazil with greenfield operations are concentrated in the Chinese companies' segment, supporting their operations, including international trade, focusing on businesses that adhere to the Chinese companies' insertion profile in Brazil, as in the areas of energy, agribusiness, and infrastructure.

In financial corporations that have purchased assets from previously established banks, despite the larger number of customers and operations, the scale is still small by Brazil's standards. The Brazilian banking market is very concentrated, and among the five largest commercial banks, only one is a foreign bank. Considering 2018 data, these five commercial banks, added to the BNDES, represented 81% of the total corporate credit. The CCB, which positioned itself at 18th position in that segment, accounted for only 0.4% of the total. CCB's experience also shows the difficulties in adapting to the Brazilian market. Two years after entering Brazil, the bank had to resort to a $200 million dollar contribution from the Chinese Headquarter to cover the losses of operations in Brazil due to poor quality credit and to prevent capital ratios from falling below those required by the Central Bank (Marques 2016). This information indicates that in retail operations, Chinese banks are still at the beginning of the learning curve on the peculiarities of the Brazilian banking market and regulation.

In the future, Chinese banks may play a significant role in structuring funding for projects associated with funds explicitly structured for Latin America and Brazil, such as the CLAI Fund (China-LAC Industrial Cooperation Investment Fund), the CLAC Fund (China-LAC Cooperation Fund), the Brazil-China Cooperation Fund for Expansion of Productive Capacity, as well as the resources of the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB).

According to Myers and Gallagher (2019), China Three Gorges used funds from CLAC Fund to close the acquisition of Duke Energy's operations in Brazil and CLAI Fund to purchase the Jupiá and Ilha Solteira energy plants. In the case of the Brazil-China Fund for Cooperation on Expansion of Productive Capacity, resources could reach $20 billion dollars, with $15 billion dollars funded by the CLAI Fund and $5 billion dollar funded by Brazilian institutions, especially BNDES. Its creation was announced in 2015, but only in 2018, did the fund became operational. According to press reports, the fund's board would be in the final stage for releasing the first contributions, which could reach $2.4 billion dollars in four infrastructure projects and one in the manufacturing sector.

Finally, the $90 million dollars contribution made by technology giant Tencent in Brazilian fintech Nubank, one of the most valuable startups in Latin America, with an estimated market value of $4 billion dollars may signal the beginning of another form of impact. Nubank began operations in 2013 by offering free tax credit cards and, more recently, also offering other financial services and solutions. Tencent's investment suggests that Chinese companies are aware of business opportunities in the Brazilian fintech sector, which could benefit from the experience and rapid development of Chinese companies in this sector.

Conclusions and Policy Suggestions

The global crisis has accelerated the internationalization of Chinese companies in various sectors, in a process strongly supported by the state. This context allows us to understand not only the movement of Chinese companies and banks investing abroad but also the diplomatic effort to establish closer connections with different regions of the whole world. The Brazilian case is not an exception. After becoming Brazil's leading trading partner, recent developments in bilateral relations are pointing to a more substantial FDI flow from Chinese companies in the country, which

shows not only growth but also sector diversification. The most important projects, however, are still tied to investments by major Chinese state-owned companies in the areas of energy and infrastructure.

The performance of Chinese banks in Brazil, in turn, has occurred mainly through the operations of public development banks. The EIBC and the CDB have participated in important transactions in Brazil, especially in the oil sector, in commodity-backed financing operations with Petrobras. The information analyzed in this chapter showed that Brazil was the second country in Latin America in terms of financing operations. However, although significant in absolute terms, given the size of the country and the fact that Brazil is one of the few countries in the region to have a relevant public funding system, in relative terms, the importance becomes much smaller. The disbursed amount by these two banks was about 4.3% of the total disbursed by BNDES between 2007 and 2018. Also, the chapter showed a large concentration in Petrobras operations. Again, it is vital to highlight the difference between absolute and relative values. Because Petrobras is the largest Brazilian company we can say that there was no dependence of Petrobras on Chinese funding. However, Chinese resources were significant, especially in the most profound moments of the crisis that the company went through, favoring the diversification of the available financial sources.

Regarding Chinese commercial banks, they have gradually expanded their operations in Brazil, entering the country in greenfield and M&A operations. However, they still have small participation in the total banking and credit operations of the Brazilian system. Banks that started their operations in Brazil from greenfield investments have focused their operations in the corporate sector, primarily to provide services and financial advice to the growing number of Chinese companies working in Brazil. Banks that entered the market through the purchase of existing banks bought smaller institutions, especially compared to the leaders of the Brazilian market. Thus, the analysis pointed to a situation where the practical impact of the entry of Chinese banks in Brazil

is still marginal, primarily because they are still in the early stage of their process of adaptation to the Brazilian market.

In general, it can be concluded that the role of Chinese financing in the Brazilian economy is still relatively small. Considering the concern in the literature about the risks of a debt trap due to Chinese financing, in the case of Brazil the small relative participation allows us to say that there was no significant contribution in this regard.

However, if the role of Chinese banks in the Brazilian economy has been until now relatively small, in terms of prospects, there is a good chance that they will play a much more significant role. The fact that Chinese banks act in conjunction with the Chinese government's more general development strategy, as well as with the observed performance profile of banks in Brazil, strongly linked to the operations of Chinese companies, makes it possible to highlight some interesting prospects, especially the opportunity to increase funding for new infrastructure projects.

In a scenario where infrastructure investments in Brazil have long been below the required level, and where difficulties persist in structuring long-term financing, the interest of Chinese companies in investing in the sector and channeling financial resources from Chinese Development Banks or Regional/Bilateral Funds can be a very relevant opportunity.

It is important to remember the central role of state planning in China's internationalization process and its link with the national development strategy, either directly through investments of State-owned companies abroad or through various support and financing mechanisms. It is, therefore, a form of international insertion very different from the other experiences of foreign investment that Brazil has received. Precisely for this reason, taking advantage of the potential benefits that may come from increased investments by Chinese companies, coupled with increased funding, should consider this feature.

The strong public character of the Chinese business and financial system requires a high-level political negotiation effort that is not set for other countries. In other words, with no other country,

it would be possible to have state-level negotiations that can be directly reflected on the decisions of financial and non-financial corporations.

Thus, it should be essential to expand efforts to maintain high-level bilateral negotiations. The new Brazilian government has been emitting ambivalent signals in this regard. On the one hand, some statements by President Bolsonaro during the election campaign created fears of an attitude contrary to the interests of Chinese companies in Brazil. More recently, the attempt to appoint his son and Congressmen Eduardo Bolsonaro to the Brazilian embassy in Washington has raised fears that a closer rapprochement with the United States could mean a detachment in relations with China. On the other hand, the reactivation of Cosban (Sino-Brazilian High-Level Commission for Concertation and Cooperation) and the meeting held on May 2019 between the vice-president of both countries signaled the desire to maintain close relations with the country's leading trading partner. It would be essential to follow in this second direction, maintaining the efforts of regular meetings as a vector to advance the possibilities for cooperation and expansion of bilateral relations. Besides, participation in BRICS Summit meetings is also an important event and offers opportunities for bilateral concertation.

For high-level negotiations to have positive results, Brazil must have an active role and clear strategy for maximizing potential positive outcomes and mitigate risks. This strategy should focus on the possibilities of expanding long-term funding, especially in infrastructure, where there is complementarity between the interest of Chinese companies and the difficulty of Brazil to boost projects in the sector. It would be necessary, however, to focus primarily on new expansion projects, rather than prioritizing the financing of existing asset acquisition processes. It would also be vital to maintain and refine mechanisms to monitor, regulate and generate positive effects in the country in terms of service quality, job creation, good environmental and labor conditions, linkages with domestic supply chains and technological spillovers.

Specifically, regarding financing, it would not be advisable to assume that resources from Chinese investors could replace other international or national sources. On the contrary, the capacity of domestic resources to leverage partnerships with Chinese funding fonts should be maintained in order to ensure the structuring of projects that may counterbalance the interests of the Chinese counterparts. BNDES is of central importance in this respect because of its expertise and accumulated technical knowledge.

Finally, a subject that must be monitored in the future is the impact that Chinese capital may have on the Brazilian payment system. The fintech sector in Brazil has been showing signs of dynamism, owing to the rapid growth of some start-ups. Tencent's investment in NuBank shows that Chinese companies are also aware of the expansion potential of the Brazilian Market. Even if we consider that payment system operations are very different from credit portfolio operations, the expansion of fintechs can contribute to lower transaction costs and update resource transfer mechanisms. Chinese companies have accumulated a great deal of training, they have been world leaders in the expansion of this area, and may eventually further expand operations in Brazil.

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CHINA AND BRAZIL DEVELOPMENT FINANCE COOPERATION.

A CASE STUDY OF THE BELO MONTE TRANSMISSION LINE PROJECT

Shoujun Cui and Zheng Zhang

Introduction

China and Brazil are regional and global emerging market powers and furthermore the largest developing countries in the Eastern Hemisphere and the Western Hemisphere respectively. Their similar status as developing countries and the common goal of achieving development and prosperity have considerably minimized the importance of the geographical distance between China and Brazil. In 1993, the two countries established a strategic partnership for cooperation, which was the first strategic partnership China established with another country. Since the 21st century, relations between China and Brazil have been growing stronger and collaboration between the two countries, in various fields, has become increasingly close. Politically, the diplomatic relations between China and Brazil were upgraded to a comprehensive strategic partnership in 2012, with frequent exchanges of high-level visits. Economically, trade cooperation between the two countries has developed rapidly, investment cooperation has stabilized, and financial cooperation has recently grown considerably. Thus, China's most important bilateral relationship in Latin America so far is its relationship with Brazil.

As China actively promotes the "Going Out" strategy and the "Belt and Road Initiative", Brazil has become an increasingly important partner in China's infrastructure investment and financing. National Development Banks (NDBs) are essential institutions for developing financial cooperation between China and Brazil. Many Chinese companies are optimistic about Brazil's economic development prospects, and have established themselves in the Brazilian to further promote economic cooperation between China and Brazil. The State Grid Corporation of China (SGCC)'s investment in and financing of the Belo Monte Transmission Line Project in Brazil is the most striking example; it is a success story of financial cooperation between China and Brazil in the new era and should be studied carefully. The financial cooperation between China and Brazil in the infrastructure sector has provided further impetus for economic cooperation between the two countries. Under the framework of "South-South cooperation", this will not only help reduce the asymmetric dependence of the "post-developing countries" on developed countries, but also enhance the mutual political trust between these two countries.

In this article we will first examine the status of financial cooperation between China and Brazil, from the perspective of development finance, within the context of economic cooperation, and then analyze the investment and financing process of SGCC's Belo Monte Transmission Line Project in Brazil. Finally, we will discuss current and future challenges and propose some policy recommendations for further financial cooperation between China and Brazil.

"The Belt and Road Initiative" and China-Latin America Cooperation

Since China's admission to the WTO in 2001, the economic and trade ties between China and Latin American have shown exponential growth. This rapid expansion of trade and investment has prompted China to view Latin America as a "natural extension"

of its audacious "Belt and Road Initiative" (BRI), which originally encompassed only Europe and Asia when it was launched in 2013 (Yang 2018). By June 2019, 18 countries in the region have signed memorandums of understanding (MOU) with China, officially endorsing the BRI. China held the second BRI summit in Beijing on May 2019, when President Xi Jinping affirmed that the objective is to broaden economic, political and cultural cooperation between China and the regions that support this initiative. BRI is poised to offer a global network of infrastructure projects in Asia, Africa, Europe and Latin America to facilitate trade, investment, and financial cooperation between China and the partner nations.

The cooperation between China and Brazil is an essential part of overall China-Latin America cooperation. In November 2016, the Chinese government issued a new edition of the document "China's Policy for Latin America and the Caribbean", describing Latin America and the Caribbean as "a land full of vitality and hope". It has also given more recognition to national specificities, regional diversity, and the region's collective importance for China. In this sense, South-South cooperation was reinforced as a shared goal. Under this top-level framework, Brazil is regarded as an equal partner in bilateral and multilateral relations from a mutual win-win perspective. China's BRI and the Latin American development policy have opened up a significant opportunity for economic and trade cooperation between China and Brazil. The two sides have promoted in-depth development of industrial and trade cooperation at various levels and in many fields.

Economic Cooperation between China and Brazil

Under the impetus of trade, investment, and finance, the relationship between China and Brazil has shown good momentum. As the largest economy in Latin America, Brazil is China's largest trading partner and most significant investment destination in this region. In 2018, the bilateral trade volume between China and Brazil was $98.9 billion, an increase of 32.2% over the previous year

(MOFCOM 2019:48). According to China's Ministry of Commerce, from 2009 to 2017 China's direct investment flows to Brazil had grown at an average rate of 41%. By the end of 2017, China's direct investment stock in Brazil had exceeded $3.2 billion (MOFCOM 2018:53). In addition, Brazil has become the third-largest mergers and acquisitions (M&A) target for Chinese capital worldwide. Chinese companies' investments and acquisitions in Brazil have expanded from the deep-sea oil sector to the communications, power and energy sectors. More than 200 Chinese-funded enterprises have invested in Brazil over the past 10 years, and 50% of SGCC's foreign investments have gone to Brazil.[1]

In the financial sector, financial cooperation between China and Brazil has developed rapidly since 2005. The international financial crisis and economic recession in 2008 provided an exceptional opportunity for China and Brazil to deepen financial cooperation as assets became undervalued. In recent years, with the deepening of China-Brazil economic and trade relations and the promotion of the BRI, the financial cooperation between China and Brazil has become increasingly diversified. In the meantime, the areas and sectors open for cooperation have gradually expanded and the level of cooperation is improving continuously. The primary objective of financial cooperation between China and Brazil is not to pursue high capital gains, but to promote the capacity for cooperation between the two countries and provide a solid foundation for further expansion of trade and investment.

China and Brazil are both members of the BRICS countries and are remarkable emerging market powers. The investment and financing cooperation between these two countries has huge potential. The financial development institution represented by the China Development Bank (CDB) is the primary channel for investment and financing of infrastructure construction in BRICS countries. Development finance must take into account the community and lifestyle of the people aiming to build a sustainable

1 SGCC's foreign investment totaled $19.5 billion, of which nearly $10 billion has flowed to Brazil (see next section on State Grid, State Grid (2017), and State Grid Brazil (2018).

society with better living conditions and welfare growth among people living in a community. It is also a financial mechanism for attaining governmental economic development goals, supplementing commercial financial deficiencies and offsetting market failure, as well as safeguarding national economic and financial security. A development bank is the main institution and tool for achieving development finance goals. The number of development banks –national and regional financial institutions designed to provide medium and long-term capital for productive investment– has increased rapidly in the last several decades. At present, the number of National Development Banks (NDBs) established in countries around the world exceeds 2,800 and the equity ratio owned by the government in all countries exceeds 30% on average (Wu 2017). Both infrastructure construction and development projects are the primary targets for investment and financing, which have made significant contributions to building countries' national economies.

It is worth noting that CDB is currently the world's largest development bank and an essential tool for the implementation of China's domestic and foreign investment policies. From the Chinese perspective, with assets of over $2.3 trillion, CDB is the world's largest development finance institution, and the largest Chinese bank for financing cooperation, long-term lending and bond issuance (CDB 2019). Undoubtedly, it is also the most import financial vehicle for driving China-Brazil finance and infrastructure cooperation. From the Brazilian perspective, the Brazilian Development Bank (Banco Nacional de Desenvolvimento Economico e Social, BNDES) is the largest financing agent for development in Brazil and the largest creditor institution in South America, with assets accounting for 11.8% of Brazil's total financial assets (BNDES 2019).

With massive financial assets, strong governmental back-up and ambitious investment goals, CDB has outstanding comparative advantages in infrastructure investment and financing. CDB has a unique competitiveness in infrastructure investment and financing and thus plays an essential role in filling the infrastructure

gap in Latin American counties. Moreover, CDB can also participate in Latin American countries' infrastructure planning and decision-making processes, as they establish their economic and social development agendas, by providing long-term loans and lending.

In the field of infrastructure, China and Brazil have strong complementarities. In Latin America, there is a widespread gap in infrastructure construction. The infrastructure bottleneck drags down the momentum of economic development. China's infrastructure construction capacity and technological know-how are among the highest in the world. By coupling this with its huge financing capability, China can provide engineering contracting, construction, management, equipment, supplies and other services to Brazil. For example, in the field of electric power, Brazil has a vast territory and abundant natural resources. Large hydropower stations provide nearly 80% of the country's electricity needs. Similar to China's resource allocation, Brazil's energy supply and demand centers are unevenly distributed. Hydropower resources are concentrated in the northwest, while demand is concentrated in large cities in the southeast. Electricity delivery requires long distance transmission over more than 2,000 kilometers. The Ultra-High Voltage (UHV) transmission technology innovated by SGCC has solved Brazil's "North to South" long distance power transmission problem and thus provides a pragmatic and feasible solution to meet Brazil's enormous and growing energy needs and promote the country's economic and social development agenda.

State Grid Corporation of China Arrives in Brazil

The State-Owned Enterprise represented by the SGCC is a vital force in implementing China's BRI. As a leading corporation in the world's Fortune Global 500 list, SGCC considers the countries and regions along the "Belt and Road" as a priority for its overseas business expansion.

Branches of SGCC have been established in Asia, Europe, Africa, America, Oceania and other places. It has promoted the "going

out" of technology, equipment, standards, talents and culture (State Grid 2019). Since the establishment of the internationalization strategy in 2004, the SGCC has successfully transformed itself into a globally leading enterprise in the field of power grid construction and transmission. It has developed a new path for "going out" with technology and export managerial expertise as its core. The SGCC's "going out" has three distinctive features: Its objectives are, first, to own equity in strategic assets of host countries; second, willingness to make financial investments anticipating a long-term return; and thirdly, readiness to combine technology provision with export managerial expertise.

A power grid is characteristically a public resource and has an essential impact on economic development, so it is usually strictly regulated by national governments. Generally speaking, compared with oil and gas, coal and other resource, it is more difficult for access to be granted to a foreign company. However, it can usually produce relatively stable and long-term profits once the concession is granted.

It has been proved that SGCC's "going out" not only effectively expands the development of the grid business, but also brings economic benefits to the enterprise. According to SGCC reports, SGCC owns equity in the overseas assets it has invested and the return on these assets is more than double digits, which is 3 to 5 times higher than the returns on its domestic investment.

Brazil is an essential market for SGCC's overseas expansion. In 2010, the European debt crisis triggered by the financial crisis spread to many European countries. ACS Group, a Spanish electric power infrastructure corporation, was severely impacted by the financial crisis and therefore was eager to sell several of the project concessions it held in Brazil due to its capital chain rupture. Coincidentally, SGCC had just made the decision to expand its overseas business and thus eagerly took advantage of this opportunity to enter into the Brazilian power market. Therefore, by the end of 2010, SGCC had acquired seven of ACS Group's transmission concession companies in Brazil for the price of $989 million and registered the State Grid Brazil Holding (SGBH) in Rio de

Janeiro. In December 2012, SGBH again acquired seven transmission concession companies in Brazil. After 2016, when the Brazilian economy was in trouble, the SGCC still had confidence in the Brazilian market, buying shares of the Brazilian private power company CPFL and exporting its technology and management expertise, in the field of power distribution and new energy power generation, to Brazil. At present, SGBH has become the second largest transmission company in Brazil.

Case Study: The Belo Monte Transmission Line Project in Brazil

The Belo Monte Transmission Line Project in Brazil is one of the most significant cases of economic cooperation between China and Brazil. It is a power transmission project for the Belo Monte Hydropower Station, which is the second largest hydropower station in Brazil and the fourth largest in the world, with an installed capacity of 11.23 million kilowatts. Currently, the Belo Monte Transmission Line Project includes two major projects: Phase I and Phase II, both of which belong to the national concession of the Brazilian Federal Government and are essential parts of Brazil's national energy supply. The Phase I project was officially initiated in July 2014 with a construction period of 44 months. It was completed and put into operation on December 12, 2017. Phase II of the project was started in September 2017 and is expected to be completed by the end of 2019. The full amount of financing for the Belo Monte Transmission Line is about $4.9 billion, of which $3.3 billion was financed through Chinese sources and $1.6 billion was financed through Brazilian sources. The critical premise and foundation for the success of the Brazilian Belo Monte Project is that it embodies a high degree of political consensus and social consensus in Brazil.

It is worth noting that the Brazilian concession model establishes the recognition and separation of "Five Rights". The "Five Rights" refers to the rights of ownership, management, benefits,

disposal of and residual claim to project concessions. The "Five rights separation" means that, the rights of ownership, disposal of and residual claim to the project always belong to the Brazilian Federal Government, while the project's management and the rights to its benefits belong to the project investor during the granted concessionary period. The investor company wins the project concession right and thus is responsible for the investment and financing, construction and operation of the project (PLDR Melo, FM Borini, and RC Parente 2015). At the end of the concession period, the investor company must hand over the project to the relevant Brazilian Federal Government Agencies, such as the Brazilian National Council of Energy Policy, the Ministry of Mines and Energy, and the National Electricity and Energy Administration. These institutions of the Brazilian Federal Government have three identities in the project, namely, as the project sponsor, the asset owner, and the concessioner, of which the State Electricity and Energy Administration is the actual concessioner.

The Belo Monte Transmission Line Phase I Project

Phase I of the Belo Monte Transmission Line Project is the first Ultra High Voltage (UHV) Direct Current (DC) transmission project of the Belo Monte Hydropower Station. This "electricity highway" runs through Brazil's north and reaches the south, spanning 4 states and crossing 66 cities. The distance is 2,076 kilometers and the transmission capacity is 4 million kilowatts. It can transport more than one-third of the power of the Belo Monte Hydropower Station to Brazil's southeastern load center, and provide a significant channel for the north-south interconnection of the Brazilian power grid to meet the annual electricity demand of 22 million people.

As early as September 2010 when the SGCC had just arrived in Brazil, the Transmission Line Project of the Belo Monte Hydropower Station in Brazil had already begun preparatory work. SGCC actively participates in all aspects of the project and promotes the "going out" of UHV technology and equipment. At the

end of 2012, SGCC and the Brazilian Power Company formed a joint venture with a 51:49 share ratio to jointly bid for Phase I of the Belo Monte Transmission Line Project. Also participating in the bidding were the Spanish Power Company and a Brazilian state power company. The bidding cycles were long and there were strong competitors.

On February 7, 2014, the public bidding for the project was officially opened, and SGCC and the Brazilian National Power Company jointly won the bidding. The total investment budget for the project is about 4.4 billion BRL (about $1.8 billion US dollars). Affected by inflation and exchange rate fluctuations, the actual investment is about 5.6 billion BRL. The concession period is 30 years.

On July 17, 2014, jointly witnessed by Chinese President Xi Jinping and Brazilian President Dilma Rousseff, SGCC and Brazil's State Power Corporation signed the "Cooperation Agreement for the Belo Monte UHV Transmission Project in Brazil". Since then, cooperation between China and Brazil, in the area of power generation, has entered into a new stage. In the agreement, the two parties further clarified that they will share their expertise in the construction, operation and management of UHV power grids, conduct in-depth communication and exchanges, and provide comprehensive support for personnel, funds and technology for the Belo Monte UHV transmission project in order to promote the successful construction and implementation of this project.

The investor for the project is the Belo Monte Transmissora de Energia (BMTE, referred to as Belo Monte Transmissora de Energia SPE S.A.). The company is a joint venture of three companies and is incorporated in Rio de Janeiro. Among them, the State Grid Brazil Holding (SGBH) holds a 51% stake, and two subsidiaries of the SGBH –Fuchnas and Eletronorte of Northern Power Company– each maintain 24.5%. The CEO and CFO of BMTE are all appointed by SGCC.

Four companies are involved in the construction of this project. The project company divided the construction project into 8 tenders. After bidding, Sepco1 Electric Power Construction Corporation, a subsidiary of Power Construction Corporation of China,

won three bids. Brazil's Tabocas won two bids and São Simão won two bids. Incomisa, Bolivia's Grupo INGELEC's Brazilan branch, won one of the bids.

The production and service providers for this project also won bids through more than 10 Brazilian companies such as Brametal and transnational companies including Siemens, SAE and Phelps Dodge. As of the end of 2016, Brametal, Siemens, Saye, and Phelps Dodge had supplied nearly 2.7 billion BRL of machinery and equipment, accounting for 48.2% of the total investment (BMTE 2016:18).

There are four primary sources of financing for this project. The first is capital subscription. According to the 51: 49 shareholding structure, the investment from SGCC in the project is about $1 billion. However, the SGCC does not have much equity capital due to the use of investment leverage. On one hand, local development bank loans are used; on the other hand, low-cost financing can be obtained from the market. As of the end of 2016, the three investors had injected capital of about 1.36 billion BRL into the project company in proportion to their respective shares.

The second source is bond financing. With the support of BNDES, the project company issued corporate bonds to financial institutions such as the Federal Savings Bank (CEF or Caixa) and Santander. As of the end of 2016, the bond balance was approximately 370 million BRL.

The third is working capital loans. As of the end of 2016, Bank of China, China Construction Bank, Industrial and Commercial Bank of China and other branches in Brazil and two other local banks provided liquidity loans to the project company of 570 million BRL (BMTE 2016:10, 17, 20). The fourth source is a project financing loan from the BNDES. In early 2014, the BNDES announced the bank's financial support for Phase I of the Belo Monte Transmission Line Project to the international community. At the beginning of 2015, BNDES provided a bridge loan of 718 million BRL to BMTE. In January 2017, the BNDES approved the project company's financing quota of 2.56 billion BRL, including the previous bridge loan of 718 million BRL. In mid-March 2017,

due to the shortage of funds from the shareholders on the Brazilian side, Phase I of the Belo Monte Transmission Line Project had a capital outflow. And the short-term bridge loan would expire on April 17, which would also influence the capital subscription. In the face of this difficult situation, in terms of fund-raising, the project company took advantage of the mutual trust and cooperation relationship between the CDB and the BNDES to break through the routine and complete the opening and certification of the letter of guarantee in just one week, and obtain long-term preferential loans before the final deadline for the bridge loan. On April 17, 2017, the company for Phase I of the Belo Monte Transmission Line Project obtained the first batch of long-term preferential loans from the BNDES. The amount of financing from BNDES accounts for about 45.7% of the total investment (Yuan and Liu 2018).

On October 23, 2017, Phase I of the Belo Monte Transmission Line Project in Brazil was completed. On December 12, 2017, Phase I of the Belo Monte Transmission Line Project was officially put into commercial operation, two months ahead of the commissioning date stipulated in the concession agreement. It pioneered the construction of a large-scale transmission project in Brazil ahead of schedule. The project represents the first time that China's UHVDC transmission technology "goes out" and builds the first UHV long-distance transmission line in Latin America. The Belo Monte Transmission Line Phase I Project is of strategic importance as an opportunity for enterprises to explore the Latin American market. It also helps strengthen the strategic cooperation between the CDB and the SGCC, laying a good foundation for China's subsequent collaboration with Brazil and South America.

The Belo Monte Transmission Line Phase II Project

The SGCC independently bided for Phase II of the Belo Monte Transmission Line concession project in Brazil during the construction of the Phase I Project. On July 17, 2015, SGCC outbid the powerful Brazilian National Power Company and the Spanish Auburnga

Group and successfully won the bid with its superior technology, management and reputation. This is the second UHV transmission project won by the SGCC after the Belo Monte Transmission Line Phase I Project. It is also the first UHV transmission project that is independently invested in, designed, constructed and operated by SGCC in an overseas country, so it is a new milestone for UHV's "going global" strategy.

The SGCC established the BMTE II with 100% of the investment. It is responsible for the finance, design, construction and operation of the Phase II project independently. The project connects the Xingu Converter Station (the sending end) and the Rio Converter Station (the receiving end), over a total distance of 2,539 km and a power transmission capacity of 4 million kilowatts. It spans Brazil from north to south, traversing 5 states and 81 cities. To accomplish its mission, 4,448 transmission towers and 69,000 tons of conductors are needed for this construction. This is the most extensive transmission project in Brazilian history and up to now the longest ±800 KV DC transmission project in the world. The project has a construction period of 50 months and is scheduled to be put into commercial operation in the third quarter of 2019. The concessionary period is 30 years. The total project investment is 9.6 billion BRL (about $2.8 billion dollars), and the investment return rate is over 14%.

The project operation adopts the mode of "Investment + Engineering Procurement Construction (EPC) + Operation", and the EPC will be handled by the China Electric Power Equipment and Technology Co., Ltd. According to the estimated investment for the project, the SGCC investment in the construction of Phase II of the Belo Monte Project means that nearly 5 billion RMB (about $714 million dollars) of domestic high-tech power equipment and EPC services will "go out". In terms of leading hardware, the high-tech 800 KV equipment of the NARI Group, China XD Group, PG Group and other Chinese manufacturers has been widely applied in the two major projects of Belo Monte. Besides, a group of outstanding Chinese electrical equipment enterprises have already been set up in Brazil. Regarding EPC construction, China Electric

Power Equipment and Technology Co., Ltd, Xinjiang Power Transmission & Substation Engineering Co., East China Power Transmission & Substation Engineering Co., Hunan Power Transmission & Substation Engineering Co., SEPCO and Fujian Electric Power Engineering Co., Ltd all participated in the construction of Phase II of the Belo Monte Project. At the same time, the project will also promote upstream and downstream industries such as local power, electrical equipment and raw materials in Brazil, creating about 16,000 jobs for the local area and contributing BRL 29 billion BRL (about $7.25 billion dollars) in taxes.

The primary basis for project financing is the predictability and steadiness of cash flows. The funding for the project is guaranteed in two aspects. The first is the guarantee of electricity flow. According to the Brazilian concession law and other relevant regulations, the project company can enjoy the minimum electric power flow guaranteed by the federal government agencies during the concessionary period; and it is believed that the electrical power flow is the basis for generating cash flow. The second is technical support. UHV transmission technology is a significant innovation in China with completely independent intellectual property rights and a leading role at the global level. It has been widely promoted and applied in China. It has been sufficiently proved that the high efficiency and low power transmission loss characteristic of this technology can greatly increase the power flow and, hence, the cash flow.

Like Phase I of the project, in addition to the SGCC as a wholly-owned shareholder of capital injection, Phase II also relies on financing from BNDES and several other financial institutions. On May 30, 2017, the Phase II project company successfully issued a one year short-term bond fund of 550 million BRL as planned. The bond was jointly underwritten by Brazilian ITAU, ABC BRAZIL and BTG Pactual. The interest rate was linked to the Brazilian Central Bank's Benchmark Interest Rate (CDI). The overall cost was less than 105% CDI, which is slightly higher than the local deposit rate. At the same time, CDB issued a guarantee for the SGBH to apply for a medium and long-term Brazilian local currency loan

from BNDES, which effectively reduced the medium and long-term financing costs for the Chinese companies in Brazil and improved SGBH's bargaining power with local banks.

In addition, Fundo de Investimento do Fundo de Garantia do Tempo de Serviço (FI-FGTS) financed a total of 1 billion BRL in long-term bonds for Phase II of the Belo Monte Project (FGTS 2019). FI-FGTS's long-term bond financing, for one thing, broadens the financing channels and reduces the demand for bond market issuance. For another, it transmits positive signals that the government agrees with bringing the UHV DC project to the market, which dramatically attracts other investors.

At present, Phase II of the Belo Monte Project is near completion. It is expected that the entire line will be completed in Brazil ahead of schedule in September 2019. It is also expected to meet the annual electricity demand of 18 million Brazilians, which will help to substantially alleviate the bottleneck of the difference between the country's supply and demand. The Phase I and II Projects use the same UHV transmission technology, which will allow for good synergy in the future.

SGBH effectively has promoted the improvement of the national standards in the field of power transmission and transformation in Brazil and has provided stable support for Brazil's economic and social development by supporting the Belo Monte Transmission Line Project. In addition, the long-term investment and SGCC's localization operation strategy in Brazil has brought tangible benefits to local communities.

Future Challenges and Policy Recommendations

China has become Brazil's largest trading partner since 2009 and stronger trade ties between China and Brazil serve their mutual interests by providing an alternative market for each other. In the backdrop of the BRI, China is willing to provide huge amounts of development finance to Brazil, which can help fill this country's infrastructure gap. By analyzing the case of the Belo Monte

Transmission Line Project in Brazil, it can be argued that the Chinese state-owned enterprise SGCC plays a critical role in promoting Brazil's energy transmission and boosting economic growth. Looking deeper into the timeline of SGCC engagement with Brazilian counterparts, two leading development finance intuitions, CDB and BNDES also play critical finance facilitation roles. By taking advantage of the close cooperation between CDB and BNDES, SGCC's subsidiary SGBH successfully obtained medium and long-term loans from BNDES at low costs and thus improved its borrowing strength with Chinese commercial banks and Brazilian local banks, which facilitated raising the rest of the capital in the financial market and thus guaranteed the construction of the project.

The Belo -Monte Transmission Line Project is a good example of win-win cooperation between two emerging countries. By accessing Brazil's electricity market, China UHV fulfilled its "going global" strategy and established itself in Latin America, which is a milestone for integrating SGCC into global energy interconnection. At the same time Brazil took a solid step forward in transmitting electricity from the Amazon forest to its industrial center by way of the Chinese built "electricity expressway". Unlike western companies, Chinese companies have a long-term and strategic view of overseas investment and finance. With a greater tolerance for risk compared to their western counterparts, Chinese companies are more willing to make financial investments with no expectation of turning a quick profit. However, like all the mega-infrastructure projects in other parts of the world, the Belo Monte Transmission Line Project also presents challenges. To mitigate the environmental, social and political risks, China and Brazil should increase both governmental and nongovernmental dialogue and communication, to continue to deepen mutual understanding and forge a bilateral consensus. Only by enhancing mutual trust and consolidating bilateral ties, can economic and financial cooperation between China and Brazil be promoted.

Risks and Challenges

The first challenge is social risk. The concept of social license refers to the ongoing acceptance of a company or industry's standard business practices and operating procedures by its employees, stakeholders and the general public. Sustainable financial cooperation on infrastructure projects between the two countries requires a high level of social acceptance for Chinese companies by the Brazilian people, which means social license has to be granted to Chinese companies.

In the last decade, the economic and political ties between China and Brazil have made rapid progress, but the political systems, legal environment, cultural traditions, and public opinion climate of the two countries are quite different. Therefore, the deepening of China-Brazil economic and financial cooperation will not automatically bring about the Brazilian people's recognition and acceptance of Chinese companies. The deepening of mutual understanding requires a process of gradual mutual adaptation. According to a survey released by the Pew Global Attitudes Project in 2018, 33% of Brazilians hold an unfavorable view of China (PRC 2018).[2] Mega-infrastructure projects such as power transmission lines will produce some undesirable impacts on the environment, so how to properly mitigate the negative impacts on biodiversity in the fragile amazon ecosystem will always be a concern for the Brazilian general public.

Brazil is a country with strong environmental protection legislation and strict environmental regulatory rules. Actually, Brazil has implemented more than 20,000 environmental protection laws and regulations and is considered to be a country with one of the strictest environmental regulations in the world. According to Brazilian law, the construction permit from the Ministry of the Environment in Brazil must be obtained in advance. Moreover, the stipulations on pollution discharge and violator's liability are

2 Pew Research Center, Global Indicators Database, 2018. https://www.pewresearch.org/global/database/indicator/24 (accessed on July 20, 2019).

even stricter than those of developed countries. In addition, there are many protected lands, for indigenous peoples in Brazil, which demand special care (Fearnside 2006). Therefore, SGCC and other Chinese companies should always comply with local environmental regulations and adopt proper and efficient mitigation measures.

In terms of resource grabbing, some sectors of public opinion view China's widespread financing of loans and investments in Brazil's energy and extractive industries as posing a threat to Brazil's national interests. There are accusations that Chinese investment in Brazil does not effectively enhance local employment and fails to encourage the growth of Brazilian exports. In an interview with the São Paulo State newspaper, the former Brazilian finance minister and former adviser to President Lula said that the Brazilian government allowed China to "buy" Brazil in the same way it "buys" Africa, which is short-sighted (Viga Gaier 2012). Benjamin Sternbridge, CEO of Companhia Siderúrgica Nacional (CSN) and chairman of the Friesp Industry Federation (Fiesp), also made a suggestion to the government to limit China's investment in Brazil, especially to curb Chinese companies' acquisitions in Brazil's domestic minerals, land and infrastructure sectors (Fuentes 2017). This kind of anti-China narrative will affect long-term financial cooperation between the two countries.

The second challenge is political risk. Political risk is a type of risk faced by investors, corporations, and governments to the extent that political decisions, events, or conditions may significantly affect profitability. The international situation has become complicated given the context of strategic competition between the United States and China. The U.S. president Donald Trump labeled China as a "strategic competitor" in his first national security strategy statement in December 2017, accusing China of maintaining a "repressive vision" and "pursuing economic aggression" designed to weaken America. Latin America has long been viewed as a geopolitical "backyard" to the U.S. and China's increasing presence in the region was viewed as that of an "imperial power" by former U.S. Secretary of State Rex Tillerson (Melo, Borini and Parente 2018). The intensification of China-US competition will

have a spillover effect on China's relations with Latin American countries. The far-right Brazilian President Jair Bolsonaro, who said his campaign of 2018 was inspired by Donald Trump and openly declared himself to be an admirer of the U.S. president, has forged a close bond over their shared brand of conservative and populist politics. Brazil's quick move to ally with the United States will lead to a shift in the country's diplomatic priorities after a decade of leftist party rule that had seen Brazil forging closer ties with China. The ideological similarities between the United States' and Brazil's current leaderships might put China-Brazil relations at risk.

The negative political attitude held by Brazilian President Jair Bolsonaro toward Chinese presence poses a potential threat to the massive Chinese investment in Brazil. After President Bolsonaro took office in January 2019, he advocated that "Brazil is above everything" (Fishman 2018), and his attitude towards China has been very different from that of his predecessors. After SGCC acquired a 54.64% stake in Brazil's largest distribution company CPFL in 2017, he warned in an interview that "China is buying Brazil", threatening the nation's sovereignty. Therefore, he declared that Brazil should not allow Chinese companies to control Brazil's key industries. At the same time, the Trump administration hopes to convince the Bolsonaro administration to contain China's growing influence in the region, and hopes that the Bolsonaro administration which is "strongly criticized for Chinese investment" can join the US led campaign to curtail China's expansion in the Western Hemisphere. It appears that after a few months in office, Bolsonaro's attitude towards Beijing has been moderately softened due to the fact that China's economic presence in Brazil is crucial for Brazil's economic growth. However, a scenario of potential conflict between China and Brazil still cannot be fully ruled out due to the US factor in China-Brazil bilateral relations.

Policy Recommendations

Although there is no fundamental conflict of interest between China and Brazil, it is imperative for Chinese companies to comply with local Brazilian laws and regulations, protect the ecological environment, and enhance information transparency in order to reduce and avoid possible risks and conflicts over economic and financial cooperation.

On the one hand, SGCC should continue to improve its social acceptance by adopting social and environmental best practices. To be specific, during the project construction process, SGCC should strictly abide by local laws and regulations, especially in engineering quality, labor standards, construction schedule, government coordination, land acquisition, tax policy, etc. At the same time, SGCC should prioritize the concept of green development, protect indigenous communities and the environment, and seek to promote public welfare.

In practice, SGCC is aware of the importance of earning social license in Brazil and thus has taken action to improve the local people's livelihoods and enhance ecosystem conservation. For example, during the construction of the Belo Monte Transmission Line Phase I Project, SGCC donated 760 batches of anti-malaria medicines to the residents along the line to help the poor residents in the Amazon forest to build a modern chicken farm. It also funded 18 environmental protection projects and supported rescue excavation work at 13 archaeological sites. Besides, the Belo Monte Phase II Project is the most complicated engineering project in Brazil's history, with the most sensitive ecological environment and the most complicated relationship among local stakeholders. The project route passes through the Amazonian rainforest area, the Brasilia Plateau, the Rio hilly area, and 863 rivers spanning the five major river basins (such as the Amazon Basin and the Tocantins River), with complex ecological systems, varied topography and substantial differences among the groups inhabiting these areas. To meet Brazilian environmental standards, SGCC has hired more than 400 people to participate in the

Environmental Impact Assessment (EIA) work and finally submitted 56 reports. After 25 months of environmental assessment, the design of the Belo Monte Phase II Project finally passed the most rigorous environmental assessment, for such a project in Brazil, in August 2017, which was recognized by the Brazilian power regulatory authority. Given the biological sensitivity of the Amazon forest area and the complex environmental laws, SGCC should always put the environment first and adopt secure mitigation measures.

On the other hand, China should adopt measures to control and avoid potential political risk. China-Brazil economic cooperation will inevitably be accompanied by various complicated factors such as ideological differences, contradictions in values, competition for power and geopolitical uncertainties. Therefore, it is particularly necessary for both countries to establish regular channels for dialogue and promote mutual understanding. China invited Brazilian Vice President Hamilton Mourao to Beijing in late May 2019 where he met with Chinese Vice President Wang Qishan and chaired the fifth meeting of the China-Brazil High-Level Coordination and Cooperation Committee (COSBAN). This is the first high-level Brazilian visit to Beijing sent by the Bolsonaro Administration. During the meeting, Mr. Mourao expressed Brazil's willingness to strengthen cooperation with China in trade, investment and other areas, which established a friendly tone for further bilateral relations. It has been announced that President Bolsonaro will pay a state visit to Beijing in October 2019. It is worth noting that China had repeatedly invited Bolsonaro to visit Beijing, but a trip had not materialized before. It can be anticipated that President Bolsonaro's upcoming meeting with Chinese President Xi Jinping will substantially boost bilateral relations. In addition to governmental exchange, people-to-people exchanges between the two countries should also be enhanced. Compared with China's relations to other BRICKS countries, the people-to-people contacts between academics, entrepreneurs and students are relatively lagging behind in this case. Brazil is an important regional power in the Western Hemisphere, and cooperating closely with China can be favorable in terms of Brazil's interests

in diversifying its global partners and promoting growth of the domestic economy.

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CHINESE FINANCING IN URUGUAY.
THE IDB CHINESE FUND

Gustavo Bittencourt

Introduction

Uruguay's economic performance during the twentieth century showed high volatility and strong cyclical fluctuations. The result was a very low average growth: GDP per capita barely grew more than 1% per year. After 1973, the military dictatorship ended and the introverted growth strategy (that lasted almost half a century), began a gradual opening that continues to this day. Democracy returned in 1985. Principally after 1990, the Uruguayan government accelerated the economic opening both unilaterally and with the signing of the Mercosur integration treaty. However, this new pathway resulted in a very poor economic performance in the long run: from 1960-2016 the average GDP growth was 2.2% (1.7% per capita), a slight improvement over the whole of the twentieth century (annually 1.1% per capita). This performance did not allow convergence with the developed world and was very far from the momentum that many Asian countries experienced.

From 2000-2017 GDP grew by 3.3% per capita, reaching 5% annually between 2004 and 2013, the decade with the most intense growth since 1900. Two fundamental causes produced this historical change: the increase in exports and the jump in the investment rate, led by foreign direct investment (FDI). The emergence of the

People's Republic of China (PRC) was a crucial factor in explaining both increases in the export value and the investment rate.

China ranked first in Uruguayan export destinations in 2017 and 2018, with sales near to 2.5 billion dollars, including free trade zones. China is also the primary origin of Uruguayan imports, valued at an average of 1.7 billion dollars over the last three years (Uruguay XXI 2019). As seen in the next section of this paper, new export to China implies that the country increased the good's exports by a fifth between 2005 and 2015.

Since 2006 Uruguay received a great amount of direct foreign investment; however, Chinese OFDI in this country is scarce. Most of the FDI received went to the Uruguayan export sector. As the emergence of China was the main cause of the increased external demand for the country, the relationship between China and Uruguay played a very important role in determining the increase of FDI that occurred simultaneously.

Chinese financing in Latin American countries is a very important phenomenon, displacing other traditional financial providers. Artecona et al. (2019) compare the figures provided by Gallagher and Myers (2017) with the role of the Multilateral Development Banks, noting that for the six major receivers, bilateral lending from China surpassed that of all MDBs combined[1], including major countries such as Brazil, Venezuela and Argentina. Gallagher and Myers (2019) arrive at a similar conclusion and discuss the rationale of this flow, suggesting political motivation. Uruguay does not appear in these papers as a receiver of Chinese financial capital.

Like Chinese overseas foreign direct investments (OFDI), Chinese funding in Uruguay is almost unheard of. In my research, I could not find press or news reports on important loans or credits coming from China. There are no Chinese banks operating in

1 "Chinese banks have become the largest lenders in Latin America. China financing to the region has reached approximately$150 billion dollars in commitments in the last ten years and the cumulative stock of Chinese FDI reached over $200 billion dollars in 2017" (Sullivan and Lum 2019). Around 90% of this financing is concentrated in four countries: Argentina, Brazil, Ecuador, and Venezuela. In these countries, as well as in Bolivia and Costa Rica, bilateral lending from China surpassed that of all MDBs combined" (Artecona et al. 2019).

Uruguay and few Chinese firms invested in Uruguay, which implied that the Chinese financial firms never arrived. Indeed, I could not identify any significant direct credits from Chinese banks to the Uruguayan public sector. There is only one important exception: the Chinese Fund administered by the Inter-American Development Bank (IDB). This will be an issue I look into further in the central section of this chapter.

Both governments signed a Strategic Association Agreement (SAA) in 2016. They are talking about deepening the relations, maybe signing a Free Trade Agreement (FTA). This raises an important question regarding compatibility within the framework of Mercosur: What isa "good" strategic option to improve the very modest performance of Chinese OFDI and financing in Uruguay? The conclusion of this paper discusses this matter.

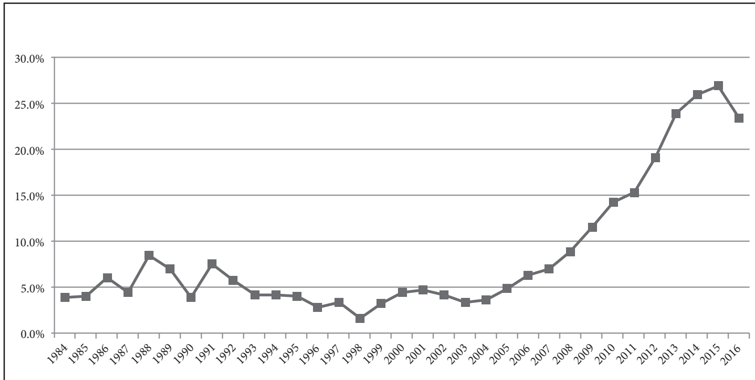
The Chinese Relationship with Uruguay (2000-2018)

Uruguay has a long history of a commercial relationship with China. It has been one of the main destinations of Uruguayan wool export for several decades. Because of these economic ties, the Uruguayan government has recognized the People's Republic of China since it returned to democracy in 1985, unlike most Latin American countries whose commercial relationship with China began after 2000. Figure 1 shows that Chinese purchases accounted for 5-10% of Uruguayan foreign sales between 1985 and 1995. Uruguayan trade with China exploded after 2005, at such a pace that China became Uruguay's main customer from 2012. China surpassed a quarter of all total export after 2014, explaining the bulk of the increase in total Uruguayan exports.

Uruguay XXI 2019 reported that Uruguayan export of goods totaled 9.1 billion dollars in 2017 and 2018, including free zones. For the first time in history, wood pulp became the first export product of the country. Soybeans had the worst harvest in the last decade. China was still the main partner in 2017 and 2018, with amounts near to 2.5 billion dollars, close to 28% of Uruguayan

export of good. Beef, wood pulp and soybeans were 76% of the products exported to this destination, followed by wood and dairy products (Uruguay XXI 2019).

Figure 1. Uruguay: Chinese Participacion in Total Exports, 1984-2016



Source: author's elaboration based on COMTRADE. Chinese imports from Uruguay, over Uruguayan total exports (including Free Zones)[2] from COMTRADE and 2013-2016 from Uruguay XXI.

Torres Ledezma (2017) estimated that 76% of primary products and 21% of products based on natural resources compounded the Uruguayan exports to China during 2015; while "medium and high technology manufactures" were less than 1%. In contrast, Uruguayan imports from China included: 29% low, 42% medium and 20% high technology manufactures. This is what the structural pattern of trade between Uruguay and China, according to its technological and factorial intensity, looks like.

However, some signs are indicating that established export trade flows have good opportunities to grow, and perhaps that

2 It is difficult to estimate the exact amount of exports to China from Uruguayan Free Trade Zones, and these zones channel soybeans and pulp exports. That is why it is preferable using imports from Uruguay reported by China. The series show figures slightly augmented by Insurance and Freights (CIF vs FOB) but the tendency is the same. While imports reported by China were 27% of Uruguayan exports in 2015 as seen in Figure 1, exports to this destination estimated by Uruguay XXI reached 28% of the total in 2017.

some new products could emerge. The XI China LAC 2017 Business Summit was held in Punta del Este, with 2,400 foreign and national businesspeople, trade organizations, authorities and media from China, Latin America and the Caribbean. In the same year, the National Meat Institute (INAC) of Uruguay and the China Certification & Inspection Group (CCIC) signed a commercial traceability agreement, that allows individuals to follow the production processes in Uruguay by scanning a QR code, aiming to generate loyalty among Chinese consumers. Both countries' delegations signed the phytosanitary requirements protocol for soybeans exported from Uruguay to China. This protocol established sanitary standards, which along with other links between agricultural R&D institutes in both countries, could open the export of quality soybeans for human consumption, a more differentiated product with higher prices.

Regarding financing and infrastructure activities, Chinese banks do not participate in commercial financing on a significant level in Uruguay. There is limited participation by Chinese companies in the transport and communications infrastructure. A consortium recently created by the Chinese companies CMEC and SDHS submitted an offer for the new Central Railroad but the Government discarded the proposal because it was incomplete (El País 2018/a). However, the IDB recently approved a loan that will finance the selected proposal to construct this railway, using the Chinese Fund.

A few large Chinese companies have a presence in construction or, engineering: COFCO, ZTE and Huawei. However, these companies only have commercial representatives or consultant services, not significant productive investments.

Shortly after the restoration of democracy, the government of Dr. Sanguinetti re-established diplomatic relations with the People's Republic of China (RPC) in 1988. Several Chinese presidents have visited Uruguay since then: Mr. Yang Shangkun in 1990, Mr. Hu Jintao in 1994 (before his presidency), Mr. Jiang Zemin in 2001, and a visit by the former Prime Minister Mr. Zhu Rongji and the President of the National People's Congress of China,

Mr. Li Peng in 2001. All the Uruguayan presidents and their respective foreign ministers, along with numerous official and private delegations, have visited the PRC since 1988. China and Uruguay signed a Strategic Association Agreement (SAA) during President Tabaré Vázquez's last visit to China in 2016.

Chinese Foreign Minister Wang Yi visited Uruguay in January 2018 to commemorate the deepening of bilateral relations in the last thirty years. Mr. Wang and the Uruguayan Foreign Minister Nin Novoa expressed a desire to move towards an integral strategic partnership, which implies a step beyond the SAA. Chinese President Xi Jinping sent a letter to the Uruguayan President Tabaré Vázquez qualifying the relation: "As intimate friends and great partners", celebrating the progress of the ties between both countries "as a result of the formalization of relations thirty years ago, and, above all, since October 2016, when the strategic partnership was established" (El Observador 2018).

The Foreign Minister Mr. Nin Novoa supported the signing of a Free Trade Agreement (FTA), which Chinese delegations informally mentioned. It looked as if China wanted to sign an FTA with Uruguay. Mr. Nin Novoa said that he would push for an FTA between China and Mercosur (El País 2018/b/c). If this was unachievable, Uruguay would only sign the agreement alone if it did not affect the relations with Mercosur's partners "If the Uruguay Free Trade Agreement with China means the rupture of Mercosur… we will not issue its death certificate," said Nin Novoa. This position slowed internal debate within Uruguay over the signing of the FTA, which had given rise to divisions within the leftist governing party (Frente Amplio).

The IDB Chinese Fund

The compromise signed in 2013 between the People's Bank of China (PBC, also called Chinese Development Bank) and the IDB, designed a Co-Financing Fund for Latin America and the Caribbean with a capital reaching $2 000 million dollars. The PBC

provided capital to "complement the IDB's resources for projects aimed at mitigating poverty and reducing inequality, promoting private sector investment, improving competitiveness and social welfare and supporting programs to mitigate the impacts of climate change and promote greater gender equality" (IADB 2013). This implies that in general, the Fund will co-finance investment projects selected by the IDB, as a minority partner. Once the IDB selects and approves projects, there is a consultation with the PBC, who can veto the financing if it does not comply with the conditions established in the 2013 agreement.

Table 1 shows the investment projects by year of approbation, type of loan (private or public), and offers an idea about how much is financed by the Chinese partners.

Table 1. Projects financed by IDB Using Chinese Fund (US$ millions)

#	Project Name	Proj. IADB #	Year	Sector	Type	Main FUND	IDB amount (million US$)	Estimated Chinese financing
1	Melo-Tacuarembo transmission line	UR-L1144	2013	Energy	Loan Private Sector	CHC	17.9	17.9
2	Carape I and II Wind Power	UR-L1086	2013	Energy	Loan Private Sector	OC	124.2	24.8
3	Program Innovation Productive Development	UR-L1096	2014	Science & Technology	Loan	CHC	40	40.0
4	Ciudad de la Costa West-Sanitation	UR-L1094	2014	Water & Sanitation	Loan	CHC	75	75.0
5	Casablanca and Giacote Solar PV	UR-L1100	2015	Energy	Loan Private Sector	OC	77.3	15.5
6	Colonia Arias Wind Power	UR-L1103	2015	Energy	Loan Private Sector	OC	106.3	21.3
7	Valentines Wind Power	UR-L1105	2015	Energy	Loan Private Sector	OC	102.8	20.6
	Total approved						543.5	215.0

Five out of the seven projects refer to the energy sector. The first one is financing the construction of a transmission line in the northern part of the country. It was a tender made by the public company for the laying of a transmission line. This appears as a loan to the private sector because IDB financed the project of the private constructor company.

According to the electric public Enterprise UTE, three wind power projects are in service, utilizing four installations[3]:

- Wind Park CARAPÉ I, operated by FINGANO S.A., with 51 MW installed
- Wind Park CARAPÉ II, operated by VENGANO S.A., 40 MW
- Wind Park COLONIA ARIAS, operated by UTE and stakeholders, 70 MW[4]
- Wind Park VALENTINES operated by UTE and stakeholders, 70 MW[5]

Regarding the solar energy project, IDB's website reports: "The objective of the project is to increase by 38 MW the installed capacity of non-traditional renewable energy in Uruguay, thus directly supporting the Government's priorities to ensure a stable and diversified long-term electricity supply, regardless of hydrologic conditions and to increase energy generation from clean sources." A power capacity of 38 MW may require several installations. UTE's website also reports that two plants operated by Giacote S.A. corresponding to this capacity: ARAPEY SOLAR with 10 MW in the Salto department, and MENAFRA SOLAR with 20 MW

3 See: https://sites.ute.com.uy/pags/FuentesGeneracion/Mapafgen.html?Size=F

4 "Parque eólico Arias (Departamento de Flores): es propiedad del Fideicomiso Financiero Arias, teniendo UTE certificados de participación por el 20%. Cuenta con 35 aerogeneradores de 2.0 MW de potencia. La producción del año fue 128,2 GWh" (UTE Memoria Anual 2017).

5 "Parque eólico Valentines (Departamentos de Florida y Treinta y Tres): Es propiedad de Areaflin S.A., teniendo UTE acciones que representan el 20% del capital social. Cuenta con 35 aerogeneradores de 2.0 MW de potencia. La producción del año fue de 219,4 GWh. Se otorgó la recepción provisoria del parque" (UTE Memoria Anual 2017).

in the Rio Negro department, both in the north-central part of the country.

The last two projects are part of the infrastructure and development priorities of the Uruguayan government: the innovation policy, which had an important institutional restructuring in the last ten years; and the sanitation in a recently populated metropolitan area near Montevideo.

All of these projects were prioritized in the Uruguayan government's agenda. There was significant support for the transformation of the energy matrix looking for renewable resources. The fact that these resources originated in China, who financed the projects, is almost overlooked. Government or private agents linked to the Government's supported investments presented these projects to the IDB. The projects then went through the studies for credit approval in the bank. After IDB's approbation, the bank consulted with the Chinese Government which can exercise their power to veto the projects. This implies that in the orientation for the final allocation of resources, which country and project will be financed by the Chinese Fund, is mainly oriented by the IDB, looking (at least in the Uruguayan case) the government´s priorities.

Conclusions and Policy Suggestions

Although it exists (but not publicly known), Chinese financing in Uruguay is not relevant for national economic activity. It is possible that the IDB would finance the same projects without the Chinese Fund. The Chinese decision is based on the possible negation of the loan.

It is clear that there is an asymmetry between China's role as Uruguay's most significant trade partner and it's limited OFDI and financial relationship with the country. It might be a goal worth pursuing for Uruguay to intensify these other economic relations with China.

China has expressed its willingness for a Strategic Cooperative Association with the Community of Latin American and Caribbean

States (CELAC). Differences between LAC countries, both in their economic structures and development policies, make it difficult for CELAC to reach deep agreements (Bittencourt 2016). In the bilateral relationship with the LAC countries, China has prioritized countries reaching two steps of deepening within this group of selected countries: Strategic Association (SA) and Integral Strategic Association (ISA). These agreements imply different levels of economic exchanges (Malena et al 2015:13-16). The majority of the prioritized countries have moved towards the status of ISA: Argentina, Brazil, Mexico, Peru and Venezuela, except for Chile and Uruguay remaining in SA status. Peru and Brazil were first in line regarding Chinese OFDI reception; Argentina, Bolivia, Venezuela and Ecuador received some limited Chinese investments. Therefore, the ISA status or the political preference (namely being an ALBA partner) are two alternative conditions that appear as necessary but not sufficient for the reception of significant Chinese OFDI (Bittencourt 2017).

Venezuela, Ecuador, Argentina and Brazil received high amounts of financial resources from China (Gallagher y Myers 2017, 2019). There were some examples of financing without Chinese OFDI: Venezuela (exchanging with petroleum), Ecuador and Bolivia. Therefore, except for Mexico, all the countries that have signed an ISA received waves of Chinese financing funds following the strategic treatments. Countries without ISA but belonging to the ALBA group also received Chinese financing.

OFDI flows also occurred when, despite the strategy or political vision, there were also attractive medium-term business conditions. Venezuela received credits in exchange for oil, but the adverse environment for FDI (from any origin) deterred Chinese investors. Mexico maintains a preferential link with the US and has lack of commercial - productive complementarity with China, due to both countries´ manufacturing specialization (unlike what happens with South America). Argentina was the last to sign an ISA (2014) shortly before a change in government that resulted in Argentina shifting back towards reintegration into the Washington financial circuit.

Besides the possibility of an FTA with China, the Uruguayan government may promote an Integral Strategic Association through other ways. Encouraging more Chinese participation in infrastructure projects, attracting Chinese banks to finance commercial and investment activities or implementing the Renminbi denominated funds to expand foreign trade operations, which may be alternative or complementary instruments to this objective. The promotion of cultural exchanges between educational, research centers and universities can also be an important tool.

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CHINA'S FINANCING TO BOLIVIA
EVOLUTION, CHARACTERISTICS AND PERSPECTIVES

Adriana Zapata Rosso

Introduction

For some years now, the presence of Chinese companies in charge of state projects within Bolivia has been increasing. During the first period, these projects were mainly financed with Bolivia's own resources or through multi-lateral funding. Since the announcement of a line of loans worth $7 billion dollars, negotiated with the Exports and Imports Bank of China (Eximbank) in 2015, Chinese financing has gained greater relevance, and it is currently one of the most critical issues in China-Bolivia relations.

Contributions on this topic have focused on the possible risks of indebtedness to China and the problems associated with the implementation of the financed projects. The work done by Silvia Molina and Viviana Herrera is of special interest, where, in addition to the aforementioned points, they address the evolution and characteristics of Chinese financing and the conditionalities of Chinese loans.

Given these considerations, this research incorporates data on, and an analysis of, the terms and concessionality of Chinese loans, which makes it possible to compare them with other creditors and establish to what extent Chinese loans are more or less convenient. These aspects have not been previously addressed. Special

attention is also given to conditionalities, the analysis of which contrasts existing information and provides elements for discussion. In this way, existing knowledge regarding the evolution, characteristics and perspectives of Chinese loans in Bolivia is enriched.

Chinese - Bolivian Relations

Chinese-Bolivian relations began in 1985, but it was not until the emergence of China as a world power in the mid-2000s that the most significant advances were made in this relationship, which was consolidated during the government of Evo Morales (2006-), who considers China an ally. In search of foreign capital, Bolivia is betting on greater understanding and cooperation with that country (for example, Morales has visited China on four occasions: 2006, 2011, 2013 and 2018), with a focus on expanding trade relations, encouraging greater flows of Foreign Direct Investment (FDI), and obtaining financing for state projects, among other things.

Since 2014, China has been the main source of imports to Bolivia, which in 2018 amounted to more than $2 billion dollars, a figure that represents 22.2% of total imports (BCB 2018). Exports from Bolivia reached $459.5 million dollars in 2018 (Ibid 2018). Most of its exports to China are minerals, such as zinc, silver and tin. In 2017, these minerals represented 82% of the total value of exports to China (Ibid 2018; OEC 2019). In the coming years, it is expected that exports of agricultural products will become more critical, considering the recently signed agreements to open the market to these products (Ministry of Foreign Affairs 2019), among which meat exports stand out.

Outbound Foreign Direct Investment from China to Bolivia (OFDI) has increased in the last five years, but remains one of the lowest in the region. Between 2000 and June 2018, gross flows from China reached $179.77 million dollars (BCB 2018), concentrating mainly on raw materials –minerals and agricultural products (Red ALC-China 2019). In recent years, the agricultural sector has become more important as a destination for Chinese OFDI,

demonstrating a relationship with the agreements mentioned in the previous paragraph.

The increased presence of Chinese companies in charge of state projects, mainly infrastructure, is also evident. In this sector, the construction of highways and hydroelectric power plants is noteworthy. In some cases, these projects are financed with their resources or with those of external creditors, and in other cases, they are financed with Chinese loans. Nevertheless, Chinese companies are currently the main contractors of the Bolivian State (Molina and Herrera 2018:11).

Regarding financing, China has become Bolivia's main bilateral creditor, with 15 loans that add up to a contracted debt of $2.09 billion dollars between 2004 and 2018 (BCB 2018). Bearing in mind that in 2015 the government announced a series of loans with the Exports and Imports Bank of China (Eximbank) of around $7 billion dollars, a significant increase is expected.

Based on these data, we now know that China plays an important role in Bolivian state financing and projects, but by comparison it invests little in the country itself. However, the scarce flows of Chinese OFDI do not differ from the general pattern in Bolivia, which concentrates on raw materials. Precisely, being based on a primary-export pattern, the country has suffered a strong impact in its revenue due to the fall in raw material prices in 2014, therefore the government has increased public spending on a series of state projects aimed at attracting more investment and diversifying exploited resources.

The Bolivian government has involved China in two of the most important mining projects: the industrialization of Mutún's iron and the industrialization of evaporite resources (lithium, potassium, etc.). Regarding the latter, the announcement in 2018 of a joint venture, which could become the most important Chinese OFDI operation in Bolivia (announced joint investment of $2.3 billion dollars) (El Deber 2019), also stands out.

Another relevant aspect of this relationship is the presence of Chinese capital in the local informal economy. The case that has received the most attention is the exploitation of gold through

associations between Chinese individuals or companies and cooperatives, which are prohibited by law, but continue to grow beyond state control (Mercado 2018). In the commercial sector, the introduction of cars and electronic devices through popular commerce is worth mentioning.

The latest diplomatic approaches point to a deeper alliance, since in 2018 both countries established a *strategic partnership*, which is considered the second highest level of engagement with China (Ministry of Foreign Affairs 2018). The joint declaration establishes 22 points which address various areas of cooperation (Ibid 2018), of these, the opening of markets to Bolivian agricultural products has shown the fastest progress.

A Memorandum of Understanding was also signed for cooperation within the framework of the Belt and Road Initiative (BRI) (Ibid 2018). Specifically, in April 2019, the Bolivian Foreign Minister attended the second BRI forum, highlighting Bolivia's strategic position in the heart of South America and inviting foreign investment (Ibid 2019). Finally, in the same event, Bolivia ratified its commitment, as pro tempore President of the Community of Latin American and Caribbean States (CELAC) this year, to promote progress in meeting the joint objectives of LAC and China (China-CELAC Forum).

Financing from China to Bolivia

China's Insertion in Bolivia's Financing Scenario

The early years of Evo Morales' government coincided with the completion of the final stages of debt relief under the Heavily Indebted Poor Countries (HIPC) initiative, as well as the Multilateral Debt Relief Initiative (MDRI). Through these, 2007 saw the lowest level of debt stock in more than two decades. In addition, Bolivia experienced an unparalleled bonanza until 2013, thanks to reforms in the hydrocarbon sector and to high commodity prices. In this context, the World Bank (WB) promoted Bolivia in 2009

from a low-income economy to a lower-middle income economy, thereby reducing access to credit and concessional loans, both in terms of the number of loans and their concessional rates.

At the same time, since the Paris Declaration (2005) and the Busan Conference (2011) there have also been changes in financing trends, which are beginning to encourage borrowers to define the scope and characteristics of financing in accordance with their vision and needs, thus providing greater articulation with the development plans and strategies of each government (Paz Arauco 2016:9). As a result, financing in Bolivia began to focus more on infrastructure, and less on social welfare and poverty eradication, as was the case in the 1990s during which debt relief was conditioned to the execution of this type of projects (Paz Arauco 2016:5,9).

In doing so, Bolivia increases public investment in infrastructure, which, until before the fall in raw material prices, depended less on external resources (Paz Arauco 2016: 19.21). Subsequently, the amount and proportion of external resources increases, as does public investment in this sector, representing 53% in 2016 (INE 2019). It is important to bear in mind that Bolivian public investment is, in proportion to private investment, one of the highest in the region (Fundación Milenio 2016).

The main external entities in charge of financing the development of this sector in LAC are the Inter-American Development Bank (IADB), the Latin American Development Bank (CAF) and the WB, and, entering the picture in later years, also China, which since 2005 has made loans to LAC for around $140 billion dollars (Myers and Gallagher 2018:1), destined mainly to energy and infrastructure projects (The Dialogue 2019). In the case of Bolivia, which is the sixth country in LAC to receive the most financing from China, the amount under contract represents 1.76% of the total amount directed to the region (The Dialogue, 2019). However, if this calculation is focused solely on infrastructure, this proportion rises to 5% (The Dialogue 2019).

Although Chinese financing in LAC has become more complex by increasing its operating arms (policy banks, commercial and private banks, regional and country funds, co-financing funds, etc.),

in the case of Bolivia, there is only financing from the policy banks China Development Bank (CDB) and China Export-Import Bank (Eximbank). However, the country is waiting to add another financer: the Asian Infrastructure Investment Bank (AIIB), which maintains a strong synergy with BRI[1]. Like Bolivia, membership applications are pending from Argentina, Brazil, Chile, Ecuador, Peru, Uruguay and Venezuela (AIIB 2019).

China's interest in financing, particularly in infrastructure, responds largely to the overcapacity afflicting the Chinese economy in the construction and energy sectors (coal, hydrocarbons, hydroelectricity). Since companies operating in such sectors face strong competition in the domestic market, Chinese state-owned banks provide financing to help their internationalization, either directly to companies or to consumers of their goods and/or services. In the case of LAC, China would benefit from better infrastructure to transport raw materials more efficiently from resource-rich countries. On the other hand, Chinese financing seeks the internationalization of the yuan as a mechanism to promote its use in the international market (Mattlin and Nojonen 2011:15).[2]

The Chinese loans, promoted under the principles of *independence*, *equality, mutual respect and non-interference*, are considered by President Morales as an option for "unconditional" development (EFE 2018), which accepts the ideology of each government. In this way, a difference is established at the discourse level between Chinese financing and that of Washington Consensus institutions. The literature on the subject points out that Chinese loans have less conditionality than traditional financers, or, at least, they intervene at a lower level in the borrowing countries, without trying to change their national policies and priorities.

1 There is a debate about the connection between AIIB and BRI, as both were launched by China in 2013. "Although not officially associated, the AIIB and the BRI are complementary" (OBOR Europe 2019).

2 Bolivia promotes the internationalization of the yuan through Banco Prodem, which is "the only bank in Bolivia authorized by the Industrial and Commercial Bank of China (ICBC) to make direct transfers with China" (Prodem 2019).

Nowadays, traditional creditors continue to be of great importance for the financing of Bolivia's state projects, although it is foreseeable that they will leave more room for Chinese loans in the future considering that in 2015 the government announced that it had agreed on a series of $7 billion dollar loans with Eximbank (Vicepresidencia 2015). Although contradictory information has come after this statement, both increasing and reducing this amount (Molina and Herrera 2018:5), the relevance of this announcement for the future of Bolivia's financing is the same.

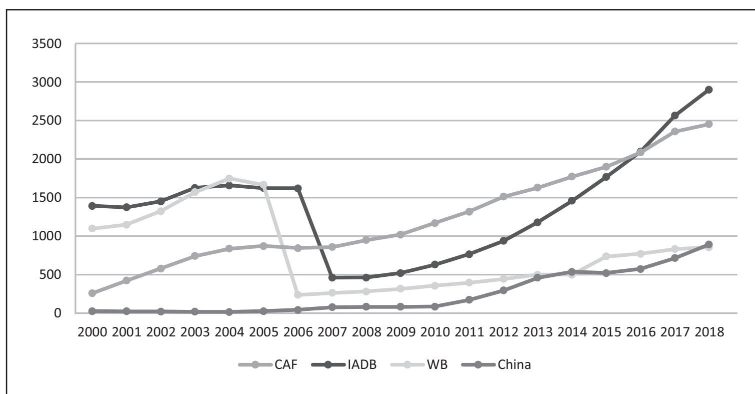
These loans will be destined to a group of 13 projects in total, among which the construction of highways stands out. The other projects include a stadium, a hydroelectric power plant, and a steel complex (Molina and Herrera 2018:7). Out of these 13 projects, 4 are already underway: the Rurrenabaque-Riberalta Highway, the El Espino-Charagua-Buyuibe Highway, the El Sillar Highway and the Mutún Iron and Steel Plant. These 4 projects amount to $1.46 billion dollars, which represents 20.9% of the aforementioned $7 billion-dollar debt.

Evolution of Chinese Financing

Chinese loans in the country have shown remarkable growth during the administration of Evo Morales, particularly between 2011 and 2018, with a current debt balance amounting to $890.5 million dollars (BCB 2018). This figure represents 8.7% of the total balance, rising to third place after IADB with $2.905 billion dollars (28.5%) and CAF with $2.454 billion dollars (24.1%), and surpassing the WB with $853.2 million dollars (8.4%) (BCB 2018).

As for bilateral debt, China is the main creditor since 2012, with 75% in 2018, well ahead of the countries that follow: France with $145.1 million dollars (12.2%) and Germany with $62.6 million dollars (5.3%) (BCB, 2018). Also, between 2011 and 2018 the total debt with China increased at an average annual rate of 28.7%, almost double the total debt (15.2%).

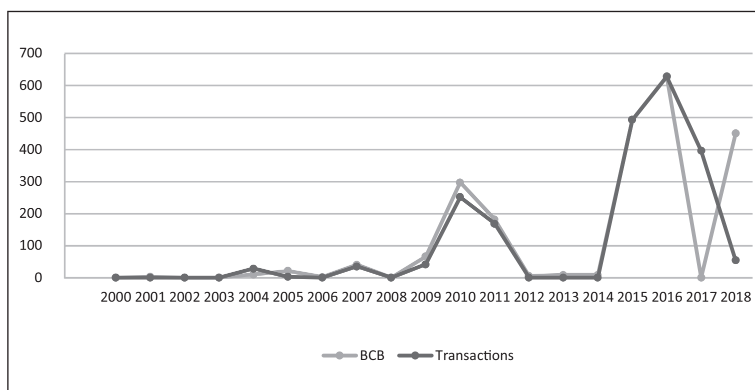
Figure 1: External Public Debt by Creditor (2000-2018) - Balances (in millions of dollars)



Source: author's elaboration based on Banco Central de Bolivia (2000-2018).

On the other hand, the debt contracted with China between 2000 and 2018 amounts to $2.2 billion dollars and represents 10.6% of the total contracted debt (BCB, 2018). The years with the highest contracted debt are: 2010 ($296.8 million dollars), 2011 ($181.7 million dollars), 2015 ($492.4 million dollars), 2016 ($627.5

Figure 2. External Public Debt with China (2000-2018) - Contracted (in millions of dollars)



Source: author's elaboration based on BCB's data, 2000-2018 and data compiled at a transactional level.

million dollars) and 2018 ($450.3 million dollars) (BCB 2019). Seventy-one percent of this debt was acquired between 2015 and 2018.

When compared to the data at the transactional level (See Table 1), it is possible to spot some differences with the data provided by BCB. The difference in amounts between 2000 and 2018 adds up to $113.5 million dollars (BCB: $2.209 Bn dollars and Table 1: $2.096 Bn dollars). The years that register the most noteworthy differences are 2009, 2010, 2017 and 2018. In the case of these last two years, the numbers do not coincide simply because of a difference in year registration: the sum of two transactions, one in 2017 ($396.1 million dollars) and the other in 2018 ($54.2 million dollars), adds up to the same amount registered by BCB in 2018 ($450.3 million dollars). As for the different amounts observed in 2009 and 2010, which combined amount to $70.4 million dollars, we have not been able to establish the reason behind them. The remaining $43.1 million dollars, which complete the total difference in amounts, could be attributed to a series of cooperation loans from the Chinese government, which in general do not exceed $5 million dollars each and are exempt of interest rates. The data on these types of loans is not as accessible as the data on loans from Eximbank or CDB.

Table 1. China's Bilateral Loans to Bolivia (2006-2018)[3]

Year	Creditor	Project	Company	Company Ownership	Loan Amount
2004	Eximbank	Gas supply system program	China National Construction and Agricultural Machinery Import and Export Corporation	Public	153 MM yuan renminbi ($18.5 MM dollars)

3 The IAD-GEGI database, which compiles information on Chinese loans in LAC, presents nine loans in the case of Bolivia. In the present investigation, seven new transactions were found, two were corrected and one could not be confirmed, probably because it was not a completed operation. With respect to more specific terms and data, it was possible to complete the information for each loan.

2004	Eximbank	Procurement of equipment and agricultural machinery	China National Construction and Agricultural Machinery Import and Export Corporation	Public	44 MM yuan renminbi ($5.3 MM dollars)
2004	Eximbank	Procurement of machinery for the improvement of roads in Tarija	China National Construction and Agricultural Machinery Import and Export Corporation	Public	33.5 MM yuan renminbi ($4 MM dollars)
2005	Eximbank	Procurement of equipment for the reconstruction of highways in La Paz	China National Construction and Agricultural Machinery Import and Export Corporation	Public	18.6 MM yuan renminbi ($2.3 MM dollars)
2007	Eximbank	Procurement of two MA-60 aircraft	China Aviation Industry Corporation I	Public	280 MM yuan renminbi ($34.7 MM dollars)
2009	Eximbank	Engineering Batallion Equipment	China North Industries Corporation	Public	281 MM yuan renminbi ($41.4 MM dollars)
2010	CDB	Tupac Katari Satellite System	China Great Wall Industry Corporation	Public	$251.1 MM dollars
2011	Eximbank	Procurement of 6 helicopters	Harbin Aircraft Manufacturing Corporation	Public	716.4 MM yuan renminbi ($108.7 MM dollars)
2011	Eximbank	Procurement of drilling rigs	China National Construction and Agricultural Machinery Import and Export Corporation	Public	411 MM yuan renminbi ($60 MM dollars)
2015	Eximbank	Rurrenabaque-Riberalta Highway	China Railway Construction Corporation	Public	$492.4 MM dollars
2016	Eximbank	El Espino-Charagua-Buyuibe Highway	China Railway Group Ltd.	Public	$215 MM dollars
2016	Eximbank	El Sillar Highway	Sinohydro Corporation Ltd. Sucursal Bolivia	Public	$362.2 MM dollars
2016	Eximbank	Citizen security control system	China National Electronics Service Company Limited	Public	350 MM yuan renminbi ($50.3 MM dollars)
2017	Eximbank	Mutún Iron and Steel Plant	Sinosteel Equipment and Engineering Co. Ltd.	Public	$396.1 MM dollars
2018	Eximbank	Subnational integrated citizen security system	China National Electronics Service Company Limited	Public	350 MMyuan renminbi ($54.2 MM dollars)

Sources: author's elaboration based on BCB (2007-2018); IAD-GEGI Database; Gaceta Oficial del Estado Plurinacional de Bolivia; Press releases.

Table 1 presents data on loans contracted between 2004 and 2018. As demonstrated, loans before 2011 are concentrated in the procurement of goods, and infrastructure loans are consolidated between 2015 and 2018, being mainly responsible for the rapid increase in Chinese financing. The main financing entity is Eximbank, in charge of 14 transactions, which represent 88% of the total amount in Table 1. On the other hand, the CDB has overseen a single project: the provision and placing in orbit of the Tupac Katari Satellite System.

The goods acquired are divided between equipment and machinery for roads, agriculture, telecommunications, aeronautics, and surveillance systems, while the execution of projects is concentrated in the construction of highways, which is the most significant destination for Chinese financing (51% of total). Since 2016, the Bolivian Highway Administration (ABC) registers China as one of its primary sources of financing, reaching the first place with 35% of the total approved budget in 2018 (ABC 2019).

As regards company ownership, Table 1 shows that 100% of companies are publicly owned. This presents an essential distinction between Chinese companies and those of other countries since the latter tend to be private. In the Chinese scheme, the public sector has a much more relevant role, because public banks provide financial support to public companies, and even to private companies in strategic sectors, in order to stimulate the economy and meet national goals (Dussel Peters 2015:56-57), among which the internationalization of Chinese companies is of great importance. Therefore, the availability of financial support from the public sector is one of the main advantages of Chinese companies against their competitors. The company with more transactions, totaling five, is the China National Construction and Agricultural Machinery Import and Export Corporation (CAMC), which began operations in Bolivia in 2004. However, since the emphasis is now on highways, this company is no longer the primary beneficiary of Chinese financing.

Chinese Loan Conditionalities

Mattlin and Nojonen identify at least two conditionalities which are present in almost all the cases they studied: *political conditionality* and *embedded conditionality* (Mattlin and Nojonen 2011:7).

Political conditionality implies the recognition of a single China, and the Government of the People's Republic of China as a legitimate government, and in essence, it requires that the borrowing countries support China in diplomatic and political matters. This conditionality is the first step in establishing a bilateral relationship. In the case of Bolivia, this condition has been in force since 1985, as the first milestone in the beginning of relations between the two countries. Additionally, Bolivia has ratified this position within the framework of the *strategic partnership* (Ministry of Foreign Affairs 2018).

Embedded conditionality refers to tied financing, i.e., the obligation on the part of the borrowing country to purchase goods and/or services from the lender country to be used in the financed project (Mattlin and Nojonen 2011:16,18). In this regard, although China is not the only country to make use of tied financing, it applies this condition in a greater proportion than other bilateral creditors (Clay et al. 2009:11-13), which contrasts with current financing trends[4]. In the case of Bolivia, this condition has been evidenced in the eleven transactions analyzed in this paper. And, with regard to legislation, it is found in Supreme Decree 2574 of November 3, 2015, which was promulgated in order to proceed with the contracting of works within the financing framework agreed with Eximbank in that year. This conditionality provides that the companies or accidental associations to be contracted must have "majority capital from individuals or legal entities of the People's Republic of China" (DS 2574 2015).

4 Between the end of the last century and the beginning of the present, bilateral lenders undertook to untie their aid. For example, until this initiative, most U.S. aid was tied. Likewise, it can be observed that bilateral aid has decreased since those years, giving more space to multilateral aid (Clay et al. 2009:11,13).

This conditionality is complementary to the provisions set out in the 2016-2020 Economic and Social Development Plan, which provides that the financing for infrastructure and productive projects "may come from the bidder's financing sources" (*Plan de Desarrollo Económico y Social* 2016-2020). That is, it opens a particular space for companies that have access to financial support from financial institutions, thus enabling tied financing, which in the current context, favors Chinese financing by a considerable margin.

In addition to these conditionalities, Molina and Herrera identify a set of six conditionalities based on Bolivia's case; among these, *confidentiality* and *controversy resolution* stand out[5]. The first relates to the lack of transparency surrounding information on China's financing (Molina y Herrera 2018:17); the second relates to a commitment made on behalf of the Bolivian State regarding the resolution by international arbitration of any problems and/or controversies with Eximbank (Ibid 2018:17). These two conditionalities present a higher level of certainty, since they are consistent with the literature regarding China's lack of transparency in financing and the regular provisions made by creditors in order to deal with risk. However, they do not provide specific information on Bolivia's case.

The other three conditionalities are *flexibilization of public procurement laws and creation of particular laws for Eximbank-funded projects,* which refers to the flexibilization of public procurement laws exclusively for the Eximbank loans; *turnkey contracts,* which refers to the procurement of turnkey projects for Eximbank-funded projects; and, *infringement of labor and environmental laws,* which refers to cases of infringement of labor and environmental laws related to Chinese contractors involved in Eximbank-funded projects. These three conditionalities present a low level of certainty, since they are most likely stemming from the government's

5 The *transparency in Chinese financing* conditionality, another conditionality identified by Molina and Herrera, addresses the same issues addressed by *confidentiality*, which is why it is not presented separately.

own initiative and agenda. For instance, *infringement of labor and environmental laws* is a constant in many projects, whether under control of domestic, Chinese, or other foreign contractors. In relation to these, the government has shown a passive and permissive attitude, not making the necessary efforts to enforce the law. With respect to *turnkey contracts,* they are a common requirement in state projects and are not limited to Chinese companies.

Finally, regarding the level of intervention of conditionalities, the *embedded conditionality* only intervenes at a project and program level, as considered by Selbervik (Selbervik 1997:19), without directly intervening in the decision-making processes that are beyond this level, so far confirming the observations on the nature of Chinese conditionalities. Nevertheless, in order to provide a more comprehensive analysis of this subject, it is necessary to have more information on other conditionalities.

Terms and Concessionality of Loans

The BCB classifies debt according to its concessionality, i.e. it defines concessional loans as "having a grant component of at least 25%" according to the recommendations of the Organization for Economic Cooperation and Development (OECD) (BCB 2018:12). However, when it comes to tied financing, the OECD itself recommends that, according to Bolivia's current classification, the grant element must be at least 35% to qualify as concessional (OECD 2018). On this point, we assume that the BCB makes this differentiation.

The following table shows that between 2015 and 2016 the debt balance with China was largely concessional –45.6% and 38.7% of the total, respectively– exceeding in both years the ratios of multilateral debt. From 2017, the debt balance becomes less and less concessional, as this is when disbursements for infrastructure projects begin. This marks a change in Chinese financing, which previously concentrated on the procurement of goods. In contrast, Chinese infrastructure loans are not concessional. At the same time, there has been a progressive decline in total concessional financing.

Table 2. Concessionality of Debt to China and Multilateral Creditors (2015-2018) - Balances (in millions of dollars)

Year	China Total	Concessional*	Percentage	Multilateral total	Concessional	Percentage
2015	530.2	242.1	45.66%	4651.6	1463.4	31.46%
2016	571.2	221.3	38.74%	5282.8	1516.2	28.70%
2017	712.6	116.9	16.40%	6159.7	1644.3	26.69%
2018	890.5	80.6	9.05%	6725.7	1600.7	23.79%

*Given the characteristics of this calculation, it can only be made when China is established to be the single source of non-concessional bilateral debt. For this reason, the calculation for years prior to 2015 is not included.

Source: author's elaboration based on BCB (2015, 2016, 2017, 2018).

Eximbank, which is clearly the main source of Chinese financing in Bolivia, presents two types of interest rates and payment terms. In the case of loans directed to the procurement of goods, the interest rate is 2% and the payment term is 20 to 21 years. In the case of loans for infrastructure the interest rate is 3% and the payment term is 15 years. Procurement of goods is predominant from 2004 to 2011, whereas infrastructure is predominant from 2015[6] to 2018. The latter have been financed in 100% of the cases by Preferential Export Buyer Credits, which are denominated in foreign currencies (in this case U.S. dollars) and cover up to 85% of the total cost of a project.

As for the terms of the Chinese loans, the government states that they are convenient because they have fixed interest rates, unlike the CAF and IADB[7] loans, and are not vulnerable to the ups and downs of the financial market. In this regard, Gallagher, Irwin and Koleski point out, based on their research on Chinese loans in several LAC countries, that loans from Eximbank (the only bank that can grant concessional loans) with the lowest interest rates in the region were extended to Bolivia and Jamaica, at 2%, between 2007 and 2009 (Gallagher et al. 2013:13-14).

6 No major loans were contracted with China in 2012, 2013 and 2014.

7 The IDB uses both fixed and variable rates, but in Bolivia's case the latter are predominant.

On the other hand, the data systematized by this research, all coming from BCB debt reports between 2011[8] and 2018, shows that:

a) Chinese loans have the highest interest rates and the lowest payment terms of bilateral financing. Since 2015, China is the only source of non-concessional bilateral financing.
b) The most expensive loan was contracted with CDB in 2011 for the procurement and installation of the Tupac Katari Satellite System. This loan's interest rate is LIBOR 6 Month + 2.70% with a payment term of 20 years.
c) In the case of road infrastructure, Eximbank loans share more similarities with CAF loans, and are actually more convenient regarding interest rates: 3% (Eximbank) vs. LIBOR 6 Months + a range of 1.50% to 2.60% (CAF); and slightly less convenient regarding payment terms: 15 years (Eximbank) vs. 15-18 years (CAF). It is important to mention that in this case the difference in interest rates has more weight than a 3-year difference in the payment terms when calculating the convenience of one loan over the other.

Finally, the review of data allows for the calculation of the concessionality of one of the loans granted by Eximbank and compares it to a loan granted by CAF. The Eximbank loan was contracted in 2015 for the construction of the Rurrenabaque-Riberalta highway (which is the only example of a Chinese loan that includes more information than simply the interest rate and payment term), whereas the CAF loan was contracted in 2019 for the construction of the Sucre-Yamparáez highway. Assuming a repayment profile of Equal Principal Payment, one payment per year and a discount rate of 5%, the loan shows a concessionality rate of 15.1% for the Eximbank loan and 1.8% for the CAF loan.

8 Data prior to 2011 could not be used as there are relevant differences in their methodology, which do not allow for a proper comparison.

Table 3. Concessionality Rate of Loans Granted by Eximbank and CAF (in millions of dollars)

Creditor	Loan Amount	Interest Rate	Term of payment	Grace Period	Commisions	Concessionality Rate
Eximbank	492,400,000	3%	15 years	6 years	0.25% and 0.25%	15.1%
CAF	75,000,000	4.35%	15 years	4.5 years	0.35% and 0.85%	1.8%

Source: author's elaboration based on BCB (2016) and Asamblea Legislativa Plurinacional de Bolivia (2019). Calculation done with IMF calculator.

With these considerations, and taking into account the limitations of the data, Eximbank loans seem to be more convenient than CAF loans for the financing of road infrastructure, as evidenced by the data in Table 3, as well as the data in c). Also, considering the overall decline in concessional financing (namely from IADB and WB), Eximbank loans are gradually becoming more convenient.

Use of Loans and Related Problems

The development of infrastructure projects is complex and, on most occasions, faces difficulties of many kinds. Chinese loans are not exempt from these problems. For instance, non-compliance with contracts, non-compliance with environmental norms, delays and overpricing have been reported.

With regard to rights, there are multiple reports against Chinese companies for low salaries, dismissals, and even verbal and physical aggression (Bolivian Observatory of Employment and Social Security-OBESS 2016; Molina and Herrera 2018:18-19). In this particular case, Chinese companies and Chinese diplomacy have focused on denying these claims or dismissing them as misunderstandings due to cultural differences and language barriers. On the other hand, the Bolivian government stands by these statements and has not made the necessary efforts to enforce the law (Herrera 2019:2-4).

Lack of transparency is also a cause of concern, since access to information on China and Chinese financing is limited. For example, it is unknown whether there is a framework agreement for the aforementioned series of Eximbank loans. Information on other key terms of these loans is also not available (Molina y Herrera 2018:16). This is one of the particularities of the information on China in Bolivia, which presents contradictions, scarce data, and specifically in the case of financing, does not disclose agreements or conventions (Molina and Herrera 2018:7).

Finally, the procurement of turnkey projects implies certain particularities in Bolivia's case and the way it conducts these kinds of projects. Molina and Herrera point out that the typical implementation of a turnkey project includes the phases of Engineering, Procurement and Construction (EPC), although in the case of Bolivia it also includes a previous phase, that of *conceptual engineering* (prefeasibility and feasibility studies) (Molina y Herrera 2018:18). In this way, the responsibility of making important decisions regarding a project's viability and objectives relies on the contractors (Molina y Herrera 2018:18), which favors the speeding up of processes and implementation, although at the expense of the project's success.

Conclusions

Debt with China has shown a significant increase from 2011 onwards. Between 2000 and 2011 it was concentrated in the procurement of goods, and from 2015 it started concentrating in infrastructure, namely the construction of highways. Although at present the debt with China represents little more than 10% of the total debt contracted, China already plays an important role as Bolivia's main contractor and main bilateral creditor.

For the future, the announcement of a $7-billion-dollar loan with Eximbank in 2015 implies a considerable debt increase in the next few years, although there have been some contradictions regarding the amounts to be contracted. Out of the 13 projects set

out to be part of this loan, 4 are already underway. These 4 projects represent 20.9% of the aforementioned $7-billion-dollar loan. Following the current trend, 10 out of these 13 projects will be destined to the construction of highways.

The characteristics of Chinese loans for the financing of road infrastructure show that loans from Eximbank, the main arm of Chinese financing in Bolivia, are similar in interest rates and repayment terms to CAF loans, and could be overall even more favorable. In a context of reduced access to concessional debt, Eximbank loans are also becoming increasingly convenient. In addition, the conditionalities of Chinese loans are considered favorably by the Bolivian government.

Generally speaking, the relationship between China and Bolivia is being marked by a context in which the latter registers less and less fiscal revenue and a fiscal deficit that is now reaching its fifth consecutive year. In this scenario, Bolivia is focusing its policies on attracting foreign capital, for which it seeks both FDI and financing to carry out its strategic projects. In this way, China is gaining an increasingly significant role in the Bolivian economy, a situation that implies greater dependence on Chinese capital and technology, and could lead to less government control over national policies, even more so if the current weak institutional framework is taken into account. This situation is not restricted to China alone, given that the Bolivian government has been actively and hastily seeking the cooperation of powerful countries such as Russia and India.

With these considerations, it is anticipated that China's importance as Bolivia's creditor will increase in the coming years, even more so if the BRI is brought into the picture. Although infrastructure financing currently depends almost exclusively on Eximbank, it is possible that AIIB becomes a new player in financing these types of projects in the future.

Recommendations

As a first step, it is necessary to promote greater access to information and greater transparency around China's financing. This is a pending task for both countries in order for China to improve its position as a new financing actor and to be able to deal with this weakness, which is precisely one of the most serious criticisms from traditional financing. On Bolivia's, the lack of transparency impedes adequate follow-up of processes, thus impacting negatively on accountability practices.

The problems regarding project implementation and compliance with the law also require an effort from both parties. It is in the best interest of China to ensure that its local companies respect and comply with local laws if it wants to increase its influence as an economic and political power. As for the government, it needs to pay more attention to these transgressions and put more effort in enforcing the law.

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CHINESE FINANCING IN LATIN AMERICA AND THE CARIBBEAN

UNPACKING CHINESE FINANCING IN ECUADOR

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In the 20th century, the growing presence of China in Ecuador became important within the framework of the political process of the "Citizen's Revolution" during the administration of President Rafael Correa (2007-2017). In his efforts to regain regulatory control by the state, Ecuadorian foreign policy took a turn with the objective of diversifying the petroleum export market and the institution of new forms of financing very different from traditional ones and he promoted a development model focused on what he called a "progressive extractivism", the mainstay of which was the construction of grand infrastructure projects.

In this context, Ecuador became the fourth largest recipient of Chinese financing in the Latin American and Caribbean region between 2007 and 2017. During this period China and Ecuador signed numerous bilateral agreements including memoranda of understanding, letters of intent and credit lines which included, but were not limited to, the financing of construction of various types of infrastructure (Garzón and Castro 2018). The major part of these credits has been destined to construction of infrastructure in sectors that the Ecuadorian government considered strategic to development (such as hydrocarbons, mining, hydroelectric power, transportation, health, and education, among others). The relationship between both countries has evolved, following the

general trend for Latin America, from a phase centered on trade in raw materials exchanged for manufactured goods in the 1990s, to a more substantial and broader phase that includes loans, outbound foreign direct investment (OFDI) and infrastructure projects since 2007 (Dussel Peters, Armony and Cui 2018:ix; Haibin Niu 2018:180).

This chapter offers an overview of these issues. In the first section, we present a brief review of the history of Ecuador's relationship with China as well some considerations about trade between the two countries, OFDI and infrastructure projects. The second section will analyze Chinese financing in greater detail including total amounts provided, conditionalities, Chinese banking institutions present in Ecuador, as well as the loans specifically related to infrastructure projects and the Chinese companies that are contracted to carry out the construction. Finally, there will be a discussion of the challenges China's presence poses over the next few years within the framework of the "integral strategic partnership" and the Belt and Road Initiative (BRI).

An Overview of the Ecuador-China Relationship

Formal diplomatic relations between Ecuador and China began on January 2, 1980 with the opening of the Chinese Embassy in Quito and the subsequent opening of its Ecuadorian counterpart in Beijing in 1981. Beginning then and continuing through the year 2000, the financial connections between both countries were incipient and consisted of a few diplomatic cooperation agreements, trade promotion, scientific and technical cooperation and investment agreements, particularly in the hydrocarbons sector (Garzón and Castro 2018).

In the 1980s, only one Ecuadorian president, Osvaldo Hurtado, visited China, in 1984, where economic and scientific cooperation agreements were signed. A decade later, in 1994, President Sixto Durán-Ballén would visit this Asian country to sign a cooperation agreement between the state-owned Ecuador Petroleum

(Petróleos del Ecuador) and the Petroleum and Gas Company of China (CNPC); this would mark the first Chinese enterprise present in Ecuador and it was in the petroleum sector. Towards the end of that decade in August of 1999, President Jamil Mahuad also signed cooperation agreements in the fields of science and technology as well as an interest-free line of credit (El Universo 2003a).

As we entered the 21st century, in 2002, President Gustavo Noboa made an official visit during which he obtained financial support from the People's Bank of China for $40 million for the construction of bridges. The following year in August 2003, then President Lucio Gutierrez, together with a special entourage, traveled to Beijing with the aim of promoting the ninth petroleum round table that tendered the exploitation of several fields, as well as the modernization of their refineries. During this visit an agreement was signed with the China Petroleum Corporation and by the end of that year, the state-owned companies Sinopec and CNPC were in Ecuador with investment proposals under the "strategic alliances" scheme (El Universo 2003b).

However, it wasn't until the year 2007, with the beginning of the "Citizen's Revolution" under the presidency of Rafael Correa, that relations between Ecuador and China turned more strategic and entered their peak period. The timing could not have been better. Shortly after President Correa took office, he broke relations with the World Bank (El Universo 2007) and a year later defaulted on the country's foreign debt, claiming a moratorium on some $3.2 billion which corresponded to the interest on Global 2012 and 2015 bonds, which meant an increase in the country's credit risk and losing access to traditional financial markets (Moody's 2009; Ray and Chimienti 2015). Additionally, the boom in commodity prices and the government's interest in building a "sovereign" economic policy, laid the foundations for the expansion and deepening of financial relations with China. From then on, this Asian country became the main source of bilateral financing for Ecuador's government.

It came as no surprise then that, only a few months after assuming office in his first term, in November of 2007, President Correa

visited Chinese leader Hu Jintao in order to lay the groundwork for what would be broader bilateral cooperation (Garzón and Castro 2018). On this occasion 14 bilateral agreements in such diverse areas as agriculture, railways, sports cooperation, cultural exchange, tourism, sanitary and phytosanitary measures, labor issues, employment and social security were signed (MREMH 2016). Correa's second official presidential visit to Beijing in January of 2015 was for the CELAC (Community of Latin American and Caribbean States) forum. There, both countries signed a "strategic partnership" agreement and in November of the following year, when Chinese President Xi Jinping visited Quito, this association was upgraded to an "integral strategic partnership", the highest level of relations that China has with any country in the world (Garzón and Castro 2018:25).

With respect to the issue of commerce, in the period of 2000-2018, Ecuador-China trade presented negative balances, with the year 2014 bringing the highest deficit (-4.1 billion dollars), a balance that for 2018 dropped to -2.8 billion dollars. China went from being the 10th source of Ecuador's imports, providing only 2.2% of total imports in 2000, to the 2nd largest providing 18.9% in 2018. In contrast China has had a minimal, but increasing, role as a destination for Ecuador's exports. It was the 18th market for Ecuador's exports in 2000 receiving only 1.2%. In 2018 China was in 3rd place and received 6.9% of Ecuador's exports according to the UN-COMTRADE database. Not only has the gap between Ecuador's imports from and exports to China been widening, it seems to have become the widest of all in comparison to the balance with Ecuador's other trading partners. If the composition of the commercial basket is analyzed in detail, a pattern that deepens the traditional role of Ecuador as an exporter of raw materials and as an importer of manufactured goods and technology becomes evident (Zapata, Castro and Benzi 2017).

In relation to foreign direct investment (FDI), Chinese investment in Ecuador has been oriented mainly to the natural resources sectors. It was minimal until September 2006 when Andes Petroleum (made up of the capital contributions of CNPC at 55%

and SINOPEC with 45%) became the largest oil company operating in Ecuador with the purchase of the Ecuadorian assets and operations of the Canadian firm EnCana, including OCP, the more modern of the two major oil pipelines in the country. In fact, Ecuador became the first South American country in which Chinese companies established a major presence in the oil sector (Ellis 2014:29). The following year, in 2007, when Chinese politburo member Li Chanchung visited Ecuador, he declared that China's investments in Ecuador reached 1.8 billion dollars "which made this country the number one recipient of Chinese capital throughout Latin America'" (Ellis 2009:103). In addition, in the mining sector, three of the Ecuadorian government's large mining projects are currently granted to Chinese companies: Mirador (the first large-scale concession to the company Ecuacorriente SA) Río Blanco (Ecuagoldmining) and Panantza-San Carlos (China Explorcobres SA).

To conclude this general overview we raise the question as to whether infrastructure projects are different from other FDI since they assume "that a service provider transfers the infrastructure at the end of the specified time frame" (Dussel Peters, Armony, and Cui 2018). Taking into consideration this differentiation, the boom in construction of infrastructure projects by Chinese companies began in June of 2010 with the building of the largest hydroelectric plant in the country, Coca Codo Sinclair. Since then, multiple projects have been developed throughout the country which have portended a kind of "omnipresence of China's public sector" in Ecuador's public sector (see Dussel 2015) to such magnitude that there is no sector or province where Chinese presence is not felt directly or at least indirectly. Such works, deemed as high priority and "emblematic" for the Ecuadorian government have been implemented in the energy sector (hydroelectric and transmission systems), transportation (in urban and rural areas), education (schools, Yachay and Ikiam universities), health (hospitals), public safety (911 units), government buildings (such as the Financial Platform), among others. The relation between these

projects and Chinese financing will be discussed in greater detail in the following section.

Chinese Financing in Ecuador

In the 21st century, according to data compiled by the Ministry of Finance (2019), the External Public Debt (EPD) as a percentage of Ecuador's GDP showed a declining tendency from 2000 to 2009 when it was approximately 12%. During President Correa's first term it grew moderately, to 13.6% in 2013, and subsequently showed more rapid growth during Correa's second term reaching a little over 30% in 2017 and reached approximately one third of GDP (32.61%) in 2018 under the new government of Lenin Moreno. Likewise, the EPD began the millennium representing close to 80% of the total public debt and decreased slightly until 2007 (76.6%). From there, an accelerated decrease is evidenced until reaching the lowest point in the entire millennium (56.6%) in 2013, and growing again since then to 68.2% and 72.2% in 2017 and 2018 respectively. This behavior of the EPD during Correa's term in office (2007-2017) can be explained to a large extent by the initial conflicts with the international markets, the initiating and growth of the bilateral debt with China since 2010 and the sustained increase, since 2014, of the debt corresponding to the issuance of sovereign bonds that marks a new relationship with international markets.

In terms of absolute value, the EPD fell to its lowest level in 2 years with the arrival of Correa ($7.4 billion) but since then has grown steadily. Between 2009-2013 it grew 75% to a total of $12.9 billion and from 2013-2017 increased 146%, reaching a total, at the end of Correa's term, of $31.8 billion; in 2018, under Lenin Moreno it had climbed to $35.7 billion. Multilateral debt, concentrated mainly in regional organizations (IDB and CAF), despite showing a sustained decline, had had the highest involvement in the total EPD until 2016; it went from representing 65.8% in 2009 to 26.7% in 2017. In 2017, multilateral debt was surpassed only by the debt

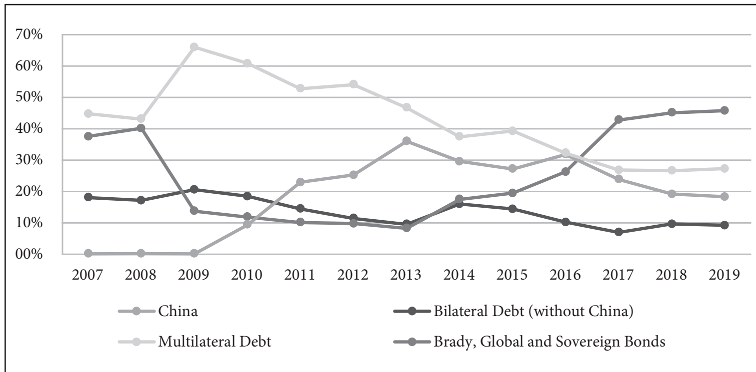
corresponding to Bonds (almost exclusively focused on sovereign bonds) that exceeded 40% of the total EPD, although in 2013 they had only participated with 8.1% of the total EPD.

As happened in other countries of the region, the year 2014 was difficult for the Ecuadorian economy. The price of oil –after gradually rising for a decade, from $15 to over $100 per barrel (excluding the temporary collapse during the crisis of 2008-2009)– fell in the second half of 2014, from $115 per barrel to $20 in February 2016. The economic scenario in 2015 was complicated for Rafael Correa's government, which had to face its worst fears: low oil prices, the resulting rise in the dollar, and China's slowing economy (Zapata, Castro and Benzi 2017). In this context, during the second semester of 2014 Ecuador returned to the international financial market with the issuance of the first public bond since incurring in arrears in 2008. The balance of sovereign bond debt continued to increase until the end of Correa's second term: $2,000 million in 2014, $1,500 million in 2015, $2,750 million in 2016, and $1,670 million until May 2017 when the government changed, reaching a total of $7,920 million. During the current Lenin Moreno government, the issuance of sovereign bonds continues to grow rapidly as a financing mechanism: $7,800 million in new debt was issued between May 2017 and December 2018. This type of debt has increased markedly since 2014 in contrast to the decline in multilateral debt and also a decrease in debt with China.

Therefore, individually considered, China has been Ecuador's main creditor since 2010 (with amounts considerably superior to those from any other country or multilateral institution), only surpassed by sovereign bonds since 2017. The balance of the debt with China showed spectacular growth in the last decade; during the Correa government it went from contributing 0.1% of the total EPD (2009) to representing 36% in 2013. From there, during Correa's second term, the share of the Chinese debt decreased in 2017-18 to levels slightly above 20%, giving rise to the issuance of sovereign bonds. Despite the decrease with respect to total EPD, the debt with China in 2016 represented an amount similar to all multilateral debt (at just over 30%). Regarding the significance that

the Chinese debt has had in Ecuador's total bilateral debt, it came to represent 79.2% in 2013 (it was 0.3% in 2009) and at the end of the Correa government it represented 77.7% of the country's total balance of bilateral debt.

Figure 1. Distribution of External Public Debt in Ecuador 2007-2019 (%)



Source: author´s elaboration based on Public Debt Bulletins (2007-march 2019), Ministry of Finance, Undersecretariat of Public Credit, Ecuador.

From 2010-2018, all Chinese loans (disbursements) to Ecuador reached $13.6 billion[1], an amount surpassed only by Venezuela ($67.2 billion), Brazil ($28.9 billion) and Argentina ($16.9 billion) (Inter-American Dialogue 2019). China started lending to Ecuador in 2010 and by 2016 had become its most important lender and contractor (Garzón and Castro 2018). Between March 2010 and December 2018, China and Ecuador signed 26 credit agreements for a total of $13,608.2 billion of which $ 6,796.4 billion (50%) still remains as debt (see Table 1).

The largest disbursements were made in 2016 ($ 3.4 billion). This is a result of the credit commitments granted by the Chinese

1 According to the Inter-American Dialogue (2019) this figure amounts to $18.4 billion (which would place Ecuador as the third largest recipient of financing in the region) since it includes the credit commitment granted in 2015 by China to Ecuador for approximately $7 billion, of which, according to official data, only roughly $2 billion was disbursed.

Table 1. Credit Agreements Between China and Ecuador (2010-2018)

	Date	Lender	Executor	Amount (Thousands US$)	Purpose	Payment period (years)	Grace period (years)	Interest Rate %	Type of loan
1	2010-06	China EximBank	Coca Codo Sinclair	1,682,745	Construction of Coca Codo Sinclair hydroelectric project	15	5.5	6.9% A.F.	Infrastructure project
2	2010-08	China Development (CDB)	Ministry Finance	1,000,000	Multisector Investment Program for Annual Investment Plan (AIP), Budget 2010-2011	4	0.5	6% A.F.	Credit Line I. 80% discretionary 20% oil backed (phase 1)
3	2011-06	China Development (CDB)	Ministry Finance	1,400,000	Projects from Annual Investment Plan (AIP) 2011	8	2	7.16% A.F.	Credit Line II. Section A Discretionary but tied to infrastructure projects
4	2011-06	China Development (CDB)	Ministry Finance	600,000	Projects from Annual Investment Plan (AIP) 2011	8	2	6.25% A.F.	Credit Line II. Section B Oil backed (phase 2)
5	2011-10	China EximBank	CELEC EP	571,363	Construction of Sopladora hydroelectric project	15	4	6.35% A.F.	Infrastructure project
6	2012-12	China Development (CDB)	Ministry Finance	1,400,000	Investment Program for Economic Infrastructure	8	2.3	7.19% A.F.	Credit Line III. Section A Discretionary
7	2012-12	China Development (CDB)	Ministry Finance	300,000	Investment Program for Economic Infrastructure	8	2.3	7.19% A.F.	Credit Line III. Section B Discretionary
8	2012-12	China Development (CDB)	Ministry Finance	300,000	Investment Program for Economic Infrastructure	8	2.3	6.87% A.F.	Credit Line III. Section C Oil backed (phase 2)
9	2013-02	China EximBank	EPMMOP	80,000	Project for Simon Bolívar Avenue	20	5	2% A.F.	Infrastructure project
10	2013-04	China EximBank	CELEC EP	312,481	Construction of Minas-San Francisco hydroelectric project	15	4.4	6 months LIBOR + 4,00%	Infrastructure project

11	2013-07	Bank of China Limited and Deutsche Bank China	SENAGUA	298,881	Cañar and Naranjal Flood Control Projects	14	4	6 months LIBOR + 3,50%	Infrastructure project
12	2014-10	China EximBank	CELEC EP	509,233	Project 500KV Transmission System and associated works	15	3	6 months LIBOR + 4,20%	Infrastructure project
13	2014-11	Bank of China Limited y Deutsche Bank AG, Sucursal de Hong Kong	MTOP	311,964	Finance the payment of up to 85% of the amount of the commercial contract for the execution of 10 roads in the country	13	3	6 months LIBOR + 3,50%	Infrastructure project
14	2015-31	Bank of China Limited y Deutsche Bank AG, Sucursal de Hong Kong	MTOP	85,710	Finance the payment of up to 85% of the amount of the commercial contract for the execution of 3 roads in the country	13	3	6 months LIBOR + 3,50%	Infrastructure project
15	2016-01	Industrial and Commercial Bank of China Limited (ICBC)	EP Petroecuador	970,000	Financing Priority Projects and/or Programs	5	0	3 months LIBOR + 6,20%	Discretionary
16	2016-02	China EximBank / Shanghai Pilo	EP Yachay	198,244	Yachay Knowledge City Project. Phase I: Infrastructure	20	5.0	3% A.F.	Infrastructure project
17	2016-04	China Development (CDB)	Ministry Finance	1,500,000	Infrastructure Projects and/or Programs, AIP 2016	8	2	7.25% A.F.	Credit Line IV. Section A Discretionary but tied to infrastructure projects
18	2016-04	China Development (CDB)	Ministry Finance	500,000	Infrastructure Projects and/or Programs, AIP 2016 (to pay contractors from approved projects)	8	2	6.87% A.F.	Credit Line IV. Section B Oil backed (phase 4)
19	2016-11	China EximBank	EPA	102,567	First stage of Santa Elena Hydraulic- Aqueduct Project	20	5	3% A.F.	Infrastructure project

20	2016-12	Bank of China Limited	Ministry of Education	167,372	Construction of 200 Millennium Schools (prefabricated)	12	2	6 months LIBOR + 3,50%	Infrastructure project
21	2017-10	China Development (CDB)	Ecuador Development Bank	120,000	Finance refundable credits for Multi-sector Investment projects, mainly from GADs and their EPs.	8	2	6.5% A.F.	Discretionary (tied to infrastructure projects)
22	2017-10	China Development (CDB)	Ecuador Development Bank	80,000	Finance refundable credits for investment projects: telecommunications, road construction, transportation.	8	3	6.5% A.F.	Discretionary (tied to infrastructure projects)
23	2017-11	Industrial and Commercial Bank of China Limited (ICBC)	EP Petroecuador	150,000	Contract modifying the financial conditions of the Credit Agreement signed on January 22, 2016	5	0	3 months LIBOR + 6,20%	Discretionary
24	2018-12	China EximBank	MTOP	69,382	Transportation infrastructure reconstruction project, Phase I.	20	5	2,00% A.F.	Infrastructure project
25	2018-12	China Development (CDB)	Ministry Finance	675,000	Funds to be used in eligible projects	6	2	6,60% A.F.	Discretionary (tied to infrastructure projects)
26	2018-12	China Development (CDB)	Ministry Finance	223,258	Funds to be used in eligible projects	6	2	6,20% A.F.	Discretionary (tied to infrastructure projects)
TOTAL				13,608,200					

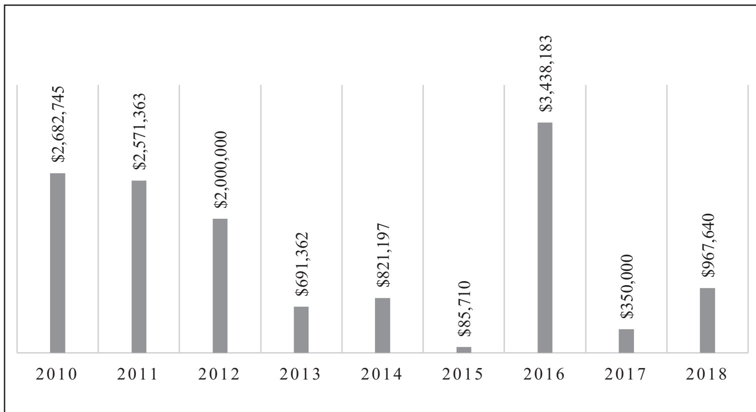
Sources: author´s elaboration based on Garzón and Castro (2018); Annual External Public Debt Statistical Bulletins (2010-2018), Ministry of Finance, Undersecretariat of Public Credit.

*No pre-2010 Chinese loans are registered.

CELEC EP: Corporación Eléctrica del Ecuador; EPMMOP: Empresa Pública Metropolitana de Movilidad y Obras Públicas; MEER: Ministerio de Electricidad y Energía Renovable; MTOP: Ministerio de Transporte y Obras Públicas; EPA: Empresa Pública de Agua; EP: Empresa Pública; A.F.: Annual Fixed Rate.

banks on various official visits made by the Ecuadorian government to Beijing throughout 2015. The first was that of President Correa who, in January of that year, signed the "Strategic Partnership" agreement in which a list of priority projects for the country was established (Ministry of Finance 2015). On that occasion, the Chinese banks granted a credit commitment of $7.5 billion which was not fully disbursed since much of the credit was directed to the construction of the Pacific Refinery, a project which was never implemented. Then, in September of the same year a technical mission of the Ministry of Finance traveled to China and reached agreements with Eximbank, the Bank of China and the China Development Bank. Finally, in November, the same technical commission, accompanied by Vice President Jorge Glass, "insisted on the need for project approval agreements and financing" (Plan V 2016). All these efforts resulted in a credit boom during 2016.

Figure 2. Chinese Financing in Ecuador 2010-2018
(total annual disbursements in thousands of dollars)



Sources: author´s elaboration based on Annual External Public Debt Statistical Bulletins (2010-2018), Ministry of Finance, Undersecretariat of Public Credit.

Regarding the amounts of financing disbursed, the main Chinese banking institutions present in Ecuador were the China Development Bank (CDB), EximBank China, Industrial and Commercial

Bank of China Limited (ICBC) and the Bank of China Limited (together with the Deutsche Bank AG, Hong Kong).

The China Development Bank (CDB) has been Ecuador's principal lender having granted 12 credits to the tune of $8.1 billion (which represents 60% of all Chinese loans). Of this amount, $7 billion was acquired through four credit lines in the years 2010, 2011, 2012 and 2016. Said lines had a discretionary use (generally 70-80%) and another portion (20-30%) conditional with payment in petroleum. The other $1 billion, disbursed between 2017 and 2018 (in the Lenin Moreno government), was not negotiated as a credit line, which meant better conditions since it was not an oil backed loan and interest rates were slightly lower.

The China Eximbank extended 8 credits of $3.5 billion (26%). All of those were tied to an infrastructure project which was principally applied in the energy sector. In this case, the main executor of the loans is the public institution directly responsible for the infrastructure related work (for instance, the Ministry of Electricity and Renewable Energy; Ministry of Transportation and Public Works; Public Water Company; among others) which in turn hires a Chinese company for the construction of the project.

Additionally, the Bank of China provided one credit in the amount of $167 million for the construction of 200 schools and, along with Deutsche Bank AG of Hong Kong, gave 3 more credits of $697 million for road infrastructure. As was the case with Eximbank, these were also designed to finance specific infrastructure projects which were to be constructed by Chinese companies.

Finally, the Industrial and Commercial Bank of China (ICBC) granted 2 credits of $1.1 billion (8%) which, in contrast to the other Chinese loans agreed upon by the Ministry of Finance, were directly underwritten by Petroecuador, as the debtor, for discretionary use on priority governmental projects. These credits, like those of the CDB, were dependent on payment with petroleum and have been subject to public inspection for alleged acts of corruption because the details of the contracts and their final use are unknown.

Of these 26 credits, 4 may be considered concessional having an interest rate between 2% and 3%; 14 loans have fixed interest rates

between 6% and 7.25% and finally 8 loans have variable interest rates between 3.5% and 6.2% plus the Libor rate from three to six months. President Correa, on various occasions, reiterated that these interest rates were tenable since the money was to be applied to projects which would generate as much as 22% profit (as in the case of the hydroelectric projects). However, according to analyst Walter Spurrier, these interest rates could have been negotiated with better terms since the funds would go to Chinese businesses (El Universo and Connectas 2017). In any case, compared to sovereign bonds issued increasingly since 2014, China would appear to offer competitively better interest rates considering that the bonds have been issued with rates between 8 and 11% (Myers and Gallagher 2019:4).

From the previous analysis, Chinese loans can be categorized into three types. First are the credits for infrastructure projects. Twelve of the 26 Chinese loans fall into this category. Their finance package is characterized by the fact that they are tied to the contracting of Chinese firms. They have been extended mostly by Eximbank and the Bank of China (along with Deutsche Bank) in more or less concessional terms. Here can be found loans for infrastructure construction in the energy sector (Coca Codo Sinclair, Sopladora and Minas San Francisco hydroelectric project) with terms of 15 years, grace periods of between 4 and 5.5 years and interests rates between 6% and 7%. Also, there are those loans directed to the social sector (highways, schools) with terms of between 12 to 14 years and grace periods of 2 to 4 years accompanied by interest rates of around 6%. Finally, the loans with the largest concessional component (Simon Bolivar Avenue, Yachay, which is a planned university town, and earthquake reconstruction projects, among others) have terms of 20 years, 5 year grace periods and 2% to 3% interest rates. The problem with these types of projects is that "as Chinese loans for infrastructure projects in LAC are not only provided as commercial loans but also with more-or-less concessional terms, sometimes it might be difficult to differentiate between commercial transactions and Chinese foreign aid which is partly provided in the form of preferential

loans for infrastructure investments" (Dussel Peters and Armony 2018:95).

Second, discretionary free availability credits. The financing of these types of loans is not conditional to one specific project although in each case a credit is established for use in a list of priority infrastructure projects included in the Annual Investment Plan or in the Investment Program for Economic Infrastructure. These credits have been granted primarily by the Development Bank of China and Industrial and Commercial Bank of China Limited. In total there are 11 loans, of which at least half are directed to the financing of infrastructure projects.

The third and final type of loans are oil backed loans. These are loans payment is conditional on the sale of petroleum. These were granted by the Development Bank of China in four phases through four credit lines. By their nature, the credit lines are underwritten through the "Four-Party Agreements" signed by the Ministry of Finance of Ecuador, Petroecuador, the Development Bank of China (BDC), and the Chinese oil company (Petrochina or Unipec). This arrangement provides for three types of agreements: the first being the contract loan signed by the CDB and the Ministry of Finance; the second is the sale of crude between PetroEcuador and Chinese Petroleum; and the last an agreement for managing bank accounts (Villavicencio 2017).

While those credits granted by Eximbank and the Bank of China clearly establish the infrastructure projects to which these will be directed, the destination of the free availability credits of the Development Bank of China and the Industrial and Commercial Bank of China is not clear. The investigation conducted by the daily El Universo and Connectas (2017), concluded that, between 2010 and 2017, 197 awards were made to Chinese firms for infrastructure construction and service provision. Of these, 48 processes worth around $7.3 billion were financed by the Chinese banks: 34 projects (70%) were for infrastructure and 14 (30%) for the provision of equipment or services. Further, they focused mainly on the energy sector (60%), transport (11%), health (8%) and hydrology (7%).

Table 2. Which Projects in Ecuador are Financed by Chinese Banks?

Lender	No. of contracts	Projects		Sector
Bank of China (and Deutsche Bank China)	1	Millennium Schools (prefabricated)		Education
	2	Naranjal and Cañar Flood Control Projects		Water
	2	13 highways		Transport
China EximBank	3	3 hydroelectric plants: Coca Codo Sinclair, Sopladora, Minas San Francisco.		Energy
	1	Simon Bolivar highway		Transport
	2	Electric Transmission System project (2 stages)		Energy
	2	Yachay Knowledge City Project.		Education
	2	Santa Elena Hydraulic- Aqueduct Project (2 stages)		Water
China Development (CDB)	6	6 contracts for ECU-911 infrastructure and equipment	Credit lines I, II and III	Security
	1	Oil infrastructure and equipment	Credit line I	Energy
	1	Railroads	(*)	Transport
	1	Villonaco wind power station	(*)	Energy
	3	3 hydroelectric plants: Delsitanisagua, Mazar Dudas, Quijos	(*)	Energy
	1	Esmeraldas II thermal power plant	(*)	Energy
	1	7 highways	Credit line II	Transport
	1	Projects in the health sector, supply of goods, execution and equipment	Credit line II	Health
	1	Bulubulu water project	(*)	Water
	1	Flood control projects	Credit line II	Water
	2	Integral security for public and commercial transport projects	Credit line III	Security
	5	Construction of 5 hospitals	Credit line III	Health
	2	Biomedical equipment	Credit line III and IV	Health
	3	Financial Platform building	Credit line III and IV	Public Administration
	1	Acquisition and Implementation of the IT Platform and electronic geo-positioning devices	Credit line IV	Security
	1	Multi-park projects	Credit line IV	Sports
	1	Construction IKIAM University	Credit line IV	Education
	1	Construction UNAE University	Credit line IV	Education

Source: author´s elaboration based on El Universo and Connectas. 2017. "La madeja de los créditos chinos en Ecuador." October 17. International Center for Journalist.

To conclude this analysis it is important to mention the Chinese construction contractors. These 48 processes financed by the Chinese banks between 2010 and 2017 were awarded to 15 Chinese

companies of which six accounted for 87% of the investment: Sinohydro, Harbin, Gezhouba, China Machinery Industry Corp. (Sinomach), China International Water & Electric (CWE) y China National Electronics Import & Export Corp. (Ceiec). In addition, since these are contracts tied to financing, only eight of these had a selection process through open bidding. The rest were awarded directly, or through special tenders in which only Chinese companies competed (El Universo and Connectas 2017). Unfortunately, little is known of the contracting process as the government representatives rely on Article 137 of the Organic Code of Planning and Public Finance (COPLAFIP) which states that, when necessary,

Table 3. Which Chinese Companies Build the Projects?

Chinese Contractors in Ecuador	Amount Awarded	
	$ billons	%
Sinohydro (Sinohydro Corporation and Sinohydro Corporation Limited)	$2.43	34.1%
Harbin Electric International Co., Ltd.	$1.17	16.4%
China Gezhouba Group Company Limited	$0.90	12.6%
China Machinery Industry Corp. (China Camc Engineering Co., Ltd. and China National Electric Engineering Co. Ltd.)	$0.86	12.1%
China International Water & Electric	$0.46	6.5%
China National Electronics Import & Export Corporation	$0.42	6.0%
China Railway Nº 9 Engineering Group Co.,Ltd.	$0.20	2.8%
China Hidroelectricidad Ingenieria Consultorio Grupo Co. (Hydrochina Corporation)	$0.20	2.7%
China Sinopharm International Corporation	$0.12	1.7%
China Civil Engineering Construction Corporation	$0.10	1.4%
China Petroleum Technology and Development Corporation	$0.10	1.4%
China Road and Bridge Corporation	$0.06	0.8%
Xinjiang Goldwind Science & Technology Co., Ltd.	$0.04	0.5%
China Equipment International Trading Co. Ltd.	$0.02	0.4%
Changjiang Institute of Survey, Planning, Design and Research	$0.02	0.3%
CCRCC 14th Bureau Group Co., Ltd.	$0.02	0.2%
TOTAL	**$7.11**	**100%**

Source: author´s elaboration based on El Universo and Connectas. 2017. "La madeja de los créditos chinos en Ecuador." October 17. International Center for Journalist.

the contracts and their documentation “will be declared secret and reserved […] until the respective operation is completed”. Even though in several cases the financing and completion of the works have ended, access to information remains unavailable.

Conclusions and Policy Suggestions

Forty years have passed since the dawn of diplomatic relations between China and Ecuador and a decade since the astonishing incursion of China as the Ecuadorian state's principal bilateral financier and public contractor. The marginal role that Ecuador had during the 1980s and 90s in terms of trade with and investment from China stands out greatly when compared to its prominence as a recipient of financing in the region since the middle of the first decade of the 20th century. Ecuador not only became the fourth largest recipient of Chinese financing in the region but, in the context of the political process carried out by the government of President Correa (2017-2017), China became a sort of omnipresent partner, due, in large part, to the process of financing, contracting and implementation of grand public works which have been developed by the government.

During the years from 2010 to 2018, 26 loan contracts totaled $13.6 billion, with the highest disbursement peak in the year 2016 ($3.4 billion). Of these, 12 credits were for infrastructure construction and 14 were discretionary (although about half were conditional on the financing of infrastructure and investment projects where Chinese companies were involved), including 4 oil backed loans. The main financing institutions were the Development Bank of China (12 credits) followed by Eximbank China (8 credits), the Bank of China with Deutsche Bank AG of Hong Kong (4 credits) and the Industrial Bank of China (2 credits). In addition, 4 were concessional loans with interest rates of between 2% and 3%; 14 loans had fixed rates of between 6% and 7.25% and finally 8 loans had variable rates from 3.5% to 6.2% and a Libor term of three to six months.

Both supporters and critics agree that the Chinese presence in Ecuador has been a vital force in helping Ecuador access financial resources enabling infrastructure construction (Garzón and Castro 2018). When Rafael Correa´s government began in 2007, the country's external financing sources were restricted due to initial political decisions that led to an atmosphere of distrust among the traditional lenders. If we add to this international scenario a domestic context of a prolonged political and economic crisis, it is possible to think that the Chinese financing offer, despite its relatively higher cost (nominal interest rate), appeared to be an accessible option for the Ecuadorian state at that moment. Moreover Correa's political project proposed a kind of "national re-foundation" and required large sums of public investment for emblematic infrastructure, for which China (its banks and companies) offered itself as a lender with the capacity to assume the risks and collaborate in the construction of these projects.

Any evaluation of Chinese financing to Ecuador in this period is complex. There is a wide range of aspects to consider such as: the type of financing, its conditions and amounts (credits from $80 million to $2 billion); the nature of the lenders (public and commercial banks); the sectors (energy, transport, education, health, among others); the form of participation of Chinese companies; the quality of technologies, materials, supplies and equipment used; the Chinese labor; the opportunity cost for the Ecuadorian state and the dominant political project, among others.

The cost of financing and its economic conditions are commonly identified as the most problematic aspects of Chinese cooperation which ties a large part of the financing to infrastructure projects built by Chinese companies, with Chinese equipment, technology, supplies and labor, or through the payment with oil. Undoubtedly, all these are severe conditions, but they are old, although questionable, practices in the world of cooperation and financing for development. During the 1980s and 1990s, the general conditions of the political and economic agenda of the International Financial Institutions were well known in Latin America as well as the conditions of the OECD's Official Development

Assistance in terms of so-called "tied aid" that hides the selection of companies that will participate in the execution of projects.

However perhaps there are some significant differences between this prior situation and what is happening today with China in Ecuador. Currently the lack of transparency in the bidding process has led to exorbitant levels of cost overruns, embezzlement and even systematic corruption of public officials at all levels. The quality of the works executed with the participation of non-financial Chinese companies is also highly questioned because of technical factors. There is no clear technological transfer or strengthening of technical capacities within the Ecuadorian public administration; administrative arrangements between Chinese contracting companies and their subcontractors are very questionable, and there are also other dubious aspects.

Given all these considerations, it is difficult to point out a positive net balance for Chinese participation in financing for development in Ecuador, but this evidence does not necessarily confirm the hypothesis of the "Chinese debt trap" which somewhat overestimates the external considerations on behalf of the lender (in this case China and its plan to entangle debtors in their trap), and underestimates domestic factors prevalent in the receiving country. Historically, this happened in a similar fashion when the lender was Great Britain, the United States of America, the IFIs, or now China. It appears that the structural conditions of the receiving state and the structural weakness of its "state capacities" (in public administration in general) can better explain the trajectory or the process of financing for development regardless of the source of funding. To this extent, the abundant descriptive studies that already exist on Chinese financing for development could take a step forward in analytical and explanatory terms if they incorporate research methodologies (such as QCA or process tracing) that attempt to explicitly address complex causal phenomena (multiple, conjectural, procedural, mechanistic, of equifinality) combining external causal factors (forms or types of financing and nature of the lender) that trigger a causation process when interacting with

internal causal factors such as the receiving country's structural conditions and its state's capabilities.

Today, the scenario for Chinese loans is not what it was a decade ago. There are several challenges for the relationship between these two countries. On the international level, the slowing down of economic growth in China and Latin America and the Caribbean has made Chinese banks much more cautious when giving discretionary loans (as occurred in 2015 when Ecuador had problems accessing international financing and increased the issuance of sovereign bonds) and therefore they seek to diversify their activities in Latin America by focusing on projects of interest to China.

On the national level, the change in government in May 2017 began a new period under the presidency of Lenin Moreno, who had barely come to power when, amidst great political division and a number of corruption scandals, he distanced himself from the economic policies brought to fruition during the previous decade under Correa. Thus, at the economic level, Ecuador augmented the issuance of sovereign bonds in the international market, resumed negotiations with the International Monetary Fund, initiated reforms to control social spending (which will inevitably decrease the construction of infrastructure and investment projects) and expressed interest in renegotiating the debt with China on better terms.

In spite of these challenges, Ecuador-China relations appear to be entering a new phase which it is hoped will presage new political and economic ties. In December of 2018, Ecuador officially adhered to the Belt and Road Initiative (BRI). On this occasion, President Moreno stated that, "China is a benchmark for innovation and development. Currently 145 companies from this country work and invest in Ecuador, generating jobs, growth, employment and the exchange of technology and information". Among those projects announced as part of BRI are air transport infrastructure such as an airport in the port city of Manta, highways between the provinces of Esmeraldas and Imbabura and bridges, among others. In practice there are already a dozen projects that will now fall under the BRI umbrella, including seven hydroelectric

plants and the copper mines of Panantza-San Carlos and Mirador (Diálogo Chino 2019). Also, during a state visit to Beijing in April of 2019, President Moreno indicated his interest in deepening the "integral strategic association" and increasing cooperation on projects of interest for the country, in areas such as hydrocarbons, mining, infrastructure and finance, as well as making investments to promote the industrialization, social development and integral well-being of Ecuador.

In this scenario, and facing the new phase of relations between Ecuador and China, I conclude this analysis by briefly touching on two important points related to policy suggestions in order to make the best use of the "integral strategic association" and the Belt and Road Initiative (BRI). First, it is imperative that the opportunities which the "integral strategic association" offers Ecuador through the diverse commercial agreements that have been subscribed be studied in greater detail. In this sense, it would be useful if the policy makers would evaluate the positive lists and investment catalogs of Chinese banks, as well as the agreements signed in trade, tourism, technical and technological cooperation, among others. This would be done with the objective of benefitting to the full from such agreements and proposals to be built in accord with national interests with proper follow up in the negotiation and implementation of said proposals.

Second, generally speaking, China-Ecuador relations have been characterized by inscrutability and thus a lack of transparency. This lack of information has become more prominent in the case of financial agreements as well as in the monitoring and accountability of projects executed by Chinese companies. Although this is not a completely new phenomenon in the history of the country, it is important to recommend that the Ecuadorian state implement improvements in their policies and actions to negotiate, supervise, and evaluate the contracts. In Ecuador, the contractual conditions included in Chinese financial agreements were unknown at the time and remain so to this day. This resulted in complete opacity as regards the public procurement process, in the selection of the construction companies for large infrastructural

works, which, in addition to the growing complaints of potential asset detriments, also constituted limitations on the competition for specialized services. The same can be said about the possibility of advances in the monitoring and accountability processes for the works once they have begun to be executed.

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CHINESE FINANCING IN COLOMBIA

A LAGGARD IN LATIN AMERICA

Benjamin Creutzfeldt

Introduction

At the end of July 2019, Colombian President Ivan Duque became the country's fifth successive leader to make an official visit to Beijing, with the goal of stimulating China as a source for greater tourism and trade, investment and loans. Though bilateral commerce has grown continually over the past fifteen years, China's banks and enterprises have not made their presence felt on the ground in Colombia: for this particular country –one of the five largest economies in the Latin American region– the China Latin America Finance Database (Gallagher and Myers 2019) features a financial balance sheet of zero. As long as the Colombian government declines to acknowledge China's Market Economy Status or sign onto Xi Jinping's Belt and Road Initiative, this situation is unlikely to change.

Among the leading economies of the Latin American and Caribbean region, Colombia has long been the least open to immigration or financing from Asia and has benefited only marginally from the Far East's extraordinary economic transformation since the 1960s and the explosive economic growth of China since the 1990s.

Moreover, Colombia's long-running internal conflict which has repeatedly flared into violent civil war has done little to attract

foreign investors. Some progress has been made in expanding state control and security since the beginning of the twenty-first century, but by mid-2019, the nation's Peace Process had been buried in all but name. Foreign lending and investment in Colombia has not risen more than in other Latin American economies, and attention from the fastest-growing capital-exporting economy –the People's Republic of China– has been negligible.

And yet, studies by Chinese scholars and pronouncements by Beijing's leaders make it clear that the drive to internationalize the Renminbi (RMB) is as central to China's global strategy as the *Going Out* 走出去 Campaign was for Jiang Zemin's government, and the Belt and Road 一带一路 Initiative (BRI) is for Xi Jinping. A global presence of the RMB in currency trading through swaps and loans is recognized as a measure of Beijing's influence abroad (Wu et al. 2013:49 ff.). It is also understood to potentially help stabilize economies in distress, in the same way that US-dollarization has recurred in many economies the world over during times of volatility. Given Colombia's market size –and the need for infrastructure development that so perfectly fit in with BRI– Chinese state-owned lenders are bound to remount efforts periodically to make a financial footprint in this economy, despite the risks involved.

The present chapter offers some explanations for Colombia's limited participation in the phenomenon of Chinese-driven growth in Latin America and attempts to answer the questions why the country has not been a recipient of Chinese finance and how this situation is changing. The chapter opens with an overview of Sino-Colombian relations since the late twentieth century and the diplomacy on either side that underpins the relationship (cf. also Creutzfeldt 2019). It then discusses some of the failed opportunities for Chinese finance in the country and reviews the prospects and risks implicit in the growing Chinese presence in Colombia. It closes with some recommendations for policy-makers in Colombia, China and third-party countries.

An Overview of Chinese-Colombian Relations

Historically, the presence of China in Colombia has been minimal and its impact almost imperceptible, in contrast to Cuba, Peru, Mexico, Brazil, and other countries in the region, which saw waves of immigration from China throughout the nineteenth and twentieth centuries. This situation has not changed significantly in the last few decades, despite China's rise since the 1978 reforms and its position today as one of the leading players in the global economy. Several researchers have attempted to track and better understand the presence of Chinese citizens, companies, and their respective activities in Colombia, but none have succeeded in profiling this diverse group. One of the earliest attempts was made by the anthropologist Friederike Fleischer, now a professor at Los Andes University in Bogotá, who identified the shortcomings of preceding efforts to identify and differentiate Chinese immigrants. Natalia Marriaga applied a similar anthropological approach and a compelling journalistic style, but her reports are centered on individual shop owners and do not attempt to present the overall demographics of these immigrants. Gómez and Díaz (2016) describe migration and bilateral institutions since the 1970s but fail to qualify either methodically. Studies that attempt to engage with the Chinese business community often fall short, illustrating the linguistic and cultural barriers that persist. More recently, Eduardo Velosa explored the lack of Chinese investment in Colombia in a well-researched (albeit rather unfortunately titled) article, and correctly lays the blame squarely at the feet of domestic political priorities, though he skirts the sensitive issues of Colombia's endemic corruption and unrelenting security challenges (Velosa 2018).

Even today, it is the minimal presence of Asian corporations in Colombia that is striking, both in comparison to the number of investors from other parts of the world and in contrast with the experiences of its immediate neighbors, especially Ecuador and Venezuela. Jonas Bunte presents Colombia as the region's most striking case for turning down loan proposals and opportunities

from China (Bunte 2019). Although the country has been an indirect beneficiary of the rise in commodity prices in the first decade of the twenty-first century due to the strength of global demand driven primarily by China, Colombia has long lacked significant engagement in terms of foreign trade. This has been exacerbated by latent xenophobia towards Asia in particular, and very low levels of migration from Asia compared to most neighbors, resulting in a profound lack of familiarity with those cultures. This tendency can be traced back in time to the Colombian government's restrictions on migration from Asia in the 1920s, its decision to support the United States in the War against North Korea in the 1950s –and by extension, against the Soviet Union and the People's Republic of China– and its persecution of domestic communists in the 1980s. It is only with this background that we can begin to understand the lack of Chinese finance in Colombia today, given that purely economic analyses of the fourth-largest economy in Latin America and the performance of its stock market would suggest otherwise.

An important factor has been Colombia's closeness and strong support from the United States. This was especially significant during the government of Álvaro Uribe, the president from 2002 to 2010, who was at times described as "Washington's faithful vassal in South America" (Wieland 2007:1). In 2004, the United States Institute of Peace reported that "with more than 2,000 personnel from 32 US agencies, the embassy in Bogotá surpassed that in Cairo as the largest US embassy in the world" (USIP 2004:114). At that time, Colombia was also the fourth-largest recipient of US foreign aid and played a key role in Washington's "War on Drugs." At the very time that China's government and its more adventurous business executives and traders were eyeing Latin America, Bogotá was making every effort to reaffirm its early twentieth-century 'Respice Polum' foreign policy, which focused almost exclusively on the relationship with the United States. Washington spent heavily on its principal ally in the region and maintained it as a hub for regional anti-narcotics and intelligence-gathering operations.

It is not surprising that the rapprochement between China and Colombia was cautious, and the tenor of this relationship has

not been easily transformed. Although Colombia now has three Confucius Institutes and a considerable number of private teaching initiatives for Mandarin, broader skills for professional engagement are lacking due to the weaknesses of primary and secondary education in the country (Oviedo, Fizbein and Sucre 2015). The lack of coordination between establishments of higher education and competition between private universities impedes the advancement of knowledge production in any field, including the study of China and East Asia, though several efforts by academics in Colombia to build knowledge on China are noteworthy in the domestic context.

Bilateral leadership visits between China and Colombia have been few and far between. Premier Zhao Ziyang was the first Chinese head of state to visit Colombia in 1985, a fact that has been all but erased from the official records of both countries, due to Zhao's subsequent fall from grace. The first return visit was by President Ernesto Samper to Beijing in October 1996, followed by that of Andrés Pastrana in 1999. Álvaro Uribe made a trip to China in 2005, as did his successor, Juan Manuel Santos, in 2012. Xi Jinping, visited Colombia in 2009 as vice president, making a point of coaxing Colombia into last-minute participation in the Shanghai World Exposition 2010 (Latin American Herald Tribune 2009). Premier Li Keqiang made a short stopover in Bogotá in May 2015. This contrasts with neighboring countries: Hugo Chávez and his successor Nicolás Maduro in Venezuela paid as many as fifteen visits to China in as many years, and Luiz Inácio Lula da Silva of Brazil and counterpart Hu Jintao met a dozen times in the first decade of the century.

Beijing's diplomatic strategy towards Colombia is embedded within a well-coordinated broader regional plan, involving multiple government and party agencies: the Ministries of Foreign Affairs and Commerce, the Development and Reform Commission, and organizations within the Chinese Communist Party such as the International Department, the Organization Department and the United Front Work Department. Staff rotate not only between embassies but also in and out of the aforementioned agencies

and the vast majority of senior embassy personnel have a strong command of the Spanish language.

In addition to visits by heads of state, diplomatic profiles are another indicator of the strength of bilateral relations. The background of the ambassadors on either side of the relationship offer significant insights into the nature and level of binational relations. Ambassador 居一杰 Ju Yijie, ambassador to Colombia from February 2000 to May 2003, was previously the representative of the Panama Trade Development Office, and after leaving Bogotá, became an ambassador in Caracas. His successor in Bogotá, 吴长胜 Wu Changsheng, headed embassies in Bolivia and the Bahamas before taking office in Bogotá from August 2003 to February 2007. 李长华 Li Changhua, the ambassador from March 2007 to July 2009, had risen through the diplomatic ranks for over two decades (with experience in Mexico, Venezuela and Uruguay) came from Chile where he had overseen the negotiations and signing of China's first Free Trade Agreement (FTA). 高正月 Gao Zhengyue had been ambassador to Peru before assuming the Colombian position between August 2009 and June 2011. 汪晓源 Wang Xiaoyuan, ambassador in Bogotá between 2011 and 2016, was a senior diplomat who had headed his country's embassies in Equatorial Guinea and Uruguay and holds the distinction of having been the first PRC head of mission in Costa Rica. His seniority and experience were important factors in ensuring the smooth implementation of the first visit by a Chinese Prime Minister to Colombia since Premier Zhao Ziyang's Latin America tour in 1985. Between 2016 and his departure in August 2019, 李念平 Li Nianping succeeded in raising the visibility of his position and his country by traveling to 20 of Colombia's 32 departments, and engaging in other public relations efforts exhaustively documented in an October 2018 Special Edition of *Semana* Magazine.

Colombia's ambassadors to Beijing during the same period have been political and business-focused nominees with limited formal diplomatic experience. None spoke Chinese and some had only a limited command of English. Alfonso Campo Soto, a conservative senator of Cesar Province, was followed by the longest-serving

ambassadors to Beijing, Guillermo Ricardo Vélez, formerly a representative in London for Colombia's export promotion entity Proexport (later renamed Procolombia). His tenure, from 2004 to 2011, coincided with President Álvaro Uribe's visit to China in 2005 and oversaw rapid trade growth between the two countries, followed by personal efforts by the former ambassador after his retirement to negotiate bilateral business deals. His successor Carlos Urrea lasted only eleven months on the job, citing obligations in his family business for his hurried departure. He resigned during President Juan Manuel Santos' visit to Beijing in 2012, making the completion of the nine agreements signed in Beijing all but impossible. He was succeeded by Carmenza Jaramillo, also a former Proexport country director, who had limited political influence at home to effectively change the dominant tendencies. Óscar Rueda García, ambassador from 2016 until early 2019, was a tourism professional for whom Beijing was his first diplomatic mission, a posting seen by many as political reward for his work as treasurer for the political party founded by Álvaro Uribe. President Ivan Duque designated the businessman Luis Diego Monsalve Hoyos as the new ambassador to Beijing in February 2019, promising a stronger focus on trade and infrastructure investment.

In short, bilateral relations have long been marked by a lack of focus and specialized engagement on the Colombian side, making it harder for Chinese corporations to engage constructively. Lack of information and the persistence of prejudice against Chinese businesses and their products have derailed what could have become innovative collaborations (see for instance Bermúdez Liévano 2018). China-Colombia relations have been further hampered by societal tension and mistrust. Neoliberal development under Presidents Uribe, Santos, and now Duque has emphasized large-scale, export-capable industries, free trade agreements, and capital markets. These policies have benefited large corporations but generated little employment, affecting low-income Colombian laborers by inhibiting their ability to organize and campaign for better wages and working conditions. The resulting inequalities and tensions have left many Colombians disenchanted

with foreign corporations and their economic influence, which in turn has translated into negative perceptions of both the US and China. In a recent survey by the Pew Research Center, 48% of Latin America viewed China favorably, but in Colombia, this number fell to 28%. More than 45% of Colombians thought China's expansion in Latin America was bad for their country, one of the highest negative perceptions in the region (Koop 2015).

However, the Trump administration in the United States has also led to disenchantment in many parts of Latin America, including Colombia. This trend coincides with a concerted effort by China under Xi Jinping to grow trade, investment and infrastructure development, spearheaded in Colombia by the aforementioned charm offensive under Beijing's ambassador Li Nianping. Going forward, a key area of bilateral activity will be infrastructure, and this was a key component of the agreements reached during President Duque's visit (Bancóldex 2019). As a new frontier in Sino-Colombian cooperation, infrastructure is at the core of President Xi Jinping's Belt and Road Initiative, an important interest of Chinese corporations, and a vital element for Colombia's development and its regional and global integration.

The Absence of Chinese Finance in Colombia since 2000

The two principal sources of Chinese state-owned financing overseas are the China Development Bank (CDB) and the Export Import Bank of China (Jin, Ma and Gallagher 2018). The CDB had offices in Bogota before 2010, and in 2008 negotiated a joint loan with the CAF development bank for a cement plant (CAF 2008), but after several years of largely fruitless activities transferred its Colombia staff to Ecuador (a junior manager has been based in Bogota once again since 2018). Jonas Bunte (2019:6 and 108ff.) reports multiple cases in which Chinese banks were interested in financing oil exploration, power plants, a canal and other infrastructure projects, but all of these fell through in negotiations or were declined outright by Colombia. The fact that Colombia

has for many years enjoyed a better credit rating than many of its neighbours is only part of the story, a situation that has enabled it to attract loans from traditional multilateral lenders, such as the World Bank and the Inter-American Development Bank, at interest rates that give CDB little or no competitive edge (see also Chimienti and Creutzfeldt 2016:229). What has far greater weight is the "Capital Coalition" of the national elite: Bunte states categorically –and argues convincingly– that Colombian politicians are beholden to the Capital Coalition of financial and industrial interest groups which tend to choose private creditors over others. They are also loathed to be obliged by a lender to prioritize specific contractors or suppliers – a condition that is characteristic of most loans by state-owned policy banks. As a consequence, Colombia has not sought loans from China, nor indeed from other emerging economies such as Brazil, Russia or India (Bunte 2019:220 ff.).

That said, in 2012 the Government of Colombia promulgated the Bilateral Agreement for the Promotion and Protection of Investments with China (cf. Creutzfeldt and Gélvez 2011). The text of that agreement covered direct and portfolio investments, intellectual property rights, concessions in natural resources and foreign loans of more than three years. The co-signing countries acquired the commitment to promote certain investments, warrant fair treatment, not discriminate (most-favored nation clause), and ensure against expropriation or nationalization. In addition, precise mechanisms were established regarding the resolution of disputes, including diplomatic consultations and arbitration tribunals.

Contemporaneously to this initiative, the Colombian government under President Juan Manuel Santos launched a bold initiative to address the country's chronic lack of physical infrastructure, by creating the National Infrastructure Agency (ANI) in November 2011. Civil engineers are the butt of many a joke in Colombia, with faulty roads, collapsed bridges and never-completed tunnels littering the country. The lack of roads is an important reason for an underdeveloped agricultural sector that cannot bring perishable goods to market at competitive prices. More seriously, though, the bidding processes surrounding public works are notoriously

over-regulated and prone to corruption: engineers have reported that the actual cost of public works is often as little as 20% of the budget published.

In 2015, ANI developed an ambitious strategy to overcome these chronic shortcomings in Colombia's infrastructure bottleneck, a plan without precedent in terms of the number of road-building projects and the amount of financial resources needed, and christened it the Fourth Generation (4G) Program. It was determined to be of such magnitude that it was divided into three waves and multiple private initiatives. The calculations were simple enough: 44 billion pesos (approximately $13 billion dollars) in credit and about $2 billion dollars in equity to finance more than 30 public works projects. Government-held assets such as the energy company Isagen were auctioned off to raise funds. Private banks and pension funds were encouraged to acquire road concessions with 20% of capital and 80% of the debt, to be paid against tolls and future validities over 25 years.

With the well-publicized contest of these sources of financing, the program started successfully, several works were initiated and high expectations were created about the future. Unfortunately, the enthusiasm did not last long. Allegations of corruption emerged in Colombia as they did across Latin America, as the Odebrecht case, dubbed the *Lava Jato* scandal, washed over the region. National leaders in Peru and Brazil faced criminal charges, and though Colombia's most egregious offenders eloped unscathed, Colombian banks, severely burned in the process, moved away from the financing of the 4G. The former president of the ANI, Luis Andrade, acknowledged that "we have lacked creativity, and it might be possible to open doors on government-to-government agreements, such as […] with China" (Dinero 2018).

Indeed, by April 2018, Colombia's development bank, the Financiera de Desarrollo Nacional (FDN), entered into a strategic partnership with CDB (Portafolio 2018). Its president Zheng Zhijie headed a delegation of business leaders and investors to explore financing opportunities in 4G projects. A similar deal was struck between China's Sinosure and Bancóldex during President Duque's

visit to Beijing. Sinosure is an export credit and economic cooperation agency of the Chinese government. It promotes foreign trade and investment through medium and long-term export credit insurance, foreign investment insurance, short-term export credit insurance, and other services. Bancóldex is the business development bank of Colombia that offers credits through the network of national or foreign financial entities, in pesos and dollars, tailored to the needs of entrepreneurs in all regions of the country. The goal of the agreement is to finance Chinese investment projects in Colombia and help finance Colombian exports to China. José Manuel Restrepo, the Minister for Commerce, Industry and Tourism and former dean of Colombia's elite business school CESA, underscored the importance of this alliance for future financing with a focus on infrastructure (Bancóldex 2019). From there, consortia of multiple nationalities have moved with great speed to quantify and consolidate projects (Clifford Chance 2019).

It would appear that President Duque has succeeded in making good on promises to convey the message to Chinese business leaders that "Colombia is a place to invest", even if his dreams of growing his country's hi-tech sector with Chinese money may remain elusive, given the low level of technical and technological education in Colombia (Alsema 2019).

Conclusions and Policy Suggestions

Chinese intentions to invest or otherwise engage in the Colombian market are difficult to predict. Comments by Colombian trade representatives quoted in leaked US diplomatic cables reveal declarations of interest by Chinese companies but only a few have acted upon those statements. Colombia "is not viewed as prime FDI material by the Chinese [due to its] endemic competitiveness issues, from onerous taxes to high labor costs to poor infrastructure" (Wikileaks 2008).

China's interest in Colombia as a destination for finance is modest in regional comparison but growing. It found new impetus with

President Duque's Beijing visit in July 2019. It is also important to underscore the role a charismatic ambassador has played in raising the profile of China in the country and in creating a framework to help newcomers harness the experience of established Chinese companies, helping them as they contend with the risks implicit in a highly unequal society with an extremely violent past, fiercely independent regions, and largely unchecked corruption.

In Colombia, China has followed a pattern evident in other cases of investing most heavily in the extractive sector, which generates the fewest jobs and leaves Colombia poorly positioned in global value chains. An analysis of per capita foreign-trade figures shows that although the Colombian economy is the fourth largest in the Latin American region, it occupies a modest tenth position in exports per capita. Despite almost twenty years of concerted efforts by the Colombian government to attract strategic investment from abroad, their economy is far from fully inserted into global markets (Reina et al 2016:51). It remains to be seen whether Beijing's efforts to position its companies overseas can improve this situation for Colombia and help it overcome the challenges presented by the recent US-led drift towards protectionism.

Beijing has made clear its intentions to increase rather than reduce its footprint in Colombia. The possibilities of enhanced bilateral engagement have been researched and outlined by the Chinese, but Colombia has yet to properly set forth a vision. The responsible ministries within the Colombian government must develop the ability to better define and publicize the priorities in attracting Chinese finance, while learning from the experiences of Peru, Chile, Argentina, and Ecuador how to best tailor national goals and demands to Chinese interests.

Finally, it is essential for Colombian civil society to prepare adequately for the likely growth of Chinese activities in the extractive sector. The People's Republic of China, though rich in guidelines, has a poor track record in terms of the protection of the environment and the rights of ethnic minorities. National interests declared by the Colombian government are typically defined by the political elite and frequently run contra to local interests and

priorities, as evidenced by the growing number of community protests. While Chinese companies lean on the Communist Party apparatus to quash dissent, companies in Colombia habitually resort to criminal organizations and hired assassins. It is not in the interest of the people of Colombia to sacrifice their land and their well-being to the over-hyped phantom of economic growth for the benefit of the "Capital Coalition".

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CHINESE FINANCING IN VENEZUELA (2000-2018)

JOINT FUNDS AND LOANS-FOR-OIL[1]

Carlos Eduardo Piña

Introduction

The active involvement of China in today's global events has aroused keen interest on behalf of public opinion, as well as within political circles and, of course, among academics, all aiming to explore and understand the developments in a culture that for centuries has been, to some extent, aloof towards the West. For this reason, important studies have been carried out on a wide range of topics, for example Chinese relations with developing regions such as Latin America and the Caribbean.

This investigation has been carried out along these lines. Its purpose is to document, through data and information from primary sources, official statistics, public management reports and academic articles, the credit and loan relationship between the People's Republic of China and the Bolivarian Republic of Venezuela since the beginning of the 21st century.

We begin with a brief description of bilateral relations from the moment these were formalized, in 1974, up to the present. Subsequently, the financing granted by China to Venezuela in the period 2000-2018 is carefully analyzed, particularly the amounts

1 Carlos H. Brandt and Tomás Centeno B. made valuable contributions to this article.

and granting conditions. Then the data on two important funds is closely examined –namely, the Joint China-Venezuela Fund and the Large Volume Long Term Fund– since a large part of the financing granted has been mainly through these funds. Next, the Chinese loans to the Venezuelan oil sector are analyzed, since this strategic resource is the cornerstone on which the bilateral relationship between the two countries is based. Then, the debates generated around the topic of credits granted by China to Venezuela and its repayment in crude oil and derivatives are described in a reflexive manner. These debates have exposed several angles and have been a source of deep concern in wide sectors of Venezuelan society. Finally, the conclusions drawn from the research are outlined, including some suggestions for improving the current and future understanding of Sino-Venezuelan relations, their impact, their repercussions and the possibilities for improving and correcting what has existed up to now.

Sino-Venezuelan Relations (1974-2018)

Venezuela and China established formal relations in 1974, with a commercial exchange of $1.4 million, a figure that grew to averaging $400 million at the end of the 1990s, with the signing of 36 cooperation instruments in the oil, manufacturing, commercial, agricultural, scientific, livestock and fishing sectors (MPPRE 2013). By that time Venezuela was a leading oil producer and a founder of the Organization of Petroleum Exporting Countries (OPEC); simultaneously China embarked on a process of profound reforms, once the Maoist phase ended, which would eventually result in its policy of opening to the world.

Following the coming to power of Hugo Chávez in 1999, the bilateral relationship took on an unprecedented force. The motivations for both countries to coincide were varied. In the case of Caracas, a hostile national and international environment, marked internally by the conflict that led in 2001 to the approval of a set of rules within the framework of the Enabling Law, a coup d'état

in 2002 and finally, a 63-day "oil strike" in 2003 that lowered oil production to 12,000 B/D, together with the deterioration of relations with the US, persuaded Chávez to align the interests of his government with those of Beijing (Brandt and Piña 2019).

Although Chávez initially maintained continuity in the basic premises of Venezuelan foreign policy, he quickly introduced changes, influenced by ideological and geopolitical determinants, among which the following stand out: 1) The promotion of Latin American and Caribbean cooperation and integration; and 2) The diversification of political and commercial relations with China, Russia, Iran, Iraq and Libya. This formulation was based on the principles of independence, equality among States, cooperation, self-determination and non-intervention in internal affairs, peaceful resolution of conflicts, respect for human rights and solidarity among peoples, enshrined in the Constitution (CRBV 2000). The justification for this was the promotion of a multi-polar world and to serve as a counterweight to US hegemony (Cardozo 2005).

With this strategy, Venezuela sought to reduce its dependence on its northern neighbor as the main market for its crude oil, using oil as a bargaining tool, while seeking new political support from China. Meanwhile, the Asian giant continued its strategy of internationalization, positioning itself in the Orinoco Petroleum Belt (OPB) and in the Mining Arc (Brandt 2016).

The official meetings held since 2001 led to the "China-Venezuela Strategic Energy Plan 2001-2011" and the creation of the "High Level Joint Commission", the highest authority in the relationship. This approach towards China represented a strategic change in the design and exercise of the new Venezuelan foreign policy, which reached its highest point with the establishment of an "Integral Strategic Alliance" formalized in 2014 (Minci 2014).

In the economic sphere, the establishment of a robust institutional framework facilitated the flow of huge economic resources to Venezuela. Thus, it is possible to quantify until 2018, cumulative capital flows on the order of $187 billion, in terms of trade, direct investment, loans and infrastructure projects, involving China.

According to the World Bank, the accumulated trade between the two countries reached $150.1 billion between 2000 and 2017. Of this amount, $96.4 billion corresponded to Venezuelan exports to China and the remaining $54.2 billion were sales from China to Venezuela, which suggests that the trade balance has been favorable to the South American country (World Integrated Trade Solution 2019). It is important to highlight that 99.5% of Venezuelan exports are made up of five products: oil and derivatives (90.9%); metal ores, slag and ash (6.09%); foundry, iron and steel materials (1.87%); inorganic chemical products and compounds (0.24%) and copper manufactures (0.24%). Meanwhile, Venezuelan imports showed a slightly more varied trend and focused on the purchase of high value-added goods, such as: heavy and industrial machinery (23.1%); electronic devices (17.7%); cars and tractors (11.9%); manufactured products of iron and steel (6.3%) and foundry materials (2.1%) (World Integrated Trade Solution 2019).

The outbound of foreign direct investment (OFDI) from China to Venezuela reached $6.08 billion between 2000 and 2018. This amount represents 5.2% of the total investment made by Chinese companies in LAC, placing that country as sixth in the region in terms of the resources received in the last 18 years. These have been concentrated mainly in the raw materials sector (60.7%), the services sector (29%) and the manufacturing sector (10.3%). Also, the generation of employment is quite important, given that 14,601 jobs have been created, distributed in: manufacturing, with 11,794 (80.8%); services, with 2,169 (14.8%); and raw material, with 633 (4.3%) (OFDI Monitor 2018; Piña 2019).

Between 2000 and 2018, loans to Venezuela approved by Chinese institutions reached $67.2 billion, representing 47.8% of the total loans granted by that country in LAC. The disbursement of these credits resulted in the completion of 790 projects, in construction, mining, hydrocarbons, telecommunications and manufacturing. In addition, it is important to note that the mechanisms through which these loans were approved implied a commitment on the part of Venezuela to honor the debt contracted with shipments of oil.

In summary, the bilateral relationship has manifested itself significantly in the political and economic spheres, with oil and energy as central axes. Additionally, it should be noted that since the beginning of the 21st century there has been a coinciding of interests for both countries in terms of their foreign policy and the achievement of their development objectives. This situation, along with the political will of their highest authorities, has configured one of the greatest examples of cooperation between China and any country in LAC.

Chinese Financing in Venezuela (2000-2018). Amounts, Conditions and Debates

China's financing policy towards Venezuela has been influenced by the capital export strategy deployed by that country since the beginning of the 21st century. This strategy, known as "Going Global", began to be developed in a coordinated manner among the highest Chinese political institutions in conjunction with the China Development Bank and the Export-Import Bank (Ex-Im Bank), for the purpose of furthering China's development objectives (Lares 2017; Dussel Peters 2019).

According to Dussel Peters, the arrival of Chinese financing in the region coincided with the start of the 2007-2008 financial crisis in various western countries, especially the United States and in Europe. The Asian nation took advantage of this situation to position itself as an alternative source of resources for some Latin American countries, whose economic and financial links with western credit institutions left them exposed in the middle of this period of economic turbulence (Dussel Peters 2019).

In the case of Venezuela, an even more noticeable coincidence occurs, because between the years 2006-2007, the Venezuelan Government made announcements and directed actions to dispense with the multilateral financing organisms –or at least minimize their participation– thus reducing their sources of low-cost financing. The reasons that justified this change were varied and

responded to the Chavez government's ideological, political and internal economic management criteria. This situation was seen by China as an opportunity to cover an important part of Venezuela's credit needs, at a time when this country was enjoying the cycle of high oil prices.

The first credit cooperation agreements between China and Venezuela took place in 2001, when both delineated a new form of relationship, based not only on traditional commercial exchange, but also on the preparation of agreements for granting lines of credit in exchange for oil and derivatives. Despite this initial intention, it is worth mentioning that the loans granted between 2000 and 2007 implied disbursements for an accumulated amount of $58 million, destined to the development of agricultural activities and infrastructure (MRE 2010; Natalia Boza 2018; CITIC 2018).

Subsequently, during the years 2007-2008, the creation of the Joint China-Venezuela Fund (JCVF) materialized and later, in 2010, the Long-Term Large Volume Fund (LTLVF); both are joint financing mechanisms mainly for the purpose of investment in infrastructure projects and social development. The importance and relevance of the China-Venezuela funds is evidenced by the fact that they went on to represent disbursements of $50.3 billion between 2007 and 2015 (Balza 2015; PDVSA 2016; Medium 2017; Official Gazettes 39:183, 927, 40:299 and 40:692; Ministry of Foreign Affairs 2010).

Credit has also been granted to maintain and/or increase the oil production of the joint ventures in the OPB, where the Chinese National Petroleum Corporation (CNPC) and Petróleos de Venezuela S.A. (PDVSA) are partners. The accumulated amount of the latter debt instruments has been $14.7 billion, delivered in seven disbursements between the years 2010 and 2018. Likewise, the existence of another type of loan directed to construction and mining activities has been identified, the accumulated amount of which is approximately $2.2 billion (Inter-American Dialogue 2019; Piña 2019).

The sum of the indicated credit operations accounts for $67.2 billion granted during the first eighteen years of the 21st century.

This amount represents the largest disbursement made by China in the region, via credits, and one of the largest in the world. An important part of this debt has been collateralized by Venezuelan oil resources, a fact that has generated debates about the necessity for and convenience of this policy, which has, however, allowed China to disburse large sums without having to worry about repayment.

For purposes of this document and in order to clarify the information on the conditions, terms, interest rates and amortization of Chinese loans to Venezuela, we will proceed to describe them in a disaggregated manner, beginning with the loans granted for infrastructure activities and social programs, then analyze the disbursements made to the Venezuelan oil sector, and lastly describe those directed to mining and civil construction activities.

The Joint China-Venezuela Fund and the Large Volume Long-Term Fund

The most relevant loans in the China-Venezuela relationship have been those aimed at financing infrastructure projects and social programs. The legal figures through which these disbursements were made effective were the Joint China-Venezuela Fund (JCVF) and the Long-Term Large Volume Fund (LTLVF). These mechanisms were created with contributions from China, via the China Development Bank (CDB), and from Venezuela, through the National Development Fund (FONDEN), considering the reimbursement of China's contributions in the short and long term preferably with shipments of oil (Piña 2019).

The first fund for the loan of economic resources payable with oil materialized in 2007, when within the framework of the so-called "Strategic Partnership" the Six-Party Framework Agreement for the establishment of the Joint China-Venezuela Fund was finalized (11/6/2007), which in turn is tied to two instruments: The Four-Party Agreement (BANDES, PDVSA, CDB and CNPC) and the Financing Agreement between the Economic and Social Development Bank of Venezuela (BANDES) and the Development

Bank of China (CDB). Then, on May 9, 2008, the Agreement, between the Government of the Bolivarian Republic of Venezuela and the Government of the People's Republic of China, on the Joint Financing Fund, known as the "Chinese Fund", was signed. The Approbatory Law of said instrument was published in Official Gazette No. 39,019 of September 18, 2008, once it was approved by the Plenary of the National Assembly, as established in Article 154 of the Constitution.[2]

Regarding the amounts granted, the original Fund was made up of a CDB loan of $4 billion, which would be delivered to BANDES, and a disbursement for the investment of $2 billion contributed by the National Development Fund (FONDEN), for a total amount of $6 billion. Thereafter, the original agreement of the JCVF would undergo modifications embodied in five amendment protocols approved between 2007 and 2015. Namely:

- A first amendment approved on February 18, 2009 and published in the Approval Law in Official Gazette No. 39,183 on May 21 of the same year. This new document attests to compliance with the original agreement and modifies article 3, to increase the financing amount from $6 billion to $12 billion, plus a loan for $4 billion and a contribution from FONDEN of $2 billions.
- A Second Protocol of Amendment was implemented on May 22, 2012, according to Official Gazette No. 39,927. In it, for the first time, the entities responsible for oil trade are included: the China National Petroleum Corporation (CNPC) and Petróleos de Venezuela S.A. (PDVSA). The amounts granted since 2008 were also denominated Tranche A and Tranche B, recording that Tranche A, for an amount of $6 billion, had already been repaid in its entirety. Meanwhile,

2 Article 154 of the Constitution establishes that "The treaties concluded by the Republic must be approved by the National Assembly before its ratification by the President of the Republic, except for those through which it is necessary to execute or perfect pre-existing obligations of the Republic..."

Tranche B amounted to $6 billion with $4 billion contributed by the CDB and $2 billion contributed by FONDEN.

- The third amendment was added in 2013, appearing in Official Gazette No. 40,299 of November 21, establishing Tranche C, for the amount of $6 billion: $5 billion contributed by the CDB payable in three years and $1 billion from FONDEN.
- A Fourth Amendment Protocol was published in Official Gazette No. 40,516 on October 10, 2014 and included, among the most notable changes, the establishment of the Bolívar as a secondary currency to govern the Fund, specifically, the contributions made by FONDEN.
- Finally, a fifth amendment was published in Official Gazette No. 40,692 on June 30, 2015. In it, tranches A, B and C were ratified, in addition to the possibility that both countries could carry out new "additional phases of cooperation", which translated into the willingness of both governments to process new loans. For this reason, Tranche B was renewed, with the addition of a loan of $5 billion contributed by CDB to BANDES and $1 billion or its equivalent in the legal currency of the Bolivarian Republic of Venezuela, which was contributed by FONDEN.

Parallel with the development of the JCVF, a new financing instrument was inaugurated on September 16, 2010, with the 2010-2020 Large Volume Long-Term Financing Resource Agreement (LVLT-FRA), published in Official Gazette No. 39:511. Article 3 specifies contributions from the China Development Bank for a maximum of $10 billion and a line of credit of 70 billion Yuan. Unlike the previous documents, this does not include disbursements by FONDEN; but it does establish in its article 4 the volumes that PDVSA will have to export for the payment of said credit, at a rate no less than 200 thousands of B/d in 2010; not less than 250 thousands of B/d in 2011; and from 2012 on, no less than 300 thousands of B/d until the date on which the financing obligations have been fully and unconditionally fulfilled (MPPRE 2010). It also foresees

the opening of collecting accounts, so that the "buyer" deposits the resources for the purchase of crude oil and, subsequently, payments are made to the "lender" (CDB), applicable to the principal, interest and other amounts owed.

When adding up the amounts of each tranche of the JCVF and the LVLTFRA, a total of $50.3 billion is reached, aimed at infrastructure projects and social programs. Table 1 shows the sections comprising the funds, as well as the interest rates, frequency of payments and periods of maturity of the same in a disaggregated manner.

Regarding the conditions agreed upon for both funds, it should be noted that in the case of the JCVF, quarterly capital and interest payments are made, calculated at the LIBOR rate plus a spread that oscillated between 50 and 285 basis points, between the years 2007 and 2013, and between 500 and 800 basis points for the years 2014 and 2015. For the sections of the LVLTFRA, which is established as a single financing facility to be placed in two currencies –RMB yuan and dollars– with maturity in ten years, subject to renewal at maturity, capital and interest payments are assumed calculated at LIBOR and SHIBOR half-yearly rates, for each currency respectively, with a spread that ranges between 350 and 500 basis points (Gallagher 2013; PDVSA 2016; Medium 2017).

It can be observed that the financial conditions agreed upon for each of the funds have similarities, although variations exist with respect to the frequency of payments and the maturity periods. Another important aspect is the behavior of the spreads between 2013 and 2015, due to the increase in the country risk premium for Venezuela during said period. The latter suggests that China used financial protection mechanisms as a safeguard against Venezuela's economic decline that was becoming evident by then.

Regarding the amortization of the loans, PDVSA's 2016 Management Report shows that, at the end of 2016, the total amount of oil sent to China, to amortize capital and interest payments, reached 1 million 345 thousand barrels, which yields an average of 374 thousand of B/d per year (see table 2). Of the total barrels sent, approximately 712 thousand B/D corresponded to the JCVF

Table 1. Amounts and Financial Conditions of the Loans Granted via JCVF and LVLTFRA (2007-2015)

MAIN FINANCIAL CONDITIONS OF THE LOANS						
DATE	HEAVY FUND - SHORT TERM	Chinese Contribution (in $US million)	Rate (%)	Margin (%)*	Term (Years)	Frequency of Payments
Nov, 2007	Tranche A	4,000.0	LIBOR	0,50% up to 2,85% (2007 - 2013) 5,00% up to 8,00% (2014 - 2015)	3	Quarterly
Apr, 2009	Tranche B	4,000.0			3	
Jun, 2011	Tranche A-II	4,000.0			3	
Aug, 2012	Tranche B-II	4,000.0			3	
Nov, 2013	Tranche C	5,000.0			3	
Jul, 2014	Tranche A-III	4,000.0			3	
Apr, 2015	Tranche B-III	5,000.0			3	
DATE	LARGE-VOLUME LONG-TERM FUND	Chinese Contribution (MM US$)	Rate (%)	Margin (%)*	Term (Years)	Frequency of Payments
Aug, 2010	Tranche I (US$)	10,300.0	LIBOR / SHIBOR	3,50% up to 5,00%	10	Biannual
Aug, 2010	Tranche II (RMB)**	10,000.0			10	

Source: author´s elaboration based on data from the PDVSA Management Report (2016), Form 18 K, taken from the SEC, Medium Report (2017) and Gallagher (2013), January-February, Cechimex Workbooks N ° 19

* Margins 2007-2013, estimated according to Gallagher (2013) and 2014-2015 are estimated from data found in accordance with Venezuela's risk conditions and references from other multilateral and bilateral credits.

** Amount equivalent to USD at the established rate of 7 RMB / US $.

Table 2. Volume of Supply for Loan Amortization of the Chinese Funds (shipments of thousands of B/D)

VOLUME OF SUPPLY FOR LOAN AMORTIZATION OF THE CHINESE FUND (Shipments of MBD)												
HEAVY FUND - SHORT TERM	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**TOTAL DELIVERY - Amortization ****	**Average Sales per year (Thousand of b/d)**
Tranche A	89.0	86.0	91.0	75.0							122,760.0	85.3
Tranche B			124.0	107.0							83,160.0	115.5
Tranche C							5.0	71.0	96.0	100.0	97,920.0	68.0
Tranche A-II					195.0	132.7	95.0				152,160.0	140.9
Tranche B-II						66.3	95.0	90.5			90,660.0	83.9
1st RENOVATION Tranches A and B	0.0	0.0	0.0	0.0	195.0	199.0	190.0	90.5	0.0	0.0	242,820.0	67.5
Tranche A-III *								90.5	124.0	60.0	98,820.0	91.5
Tranche B-III *									124.0	60.0	66,240.0	92.0
2nd RENOVATION Tranches A and B	0.0	0.0	0.0	0.0	0.0	0.0	0.0	90.5	248.0	120.0	165,060.0	45.9
SUB - TOTAL	89.0	86.0	215.0	182.0	195.0	199.0	195.0	252.0	344.0	220.0	711,720.0	197.7
LARGE-VOLUME LONG-TERM FUND	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	TOTAL DELIVERY - Amortization **	Average Sales per year (MBD)
Tranche I (USD)				102.5	110.0	126.0	145.0	112.5	141.5	142.5	316,800.0	125.7
Tranche II (RMB)				102.5	110.0	126.0	145.0	112.5	141.5	142.5	316,800.0	125.7
SUB - TOTAL	0.0	0.0	0.0	205.0	220.0	252.0	290.0	225.0	283.0	285.0	633,600.0	176.0
TOTAL	**89.0**	**86.0**	**215.0**	**387.0**	**415.0**	**451.0**	**485.0**	**477.0**	**627.0**	**505.0**	**1,345,320.0**	**373.7**

Source: author´s elaboration on
* Approximate information obtained from the last Management Report presented (2016).
** Approximate amount of total shipment of crude to amortize the loans.

and 634 thousand B/D to the LVLTFRA (Annual Management Report of PDVSA 2016).

The amount in dollars of these shipments reaches $91.8 billion, according to the information included in the PDVSA Financial Reports for the same period (PDVSA Financial Reports 2010-2016). As shown in Table 3, Venezuela has paid China –via a collecting account– a total of $ 44.4 billion in capital, interest and financial collateral associated with the conditions of the loans. At the same time, it is possible to assert that PDVSA has received back the sum of $47.3 billion for the sale of crude oil to China during the period 2007-2016.

Table 3. Flow of Disbursements and Amortization of Financing (equivalent in $US million)

Years	JCVF + LVLTF Loans (in $US million)	Delivery (Thousand B/d)	Average Oil Price ($US / Bl)	Oil shipments from Venezuela to China (Eq. in $US millon)	Payments from Bandes to the Collecting Account (in $US million)	Transfer from Bandes to PDVSA - Subsequent to payment of commitments with the CDB (in $US million)
2007	4,000	89	61.79	1,980	1,832	147
2008		86	86.30	2,672	1,727	944
2009	4,000	215	55.72	3,771	2,577	1,194
2010	20,300	387	69.68	6,121	4,801	1,320
2011	4,000	415	97.88	14,623	7,899	6,724
2012	4,000	451	100.11	16,253	3,808	12,445
2013	5,000	485	96.71	16,886	7,246	9,640
2014	4,000	477	86.79	14,747	6,624	8,123
2015	5,000	627	41.17	8,582	5,632	2,950
2016		505	33.96	6,173	2,338	3,835
TOTAL	**50,300**	**374**	**73.01**	**91,807**	**44,485**	**47,322**

Source: author´s elaboration based on PDVSA Financial Reports 2010, 2011, 2012, 2013, 2014, 2015 and 2016.

Table 4. Amortization of Loans Granted in the Framework of the JCVF and the LVLTFRA (equivalent in $US million)

PAYMENTS EFFECTIVELY CARRIED OUT AND DEBIT BALANCE IN MECHANISMS JCVF + LVLTF *														
DATE	Financing Mechanisms		Contribution from China (in $US million)	Status	Term (Years)	Paid Capital (in $US million)	Interest paid (in $US million)	Capital + Interests (in $US million)	Collateral Paid (in $US million) **	Total Paid (in $US million)	Equivalent barrels (MM Bls.)	Barrels Equiv. Average. (TB/D)	Debit balance (in $US million)	Collateral Refund (in $US million) ***	Cash Payment (in $US million)
Nov, 2007	JCVF	Tranche A	4,000.0	Paid	3	4,000.0	169.1	4,169.1	680.0	4,849.1	68.4	62.4	0.0	680.0	4,169.1
Apr, 2009	JCVF	Tranche B	4,000.0	Paid	3	4,000.0	212.9	4,212.9	680.0	4,892.9	62.0	56.5	0.0	680.0	4,212.9
Aug, 2010	LVLTF	Tranche I (US$)	10,300.0	payable	10	5,500.0	1,846.6	7,346.6	1,500.0	8,846.6	111.4	55.5	4,800.0	450.0	8,396.6
Aug, 2010	LVLTF	Tranche II (RMB)	10,000.0	payable	10	5,500.0	2,272.5	7,772.5	1,500.0	9,272.5	116.7	58.1	4,500.0	450.0	8,822.5
Jun, 2011	JCVF	Tranche A-II	4,000.0	Paid	3	4,000.0	258.2	4,258.2	680.0	4,938.2	50.1	45.7	0.0	680.0	4,258.2
Aug, 2012	JCVF	Tranche B-II	4,000.0	Paid	3	4,000.0	290.2	4,290.2	680.0	4,970.2	59.9	54.7	0.0	680.0	4,290.2
Nov, 2013	JCVF	Tranche C	5,000.0	payable	3	4,166.7	347.6	4,514.2	850.0	5,364.2	91.6	100.5	833.3	450.0	4,914.2
Jul, 2014	JCVF	Tranche A-III	4,000.0	payable	3	2,333.3	329.0	2,662.3	680.0	3,342.3	69.2	108.3	1,666.7	340.0	3,002.3
Apr, 2015	JCVF	Tranche B-III	5,000.0	payable	3	1,666.7	352.2	2,018.9	850.0	2,868.9	67.0	183.1	3,333.3	450.0	2,418.9
			50,300.0			**35,166.7**	**6,078.3**	**41,245.0**	**8,100.0**	**49,345.0**	**696.4**	**607.5**	**15,133.3**	**4,860.0**	**44,485.0**

Source: author´s elaboration based on data from the PDVSA Management Report (2016), Form 18 K, taken from the SEC, Medium Report (2017) and Gallagher (2013), in Notebook No. 19, January-February 2013 , Workbooks of Cechimex.

* Estimated figures based on the assumptions made for the calculation of the Amortization Tables.

** The assumption of the maintenance of two capital installments plus interest as collateral to mitigate risks was considered, as well as its reimbursement at the final maturity of the tranche.

*** The assumption of reimbursement was considered in the amount of US $ 4,860 billions, in order to equal the payment shown by PDVSA in its Management Reports.

Using Table 4 as a reference and the information obtained from the estimated Amortization Tables for each tranche, at the close of 2016 Venezuela maintained an approximate debit balance of $15.1 billion, resulting from the consolidation of capital payable in the current tranches.

Based on these results, it is estimated that Venezuela has paid China approximately $35.1 billion in capital and $6.08 billion in interest, for a total of $41.2 billion. Additionally, a collateral payment is calculated in the order of $8.1 billion, for a total of payments of $49.3 billion, equivalent to the shipment of 608 thousand B/D.

It is possible to deduce, then, that if Venezuela has paid China an effective amount of $44.4 billion, the Asian country has reimbursed to Venezuela the sum of $4.8 billion, of which $2.7 billion corresponds to the return of collateral for the loans paid in full and $2.1 billion, probably in response to requests for a portion of the collateral for existing loans, to meet Venezuela's liquidity requirements over the last four years.

Another aspect that deserves to be studied in relation to the loans granted in the framework of the JCVF and the LVLTFRA, are the effective returns obtained on them by China. As shown in Table 5, in which the information of amounts in the different tranches is unified with the foreign currency flows obtained from the previous tables, it is shown that, in general terms, when evaluating the total flow of the financing obtained from China, considering an average funding rate of 4.5% and a reinvestment rate of approximately 9.0%, the yield for China –as measured by the Modified IRR– reaches 17.1%; similar to the rate that would have been obtained had they resorted to the capital market (16.1%).

The effective yields, which averaged 17.1%, are almost twice as high as expected (9.3%). However, these results do not consider the return payments made by BANDES to PDVSA, which, according to financial reports from the Venezuelan oil industry, are estimated at around $47.3 billion. When such payments are discounted from the total flow sent to China, in general terms, the yield obtained by the Asian country is between 0.8% and 1.7%,

Table 5. Estimated Return Flow for Loans Granted by China (in $US million) to Venezuela Through the Chinese Funds and Yields Obtained (%)

ESTIMATED RETURN FLOW FOR LOANS GRANTED BY CHINA (in $US million) TO VENEZUELA THROUGH THE CHINESE FUNDS AND YIELDS OBTAINED (%) *														
DATE	LOAN	AMOUNT (in $US million)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YIELD (%)	MOD. YIELD (%)
Nov, 2007	tranche A	-4,000.0	-3,670.1	2,671.8	1,825.3	1,411.0	0.0	0.0	0.0	0.0	0.0	0.0	32.3%	21.4%
Apr, 2009	tranche B	-4,000.0	0.0	0.0	-2,134.6	2,684.0	0.0	0.0	0.0	0.0	0.0	0.0	25.7%	25.7%
Jun, 2011	tranche A-II	-4,000.0	0.0	0.0	0.0	0.0	-564.5	4,781.0	3,307.5	0.0	0.0	0.0	811.3%	288.4%
Aug, 2012	tranche B-II	-4,000.0	0.0	0.0	0.0	0.0	0.0	-2,900.4	3,307.5	2,827.5	0.0	0.0	71.0%	48.9%
Nov, 2013	tranche C	-5,000.0	0.0	0.0	0.0	0.0	0.0	0.0	-4,978.2	2,218.3	1,422.9	611.2	-9.1%	-1.2%
Jul, 2014	tranche A-III	-4,000.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-2,586.2	1,837.9	366.7	-12.7%	-4.3%
Apr, 2015	tranche B-III	-5,000.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-3,162.1	733.5	-76.8%	-76.8%
Aug,, 2010	tranche I (US$)	-10,300.0	0.0	0.0	0.0	-9,117.3	3,876.0	4,540.8	5,048.3	3,514.9	2,097.3	871.0	34.8%	19.3%
Aug,, 2010	tranche II (RMB)	-10,000.0	0.0	0.0	0.0	-8,817.3	3,876.0	4,540.8	5,048.3	3,514.9	2,097.3	871.0	36.7%	19.9%
2007 - 2015	**TOTAL FINANC.**	**-50,300.0**	**-3,670.1**	**2,671.8**	**-309.2**	**-13,839.6**	**7,187.5**	**10,962.2**	**11,733.5**	**9,489.4**	**4,293.5**	**3,453.5**	**39.2%**	**17.1%**

Source: author's elaboration based on data from PDVSA's Management Report (2016) and data collected at Gallagher (2013), Medium (2017) and Inter-American Dialogue.

* The flow is calculated based on the approximate number of effective days, which adjusts the estimate to values closer to those that occurred.

Note: Foreign exchange returns sent to PDVSA are not considered because they exceed the amount of oil required to amortize capital and interest on the loans.

which is lower than the expected value according to the estimated Amortization Tables (see Table 6).

With these findings, we can deduce that China has incurred losses after not having obtained the expected returns. The general performance is below the required profitability measure according to the financial conditions considered for the calculations. In addition, Venezuela has a debit balance with China of approximately $15.3 billion, which, combined with possible liquidity requests, to the order of $2.1 billion, totals a current debt of $17.2 billion owed to the Chinese Funds.

On the other hand, for Venezuela, the financing operations with China have represented an extra inflow of resources for the

Table 6. Comparison of yields, cost of indebtedness and oil prices

Financing from China to Venezuela vs. Market Rate							
YEAR	Tranches - JCVF + LVLTF (I and II) (in $US million)	Accumulated Amount (in $US million)	Yield Expected by China (%) *	Effective Yield (%)	Cost of indebtedness for Vzla. (%)	Average Oil Price ($US / Bl)	Market / Expected Ratio
2007	4,000	4,000	3.8%	21.4%	7.9%	61.8	2.1
2008		4,000	4.3%	0.0%	12.1%	86.3	2.8
2009	4,000	8,000	4.7%	25.7%	15.7%	55.7	3.3
2010	20,300	28,300	12.6%	19.6%	13.8%	69.7	1.1
2011	4,000	32,300	5.7%	288.4%	14.2%	97.9	2.5
2012	4,000	36,300	6.4%	48.9%	11.6%	100.1	1.8
2013	5,000	41,300	6.4%	-1.2%	11.4%	96.7	1.8
2014	4,000	45,300	9.1%	-4.3%	15.4%	86.8	1.7
2015	5,000	50,300	11.8%	-76.8%	29.5%	41.2	2.5
2016		50,300	13.0%	0.0%	29.4%	34.0	2.3
TOTAL	**50,300**		**9.3%**	**17.1%**	**16.1%**	**73.0**	**2.2**

Source: author's elaboration based on Form 18 K, taken from the SEC, Dialogo Interamericano, OPEC and Financial Scope.

Table 7. Income from Initial Valuation and Savings in Debt Service

Chinese Loan Debt Prices and Interest Payments vs. Market Rates							
YEAR	Price of debt to China (%)	Venezuelan Debt Market Price (%)	Additional income from Valuation of the Issuance (in $US million)	Est. Difference in Interest Payment (in $US million)	Valuation - Payment of Interest to China (%)	Valuation - Payment of Market Interest (%)	Savings in Debt Service (in $US million)
2007	97.65%	102.67%	-200.6	1,493.2	15.69%	64.59%	1,956.0
2008	97.77%	87.82%	0.0	0.0	19.13%	61.53%	0.0
2009	97.89%	72.14%	1,030.0	1,176.5	22.47%	50.13%	1,106.3
2010	89.84%	77.05%	2,595.7	3,581.9	26.91%	51.06%	4,903.5
2011	97.32%	77.71%	784.7	1,084.3	25.66%	53.55%	1,115.8
2012	97.05%	90.29%	270.6	1,164.5	28.33%	63.28%	1,398.2
2013	97.23%	89.79%	372.0	1,335.3	29.09%	61.65%	1,627.8
2014	96.28%	76.54%	789.7	651.3	38.34%	56.37%	720.9
2015	95.42%	44.75%	2,533.6	127.3	46.38%	38.85%	-376.5
2016	89.17%	44.55%	0.0	0.0	26.12%	38.23%	0.0
Total	**95.56%**	**76.33%**	**8,176**	**10,614**	**28.00%**	**55.67%**	**12,452**
Dif.	**19.23%**		**7,693.3**		**27.67%**		**11,067.0**

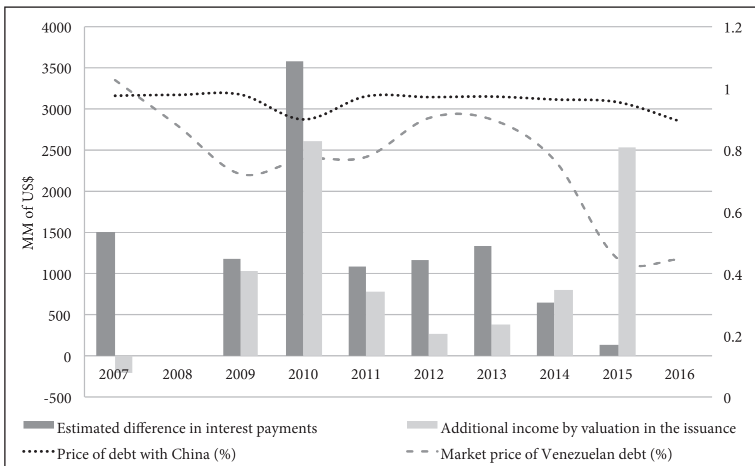
Source: author's elaboration based on Form 18 K, taken from the SEC, Dialogo Interamericano, OPEC and Financial Scope.

valuation of the debt issued, which at the same time has meant important savings in servicing Venezuela's external debt.

According to the data shown in Table 7, for the concept of debt valuation at the time of issuance, Venezuela received additional resources of approximately $8.2 billion for placing its debt in China and not in the international capital market. The latter, on average, valued Venezuela's debt almost 20 points below the assessment made by China, which assumed all the risk for strategic reasons, oriented, possibly, to the opening of opportunities for trade, investment or assurance of supply of raw materials in the long run. China probably expects from Venezuela a greater opening of its economy in the long term, to consolidate the commercial and financial flow between the two nations.

Furthermore, financing from China to Venezuela, in accordance with the conditions assumed for this study, generated savings in interest payments of approximately $10.6 billion during the period 2007-2016. In terms of present value, the debt service maintained with China represented approximately 28% of the total debt, while if that same debt had been issued in the international capital markets the interest payments would have represented 55.7%.

Figure 1. Extra Income and Savings in Debt Service for Venezuela



Source: author's elaboration based on available information.

In short it can be said, roughly, that China has compensated Venezuela by at least $18.7 billion during the ten years from 2007 to 2016. That is why China has represented a financing option for Venezuela, particularly since 2012, when Venezuela urgently needed to attract resources to meet import requirements and for productive investment.

China maintained a debt valuation of approximately 95.6% of the nominal value. The market between 2007 and 2016 granted prices that averaged 76.3% with a clearly declining tendency considering the country risk premium, which for the years 2015-2016 was approximately 45%. But while Venezuela saved an average of $1.4 billion annually in the payment of debt service during the 2007-2013 period, savings between 2014 and 2015 drastically decreased to $651.3 million and $127.3 million, respectively. This behavior is attributed to the increase in financing costs imposed by China, which has progressively raised the spread, while LIBOR rates increased due to the announcement of rate increases by the US Federal Reserve.

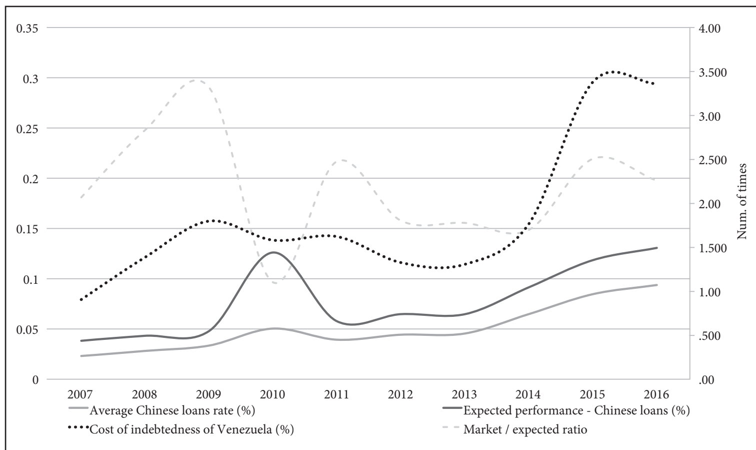
Since 2012, Venezuela has not been able to place debt in the international capital market by issuing global bonds due to the high yields required. Since then, this South American country has continued to search for increasingly scarce resources in commercial banks, and multilateral and other bilateral sources, due to the increased risk and progressive decline in Venezuela's ability to pay.

Among the various factors that led to Venezuela's loss of access to international financing are: 1) an erratic exchange rate policy, accompanied by the lack of corrective economic policy measures, thus contributing to external, fiscal and monetary imbalances; 2) the expropriation policy and nationalization of companies that placed a greater burden on the State; as well as 3) minimizing this country's participation in the multilateral financing organizations, as well as the formal withdrawal from the ICSID in 2012, which produced a greater perception of risk in the international capital market.

Therefore, there were compelling reasons for Venezuela's risk premium to remain high even with high oil prices, as shown in

Table 6. In order to maintain its aggressive public investment program, Venezuela required financing which, for this country, had become increasingly costly in the international capital markets. So it turned to China to obtain low-cost financing, given that the returns demanded by China averaged half the rate demanded by the market, as shown in Figure 2, which also shows the rising trend of the average rates for financing and expected returns.

Figure 2. Average Loan Rates and Expected Returns vs. Cost of Indebtedness for Venezuela

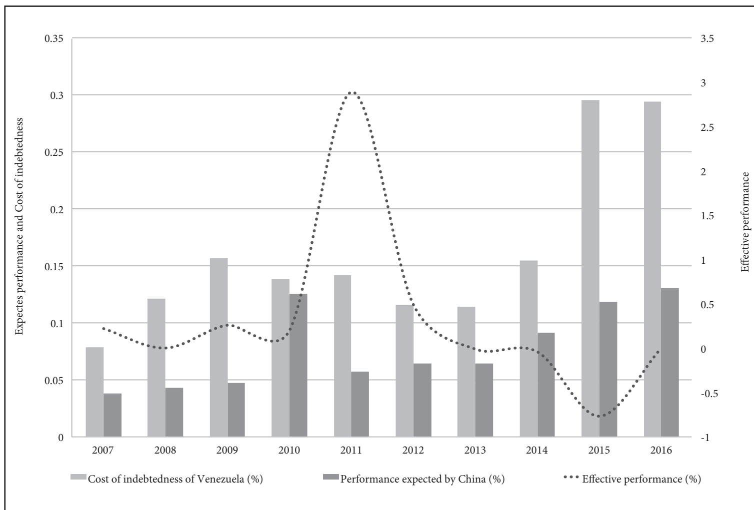


Source: author's elaboration based on available information.

Although China, in contractual terms, represented a low-cost option for Venezuela, and with no interference in budgetary policy matters, in practice the actual yields were higher than those of the market, considering the total flow of deliveries without returns to PDVSA, or at least equal given the total flow of all financing.

In relation to the effective yields obtained by China –without considering payments of returns to PDVSA– Figure 3 shows that, up to 2012, China obtained high and positive yields, calculated according to the shipments made by PDVSA. However, since 2013, when a balance of payments crisis began to develop in Venezuela, the yields obtained for Tranches C, A-III and B-III are negative,

Figure 3. Expected Performance and Cost of Venezuela's Debt vs. Effective Yield Obtained by China



Source: author's elaboration based on available information.

and the aforementioned sections are where the current debt is concentrated. However, in Tranches I and II of the LVLTFRA it doesn't happen the same way because at the end of 2016 capital and interest installments had been amortized for approximately five and a half years.

Considering the decrease in economic returns faced by PDVSA, China's yields have, as a result, fallen significantly. This situation implies the possibility of other requirements from China that are not limited to the contractual level, i.e. it could mean additional payments that were not set out in the original agreements. These new payments would be based on yield differential and the additional income for granting greater price to the debt.

On the other hand, it should be noted that although China –given Venezuela's lack of liquidity– could cover the contribution scheduled to be paid by FONDEN for the replacement of the funds, the resources available in the JCVF and the LVLTFRA, i.e. those not applied to the execution of projects, were not freely available to

Table 8. Results in Terms of the Main Financial Indicators

MAIN FINANCIAL RESULTS OF LOANS ***											
DATE	JCVF	Contribution from China (in $US million)	Rate (%)	Margin (%)*	Term (Years)	Average Est. Rate (%)	Expected Yield (%)	Effective Yield (%)	Average Life (Years)	Duration (Years)	Status
Nov, 2007	tranche A	4,000.0	LIBOR	0,50% up to 2,85% (2007 - 2013) 5,00% up to 8,00% (2014 - 2015)	3	2.2%	3.8%	21.4%	1.4	1.3	Paid
Abr, 2009	tranche B	4,000.0			3	3.3%	4.7%	25.7%	1.4	1.3	Paid
Jun, 2011	tranche A-II	4,000.0			3	3.9%	5.7%	288.4%	1.4	1.3	Paid
Ago, 2012	tranche B-II	4,000.0			3	4.4%	6.4%	48.9%	1.4	1.3	Paid
Nov, 2013	tranche C	5,000.0			3	4.5%	6.4%	-1.2%	1.4	1.3	Payable
Jul, 2014	tranche A-III	4,000.0			3	6.4%	9.1%	-4.3%	1.5	1.3	Payable
Abr, 2015	tranche B-III	5,000.0			3	8.4%	11.8%	-76.8%	1.5	1.3	Payable
DATE	LVLTF	Contribution from China (MM US $)	Rate (%)	Margin (%)	Term (Years)	Average Est. Rate (%)	Expected Yield (%)	Effective Yield (%)	Average Life (Years)	Duration (Years)	Status
Ago, 2010	tranche I (US$)	10,300.0	LIBOR / SHIBOR	3,50% up to 5,00%	10	5.1%	12.8%	19.3%	2.8	2.0	Payable
Ago, 2010	tranche II (RMB)**	10,000.0			10	7.3%	14.8%	19.9%	2.8	1.9	Payable

Source: author´s elaboration based on data from the PDVSA Management Report (2016), Form 18 K, taken from the SEC, Medium Report (2017) and Gallagher (2013), in Notebook No. 19, January-February 2013 , Workbooks of Cechimex.

* Margins and interest rates estimated from data obtained and according to Venezuela's risk conditions.

** Amount equivalent to USD at the established rate of 7 RMB / US $.

*** Main indicators calculated based on the information collected.

Venezuela, except for the financial investments required to generate liquidity from these idle resources. Furthermore, as projects are prioritized according to the parties involved, the emphasis is on Chinese companies that must be selected to carry out the works and the inputs imported from China that will be used therein.

Finally, the main financial results are summarized in Table 8.

The data in Table 8 shows what is reflected in Figure 2, a progressive increase in the average interest rate applied, as well as in the expected returns, and that for 2010 when China disbursed to Venezuela $20.3 billion, the pursued return rate was placed on par with the market requirement. It follows that to the extent that the largest disbursements were made, China raised the interest rate applied, its risk coverage and with it the expected return. For Venezuela, each disbursement represented greater income from indebtedness and in the long run some savings in the service of the debt. Even with increases in the interest rate, China represented the only option for Venezuela to access substantial resources while suffering from fiscal imbalance and inadequate macroeconomic policies.

Additionally, although China has not had the expected returns, basically because in five tranches the payments will not have been completed until their maturity, the average life and the estimated duration account for the rapid recovery of the loans. This occurs because the capital and interest installments are consecutive and come into force in the period immediately after the loan's total disbursement. For example, the three year tranches report a 1.3 year investment recovery, while the 10 year tranches report an investment recovery of approximately 2 years.

Chinese Loans for the Oil Sector

Another part of the Chinese loans to Venezuela has been aimed at propping up the oil production of the joint ventures formed by PDVSA and CNPC, as well as to cover commitments for financing, purchase and acquisition of fixed capital and the construction of

maritime terminals. The total amount of these loans has been approximately $14.7 billion; this figure represents 23% of the total money granted and 36% of the credit operations carried out by Chinese financial institutions, going to Venezuelan banks and/or companies (Inter-American Dialogue 2019).

Of this amount, the China Development Bank (CDB) has disbursed $11.7 billion to the joint ventures that operate in the Orinoco Oil Belt (OOB), formed between PDVSA and the China National Petroleum Corporation (CNPC). These companies are, in order of importance, the following: Petrolera Sinovensa, Petrozumano, Petrourica and Petrolera Sino-Venezolana (IGA PDVSA 2016). This practice has been carried out since 2013, when the Venezuelan oil company took on the task of seeking direct financing to cover its exploitation activities in the OOB fields. In response to this requirement, the Chinese Government considered it pertinent to finance, through credits, the entire production and exploitation process that maintained in Venezuela.

On the other hand, the remaining $3 billion was allocated to the coverage of investment commitments that the Venezuelan oil company had in Brazil, specifically in the construction of the José Inácio Abreu e Lima Refinery. In turn, the construction of the Morón petrochemical complex, located in the center of the country, was financed (PDVSA 2011, 2012 Financial Report).

Table 9 shows the composition of these credit operations in a disaggregated manner, highlighting that the most recent have been focused on increasing oil production, while those with greater longevity were focused on the purchase of oil goods and services and on the aforementioned construction work on the Pequiven maritime terminal.

The financial conditions that these loans established were varied and were around the LIBOR rate plus a margin of risk coverage that ranged between 450 and 625 basis points. In some cases, such as the loan granted in 2013 to the Sinovensa Company, the interest rates established by the CDB were higher than those agreed to for loans for other joint ventures with presence in the OOB. However, this was the case because both CNPC and the CDB were the entities

that contributed the most money to finance the production of crude oil in this area of Venezuela (PDVSA Financial Reports 2010-2016).

Meanwhile, the specifications established by PDVSA at the time of receiving these disbursements contemplated the possibility of paying with shipments of oil and its derivatives, or otherwise with cash. It is possible to assume, taking into account the mechanism established in the framework of the JCVF, that most of these payments have been made or have been agreed to be covered with shipments of crude oil.

Table 9. Chinese Loans Directed to the Venezuelan Oil Sector (2000-2018)

Date	Amounts (in $US million)	Lender	Purpose	Rate (%)	Margin (%)*	Term (years)	Frecuency of payments	Status
Jan, 2010	1125	CDB and Portugal's BES	Abreu e Lima Refinery investment	LIBOR	4,5%-6,25% (2010 - 2018)	3	Quartely	Paid
Nov, 2011	1500	CDB	Abreu e Lima Refinery investment	LIBOR		3	Quartely	Paid (80%)
Feb, 2012	500	CDB	Purchase of goods and services	LIBOR		6	Quartely	Paid (65%)
Jan, 2013	4015	CDB	Investment in Joint Venture Sinovensa	LIBOR		10	Annual	Payable
Sep, 2013	391	Ex-Im Bank	Maritime terminal construction	N/A		N/A	N/A	Payable
Nov, 2016	2200	CDB	Investment in Joint Ventures PDVSA-CNPC	N/A		N/A	N/A	Payable
Sep, 2018	5000	CDB	Investment in Joint Ventures PDVSA-CNPC	N/A		N/A	N/A	Payable
2010-2018	**14731**	**CDB, BES and Ex-Im Bank**						

Source: author´s elaboration based on PDVSA Annual Report (2016), PDVSA Financial Statements 2008-2016 and Ministry of Communication.

Likewise, it should be noted that, in 2016, the highest authorities of both countries agreed to a refinancing of the debt, according to which Venezuela undertook to postpone the payment of capital and concentrated on paying only part of the interest accrued, during a period of two years. Previously, in 2014, PDVSA had agreed to refinance the loan made by CDB in 2011, which was intended to cover the investment commitments that the Venezuelan company had in Brazil at the time. Similar conditions were established with the loans granted in 2010 jointly by the CDB and Portugal's Banco Espírito Santo (BES), and the line of credit for the purchase of goods in 2012, when grace periods between 9 and 30 months were established, respectively (El Nacional 2011; Financial Reports of PDVSA 2016; Inter-American Dialogue 2019).

Regarding the amortization of these loans, it has been possible to determine that most of the commitments acquired have not yet been repaid in full. According to information from PDVSA's Debt Balances and Financial Reports, of the $14.7 billion that the CDB has lent to PDVSA, approximately $2.6 billion, corresponding to the loans made in 2010, 2011 and 2012, have been repaid. The remaining commitments that are still to be paid are those related to the financing granted in 2013, 2016 and 2018, which reach an estimated amount, according to published information, of $12.1 billion.

A final aspect to be highlighted is related to the payment of non-financial collateral to honor part of the commitments acquired by PDVSA and the CDB. In this regard, it should be noted that prior to the approval of the most recent loan of $5 billion, both governments agreed to the transfer of 9.9% of the shares of Petrolera Sinovensa to CNPC. This transfer of assets can be interpreted as a guarantee of payment required by the Chinese party to ensure a return on their loans.

Analysis, Debates and Discussions About the Loan Policy Between China and Venezuela

Having described the types of loans made by China to Venezuela, as well as their amounts and financial conditions, it is important to refer to a series of considerations that help to complement this analysis.

Firstly, it should be noted that in their policy of loans to Venezuela, the Chinese Development Banks have tried, at first, not to interfere in the decision-making processes related to economic policy in the receiving country. This commitment has been in line with China's policy of noninterference in the internal affairs of other countries, as well as the need to promote a new international financial architecture based on South-South cooperation.

However, when the way the main financing was agreed upon is reviewed in detail, the adoption of a series of conditionalities inherent in the approval of the same has become evident. These conditions, as analyzed by Ana María Cardona, involved the hiring of companies and Chinese labor to carry out infrastructure, telecommunications, agricultural and energy projects financed under the Chinese-Venezuelan Funds (Cardona 2016). In turn it has been considered in various Venezuelan academic and political circles that Chinese financing has gone against Venezuela's interests because it has "mortgaged part of the future production of oil" to the Chinese lenders. This reasoning takes into account that Venezuela has prioritized access to liquid resources, under conditions apparently more favorable to the lender than those obtained in the international credit market, to keep afloat a public investment plan in infrastructure and social programs, which in turn is conditioned by political determinants. In contrast, those who defend the Sino-Venezuelan relationship have pointed out that the country has benefitted from its relationship with China as well as arguing that China represented one of the few external financing options available to Venezuela between the years 2007 and 2018.

The payment of debt commitments and the amount that remains to be amortized has been another controversial issue that

fuels the debate in Venezuela. In this regard, this investigation shows that until now Venezuela has repaid a sum of $37.8 billion of the total debt owed to China. At present the debt still outstanding amounts to $29.3 billion, of which $17.3 billion corresponds to the Chinese Funds and $12.1 billion is debt to the oil sector.

Another of the current debates is related to the forms of payment that Venezuela uses to honor these loans. In this regard, there are those who assert that the country has sold oil at a discount to China, even though the government authorities argue otherwise. In this investigation, it has been found that the crude sent to repay the loans has been exported at market prices, evidencing that the equivalent remnants in foreign currency, due to the adjustment to changes in the price of oil, were returned to PDVSA.

The financial conditions agreed upon for the disbursements of the Sino-Venezuelan loans have also been part of the public debate, because the amounts and scope of these were unknown to certain circles. On this point, it should be noted that, although at first sight the financial conditions of the loans granted to Venezuela through the Chinese Funds looked soft, China applied conditions similar to the market conditions observed in the increase of the spreads and creation of collateral as a mechanism of risk coverage, which account for effective rates of return similar, on average, to those obtained in the international capital market.

Finally, there is a current of international opinion that has studied the phenomenon of Chinese financing throughout the world, from the so-called "Debt-trap diplomacy" perspective (Chellany 2017). This approach suggests that China uses its financing policy to increase its position of dominance and influence on a global scale. In various circles, the question has been raised as to whether or not China, in pursuing this objective, makes large loans to countries whose payment capacity is low or tends to exceed the amount initially lent. In the Venezuelan case, there is no evidence that debt-trap diplomacy has been exercised. On the contrary, given the way in which the China-Venezuela relationship has evolved, based on loans with repayment in oil (barrels equivalent to the share of capital plus interest and some collateral that is contemplated), in

the face of the balance of payments crisis, unleashed since 2013 and boosted by the fall in oil prices since mid-2014, the so-called "creditor trap" is manifest, given that although China was able to cover its risk with Venezuela successfully in previous years, through guarantees based on oil, the sustained fall in oil production has made it difficult for Venezuela to repay the commitments made, leaving China at a disadvantage (Ferchen 2018; Kaplan and Penfold 2019).

Conclusions and Recommendations

China's financing policy towards Venezuela has involved the transfer of immense resources to the Venezuelan economy, with an aggregate amount of approximately $67.2 billion. This figure represents the largest disbursement made by the Chinese development banks to any country in Latin America and the Caribbean during the first eighteen years of the 21st century. Therefore it may be ascertained that China's loan policy towards Venezuela –given its successes and possible failures– has been one of the largest experiments in cooperation carried out by the Chinese in Latin America (Inter-American Dialogue 2019).

The magnitude of the credit relationship between both countries can be explained by two important facts: 1) the creation of a robust legal and institutional framework that allowed for the negotiation of favorable conditions for both countries; 2) the possibility to use Venezuela's oil resources as collateral for the loans. In addition, it is important to mention the significance of the political will both governments have shown in order to develop a cooperation mechanism based on oil as a central axis and on the policy of loans and commercial relations as dynamic elements.

In this vein, Venezuela aspired to turn China –with its vast accumulation of international reserves– into a kind of IMF or WB, from which to seek financing under "preferential conditions" without major conditioning or intervention in macroeconomic policy. It is important to point out that, for Venezuela, although

multilateral organizations provide financing at low cost, the lines of credit for those years were increasingly reduced and were established according to the country strategy subscribed with each of these entities.

Venezuelan aspirations began to take shape within the framework of South-South Cooperation, as well as in the desire to build a new global financial architecture, which from Caracas' position was complemented by being a means to "help in the formation of a multipolar world", considered in the national and strategic development plans promoted since 2001. For this reason it was decided to strengthen the credit relationship with China, as a priority issue within the political and economic project designed by Hugo Chávez.

The results of this relationship have been ambiguous. Although it allowed Venezuela to import important resources for the economy, it did not translate into greater development of the country's productive capacities. Similarly, it is possible to point out that this credit relationship involved a process of reprimarization of the Venezuelan economy, since the activities associated with the oil industry became essential for the payment of the commitments that the PRC continued to acquire.

Finally, the purpose of this document has been to provide knowledge and understanding of an issue that is part of the current public agenda in Venezuela. China alone is the principal bilateral creditor for this South American country, which is why the influence it exerts on Venezuela's political, diplomatic and economic decisions is considerable, especially when the struggle it maintains with the USA for global and regional influence is taken into account. In this regard, this research has sought to clarify some aspects of the bilateral relationship, even though, it must be said, the issue has not been sufficiently explored.

Recommendations

It is possible to make some recommendations regarding the credit relationship between China and Venezuela. Namely:

1. In the coming years, Venezuela will continue to be an attractive market for China, which is why it is suggested that both countries cooperate in order to maintain future lines of credit open, preferably those that are aimed at the realization of infrastructure projects that represent lasting benefits for Venezuelan society.
2. The credit relationship of both countries has gone through several stages: boom, consolidation and reconfiguration, which have allowed the parties to identify strengths and weaknesses in the way they carry out the bilateral financing policy. In this sense, it is suggested to take note of the lessons learned so as not to repeat past mistakes in the short, medium and long run future.
3. Motivated by the deep interrelation that both nations have maintained since 2000, it is essential to develop periodic and multidisciplinary research that will allow for monitoring, in the present and the future, the scope, potential and consequences for Venezuela that are derived from this bilateral relationship so that the bodies responsible for formulating public policies have sufficient tools available for decision making.
4. The Sino-Venezuelan relationship must be a permanent subject of study, discussion and debate in the academic, political and technical instances of the country, for the purpose of covering the different areas and sub-themes that make up this bilateral framework, and in order to unravel its weaknesses and opportunities for the South American country.

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CHINA'S FINANCING IN MEXICO (2000-2018)

Enrique Dussel Peters

Introduction

China's socioeconomic relationship with Mexico has widened in extension and depth in the last few decades: from culture and Confucius Institutes to tourism and political ties, China has become an increasingly important partner for Mexico. In this context, this document will analyze the specificities of China's relevance in financing activities in Mexico and consider a selection of prior analyses on the Mexico-China relationship in terms of trade, foreign direct investments and infrastructure projects (Dussel Peters 2014, 2016, 2019; Dussel Peters, Armony and Cui 2018). The goal of this analysis is to understand China's presence in Mexico in terms of financing and specifically in understanding Mexico and China's conditions and potential in this field, in addition to the main Chinese financial institutions and their respective programs and activities in Mexico.

This document will be divided into three sections. The first section will focus on the socioeconomic context of China's financing in Mexico and highlight the Mexico-China relationship in terms of political and economic relations between 2000-2018. The second part will examine the bilateral relationship in terms of financing: the general conditions in Mexico and China, and specifically the

main institutions that allow for financing from China in Mexico. The third section will conclude with the main topics of the Mexico-China financing relationship.

1. The Socioeconomic Context of China´s Financing in Mexico

In the more recent history of the bilateral relationship, it is important to highlight that Mexico was one of the first Latin American countries to have diplomatic ties with the People's Republic of China on February 14th, 1972 (Ventura Valero and Meléndrez Armada 2016).

Formally and diplomatically, the Mexico-China relationship has increased substantially in the last few decades. On the one hand, there are a group of meetings and commitments at regional Latin American and Caribbean-China level, specifically regarding the Community of Latin American and Caribbean States (CELAC), China Forum since 2015 (Cui and Pérez García 2016); the Cooperation Plan of 2015 (for the period 2015-2019) and 2018 (for the period 2019-2021) which offer a wide range of concrete opportunities for regional cooperation, specifically in the field of trade, infrastructure and Chinese investments. Bilaterally, the relationship has also grown in extension and depth, since China's adhesion to the World Trade Organization (WTO) in 2001. Between 2013-2018 the presidents of both countries met seven times, in addition, there were hundreds of meetings at all government levels (Ventura Valero and Meléndrez Armada 2016). During this period, both countries also achieved dozens of sanitary and phytosanitary agreements on specific products (including berries, pork meat and milk products), as well as the denomination of the origin of tequila. As a result, the bilateral relationship today accounts for four relevant institutions: the High Level Group (since 2004), the High Level Group in Business (since 2013), the High Level Group in Investments (since 2013) and the Binational Commission (since 2004). In theory, these institutions should meet at least once a year

and there is a debate over their efficiency and results (Anguiano 2018; Dussel Peters and Levy-Dabbah 2018).

Since the administration of Donald Trump in the US in January 2017, the "new triangular relationship" (Dussel Peters, Hearn and Shaiken 2013) has been extremely tense and has had an uncertain outcome. The Trump Administration has so far achieved a renegotiation of the North American Free Trade Agreement (NAFTA) at the end of 2018 (also known as the United States-Mexico-Canada Agreement or USMCA), and which has still to be ratified by the legislature of Canada and the US (it was ratified by Mexico's Senate in June 2019). After unilateral tariff impositions to sectors such as the steel and aluminum industry, and later to over 50% of Chinese imports, the Trump administration began trade negotiations with China in January 2019, with no concrete results until the first semester in 2019.

The new Mexican administration of Andrés Manuel López Obrador, since December 2018 has been extremely cautious in avoiding a confrontation with the Trump Administration at all cost, including on topics of USMCA and immigration, although the ratification process of the USMCA could prove extremely difficult and generate massive political and economic tensions throughout 2019-2020.[1] Finally, in June 2019 the Trump administration threatened to impose tariffs on all Mexican imports –invoking the International Emergency Economic Powers Act– unless it controls and substantially decreases illegal immigration to the US from Central America and other countries. As a result of Mexican measures put in place to control illegal immigration passing through the country, there has been a drastic fall of migrant flows to the US and tariffs have not yet been imposed.

Since 2003 China is Mexico's second trading partner, displacing countries and regions such as Canada, the European Union and

1 Each of the legislative powers will have to ratify USMCA, which includes Article 32.10 that explicitly excludes the possibility of any of its members negotiating free-trade agreements with "non-market economies", and implicitly with the People's Republic of China. The NAFTA region, from this perspective, could become the first international "anti-China" region (Dussel Peters 2018/a).

Latin America. This topic has been analyzed in-depth in recent years (Dussel Peters 2018/a; Dussel Peters and Ortiz Velásquez 2016; Ruiz Durán 2018). On the one hand, China's presence in Mexico's trade has increased substantially, from levels below 1% of Mexico's total trade until 2000 to 9.74% in 2018. On the other hand, this process has occurred through massive Chinese imports, increasing from less than 1% until 1996 to 17.64% in 2018, parallel to a massive displacement of US imports during the same period and particularly in electronics, auto-parts and automobiles (see Table 1), the main imported items from China: in 2018, for example, 35.83% of Mexico's imports in electronics came from China

Table 1. Mexico: Imports from Main Chapters of the Harmonized Tariff System from China (based on main chapters in 2018) (1995-2018)

		UNITED STATES					CHINA				
		1995	2000	2003	2010	2018	1995	2000	2003	2010	2018
		$US MILLIONS									
	TOTAL	53,973	126,151	105,443	145,450	215,817	520	2,755	9,297	45,608	83,505
85	Electronics	13,695	35,411	21,282	18,773	22,123	140	904	3,150	21,755	34,007
84	Autoparts	6,148	16,943	14,590	19,027	28,619	38	415	3,272	10,658	18,480
87	Automobiles	3,090	12,315	10,048	13,560	20,931	2	39	139	824	3,870
98	Special Classification Provisions	--	--	--	--	6,451	9	123	99	925	3,292
90	Optical Instruments	1,316	3,298	3,343	4,092	5,879	20	114	204	2,066	2,925
		PERCENTAGE OVER RESPECTIVE MEXICAN TOTAL IMPORTS									
Cap.	TOTAL	74.49	72.34	61.83	48.25	46.48	0.72	1.58	5.45	15.13	17.99
85	Electronics	79.20	76.55	57.23	26.49	23.31	0.81	1.95	8.47	30.70	35.83
84	Autoparts	61.63	66.87	50.02	40.67	36.95	0.38	1.64	11.22	22.78	23.86
87	Automobiles	80.09	72.18	59.23	54.87	48.61	0.05	0.23	0.82	3.33	8.99
98	Special Classification Provisions	--	--	--	--	38.84	--	--	--	--	19.82
90	Optical Instruments	68.38	72.77	65.10	40.11	38.54	1.04	2.52	3.97	20.25	19.17

Source: author´s elaboration based on Cechimex (2019).

and only 23.31% from the US. Mexico's massive trade deficit with China in 2018 (the import/export coefficient accounted for 11.2% or more than 76 billion dollars) is a result of Mexico's difficulties in exporting to China and massive imports from China in practically all manufactured goods.

In terms of Mexico's reception of Chinese foreign direct investments, a group of items stand out.[2] On the one hand, and independently of serious methodological problems to register China's FDI both in Mexican and Chinese public institutions, Mexico's FDI from China accounted for 0.21% of Mexico's total FDI during 1999-2018 (0.38% if we include Hong Kong). Nevertheless, and based on Red ALC-China (Dussel Peters 2019/b), Chinese FDI to Mexico accumulated $5.8 billion dollars during 2000-2018: considering that China's FDI to LAC fell by almost 50% during 2016-2018, Mexico has become an increasingly important destination of Chinese FDI in the region. Mexico's FDI originated from China and Hong Kong has been highly concentrated in services related to transport and warehousing (37.0% of total Chinese FDI during 1999-2018) and manufacturing industries (25.9% in the manufacture of computer equipment and peripherals accounting for 16.5% of total Chinese FDI during the period).

Finally, China's experience with Mexico in the field of infrastructure projects has been extremely limited and full of misunderstandings: in the last years, two out of two infrastructure projects failed (the high-speed train from Mexico City to Queretaro in 2014 and the hydroelectric plant Chicoasén II in 2016) (Dussel Peters 2018/b). In 2019, the direct bidding process by the Mexican government to build a refinery (*Dos Bocas*) –and inviting four foreign companies– did not include a single Chinese firm; the infrastructure project of *Tren Maya* in the south of Mexico, so far also does not foresee the participation of Chinese infrastructure firms.

2 For a detailed discussion on the topic, see: Dussel Peters (2019/c).

2. China's Financing Activities in Mexico (2000-2018)

China's impressive growth in the last few decades –accounting for an average annual growth rate (AAGR) of GDP per capita in current US dollars of 10.9% and 13.8% for the periods 1978-2018 and 2000-2018, and compared to Mexico's performance of 5.0% and 1.7%, respectively (WDI 2019; see Table 2)–, could also be understood as a result of high gross savings that have allowed

Table 2. Selected Indicators for China and Mexico (1978-2018)

	1978	2000	2018	1978-2018	2000-2018
GDP per capita in $US current					
China	156	959	9,770	2,405	4,507
Mexico	1,589	7,158	9,698	6,241	8,976
United States	10,565	36,335	62,641	35,447	48,523
GDP per capita in $US current (growth rate)					
China	-15.7	9.9	11.6	10.9	13.8
Mexico	22.1	16.3	4.5	4.6	1.7
United States	11.8	5.3	4.5	4.6	3.1
Gross saving rate (as a percentage of GDP)					
China	33.83 (for 1982)	35.82	46.36 (for 2017)	42.03 (for 1982-2017)	46.48 (for 2000-2017)
Mexico	21.82 (for 1979)	21.39	23.82	22.44	22.12
United States	23.43	20.82	18.99 (for 2017)	19.35	18.17 (for 2000-2017)
Domestic financing (as a percentage of GDP)					
China	51.18	111.12	161.14	100.07	127.31
Mexico	19.46	15.04	34.52	20.47	23.2
United States	91.63	162.59	186.02	148.35	185.99
Gross capital formation (as a percentage of GDP)					
China	38.4	34.43	44.34 (for 2017)	39.94 (for 1978-2017)	43.18 (for 2000-2017)
Mexico	23.61	22.96	23	22.5	22.61
United States	24.83	23.68	20.58 (for 2017)	22.01	21.19

Source: author´s elaboration based on WDI (2019).

for substantial investments (gross capital formation as a proxy for investments) through massive financing.[3]

Crucial to understanding the China-Mexico relationship in terms of financing is the enormous potential of China's financing as a result of its gross saving rate of 46.48% and 22.12% for China and Mexico during 2000-2018, respectively and particularly the importance of China's domestic financing as a percentage of GDP: during 2000-2018 it accounted for 127.31% and 161.14% in 2018, and in Mexico for 23.2% and 20.47%, respectively (see table 2). These tendencies are not only significant for understanding the performance of China and Mexico in terms of GDP growth, but also in terms of the potential of China transferring part of its gross saving rate internationally and specifically to LAC and Mexico, i.e. China has an enormous potential for transferring part of its savings through financing in the rest of the world, including LAC and Mexico.

In addition to understanding Mexico's low levels of GDP growth during 2000-2018 and low levels of domestic financing as a percentage of GDP in the same period –particularly if compared to China– it is relevant to briefly examine Mexico's financing system. Table 3 reflects the significant gap between supply and demand, i.e., in the first quarter of 2019 35.9% of Mexican firms expected to receive financing, while 78.6% did not receive it. Secondly, in terms of financing, the gap is even wider depending on the size of the respective firm: for the case of firms with up to a hundred workers, 24% of the firms expected to request financing and 89.9% did not receive financing from commercial banks. Thirdly, the Mexican financial system also reflects an important singularity: all firms –independent of their size– grant financing: in the case of firms with up to a hundred workers, for example, more than 80% grant financing (Table 3), which specifically refers to the impossibility of clients to pay in time and/or to request a delay (and, results thus in financing to clients). Finally, and irrespective of the size of the firm, there is a significant gap between the expectation

3 For a full analysis on the topic, see: DRC and WB (2012).

of requesting for new financing and the rejections, i.e. there is a substantial potential for channeling financial resources to the productive sector in Mexico.

Table 3. Mexico: Forms of Financing (2009-2019) (first quarter of respective year) (percentage of total)

	2009	2012	2015	2019
Total Mexican Firms				
that granted financing	79.7	82.6	80.3	82
that expect to request for financing in the next quarter	32.8	40	36.7	35.9
that did not receive new financing from commercial banks	72.3	75.6	77	78.6
Firms with up to 100 Workers				
that granted financing	80.6	79.3	81.4	80.9
that expect to request for financing in the next quarter	26.9	34.3	33.4	24
that did not receive new financing from commercial banks	83	86.8	80.2	89.9
Firms with more than 100 Workers				
that granted financing	83.5	84.5	81	82.7
that expect to request for financing in the next quarter	35.5	43.4	38.6	43
that did not receive new financing from commercial banks	72.9	68.9	75.2	71.8

Source: author´s elaboration based on Banco de México (2019).

The following chapter will analyze the three most important financing cases of China in Mexico: the establishment of ICBC and Bank of China in Mexico, in addition to the China-Mexico Fund.[4]

4 The respective analysis is also a result of interviews with ICBC and Bank of China in Mexico, as well as with public officials related to the China-Mexico Fund. These interviews were held in July of 2019.

ICBC in Mexico

ICBC is not only one of the largest international banks (see Hernández Cordero's analysis in this book), but also plays a crucial role within an important and explicit internationalization process in Latin America and the Caribbean: with a presence in forty-seven countries, it started setting up offices and respective projects in Argentina, Brazil, Peru and Panama in 2012, 2013, 2013 and 2019, respectively. The subsidiary of ICBC in Mexico formally initiated activities in Mexico in June 2016 and thus became the first Chinese bank in Mexico.

ICBC started to prepare its formal establishment with Mexico in May 2014 in Beijing and required almost two years before starting operations in June 2016. The main reasons for this process were to fulfill the respective requirements for a group of licenses, in addition to setting up the team that would be sent to Mexico and preparing the office.

Since it began, ICBC has grown significantly, starting with ten employees and today it accounts for sixty, offering a wide network of global subsidiaries, particularly in Asia and China. In Mexico the ICBC focuses on financing big projects and a second-tier or floor banks that provide funding and credit guarantees to the banking system; based on its experience in Asia and China it offers credits and deposits in RMB, Mexican Pesos and US dollars, and as a result, is highly concentrated with Chinese and Mexican firms related to Mexico-China activities. In the middle of 2019 ICBC accounts for around eighty clients (ten clients in 2016), out of which twenty-five are Mexican firms[5] that obtained credit from ICBC, with an annual credit volume of $200-300 million dollars.[6] In most of the cases –and as a result of doing different trade and

5 ICBC informs that among these Mexican firms are: CEMEX, CFE, Navistar, Rassini, Aeroméxico, as well as Chinese firms such as CNOOC and SINOPEC.

6 In several cases, large Mexican firms in the energy sector, for example, issue bonds and/or obtain credits directly through ICBC Group in China, supported by its subsidiary in Mexico.

investment transactions between Mexico and China– ICBC's clients are large Mexican firms.

Additionally, the ICBC in Mexico is trying to set up a model in which Chinese firms follow ICBC'´s strategy in the short and medium-term, i.e. ICBC will generate experiences with Chinese and Mexican firms as well as a "demand" and interest for Chinese firms in China regarding the Mexican market.

In the meantime, the ICBC expects to increase its annual credit volume to $400-500 million dollars, considering that ICBC's main advantages in Mexico are its leverage and expertise in Asia and China, its experience with Chinese firms and China-Mexico trade, as well as its increasing experience in RMB deposits and transfers for Mexican and Chinese clients. In addition, ICBC today has a very pragmatic attitude in offering syndicated loans with a group of other Chinese and global banks; a group of recent experiences with large Mexican firms in the energy sector will also allow for growth of activities within this field.

ICBC's services, interest rates and costs are different from those of development banks in China and Mexico, i.e. ICBC's costs and conditionality's are strictly a result of the respective Mexican market.

By 2025, ICBC expects to be a small bank in Mexico's financing market: credits could increase to levels around $ 1 billion dollars as a result of credits and syndicated loans for Mexican and Chinese firms.

Bank of China in Mexico

Bank of China Mexico S.A. (BOCM) has a wide network of offices in China and accounts for offices in fifty-seven other countries, including Brazil, Panama and Peru in Latin America. BOCM started serving the Mexican market in 2008 from its New York office and required almost two years of permits to inaugurate its office in Mexico in July 2018; the application process was particularly complex and lengthy in Mexico (compared with other countries). BOCM has sixty employees (out of which nineteen are Chinese).

From BOCM's perspective, Mexico was an important site as a result of its increasing relevance in terms of trade with China, as well as the North American Free Trade Agreement (NAFTA), and its economic and trade links to other Latin American and Caribbean countries. In its first stage, BOCM offers services in corporate banking, financing for trade, bilateral credit, syndicated credit and services to the financial market; in most cases particularly for medium and large firms related to China-Mexico trade and foreign direct investments. Until July 2019 it had granted four credits to customers to three Mexican firms and one Chinese firm, to firms such as PEMEX, Cinépolis, Fibra Macquarie México, and Vesta. Today BOCM accounts for assets of $7 million dollars and expects to increase assets to around $500 million dollars by 2025.

A group of additional topics are also relevant in the case of BOCM. Firstly, it has participated very actively and aggressively in a group of Mexico-China institutions, such as the organization of the High-Level Group between Mexico and China in Shanghai on November 7th, 2018, and becoming the secretary-general of the Chinese Representative Business Chamber in Mexico. Secondly, it has shared with ICBC opportunities to set up the office, lawyers and are on a regular exchange basis on news, research, customers, etc.; ICBC played an important role for BOCM in supporting its application process with Mexican regulatory institutions.

China-Mexico Fund and Other Chinese Banks in Mexico

As a result of the interviews with BOCM and ICBC, China Development Bank (CDB) appears to have had transactions in Mexico since 2008, although there is very little information on these transactions.[7] Agricultural Bank of China (ABCHINA) has

7 In 2018, for example, the National Bank of Foreign Trade (Bancomext), signed an agreement with China Development Bank to become a co-leader with six banks (Rodríguez 2018); in 2011, for example, CDB signed an agreement with Mexican Nextel to receive a $US 375 million to acquire network infrastructure from Huawei (Prescott). In 2014 Bancomext and CDB also signed a group of MOU, without any concrete results so far.

also apparently initiated transactions in Mexico, although neither CDB nor ABCHINA have been approved by the National Banking Commission of Mexico (CNBV). With the visit of President Xi Jinping to Mexico in 2013, an Energy Fund Sinomex was created to finance projects worth up to $5 billion dollars, particularly in the energy sector and for PEMEX (Notimex 2014); the Fund has not been used so far.

As a result of Xi Jinping's visit to Mexico on September 4th, 2013, both governments signed a Memorandum of Understanding to create the China-Mexico Fund (or Binational China-Mexico Fund). The Fund accounted originally for $2.4 billion dollars, although only $1.2 billion have been used so far. In addition to this, the source of the capital is of four partners: $100 million dollars each for Mexico's development banks (Nafin and FONADIN), and China Investment Corporation (CIC) as well as China Development Bank (CDB). Contrary to other financing schemes, the Fund focuses exclusively on risk capital for firms to invest in Mexico, particularly in new sectors reformed during 2013-2018 such as infrastructure projects, energy, mining, financial institutions, telecommunications and manufacturing. It also provides equity and equity-related investments, thus becoming a shareholder in the respective firms. The International Finance Corporation (IFC) of the World Bank administers the Fund through its Asset Management Company (AMC), making it a very unique financing experience in LAC.

Particularly relevant for the Fund is that it allows for equity of up to 20% of each project and an investment per firm ranging between $100-200 million dollars (Nafin 2019). Two firms –Mexican Citla Energy and Altán Redes– have so far used the Fund in 2016, with investments of around $200 million dollars each, including equity from IFC (Reuters 2016). Thus, the Fund has in the best of the cases –and assuming that Altán Redes has effectively received the maximum amount allowed by the Fund of $200 million dollars– allocated 33.3% of its capital in almost five years. Rules and norms of IFC and a rather small universum of Mexican firms, i.e. those that require equity between 100-200 million US

dollars, are probably some of the reasons for understanding the poor results of the Fund; it is even questionable if IFC would proceed with such funds in the future and in other countries, independently of the learning process of CIC and CDB. It is also an interesting experience for other nations in terms of "privatizing" an initially public fund to promote China-Mexico relations.

3. Conclusions

Mexico's bilateral relationship with China has increased substantially since diplomatic recognition in 1972. In addition to important bilateral institutions, and massive exchanges through delegations at all levels, the exchange has also increased in terms of investments, particularly trade, greatly displacing Mexican imports from the US. Infrastructure projects between Mexico and China however, have been extremely limited.

Contrary to other LAC cases and bilateral trade, China's financing in Mexico has been very limited. ICBC and BOCM have only very recently started their subsidiaries in Mexico, while other Chinese banks (such as China Development Bank and Agricultural Bank of China) might follow soon. The China-Mexico Fund, so far, has received little attention and results are far below expectations, after five years a maximum of 33% of its capital is concentrated in two firms.

Two additional issues stand out. Firstly, expectations of ICBC and BOCM –the only Chinese banks that have already established in Mexico– are low and wish to double credits and their assets in the medium run, i.e. their role will continue to be minor in Mexico. Secondly, both institutions offer their respective instruments strictly under "market mechanisms" in Mexico, i.e. they will not use the massive potential of Chinese savings and financing in China. Thirdly, both the experience of ICBC and BOCM, and particularly of the China-Mexico Fund, reflect that all their respective instruments have concentrated on large Mexican firms either related to China-Mexico trade and/or with a substantial size (such

as under the China-Mexico Fund). This latter issue will not only continue to limit Chinese financing in Mexico –excluding micro, small and medium firms– but will also generate an important competition process with already existing foreign and Mexican banks for the same segment of firms established in Mexico.

From this perspective, it is not expected that China's financing in Mexico will become a relevant factor for Mexico's economy in the future. Contrary to its potential –as discussed in detail in the first chapter– Chinese banks are attempting a very slow, timid and cautious approach in Mexico. The reasons for such an approach are not explicit yet, it could be that either because Chinese banks are still learning internationally, and in a competitive market such as Mexico's, with many international and domestic banks, or because uncertainty and respective profits do not justify an increasing transfer of assets, or because the segment of firms approached by Chinese banks is rather small, with many financing options in Mexico and internationally.

Based on Chinese savings and Mexico's demand for resources, Chinese banks have a potentially enormous market in Mexico. For achieving this, however, they should not only shift to other firms established in Mexico –such as micro, small and medium firms– but also allow for more ambitious programs and mechanisms, reflecting the "Chinese characteristics" of Chinese banks. Finally, the Mexican and Chinese governments should also reflect on the outcome of the China-Mexico Fund, which was supposed to widen and deepen their bilateral relationship in the field of financing: the limited use of this bilateral public effort by two firms does neither justify the fund, nor reflect the enormous expectations and potential of both countries in the field of financing.

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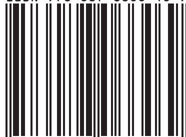
China's global economic presence has solidified in the first two decades of the 21st century: it has not only become the biggest economy since 2014 –according to the purchasing power parity (PPP) by the International Monetary Fund–, the major exporter, the most dynamic importer, as well as the second source of foreign direct investment outflows in the world, among other noticeable recent socioeconomic trends.

The goal of this book is to focus on China's financing in LAC during 2000-2018. The two sections of the book and its 17 chapters all acknowledge and begin with a brief historical and socioeconomic understanding of the relationship between a certain country or institution with China and focus on national or institutional specificities in the financing relationship with China.

Red ALC-China and Cechimex invite all readers to integrate to these debates and discussions in LAC and China. Institutional and individual contributions to these debates are most welcome.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