China Engages Latin America and the Caribbean: Implications for the region, its relationship with the PRC, and the US

R. Evan Ellis
La Guardia College
New York, NY
October 28, 2013
Patterns of Commerce  
PRC-Latin America

For more Information, Contact: Dr. R. Evan Ellis  
Tel: 202-685-4195  
Email: ellisr9@ndu.edu
PRC Trade with Latin America

PRC Exports
- LATAM: 5%
- Rest of World: 54%
- Asia: 41%

PRC Imports
- LATAM: 6%
- Rest of World: 50%
- Asia: 44%

PRC Exports To LAC
- Brazil: 26%
- Mexico: 21%
- Chile: 9%
- Panama: 12%
- Argentina: 7%
- Peru: 4%
- Venezuela: 5%
- Ecuador: 2%
- Colombia: 4%
- Cuba: 2%
- Uruguay: 1%

PRC Imports From LAC
- Brazil: 43%
- Mexico: 7%
- Peru: 7%
- Chile: 17%
- Argentina: 9%
- Colombia: 2%
- Costa Rica: 4%
- Ecuador: 1%

PRC more important for Latin America than Latin America is for the PRC

For more Information, Contact: Dr. R. Evan Ellis
Tel: 202-685-4195
Email: ellisr9@ndu.edu
PRC engagement with Latin America is principally driven by strategic economic imperatives, imperfectly coordinated by the national Government.

- Access to reliable sources of primary products
- Assuring ability to feed the population
- Establishing and protecting markets for Chinese goods and services
- Access to technology and global information flows

In pursuing these goals, the PRC must balance conflicting political imperatives:

- A “multipolar” world order in which the US / West does not dominate key institutions, regimes, or bilateral relationships
- Avoiding an international coalition opposing the “rise” of the PRC

For more Information, Contact: Dr. R. Evan Ellis Tel: 202-685-4195 Email: ellisr9@ndu.edu
Phases of the PRC-Latin America Relationship

1. Pre-2001: **Ideological, limited**
   - Eg. Party-to-Party meetings, broadcasts in Quechua to the Peruvian / Bolivian Altiplano

2. 2001-2004: **Rapid, invisible growth**
   - 2001 entrance into the World Trade Organization (WTO)
   - 2002 adoption of “Zǒuchūqū Zhànlüè” in the 10th 5-year plan

   - Latin America and the US perceive the possibilities -> university and business programs
   - Purchase of primary products through simple transactions
   - Invasion of Chinese products from multinational companies and Latin American traders

4. 2008-present: **Commercial growth with significant investment**
   - APEC Lima 2008 and PRC policy white paper toward Latin America
   - Maturation of infrastructure to support commerce, financial transactions
   - Recession : ↓ demand from West, liquidity crisis

For more Information, Contact: Dr. R. Evan Ellis  
Tel: 202-685-4195  
Email: ellisr9@ndu.edu
Expansion of PRC Physical Presence in Latin America

- 4 areas...Each with its own dynamics & implications:
  - Primary Products
    - Petroleum, Mining, Agriculture
  - Construction
    - Gifts, Loan-Based, Investments
  - Retail and Manufacturing
  - Select services
    - Telecommunications, Logistics, Banking, Space

A *logical*, multidimensional consequence of expanding trade business ties...with *serious consequences* for the business environment in the region.
Impacts on the LATAM Business Environment

- Transforming the *agenda* of businesses and institutions…but now with more *restraint*

- Key: Collaboration between *Chinese capital* / businesses and *local partners*
  - Ej. Macri, Castillo

- Chinese businesses as participants in the *domestic politics* of Latin America…*slowly*

- Transforming the *physical infrastructure* of the region and patterns of commerce and human interaction
  - Ports, Roads, Railways, Canals
  - Hydroelectric, Solar, Wind Energy

For more Information, Contact: Dr. R. Evan Ellis  Tel: 202-685-4195  Email: ellisr9@ndu.edu
Impacts on the LATAM Political Environment

• New priorities of *youth, educational institutions, and governments*

• Survival of **ALBA**
  • Venezuela - $41B in Loans + $20B en Route + $40B+ in new investment commitments
  • Ecuador - $10.8B in Loans
  • Nicaragua - $40-$80B Canal?

• Different **regional responses**
  • Pacific Alliance vs. statism of ALBA

• ↓ ability for **US** to *advance agenda*?

For more Information, Contact: Dr. R. Evan Ellis
Tel: 202-685-4195
Email: ellisr9@ndu.edu
Sources of PRC Soft Power

- Hopes for future access to Chinese markets
- Hopes for future Chinese investment
- PRC as “the wave of the future.”
- PRC as a “development model”
- Hopes for the PRC to serve as a counterweight to the US and Western institutions
- Increasing business presence “in country”
  - Seat at the table + part of production chain, infrastructure

Different from sources of US leverage (eg. Culture)

For more Information, Contact: Dr. R. Evan Ellis
Tel: 202-685-4195
Email: ellisr9@ndu.edu
• Difficulty in learning each other’s *culture* and *language*

• Lack of *understanding* of each side by the other

• Pervasive sense of *mistrust* of the Chinese within Latin America generally

**Significant gap between the two cultures**

For more Information, Contact: Dr. R. Evan Ellis
Tel: 202-685-4195
Email: ellisr9@ndu.edu
Challenges for the PRC and Chinese Companies

1. Protectionism
2. Obstacles to setting up projects
   - Resistance to Mergers and Acquisition
   - Challenge of Technical Bids
   - Opposition to Projects
     • Environmentalists, Competitors, etc.
3. Management of Operations
   - Supply Chain
   - Labor and Community Relations
   - Physical Security
4. Regulatory Environment / Government Relations

Like dilemmas other companies face in LATAM…But different cultural gap, attitude toward Chinese

For more Information, Contact: Dr. R. Evan Ellis
Tel: 202-685-4195 Email: ellisr9@ndu.edu
Sales – ↑ value-added chain / Venezuela as a launching point
- **Venezuela**: 16 K-8s, 8 Y-8s, 25+ Y-12s, Radars, C2, AAVs, 8 Z-9C ASW helos
- **Ecuador**: MA-60s, Radars (cancelled), ECU-911
- **Bolivia**: K-8s, MA-60s, H-425s, vehicles, equipment, previously: AKs, Manpads
- **Argentina**: WMZ-551 APCs, X-11 helo, FC-1 fighter co-production
- **Peru**: field hospitals (in disuse), trucks, abandoned MBT-2000 buy
- **Colombia**: Interest in armored vehicles + $1-7M/yr, bridges
- **Suriname**: Trucks and busses (10 announced Aug 13)
- **Guyana**: Y-12 A/C training, non-lethals / **Jamaica**: $1-7M donations
- **Antigua & Barbuda**: 14 trucks / training (Sep 13)

**Officer interchanges**: Military students from 18 LATAM countries
- Defense Studies Institute of NDU (Chanping)
- PLA Navy, Army Command Schools (Nanjing)

**Presence**: Drop-off since 2011…new ↑ with Xi?
- **MINUSTAH** (Sep 04- Withdrawl Sep 12)
- Angel de la Paz joint exercise with Peru (Nov 10)
- “Peace Ark” hospital ship visit (Sep-Dec 11)
- Exercises w Chilean Navy – Oct 13

Building Relations with Militaries as a Key Societal Institution

Dr. R. Evan Ellis ◇ Tel: 703-328-7770 ◇ Email: r_evan_ellis@hotmail.com ◇ Opinion is solely that of author and not his institution
China-Latin America Organized Crime Ties

- **Extortion** of Chinese communities by groups with ties to China
- **Human trafficking**—To Canada, US
- **Drugs & Precursor Chemicals**
- **Contraband:**
  - Consumer Products
  - Informal Mining
- **Arms Trafficking**
- **Money Laundering**

No evidence of PRC government involvement

...But danger of new forms of collaboration between Chinese, Latin American TCOs

For more Information, Contact: Dr. R. Evan Ellis  
Tel: 202-685-4195  
Email: ellisr9@ndu.edu
Questions, Comments?

For more Information, Contact: Dr. R. Evan Ellis
Tel: 202-685-4195
Email: ellisr9@ndu.edu
Enabler of the Latin America Alternative Energy

**Hydroelectric Projects**
- **Venezuela** - *El Chorrin* (Manuel Piar hydroelectric center)
- **Ecuador** - Coca Coda Sinclair, Delsitanisagua, *(Sinohydro)*, Sopladora *(Gezouba)*, Toachi-Pilaton *(CWE)*, Termoesmereldas II, Minas San Francisco *(Harbin Elec.)*, Mazar Dudas *(CNEC)*
- **Bolivia** – *Multiple Rositas* ($1.3MM), *Cachuela Esperanza* *(Sinohydro)* – Design phase
- **Argentina** - *Condor Cliff, La Barrancosa* (in bidding) *(Sinohydro)*
- **Brazil** – Generators, power infrastructure for *Belo Monte* dam *(State Grid)*
- **Honduras** – *Patuca III* *(Sinohydro)*

**Solar Energy Projects**
- **Atacama Desert, Chile** (China Sky Solar) - $1.2B
- **Guanacaste, Costa Rica** (Grupo Guoxin)
- **Mexico** (Grupo Risen) - $60M, Sinaloa (SCAC - $200M)

**Wind Energy Projects**
- **Ecuador** – *Villonaco* (Loja)
- **Bolivia** – Sinomach
- **Argentina** (Chubut) - *Geassa, Loma Blanca* (Isolux Corsan)

**Other Electricity Generation**
- **Brazil** *(State Grid)*

Based on low cost Chinese loans + project execution

For more Information, Contact: Dr. R. Evan Ellis
Tel: 202-685-4195
Email: ellisr9@ndu.edu
Protectionism

• **Brazil:**
  • *Industrial Products Tax* (30% +)
  • Reaction of Chery
  • Also tariffs on tires, footwear in 2009-2010
  • Suspension of plans to invest in factory by JAC (July 2012)

• **Argentina:**
  • *Tariffs* provoke reaction by PRC government against soy oil imports
  • Tariff barriers
    • *Chery/ Effa* factory in Montevideo threatened to shut down in 2012 over lack of access to Argentine market

• **Mexico:** Anti-Dumping Cases
  • Denim, steel tubes (new tariffs in June 2013)
  • Although protective tariffs ended in 2011 per inter-governmental agreement

*For more Information, Contact: Dr. R. Evan Ellis  Tel: 202-685-4195  Email: ellisr9@ndu.edu*
Difficulties with Mergers and Acquisitions

• Noranda (2004), UNOCAL (2005)
• Acquisition of 49% stake in Gaby mine (2008)
• HPH Attempt to acquire Gran Bahamas Port Authority (2011)
• Approval of sale of Standard Bank to ICBC
  • Delayed for more than a year
• CNODC / Bridas $7.1B for PanAmerican (Nov 11)
• Collapse of MMX-Wuhan project
• Sale of Iberdola to State Grid in Brazil
• Parliamentary investigation of Bai Shin Lan forestry acquisitions in Guyana

A combination of factors: economic logic of the acquisition, the political dynamics, and a lack of familiarity

For more Information, Contact: Dr. R. Evan Ellis  
Tel: 202-685-4195  
Email: ellisr9@ndu.edu
Challenges from Technical Bids & Contracting

- **Cayman Islands** – Cruise Ship Port – *Intervenió*n by British Governor General
- **Farfán** Port (08) – Concern that HPH would have too much presence in region
- **Hidroituango, Socomisa hydroelectric projects in Colombia** (2010)
- **Cheddi Jagan Airport Expansion** – Funding cutoff
- **Coca-Cola Sinclair** – 2010 – Temporarily Suspended

- Preference to deal **Government-Government**
- Lack of familiarity with **bidding process, local politics**

For more Information, Contact: Dr. R. Evan Ellis  
Tel: 202-685-4195  
Email: ellisr9@ndu.edu
Opposition to Projects

- Dragón Mart - Cancún / Pto. Morelos
- Beidahuang Agriculture Project in Río Negro (Argentina)
- Amaila Falls hydropower project (Guyana) – Cost, Politics
- Mirador (Ecuacorriente) – Environmental Protests
- Georgetown Mariott (Guyana) – Chinese workers, Lack of Transparency
- China Tiesjiu Dam in Chone
- China Zhang Heng Tai palm oil project in Marowijne, Suriname
- Rio Blanco – (Zijn) Impacts on environment, tourism
- Toromocho - Relocation of Morococha
- Sierra Grande – Argentina – Competition for water supply
- Famatina Mine - La Rioja, Argentina – Concern over arsenic
- Jamaica Development Infrastructure Program (China Harbour) – Corruption of CCCC
- Expansion of Pto. Lazaro Cardenas (Hutchison) blocked by SCT
- Lupe Mine (JDC Minerals - Puebla) protests by 6,000 people over environmental impact (Nov 12)

For more Information, Contact: Dr. R. Evan Ellis
Tel: 202-685-4195
Email: ellisr9@ndu.edu
Labor & Community Relations

- **Marcona** (Shougang) – Annual strikes since 1993
- **Toromocho** (Chinalco) – Movement of Morococha
- **HPH** (Bahamas) – Employment of local laborers
- **Petroriental** (Orellana 07) – Employment of local laborers
- **China Harbor** – Palisadoes Road (Sep 10), JDIP, Baha Mar, Kingston Mariott – Employment of local labor
- **Sierra Grande** (CMC) – (2006-2010) labor issues, water, dynamite
- **Cerro Dragon** – Bridas via PAE – June 2012
- **CWE** (Iquitos) – (Sep 11) Strike - underpayment for work performed
- **China Jiangsu** (Trinidad) (May 12) lawsuits for nonpayment of work
- **CREC** Venezuela (Jan 11) problems w. local syndicates over pmt.
- **Sinatex** – Mexico – Poor community relations, fight with gov’t

**Isolation + Expectations + Payment Practices + Work Culture**

For more Information, Contact: Dr. R. Evan Ellis  
Tel: 202-685-4195  
Email: ellisr9@ndu.edu
Physical Security

• Operations:
  • Andes Petroleum - Tarapoa Ecuador (Nov 2006) – Oilfield Seizure
  • Petroriental - Orellana, Ecuador (June 2007) – Violent Protests
  • Emerald Energy – GWDC – Caquetá (Junio 2011) – Kidnapping, terrorism
  • Bosai - Linden, Guyana –(Sep 2012) – Violent protests
  • China Railway Road - Chaguaramas, Venezuela –Robbery (Sep 12)
  • Mina Conquiri (Potosí) June 2012 – Property Overrun

• Chinese Communities:
  • Valencia and Maracay, Venezuela (2004)
  • BsAs – Truckers versus Chinese Shopkeepers(06)
  • Papatam Suriname (Dec 09), Maripaston (Oct 11)

For more Information, Contact: Dr. R. Evan Ellis
Tel: 202-685-4195
Email: ellisr9@ndu.edu
Problems in Relations with Governments

- CNPC Venezuela (03) PdVSA cessation of *ormulsion* production
- PdVSA renegotiation of *oil contracts*, including Orinoco (06)
- Ecopetrol-Andes (07) renegotiation of oil royalties agreement
- Shougang – Investment and *environmental compliance*
- Sierra Grande – CMC – Dynamite storage
- HPH in Manta – Compliance with investment schedule
- Termination of Belgrano-Cargas rail concession (Oct 12)
- Tierra del Fuego *Urea Plant* – Government blockage of imported goods and labor from PRC at Port of Ushuaia
- Funding for *Pernambuco* refinery – PdVSA, Guyana Intl. Apt.
- Bai Shan Lin (Guyana) – Stop work order
- Bosai bauxite mine – End of electricity subsidies causing protests

Counter-intuitively, **more** problems with *populist governments*

For more Information, Contact: Dr. R. Evan Ellis  
Tel: 202-685-4195  
Email: ellisr9@ndu.edu