



CHINESE FINANCE TO LAC IN 2016*

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Estimates of Chinese Finance to LAC in 2016

Despite slowing economic growth in both the Asian and Latin American and Caribbean (LAC) regions, Chinese policy bank finance to LAC governments and state-run companies reached \$21 billion in 2016.

Estimates produced annually by the Inter-American Dialogue and Boston University's Global Economic Governance Initiative (GEGI) put 2016 as the third-highest year on record for Chinese policy bank (Chinese Development Bank and China Eximbank) finance to LAC, topped only by lending in 2010 and 2015 (see Figure 1). As indicated in the Dialogue-GEGI online China-Latin America Finance Database, CDB and Eximbank have provided upwards of \$141 billion in finance to LAC since 2005, when Chinese banks began lending to the region.

As in previous years, Chinese policy bank finance to LAC surpassed Inter-American Development Bank (IDB) and World Bank (WB) individual lending to the region. Unlike the IDB and WB, which provided financing to a wide variety of LAC governments in 2016, the bulk of Chinese finance was directed to some of LAC's most fragile

economies, which have relatively limited access to capital markets. Brazil, Ecuador, and Venezuela accounted for 92 percent of total lending to the region, with approximately 72 percent—or \$15.2 billion—issued to Brazil alone.

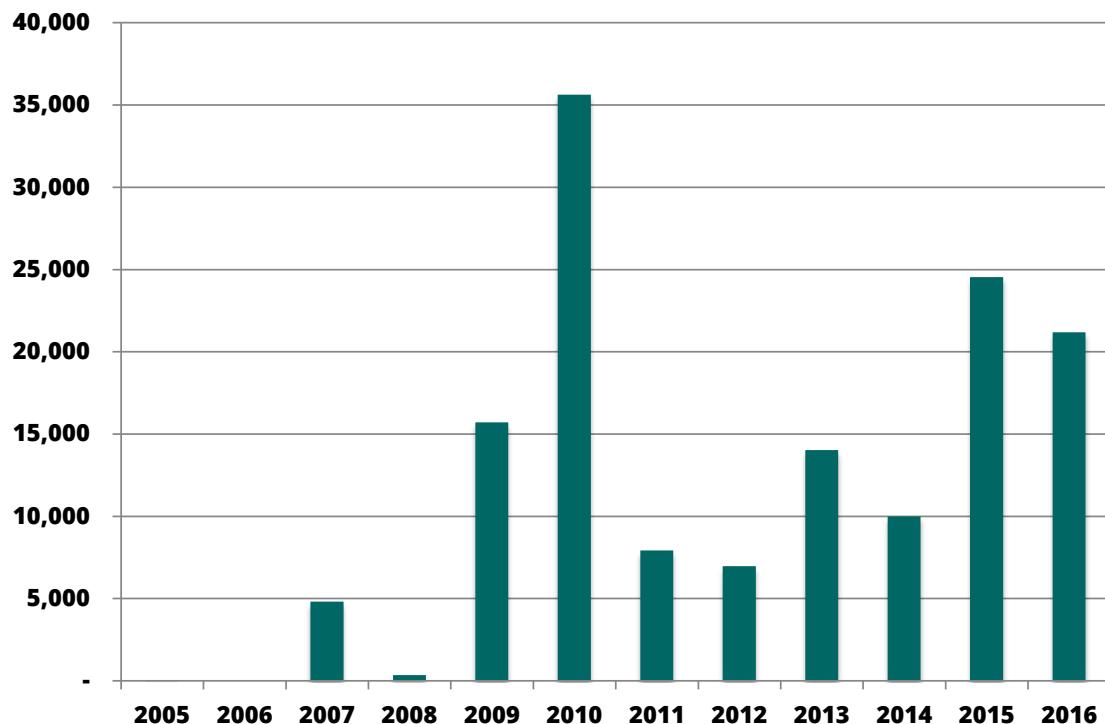
National oil company Petrobras received the vast majority of Brazil's share, despite being immersed in a sprawling corruption scandal. Though a primary recipient of CDB and Eximbank loans in the past, Argentina received no finance from policy banks in 2016.

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*The findings in this report were derived from the online China-Latin America Finance Database, which is jointly produced by the Inter-American Dialogue and Boston University's Global Economic Governance Initiative (GEGI).

FIGURE 1. CHINESE FINANCE TO LATIN AMERICA BY YEAR, 2005-2016 (USD MILLIONS)

Source: Gallagher, Kevin P. and Margaret Myers (2016), "China-Latin America Finance Database," Washington, DC: Inter-American Dialogue.



In addition to Brazil, Ecuador, and Venezuela, Bolivia received considerable attention from Chinese policy banks in both 2015 and 2016. China announced a \$7 billion credit line to Bolivia in 2015, which was extended to \$10 billion in 2016. In addition, Chinese Foreign Minister Wang Yi promised the delivery of \$4.8 billion in mostly infrastructure projects during his October 2016 visit to the Andean nation. Of many announced proposals by Chinese companies and the Bolivian government, several infrastructure and other ventures have recently materialized, including some roadway projects in 2015. In 2016, China and Bolivia initiated work on the El Mutún iron and steel project, a citizen security project, and the

Rositas hydroelectric power plant project in Bolivia's Cordillera province.

Chinese finance in 2016 was yet again focused on infrastructure development and raw materials extraction. Loans to Brazil were channeled primarily to Petrobras in exchange for oil shipments. A \$2.2 billion deal with Venezuela aimed to improve state oil company PDVSA's production capacity. And a \$327 million Eximbank loan to Jamaica in 2016 supported the construction of a network of roads on the island. By contrast, Chinese policy bank loans to Ecuador included non-discretionary government finance in the amount of \$2 billion and a smaller loan in support of the Yachay educational complex, which the Ecuadorian government promotes as an eventual hub for technological innovation.

Chinese banks still refrain from imposing policy conditions on loan recipients, although finance is often contingent on the use of Chinese construction firms and equipment. Major Chinese companies such as China National Petroleum Corporation (CNPC), Sinohydro, China Three Gorges Corporation, and Sinosteel were linked to China's 2016 state-to-state loans to LAC.

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TABLE 1. CHINESE POLICY BANK LOANS TO LAC IN 2016

Source: Gallagher, Kevin P. and Margaret Myers (2016), "China-Latin America Finance Database," Washington, DC: Inter-American Dialogue.

COUNTRY	TYPE	LENDER	AMOUNT (\$M)	PURPOSE
Bolivia	Mining	Ex-Im Bank	422	El Mutún project
Bolivia	Other	Ex-Im Bank	50	Citizen security project
Bolivia	Infrastructure	Ex-Im Bank	1000	Rositas hydroelectric power plant
Brazil	Energy	CDB	5000	Debt financing
Brazil	Energy	CDB	10000	Debt financing
Ecuador	Other	CDB	2000	Non-discretionary and infrastructure
Ecuador	Other	Ex-Im Bank	198	Yachay education complex
Jamaica	Infrastructure	Ex-Im Bank	327	Road network
Venezuela	Energy	CDB	2200	Oil sector development

More to Come?

China is a critical source of finance for LAC—especially for countries such as Venezuela, Ecuador, Brazil, and Argentina, which have had relatively limited access to international capital markets in recent years. If 2016 is any indication, China's two major policy banks—CDB and Eximbank—will continue to act as a veritable lifeline for the region's more fragile economies, as well as to support those governments that have strong political relations with Beijing. Cuba continues to receive promises of no-interest and concessional financing from China as a form of aid, for example.

As China's financial sector grows, a wider range of lenders is also issuing finance in LAC. In addition to policy bank lending, China's commercial banks are increasingly active in Latin America and other regions, often in cooperation with other international banks. In 2016, for example, the Industrial and Commercial Bank of China (ICBC) provided almost \$1 billion to the Ecuadorian government to finance a variety of state-led projects. Latin America will continue to be a region of focus for China's commercial banks, especially as slower growth in LAC provides opportunities for low-cost acquisition of assets in strategic sectors.

China's three regional funds, announced during high-level visits to the region in 2014 and 2015 (see Table 2), are slowly beginning to result in new projects. At least two

TABLE 2. CHINA'S REGIONAL FUNDS

Source: Foro China-CELAC website, Eximbank website.

NAME	YEAR INITIATED	AMOUNT	ADMINISTRATOR	NOTES
China-LAC Industrial Cooperation Investment Fund (中拉产能合作投资基金)	2015	\$20 billion	China Development Bank	State Administration of Foreign Exchange capital
Special Loan Program for China-LAC Infrastructure Project (中拉基础设施专项贷款)	2015	\$10 billion	China Development Bank	State Administration of Foreign Exchange capital
China-LAC Cooperation Fund (中拉合作基金)	2014	\$10-\$15 billion	China Eximbank	SAFE and Eximbank capital

deals—an affordable housing project in Suriname and a hydropower venture in Brazil—were initiated in 2016 with capital from the China-LAC Cooperation Fund (中拉合作基金). In 2015, capital was drawn from the China-LAC Industrial Cooperation Investment Fund (中拉产能合作投资基金) by China Three Gorges Corporation, which was seeking a 30-year concession to operate two hydroelectric power plants in Brazil.

Whereas Chinese funds and commercial banks are seeking to diversify their activity in Latin America, Chinese policy bank lending is likely to remain focused on a handful of countries—notably Brazil, Ecuador, and Venezuela, Argentina, and Bolivia—and sectors. These countries are rich in natural resources, have been relatively open to the idea of large-scale, China-backed infrastructure projects, and/or have

Chinese policy banks are pursuing projects in Latin America and other regions that are supportive of both Latin American development objectives and China's national interests, including Beijing's complex domestic reform agenda.

NOTE ON METHODOLOGY

The Dialogue-GEGI China-Latin America Finance Database documents China's state-to-state finance in LAC. This includes CDB and Eximbank finance to LAC governments and state-owned enterprises (e.g., PDVSA, Petrobras, and PetroEcuador). It no longer includes any loans made to the region by China's commercial banks, although these are an important and growing source of finance for LAC, nor does it include no-interest loans made to some Caribbean countries. The database does contain loans jointly made by CDB or Eximbank in cooperation with Chinese commercial banks or other international financial institutions. China's 2015 loan to Costa Rica, for example, was sourced from both Eximbank and Chinese government funds.

There is no easy way to measure Chinese policy bank finance to Latin America. Unlike the World Bank and Inter-American Development Bank, Chinese banks do not regularly publish detailed figures on their loan activities. We must, therefore, examine a wide range of sources, including government, bank, and press reports in both China and borrowing countries, in order to compile a list of loans and their characteristics. We consulted loan agreements published by the Venezuelan and Bolivian governments in their Official Gazettes, for example. We uncovered loans to Venezuelan and other companies by examining their filings with the US Securities and Exchange Commission. In-depth interviews with key officials also provided helpful information.

We go to great lengths to ensure reliability by confirming reports in both China and LAC, and we received verification from both CDB and Eximbank in informal interviews that the loans we include in the database are valid and that our estimates are in the right ballpark. Nonetheless, our estimates should not be taken as precise figures. It is possible that we have underestimated Chinese finance in Latin America by failing to document certain loans. Or we may have overestimated the total financing in situations where loans are partially or entirely canceled or a line of credit is not fully committed. To ensure a high degree of accuracy, we revise all data on an annual basis according to actual deliverables. All loans—especially newer ones—are subject to revision.

large domestic markets. They are also in relative need of Chinese capital and willing to partner with CDB and Eximbank to attract it.

Policy bank relations with Brazil and Argentina remain strong, despite recent changes in leadership. Argentine President Mauricio Macri made some modifications to previously negotiated Chinese loans when he took office, but his administration continues to engage Chinese lenders. In May 2016, Argentina announced possible Chinese support for an ambitious, \$100 billion infrastructure plan over the next four years.

Following their recapitalization in 2015, Chinese policy banks are pursuing projects in Latin America and other regions that are supportive of both Latin American development objectives and China's national interests,

including Beijing's complex domestic reform agenda. China's regional funds and even some commercial bank loans also occasionally support these objectives, aiming to boost China-LAC commerce while helping homegrown companies invest abroad. Other lending remains focused on resource acquisition, which has been a feature of China's overseas engagement for nearly two decades. The Peru-Brazil Railway, or "Twin Ocean Railway," which was proposed by China in 2015, was tabled temporarily following Peruvian President Kuczynski's perceived dismissal of the project. However, were it to proceed, railway construction would seek to achieve a wide variety of objectives, including trade in Brazilian soy and other raw materials, employment of Chinese companies, and the effective use of China's excess steel capacity.

TOWARD INCREASINGLY SUSTAINABLE FINANCING

Latin America can expect more from China's policy and other banks in the coming years.

China Development Bank and Eximbank lending to LAC topped \$20 billion in 2016, even as these banks focused considerable attention on Belt and Road Initiative (BRI) and other major overseas projects. China will lend more to the region as policy banks, regional funds, and commercial banks issue credit for an increasingly wide variety of projects and in support of certain Chinese policy objectives.

The challenge for Latin American governments will be to propose deals that are both attractive to Chinese partners and economically and environmentally sustainable. As Mauricio Macri indicated in April 2016, Argentina and other Latin American nations are seeking increasingly "mature" relations with China that will result in financial deal-making with long-term benefits.

Although Chinese loans are an important source of capital for LAC, they carry risk for both lender and borrower. The vast majority of China's 2016 finance to LAC was directed toward relatively "troubled" LAC governments and companies, suggesting continued tolerance among China's leadership of potentially risky ventures with possible long-term pay-offs. Even so, the prospect of Venezuelan default on (or considerable renegotiation of) Chinese loans remains a topic of concern in China's policy circles.

Chinese finance is also heavily focused on industries such as mining and energy, which are endemic to environmental and social conflict and may lock in the "resource curse." Local conflicts in these sectors can lead to lost elections in Latin America and lost profits for Chinese firms.

FOOTNOTES

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