



DOWN BUT NOT OUT: CHINESE DEVELOPMENT FINANCE IN LAC, 2017*

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Estimates of Chinese Finance to LAC in 2017

China Development Bank (CDB) and China Eximbank finance to Latin American and Caribbean (LAC) governments and state-run companies dropped to approximately \$9 billion in 2017—a considerable decrease from the \$21 billion disbursed by Chinese policy banks in 2016.

Estimates produced annually by the Inter-American Dialogue and the Global Economic Governance Initiative at Boston University's Global Development Policy Center put 2017 as the lowest year for Chinese state bank finance to LAC since 2012 (see Figure 1), despite a proliferation of new Chinese infrastructure proposals in LAC and growing reference to the region in relation to China's Belt and Road Initiative.

However, even with the relative drop in activity in 2017, China's record of lending in the region continues to surpass that of other major lenders. Including last year's \$9 billion, CDB and Eximbank have provided upwards of \$150 billion in finance to LAC since 2005, when Chinese banks began lending to the region. Chinese state-to-state finance tops lending over same period from the World Bank, Inter-

American Development Bank (IDB), and CAF-Development Bank of Latin America.

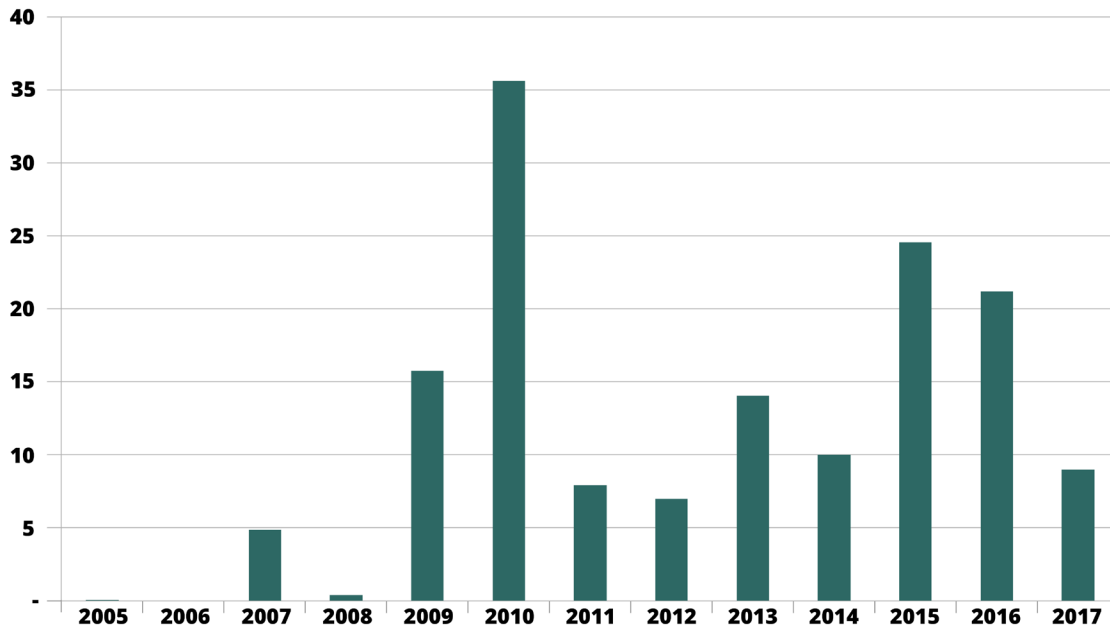
As in previous years, Chinese policy bank loans in 2017 were directed toward a relatively small subset of countries, although China Eximbank is generally active in a wider range of countries than CDB (see Figure 2). Brazil and Argentina accounted for 91 percent of total lending to the region, with 59 percent (\$5.3 billion) issued to Brazil alone. As in 2016, national oil company Petrobras received the

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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). The Inter-American Dialogue and GEGI are grateful to Fei Yuan, Ricardo Barrios, and Ruiyang Huang for their contributions.

FIGURE 1. CHINESE FINANCE TO LATIN AMERICA AND THE CARIBBEAN BY YEAR, 2005-2017 (USD BILLIONS)

Source: Gallagher, Kevin P. and Margaret Myers (2017), "China-Latin America Finance Database," Washington, DC: Inter-American Dialogue.



vast majority of Brazil's share, despite being immersed in a sprawling corruption scandal. Though a top recipient of CDB and Eximbank loans in the past, Venezuela received no finance from policy banks in 2017, after a loan of only \$2.2 billion in 2016, aimed at improving the country's oil production capacity.

Chinese finance in 2017 focused yet again on infrastructure development and, to a lesser extent, raw materials extraction. The largest loan—to Brazil for \$5 billion—was given to Petrobras in exchange for oil shipments. The Brazilian company has received at least six loans from Chinese policy banks since 2015. Argentina

received financing from CDB for renovation of the San Martin Railway and from Eximbank for development of the Chauchari Solar Parks, which according to Argentine President Mauricio Macri will together comprise Latin America's largest solar facility. China Eximbank also provided \$45 million in financing to Guyana to build the East Coast Demerara Highway, and \$326 million to Jamaica for the Southern Coastal Highway Improvement Project, one of several Jamaican transportation projects financed by Chinese banks.

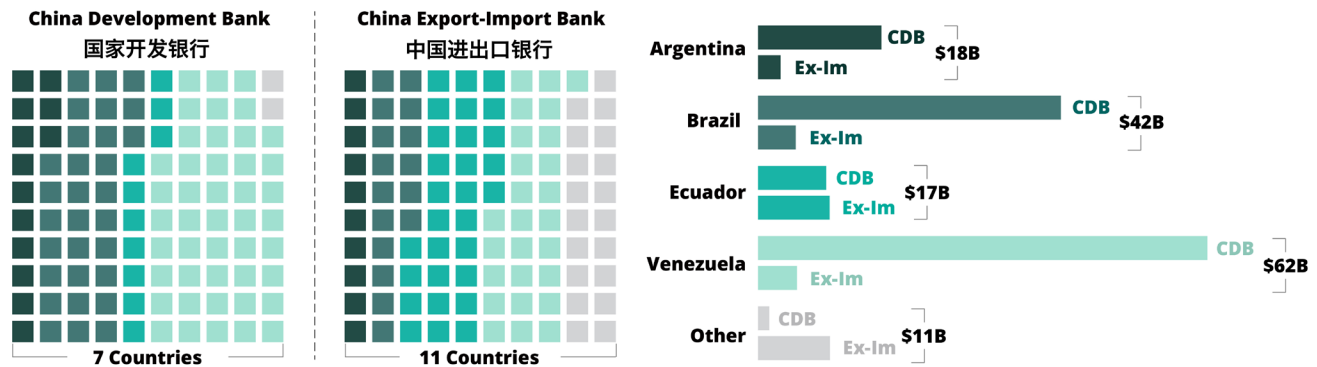
Peru has never been a major recipient of Chinese policy bank lending, despite being a top destination for Chinese foreign direct investment. However, the Andean nation received a second-ever loan from CDB in 2017 to develop the San Gabán III hydroelectric plant, one of four dams planned in Peru's San Gabán river basin.

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 Sinopec, China Harbour Engineering Company, China Three Gorges Corporation, and China Power were all linked to China's state-to-state loans to LAC in 2017. Hydro Global Peru, which will build Peru's San Gaban plant, is composed of China Three Gorges and Energias de Portugal.

The largest Chinese loan to Latin America and the Caribbean in 2017—to Brazil for \$5 billion—was given to Petrobras in exchange for oil shipments.

FIGURE 2: DISTRIBUTION OF POLICY BANK LENDING BY COUNTRY, 2005-2017

Source: Gallagher, Kevin P. and Margaret Myers (2017), "China-Latin America Finance Database," Washington, DC: Inter-American Dialogue.



Beyond the Policy Banks

China has been 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. However, it is unclear to what extent CDB and China Eximbank will continue to act as a lifeline for the region's more fragile economies, or to direct funds toward those countries that have strong political and/or historical ties to China.

Cuba, which maintains a strong political relationship with China, continues to receive promises of no-interest and concessional financing, including some possible assistance remodeling the island's Industrial Company for Computers, Communications and Electronics in the coming months. But Chinese policy banks refrained from financially supporting an increasingly troubled Venezuela last year. Venezuela's glaring omission likely accounts for much of the drop in Chinese financing to the region in 2017. The South American nation has received a disproportionate share of total Chinese finance to LAC—about 41 percent—over the past decade.

Relatively low levels of lending in 2017 could also be due to growth in other sources of Chinese finance. China's four state-owned commercial banks (ICBC, Bank of China, Agricultural Bank of China, and China Construction Bank) 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 assuming opportunities for

low-cost acquisition of assets in strategic sectors. The four major commercial banks together account for more than half of total Chinese banking assets.

China's three LAC funds, announced during high-level visits to the region in 2014 and 2015 (see Table 2), are also beginning to result in new, often Brazil-based projects, although these account for a very small portion of overall Chinese finance. 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. At least two 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 2017, the China-LAC Cooperation Fund reportedly supported two projects in Brazil—an acquisition of Duke Energy holdings and an investment in Electrosul—and one in Jamaica.

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TABLE 1: CHINESE POLICY BANK LOANS TO LAC IN 2017

Source: Gallagher, Kevin P. and Margaret Myers (2017), "China-Latin America Finance Database," Washington, DC: Inter-American Dialogue.

COUNTRY	TYPE	LENDER	AMOUNT	PURPOSE
Guyana	Infrastructure	China Eximbank	\$45 million	East Coast Demerara Highway
Jamaica	Infrastructure	China Eximbank	\$326 million	Southern Coastal Highway Improvement Project
Argentina	Other	China Development Bank	\$150 million	SME development
Brazil	Other	China Eximbank	\$300 million	China-Brazil trade financing
Argentina	Energy	China Eximbank	\$331 million	Cauchari Solar Parks
Peru	Energy	China Development Bank	\$428 million	San Gabán III hydroelectric plant
Brazil	Energy	China Development Bank	\$5000 million	Oil production
Argentina	Infrastructure	China Eximbank	\$2400 million	Modernize San Martin Railway

In addition to the three existing regional funds, China initiated a \$20 billion China-Brazil Fund in 2017, which according to Chinese Ambassador to Brazil Li Jinzhang will promote cooperation on infrastructure, resources extraction, equipment manufacturing and agriculture.

Despite a diversification of funding sources, CDB and Eximbank remain the top Chinese institutional lenders to the region, and will likely be so for the foreseeable future. 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 and China's national interests, including Beijing's domestic reform agenda and complex energy security calculus. The policy banks therefore continue to offer oil-backed loans to LAC nations, and to support projects that employ China's excess capacity, among other objectives.

Moreover, policy bank relations with Latin American nations remain strong, despite shifting politics in LAC.

Argentine President Mauricio Macri made some minor modifications to previously negotiated Chinese loans when he took office in 2015, 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. Argentina's receipt of almost \$3 billion in policy bank loans in 2017 would suggest considerable appetite for ongoing cooperation. Ecuador's Lenin Moreno is also seeking to restructure his country's debt to China, while maintaining strong relations with Beijing.

Latin America and the Belt and Road

In 2017, Chinese officials referred to LAC as a "natural extension" of the Maritime Silk Road, while adding that the region is an "indispensable participant" in the construction of the Belt and Road Initiative (BRI), a China-led effort to

strengthen engagement along a “new Silk Road” through infrastructure development and other connectivity-enhancing projects.

Though welcoming of Latin American involvement in the BRI “framework,” China has stopped short of formalizing the region’s participation in the Initiative, or providing finance from the Asian Infrastructure Investment Bank (AIIB) or the Silk Road Fund, a \$40 billion fund established by China to make its Belt and Road ambitions a reality.

Chinese companies are nonetheless pursuing greater intra- and cross-regional connectivity through a series of infrastructure proposals, including one—the Ciudad de Panamá-David Railway—that is explicitly linked to the BRI. In January 2018, Luis Miguel Hincapié, Panama’s vice minister of foreign affairs, and Wang Xiaotao, vice minister of China’s National Development and Reform Commission, made plans to launch a feasibility study for the project, which will connect Panama’s western Chiriquí province with the eastern Panamá province, allowing for both cargo and passenger transport.

As long as Chinese entities continue to work to make large-scale infrastructure proposals a reality, Latin America can expect continued support from Chinese policy and other banks in the coming years, even if China’s overseas finance is increasingly focused on projects in Eurasia. Chinese policy bank lending to LAC in 2017 largely supported infrastructure development, including in the energy sector. More of the same can be expected in the coming years. The challenge for Latin American governments in the coming years will be to propose deals that are both attractive to Chinese partners and economically and environmentally sustainable.

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

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.

FOOTNOTES

1. "Ecuador firma con ICBC de China crédito por US\$970 millones," Ministerio de Finanzas, 2016, <http://www.finanzas.gob.ec/>
2. Goodfriend, Marvin and Eswar Prasad, "Monetary policy implementation in China Marvin Goodfriend and Eswar Prasad," BIS Papers, No. 31, December 2006.
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4. "500 Million USD Will be Invested to Help Solve the Housing Issue in Suriname," Broad Homes Industrial International Company, Ltd., May 11, 2016; Poindexter, Gregory, "CTGC purchases US\$1.2 billion of hydropower assets from Duke Energy-Brazil," Hydroworld.com, October 12, 2016.
5. Zhang, Wuyue, "China, Brazil launch new investment fund," China Daily, June 5, 2017.
6. Ibid.
7. "From Beijing, Malcorra confirms new stage in Argentina-China bilateral relations," Ministry of Foreign Affairs and Worship, May 19, 2016, www.mrecic.gov.ar
8. In 2013, Chinese President Xi Jinping announced that the Silk Road would be reborn as the Belt and Road Initiative, connecting sixty-five percent of the world's population and thirty percent of global GDP.

