

China's Careful New Focus on Latin America

Joseph S. Tulchin

Latin America's shifting geopolitics and the prolonged slowdown in China's economic growth in recent years have led to a significant change in Beijing's strategic approach to the region. The commodities boom at the beginning of this century coincided with a period of dramatic economic expansion in China. At the time, China seemed to buy everything, invest in everything and to welcome its new role as the principal geopolitical alternative to the United States for many of the countries in the hemisphere. And, the shift to the left in many Latin American countries - called the Pink Tide - invited the Chinese presence. Over the past year, however, China has adopted a more conservative approach to its role in the region. At the same time, in a number of the countries in the region, left-leaning government have been replaced by right-of-center ruling coalitions,

China has reduced its exposure in Venezuela and Ecuador, where it had accumulated significant shares of both countries' sovereign debt in exchange for promises of petroleum at below-market prices. It has hit the pause button on several major infrastructure projects linked to its Belt and Road Initiative and has reduced its financing of private corporations, particularly in manufacturing. Most significantly, it has focused its investment in very specific strategic industries, such as lithium mining and renewable energy.

While China's financial activity in the region over the past year has shrunk compared to the previous decade, it continues to see Latin America as an area where it must protect long-term strategic interests and where it can project power.

Overall, China's relationship with Latin America continued to deepen during 2018, although at a pace slower than in previous years and with two significant shifts: in Venezuela concerning sovereign debt, and in Argentina, where it expanded its presence in lithium mining. China may be touting its role in the region less than it once did, but it continues to nurture the raw materials sources it needs and is building its stake in activities it considers crucial to its long-term interests. Perhaps the most significant in long term geopolitical terms is the increasing ownership stakes in the lithium and other rare earths mining on the fast salt flats that stretch across the borders of Chile, Argentina, and Bolivia.

Trade

China remains South America's top export market and is second only to the U.S. as an export market for Latin America and the Caribbean as a whole. While the trade balance varies widely across countries in the region, Latin American exports were mostly boosted by modest increases in the four principal commodities traded with China: petroleum, soybeans, iron and copper. Prices for these commodities remain below their 2014 peak but have recovered from their lowest levels. There was a boost to Brazil's soybean exports during the tariff dispute between the U.S. and China in the middle of 2018. Brazil's soybean exports also benefited from the severe drought that reduced the U.S. harvest by nearly a third. The U.S.-China trade dispute also led to a significant increase in investment (by China and by other countries) in Paraguay's rapidly

expanding soybean production. While the bilateral tension between the U.S. and China has appeared to have reached a temporary plateau with a Trump-Xi “deal” to re-open negotiations on US-China trade and relaxation of U.S. sanctions designed to cripple the advance of Huawei, China’s leader in 5-G technology, China will be careful to protect its long-term interests by buying soybeans from alternative suppliers, such as Argentina, Brazil and now Paraguay.

China has become Cuba’s most important trading partner after Washington imposed more sanctions on the regime in Havana. China currently accounts for 30 percent of Cuba’s foreign trade. Despite Cuban efforts to attract more investment from China, the Chinese appear spooked by Cuba’s dual currency system and have not been able to figure out how to guarantee the value of their investments.



China’s trade with Latin America remains focused on mining industries: it accounts for 26 percent of the region’s extractive exports. China takes 16 percent of the region’s agricultural exports and only 3 percent of its manufacturing exports. These numbers all have increased by at least a factor of five over the past two decades. To look at these same numbers from another perspective, extractive commodities accounted for over half of the

region’s exports to China. Over the past two decades, China’s demand has accounted for most of Latin America’s growth in the production of the four key commodities. Economists and government officials in the region are sensitive to this pattern and there is growing awareness of what is called the “new dependence” on China. For the moment, only Ecuador has acted to reduce this dependence.

Investment

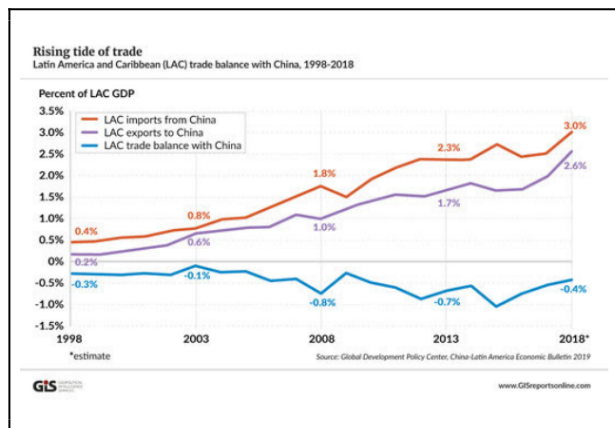
Chinese investment in Latin America declined in 2018 after a robust 2017. The most significant acquisition was Tianqi Lithium’s purchase of Canadian firm Nutrien’s 24 percent stake in Chilean mining company SQM. That was complemented later in the year by a smaller investment in an Argentine lithium development, again through the acquisition of a Canadian mining company’s stake.

Chinese firms also made major moves in energy production: A state-owned Chinese consortium bought Peru’s Chaglla hydroelectric plant from scandal-plagued (and now in bankruptcy proceedings) Brazilian construction firm Odebrecht, while State Grid Corporation of China completed its purchase of CPFL Energias Renovaveis, a Brazilian energy company. There also were several modest increases in Chinese foreign direct investment (FDI) in various countries throughout the hemisphere.

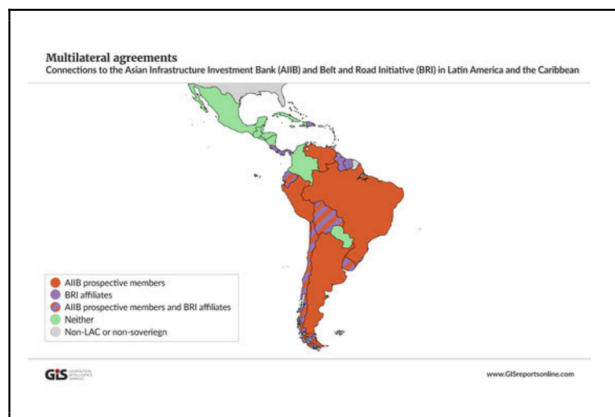
Sovereign debt

When it comes to sovereign debt, the Chinese have recently shown caution. Although total Chinese financing to Latin American governments in 2018 increased slightly compared to 2017, it still was lower than any other year since 2012. Moreover, \$5 billion of the \$7.7 billion total for the year was an advance to the government of Venezuela in an

attempt to protect its huge exposure - nearly US\$50Billion - to Venezuelan sovereign debt. Although China has been accused of lending to weak states in Latin America at usurious rates or extorting petroleum exporting countries such as Ecuador and Venezuela, there is little evidence that either country could have secured better treatment from any other lender. Ecuador moved to reduce its dependence on China and in Venezuela it looks as if the creditor is at least as trapped as the debtor.



Finally, it is worth noting that Chinese efforts to win support from countries in Latin America for the Belt and Road Initiative (BRI) and the Asian Infrastructure Investment Bank (AIIB) continue to deepen. Both gained new involvement from countries in the region.



There are two cases which help to understand the complexity of and long-term thinking behind China's role in Latin America. First, there is Venezuela, which is in the slow, agonizing process of falling apart. Over the first decade of this century, China had built up a major position in Venezuelan sovereign debt, to the point where it is now the largest holder. The Chinese guaranteed payment through promises of petroleum at favorable prices. Over the past few years, however, gross mismanagement by the government of President Nicolas Maduro has undermined the national petroleum company (PDVSA) production capacity to the point where production in 2018 was one third of what it was some 25 years ago. It is now questionable that China can get enough petroleum from Venezuela at any price to cover its holdings of Venezuela's sovereign debt.

Given PDVSA's commitments to deliver oil to Russia, the U.S., India and other buyers, China can no longer be confident that its debt will be paid at all - in oil or otherwise. The bankrupt Venezuelan government owes China \$20 billion in interest payments over the next decade, according to estimates by the country's commerce ministry. China has refused to extend the grace period on the debt it is owed and advanced President Maduro a mere \$5 billion to keep his government going for a few months.

At the same time, the Chinese are establishing ties to the pretender to the presidency of Venezuela, Juan Guaido, the president of the National Assembly who has declared himself interim president. The U.S. and 53 other countries have recognized Mr. Guaido as Venezuela's rightful leader. China, along with Russia, have criticized the aggressive sanctions imposed on Venezuela by the Trump administration; but they have not taken any further steps to bolster Maduro.

Traditionally, China has not made its investments or loans conditional on political stances or macroeconomic policies. Its position has contrasted sharply with that of multinational agencies, which put numerous fiscal and budgetary conditions on the loans they offer, and the U.S., which frequently pushes for political changes. In Venezuela, China's approach appears to have gotten its banks and investors into serious trouble. In Ecuador, it also created problems when the government changed and accused previous officials of taking bribes from the Chinese for infrastructure deals. Those projects are now on hold while the current government carries out investigations.

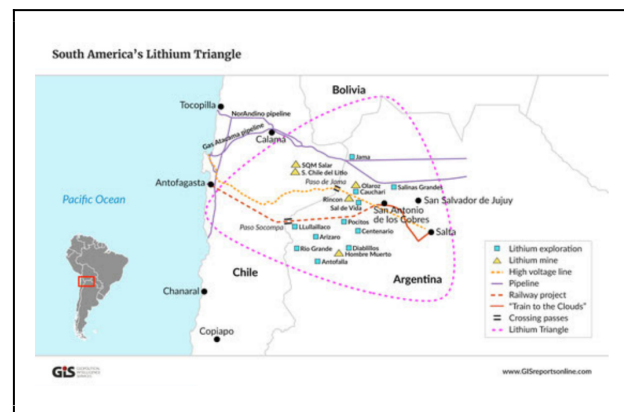
Lithium

Another factor that indicates China is holding onto its long-term strategic goals in Latin America is its focus on investments in the lithium deposits found in the vast salt flats of the "Lithium Triangle." The region extends from northwestern Argentina to northeastern Chile and into southwestern Bolivia. In February, Tibet Summit Resources, a Chinese company, purchased a Canadian mining company's holding in Potasio y Litio de Argentina S.A. (PLASA) which had a concession in the Diablillos area to the northwest of the city of Salta, the capital of the eponymous province.

Meanwhile, the Chinese Export-Import Bank is financing the largest solar field in Latin America in Jujuy, just to the north of Salta, in the Cauchari field. The goal is to install 1.2 million solar panels there, making it one of the largest solar plants in the world.

It is no accident that the solar plant overlaps with a Chinese investment in the lithium fields. Chinese presence in one area enhances its influence in the other. China's lithium strategy in South America is extremely aggressive, as

evidenced by Tianqi Lithium's above-mentioned purchase of a stake in Chilean mining firm SQM, which produces significant quantities of the mineral. For decades, China has considered control of the global lithium market a strategic goal. It used its ability to sway the market as a weapon against Japan just 20 years ago when it was the principal supplier of the refined metal to the Japanese electronics industry. While bickering over the Senkaku or Diaoyu islands in the East China Sea, the Chinese government blocked exports of lithium to Japan for more than three months, closing the Japanese producers for that period. There is no reason to believe that it would not use its leverage again, if necessary. It is important to underline that the Chinese have done everything possible to block or slow refining capacity of rare earths in producing countries. Chile is the only country in Latin America that is discussing the possibility of establishing a refinery on its territory. Here, the Chinese have indicated they would like to be part of the action



Scenarios

The most likely prospect is that China will continue the more cautious involvement in Latin America that it adopted in 2018. As long as commodity prices continue to recover from their recent lows, the major producers will be only too happy to maintain their close relations

with their principal market, China. At the same time, one can expect strategic investments in smaller countries in the region from some semi-official Chinese lenders. Recent examples include such support for projects in the Dominican Republic and Costa Rica.

In a less likely scenario, the tariff dispute between China and the U.S. would flare up again in the coming months, causing Beijing to lower its profile in Latin America so as not to further aggravate its relations with Washington. In the short term, this will not bother any of the commodity producers in Latin America, several of whom are likely to benefit from the bilateral tension between the world's two largest economies.

Chinese involvement in Latin America must be put into a larger geopolitical context. The

ongoing trade difficulties with the U.S are far more significant than the stake in any single country in Latin America or the region as a whole. For the moment, the Trump administration has little interest in the region other than migration and what the Cuban-American advisors who dominate the formulation of Latin American policy in Washington insist are the critical issues, which for them would be Cuba, Venezuela, and, to a lesser degree, Nicaragua. Drug trafficking is also important to the U.S., so there is some pressure on Colombia to do more to reduce the flow of drugs north. However, the Chinese have no significant interests in Colombia. Political instability in Argentina and Brazil have led Chinese companies to slow their infrastructure projects in those countries, following the lead of other major investors, such as the U.S. and Europeans.

Joseph S. Tulchin is a Latin Americanist specializing in hemispheric security and international affairs. After teaching for twenty-five years at Yale and the University of North Carolina at Chapel Hill, for sixteen years he directed a program of public policy research on Latin America at the [Woodrow Wilson International Center for Scholars](#). He worked closely with the [Organization of American States](#) on hemispheric security, with the [World Bank](#) on police reform, and with the [United Nations](#) on urban governance. The most recent of his books is *Latin America in International Politics: Challenging US Hegemony* (Boulder: LRP, 2016) He is currently a Senior Scholar at the [Wilson Center](#) in Washington, D. C.