LATIN AMERICA: China dependency will grow

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Abstract

Latin America-China relations.

Chinese President Xi Jinping's recent Latin American tour (including a visit to Brazil for the BRICS summit, stops in Argentina, Venezuela and Cuba, and a meeting with Latin American heads of state at a summit of the Community of Latin American and Caribbean States, CELAC) highlighted China's rising presence in the region. Latin America has benefited from Beijing's global quest for resources and availability as a lender -- but a flood of Chinese goods has eroded some domestic manufacturing bases. China's growing interest presents a challenge to the long-term development strategies of many Latin American countries.

Full Text

SUBJECT:Latin America-China relations.

SIGNIFICANCE:Chinese President Xi Jinping's recent Latin American tour (including a visit to Brazil for the BRICS summit, stops in Argentina, Venezuela and Cuba, and a meeting with Latin American heads of state at a summit of the Community of Latin American and Caribbean States, CELAC) highlighted China's rising presence in the region. Latin America has benefited from Beijing's global quest for resources and availability as a lender -- but a flood of Chinese goods has eroded some domestic manufacturing bases. China's growing interest presents a challenge to the long-term development strategies of many Latin American countries.

ANALYSIS: Impacts.

China is Latin America's second trading partner, but the US lead is shrinking.

Latin America's dependency on China is set to increase, despite the latter's slowing growth.

Further fields for Chinese investments in Latin America are telecommunications, alternative energy, technology and tourism.

China's global pursuit of resources and commercial relations has led to a substantial presence in Latin America, with trade expanding 2,500% between 2000 and 2012 -- from 12 billion dollars to 261 billion. Xi's administration has emphasised deepening ties with the region as China continues to procure the resources needed to underpin its growth.

Chinese companies, both state and privately owned, are stepping up resource acquisition in the energy and mining sectors:

Brazil. State-owned Sinopec has formed a joint venture with Spanish Repsol's Brazilian subsidiary, valued at 17.8 billion dollars, in which Sinopec holds 40%. Brazilian state-controlled oil giant Petrobras received a 10 billion dollar loan in 2009. CNPC and China National Offshore Oil Corp (CNOOC) each have a 10% stake in the Petrobras-led consortium that won the contract to develop the Libra oil field, possibly the country's largest (see BRAZIL: Libra project puts pressure on Petrobras - November 27, 2013). Last month, the two countries signed 56 cooperation agreements.

Argentina. CNOOC bought 50% of local hydrocarbons company Bridas in 2010 for 3.1 billion dollars, while in 2011 Sinopec acquired US-based Occidental's Argentine assets for 2.45 billion. The Argentine government is hoping for further investments in the energy sector -- and possible Chinese infrastructure financing (see ARGENTINA: Funding hopes could tip balance for default - July 18, 2014)

Venezuela. Venezuelan President Nicolas Maduro and Xi signed cooperation agreements involving nearly 5.7 billion dollars in Chinese financing. China has provided some 40 billion dollars in credits via the so-called Chinese-Venezuelan Joint Fund since 2007, which is being repaid with oil exports (see VENEZUELA: Oil industry faces uncertain future - June 25, 2014).

Ecuador. Some 80% of Ecuador's exported oil is handled by Chinese firms, close to a monopoly position (see ECUADOR: Yasuni deal shows oil under China's control - March 26, 2014).

Peru. China's acquisition of the large Las Bambas copper project for 5.85 billion dollars is expected to be completed in September. China is currently looking to secure sources of copper in the region as it can only satisfy internally one-third of its demand see CHILE/PERU: Copper price exposure creates risks - April 2, 2014).

Infrastructure investments.

Beijing is ensuring a reliable supply of resources by planning and building supporting infrastructure in the region:

Nicaragua. Its interoceanic canal project, planned to rival the Panama canal, is leased to a Chinese consortium in a 50-year renewable concession; construction is supposed to begin in December (see NICARAGUA: Canal project faces challenges - March 6, 2014).

Colombia. A Chinese state-owned railway company is making headway with plans to build rail infrastructure linking Colombia's Caribbean coast to the Pacific. The link would be used to transport Colombian coal and other regional resources to China, and to import Chinese goods.

Peru. China's CNPC has announced that it aims to invest 2 billion dollars in local energy developments (see PERU: Hydrocarbons development faces challenges - July 11, 2014). It also recently expressed interest in building a transcontinental railway linking Peru's Pacific coast and Brazil's Atlantic coast oceans across the Amazon.

Other countries. Also underway are port expansion and export infrastructure projects in Brazil, Venezuela, Suriname, Uruguay, Cuba and Argentina.

Local perceptions.

The Chinese appetite for Latin American resources is substantial and the general perception that Latin Americans have of China's increasing economic presence in their countries seems to have improved (see LATIN AMERICA: China image may face rising challenges - August 9, 2013).

However, there are worries in some quarters. Mexican and Brazilian officials have voiced concern about the region becoming China's 'next Africa'. Overall, the region runs a trade deficit with China, and some governmental and business leaders worry that their countries are getting a poor deal: Latin American countries are unable to secure desired access to the Chinese market for their exports, and, in some manufacturing sectors, China is squeezing local producers at the labour-intensive and higher technology ends of the market. Outward foreign direct investment (FDI) from Latin America into the Chinese manufacturing sector may have detrimental consequences for future development.

The US and Japan factor.

Latin America's growth is sluggish. Compared to other regions, the combined value of China's trade with Latin America is minimal; the region's total population is comparatively small. Nevertheless, China's influence there may now gain greater political expression, for example within international institutions like the UN where even small nations cast an equal vote. In the future, enhanced efforts for cultural exchange as well as defence cooperation -- such as naval ports of call -- could also be signs of China's greater leverage in the region.

This relatively uncontested period of Chinese access to Latin American resources over the last decade has paralleled a decline in US involvement in the region. Though the United States remains Latin America's top trading partner and is currently engaging with some Pacific Rim countries in negotiating the Trans-Pacific Trade Partnership plurilateral trade deal, its relationship with the region has not received special attention.

China is expected to surpass the United States as Latin America's top trading partner in 15 years. Its increased presence in countries that maintain close US ties -- chiefly the Pacific Alliance nations (Mexico, Colombia, Peru and Chile) -- may trigger a reaction to reinforce these partnerships.

Finally, Japanese Prime Minister Shinzo Abe's current eleven-day Latin American tour may be a sign that Japan intends to challenge the growing influence of China in a resource-rich region. Despite its lower profile, Japan is -- according to the UN Economic Commission for Latin America (ECLAC) -- Asia's biggest FDI source in Latin America -- even though trade with the region is several times behind China.

CONCLUSION: China aims to continue its acquisition of resources in the region. Diplomatic and political influence may be an increasing part of its quest for Latin American resources and infrastructure projects. China is expected to surpass the United States as Latin America's top trading partner in 15 years. Its increased presence may trigger a US reaction to reinforce partnerships, at least with its closer allies. China may have already triggered traditional rival Japan's own increased efforts to expand trade and political ties with Latin America.

Details

Subject	Economic conditions; International relations; Foreign investment; Foreign policy; International trade; Energy policy; Gas industry; Infrastructure; Metal industry; Mining industry; Petroleum industry; Shipping industry
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