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SCALING BACK: CHINESE DEVELOPMENT FINANCE IN LAC, 2019

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Estimates of Chinese Finance to LAC in 2019

Chinese policy bank finance to Latin American and Caribbean (LAC) governments and state-run companies fell to roughly $1.1 billion in 2019—down from the $2.1 billion that China Development Bank and China Eximbank provided to the region in 2018. The low levels of Chinese policy bank lending last year are part of a broader, downward trend in Chinese finance to LAC governments and state-owned enterprises, evident since 2015 (see Figure 1).

One main reason for the decline in activity is that China is no longer acting as a financial lifeline for the region's more fragile economies. Venezuela, which accounted for 45 percent of China's overall lending to LAC since 2007, received no new loans from Chinese policy banks over the past three years (see Figure 2). Brazil and Ecuador have also historically received sizable loans from China, often semi-collateralized by oil. China's oil and other commodity-backed lending to LAC and other regions slowed considerably following the drop in global commodity prices in 2014, however.[1] Of the region's top four recipients of Chinese finance (see Figure 3), Argentina was the only country to strike a deal with the policy banks last year. A $236 million export credit from China Development Bank will support the purchase of rail cars for the Roca Commuter Line outside of Buenos Aires.

China Development Bank and Eximbank are instead issuing loans to a wider range of actors but in generally smaller amounts. In addition to Argentina, the Dominican Republic, Suriname, and Trinidad & Tobago all received loans from

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FIGURE 1: CHINESE FINANCE TO LATIN AMERICA BY YEAR, 2005-2019 (USD MILLIONS)

Source: Gallagher, Kevin P. and Margaret Myers (2020), "China-Latin America Finance Database," Washington, DC: Inter-American Dialogue.

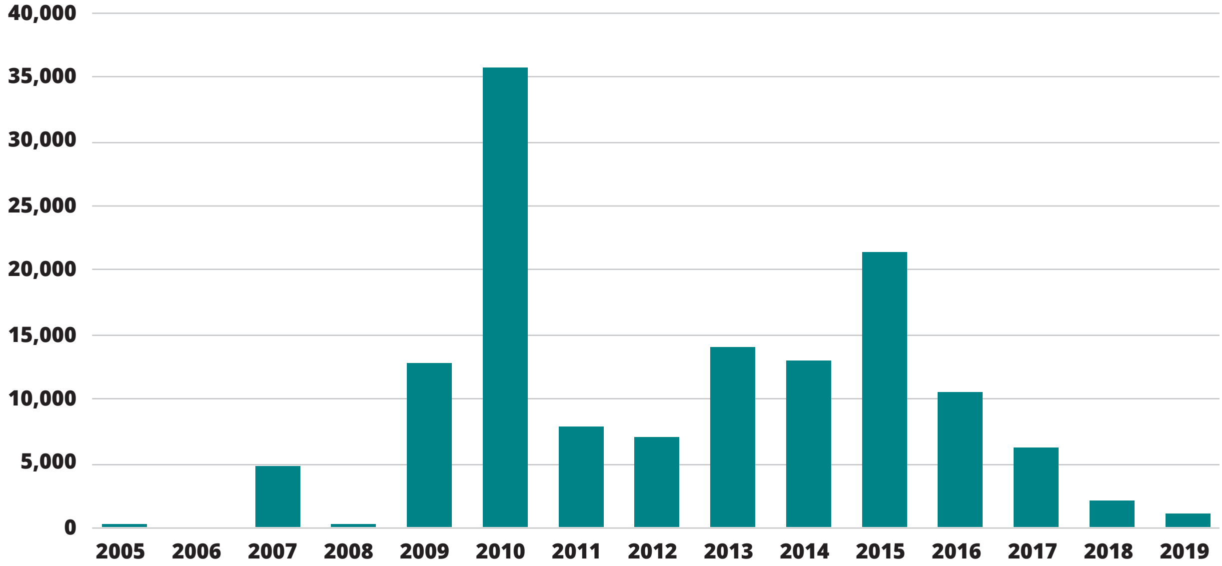
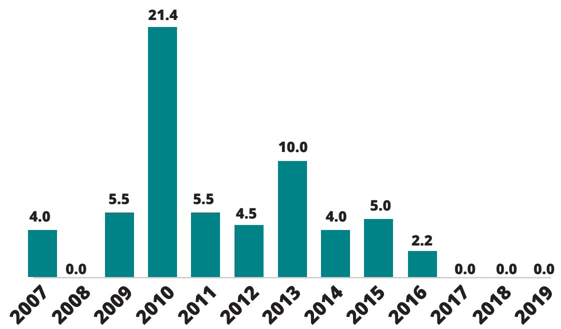


FIGURE 2: CHINESE POLICY BANK LOANS TO VENEZUELA, 2007–2019 (USD BILLIONS)

Source: Gallagher, Kevin P. and Margaret Myers (2020), "China-Latin America Finance Database," Washington, DC: Inter-American Dialogue.



Chinese policy banks in 2019 (see Table 1). Loan amounts last year averaged $275 million, however, compared to an average of $864 million from 2016-2019, a period marked by steadily declining Chinese finance to the region, and $1.7 billion from 2005-2015.

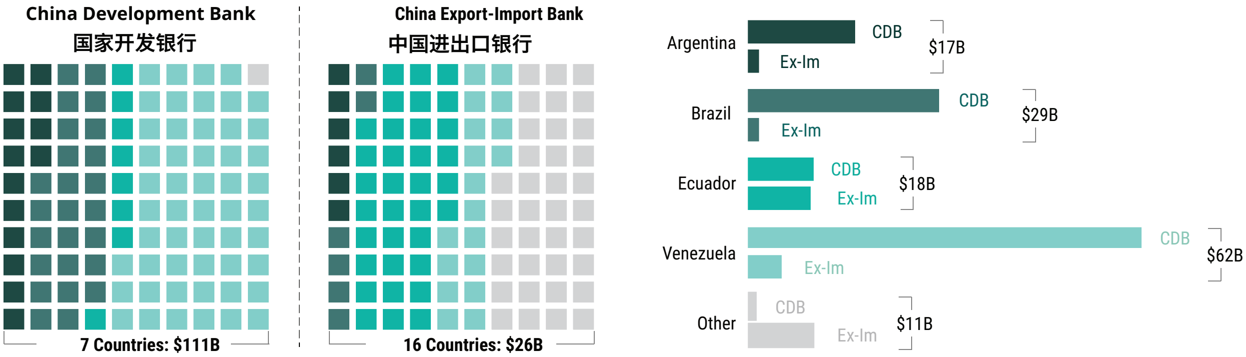
Another reason for the drop in sovereign lending is that CDB and Eximbank are in some cases providing financing directly to Chinese companies as opposed to LAC governments or SOEs, especially in those countries that have historically rejected China's model of state-to-state lending. In Colombia, for example, which has never received a loan from China's policy banks, Autopistas Urabá, a Chinese and Colombian consortium, secured dual-currency loan for $652 million from CDB and Japan's Sumitomo Mitsui Banking Corporation to finance the Autopista al Mar 2 toll road. Colombia's national development bank, FDN, supplied an additional 16.5-year, $150 million loan for the project in local currency, according to media accounts.[2] Sinohydro, a partner in Peru's controversial Hidrovía Amazónica project, also reportedly received financing directly from Eximbank. And Chinese firm COSCO, which will build and operate a $2 billion port in Chancay, Peru, has reportedly received funding from CDB for Belt and Road Initiative (BRI) projects.[3] Considering that Peru joined the Belt and Road in 2019, the Chancay port presumably falls within COSCO's BRI portfolio.

As a result of these developments, China's record of sovereign lending to the region no longer surpasses that of other major development banks. China has issued over $137 billion in credit to the region since 2005, according to Global Development Policy Center and Inter-American Dialogue estimates.[1] But as of 2019, sovereign lending

[1] A detailed description of our methodology is available at http://www.bu.edu/gdp/files/2018/08/Coding-Manual-.pdf. We add new loans to the database annually, but also revise past year estimates when and if projects did not come to fruition or were for amounts of financing different than what were earlier reported. Our list of Chinese loans to Latin America from 2005-2018 is available in the online China-Latin America Finance Database (https://www.thedialogue.org/map_list/).

FIGURE 3: DISTRIBUTION OF POLICY BANK LENDING BY COUNTRY, 2005–2019

Source: Gallagher, Kevin P. and Margaret Myers (2020), "China-Latin America Finance Database," Washington, DC: Inter-American Dialogue.



to LAC from the World Bank and the Inter-American Development Bank (IDB) exceeded China's record over the same period.

What remains in the way of Chinese state finance to LAC still differs in important ways from the deals struck by traditional development finance institutions, however. Unlike most IDB and World Bank loans to the region, CDB and Eximbank loans continue to focus on hard infrastructure and energy sector development, as has been the case since onset of Chinese policy bank engagement with the region. In 2019, the Dominican Republic, which recently established diplomatic relations with China, negotiated a $600 million preferential loan to upgrade the nation's electricity distribution infrastructure. And in Suriname, Eximbank's $200 million loan will finance the expansion of the Johan Adolf Pengel International Airport in Paramaribo.

In addition, Chinese loans to the region still refrain from imposing policy conditions on recipients but continue to promote the use of Chinese companies and/or equipment. China Development Bank's export credit to Argentina is an obvious example. Trenes Argentinos will buy 200 electric

TABLE 1: CHINESE POLICY BANK LOANS TO LAC IN 2019

Source: Gallagher, Kevin P. and Margaret Myers (2020), "China-Latin America Finance Database," Washington, DC: Inter-American Dialogue.

COUNTRY	TYPE	LENDER	AMOUNT	PURPOSE
Argentina	Infrastructure	China Development Bank	$236 million	Rail cars for Roca Commuter Line
Dominican Republic	Energy	China Eximbank	$600 million	Electricity distribution
Suriname	Infrastructure	China Eximbank	$200 million	J.A. Pengel International Airport Expansion Project
Trinidad and Tobago	Infrastructure	China Eximbank	$104 million	Pheonix Park Industrial Estate

wagons from China's CRRC Corporation for $1.18 million each. In addition to constructing park facilities, several Chinese companies will also manufacture goods in an Eximbank-backed industrial park in Trinidad & Tobago, specializing in light manufacturing and energy.[4]

A Shifting Landscape

A range of other demand and supply-side factors may also be influencing Chinese policy bank decision-making in the region. On the one hand, China's slowing economic growth and diminishing reserves may be forcing Chinese banks and companies to choose overseas projects more carefully.[5] This is especially the case as Chinese banks grapple with a sometimes problematic portfolio in Latin America, including the prospect of losses in Venezuela or delays in other scheduled projects. Although some of Bolivia's 2020 presidential candidates have considered resurrecting the deal, the China-backed Rosita dam project remains suspended following protests about the project's lack of prior consultation with affected communities.[6] Sinohydro's Peruvian partner in the Hidrovía Amazónica project is accused of having had privileged access to the Ministry of Transportation during key points in the project bidding process, raising the likelihood of more delays in that project as well.[7]

In addition to reducing overall sovereign lending to the region, Chinese banks are taking some other measures to reduce lending risk and protect existing assets. In 2018, Ecuador's $900 million discretionary loan from CDB carried a competitive interest rate between six and seven percent, for example.[8] Also in 2018, Beijing ended a grace period for Venezuela on its principal payments to China, signaling a limit to Chinese goodwill toward the Nicolás Maduro government.[9]

Demand for Chinese finance is slowing among some of the main LAC recipients of policy bank loans.

Demand for Chinese state finance is also slowing among some of the main LAC recipients of policy bank loans. Over the past three years, Chinese policy banks have issued only $1.8 billion and $969 million to Argentina and Ecuador, respectively. That amounts to just .10 and .05 percent of total Chinese state-to-state lending to those countries since 2005. Facing financial instability at home, Argentina and Ecuador aren't inclined to considerably grow their foreign debt in the coming years. Even when they do, China's model of lending, which sometimes encourages the use of Chinese companies or equipment, isn't always appealing. Ecuador looked to the IDB—not China—in 2019 for a $300 million loan to support its fiscal stability.[10] That said, if Argentina and its creditors fall short of reaching a balanced agreement on that country's external debt, Alberto Fernandez may be able to look to China for much-needed infusions of capital, just as Cristina Fernandez de Kirchner did during her 2007-2015 presidency.

Other Sources of Chinese Finance

Despite a clear drop in Chinese policy bank lending to LAC, an increasingly wide range of other China-backed financial institutions and platforms are actively engaging the region (see Table 2). China's three regional funds—the China-LAC Industrial Cooperation Investment Fund (CLAI Fund), China-LAC Cooperation Fund (CLAC Fund), and Special Loan Program for China-Latin America Infrastructure—have supported a limited number of often Brazil-based projects in recent years. In 2015, for example, capital was drawn from the CLAI by China Three Gorges Corporation, which was seeking a 30-year concession to operate two hydroelectric power plants in Brazil.[11] According to a February 2019 report from Chinese news magazine, *Caixin*, the CLAI Fund and the China-Africa Fund for Industrial Cooperation (CAFIC) will be merged to better serve Chinese companies, noting that the Chinese firms that invest in Africa also tend to conduct business in Latin America and vice versa.[12]

At least two deals—an affordable housing project in Suriname and a hydropower venture in Brazil—were made in 2016 with capital from the CLAC Fund.[13] In 2017, CLAC supported two projects in Brazil—an acquisition of Duke Energy holdings and an investment in Electrosul. In January 2020, China Merchants Port (CMPort) reportedly signed an agreement with the China-Portugal Cooperation Development Fund (CPD) and the CLAC Fund to acquire full

TABLE 2: CHINA'S FUNDS IN LAC

Source: Foro China-CELAC website, China Eximbank website, Caixin Global.

NAME	YEAR INITIATED	TOTAL SIZE	NOTES
China-Latin American Production Capacity Cooperation Investment Fund (CLAI) (中拉产能合作投 资基金)	2015	$30 billion	Capital from SAFE Wutongshu Investment Platform (85%) and Eximbank (15%); to merge with CAFIC
Special Loan Program for China-Latin America Infrastructure Projects （中拉基础设施专项贷款）	2015	$20 billion	SAFE capital
China-LAC Cooperation Fund (CLAC) （中拉合作基金）	2016	$10 billion	SAFE and Eximbank capital
Brazil-China Cooperation Fund （中国－巴西扩大产能合作基金）	2017	$20 billion	$15 billion from CLAI; $5 billion from Brazil
IFC China-Mexico Fund （中墨投资基金）	2014	$1.2 billion	China Investment Corporation and CDB capital
China Co-Financing Fund for Latin America （中国-泛美开发银行专项基金）	2013	$2 billion	Established by the People's Bank of China and the IDB; $500 million for public sector loans and $1.5 billion for private sector finance

ownership of the Paranaguá Container Terminal in Brazil. The company already acquired 90 percent of the container terminal in 2017.[14]

There is no public reporting on lending from the Special Loan Program for China-Latin America Infrastructure to date, but the fund continues to be listed on Chinese embassy web sites in LAC.

In addition to the three regional funds, Chinese and Brazilian officials also launched the $20 billion Brazil-China Cooperation Fund in 2017. Reports indicate that 75 percent of the funding for Brazil fund comes from the CLAI Fund (now the CAFIC/CLAI Fund, presumably), with the Brazilian government covering the remainder.[15] Chinese and Brazilian representatives reportedly agreed on possible infrastructure investment in the amount of $4 billion during the third meeting of the China-Brazil Fund's Technical Working Group meeting in August 2018.

In other cases, Chinese banks have partnered with multilateral banks in the region to co-finance select projects. The IFC's China-Mexico Fund, started in 2014 with $1.2 billion in capital, has so far successfully participated in a telecommunications project and an energy sector deal. In 2017, the IDB Invest-administered China Co-Financing Fund for Latin America and the Caribbean contributed 13 percent of a $75 billion IDB package for the Solem solar photovoltaic plant in Mexico, which was constructed by Spanish firm Grupo Ortiz.[16] A year later, the China Co-Financing Fund also partially funded construction of the Ituango hydroelectric dam in Antioquia, Colombia.[17] Unfortunately, the Ituango dam collapsed in July 2018, raising questions about the extent to which these cooperative funds are living up to their potential to combine Chinese finance with IDB risk management standards.[18]

In addition to co-financing projects and regional funds, China's four major commercial banks [Industrial and Commercial Bank of China (ICBC), Bank of China, Agricultural Bank of China, and China Construction Bank] are increasingly active in Latin America and other regions, sometimes in cooperation with other international banks. They offer a range of services, including commercial finance, trade finance, financial advisory services, and retail banking. Industrial and Commercial Bank of China is expected to provide 85 percent of the financing for Argentina's on-again/off-again Atucha III nuclear power plant.[19] A number of other Chinese banks, sometimes affiliated with Chinese companies, are also establishing themselves in the region. In January 2020, Banco XCMG, owned by a Chinese construction company of the same name, announced its arrival in Brazil to finance of infrastructure projects and machinery purchases.[20] Finance from the commercial banks and policy banks likely supported the recent surge in greenfield activity by Chinese companies in LAC. New Chinese greenfield investment reached a record high of $12 billion in 2019, according to the Boston University Global Development Policy Center China-Latin America Economic Bulletin, 2020 Edition.

Even if Chinese policy banks continue to lend to LAC at relatively low levels, as they did in 2017 and 2018, the combined effect of Chinese policy bank activity, co-financing initiatives, commercial bank finance, policy bank-backed investment, and other forms of engagement will ensure a sizeable Chinese financial presence in the region for years to come, potentially in a wider variety of projects. Total combined Chinese finance to the region is unlikely to ever approximate policy bank peak lending, however.

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