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The Expanding Chinese Footprint in Latin America

New Challenges for China, and Dilemmas for the US

Evan Ellis

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Center for Asian Studies

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Executive Summary

The physical presence of China in Latin America is entering a phase of significant expansion, as the logical consequence of the rapid growth over the past decade of its trade, investment, and infrastructure for doing business in the region. Although the rapid advance of PRC trade and investment in the region, to date, has not involved a significant number of Chinese companies or personnel in the region, this is changing. The new Chinese physical presence in Latin America is focused in five areas, each with its own dynamics and consequences: (1) leaders visits, business delegations, students and other official groups, (2) construction and infrastructure projects, (3) extractive industry investments and associated service companies, (4) retail and manufacturing, and (5) tourism.

The growing Chinese physical presence will generate five types of challenges which will make it increasingly difficult for the PRC to maintain, in fact, its policy of non-interference in the internal politics of the region: (1) disputes with Latin American governments over tax and regulatory frameworks impacting Chinese companies and operations, (2) disputes over investment terms and with local communities during implementation, (3) labor issues and problems with local suppliers while conducting business operations, (4) resistance to Chinese projects from environmentalists and other interest groups, and (5) threats to the physical security of Chinese personnel and operations.

The PRC is likely to employ its growing understanding of, and sources of leverage in Latin America to protect its increasingly important interests in the region, while simultaneously attempting to avoid that its actions to defend its interests are seen in threatening terms by the United States or other strategically important partners.

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Introduction

During the first decade of the 21st Century, bilateral trade between the People's Republic of China and Latin America expanded by a factor of 18, from approximately $10 billion in 2001 to $180.2 billion in 2010,[1] This rapid and continuing trade growth has captured the attention of businessmen, academics and policymakers in the region, as well as those in the United States and the rest of the world. Initially, the growth in Chinese investment in Latin America did not keep pace with the growth in trade. Nonetheless, behind the scenes was a rapid and often chaotic process of learning and adaptation and the development of relationships and infrastructures laying the groundwork for more sophisticated transactions. Because this process took place outside the purview of mainstream media coverage, the region was largely taken by surprise at the end of the decade when, contrary to conventional wisdom, Chinese banks and companies began to invest tens of billions of dollars into Latin America.

China's evolving engagement with Latin America may be divided into three stages: (1) the pre 2002 period, when the relationship was distant, and generally concentrated on political matters such as south-south ties and party-to-party relations, (2) the period of simple trade expansion, from 2002 through 2007, as China's entry into the WTO, and the "go out" policy announced as part of the 10th 5 year plan of 2002 began to take effect, and (3) the period of investment expansion. This was triggered in part by opportunities for Chinese companies and financial institutions presented by the global financial crisis, but also reflected an expansion of relationships, a growth of infrastructure, and a maturation of Chinese companies. These processes both made it possible and necessary for the Chinese to begin to invest substantially in Latin America, whereas previously their interactions with the region were based on simple financial transactions.

The current expansion of Chinese engagement with Latin America reflects a number of distinct, yet interrelated tendencies. Large state owned enterprises have made a wave of acquisitions in

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The views represented are those of the author, and do not necessarily reflect those of the Center for Hemispheric Defense Studies, the Department of Defense or the U.S. government.

[1] *Direction of Trade Statistics Yearbook 2011*. International Monetary Fund. 2011.

extractive sectors to secure control over key resources, and now must follow up by exploiting those investments. At the same time, smaller provincially-backed companies are projecting themselves into international markets and are now led to invest in international distribution networks and local manufacturing hubs for traditional business reasons: serving local markets in a more agile fashion, avoidance of import taxes, inventory and logistics costs, access to the technology of local partners, and other benefits. In addition, logistics, construction and other service companies are also projecting themselves into international markets, backed by the leverage of Chinese banks, and the maturation of supporting infrastructures. Even the Chinese tourism industry is advancing abroad, enabled by the new prosperity.

The core thesis of this article is that the same dynamic which has pushed Chinese SOEs and medium sized companies to begin to invest in Latin America is now propelling an even more fundamental transformation in the China-Latin America relationship. As in other parts of the world that offer the PRC resources and export markets, China's trade and investment with Latin America, in combination with its political and cultural engagement there, are dramatically expanding its physical presence in the region. These interactions will profoundly change the nature of how China is seen by, and relates to the region, generating new sources of conflict, even while expanding Chinese influence and accelerating learning by government, business, and other personnel involved in the relationship.

This article examines the growing Chinese physical presence in the region, its dynamics and consequences. The first section examines the nature of that presence and the areas in which it is occurring. The second section examines the likely consequences, including the interplay between sources of conflict, growing Chinese leverage within the region, and accelerated learning and adaptation.

The Expanding Chinese Footprint in Latin America, and Factors Behind It

The expanding Chinese footprint in Latin America is the natural product of the expansion and evolution of activities by Chinese companies in the region, in pursuit of both secure sources of supply globally, and new markets as they move up the value-added chain, build distribution networks, and expand global service offerings.

While this engagement may be associated with government policies, such as the endorsement of a "go out" posture in the 10^{th} 5-year plan of 2002, it also reflects the maturation and growth of Chinese companies (both state owned enterprises and provincially backed companies), associated infrastructure, and their ties to Latin America. One significant factor has been a process of learning and confidence. Although major Chinese primary-product oriented state owned enterprises have long had an interest in purchases abroad which would allow them to more reliably service the current and projected needs of their clients, it has taken time for such companies to develop the market knowledge to move forward with multi-billion dollar acquisitions. For market-seeking manufacturing and service companies, the maturation of China-oriented banking and services infrastructures has also played an important role in making such investments financially viable.

Because of the relative lack of transparency of Chinese businesses and government operations to Western analysts, and because the Chinese presence in Latin America is still in its infancy, its analysis and measurement are hampered by methodological issues, including the absence of good data on the number of Chinese personnel and businesses in Latin American countries, survey data on attitudes of the society toward those persons, measures of the influence of Chinese in local communities, and good data on incidents of conflict. Despite the absence of good systematic data, the very rapid development of the Chinese presence in the region since 2002, and the transformational character of this engagement make it critical to study the phenomenon. The analysis done in this paper is thus preliminary, based on anecdotal data, with the purpose of laying out the key dynamics and issues associated with the transformational impact of the expanding Chinese footprint in Latin America.

The expanding Chinese footprint in Latin America can be analyzed in terms of five areas, each of which have their own separate dynamics, and impacts on the local social and political environment: (1) government, culture and business development activities, (2) construction and infrastructure projects, (3) extractive industry investments and associated service companies, (4) retail and manufacturing, and (5) tourism.

Government, culture and business development activities

The aspect of the increasing Chinese footprint with the greatest visibility, but arguably, smallest footprint in terms of personnel is increasing visits by Chinese governmental delegations to Latin America, as well as increasing political and cultural exchanges, and an increasing number of visits by Chinese businessmen in pursuit of markets, or evaluating investment deals in Latin America.

Official visits to Latin America by Chinese leaders, including President Hu Jintao, to the Vice President Xi Jinping and Vice Premier Hui Liangyu, traditionally receive significant press coverage in the region, and often serve to facilitate the expansion of business and other contacts.

Within the category of official interactions, China's expanding military presence in the region has strategic significance that goes beyond the numbers of people involved. This presence includes the contingent of approximately 200 peacekeepers which it has maintained in Haiti since 2004, the deployment of a PLA contingent in Peru in conjunction with the Angel de Paz peacekeeping exercise in November 2010,[2] and the deployment of its new hospital ship "Peace Arc" to the Caribbean in September 2011.[3]. PRC trainers and technical personnel have also been deployed to Venezuela, Bolivia, and Ecuador, in conjunction with the acquisition of Chinese military and space hardware by those countries. Such personnel include Chinese sent to Venezuela to train Venezuelan pilots on the recently acquired K-8 light fighter aircraft and personnel to help set up and operate ground stations for the Venesat-1 communications satellite.[4]

[2] "Operación Conjunta China-Peru de Rescate Medico Humanitario 'Ángel de la Paz'" *Maquina de Combate*. http://maquina-de-combate.com/blog/archives/10429 November 24, 2010.
[3] "Ja welcomes China medical ship." *Jamaica Observer*. Kingston, Jamaica. http://www.jamaicaobserver.com/news/Ja-welcomes-Chinese-medical-ship_10045788. October 30, 2011.
[4] See R Evan Ellis, "China-Latin America Military Engagement: Good Will, Good Business, and Strategic Position." *US Army War College Strategic Studies Institute.* http://www.strategicstudiesinstitute.army.mil/pubs/display.cfm?pubid=1077. August 25, 2011.

Chinese technical personnel will also likely travel to Venezuela to support the VRSS-1 satellite to be launched in late 2012, and to Bolivia, to support the Tupac Katari satellite, to be launched in early 2014.[5] Beyond these examples, the PRC has also sent trainers to Venezuela help set up the production of oil drills and electronic warfare facilities at DICOFAN.[6]

A special category of the "non-commercial" presence in Latin America is increasing number of Chinese students traveling to the region. The greatest concentration of such students are in Cuba, with an estimated 1130 in residence in Havana at the time of President Hu Jintao's visit in November 2008, and some 5,000 Chinese students passing through Cuba between 2006 and 2011.[7] Such students, learning the language and culture of the region, lay the groundwork for the next generation of Chinese government and commercial personnel to more effectively engage with the region.

Despite the significance of "official" Chinese activities in Latin America, by contrast to the "state-centered" presence of the Soviet Union in Latin America during the Cold War, the most impactful part of the Chinese footprint in Latin America is arguably its growing commercial presence, to which this paper now turns.

Construction

In recent years, Chinese construction companies have won, and are now beginning to execute, increasing numbers of projects across Latin America and the Caribbean.[8] In executing these projects, where permitted by local governments, they generally bring with them significant numbers of their own workers and logistics support staff, disappointing local construction firms and workers whose expectations of being hired are not fully realized, and creating labor relations challenges among those who are, as well as potential conflicts with local communities and governments, as discussed in the subsequent section of this paper.

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[5] "China, Bolivia Kick Off Communications Satellite Project [Xinhua]." *Space News.* http://www.spacenews.com/commentaries/201108112-china-bolivia-kick-off-communications-satellite-project.html. August 12, 2011.

[6] R Evan Ellis, "China-Latin America Military Engagement" August 25, 2011.

[7] Jorge L. Rodríguez González, "Cálido encuentro de Raúl y Hu Jintao con estudiantes chinos" *Juventud Rebelde.* http://www.juventudrebelde.cu/cuba/2008-11-19/calido-encuentro-de-raul-y-hu-jintao-con-estudiantes-chinos/. November 19, 2008. See also "Estudiantes chinos se gradúan en curso de español en Cuba" *Xinhuanet.* http://www.spanish.xinhuanet.com/spanish/2009-05/29/content_885862.htm. May 29, 2009.

[8] In part, this reflects the increasing effectiveness of Chinese companies in leveraging loans from Chinese financial institutions to perform the work, as well as the increasing experience of Chinese companies working and winning contracts in the region.

In general, a particularly large portion of these projects are concentrated in the Caribbean, and in the "ALBA" countries.[9] Because the governments are relatively small in the former case, and personalistic regimes increasingly dependent on the Chinese in the latter,[10] it is also in these countries where the relative Chinese bargainning position tends to be strongest, with respect to the number of workers it brings in, and the autonomy with which it conducts the work.

For the purpose of understanding the associated footprint of Chinese companies and personnel, the construction projects may be divided into three categories: (A) Those in which Chinese investors are building facilities in the region and contracting Chinese companies to do the work, (B) those in which the work is a donation by the Chinese government to the receiving country, and the Chinese government contracts a Chinese company to do the work, and (C) that in which the work is paid for by the host country, or a public entity within it, but financed by a Chinese bank, with the work done by a Chinese company as part of the package.

Chinese Investors Using Chinese Contractors

In virtually all of the projects in Latin America directly funded by Chinese investors (not considering those funded by loans from Chinese banks), Chinese companies have been selected to do the work, bringing in a significant number of Chinese workers, as well as managers and technical personnel, albeit only on a temporary basis. The majority of these projects fall into two categories: tourist resorts in the Caribbean, and infrastructure supporting Chinese projects in primary product industries in the region.

In the Caribbean, the largest such project is the 3800-rooms "Baha Mar" resort on New Providence Island in the Bahamas,[11] funded by a $2.4 billion loan from the Export-Import Bank of China.[12] The work is to be done by China State Construction and Engineering Corporation, which is reportedly negotiating to bring in approximately

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[9] In the case of the ALBA countries, the anti-US / anti-Western orientation of these regimes has simultaneously pushed Western companies out, foreclosed traditional financing options, and made the regimes involved more receptive to Chinese companies, investments, and loans.

[10] Countries such as Ecuador have explicitly defaulted on prior loan obligations to Western financial institutions, while nationalizations have created a string of lawsuits for compensation that make obtaining funds from Western institutions difficult in practical terms, while the political orientations of these regimes make the pursuit of such aid difficult in political terms.

[11] "China's Caribbean march." *BBC.* http://www.bbc.co.uk/caribbean/news/story/2010/10/101019_chinadomrep.shtml. October 20, 2010.

[12] "Bahamas, China sign Economic Technical Cooperation Agreement." *The Bahamas Investor*. http://www.thebahamasinvestor.com. September 12, 2011.

6,150 Chinese workers.[13] Other examples include the $462 million Punta Perla beachfront resort on the eastern coast of the Dominican Republic,[14] and plans by private Chinese investors to invest $200 million in two hotel resort complexes in Grenada.[15]

Chinese construction work associated with primary product industries typically involve roads and rail lines to extract the materials, or facilities to process them. Examples include the possible construction of a minerals loading facility by the Chinese company Tongling in the port of Machala, so that it can export minerals extracted from its recently acquired mining operations in Zamora Chinchipe. Similarly, Hebei Wenfeng has announced plans to build a mining port in conjunction with its $250 investment to develop the San Fierro mineral deposit in the Atacama region of Chile.[16] Beyond the mining sector, the Chinese company Tierra del Fuego Energia y Quimica plans to expand the port at Tierra del Fuego, as part of the Urea plant that it is building in the region.[17] Similarly, the Chinese firm Sanhe Hopeful has announced plans to invest $7.5 billion in a soy processing and storage complex and related infrastructure in Goais, Brazil, while the firm Chonquing grain plans a similar complex in Bahia,[18] and Beidahuang plans one in the province of Rio Negro, Argentina, including the construction of irrigation systems and other accompanying infrastructure, with the work to be done by Chinese engineers.[19]

In each case, the number of Chinese laborers and contractors used in the project is likely to be particularly high, since Chinese companies and investors are paying for the work.

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[13] Arnaud de Borchgrave, "Chinese takeaway; Middle Kingdom is eating America's lunch in our own backyard." *The Washington Times*. Sec. B, p. 4.

[14] This project is particularly notable because it is one of the few major investments by a Chinese company, where the PRC does not have diplomatic relations with the receiving country. See "China's Caribbean march." *BBC.* http://www.bbc.co.uk/caribbean/news/story/2010/10/101019chinadomrep.shtml. October 20, 2010.

[15] The funds of the Chinese group are managed by the PRC financial company Touchstone Capital Partners. See "Chinese investors promise investment in Grenada." BBC. http://www.bbc.com. May 24, 2011.

[16] "Compañía industrial china invertirá $250 millones de dólares en Chile." *Prensa.* http://www.prensa.com. August 20, 2011.

[17] Oliver Galak, "Invierten 1000 millones de dólares para fabricar urea." La Nación. Buenos Aires, Argentina. http://www.lanacion.com.ar. January 14, 2011.

[18] "China plans to invest 10 billion USD in soy production and processing in Brazil." *Mercopress.* http://en.mercopress.com/2011/04/11/china-plans-to-invest-10-billion-usd-in-soy-production-and-processing-in-brazil. April 11, 2011.

[19] Paula Lopez-Gamundi and Winston Hanks. "Land-Grab Loopholes in Latin America." World Press. http://www.worldpress.org. August 11, 2011.

"Gifts" by the Chinese Government

The second category of construction projects increasing the presence of Chinese companies and workers in the region are "gifts" by the Chinese government to Latin American countries in conjunction with a change in diplomatic recognition from Taiwan to the People's Republic of China. The most recent major example was the construction of the $89 million sport stadium in Costa Rica, following that nation's diplomatic recognition of the PRC on June 1, 2007. Because the stadium was a gift from the Chinese government, the PRC chose a Chinese company to do the work, with 600 Chinese workers brought in to execute the project.[20] Other recent examples include the construction of a multiuse sports stadium in Grenada following that nation's diplomatic switch in 2004, with 500 Chinese laborers brought in to do the work, a $21 million stadium in Antigua, a $12 million stadium in St. Kitts,[21] and construction of the National Academy of Performing Arts and the Prime Minister's residence in Trinidad by Shanghai Construction of China, involving the use of 500 Chinese construction workers.[22]

With the diplomatic rapprochement between the PRC and Taiwan since the election of the nationalist KMT government there in 2008 elections, both governments have refrained from attempting to offer Central American and Caribbean governments such "gifts" as a way of convincing them to change their diplomatic recognition from one country to the other. Nonetheless, if the political rapprochement between Taiwan and China breaks down in the coming years, such competition may resume, with more such "gifts" and a corresponding inflow of Chinese companies and laborers to construct them.

Projects funded by Chinese loans

The most significant source of Chinese construction companies and workers entering Latin America is the third category of projects: the billions of dollars of infrastructure work being done by Chinese companies directly for Latin American governments, tied to loans to those governments from Chinese banks. Since 2010, there has been a massive increase in such projects, as the Chinese government seems to have discovered an effective formula for leveraging their access to the ample capital of Chinese banks to meet the infrastructure needs of cash-strapped Latin American governments.

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[20] Claire Saylor, "Construction To Get Underway On Costa Rican Stadium." *Costa Rica Pages*. http://www.costaricapages.com. Accessed December 8, 2011.

[21] Tom Dunmore, "Free Stadiums, At a Price: China's Global Stadium Diplomacy." Pitch Invasion. http://pitchinvasion.net/blog/2011/11/29/free-stadiums-at-a-price-chinas-global-stadium-diplomacy/. November 29, 2011.

[22] Lieslle Maraj, "500 Chinese help build TT." Newsday. http://www.newsday.com. July 15, 2007.

To date, the concentration of such projects has been in those countries which have turned away from, or have disqualified themselves from receiving funding from traditional investors and multilateral institutions such as the World Bank and International Monetary Fund.

As of the end of 2011, for example, Venezuela had a portfolio of over $25 billion in infrastructure projects being funded by China Development Bank, all using Chinese companies and workers, including a $520 million effort for China Harbor Engineering Company (CHEC) to expand a new terminal in Puerto Cabello,[23] a $200 million project for the Metallurgical Corporation of China (MCC) to expand the port of Palua, and another $161 million project for China Construction Corporation to dredge the Orinoco river.[24] Also as part of this portfolio, the Chinese company Sinohydro is earmarked to construct the new "El Chorrin" hydroelectric facility, while other Chinese companies including China Harbor Engineering corporation will build seven new thermoelectric facilities in the country, as well as upgrading an existing facility. Also in Venezuela, China Railway Engineering Corporation is building a $7.5 billion high-speed rail line across the center of the country from Tinaco to Anaco. The project will reportedly employ 7500 workers, of which a substantial number are likely to be Chinese.[25] In addition, the Venezuelan mining ministry (MIBAM) has signed $727 million in contracts with four Chinese companies to perform mining-related activities: Wuhan Iron and Steel, China Railway Engineering Corporation, Metallurgical Group Corporation, and China Communications Construction Company LTD.[26]

In Ecuador, the government has awarded a $2 billion contract for the construction of the nation's largest hydroelectric facility, Coca Coda Sinclair, to the Chinese firm Sinohydro, while the Chinese Gezhouba Group has been contracted to construct the $672 million Sopladora hydroelectric project.[27] Yet another Chinese firm, China Water and Electric Corporation, will construct the $517 million Toachi-Pilaton hydroelectric facility,[28] and in October 2011, a Chinese company was awarded a dam construction project in Chone.[29]

[23] "Venezuela y China firman acuerdo para construir nuevo Puerto." *El Nacional.* Caracas, Venezuela. http://el-nacional.com. October 4, 2011.
[24] "Venezuela signs three new agreements with China." *El Universal.* Caracas, Venezuela. http://www.eluniversal.com September 6, 2011.
[25] "Gobierno firma contrato ferroviario con China por $7500 millones." *El Universal.* Caracas, Venezuela. http://eluniversal.com. July 30, 2009.
[26] "Khan reporta avance de acuerdos con China para potenciar Guayana." *El Universal.* Caracas, Venezuela. http://rayma.eluniversal.com. October 14, 2011.
[27] "Con China se oficializa crédito para segunda hidroeléctrica." *El Universo*. Guayaquil, Ecuador. http://eluniverso.com. October 11, 2011.
[28] "El financiamiento para Toachi Pilatón tropieza." *El Universo.* Guayaquil, Ecuador. http://eluniverso.com. December 29, 2010.
[29] "Río Grande no vende ni compra en cantón Chone." *El Universo.* Guayaquil, Ecuador. http://eluniverso.com. November 12, 2011.

Beyond these projects, the Chinese may also play a role in the construction of the $12 billion "Refinery of the Pacific" near Manta.[30]

In Bolivia, the government has expressed a preliminary interest in Chinese aid to build a rail link from Puerto Suarez to Ilo, on the Pacific Coast of Peru,[31] while the Chinese firm CITIC has signed an agreement to develop the lithium deposits in the salt flats of Copiasa.[32]

In Cuba, in June 2011, CNPC subsidiary China Huanqiu Contracting & Engineering Corp was contracted to support a Cuba-Venezuela consortium in a $6 billion project to double the output of Cuba's Cienfuegos refinery.[33] To date, there are few indications that the Venezuelan, Ecuadoran, Bolivian, or Cuban governments have tried to limit the role of Chinese companies and workers in these projects funded by Chinese institutions. Moreover, as the ALBA governments' dependence on funding from the PRC continues to increase, the associated role of Chinese construction companies and workers in these countries is likely to expand.

Although Venezuela and the ALBA countries have been the spearhead for the entry of Chinese companies and construction workers into Latin America, other countries are also increasingly using or considering Chinese service companies. In February 2011, Colombian President Juan Manuel Santos announced that his government was negotiating with a Chinese consortium for a "dry canal" – $7.6 billion in railroad work linking the Atlantic and Pacific coasts of Colombia.[34] A Chinese company currently manages six regional airports near Medellin. Other Chinese firms have expressed interest in building a new metro in Bogota,[35] as well as participation in a host of other projects including the "Ruta del Sol" and "Autopista de las Americas" highways and the Socomoso and Ituango hydroelectric

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30 "Fortalecen cooperación Ecuador y China en sectores estratégicos." Andina. http://www.andina.com.pe. September 14, 2011. "'Ecuador propuso acuerdo con China'" *El Universo.* Guayaquil, Ecuador. http://eluniverso.com. December 21, 2010.

31 "Bolivia buscará salir al mar "casi con autonomía" por puerto peruano." *El Comercio.* Lima, Peru. http://elcomercio.pe. August 6, 2011.

32 "Citic financiará exploración de litio en salar de Coipasa." *Business News Americas*. http://www.bnamericas.com. September 26, 2011.

33 "China, Cuba agree on refinery project, new loans." *Cuba Standard.* Havana, Cuba. http://www.cubastandard.com/2011/06/06/china-agrees-on-refinery-project-new-loans/. June 6, 2011.

34 There has been considerable confusion regarding the specifics of the project, including whether it refers to a direct rail line between Uraba and Cupica near the Panamanian border, or a series of railway improvements linking Cartagena to Buenaventura across the center of the country. Robert Wright, "'Dry canal' latest twist in tangled tale of isthmus." *Financial Times*. http://www.ft.com/intl/cms/s/0/72dbe15e-3799-11e0-b91a-00144feabdc0.html#axzz1g37rG1y3. February 13, 2011.

35 "Acuerdo Para Que Llegue Inversión Chino" *El Tiempo*. Bogotá, Colombia. http://www.eltiempo.com. March 30, 2009.

projects.[36] In Argentina, Chinese banks are financing $10 billion in railway projects, including the $2.5 billion 1700 kilometer line from Belgrano to Cargas, to be done by China Machinery Equipment Corporation, and subway lines in Cordoba, to be done by China Railway Engineering Corporation.[37] In Costa Rica, the national oil company Recope is engaged in a $1.2 billion project backed by Chinese capital, to significantly expand the refinery at in Moin.[38]

In Brazil, Chinese companies have participated in initial bidding for the $24 billion high-speed rail link from Sao Paulo to Rio de Janeiro in Brazil,[39] while the Chinese national power company State Grid, which established a physical presence in the country through a $989 million acquisition in 2010, will participate in construction of the Belo Monte dam,[40] the third largest hydroelectric project in the world. Previously, the Brazilian state oil company Petrobras contracted with Sinopec for $1.3 billion to construct the 1,300 kilometer long Gasene pipeline.

In the Caribbean, projects funded by Chinese loans and executed by Chinese companies include the $80 million Palisades Road improvement project in Jamaica, which will connect the capital of Kingston to the nearby international airport.[41] China Harbor Engineering Company is doing a total of $400 million in road construction and bridgework in the country under the Jamaica Development Infrastructure Program (JDIP). In Honduras, which does not even have diplomatic relations with the PRC, the Chinese company Sinohydro has signed a $50.5 million contract with the national electric company Empresa Nacional Energia Electrica (ENEE) to construct the Patuca III hydroelectric facility,[42] with 750 Chinese to be brought in to work on the project, in addition to the

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[36] R Evan Ellis, “Las relaciones China-Colombia en el contexto de la relación estratégica entre Colombia y los EE.UU.” *Security and Defense Studies Review*. Vol. 9, Issue 1-2. 2009. p. 16.
[37] “Habrá financiamiento chino para el tren Belgrano Cargas.” *La Nación*. Buenos Aires, Argentina. http://www.lanacion.com. September 10, 2011.
[38] “China aprueba seguir con plan de refinería con Recope.” *Nación*. San Jose, Costa Rica. October 10, 2011.
[39] “Brazil bullet train project fails to attract bidders.” *BBC News.* http://www.bbc.co.uk/news/world-latin-america-14118028. July 12, 2011.
[40] Song Shengxia, “China seals Brazil dam deal.” *Global Times.* http://business.globaltimes.cn/industries/2011-04/644823.html. April 15, 2011.
[41] Garfield Meyers, “JDIP will boost economy — Golding”. *Jamaica Observer.* Kingston, Jamaica. http://www.jamaicaobserver.com/JDIP-will-boost-economy-Golding_7957497. September 13, 2010. See also “Gov't secures $6-b funding from China for Palisadoes.” *Jamaica Observer.* Kingston, Jamaica. http://www.jamaicaobserver.com/news/Palisadoes-funding_7383362 February 3, 2010.
[42] “Honduras firma convenio por USD 50,5 millones con China para hidroeléctrica.” *La Nación.* San Jose, Costa Rica. http://www.nacion.com. April 17. 2011.

2000 Hondurans to be employed.[43] Chinese companies have also been involved in housing projects in the region, similarly backed by Chinese banks. These include 26,000 housing units to be constructed in Venezuela, under contract with China's CITIC group,[44] and a $76 million contract for the Chinese firm Complant to construct housing in Jamaica, with funding provided by the Import-Export Bank of China.[45]

Perhaps the largest series of construction projects being done by Chinese companies however are in Suriname, where the company China Dalian International is executing $6 billion in work to build a deep sea port and make highway improvements to support that country's role as a transportation hub for commerce linking northern Brazil to China.[46] According to media reports, the Chinese workers brought in for the project has boosted the Chinese community in Suriname to 40,000 people, or almost 10 percent of the population.[47]

Primary Product Industries and Associated Service Companies

Although construction projects are arguably the largest single source of Chinese companies and workers entering the region, an equally important trend involves the entry of Chinese workers, technical personnel and service companies as Chinese companies begin to develop the resources they have acquired through acquisitions in industries such as petroleum, mining and industrial agriculture.[48]

To date, most Chinese investments in the primary product sectors of Latin America have involved the acquisition of assets, such as mines and oilfields. Examples of this approach include the 2005

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[43] "Empresa Sinohydro China Inicia Construcción de Hidroeléctrica en Honduras" *El Norte de Castilla.* http://www.elnortedecastilla.es. May 16, 2010.

[44] Mayela Armas H., "Venezuela comprará 6.000 maquinarias chinas para viviendas" *El Universal*. Caracas, Venezuela. http://www.eluniversal.com. August 26, 2011.

[45] "COMPLANT to build Jamaican homes backed by J$6.5b Chinese loan." *The Jamaica Gleaner.* http://jamaica-gleaner.com. December 5, 2010.

[46] Simon Romero, "With Aid and Migrants, China Expands Its Presence in a South American Nation." *New York Times.* http://www.nytimes.com. April 11, 2011. The actual work is being done by two Chinese companies: Don International and China Harbor Engineering Corporation. Mark McGowan, "Suriname's deep sea port, road and rail link to Brazil challenge Guyana's bid to become Brazilian gateway." *Starbroek News*. Georgetown, Guyana.

[47] Simon Tomero, "With Aid and Migrants, China Expands Its Presence in a South American Nation." *New York Times*. http://www.nytimes.com/2011/04/11/world/americas/11suriname.html?_r=1&emc=eta1. April 10, 2011.

[48] Such activities are part of the strategy of resource-oriented Chinese companies, supported by the Chinese government, to obtain the resources necessary to meet the current and projected demands of Chinese clients, in support of the country's continuing growth.

purchase of the Ecuadoran holdings of the Canadian oil firm EnCana for $1.42 billion by a consortium headed by China National Petroleum Corporation, the acquisition of a 50 percent interest in Omimex Colombia by a Chinese-Indian consortium, the 2009 purchase of the Colombian holdings of the Canadian Emerald Energy by Sinochem, the May 2010 $3.1 billion purchase by Sinochem of rights to the Peregrino oilfield in Brazil, the infusion of $7.1 billion by Sinopec into Repsol YPF five months later, the May 2010 purchase of the Argentine petroleum firm Bridas by Sinochem, and the subsequent purchase by the newly formed firm of the Argentine assets of Occidental Petroleum.[49]

In general, such acquisitions were done with the logic that the new Chinese owner would subsequently put more resources into the operation, to maintain or increase output as part of its broader plans to meet the projected demand of its clients in China and elsewhere.[50]

In a small number of cases involving ideologically "friendly" Latin American regimes, Chinese companies have directly purchased the rights to develop oilfields from national governments. Examples include $600 million paid by CNPC to Venezuela for rights to develop the Junin-4 block in the Orinoco tar belt of Venezuela, and subsequent agreements to develop the Junin-1, Junin-8, MP3, and Boyaca-4 blocks,[51] as well as the development of the Mariscal Sucre gas deposits off the eastern cost of Venezuela.[52]

In the mining sector, as in petroleum, Chinese companies to date have invested relatively small amounts to acquire assets, with the promise of much larger investments to come to develop the resources. In Peru, Chinese firms spent a mere $235 million from 2003 through 2010 to acquire rights to mines in the country,[53] but with a promise to invest more than $10 billion to develop the mines including $2.15 billion by China Aluminum Corporation to develop

[49] "OXY Argentina Deal Closed." Sinopec official website. http://www.sipc.cn/english/News/news/146.shtml. Accessed December 9, 2011. An even more significant deal which fell through was a $7.1 billion deal for the purchase of the Argentine assets of Anglo American. See Rodrigo Orihuela, "BP's $7.1 Billion Sale of Pan American to Cnooc Group Scrapped." *BusinessWeek*. http://www.businessweek.com November 7, 2011.

[50] In the specific case of Mansrovar in Colombia, for example, the objective was to increase production from 24,000 to 100,000 barrels per day, meeting the company's obligated quota to the Colombian national oil company Ecopetrol, and exporting the rest to Asia. Interview with Ponce de Leon. Mansrovar Energy, Ltd. Bogota, Colombia. January 22, 2010.

[51] "China operará cuatro nuevos campos petroleros en Venezuela." *El Universal.* Caracas, Venezuela. http://www.eluniversal.com. November 23, 2011.

[52] "PDVSA picks China, Malaysia, Russia and Algeria for offshore gas project." *Petroleum World.* http://www.petroleumworld.com/storyt11021601.htm. February 16, 2011.

[53] Juan Carlos Guzmán, "Nuevas inversiones chinas anunciadas para Perú suman US$ 3,600 millones, afirma BID." *Andina*. http://www.andina.com.pe. October 5, 2011.

Toromocho, $1.44 billion by Zijin Mining Group to develop Rio Blanco, $1 billion by Shougang to develop Maracona, $2.5 billion for China Minmetals to develop Galleno, and a possible $3.28 billion commitment by Nanjinzhao to develop Pampa de Pongo.[54] Similarly, in Ecuador, the Chinese company Tongling purchased the local assets of the Canadian firm Corriente for $652 million yet has announced plans to spend $3 billion to develop its newly acquired mineral field in the southern province of Zamora Chinchipe.[55]

Examples in other countries of mining investments creating larger, long term obligations to exploit the assets include the $1.2 billion purchase of Itaminas, with its Brazilian mining holdings, by East China Mineral Exploration and Development Bureau,[56] the 2010 $390M acquisition of Sul Americana de Metais, S.A. (SAM) by the Chinese investment group Honbridge Holdings, and the acquisition of a 20% stake Companhia Brasileira de Metalurgia e Mineraçào (CBMM) for $1.95 billion by a five company consortium in CITIC and Baosteel-led Chinese consortium.[57] They also include the 2006 acquisition by China Metallurgical Group of a 70% interest in the Sierra Grande mine in the Rio Negro Province of Argentina,[58] and the May 2007 acquisition by the Bosai minerals of a 70% interest in the Omai bauxite mine in Guyana.[59]

As Chinese companies perform the work detailed in the preceding section, they are also likely to continue their practice of favoring their own subcontractors and service companies, further magnifying the footprint of Chinese technicians and workers during implementation. In Colombia, for example, following the acquisition of Emerald Energy in 2009, the new Chinese parent company began bringing in its own service companies, including Great Wall Drilling Corporation (GWDC).[60] Similarly, in Ecuador, petroleum service

[54] Ruben Gonzalez-Vicente, "Mapping Chinese Mining Investment, With a Focus on Latin America: Politics or Market?" Paper prepared for the China-Latin America meeting at the UCLA Asia Institute. 15-16 April, 2011.

[55] "Tongling, China Railway Plan to Invest $3 Billion in Ecuador Copper Mine." *Bloomberg.* http://mobile.bloomberg.com/news/2010-08-13/tongling-china-railway-plan-to-invest-3-billion-in-ecuador-copper-mine. August 13, 2010.

[56] Fernanda de Biaga, "Chinese firms looking to go solo in iron ore mining – Ibram." *BNAmericas.* http://www.bnamericas.com/news. October 25, 2010.

[57] Alison Tudor, "China Group Taps Into Brazil Miner." *Wall Street Journal.* http://online.wsj.com. September 5, 2011.

[58] Francisca Pouiller, "Deal reached in water-supply dispute at Sierra Grande mine." *Mining Weekly.* http://www.miningweekly.com/article/deal-reached-in-water-supply-dispute-at-sierra-grande-mine-2009-09-03. September 3, 2009.

[59] "China regulator approves Bosai Minerals' stake buy in Guyana's Omai Bauxite. http://www.worldal.com/news/china/2007-03-06/126398431514660.shtml. March 6, 2007.

[60] "Vicepresidente les exige a las Farc liberar a tres ciudadanos chinos." *El Tiempo.* Bogotá, Colombia. http://www.eltiempo.com. June 10, 2011.

companies such as CPEB Chanquing have followed the entry of larger firms such as CNPC and Petroriental into the country.[61]

In the agricultural sector, the entry of Chinese companies and investors has been more complicated than in the petroleum and mining sectors, but also is moving forward with a series of multi-billion dollar investment projects that implies an infusion of new Chinese managers and workers.

Following a number of years in which Chinese companies made expanded purchases of goods from the major agricultural companies with almost no investment, various Chinese groups began to quietly acquire land with the assistance of local partners, and investigate larger projects, including activities in Brazil and Argentina, by Beidahuang Nongken, the Pallas group, China National Agricultural Development Group Corporation (CNADC) and Chonquing Grain Group. [62]

In the face of political resistance to land purchases, including the passage of a law in Argentina,[63] a restrictive interpretation of an existing law in Brazil, and a proposed new law that would impose further restrictions,[64] Chinese investors have turned to a new strategy involving the renting of land and the construction of agricultural infrastructure in the Latin American countries themselves. Examples include a contemplated $2.4 billion investment by Chongqing Grain group to build industrial complex for processing and transporting soy in Brazil's Bahia state,[65] a $237 million project by the Noble group to build similar facilities in Mato Grosso, including soy crushing facilities, storage silos, and a biodiesel plant,[66] plans announced by Sanhe Hopeful in April 2011 to invest $7.5 billion in soy processing facilities in Goias,[67] and announced plans by Beidahuang for a $1.45 billion project to lease and grow grain on 320,000 hectares of land in the Rio Negro province of Argentina.[68]

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[61] "Operadoras chinas dominan negocio petrolero ecuatoriano." *El Universo.* Guayaquil, Ecuador. http://www.eluniverso.com. November 3, 2009.

[62] Although there is very little data on the total quantities of land purchased, there are anecdotal reports, such as a purchase of 166 hectares in Brazil by the Zhejiang Fudi group through intermediaries. "Chinese capital eyes Brazil's high-tech sector." *China Daily*. http://www.china.org.cn. July 5, 2011.

[63] "Argentina will limit farm land holdings and purchases by foreigners." *Mercopress*. http://en.mercopress.com. April 28, 2011.

[64] "Brazil to further limit foreign ownership of land, says local media." *Mercopress*. http://en.mercopress.com. November 21, 2011.

[65] "Chinese group Chongqing Dragonfly Oil Sunday in Brazil lays first stone of soy processing factory." *MacauHub*. http://www.macauhub.com. June 7, 2011.

[66] Thomson Reuters, "Noble bets on Brazil's center-west soy belt." The Edge. Singapore. June 23, 2011.

[67] "China plans to invest 10 billion USD in soy production and processing in Brazil." *Mercopress*. http://en.mercopress.com. April 11, 2011.

[68] Rodrigo Orihuela, "Chinese agro giant to invest $1.5b in Argentina." *China Daily.* Beijing, China. http://www.chinadaily.com.cn/business/2011-06/10/content_12672742.htm. June 10, 2011.

As in the petroleum and mining sectors, Chinese initiatives to establish industrial agricultural operations in the region will bring Chinese managers and technical personnel into the region, as well as the Chinese companies and workers who will be involved in the construction of the facilities and associated infrastructure. It will thus make Chinese companies an important force in the local economy as a purchaser, an employer, and as a direct manager of those facilities that it operates on the ground.

Retail, Manufacturing, and Supporting Services

Although the attention given to Chinese activities in Latin America has focused on primary product industries, an equally important phenol-menon is Chinese investment in the region's retail and manufacturing sectors. The reasons behind such investment resemble those driving investments by Western firms: the need to invest in distribution networks in order to support product sales in local markets, and the occasional need to build final assembly facilities to avoid import duties, cut inventory carrying costs and response times, to better serve local markets.

China's projection into Latin America's retail and manufacturing sectors may be divided into four categories, each of which has its own dynamics and implications: small scale retail, own brand retail, manufacturing, and service companies.

Small scale retail, such as restaurants, grocery stores and other shops, often leverages members of the existing Chinese community. Although there are no good figures available to characterize the relationship, the Chinese-owned grocery stores in the greater Buenos Aires area offer an example. The expansion of these shops tends to raise the visibility of the Chinese community and merchandise from China, and may come to be perceived as "displacing" the status quo of other small shops, and the "way of life" in the community. Although such shops have been a common feature of Latin American capital cities and other urban areas for many years, the current influx of Chinese merchandise and companies, in conjuncttion with the "rise of China" globally, casts new light on these "Chinese communities within," with symbolic connections to the threat perceived from the projection of the PRC from beyond the region's borders.

"Own brand retail" refers to the activities of major Chinese brands, to establish a chain of retail outlets in the region, or position themselves with existing retailers. Examples include investments by JAC and Chery to set up networks of auto dealerships in Brazil. The projection of a Chinese brand into the region also includes its movement from a Latin American distributor representing various brands, such as Socoma or Cinascar,[69] to the direct representation of own brand, with a corresponding increase in the profile of the company.

The third subcategory is the establishment of manufacturing operations in the region by Chinese companies. Examples include auto assembly facilities established by the Chinese firm Chery in Montevideo, Uruguay and Aragua, Venezuela,[70] and announced plans by both Chery and JAC to establish plants in Brazil,[71] As well as plans by the heavy equipment manufacturer XCMG to establish facilities in Brazil and Venezuela,[72] and plans by Sany heavy industries, to construct a $200 million factory in Sao Paulo. In the computer industry, Lenovo has built a 750 person factory in the north of Mexico,[73] and has announced that it will build a plant for manufacturing notebook computers in Tierra del Fuego, in the south of Argentina.[74]

Often the factory, or the promise to construct it, plays an explicit role in the efforts of the Chinese company to enter the local market. The Chinese appliance maker Haier has announced that it will construct a factory in Venezuela, as a follow-up to its sale of 300,000 consumer appliances to that country.[75] In Brazil, China Northern Railroad will invest $125 million in a plant to manufacture trains in Rio de Janeiro, as a condition for its sale of the trains to the Brazilian government.

As with Chinese investment in the extractive sector, these investments imply that Chinese companies will become important actors in Latin American communities. Correspondingly, Chinese personnel will increasingly interact with their Latin American

[69] "Saic - Wuling y Geely, firmas representadas por Cinascar, filial del Grupo Hyundai de Colombia, serán las próximas marcas de vehículos chinos que entrarán a competir en el mercado automotor en el país." *El Tiempo*. Bogotá, Colombia. http://www.eltiempo.com. May 20, 2005.

[70] Roberto Deniz, "Ejecutivo prevé ensamblar 5.000 autos en empresa mixta." El Universal. Caracas, Venezuela. http://www.el-universal.com. August 16, 2011.

[71] "China's JAC motors to build factory in Brazil, hoping to avoid higher import taxes." *Mercopress.* http://www.mercopress.com. October 9, 2011.

[72] "Venezuela y China instalarán empresas mixtas de construcción y servicios." *El Universal.* Caracas, Venezuela. http://eluniversal.com.ve. March 14, 2011.

[73] "Lenovo's Mexican Computer Factory Starts Production" *China Tech News*. http://www.chinatechnews.com. February 23, 2009. See also Jeremy Kirk, "Lenovo Opens Manufacturing Plants in Mexico and India." *PCWorld.* http://www.pcworld.com/article/135099/lenovo_opens_manufacturing_plants_in_mexico_and_india.html. July 26, 2007.

[74] Nuria Rebon, "Lenovo empezó a fabricar notebooks en Tierra del Fuego." El Cronista. Buenos Aires, Argentina. http://190.2.45.93/negocios/Lenovo-empezo-a-fabricar-notebooks-en-Tierra-del-Fuego-20110825-0066.html. August 25, 2011.

[75] "Gobierno firma acuerdos con empresa china Haier." *El Universal.* Caracas, Venezuela. http://www.eluniversal.com. May 14, 2010.

counterparts as supervisors, co-workers, and neighbors, creating new dynamics in Latin American communities at the micro as well as at the macro level with political implications for both Latin America and China.

With respect to service companies, as in other sectors, the growing PRC presence is a function of growing Chinese companies with increasingly sophisticated international operations, projecting themselves into new markets, although they also leverage the increasing Chinese manufacturing and retail presence in Latin America.

In logistics, the Chinese firm Hutchison-Whampoa has operated facilities on both sides of the Panama Canal, at Balboa and Cristobal, since 1999, as well as facilities in the Freeport, Buenos Aires, and in four of Mexico's major ports: Ensenada, Manzanillo, Lazaro Cardenas, and Veracruz. In the Bahamas, it has invested $2.6 billion to establish a regional hub for its container shipping operations in Freeport, and has expanded to complimentary operations there as well, including administration of the airport, and operation of various commercial shipping and storage facilities. It is also rumored to be interested in acquiring the semi-private regulatory and administrative organization, the Grand Bahamas Port Authority.[76]

The major shipping firms, such as China Overseas Shipping Company (COSCO) China Shipping, Hanjin, Pil, and others are active in the Latin American ports, transporting goods between Latin America and the region.

In telecommunications, two leading Chinese firms, Huawei and ZTE, are similarly expanding their presence throughout the region. In Brazil, where both Huawei and ZTE have established regional hubs, the former has announced plans to build a training facility,[77] while ZTE is expected to build a high tech industrial park with a research and development center, a production plant, and a training and logistics facility in Sao Paulo state.[78] In Bolivia, in September 2011, the national telecommunications company Entel signed an agreement with Huawei to help the country build infrastructure to expand cell phone coverage to rural areas.[79] In Honduras, Huawei is reportedly interested in acquiring the state telecommunications firm Hondutel, if the later is privatized. The firm Shanghai Alcatel Bell has also been active in Latin America to a lesser degree; with the completion in February 2011 of a fiber optic

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[76] Ianthia Smith, "Gov't Told 'Block Hutchison" Jones Bahamas. http://www.jonesbahamas.com. October 29, 2009.
[77] "China's Huawei invests US$300 million in research centre in Brazil." *MacauHub*. http://www.macauhub.com. April 12, 2011.
[78] Yun-Hee Kim, "ZTE to invest in high-tech industrial park in Brazil." ZTE Official Website. http://wwwen.zte.com.cn/en/press_center/press_clipping/201104/t20110418_228822.html. April 13, 2011.
[79] "Bolivia y China firman 6 acuerdos de cooperación." *Los Tiempos.* Cochabamba, Bolivia. http://www.lostiempos.com. September 23, 2011.

telecommunications line connecting Cuba and Jamaica to the Venezuelan telecommunications infrastructure,[80] as well as work in building the Venezuelan fiber optic infrastructure.

Tourism

Chinese tourism with Latin America, although a recently emerging phenomenon, is the one with the possibility to put Latin Americans in contact with the greatest number of ordinary Chinese. An estimated 100 million Chinese will be traveling internationally by 2015, compared to 65 million in 2011.[81] Although it is not clear what portion of these will visit Latin America, companies in the tourism business in the region are reporting significant increases, and are adapting their operations for more. Starwood hotels, for example, has reported a 364% increase in Chinese tourists at its Sheraton hotel in Mexico City, as well as a 260% increase at its Park Tower facility in Buenos Aires.[82]

To date, the geographic concentration of investment anticipating Chinese tourism in Latin America has occurred in the Caribbean, including the previously mentioned "Baha Mar" resort in the Bahamas, the Punta Perla resort in the Dominican Republic,[83] and hotel resort complexes in Grenada.[84]

One factor shaping where Chinese tourists actually travel to is the granting to Latin American countries as "approved destination status." In recent years, virtually all Latin American countries with which the PRC has official relations have been approved by the Chinese government as official tourist destinations, including the designation of Bolivia as a "priority" tourist destination in September 2011.[85]

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80 "Cuba gets fiber-optic cable link to Venezuela." *Reuters.* http://www.reuters.com. February 10, 2011.

81 "The China Outbound Travel Handbook." http://chinacontact.org/shop/china-outbound-travel-handbook. Accessed December 9, 2011.

82 Brian Byrnes. "Latin America Lures Chinese Tourists." CNN. http://www.cnn.com/2011/09/26/travel/latin-china-tourism/index.html?hpt=tr_c2&utm_source=TravelBuzz&utm_campaign=783f6889b1-Travel_Buzz_9_27_119_27_2011&utm_medium=email. September 27, 2011.

83 This project is particularly notable because it is one of the few major investments by a Chinese company, where the PRC does not have diplomatic relations with the receiving country. See "China's Caribbean march." *BBC.* http://www.bbc.co.uk/caribbean/news/story/2010/10/101019_chinadomrep.shtml. October 20, 2010.

84 Although the resorts are not oriented solely to Chinese tourists, they are likely to accommodate Chinese tourists more than existing resorts in the region.

85 "China declara a Bolivia como destino turístico prioritario." *La Patria*. http://www.lapatrienlinea.com. September 28, 2011.

Overall, it is likely that increasing Chinese tourism will generate more perceptions of opportunity than conflict, since tourists from the PRC represent a new market. On the other hand, beyond the inevitable cultural clashes between Chinese tourists and the local population, it is likely that a disproportionately large share of the new business will be captured by local Chinese businessmen offering their services in Mandarin Chinese, or China-based booking agents, creating a source of possible disappointment and resentment for other local merchants.

Transformation of the Relationship and Upcoming Challenges for the Chinese

The increasing footprint of the PRC in Latin America in the coming years will fuel a number of significant, but difficult to predict impacts on the region. On one hand, the expanding PRC physical presence will provide its companies, and its government with increased opportunities for learning about how to operate effectively in the Latin American culture. While the Chinese may become more adept in dealing with the region's sensibilities on issues such as labor relations, the environment, and indigenous rights, they will also become more effective businessmen, learning to better assess the risks of specific projects in the region, and improving their ability to negotiate the labyrinth of influence networks and other informal structures.

As the Chinese become increasingly important as customers, investors, and employers, their leverage in dealing with challenges facing their people and operations will also increase. Such increased sophistication and leverage will rapidly be put to the test, however, since the expanding Chinese physical presence implies that the number of challenges to Chinese interests in Latin America will also expand, along with the perceived importance of defending them.[86]

This section of the paper builds on the analysis of the previous section regarding the expanded Chinese footprint in the region to explore the ways in which this growing physical presence is likely to raise difficult issues in China's relationships with the countries of the region. The imperatives for China to respond to challenges and defend its interests in the region, either implicitly or explicitly, will make it increasingly difficult for the PRC to adhere, in fact, to its official policy of non-intervention in the affairs of Latin American states. While it is likely that the PRC will continue to publicly espouse

[86] This is because the relative size of Chinese investments in Latin America, and the number of people will be larger, the market share represented by Latin America more important, and the resources flowing from the region an increasingly integral part of global operations ultimately feeding Chinese companies. At the same time, Chinese companies, including not only state owned enterprises, but also provincially backed firms, will increase their prowess in lobbying the government to protect these interests, while the new generation of PRC leadership will likely become more confident in asserting the nation's growing power and leverage to defend them.

such a policy, its government will increasingly face the need to use its growing "soft power" in Latin America to defend its companies, nationnals, and interests in the region, even as the new generation of Chinese leaders grow in their confidence that they have the ability and "right" to do so.

Challenges to Chinese interests associated with its growing physical presence in Latin America can be grouped into five categories:[87] (1) fights with Latin American governments over the tax and regulatory framework in the region, (2) disputes over investment terms and fights with local communities during implementation, (3) labor issues and problems with local suppliers while conducting business operations, (4) resistance to Chinese projects from environmentalists, and (5) physical protection of Chinese personnel and operations.[88]

Fights over tax and regulatory framework

With respect to the region's tax and regulatory framework, the influx of Chinese companies will naturally generate disputes as national and local governments try to maximize the tax and royalty revenue obtainned from the new entities, or alternatively, try to accommodate the interests of local competitors by using taxes and regulatory policies to attempt to block the entry of the would-be Chinese competition. Brazil's passage of an Industrial Products Tax in September 2011, partially in response to the rapid penetration by the Chinese automaker JAC in the Brazilian auto market, is an example of the later.[89] The action provoked the Chinese automaker, Chery, which had committed to invest $400 million to build an auto factory in Brazil, to seek a 90 day injunction over implementation of the new tax. In a separate case, in March 2011, the Chinese automaker Chery complained that the Argentine government was delaying approval of its request made under the Mercosur framework, to import 6,100 cars from the plant that Chery had recently built in Montevideo, thus seriously impacting the company's Latin American sales and profitability.[90] Brazil has also passed protectionist measures against the import of Chinese steel,[91] textiles,[92] tires and footwear, among

[87] In the near term, challenges to non-commercial elements of the growing Chinese presence, such as resistance to official visits or training operations are not considered a significant challenge.
[88] This includes not only Chinese businessmen, but also tourists, students, and to a lesser extent, official delegations.
[89] "China Paving Brazil Silk Road With Hard-to-Beat Prices: Cars." *Bloomberg.* http://news.businessweek.com/article.asp?documentKey=1376-LRMHF40UQVI901-2KAUE9SMAJRKGM3MKQB5UVK6NQ. September 26, 2011.
[90] "Argentine Trade Restrictions Put a Damper on Chery's Sales." Anhuinews. http://english.anhuinews.com. March 14, 2011.
[91] "Brazil Protects Domestic Trade, Slaps Steel Tariff On Chinese Products."

other goods. Argentina has similarly imposed restrictions on Chinese toys,[93] textiles, and computer equipment.[94] According to a 2010 study by the International Bar Association, Latin America as a whole initiates more anti-dumping cases against Chinese companies than any other region.[95]

Such battles involving Chinese companies have also been prominent in the extractive sectors, and are likely to become more prominent as Chinese investment expands there. Examples include an increase in royalty payments and taxes in the petroleum sector by the Ecuadorian government in 2006, affecting two major Chinese companies which had just entered the sector,[96] and a forced negotiation of petroleum contracts by the Ecuadoran government in 2008.[97]

Disputes over investment terms

With the growth in the number of Chinese firms investing in extractive sectors, there is also likely to be an increasing number of disputes over the terms of investment, as well as with relationships with local communities during project implementation. Examples to date include the Toromocho mining project in Peru, in which, despite a substantial public relations campaign, the new Chinese owner of the mine, China Aluminum Company (CHINALCO) has been caught up in disputes with the local community regarding the relocation of the town of Morococho, per the terms of the mining concession.[98] Similarly, in Hierro Peru mine near Marcona, local residents have publicly complained about the water and sanitation services provided by the Chinese owner Shougang.[99] In Argentina, the Sierra Grande mine was shut down by its owner China Metallurgical Group (CMG), over a

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http://www.e-to-china.com/tariff_changes/data_tariff_changes/2011/0908/96991.html. August 9, 2011.

[92] "Brazil adopts China import tariff on eve of visit." *Reuters.* http://www.reuters.com. April 5, 2011.

[93] "Argentina slaps tariffs on China-made goods." *France24*. http://www.france24.com/en/20110310-argentina-slaps-tariffs-china-made-goods. March 10, 2011.

[94] "Argentina imposes antidumping measures on Chinese and Brazilian imports." Mercopress. http://www.mercopress.com. July 23, 2010.

[95] "Anti-Dumping Investigations Against China in Latin America. International Bar Association. www.ibanet.org. 2010.

[96] "Broja anunció cambios en el reglamento de hidrocarburos." *El Universo.* Guayaquil, Ecuador. http://www.eluniverso.com. July 6, 2006.

[97] "Min. de Minas y Petróleos espera concluir renegociación de contratos petroleros antes de fecha fijada por Correa." *El Comercio*. Quito, Ecuador. http://www.elcomercio.com. February 8, 2008.

[98] "Brutal represión en Morococha en nombre de Chinalco." *YouTube*. http://www.youtube.com/watch?v=V9Uqrvck3dk. February 1, 2010.

[99] Mialgros Salazar, "Social Responsibility Missing in Growing Trade Ties." *IPS.* http://www.ipsnews.net/news.asp?idnews=50206. February 3, 2010.

dispute with government over storage of explosives, and because of concern from CMG that the government was not supplying the agreed to amount of water.[100]

Such disputes have not been confined to petroleum and mining, but have also arisen in the service sector, particularly with respect to Chinese companies performing construction work in the region. In Jamaica a series of protests broke out in September 2010 against China Harbor Engineering Company (CHEC), contracted to improve the road connecting the international airport to the capital, Kingston, with the argument that the company was not hiring sufficient numbers of Jamaicans.[101] In Suriname, local residents have complained that Chinese brought into the country to work on road projects do not all leave the country when the work is complete, but rather, fall into the hands of the local Chinese mafia. [102]

Often, resentment and distrust by the local community is fueled by the lack of meaningful contact with Chinese workers, brought in to perform the task. In the case of workers at the Sierra Grande mine in Argentina, contact between the 80 Chinese workers and the rest of the 340 employed at the mine is limited. As one observer complained, “They have built a safe enclosed neighborhood that even has a gym and are not even seen walking around town."[103]

A common element in such problems is the perception by local communities that the Chinese workers and businessmen are both isolated and very different from them, driving suspicion and mistrust by the locals. The “truckers strike” against Chinese shopkeepers in greater Buenos Aires in 2007 included not only specific grievances, but also suggestions that the competitiveness of the Chinese was based in part on their ties to organized crime groups.[104] More recently, accounts have appeared in the Argentine press concerning incidents against the Chinese shops, possibly connected with a

[100] Francisca Pouiller, “Storm erupts over production halt at Sierra Grande mine.” *Mining Weekly.* http://www.miningweekly.com/print-version/storm-erupts-over-production-halt-at-sierra-grande-mine-2009-06-26. June 26, 2009.
[101] Kimmo Matthews, “Angry protesters demand jobs on Palisadoes project.” *Jamaica Observer.* Kingston, Jamaica. http://www.jamaicaobserver.com. September 22, 2010.
[102] Simon Tomero, “With Aid and Migrants, China Expands Its Presence in a South American Nation.” *New York Times*. http://www.nytimes.com/2011/04/11/world/americas/11suriname.html?_r=1&emc=eta1. April 10, 2011.
[103] “An eye-opener for the Chinese at the Sierra Grande mine”, *No a la Mina.* http://www.noalamina.org/english/rio-negro/an-eye-opener-for-the-chinese-at-the-sierra-grande-mine. April 6, 2010. Even where interactions are possible, the Sierra Grande case suggests that the language barrier also limits interaction, with few of the 80 Chinese speaking Spanish.
[104] “Los camioneros ratifican el boicot a los súper y autoservicios chinos.” *Clarín.* Buenos Aires, Argentina. http://www.clarin.com. June 26, 2006.

failure to pay "protection money" to the local Chinese mafia.[105] Similar allegations appeared in newspaper reports in Trinidad regarding workers brought into the country to work on construction projects. [106] Media reports of human trafficking networks smuggling Chinese into the region doubtlessly contribute to this image. A large number of such cases appeared in the press in Colombia, for example, following the 2008 decision by neighboring Ecuador to drop its visa requirements for Chinese to enter the country.[107] For whatever reasons, the tendency to associate Chinese merchants and workers with illegal activity will continue to play a significant role in the tensions between Chinese and the Latin American communities in which they operate.

Labor issues

With respect to challenges to Chinese companies in dealing with the local labor force and supplier, the difficulties of Chinese companies operating in the region to date may indicate what is to come as more such firms set up operations in the region. The oldest major case is that of the Peruvian iron mine operated by the Shougang Corporation since 1993, with between one and three strikes per year, including a month-long work stoppage in September 2011[108] that became a major political event, Peru's Vice-President taking the complaints of the workers to the Peruvian congress.[109] In neighboring Ecuador, in 2007, a strike against the Chinese oil company Petroriental in the province of Orellana turned violent, forcing the declaration of a state of emergency, and ultimately resulting in the death of over 24 police and military. Protesters blocked road access to the Petroriental facility to call attention to complaints that the oil company had not hired the promised number of workers from the local population. When Petroriental vehicles escorted by Ecuadoran security forces attempted to break the blockade, violence ensued.[110] The Chinese-operated Sierra Grande mine in Argentina has had similar problems with strikes and disputes with subcontractors,[111] while in the Bahamas

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[105] "Aislados por el miedo a la violencia." *La Nación*. Buenos Aires, Argentina. http://www.lanacion.com . October 11, 2011.

[106] "Chinese Triad expands in T&T." *Trinidad and Tobago Guardian Online.* May 17, 2011.

[107] See, for example, "Deportaciones y expulsiones de ciudadanos chinos se dispararon en 2008, según datos del DAS." El Tiempo. Bogota, Colombia. http://www.eltiempo.com. December 21, 2008.

[108] "Shougang Peru strike ends after one month." Reuters. http://www.reuters.com. September 25, 2011.

[109] "Marisol Espinoza canalizará al Congreso pedidos de mineros de Shougang." *Andina.* http://www.andina.com.pe. September 8, 2011.

[110] The dispute was over Petroriental's compliance with a 2006 promise to employ 80% local workers in its operations in the region. "Heridos 24 militares en incidentes en protestas en Orellana." *El Universo.* Guayaquil, Ecuador. http://www.el-universo.com. July 5, 2007.

[111] "An eye-opener for the Chinese at the Sierra Grande mine", *No a la Mina.*

in October 2009, bad labor relations with the Chinese port operator Hutchison fueled a political movement to block Hutchison's attempt to take over Grand Bahamas Port Authority.[112]

Resistance from environmentalists

Beyond labor-management conflicts, the expanding Chinese footprint in Latin America is also likely to generate a range of conflicts with environmental groups, due to a combination of the inherent focus of Chinese extractive industry investment in environmentally sensitive areas, and the lack of experience by Chinese companies in dealing with well organized and politically well connected environmentalist movements.

By its nature Chinese investment in Latin America concentrates in areas which inherently raise conflicts with environmentalists. Examples include the oil sector, with Chinese rigs exploring for oil off the western coast of Cuba, not far from the site of the massive BP Horizon deepwater oil spill. Similarly, since prior to 2006, Chinese firms have expressed interest in the development of the Ishpingo-Tambococha-Tiputini (ITT) oilfields in the environmentally sensitive Yasuni national parkland.[113] In Peru, the nation's five major Chinese investment projects all involve exploitations of mines – a sector in which there have traditionally been significant protests over issues such as rights to land and water.[114] Indeed, Chinese mine operators in Peru have already found themselves involved in environmental disputes: Shougang has been subject to complaints over the dumping of its mining byproducts into the steams leading from its operation to the sea,[115] while the Chinese firm Shen Pe Resources, operating since 2008 in Arequipa, has been accused of dumping and storing its metals without proper protection.[116]

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http://www.noalamina.org/english/rio-negro/an-eye-opener-for-the-chinese-at-the-sierra-grande-mine. April 6, 2010.

[112] According to newspaper accounts, locals complained that Hutchison treated workers in its Freeport facility "like second class citizens in their own country…violating their rights, classifying permanent workers as temporary workers to avoid paying them benefits." Ianthia Smith, "Gov't Told 'Block Hutchison" *Jones Bahamas*. http://www.jonesbahamas.com. October 29, 2009.

[113] Jose Olmos, "Temor de etnocidio por 'extractivismo'" *El Universo.* Guayaquil, Ecuador. http://www.eluniverso.com. May 2, 2010.

[114] See, for example, the November 2011 protests in Cajamarca over the diversion of water from traditional agriculture for use in a mining project. "Defensoría del Pueblo buscará mediar en conflicto en Cajamarca."*Andina*. http://www.andina.com. November 29, 2011.

[115] Robin Emmott, "Peru miners feel oppressed by China's Shougang." *Mines and Communities.* http://www.andina.com.pe/Espanol/PortalBusqueda.aspx?BuscaEn=0&xcig=Shougang%20huelga. July 21, 2005.

[116] "GRUPO INICIATIVA ANTICORRUPCION ILO."

In the area of agriculture, as Chinese companies continue to expand their Latin American operations, it is likely that their fights with environmental groups will similarly continue to expand. The complaints are likely to resemble those leveled against other agro industrial operators: erosion, chemical runoff from heavy use of fertilizer contaminating local waterways, the legal and illegal transformation of forests into agricultural land, and the transformation of traditional agriculture into a soy monocrop. Such concerns have already been expressed by groups such as Oxfam and the International Land Coalition against investments by the Chinese firm Beidahuang in the Argentine province of Rio Negro,[117] and have played a role in an argentine law limiting the purchase of rural land in the country by foreigners to 1000 acres.[118] Similar concerns were behind a 2010 ruling by Brazil's Attorney General restricting the ability of foreign entities to purchase land in that country. In Uruguay as well, proposals for new laws restricting land purchases by foreigners have been proposed, ostensibly motivated by Chinese interest in purchasing Uruguayan farmland.

Yet another series of environmental struggles for Chinese companies is likely to stem from the increasing number of current and proposed hydroelectric projects involving Chinese companies, including Coca Coda Sinclair, Sopladora, and Toachi-Pilaton in Ecuador alone, and improvements to Venezuela's main Guri dam hydroelectric facility.[119] In Chone, Ecuador, local merchants have declared that they will not sell food and other goods to Chinese construction workers because the dam that they are constructing is in a geologically unstable area, and thus represents a threat to the local community.[120] Although to date host governments in Ecuador and Venezuela have tempered local resistance, protests against hydroelectric projects in Brazil over issues of land and the transformation of ecosystems, including occupation of the Belo Monte dam, where a Chinese firm is a key partner,[121] may be indicative of what is to come.

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http://grupoiniciati vaanticorrupcionilo.blogspot.com/2010/10/contaminacion-al-medio-ambiente-y-las.html. October 27, 2010.

[117] Felicity Lawrence. "Global food crisis: China land deal causes unease in Argentina" *The Guardian*. London, England. http://www.guardian.co.uk/global-development/2011/jun/01/china-land-deal-unease-argentina-agribusiness?intcmp=239. June 1, 2010.

[118] "Chinese Investment in Argentina Continues to Grow." *The Debts of a Nation.* http://debtsofanation.blogspot.com/2011/06/chinese-investment-in-argentina.html. June 17, 2011.

[119] "Aseguran que Fondo Chino va a energía, transporte y tecnología." *El Universal.* Caracas, Venezuela. http://www.eluniverso.com. November 25, 2011.

[120] "Río Grande no vende ni compra en cantón Chone." *El Universo.* Guayaquil, Ecuador. http://eluniverso.com. November 12, 2011.

[121] "Brazil: Indian Activist Occupy Belo Monte Hydroelectric Dam." *The Huffington Post.* http://www.huffingtonpost.com. October 27, 2011.

Protection of Chinese personnel

Finally, as the Chinese expand their footprint in the Americas, they will increasingly confront challenges to the security of their people and operations in the region. The likelihood of problems is magnified by the concentration of Chinese investment on petroleum and mining operations in remote areas of the country, whose population often includes criminal and subversive elements, as well as refugees, indigenous groups, and others. In Colombia, there have already been at least two high-profile kidnappings of petroleum industry workers; the kidnapping of a crew from the CNPC subsidiary SAPET near the Pacific coast of Colombia in 2005, and the June 2011 kidnapping in Caquetá of three Chinese oil workers from Great Wall Drilling Corporation.[122]

In addition to kidnappings, multiple violent incidents have occurred against Chinese mining and oilfield operations in Latin America including Tarapoa, where an oilfield run by Andes petroleum was overrun by protesters in November 2006, with 30 Chinese oilworkers taken hostage,[123] as well as the previously mentioned violence in Orellana,[124] with violence that has continued sporadically through 2011.[125] In Peru the Rio Blanco mine has been similarly plagued by violence since before the Chinese company Zijin acquired the property from Monterrico Metals.[126] Although Zijin may have calculated that the change in ownership, and the intervention of the Peruvian government would diffuse the conflict, the violence has continued, including two murders in Huancabamba in December 2009 that may have been a reprisal for a prior attack on the mine.[127]

In preparing themselves for such violence, Chinese companies have found themselves caught in a dilemma. On one hand, as the prior cases have illustrated, the predominant practice to date of contracting private security companies has proven inadequate. The PRC also has few private security companies of its own that

122 "Colombia busca a trabajadores petroleros chinos secuestrados." *Prensa Libre*. Guatemala City, Guatemala. Http://www.prensalibre.com. June 9, 2011.

123 "Petrolera china desestima que protesta en Tarapoa haya afectado sus intereses." *El Universo*. Guayaquil, Ecuador. http://www.el-universo.com. November 14, 2006.

124 "Heridos 24 militares en incidentes en protestas en Orellana." *El Universo*. Guayaquil, Ecuador. http://www.eluniverso.com. July 5, 2007.

125 Jose Olmos, "Matanza en Oriente sería por petroleras" *El Universo.* Guayaquil, Ecuador. http://www.el-universo.com. August 7, 2011. See also Jose Olmos, "Pariente de muertos a lanzadas pide que se cumplan promesas." *El Universo.* Guayaquil, Ecuador. http://www.el-universo.com. August 7, 2011.

126 Mialgros Salazar, "Social Responsibility Missing in Growing Trade Ties." *IPS.* http://www.ipsnews.net/news.asp?idnews=50206. February 3, 2010.

127 Maria Elena Castillo. "Comuneros de Huancabamba fueron baleados mientras huían" *La Republica*. Lima, Peru. http://www.larepublica.pe/impresa-2009-12-17-pag5. December 17, 2009.

companies can rely on when going abroad. On the other hand, the Chinese government has reasons to shy away from closer security collaboration with governments of the region, so as not to alarm the United States, although it has cautiously moved toward informal arrangements, such as the deployment of the Honduran armed forces in the vicinity of the Patuka hydroelectric project in that country, so as to protect the Sinohydro workers and operations associated with it.[128]

[128] "Empresa Sinohydro China Inicia Construcción de Hidroeléctrica en Honduras" *El Norte de Castilla*. http://www.elnortedecastilla.es. May 16, 2010.

Conclusion

The increasing Chinese presence on the ground in Latin America is likely to fundamentally impact the internal political dynamic of the region, as well as China's relationship with each of its member states. For the PRC, its people and companies will increasingly become part of the region, and as such, will be impacted by, and inadvertently drawn into its political dynamics, insofar as decisions taken by political leaders in the region will impact the livelihood of Chinese companies, and the cooperation of the region's security forces will impact the well-being of Chinese citizens living and working there.

With ever more people at risk on the ground, ever more valuable assets in the region and ever more critical flows of resources originating from it, the PRC will find it increasingly difficult to maintain, in reality, its policy of "non-intervention." In this regard, China's need to evacuate 12,000 of its nationals from Libya in 2011[129] may have been a "wake-up call" to the Chinese leadership concerning the obligations incurred through its growing economic engagement with the rest of the world.

While the PRC may be reluctant to intervene in the region overtly, in a heavy-handed way, it is likely to use its growing leverage, coming from being a key source of investments and markets and an important player in Latin American communities, in order to shape outcomes to its benefit. Such Chinese leverage will come from multiple sources. They include (1) growing dependence of the region's governments on Chinese loans and investments (2) increasing reliance on Chinese commodity purchases by select countries in the region, and (3) expectations of future access to Chinese markets, whether or not those expectations are realistic for the particular products involved.

In many cases, the exercise of Chinese influence may be "consensual." In Venezuela, Bolivia, and Ecuador, for example, governments sympathetic to, or dependent on China, increasingly have the power to approve projects, suppress dissent through press control, and even co-opt problematic figures such as labor union leaders, from within the movement.

[129] "Libya evacuation: China evacuates 12,000 nationals via naval frigate." *Christian Science Monitor.* http://www.csmonitor.com. February 25, 2011.

As with the history of US engagement with Latin America during the previous century, the PRC may be drawn into applying its influence in the region in response to short-term exigencies, without fully comprehending the path that it is choosing. In the context of upcoming Venezuelan elections in October 2012, for example, the PRC may be tempted to permit otherwise questionable loans so as to avoid undercutting an ally. Conversely, it may be tempted to negotiate with the opposition as the defeat or death of its ally becomes increasingly likely, in an attempt to secure a commitment to respect the debts and commitments entered into by the previous regime.

Whatever the case, two things are certain. With the expanding footprint of China, the political dynamic of Latin America will be vastly different than what it was during the 20th century, dominated by US and European political, business, and cultural influence. Yet China's engagement with Latin America in the 21st Century will not be the world of consequence-free "win-win" interactions envisioned by official public diplomacy. If the PRC is weaving an ever more tangled web for itself in Latin America that will draw it more closely into the region, the future will belong to those who anticipate the new dynamics, and who position themselves to reap the associated opportunities and avoid the pitfalls.