

# China's BRI in Latin America: A double-edged sword

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Source: Inter-American Dialogue

## **Abstract**

This is an analysis regarding China's Belt and Road initiative (BRI) in Latin America. The purpose is to inform Latin American countries (LAC) of the current conditions of BRI projects in other parts of the world and the region. This also explains how BRI "investments" are a double-edged sword that LAC need to analyze carefully before accepting.

Our findings show that BRI loans are risky in countries that are not democratic and prone to over-borrowing. The opportunity to receive money from China will only be beneficial for LAC if they correctly negotiate the terms of the agreements with China's SOEs (state-owned enterprises), allocate investments in feasible infrastructure projects, and share information with the region regarding these BRI signed agreements.

## Introduction

The United States financial crisis of 2008 and its withdrawal as the leader of globalization under the Trump administration have pushed investors to look to other countries for more competitive bonds. These conditions have allowed China to become a major global economic player. In 2013, Chinese president Xi Jinping proposed the Belt and Road Initiative (BRI), a group of infrastructure investments that will connect Asia with Europe and Africa. Recently, China has expanded this initiative to Latin America. On January 22, 2018, the Chinese government formally invited Latin American and Caribbean countries to join the BRI during the China-CELAC (Community of Latin American and Caribbean States) Forum.<sup>1</sup>

In the last five years, many scholars and foreign officials have published reports about China's BRI in Latin America. Most of this literature comes from U.S. and Chinese scholars that have the United States as their target audience. They have provided the United States with suggestions to compete with China as well as the effects that China's BRI might have for U.S. trade and political relationships in Latin America.

However, there is not enough literature written with Latin American countries as the main audience. The following will describe China's current BRI investments and impacts in Europe and Asia, the current situation of BRI projects in Latin America, the risks involved, and possible solutions.

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<sup>1</sup> Cambrero, Fabian & Dave Sherwood. "China invites Latin America to take part in One Belt, One Road."

## The creation of BRI

From its creation in 2013, the purpose of the BRI was not very clear. Part of the blame lies with the Chinese government for failing to explain their strategy. Initially, China's official press agency Xinhua, introduced the BRI as two parallel routes: the Silk Economic Belt (the Belt) and the Maritime Silk Road (the Road). These routes aimed to connect China with Europe. For this reason, it was thought that the BRI was a cluster of infrastructure projects. This was a very simplistic view of the BRI.<sup>2</sup> More than a very expensive infrastructure project, the BRI is a power strategy that combines economic investments with soft power to promote Chinese culture, improve China's image around the world, and strengthen Chinese foreign policy.

China's economic growth has stimulated the creation of the Belt and Road Initiative. China is the world's largest saver with a lending capital of \$100 billion per year. Although at the beginning BRI projects aimed to connect Europe, Africa, and Asia with China, now BRI investments are accessible for North and South American countries.

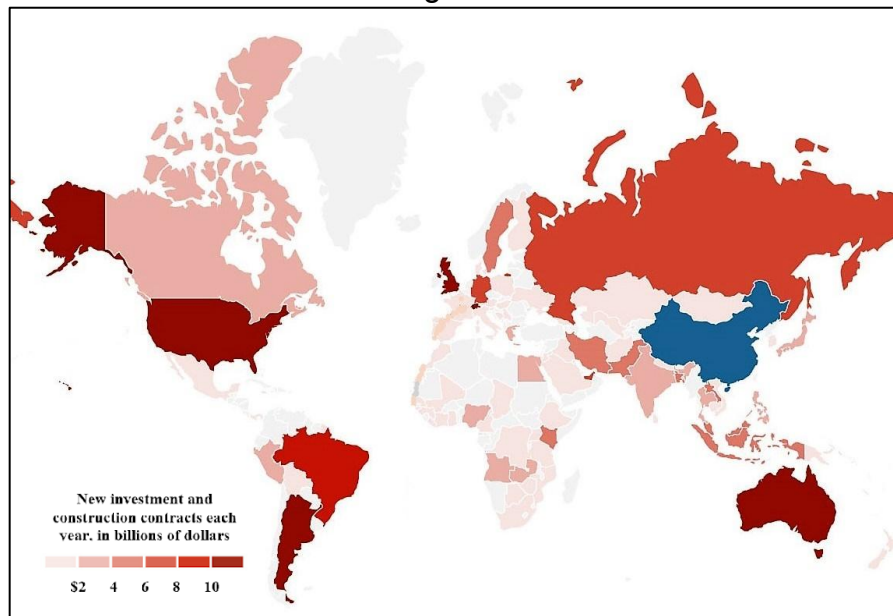
As of 2017, Chinese investments are allocated in 86 countries around the world for a total of US\$276.36 billion.<sup>3</sup> United States, Brazil, Argentina, Australia, and the U.K. are the biggest borrowers of these Chinese investments (see Figure 1).

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<sup>2</sup> Brinza, Andreea. "Redefining the Belt and Road Initiative."

<sup>3</sup> Schmitz Rob. October 2, 2018. "Australia and New Zealand are ground zero for Chinese influence."

Figure 1



Source: National Public Radio

In 2015, to become more involved in the Latin American region, President Xi Jinping attended a forum in Beijing with leaders and government officials of the Community of Latin American and Caribbean States (CELAC).<sup>4</sup> On that occasion, China agreed to cooperate with CELAC countries for five years on different issues such as politics, industry, science, security, and so forth. In 2018, China formally invited LAC to join the BRI and to support China's new multilateral financial institutions: the New Development Bank (NDB), founded in 2014<sup>5</sup>; and the Asian Infrastructure and Investment Bank (AIIB), founded in 2016.<sup>6</sup>

China is engaged in consultations with many institutions in Latin America. It is currently an observer at the Organization of American States (OAS), the

<sup>4</sup> Sullivan & Lum. "China's Engagement with Latin America and the Caribbean."

<sup>5</sup> *New Development Bank*. About Us.

<sup>6</sup> *Asian Infrastructure Investment Bank*. About AIIB.

Latin American Integration Association (ALADI-LAIA), the Latin American Parliament (Parlatino), and the Pacific Alliance. It is an active participant for the Asia Pacific Economic Cooperation (APEC). Moreover, it is member of the Inter-American Development Bank (IDB) and the Caribbean Development Bank (CDB).

According to Chinese Foreign Minister Wang Yi, Latin America has already become the second-largest destination for Chinese overseas investment. This region comprises 33 countries and a total population of 644 million people. In 2017, the gross domestic product was around US\$6 trillion.<sup>7</sup> As for now, China is the largest trading partner of Brazil, Chile, and Peru, the second largest for Venezuela, and the third largest partner for Mexico.<sup>8</sup> For Latin American countries, the BRI has become an opportunity to negotiate more Chinese investments in the region.

BRI loans differ with other multilateral financial organizations, such as the World Bank, in its loan agreement conditions. China's BRI does not impose policy conditions and it has less rigorous environmental guidelines. Even though the Chinese government has published the guideline: "The Belt and Road Ecological and Environmental Cooperation Plan<sup>9</sup>," it is not a binding document and therefore not enforceable.

The interest rates of BRI investments are sometimes lower than their international counterparts. Rates are an average of 2 to 3 percent versus The

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<sup>7</sup> Koleski, Katherine and Blivas, Alec. "China's Engagement with Latin America and the Caribbean."

<sup>8</sup> Abdenur & Gonzales. "Trans-Regional Cooperation in a Multipolar World: How is the Belt and Road Initiative Relevant to Latin America."

<sup>9</sup> *The Belt and Road Portal*. The Belt and Road Ecological and Environmental Cooperation Plan

World Bank or the Export-Import Bank of the United States whose interest rates are between 3 to 6 percent. However, in some countries China gives even higher interest rates of 6 to 8 percent<sup>10</sup> to be paid back in a period of eight to ten years. Additionally, the signing country needs to agree to only work with Chinese construction firms, equipment, and majority of Chinese labor.<sup>11</sup> Therefore, these BRI "investments," suddenly become "high stake loans" for the loan-receiving country.

The China Development Bank (CDB) and the Export-Import Bank of China (Chexim - China Exim Bank) are the largest lenders in Latin America. The following (see Table 1) shows the amount of loans that these banks have given to LAC, a total of US\$150.4 billion.<sup>12</sup> Venezuela and Brazil are the biggest recipients of this financing, followed by Argentina and Ecuador. Most of these loans are allocated for infrastructure, oil, gas, and mining projects.

Table 1

<b>China: Financing in Latin America 2005-2017</b>	
<b>Country</b>	<b>Amount (\$ U.S billions)</b>
Venezuela	\$62.2
Brazil	\$42.1
Argentina	\$18.2
Ecuador	\$17.4
Bolivia	\$3.5
Trinidad and Tobago	\$2.6
Jamaica	\$2.1
Mexico	\$1.0
Other Countries	\$1.3
<b>Total</b>	<b>\$150.4</b>

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

<sup>10</sup> Koleski, Katherine and Blivas, Alec. "China's Engagement with Latin America and the Caribbean."

<sup>11</sup> Koleski, Katherine and Blivas, Alec. "China's Engagement with Latin America and the Caribbean."

<sup>12</sup> Sullivan & Lum. "China's Engagement with Latin America and the Caribbean."

## Reasons for expansion

One of the reasons for the BRI expansion to Latin America is that the Chinese government wants to secure cheap natural resources and open new export markets around the world.<sup>13</sup> China is especially looking to secure oil, minerals, and soybeans in Latin America. In addition, Chinese BRI investments are more competitive than their western counterparts because the Chinese government will not intervene in sovereign affairs of the country or impose conditions like fiscal austerity and transparency.<sup>14</sup>

It is not only a matter of finding cheap resources. China has a lack of trust among other developed countries that will not hesitate to impose tariffs and barriers to Chinese trade if human rights are violated. By investing in Latin America, China can secure resources by giving extensive loans in exchange for building the infrastructure to improve access to these resources. Furthermore, China is a late-newcomer in terms of GDP growth. Other developed countries have already secured most of the easily accessible resources in the world. This forces China to invest in riskier places such as Latin America and Africa.

The People's Republic of China (PRC) is also looking to strengthen its soft power. By providing investments to over 80 countries,<sup>15</sup> the government is looking to enforce diplomatic ties and persuade countries that still support Taiwan's independence, to turn their support towards China. Nine of the seventeen countries that recognize Taiwan as an independent country are in

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<sup>13</sup> Balding, Christopher. "Venezuela Road to Disaster is littered with Chinese Cash."

<sup>14</sup> Kaplan, Stephen. "China is Investing Seriously in Latin America. Should You Worry?"

<sup>15</sup> Hillman, Jonathan. "Experts react: China's Belt and Road Initiative turns five."



Latin America. However, since 2017, Panama, the Dominican Republic, and El Salvador have switched recognition to China in order to receive BRI loans.<sup>16</sup> This endangers the sovereignty of Taiwan since most of the countries that recognize its independence are developing countries and the number of supporters has been decreasing over the years.

Finally, the withdrawal of the United States from the Trans-Pacific Partnership (TPP) in January 2017 has forced LAC to look for a new trading partner. China has taken advantage of this by increasing its trade with the region. In 2017, Chinese and Latin American trade was US\$257 billion. This accounted for nearly 9 percent of exports and 18 percent of imports from LAC. Nonetheless, President Xi Jinping has set a goal to increase this trade to US\$500 billion in the next 10 years. China has become the top-trading partner for Brazil, Chile, Peru, and Uruguay. The PRC has free trade agreements with Chile, Costa Rica, and Peru. It is currently in the process of negotiating free trade agreements (FTAs) with Panama and Colombia.

In 2017, major Chinese imports from Latin America were natural resources: ores (31 percent), soybeans (19 percent), petroleum (16 percent), and copper (9 percent). The major exports to Latin America were electrical machinery and equipment (21 percent), machinery and mechanical appliances (15 percent), and motor vehicles and parts (6 percent)<sup>17</sup>. A more detailed composition of goods between China and its top three Latin American trade partners is shown in Figure

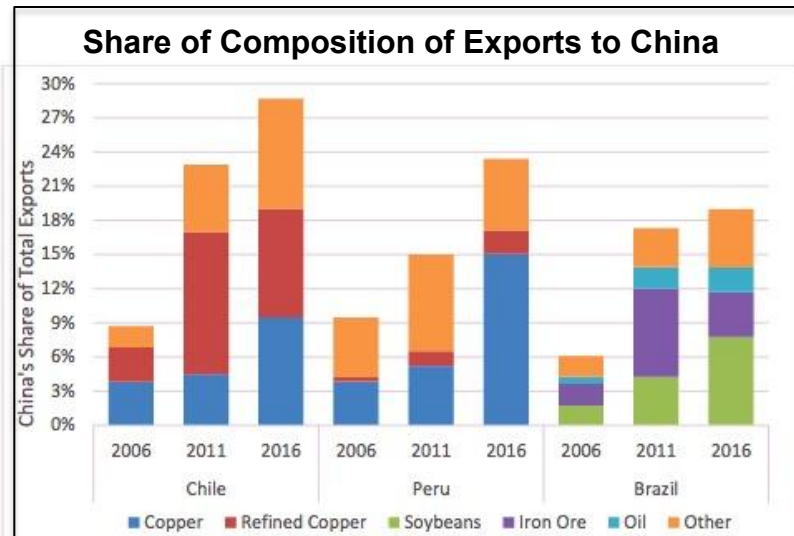
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<sup>16</sup> Sullivan & Lum. "China's Engagement with Latin America and the Caribbean."

<sup>17</sup> Sullivan & Lum. "China's Engagement with Latin America and the Caribbean."

2. Closer ties with China may reduce U.S. influence in the region and give China the opportunity to expand its economic and political power.

Figure 2

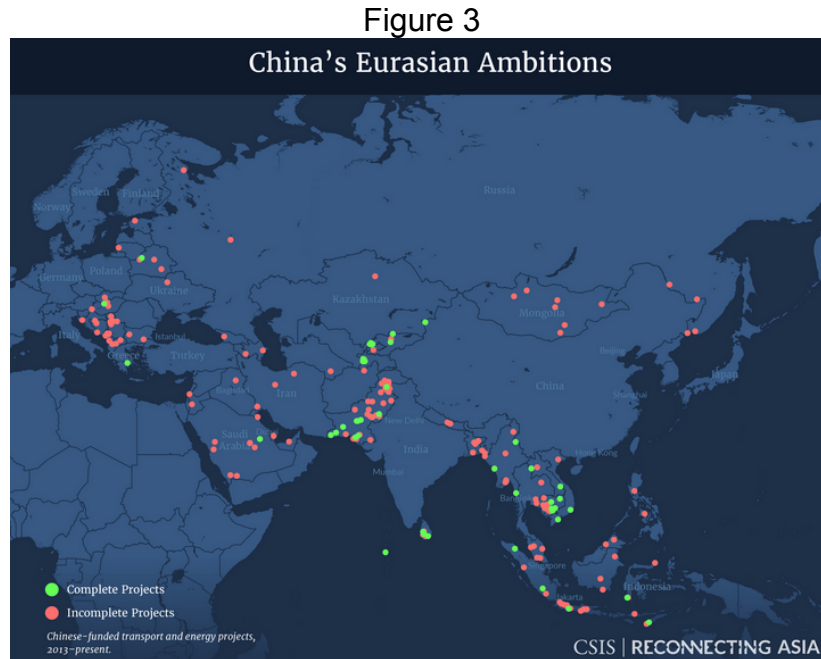


Source: U.N. Comtrade

## BRI “Investments” in Asia

It is important for LAC to understand and analyze the BRI projects in Asia and Europe.<sup>18</sup> This year, the Center for Strategic & International Studies has published a map (see Figure 3) that presents the current condition of BRI projects in these regions. About half of these projects have been completed. However, some of these projects have failed to bring economic growth to the BRI loan-receiving country.

<sup>18</sup> CSIS. “China's Belt and Road at Five.”



In Pakistan, China has invested over US\$62 billion in construction projects for power plants, roads, and so forth. However, the original cost of the China-Pakistan Economic Corridor (CPEC) of US\$8.2 billion was inflated due to corrupt commissions allocated to government officials and project managers. The price of the project has lowered down to US\$6.2 billion.<sup>19</sup> These projects have created a debt crisis in the country. Last year, the new government in Pakistan rejected the offer of US\$14 billion for a dam construction project in the Himalayas. Currently, the government is carefully revising many Chinese investments that lack sufficient environmental standards. Furthermore, they are looking to renegotiate an unfair trade agreement that was signed a decade ago.<sup>20</sup> Similarly,

<sup>19</sup> Gul Ayaz. "Pakistan reduces cost for China-funded rail project"

<sup>20</sup> Gul Ayaz. "Pakistan reduces cost for China-funded rail project"

Malaysia's Prime Minister Mahathir Mohamad has canceled a \$20 billion project for the East Coast Rail Link (ECRL).<sup>21</sup>

In Indonesia, the Tapanuli orangutan is in danger of extinction. With only 800 individuals remaining, it is the world's rarest primate. Sinohydro (state-owned Chinese hydropower company) is planning to build the Batang Toru dam as part of China's BRI.<sup>22</sup> The construction of this dam will lead to the destruction of the only habitat for Tapanuli orangutan located in the Batang Toru Forest. Similarly, Vietnam, Laos, and Cambodia have filed complaints about lack of environmental planning on BRI's projects.

Sri Lanka's case has probably been the biggest and strongest wake up call for countries involved in BRI investments. After the completion of the Hambatola Port (15,000 acres) in 2010, Sri Lanka could not make the payments on the US\$1.12 billion loan. In December 2015, the new government was under heavy pressure to pay back the loan and transferred a 70 percent stake for a 99-year lease agreement to China Merchants Port Holding Co.<sup>23</sup> By doing this, China has agreed to absolve Sri Lanka on the loan payments for this project. This gives China access to territory close to India, its rival and trading competitor, and a waterway for commercial and military activity (see Figure 4). China has agreed with Sri Lanka to not engage in military activity without invitation of the country, but it is unknown whether or not China will keep this agreement.

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<sup>21</sup> *Reuters*. "Malaysia's Mahathir cancels China-backed rail, pipeline projects."

<sup>22</sup> *Rainforest Rescue*. "Stop China from bulldozing the Tapanuli orangutan."

<sup>23</sup> *The Center for Strategic & International Studies*. "Hambantota Deep Sea Port Phase 1 (PPP)."

Figure 4



Source: CSIS & MapBox

Furthermore, in 2015, ex-president Rajapaksa used payments from the port constructions to fund his campaign and personal activities.<sup>24</sup> Countries suffering from corruption in the government that engage with China's BRI will only accumulate larger amounts of unpayable debts. Sri Lanka has probably lost the opportunity to use this port to increase its own trade. After 99 years, the port will be in deplorable conditions and it will probably need renovation and again, more money. Time will tell about the environmental consequences of the territory in the hands of Chinese SOEs and whether or not they will provide jobs for the locals.

The analysis above has focused on a handful of cases and projects in order to provide some insight to people and government officials of Latin

<sup>24</sup> Abi-Habib, Maria. "How China got Sri Lanka to cough up a port."

American countries to take BRI “investments” with a grain of salt and to recognize the importance of analyzing the terms of the contracts they sign into.

### **BRI Projects in Latin America**

In January 2018, Chinese Foreign Minister Wang Yi formally invited LAC to join the BRI during the China-CELAC Forum. He said that the Chinese government “considers that Latin American and Caribbean countries are part of the natural extension of the Maritime Silk Route and are indispensable participants in international cooperation of the Belt and Road.”

There are several projects ongoing and completed by Chinese SOEs (state-government enterprises). About 70 percent of these projects are for the energy industry and 18 percent are for infrastructure. For an extensive list of BRI projects in Latin America, see Appendix 1. This database has information of only 96 BRI projects. The data shows the project status: 44 completed, 7 canceled, 11 stalled, and 27 in construction. The following will describe some guidelines for BRI in LAC and some case studies.

In an effort to increase participation of LAC countries, the Chinese government has issued two guiding documents: 1+3+6 Cooperation Framework and the 3x3 Model for Capacity Cooperation. The purpose of these documents is to define the goals and objectives to support the China-CELAC Cooperation Plan (2015-2018).

The *1+3+6 Cooperation Framework* emphasizes the use of trade, investment and financial cooperation to “support cooperation in six industries:

energy and resources, infrastructure construction, agriculture, manufacturing, scientific and technological innovation, and information technologies (IT).”<sup>25</sup>

Similarly, the *3x3 Model for Capacity Cooperation*, which was introduced in May 2015, aims to build stronger capacity in logistics, power generation, and IT. This model provides access to funds, credit loans, and insurance financing channels.

## Venezuela

Venezuela's case is an example of overborrowing from the BRI. It is also the country that has received the most borrowing (41 percent) of China's BRI loans in the region, about US\$62.2 billion (see Figure 5). In 2017, the PRC owned 15 percent of Venezuela's public external debt. The country is currently in an economic and humanitarian crisis due to the mismanagement of former President Hugo Chavez (1999-2013) and President Nicholas Maduro (2013-present).

Figure 5



Source: Inter-American Dialogue

<sup>25</sup> Koleski, Katherine and Blivas, Alec. "China's Engagement with Latin America and the Caribbean."

After a whole decade of borrowing, the Government of Venezuela has an unpayable loan of \$20 billion.<sup>26</sup> Beijing has insisted that Venezuela repay this loan with oil reserves. At the beginning of the lending transaction, it seemed like a good deal for both countries since the price of a barrel of oil was about \$100. From 2016 to 2018 the price has fluctuated from \$30 to \$70 a barrel. Venezuelan debt has increased due to the need to ship a million barrels per day (30 percent of its oil production) for three years in order to repay this debt.<sup>27</sup> In September 2018, the Venezuelan government sold a 9.9 percent share of its joint Venture with China National Petroleum Corporation (CNPC), SINOVENSA. Before, Venezuela owned 60 percent of these shares. Now, this Chinese SOE will own 49.9 percent of total shares.<sup>28</sup> The transaction costs are unknown.

The harsh economic and living conditions in the country have led to the largest humanitarian crisis in Latin American history. According to the United Nations, 2.3 million Venezuelans (7 percent of the total population) have left the country seeking refuge in Ecuador, Colombia, Peru, Brazil, and the United States.<sup>29</sup> Despite China's BRI goal to improve LAC economies, Venezuela's case shows that no amount of these investments will improve the economy of a country at the hand of a corrupt and authoritarian government.

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<sup>26</sup> Kaplan, Stephen. "China is Investing Seriously in Latin America. Should You Worry?"

<sup>27</sup> Butler, Nick. "It is Venezuela's Crisis that is Driving the Oil Price Higher."

<sup>28</sup> Reuters. "Venezuela sold 9.9 percent of joint venture to China oil firm: Maduro."

<sup>29</sup> Castañeda, Sebastián. "Greater support needed for refugees and migrants from Venezuela."



## Argentina

Argentina owns 12 percent of total BRI loans (see Appendix 1 for list of some BRI projects in Argentina). In 2010, the China Development Bank (CDB) provided \$10 billion for a train system where Argentina was required to buy trains from the SOE, China CNR Corporation<sup>30</sup>. As of December 2018, Argentina has received Chinese financing of US\$807 million for the purchase of 107 freight trains for the Belgrano Line and San Martin Line networks.<sup>31</sup> Argentina is currently looking to be less economically dependent on China. In January 2018, Argentina put US\$9 billion of its sovereign bonds up for sale at the international bond market.<sup>32</sup>

## Peru

One of the biggest BRI infrastructure projects in Peru is the San Gaban III (see Figure 6), a 206 MW hydroelectric project by Hydro Global, a partnership between the SOE China Three Gorges and Energias de Portugal (EDP). This project started construction in 2016 (see Appendix 1 for more detailed information). The project is located in Puno, one of the poorest regions in Peru. As part of the agreement, Hydro Global will operate the plant for 30 years, taking control of the water supplies of the people of Carabaya.<sup>33</sup>

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<sup>30</sup> Koleski, Katherine and Blivas, Alec. "China's Engagement with Latin America and the Caribbean."

<sup>31</sup> *Redaccion Democracia*. "The last order of rolling stock for freight trains arrived from China."

<sup>32</sup> Koleski, Katherine and Blivas, Alec. "China's Engagement with Latin America and the Caribbean."

<sup>33</sup> Casallas, David. "China Three Gorges, EDP ink Peru hydro deal."

Figure 6



Source: BNamericas & ProInversion

## Brazil

Brazil is the second largest BRI borrower in the region (28 percent). Most of this money is allocated in oil extraction, electricity generation, and port infrastructure projects. Brazil is also a member of the BRICS, an association of five major emerging economies (Brazil, Russia, India, China, and South Africa).

The Chinese government has been acquiring many Brazilian companies through its SOEs (state-government enterprises) over the years. Since 2010, the State Grid Corporation of China has acquired seven Brazilian power transmission companies. In 2016, the China Three Gorges Co. acquired 10 hydropower dams from Duke Energy.

In September 2017, China's Merchant Port Holdings Co. acquired TCP Participações S.A. for US\$920 million. This acquisition (90 percent of stake share) is for the operator of Paranagua, the most profitable port in Brazil. The

same year, State Grid Corporation acquired CPFL for US\$8 billion, which is Brazil's third largest electricity provider.

### **Ecuador**

Ecuador's exports to China grew 242.1 percent from \$191.9 million in 2011 to \$656.4 million in 2016. Ecuador's highest exports to China are in oil (35.2 percent), fish and related products (13.1 percent), and bananas (13 percent). Imports from China are 19.1 percent of its total imports.

As of March 2017, the China Development Bank and the Export-Import Bank of China owned 30.3 percent (\$8 billion) of Ecuador's \$26.4 billion in external public debt.<sup>34</sup> In addition, 70 percent of these loans have an interest rate of 6 to 7.25 percent with an eight-year term, which is a "high stake loan" in comparison to loan terms of other financial institutions. In order to pay these loans, Ecuador exports roughly half of its oil production to Chinese firms. In May 2018, President Moreno attempted to renegotiate the terms of the loan with China, but was unsuccessful.<sup>35</sup>

The government of Ecuador is currently looking to reduce its dependence on China by diversifying its borrowing and lending sources. In July 2018, Ecuador received an additional loan of US\$233.6 million (total loan is US\$ 336.1 million) in order to improve the sanitation system in Guayaquil and build Los Merinos Treatment Plant.<sup>36</sup>

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<sup>34</sup> Dussel, Perter & et al. 2018. "Building Development for a New Era."

<sup>35</sup> *Reuters*. "Ecuador seeks to renegotiate China debt, does not rule out IMF - Moreno."

<sup>36</sup> *The World Bank*. "The World Bank Approves an Additional US \$ 233.6 Million to Expand Sanitation Services in Guayaquil, Ecuador."

### Canceled projects

Some projects like the Peru-Brazil Railway, the Nicaragua Canal, and the Colombia Dry Canal have been canceled or stalled due to high costs, environmental complaints, or project feasibility issues.<sup>37</sup> The biggest of these projects was the Peru-Brazil Railway (see Figure 7), which had a budget of about US\$80 billion. The project stopped because it was very costly, failed the feasibility study, and it had high environmental impacts for the communities living nearby.

Figure 7



These are only a few projects in the region where China's BRI is present. Most of the countries that have received heavy BRI loans are struggling economically and are using their natural resources to pay down the debt. It is important that LAC recognizes the danger of receiving too many of these debts. Especially when 40 percent of BRI projects have only emerged five years ago.<sup>38</sup>

<sup>37</sup> Lissardy Gerardo. "El polémico tren Atlántico-Pacífico que China quiere construir en Sudamérica."

<sup>38</sup> *The Intern-American Dialogue*. "China's transport infrastructure investment in LAC: Five things to know."

## Facing the risks

There are some red flags that Latin American heads of state should take into account before receiving more “investments” from China’s BRI. Countries will receive the investment only if they agree in giving guaranteed contracts for Chinese contractors and machinery suppliers. This means that a country’s investment in infrastructure might have delays or become even more expensive because it will rely heavily on China to finalize these projects.

The BRI has been criticized of selling used facilities such as an old coal-fired power plant that was dismantled and later rebuilt.<sup>39</sup> This is not only inefficient for the country that receives the facility but it will also increase pollution. LAC need to be aware of the terms and specifications of the investments they sign into.

Another risk is that the BRI fails in assuring environmental or labor protections. For example, in 2014, many Ecuadorian NGOs and 18 native communities requested to meet with the six Chinese banks that funded a controversial copper mine “Mirador Norte” in the Amazon area that borders Ecuador and Peru. The banks have not yet answered the plea.<sup>40</sup>

By collecting unsustainable amounts of debt from the Chinese government, Latin American countries put their economies at risk of becoming less competitive internationally in manufacturing, agriculture, and service technologies.<sup>41</sup> The region is very dependent on highly cyclical raw materials,

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<sup>39</sup> Hillman, Jonathan. “Experts react: China’s Belt and Road Initiative turns five.”

<sup>40</sup> Hill, David. “Chinese Banks Ignore Pleas of Ecuador Mining Campaigners.”

<sup>41</sup> Sullivan & Lum. “China’s Engagement with Latin America and the Caribbean.”

which do not support manufacturing jobs and have higher environmental impacts.<sup>42</sup> Additionally, it will further encourage governments with high corruption to take advantage of these loans for personal luxuries.

The BRI policy of only working with Chinese companies and buying Chinese construction materials increases the cost of projects. It also disincentivizes the opportunity to create local jobs and decreases demand for local products and services.

Finally, Latin American countries need to “get more bang out of their buck.” In China, the infrastructure is impressive; they have world-class skyscrapers and high-speed trains. The country has a network of bullet trains that connect people from Eastern China to Shanghai in about three hours.<sup>43</sup> They are also known for building their infrastructure at a fast pace. For example, construction workers took only 43 hours to rebuild Beijing's Sanyuan Bridge.<sup>44</sup> And 1,500 construction workers built a train station track in only 9 hours.<sup>45</sup> China has the ability to finish infrastructure projects fast. However, Chinese projects in Latin America and other parts of the world take years to complete despite using Chinese labor and machinery. All these risks are important to take into account before signing up for a BRI loan.

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<sup>42</sup> Koleski, Katherine and Blivas, Alec. “China's Engagement with Latin America and the Caribbean.”

<sup>43</sup> Griffiths Robert. “Getting real about China.”

<sup>44</sup> *CCTV America*. “Chinese building feats.”

<sup>45</sup> Zhen Liu. “Fast rail: watch 1,500 Chinese workers build train station track in 9 hours.”

## Possible Solutions

Latin American countries need to analyze the current conditions of countries that have received too many BRI “investments,” such as Venezuela and Sri Lanka. There is a need for the LAC community to join efforts in sharing information openly regarding the current condition and specifications of the BRI projects in their countries. There is data scarcity and lack of transparency from the Chinese SOEs and its government financing activities.<sup>46</sup> However, if Latin American countries work closely to inform each other, they will all benefit from the database and findings of the process. This will allow them to make more informed decisions on future BRI investments.

Latin American countries need to partner up with a country for infrastructure projects that will benefit both sides. There is no specific country that will be the perfect match for all LAC. Even American investment companies in LAC also have committed environmental disasters. This is the case of La Oroya, Peru; one of the most contaminated places in the world due to the mining activity of Doe Run Peru, a Missouri-based company. Since 1922, the company's lead smelter activities have contaminated its surroundings and caused adverse health effects on 35,000 people. The active emissions of the smelter tripled the World Health Organization limit. This pollution has caused malnutrition and weight loss in children, as well as respiratory and gastrointestinal issues on the overall population due to high concentration of lead, cadmium and sulfur dioxide

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<sup>46</sup> Hillman, Jonathan. “Experts react: China's Belt and Road Initiative turns five.”

in their blood. The citizens have taken several lawsuits to the Missouri Supreme Court, but have yet not received appropriate compensation from Doe Run.<sup>47</sup>

It is important to analyze which developed countries have the best infrastructure, technology, and work ethic level. For example, in 2017, India and Japan entered into an agreement to build the Mumbai-Ahmedabad High Speed Rail Corridor, a 316 mile railway that will reduce the commute between those two cities from eight hours to two hours and twenty-five minutes.<sup>48</sup> To fund the project, the Indian government will receive a US\$12 billion loan from the Japanese International Cooperation Agency, to be paid over 50 years at 0.1 percent annual interest rate. The Japanese government has provided a much lower interest loan than the Chinese counterpart offers on BRI projects. Additionally, the Shinkansen (Japanese high-speed railroad system) project looks to minimize noise pollution and the trains only emit small amounts of carbon dioxide.<sup>49</sup> The project due date is set for the end of 2022.

In addition, LAC need to protect their emerging industries. From 2008 to 2013, the influx of Chinese imports has threatened 75 percent of LAC exports.<sup>50</sup> They have lost competitiveness in exporting manufactured goods from the textile and footwear sector. This does not necessarily means that LAC should not have trade agreements because each country in the region has different economic capability. However, it is necessary for LAC government to push their economy out of exporting raw materials only. It is vital that LAC recognizes the opportunity

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<sup>47</sup> Wooten, Nicole. "Heavy metal air pollution in La Oroya, Peru."

<sup>48</sup> CSIS. "Mumbai-Ahmedabad Bullet Train."

<sup>49</sup> Arora, Rajat. "India on track to buy 18 bullet trains from Japan for Rs 7,000."

<sup>50</sup> Koleski, Katherine and Blivas, Alec. "China's Engagement with Latin America and the Caribbean."



that BRI investments could bring to the manufacturing, IT, and services industry in their country if the investments are allocated correctly. Further investments in raw materials and fuels will only prolong the extractive economy model of these countries.

Latin American countries need to recognize the risk of compromising their natural resources due to unpayable BRI loans. In 2017, Chinese SOEs acquired lithium reserves in Argentina and Chile, which represent 45.6 percent of global production and 60 percent of the world's lithium reserves.<sup>51</sup>

## **Conclusion**

The Venezuela and Sri Lanka case is a wake-up call for Latin American countries that are interested in BRI investments. It is important that countries in the region closely follow the current conditions of BRI in order to know if these investments will truly improve the life and working conditions of a given country despite its cost. Finally, Latin America countries should not depend on Chinese investments alone, but diversify investments across different countries to have more bargaining power.

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<sup>51</sup> Koleski, Katherine and Blivas, Alec. "China's Engagement with Latin America and the Caribbean."

**Appendix 1**

<b>Major Infrastructure Projects Built by Chinese Firms in LAC by country, 2000-2018</b>						
<i>Country</i>	<i>Year</i>	<i>Project</i>	<i>Type</i>	<i>Firms</i>	<i>Cost (US\$ millions)</i>	<i>Status</i>
Antigua and Barbuda	2011	Terminal, Bird International Airport	Airport	China Civil Engineering Construction Company	\$98	Completed in 2015
Antigua and Barbuda	2018	St. John's Port Modernization Project	Port	China Civil Engineering Construction Company	\$90	Under construction, due in 2021
Argentina	2015	Nestor Kirchner-Jorge Cepernic	Hydropower Dam	China Gezhouba Group Corporation, Electroingenieria, Hydrocuvo	\$4,000	Under construction
Argentina	2015	Patagonia nuclear power plants	Other Types of Power Plant	China National Nuclear Corporation, China Zhongyuan Engineering Corporation, and the Nuclear Energy Argentina SA	\$5,800	Stalled over cost concerns; resumed in 2018
Argentina	2016	East and Central Gas Pipeline II	Oil and Gas Refineries and Pipelines	CCCC	\$390	Under construction
Argentina	2016	Trunk Gas Pipeline	Oil and Gas Refineries and Pipelines	China Petroleum Pipeline Bureau, CCCC, and Odebrecht	563	Under construction
Argentina	2017	San Martin Railway	Railway	China Railway Construction Corporation	\$2,400	Under construction
Bahamas	2006	Thomas A. Robinson National Stadium	Stadium	Shandong Hi-Speed Group	\$30	Started 2006; then stalled. Completed in 2011.
Bahamas	2010	Nassau Airport Gateway	Airport	China Construction America	\$67	Completed
Bahamas	2014	North Abaco Port	Port	CHEC	\$39	Completed
Belize	2003	Chalillo	Hydropower Dam	Sinohydro	\$30	Completed in 2005
Belize	2007	Vaca	Hydropower Dam	Sinohydro	\$39	Completed in 2010

Bolivia	2012	San Buenaventura Sugar Plant	Other	Sinomach	\$170	Completed
Bolivia	2013	Madre de Dios Bridge	Other	China Harzone Industry Corporation	\$42	Completed
Bolivia	2013	Beni II Bridge	Other	China Harzone Industry Corporation	\$27	Completed
Bolivia	2014	Ivirgarzama-Ichilo Road	Roads/Highways	Sinohydro	\$144	Completed
Bolivia	2014	San Jose Hydroelectric Plant	Hydropower Dam	Sinohydro	\$235	Completed in 2018
Bolivia	2015	Padilla-El Salto Highway	Roads/Highways	Sinohydro	\$82	Under construction
Bolivia	2015	Cochabamba-Santa Cruz Highway	Roads/Highways	Sinohydro	\$426	Under construction
Bolivia	2016	Carretera Rurrenabaque-Riberalta Highway	Roads/Highways	China Railway Construction Corporation	\$579	Under construction
Bolivia	2016	El Mutun Iron and Steel Deposit	Other	Sinosteel	\$450	Stalled due to lack of financing; government authorized financing in 2018
Bolivia	2016	Rositas Hydroelectric Plant	Hydropower Dam	Export-Import Bank of China, China Three Gorges Corporation, and its subsidiary China International Water and Electric Corporation	\$1,000	Under construction
Bolivia	2017	Iviriu Hydropower Plant	Hydropower Dam	Sinohydro	\$520	Under construction
Brazil	2005	Candiota III thermal power plant	Other Types of Power Plant	China International Trust & Investment Corporation Group (CITIC)	\$427	Completed
Brazil	2006	Cabiunas - Vitoria Gas Pipeline	Oil and Gas Refineries and Pipelines	Sinopec	\$1,290	Completed in 2010

Brazil	2014	Peru-Brazil Railway	Railway	Unkown	\$80,000	Stalled due to high costs and engineering difficulties
Brazil	2014	Belo Monte transmission Line	Power Transmission Line	State Grid Corporation of China	\$1,400	Completed in 2017
Brazil	2016	Jupiá and Ilha Solteira dams	Hydropower Dam	China Three Gorges Corporation	\$4,255	Completed in 2017
Brazil	2017	Fiol Railway	Railway	Consortium of 5 Chinese Companies: CCCC, China Railway Group, and Dalian Huarui Heavy Industry Group	\$2,400	Expected start in 2019
Brazil	2017	Port of Itaqui (Expansion)	Port	CCCC	Unknown	Under construction
Brazil	2017	Porto Sul (Port of Ilheus)	Port	Consortium of 5 Chinese Companies: CCCC, China Railway Group, and Dalian Huarui Heavy Industry Group	\$2,400	Expected start in 2019
Brazil	2018	São Luís	Port	CCCC	\$244	Under construction, due in 2022
Chile	2010	San Vicente Port Revitalization	Port	CHEC	\$75	Completed
Chile	2015	San Antonio Port Expansion	Port	CHEC	\$44	Contract signed in 2015
Colombia	2009	Magdalena River dam	Hydropower Dam	Hydro China, Cormagdalena, and China Development Bank	Unknown	Stalled
Colombia	2011	Colombia Dry Canal	Railway	Unknown	Unknown	Stalled for unknown reasons
Costa Rica	2007	National Stadium	Stadium	Anhui Foreign Economic Construction Group	\$100	Completed
Costa Rica	2008	Moin Refinery feasibility concerns.	Oil and Gas Refineries and Pipelines	Sinopec, Recope	\$1,300	Canceled in 2016 due to corruption allegations and project

Costa Rica	2011	Reventazón	Hydropower Dam	Andritz, Sinohydro	\$1,400	Completed in 2016
Costa Rica	2011	Quijos	Hydropower Dam	China National Electric Equipment Corporation	Unknown	Completed in 2016
Costa Rica	2013	San Jose-Puerto De Limon Highway (Route 32)	Roads/Highways	CHEC	\$485	Stalled due to corruption allegations and technical deficiencies; restarted in 2017.
Costa Rica	2013	Capulin San Pablo	Hydropower Dam	HydroChina	Unknown	Completed in 2017
Cuba	2010	Cienfuegos Refinery	Oil and Gas Refineries and Pipelines	China National Petroleum Corporation	\$5,800	Stalled
Dominica	2004	Windsor Park Sports Stadium	Stadium	China Civil Engineering Construction Company	\$17	Completed
Ecuador	2010	Toachi Pilaton	Hydropower Dam	China International Water and Electric Corporation and the Inter RAO UES	\$589	Contract canceled due to corruption allegations (85% completed)
Ecuador	2010	Coca Coda Sinclair	Hydropower Dam	Sinohydro	\$2,851	Completed in 2016
Ecuador	2010	Puento Rio Bridge	Other	Guangxi Road and Bridge	\$100	Completed
Ecuador	2011	Mazar-Dudas	Hydropower Dam	China National Electric Equipment Corporation	\$83	Canceled due to technical deficiencies and schedule delays (87% completed)
Ecuador	2011	Quijos	Hydropower Dam	China National Electric Equipment Corporation	\$116	Canceled due to technical deficiencies and schedule delays (47% completed)
Ecuador	2011	Sopladora	Hydropower Dam	China Gezhouba Group Corporation	\$963	Completed in 2016

Ecuador	2012	Flood Control Projects of Canar and Naranjal	Other	CWE	\$394	Completed
Ecuador	2012	Guayasamin Road Projects	Roads/Highways	CCCC	\$56	Completed
Ecuador	2013	Delsitanisagua	Hydropower Dam	Hidronova, HydroChina	\$335	Under construction
Ecuador	2013	Minas-San Francisco	Hydropower Dam	Harbin Electric International Company, Sinohydro, Cardno	\$684	Under construction
Ecuador	2016	Hospital IESS Quito Sur	Other	China Railway Engineering Corporation	\$200	Completed
Ecuador	2016	Santa Elana Aqueduct	Other	CWE	\$113	Unknown
Grenada	2014	St. Mark Flood Mitigation Project	Other	CHEC	\$5	Completed
Grenada	2014	National Athletic and Football Stadium	Stadium	China State Construction Engineering Company Ltd.	\$40	Completed
Guyana	2011	Expansion of the Georgetown International Airport Cheddi Jagan	Airport	CHEC	\$140	Under construction; due in 2019
Haiti	2015	Artibonite	Hydropower Dam	Sinohydro	\$240	Under construction
Honduras	2011	Patuca III	Hydropower Dam	Sinohydro, Dongfang Electric Corporation	\$350	Under construction
Honduras	2017	Puerto Cortes Expansion	Port	CHEC	\$624	Under construction
Jamaica	2007	Sligoville Mini-Stadium	Stadium	Shanxi Construction Engineering Group Corp	\$248	Completed
Jamaica	2007	North South Highway	Roads/Highways	CHEC	\$730	Completed
Jamaica	2014	Goat Islands Port	Port	CHEC	\$1,500	Preliminary agreement signed
Mexico	2004	Baja Terminal	Port	CHEC	\$170	Completed

Mexico	2011	Manzanillo Container Terminal	Port	CHEC	\$221	Completed
Mexico	2011	Dragon Mart-Cancun	Other	Chinamex	\$180	Canceled in 2015
Mexico	2014	Mexico City to Queretaro High-Speed Railway	Railway	China Railway Construction Corp., and the Mexican firms Constructora y Edificadora GIA, Prodemex, GHP Infraestructura Mexicana, and Constructora TEYA	\$3,800	Canceled
Mexico	2015	Chicoasen II	Hydropower Dam	Sinohydro Costa Rica, Omega Construcciones, Desarrollos y Construcciones Urbanas and CAABSA Infraestructura	\$386	Under construction
Mexico	2016	188 MWac Solar Farm	Alternative Energy	Jinko Solar	\$224	\$224
Nicaragua	2012	Oil Refinery	Oil and Gas Refineries and Pipelines	China National Petroleum Corporation	\$5,800	Stalled
Nicaragua	2014	Nicaragua Canal	Canal	Hong Kong Nicaragua Canal Development Group	\$50,000	Stalled due to lack of financing, high costs, and environmental and safety risks
Panama	2002	Balboa Port	Port	China Harbor Engineering Company (CHEC)	Unknown	Completed
Panama	2012	Panama Canal's Atlantic Bridge	Other	CCCC and its subsidiary, CHEC, Louis Berger, Vinci, and SYSTERA International Bridge Technologies	\$366	Under construction; due early 2019.
Panama	2013	Colon Container Terminal	Port	CHEC	\$60	Completed in 2015

		(Phase III)				
Panama	2014	Amador Convention Center	Other	China Construction America	\$193	Under construction
Panama	2016	Margarita Island Port	Port	China Landbridge, China Communication Construction Co. Ltd. (CCCC)	\$1,000	Under construction
Panama	2017	Panama Amado Cruise Terminal	Port	CHEC, Jan de Nul	\$167	Under construction
Panama	2017	Panama City-Chiriquí Train	Railway	China Railway Group	\$5,500	In pre-feasibility stage
Panama	2018	Panama Canal's Fourth Bridge	Other	CCCC and its subsidiary, CHEC, China State Construction Engineering Corporation, China Railways Group, Astaldi, Dragados, and Daelim	\$1,420	Under construction, due in 2021
Panama	2018	Martano natural gas power plant	Other Types of Power Plant	Shanghai Electric	\$900	Under construction, due in 2020
Peru	2014	Peru-Brazil Railway	Railway	Unkown	\$80,000	Stalled due to high costs and engineering difficulties
Peru	2016	San Gaban III	Hydropower Dam	Hydro Global Peru S.A.C., China Development Bank	\$438	Under construction, due in 2021
Venezuela	2006	Social Development Project (Housing)	Other	China International Trust & Investment Corporation Group	\$1,190	Completed
Venezuela	2007	Venezuela Water Supply Project (Phase III)	Other	Sinomach, CAMCE	\$110	Completed
Venezuela	2009	Guarico Irrigation System	Other	CAMCE	\$308	Completed
Venezuela	2010	Palito thermal power plant	Other Types of Power Plant	Sinohydro	\$1,800	Completed



Venezuela	2010	El Vigia thermal power plant	Other Types of Power Plant	China National Machinery Industry Corporation (Sinomach) and its subsidiary, China CAMC Engineering Co., Ltd. (CAMCE)	\$956	Completed in 2013
Venezuela	2010	Delta Orinco Integrated Agricultural Development Project	Other	Sinomach, CAMCE	\$1,070	Unknown
Venezuela	2011	Barinas	Hydropower Dam	Sinohydro	\$50	Under construction
Venezuela	2012	Power Transmission Line	Power Transmission Line	State Grid Corporation of China	\$1,310	Completed
Venezuela	2014	Tinaco to Anaco Railway	Railway	China Railway Group Ltd., Venezuelan National Railway Department	\$7,500	Canceled due to high costs and Venezuelan financial troubles
Venezuela	2016	Oil dehydration and desalination plant	Oil and Gas Refineries and Pipelines	China National Petroleum Corporation (CNPC)	\$549	Unknown

Source: Academic Network of Latin America and the Caribbean on China & The Global Economic Governance Initiative

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