



## Thornhill Capital Global Newsletter - January 2016

### China's Growing Influence in Other Parts of the World Part III - Why is Latin America Important to China?

#### *Why Is Latin America Important to China?*

Latin America is important to China for two primary reasons:

- China wishes to gain access to Latin America's natural resources.
- China wishes to attract political support from Latin American countries for its global agenda.

## ***China Wishes to Gain Access to Latin America's Natural Resources***

Latin America is an ideal region for China to obtain the raw materials and petroleum required to sustain its fast-growing economy. Latin America has vast reserves of natural resources, and most of its countries have a stable political climate.

China recognized the strategic role Latin America played in its economic future. It also knew that it had to secure reliable long-term sources of raw materials and natural resources if it were to continue its growth. As a result, it employed the *Chinese model* in Latin America. This allowed Latin American countries to develop their natural resources and establish the required infrastructure necessary for monetizing their raw materials. It was a win-win. China obtained the long-term contracts for the natural resources it craved, while at the same time, Latin American countries were able to lock in future cash flow and profitability.

## ***Attracting Political Support from Latin American Countries for China's Global Agenda***

China's agenda in Latin America is fairly straightforward: it wants to exercise its monetary influence in order for it to attain its geopolitical goals.

China's geopolitical goals include access to Latin America's natural resources, as well as the establishment of a political foothold. To accomplish this, it made loans and signed long-term natural resource contracts with the various countries it believed to be geopolitically important to its strategic objectives. For many countries, China's loans and industrial contracts provided economic prosperity, as well as political and social stability. The Chinese model allowed China to achieve political and social influence in a

geographic area where it formerly had little involvement.

### ***Why Is China Important to Latin America?***

There are also a number of reasons why China is important to Latin America. These can be divided into several areas:

- Latin America hopes for future access to Chinese markets.
- Latin America hopes for future investment by China.
- Latin America hopes to benefit from Chinese entities and infrastructure.
- Latin America hopes for China to be a counterweight to the United States, as well as other Western countries.
- Latin America views China as a role model for economic development.

#### ***Latin America's Hopes for Future Access to Chinese Markets***

Latin American businesspeople are attracted to the sheer size of the Chinese market. With China's 1.3 billion people, the export potential for Latin American businesses is substantial. They want to manufacture and sell their products to an increasingly wealthy Chinese populace. That's currently happening on a small scale. But Latin Americans want China to increase the scope and size of their current trade with China.

#### ***Latin America's Hopes for Future Investment by China***

China is Latin America's primary lender. In 2010 alone, \$37 billion in loans were made by China throughout various Latin American countries. That was more than the World Bank, the Inter-American Bank, and the U.S. Import-Export bank combined. Most of these investments have gone to four

countries: Venezuela, Brazil, Argentina, and Ecuador, for mining, transport equipment, and infrastructure.

In addition to providing loans to Latin American industries, China has also rapidly increased its trade with the various countries within Latin America. In 2000, for example, trade between China and Latin America was \$10 billion. In 2011, it increased to \$241 billion. This vast increase in trade has helped Latin America avoid the worst of the world financial and economic crisis. Particularly benefiting from Chinese loans were Venezuela and Ecuador, which had both been unable to access the world's capital markets since defaulting on previous loans.

Not only do the terms of China's loans make it difficult for other lenders to compete, they also make the recipient of the loan dependent on China. The reason for this is that repayment of these loans is guaranteed by the recipient's long-term commodity sales. This essentially means that the borrower is obligated to continue its natural resource exploration and development in order to be able to pay back the loan. Ecuador, for example, has debts to China of \$17 billion and has therefore committed sales to the Chinese through 2019.

### *The Benefit of Chinese Entities and Infrastructure in Latin America*

As a requisite for obtaining many Chinese loans, Latin American countries are often contractually required to utilize Chinese corporations. In many cases, this is looked upon by the Chinese government as a way to employ a greater number of people, while ensuring that they have an up-to-date status on the project to which they've made a loan or investment. In addition, the Chinese believe that their labor force is highly skilled and, as a whole, more reliable than the labor available in many of the countries to

which they're making loans. Depending on the circumstances, Chinese companies may contractually function as general contractors, operate machinery, conduct maintenance, or perform other tasks as specified in the contract. Some loans will also dictate that the entity receiving the loan will be a joint venture with a domestic company. In either case, the Chinese will exercise a great deal of operational influence.

In Ecuador, for example, according to R. Evan Ellis of the *National Defense University Press*, Chinese petroleum and service companies have assumed a prominent role in the country's petroleum industry. Chinese companies not only are a financial partner in Ecuadorian petroleum projects, but also operate petroleum facilities that account for almost 40 percent of non-state oil production. In addition, Chinese companies are constructing a \$3 billion project in Ecuador to provide access to future mining sectors and opening up previously untapped resources. In Venezuela, Chinese companies are key factors in maintaining oil production in the country's mature oil fields, as well as extracting Venezuelan iron, gold, bauxite, and coal.

Besides mining, petroleum, and other industries related to natural resources, China provides Latin American countries with significant infrastructure in many unrelated areas. For example, in technology, Huawei and ZTE are playing a critical role in Latin American telecommunications. In logistics, China Overseas Shipping and Hutchinson Whampoa have an increasingly important role in Latin America's foreign transport and trade.

### *China as a Counterweight to US and Other Western Institutions*

The People's Republic of China is viewed by a number of countries in Latin America as a geopolitical alternative to the United States. The late

president of Venezuela, Hugo Chavez, along with Rafael Correa, president of the Republic of Ecuador, and Evo Morales, president of Bolivia, have been substantial supporters of China's increased presence in Latin America. They've viewed China as a necessary counterweight to the United States and other Western institutions that they see as imposing their morality, politics, and agendas on Latin America.

China, for its part, sees itself as having to walk a fine line. It can't proclaim, or associate itself with, being anti-United States, as that would be counterproductive to its relationship with the West. Yet it nevertheless wants to differentiate itself and project its own influence in the region.

In many ways, its relationship with a number of Latin American countries is like looking at itself in the mirror, in that it somewhat resembles its own past relationship with the former Soviet Union and its satellites during the Cold War. Just as China turned to the former Soviet Union for arms that it was denied purchasing from the United States and its allies, Latin American countries have turned to China for hard-to-obtain items, especially the purchase of military weaponry, which they were denied purchasing from the West. For example, Bolivia turned to China to purchase K-8 combat aircraft after the United States blocked its ability to procure similar aircraft from the Czech Republic.

### *China as a Role Model for Economic Development*

Many Latin American countries look at China's combination of capitalism and authoritarianism as an ideal model to emulate. Many feel, according to R. Evan Ellis, that the US democratic model, with free markets and privatization, doesn't work well in a country with corruption, poverty, and inequality. China's model is more attractive to many, as it implies that you

can achieve stellar economic growth without relinquishing political power.<sup>195</sup> For its part, China is marketing this concept in Latin America and is expanding its influence at a time when the United States and other Western countries are cutting back on aid and assistance programs in the region.

### *Marginalizing Taiwan*

For the twelve nations in the Caribbean and Latin America that recognize Taiwan, China's approach can best be described as using a carrot and a stick. The stick: China makes investment funds less readily available in countries that recognize Taiwan. The carrot approach can best be illustrated in Costa Rica. When Costa Rica recognized China in 2007, at the expense of Taiwan, it received an aid package from China that included \$83 million for a soccer stadium, the purchase of \$300 million of Costa Rican government bonds, a \$1 billion venture to expand the country's petroleum industry, various highway and public works projects, and access to China's domestic markets for Costa Rican products. Seeing how the carrot was better than the stick, Panama, Paraguay, and El Salvador have expressed an interest in changing their diplomatic posture.

References for the data and information contained within the above material can be found in *Conducting Business in the Land of the Dragon* by Alan Refkin and Scott Cray.

**Alan Refkin**

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