

CHINESE FINANCE TO LAC IN 2015:

Doubling Down*

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New Estimates of Chinese Finance to LAC in 2015

Despite slowing global economic growth and gloomy projections for 2016, Chinese policy bank finance to governments and companies in Latin America and the Caribbean (LAC) rose to \$29 billion in 2015, surpassing 2014 lending by a staggering \$19 billion.

The latest estimates of funding from the China Development Bank (CDB) and China Export-Import Bank (Eximbank) put 2015 as the second-highest year on record for Chinese policy bank finance to LAC, topped only by lending in 2010 (see Figure 1). Including our 2015 estimates, CDB and Eximbank have provided upwards of \$125 billion in finance to LAC since 2005, when Chinese banks began lending to the region.

In addition to China's many bilateral loans, which surpassed World Bank (WB) and Inter-American Development Bank (IDB) finance to LAC combined in 2015, China also recently established approximately \$35 billion in region-wide funds for infrastructure and other projects.

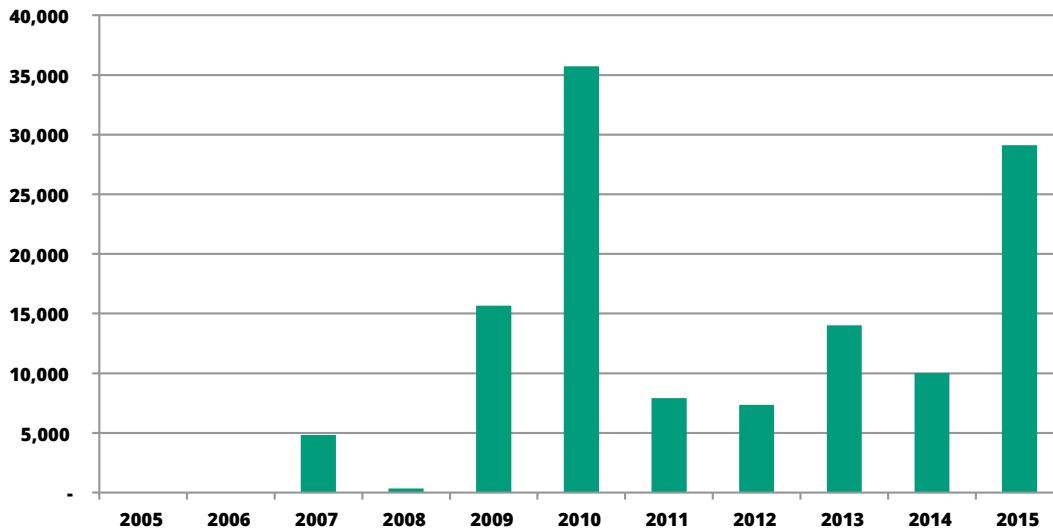
Even as the scale of this finance increased significantly in 2015, its destination was consistent with previous years. Since 2005, the bulk of Chinese policy bank loans to LAC have been directed to four countries: Argentina, Brazil, Ecuador, and Venezuela. In 2014, aside from a \$750 million loan to Trinidad and Tobago, the only LAC recipients of CDB and Eximbank finance were Argentina, Ecuador, and Venezuela. In 2015, Brazil, Ecuador, and Venezuela accounted for 95 percent of total lending to the region, with approximately 34 percent—or \$10 billion—directed

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*The findings herein were derived from the China-Latin America Finance Database, a product of collaboration between the Inter-American Dialogue and Boston University's Global Economic Governance Initiative (GEGI).

FIGURE 1. CHINESE FINANCE TO LATIN AMERICA BY YEAR, 2005-2015 (USD MILLIONS)

Source: Gallagher, Kevin P. and Margaret Myers (2015), "China-Latin America Finance Database," Washington, DC: Inter-American Dialogue.



toward Venezuela alone.

However, for the first time in 2015, Barbados and Costa Rica received policy bank finance for public projects (see Table 1). Barbados was given a small commercial loan from China Eximbank to rehabilitate the historic Sam Lord’s Castle Hotel, which is set to open in 2018 as a Wyndham Grand Resort.¹ Financing to expand Costa Rica’s Route 32 was also finally

approved in 2015 following extended deliberation by Costa Rican lawmakers.²

As in previous years, Chinese finance in 2015 focused extensively on infrastructure and raw materials. Loans to Brazil were channeled primarily to Petrobras for oil sector development. Another \$1.2 billion loan to Brazil’s government will support the development of a soy-processing industrial line. China renewed Tranche B of the China-Venezuela Joint Fund and gave another \$5 billion to Caracas to boost oil production.

Roadway projects, some of which are intended to carry primary goods from source to port, were also popular in 2015. Bolivia received approximately \$853 million for two road projects. One will link the towns of El Espino, Charagua, and Boyuibe.³ The other is the 510-kilometer Rurrenabaque-Riberalta highway, part of a 5,900-kilometer bi-oceanic corridor spanning Brazil, Bolivia, and Chile.⁴

Chinese banks still refrain from imposing policy conditions on loan recipients, although finance is sometimes contingent on the use of Chinese construction firms and equipment. In 2015, Eximbank’s \$250 billion loan to Ecuador for kitchen stove replacement required procurement of kitchen appliances from China.⁵ China Harbour Engineering Company and China Railway Group were tied to Chinese finance in Costa Rica and Bolivia.

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TABLE 1. CHINESE POLICY BANK LOANS TO LAC IN 2015

Source: Gallagher, Kevin P. and Margaret Myers (2015), "China-Latin America Finance Database," Washington, DC: Inter-American Dialogue.

COUNTRY	RECIPIENT	LENDER	AMOUNT (USD MILLIONS)	PURPOSE
Barbados	Government	Eximbank	170	Rehabilitation of Sam Lord's Castle
Bolivia	Government	Eximbank	253	Road construction
Bolivia	Government	Eximbank	600	Road construction
Brazil	Government	CDB	1,210	Soy-processing industrial line construction
Brazil	Petrobras	CDB	1,500	Bilateral cooperation agreement
Brazil	Petrobras	CDB	3,500	Bilateral cooperation agreement
Brazil	BNDES	Eximbank	1,300	Sale of E-195 aircraft to Hainan-Tianjin Airlines
Brazil	Petrobras	CDB	3,150	Bilateral Cooperation Agreement
Costa Rica	Government	Chinese government, Eximbank	395	Highway from San José to Limón
Ecuador	Government	Eximbank	5,296	Transportation, education, and health-care projects
Ecuador	Government	Eximbank	250	Kitchen stove upgrading
Ecuador	Government	CDB	1,500	Partially finance the 2015 Annual Investment Plan
Venezuela	Government	CDB	5,000	Joint Fund Renewal - Tranche B (increased by \$1 billion)
Venezuela	PDVSA	CDB	5,000	Boost oil production

TABLE 2. CHINA'S REGIONAL FUNDS, 2014-2015

Source: Foro China-CELAC website, Eximbank website.

NAME	YEAR INITIATED	AMOUNT	ADMINISTRATOR	NOTES
China-LAC Industrial Cooperation Investment Fund (中拉产能合作投资基金)	2015	\$20 billion	China Development Bank	State Administration of Foreign Exchange capital
Special Loan Program for China-LAC Infrastructure Project (中拉基础设施专项贷款)	2015	\$10 billion	China Development Bank	State Administration of Foreign Exchange capital
China-LAC Cooperation Fund (中拉合作基金)	2014	\$10-\$15 billion	China Eximbank	SAFE and Eximbank capital

One key development in 2015 was China’s announcement of new platforms for regional finance. Three funds will extend \$35 billion in credit to qualifying industrial cooperation, infrastructure, and other projects in LAC (see Table 2). Capital for the China-LAC Industrial Cooperation Investment Fund (中拉产能合作投资基金, \$10 billion for phase one) and the Special Loan Program

various funds hold promise for the region, although it is unclear whether they are a means for restructuring existing bilateral capital or an entirely new source of finance.

As China’s financial sector grows, a wider range of lenders is issuing finance. The China-Latin America Finance Database compiled by the Inter-American

China’s commercial banks are increasingly active in Latin America and other regions, often in cooperation with international counterparts.

for China-LAC Infrastructure Project (中拉基础设施专项贷款, \$20 billion) comes from China’s State Administration of Foreign Exchange (SAFE) and is administered by CDB.⁶

In 2015, China also announced \$5 billion in association with the already established China-LAC Cooperation Fund (中拉合作基金), which is backed, at least in part, by SAFE and run by Eximbank. The China-LAC Cooperation Fund also appears to incorporate the IDB-China Co-Financing Fund for the Latin America and Caribbean Region and a still-pending IDB-Eximbank private equity fund. These

Dialogue and Boston University’s Global Economic Governance Initiative (GEGI) only documents policy bank lending to LAC. However, China’s commercial banks are increasingly active in Latin America and other regions, often in cooperation with international counterparts (see Table 3 for examples of Chinese commercial bank lending in LAC). In 2015 for example, Bank of China (BOC) provided about \$480 million in finance for infrastructure development in Ecuador, and the Industrial and Commercial Bank of China (ICBC) provided billions of dollars to Brazilian companies Vale and Petrobras.

TABLE 3. EXAMPLES OF COMMERCIAL BANK LOANS TO LAC IN 2015

Source: Author compilation.

COUNTRY	RECIPIENT	LENDER	AMOUNT	PURPOSE
Argentina	Nucleoeléctrica	ICBC	4,700	Power plant construction
Brazil	Vale	ICBC	4,000	Various financing arrangements
Brazil	Petrobras	ICBC	2,000	ICBC-Petrobras cooperation agreement
Ecuador	Government	BOC	400	Millennium school construction
Ecuador	Government	BOC	80	Infrastructure

NOTE ON METHODOLOGY

The Dialogue-GEGI China-Latin America Finance Database documents China's state-to-state finance in LAC. This includes CDB and Eximbank finance to LAC governments and state-owned enterprises (e.g., PDVSA, Petrobras, and PetroEcuador). It no longer includes any loans made to the region by China's commercial banks, although these are an important and growing source of finance for LAC, nor does it include no-interest loans made to some Caribbean countries. The database does contain loans jointly made by CDB or Eximbank in cooperation with Chinese commercial banks or other international financial institutions. China's 2015 loan to Costa Rica, for example, was sourced from both Eximbank and Chinese government funds.

There is no easy way to measure Chinese policy bank finance to Latin America. Unlike the World Bank and Inter-American Development Bank, Chinese banks do not regularly publish detailed figures on their loan activities. We must, therefore, examine a wide range of sources, including government, bank, and press reports in both China and borrowing countries, in order to compile a list of loans and their characteristics. We consulted loan agreements published by the Venezuelan and Bolivian governments in their *Official Gazettes*, for example. We uncovered loans to Venezuelan and other companies by examining their filings with the US Securities and Exchange Commission. In-depth interviews with key officials also provided helpful information.

We go to great lengths to ensure reliability by confirming reports in both China and LAC, and we received verification from both CDB and Eximbank in informal interviews that the loans we include in the database are valid and that our estimates are in the right ballpark. Nonetheless, our estimates should not be taken as precise figures. It is possible that we have underestimated Chinese finance in Latin America by failing to document certain loans. Or we may have overestimated the total financing in situations where loans are partially or entirely canceled or a line of credit is not fully committed. To ensure a high degree of accuracy, we revise all data on an annual basis according to actual deliverables. All loans—especially newer ones—are subject to revision.

What Does Chinese Finance Mean for LAC?

China is an increasingly critical source of finance for LAC. The cooling of the region's economies, the slowdown in the Chinese economy, and rise of interest rates in the United States have triggered significant capital outflows from LAC. Development banks have an important counter-cyclical role to play in this uncertain environment, yet some in the region, such as the IDB and the WB, reduced their lending to LAC in 2015. This is largely due to the fact that base capital has remained stagnant. These banks have become concerned that increasing lending over base capital may jeopardize their credit ratings.⁷

Chinese policy banks saw their base capital increase significantly in 2015 and are not as burdened by credit-

rating agencies. With Chinese exports down in 2015, these banks are expected to support foreign projects that could help the commercial sector. Direct government recapitalization means a low cost of funding for lenders.⁸ And slowing growth in LAC provides opportunities for low-cost acquisition of assets in strategic sectors. These factors largely contributed to the near tripling of Chinese bilateral finance to LAC from 2014 to 2015.

In 2015, China also injected capital from its foreign exchange reserves into a domestic sovereign wealth fund and a policy bank to support the "One Belt, One Road" strategy, which proposes extensive infrastructure development throughout Eurasia. The three funds announced by China in 2015 are similarly intended to support regional infrastructure development in LAC while boosting commerce and helping homegrown companies invest abroad.⁹

Although Chinese loans are an important source of capital for LAC, they carry considerable risk for both lender and borrower. Chinese finance is heavily focused on industries such as mining and energy, which are endemic to environmental and social conflict and may lock in the “resource curse.” Local conflicts in these sectors can lead to lost elections in Latin America and lost profits for Chinese firms.¹⁰

China has been a major source of capital for countries with limited access to global capital markets, such as Venezuela, Ecuador, and Argentina. Massive loans to Venezuela in recent years have been a veritable lifeline for President Nicolás Maduro. But the prospect of Venezuelan default on Chinese loans is real. And concern about Venezuela’s economic and political stability is evident in China’s policy circles. According a recent publication by Chinese Academy of Social Sciences (CASS) Institute of World Economics and Politics (IWEP) scholars, Venezuela is the second riskiest destination for Chinese investment of thirty-six countries studied.¹¹ The \$10 billion issued to Venezuela in 2015 may,

therefore, be an effort to protect existing investments rather than a vote of confidence in the Venezuelan economy. China is less concerned about Ecuador’s capacity for repayment, despite a staggering debt-to-GDP ratio.

For several years, China has sought to mitigate some risk in LAC and other regions by issuing commodity-backed loans. Under these arrangements, the loan recipient delivers a certain amount of oil to China over a specified period of time—the proceeds of which are deposited toward the borrower’s loan balance. During the China-led commodity boom, this model offered benefits for both lender and borrower. It diversified repayment sources and enabled access to raw materials. This arrangement is probably less attractive in the current economic environment, however. LAC nations are selling oil at lower than optimal prices. China has had to reduce the minimum oil requirement for at least one tranche of the oil-backed China-Venezuela Joint Fund.¹² Despite evident drawbacks, China extended new oil-backed credit to Brazil¹³ and Venezuela in 2015.

One key development in 2015 was China’s announcement of new platforms for regional finance. Three funds will extend \$35 billion in credit to qualifying industrial cooperation, infrastructure, and other projects in LAC. Capital for the China-LAC Industrial Cooperation Investment Fund (中拉产能合作投资基金, \$10 billion for phase one) and the Special Loan Program for China-LAC Infrastructure Project (中拉基础设施专项 贷款, \$20 billion) comes from China’s State Administration of Foreign Exchange (SAFE) and is administered by CDB.

CONCLUSION

Despite slowing growth on both sides of the Pacific, Chinese finance to LAC expanded considerably in 2015. There are indications, moreover, that China will be lending more to the region in the coming years by means of SAFE-backed funds for infrastructure projects and China's "go out" strategy for policy banks. Large overseas projects are thought to serve the needs of recipient countries while supporting China's own growth prospects. This logic is promising for LAC, especially as commodity prices drop and traditional lenders look elsewhere or, in the case regional development banks, approach lending more cautiously.

With the exception, perhaps, of manufacturing sector finance made through the SAFE/CDB regional fund, the vast majority of Chinese policy bank lending remains focused in a handful of countries—notably Argentina, Brazil, Ecuador, and Venezuela—and sectors. The dramatic political changes taking place in top recipient nations are no doubt on the minds of Chinese bankers. Argentine President Mauricio Macri has already promised to review recent Chinese loan agreements.¹⁴

Further diversification, in terms of both loan recipients and targeted sectors, would be of benefit to the region and to Chinese policy banks which, despite full coffers, are looking to reduce investment risk. In the meantime, we should expect growing and increasingly diversified lending from China's commercial banks. The story would appear to be one of more—not less—Chinese finance, even in these uncertain economic times.

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