China's Economic Presence in Latin America: Too Big to Fail?[*]

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"To tell the truth, I also light a candle every day and prey that China will not fail."[1]

— Luis Miguel Castilla
(Former Minister of Economy and Finance of Peru)

When I travel around Latin America and the Caribbean (LAC), my oriental features often evoke curiosity in the local community. The most frequent question that I have been asked is "*¿De dónde eres?*" (Where are you from?). Often times, another question would follow before I have the chance to answer: "*¿Japonesa?* " (Japanese?). However, such a thing rarely happens when I engage with the academics, the business community or the media in the region. In fact, "China" has become a popular word in these communities. Its popularity is not based on the fact that China is one of the largest economies, or that they are simply interested in such a remote country. The popularity is rooted in China's increasingly evident presence in the region. The influence of such

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* This article is originally written in Chinese.

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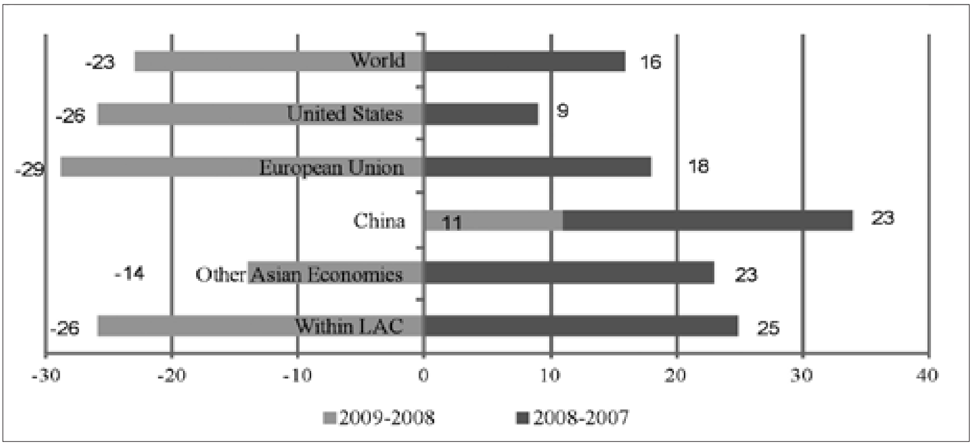
presence is well reflected in the quote from Luis Miguel Castilla, former Minister of Economy and Finance of Peru, found at the beginning of this article.

Ever since the countries in the region gained their independence, they have adopted a variety of economic development models, none of which has led to fairly satisfactory performance. Throughout the 20th century, Latin America often fell victim to world economic crises. On some occasions, the region also suffered from crises caused by endogenous factors, such as the case of the Argentine crisis at the beginning of the 21st century. In retrospect, what was happening at that time could almost be described as heart-stirring? However, ever since then, the region has enjoyed six years of long-awaited economic prosperity, with annual GDP growth averaging 5% and GDP per capita increasing over 3%.[2] The period between 2003 and 2008 was thus hailed as the Golden Age of Latin America. Its quick recovery from the recent global financial crisis was also impressive. To quote an editorial from the British newspaper *Financial Times*, "For the first time in living memory, the words 'Latin America' and 'financial crisis' are not routinely linked."[3] What is the reason for this? Obviously, no any single factor can make this happen, but one thing undeniable is that China played an important role in such unprecedented achievement. Latin American countries, especially those in South America, have benefited greatly from China's strong appetite for global commodities since 2003. During this crisis, while the need from developed countries weakening, demand from China remained consistent, contributing to picking up of commodity prices and thus the regional trade performance (see Chart 1). In short, Latin America's impressive recovery after the crisis was fuelled by China's strong economic growth and its increasingly close links with the region. To paraphrase the quote above, it is also "for the first time in living memory," the words "Latin America" and "China" are so closely connected.

Chart 1: LAC's growth of exports, 2008-2007 and 2009-2008 (Percentages)



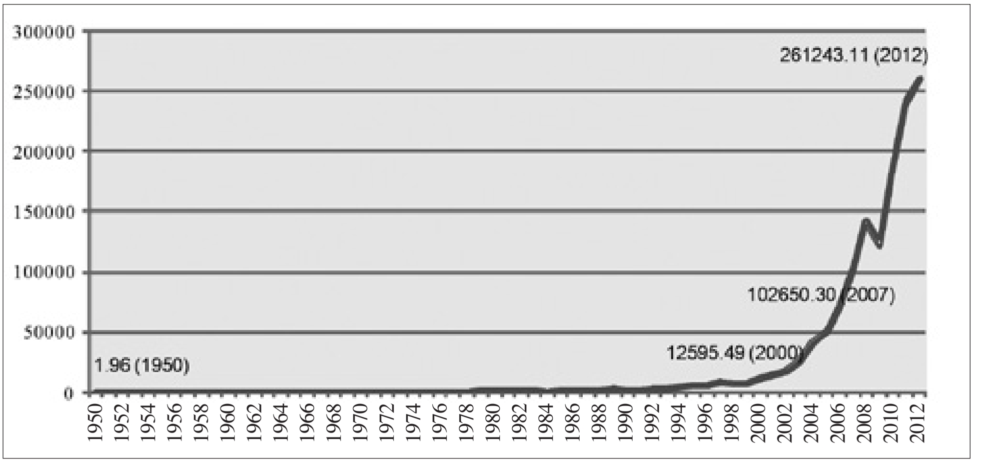
Source: Economic Commission for Latin America and the Caribbean (ECLAC), *People's Republic of China and Latin America and the Caribbean: Ushering in A New Era in the Economic and Trade Relationship*, Santiago, Chile, June 2011, p. 13.

1. Trade Miracle: Beyond Fifty Years of Progress in Five

The years from 1956 to 1961 were considered Brazil's Golden Age. Under the leadership of the then President Juscelino Kubitschek, Brazil's industrialization made real advance, with the industrial production growing at an average annual rate of over 9%. The famous slogan "fifty years of progress in five," along with Kubitschek's other legacies, has become an important part in Brazilian history. However, those who believed Kubitscheck's slogan was ambitious, would gasp at the recent growth of trade between China and LAC (see Chart 2 below).

As shown in Chart 2, it took fifty years (from 1950 to 2000) for the China-LAC trade to pass the $10 billion mark. However, from 2007 to 2012, in just five years, the figure soared from around $100 billion to more than $260 billion. LAC's exports to China grew faster than exports in any other regions. In 2010, China surpassed the EU as LAC's second largest import supplier. According to ECLAC, if China and the EU's demand for LAC exports continue to grow at the current rates, in 2016, China will also overtake EU as the second largest destination of the region.[4]

Chart 2: Trade between China and LAC, 1950-2012 (millions of dollars)



Source: *Zhongguo Duiwai Jingji Maoyi Nianjian* (Almanac of China's Foreign Economic Relations and Trade) and *Zhongguo Haiguan Tongji Nianjian* (China Customs Statistics Yearbook) (editions of relative years)
Note: Data before 1979 are collected from *Zhongguo Duiwai Jingji Maoyi Nianjian*. Data since 1980 are collected from *Zhongguo Haiguan Tongji Nianjian*.

According to official trade data, in 2012 China was the No. 1 export destination for Brazil, Chile and Peru, second largest one for Colombia, Uruguay, Venezuela and Cuba, and the third largest for Argentina and the Dominican Republic. In the same year, China was the biggest import supplier of Brazil and Uruguay and the second largest for Argentina and eleven other countries in the region (Table 1). Some countries have already published trade data for 2013. For example, according to the data from Brazil's Ministry of Development, Industry and Foreign Trade, in 2013, the share of Brazil's exports to China in terms of its total exports increased from 17% (in 2012) to 19%. The imports from China in total Brazil's import volume also increased by 0.2%, reaching 15.6%.[5] In 2013, trade between China and Brazil (US$83.328 billion) represented about one third of all China-LAC trade, indicating the significance of China-Brazil trade to the region.[6]

Table 1: China's rank as LAC countries' trade partners (in 2000 and 2012)

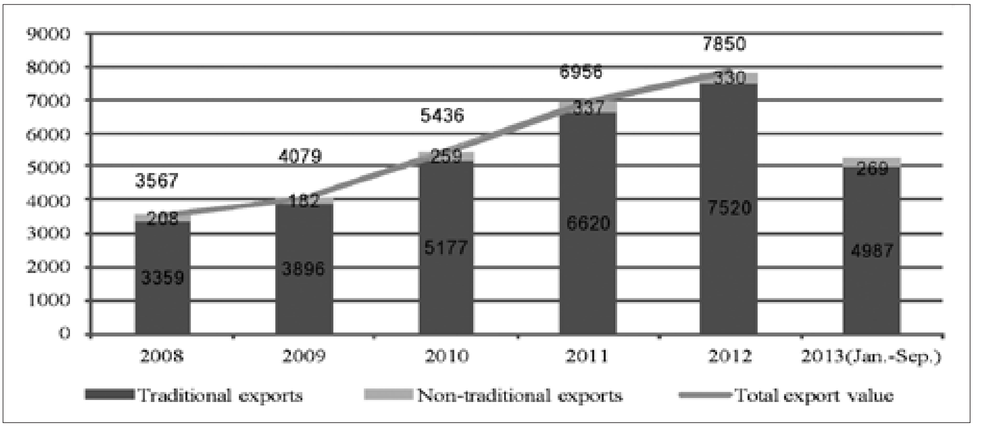
	Rank of export destination		Rank of import supplier	
	In 2000	In 2012	In 2000	In 2012
Argentina	6	3	4	2
Bolivia	18	9	7	2
Brazil	12	1	11	1
Chile	5	1	4	2
Colombia	36	2	9	2
Costa Rica	30	8	15	2
Ecuador	18	11	10	2
El Salvador	49	32	23	4
Guatemala	43	29	19	3
Honduras	54	9	21	4
Mexico	19	4	7	2
Nicaragua	35	25	20	3
Panama	31	5	25	2
Paraguay	15	25	3	1
Peru	4	1	9	2
Uruguay	4	2	7	3
Venezuela	35	2	18	2
Antigua and Barbuda	n.a.*	15	26	3
Bahamas	n.a.	19	28	3
Barbados	42	12	9	4
Belize	n.a.	11	17	2
Cuba	6	2	3	2
Dominica	n.a.	25	25	4
Guyana	27	10	6	3
Jamaica	16	18	10	4
Dominican Republic	n.a.	3	n.a.	2

* Not available

Source: CEPAL, "Promoción del Comercio y la Inversión con China: Desafíos y Oportunidades en la Experiencia de las Cámaras Empresariales Latinoamericanas," p.15.

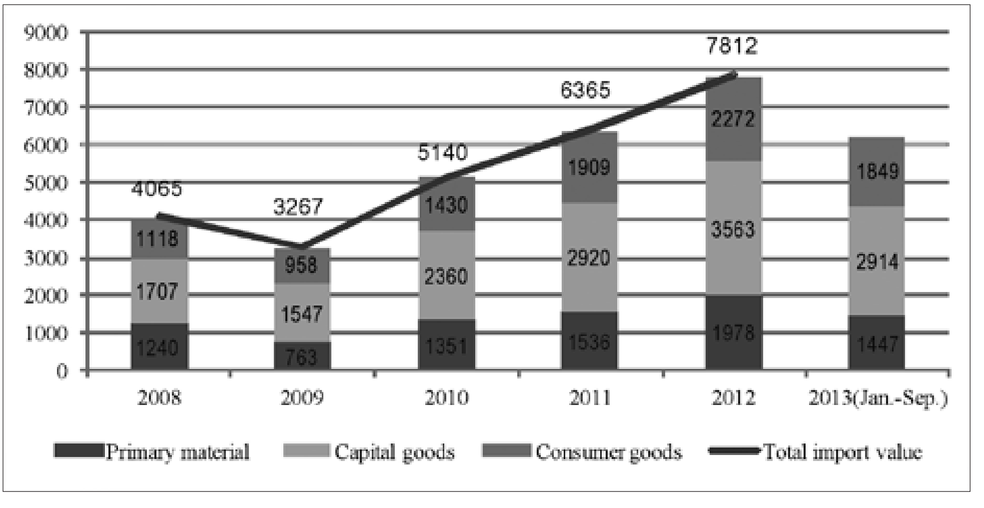
However, the word "miracle" often implies uncertainties. The exciting figures do not necessarily diminish the risks behind them. For example, it is evident that the China-LAC trade structure is asymmetric. The variety of goods that the region exports to China is limited and primarily consists of natural resources. In contrast, China's exports to LAC are far more diversified and comprises mainly of capital goods. The region's exports to China are mostly from South America, followed by Central America and Mexico, and are concentrated for the present in a few types of primary commodities. The Andean countries that are rich in mineral resources, such as Peru, Chile and Bolivia, are the important suppliers of copper, iron, lead, zinc and gold to China. Mining products represent a large share of their total exports to China, with Peru being the most typical in this regard. According to the *Report of Peru-China Bilateral Trade* published in November 2013, in the last six years traditional exports (mostly minerals, and certain amount of fishery products such as fish powder and fish oil) has accounted for a large share of Peru's exports to China. Taking the export data from the first three quarters of 2013 for example. The value of mining products alone represented 95% of the country's total export value to China, among which copper and iron accounted for 72.6 and 14.8%, respectively. Others metals represented a much smaller share. For instance, lead and zinc, which are the next greatest in terms of percentage, represented 6 and 5.4% of the total value, respectively.[7] Although the Peruvian government has dedicated years of effort to promote unconventional exports, the results, as seen in its exports to China, has not been effective (see Chart 3). In contrast, China's exports to Peru are more diversified, ranging from electrical and electronic items, audio and video equipments (as well as their components), to machinery, automobiles and autoparts. The three main categories, namely, primary materials, consumer goods and capital goods, in general, have basically presented a pattern of balanced growth (see Chart 4).

Chart 3: Value and composition of Peru's exports to China, from 2008 to the third quarter of 2013 (millions of dollars)



Source: MINCETUR-OGEE-OEEI, *Reporte de Comercio Bilateral Perú-China, III Trim-2013*, p. 5.

Chart 4: Value and composition of Peru's imports from China, from 2008 to the third quarter of 2013 (millions of dollars)



Source: *Ibid*.

A broadly similar pattern appears in China's trade with the Southern Cone countries. According to statistics from the Secretariat of Foreign Trade of Brazil, in 2013, farm, mining and plant products, such as soybeans, iron ore, paper pulp, sugarcane, raw hide, cathode copper, marble and granite, remained the principal exports to China. Primary commodities (mostly soybeans and iron ore) took more than 80% of total exports to China; intermediate goods accounted for less than 10%; manufactured products remained between 3% and 4%.[8] By way of comparison, labor-intensive goods continued to represent a large share in China's exports to Brazil in 2013, with mechanical and electrical goods, chemical and textile products, and garment making up more than 70% of total exports to Brazil. Additionally, light industrial goods such as furniture and toys, base metal products, optical devices, timekeeping and medical devices also constituted an important part of Brazil's imports from China. The scenario for Argentina bears much resemblance to Brazil, with its export structure to China having been particularly concentrated in agricultural commodities. Argentina's total exports to China in the first three quarters of 2013, according to its National Institute of Statistics and Census, amounted to $4.63 billion in terms of value, among which 75.8% ($3.5 billion) were agro-exports (largely soybeans as well as soy oil) and 11.2% from mineral products. In the same period, the total value of China's exports to Argentina was $8.48 billion. Like the situation with Brazil, mechanical and electrical products took the largest share (57.3%), followed by chemicals (11.6%). Other major items that Argentina imported from China were transportation equipment, furniture, toys, plastic and rubber products, and base metal products, representing together 19.2% of the above total value.[9]

The current structure of the China-LAC trade shows, to some extent, the comparative advantage of all parties, while also indicates that the gains of countries in the region from trade are accordingly confined to the few sectors of primary goods where they have comparative advantage. Trade with China will drive LAC countries to specialize in those sectors where China has strong demand. This naturally evokes concern about the sustainability of region's development. In recent years, discussions about whether the region will again fall victim to "natural resource trap" or Dutch Disease have re-emerged. In fact, such a trade structure is not entirely beneficial for China, either. And it is undeniable that the excessive demand for certain commodities and the concentration of origins of supply can also be regarded as an "unconventional" insecurity.

When speaking with LAC scholars and government officials, I found in most cases we could hardly agree with each other on the subject of "complementary trade." They either shrugged their shoulders, or expressed their doubts or objections directly. The disagreement, I think, is based on different understandings of the definition of "complementary," due to the asymmetries of endowment and specialization that exist within the region. For countries that export both commodities and low value-added industrial goods, and are traditionally inclined toward trade protectionism, such as Brazil and Argentina, trading with China is not entirely beneficial. For countries like Mexico whose exports mainly consist of labor-intensive goods supplemented by natural resources, or for countries in Central America and the Caribbean that are less endowed with natural resources, trading with China has caused more tension than benefits, which explains the fast rising number of Trade Remedy Investigations against China and the proliferation of anti-dumping policies in these countries. According to data released by the World Trade Organization, from 1995 to the first half of 2013, among the ten countries that have launched the most anti-dumping complaints against China, four are from LAC. Investigations from these four countries, namely, Brazil, Argentina, Colombia and Mexico, plus Peru (which ranked 13th place on the list), account for one fourth of the total number of anti-dumping cases against China during this period.[10] According to a report on China-LAC trade published released by ECLAC, since the global financial crisis of 2008, imports from China have become main object of anti-dumping investigations in Latin America. Most of the cases were lodged in Argentina and Brazil, representing 81% of the total. The main items involved include iron and steel products, textile, footwear, home appliance and tires.[11]

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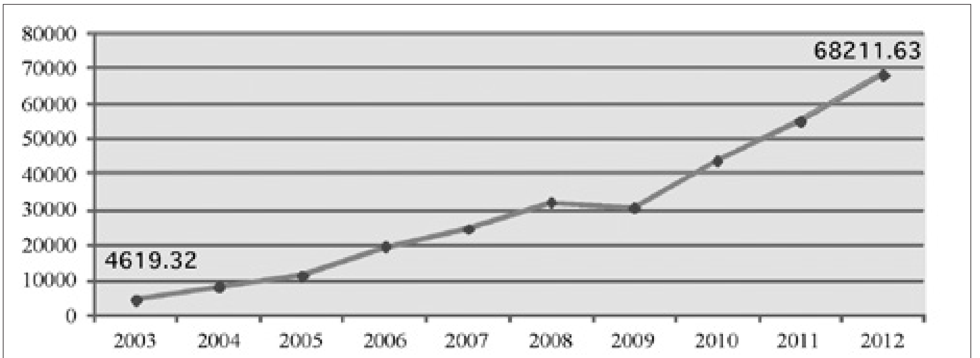
Such trade structural problems can no longer be overlooked.

Instead of simply talking the soaring bilateral trade volume, more important questions to address should be how to optimize this structure, create trade in new areas and enhance mutual sense of security. Furthermore, trade is not the only content of the economic relationship between China and LAC. As the Chinese economy slows down, doubts have emerged on whether the China-LAC trade will continue to grow rapidly. Another dimension in this relationship, which has also generated broad attention as well as heated discussions, is investment.

2. Investment Journey: Quest for Resources Driven by Domestic Demand

According to the data recently published by the Ministry of Commerce of China (MOFCOM), as of the end of 2013, China's non-financial outward foreign direct investment (FDI) stock volume had amounted to \$525.7 billion, of which over \$80 billion were towards LAC.[12] By the static distribution of FDI, LAC is not the primary destination of Chinese enterprises' overseas expansion. The value of capital and the number of investment projects that LAC has attracted from China are in no way comparable to Asia or China's other investment destinations. However, the dynamic growth of Chinese FDI in the region shows great potential (see Chart 5).

Chart 5: Chinese non-financial FDI in LAC, 2003-2012 (millions of dollars)



Source: *Zhongguo Shangwu Nianjian 2013* (China Commerce Yearbook, 2013), Beijing: China Commerce and Trade Press, 2013, p. 194.

In line with the summarized data from LAC, China has become the third largest investor of the region, preceded only by the United States and the Netherlands. The fast-growing capital flow from China into LAC has naturally aroused widespread concern. Nonetheless, this topic is not as "new" as it may seem to be. The Chinese investment had made its entry into the region long before the recent attention. In fact, years before the "Going Abroad" strategy was announced, the Capital Iron & Steel Corporation of Beijing (usually known by its shortened Chinese title of "Shougang") had already stepped foot on Peru.

Just like other bold attempts that China has made in its economic reform, this first investment in LAC was the consequence of both strategic thinking and coincidence, in the context of the particular political and economic situation at the time as well. In April 1991, Alberto Fujimori, the then new elected President of Peru, paid a state visit to China. During the visit, both sides signed an agreement on the Chinese government providing loans to the Peruvian government. President Fujimori also introduced to his host la Empresa Mineral del Hierro del Perú, S.A. (Hierro Perú), the large state-owned Peruvian iron mining company that had been struggling on the verge of bankruptcy and thus being listed on the agenda of privatization by the Peruvian government. At the same time, Shougang was actively following global mining news, seeking opportunities to expand its production capacity. It was planning to build a large steel factory with the annual productive capacity of five to ten million metric tons in Jining, Shandong Province, which required a long-term and stable supply of raw materials. In 1992, the Fujimori government initiated the global bidding for Hierro Perú. Meanwhile, encouraged by the top Chinese leadership, the State Council of China issued an official document to grant Shougang more general decision-making power and a larger degree of autonomy in areas such as investment, foreign trade and financing, making it a typical reform pilot firm for other SOEs. Under such circumstances, after conducting certain research on Peru's situation and on Hierro Perú, Shougang decided to participate in the bidding competition. On November 5, 1992, Shougang won the bidding with $118 million (more than five times the initial base price), acquiring 98.4% of Hierro Perú's shares, which included the permanent rights of exploration, extraction and management on the 670 square kilometers of Marcona mining district, as well as other related assets.[13]

As China's need for copper, iron, gold, alumina and other strategic mineral resources kept growing, almost 15 years after Shougang entered Peru, more and more Chinese companies engaged in the exploration, extraction, metallurgy, processing and trading of metal ore also started their journey in the "New World". As we know, the central belt of Andes is one of the richest metal-producing areas of the world, so it was no surprising that most of the large projects concentrated there. Peru, among the Andean countries along the belt, thanks to its various advantages — including the variety of mines, the well-established legal system, the coherent investment policies, the developed service industry, and most importantly, higher return of investment — has attracted the greatest mining investment from China. Except for Shougang's investment in Marcona, another high-volume project is Aluminum Corporation of China (Chinalco)'s Toromocho mine, which was known as China's largest copper mining project overseas. In August 2007, Chinalco paid 860 million to purchase the Toromocho mine from Peru Copper Inc. It took Chinalco more than six years to eventually put the project into operation. The preliminary work included building sewage treatment plants, accommodating/repairing communal facilities such as hospitals and schools, and most importantly, relocating more than a thousand families living in the mining area. According to the Ministry of Energy and Mines of Peru, as of August 2013, Chinalco had accumulatively invested more than $3.5 billion on the project. It is also estimated that Toromocho project could produce 275,000 tons of copper per year when it goes into full production.[14]

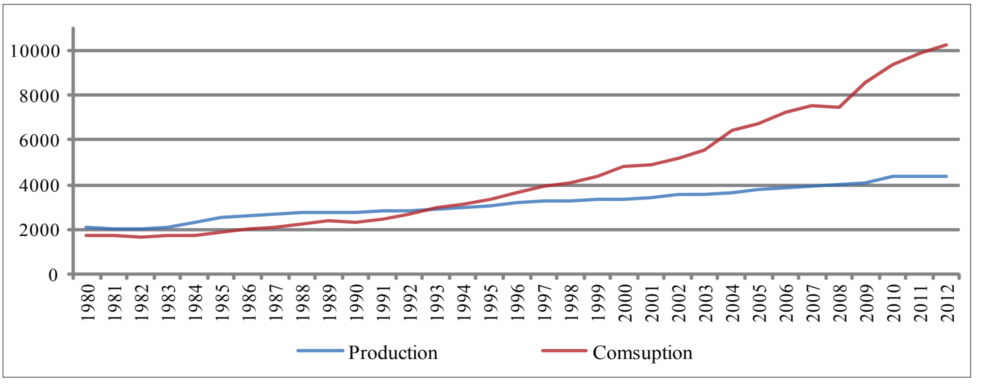
Today Shougang Hierro Perú and Chinalco's Toromocho project have become two classic cases for examining Chinese mining investment in Latin America. They emerged in different historical contexts, and thus experienced variant challenges and difficulties (labor disputes for the former and community relations for the latter, for example). Each adopted particular solutions to its problems, and received widely differing evaluation from the Peruvian society. Notwithstanding, the two projects have one thing in common: they explored ways to learn, and learnt to progress through the growing pains.

Among all the mining projects that Chinese companies have invested in Peru, Marcona is a mature field, and Toromocho is the only newly constructed one that is now in operation. The many others in mineral deposits, such as the partnership of China Minmetals Corp. and Jiangxi Copper Co., Ltd., which had jointly acquired 93.9% interest in Northern Perú S.A.'s Galeno copper project in the Department of Cajamarca, Consorcio Xiamen Zijin Tongkuan Investment Development Co., Ltd.'s Rio Blanco copper project which is located in the Department of Piura, Nanjinzhao Group Co. Ltd.'s Pampa del Pongo iron Project as well as Junefield Mineral Resources Holding Ltd.'s Cercana copper project in the Department of Arequipa, are still in the preliminary stages, either conducting exploration, drilling, evaluation or negotiating with the local communities. On April 14, 2014, Minmetals announced that a consortium composed of MMG Ltd. (one of its subsidiaries), Guoxin International Investment Co., Ltd., and CITIC Metal Co. Ltd., signed an equity acquisition agreement on Las Bambas copper project with Glencore Xstrata plc, with the consideration for the transaction of $5.85 billion.[15] According to an official update released recently, the delivery of equities has been completed in Peru on July 31, 2014.[16] The Las Bambas project is said to be China's biggest metal mine acquisition overseas up till now, as well as the largest copper mine under construction in the world.

Similar to the steel and mining companies, Chinese petroleum companies also experienced growing pains while developing in LAC. Their decision to invest in the region, similar to Shougang's situation, was mostly driven by practical consideration, rather than clear strategic thinking. Statistics from the International Energy Agency demonstrate that, since China's economic reform and opening up, its oil consumption has been steadily increasing along its socio-economic development. In 1993, for the first time oil consumption surpassed production, turning China from a net oil exporter to a net importer (Chart 6). It was in that context did the

Chinese petroleum companies start to "go abroad". Also in 1993, China National Petroleum Corporation (CNPC), one of China's leading oil companies specialized in onshore upstream exploration and extraction, started to make investments overseas. It is interesting that CNPC's first overseas oilfield development project was also located in Peru.[17]

Chart 6: Oil production and consumption in China, 1980-2012 (thousand barrels per day)



Source: International Energy Agency (IEA).
(http://www.eia.gov/countries/country-data.cfm?fips=CH).

In October 1993, CNPC won the bid for developing the Talara-7 oilfield in Northwestern Peru. Soon after, it acquired another service contract for Talara-6 in the same region. According to CNPC, these two projects "blazed a trail for Chinese oil companies to explore the international market and participate in overseas oilfield development".[18] During the following ten years, as the only Chinese central state-owned petroleum company that had oil and gas investment in Latin America, CNPC primarily invested in three countries: Peru, which is regarded as its "base" in LAC area, Ecuador (Peru's northern neighbor) and Venezuela (one of the top oil producers and exporters in the region). As it did in Peru, CNPC's entry into the latter two countries also realized through acquiring mature fields.

At the end of 2003, Sinochem Group, transformed from China National Chemicals Import & Export Corporation, once China's largest foreign trade company, started its venture in LAC through acquiring CRS, a whole-owned subsidiary of the American company ConocoPhlips in Ecuador. In September 2005, Sinopec, another Chinese company mainly engaged in downstream businesses such as oil refining, got its first project share in the region through acquiring foreign competitor's assets with CNPC. In October 2008, China National Offshore Oil Corporation (CNOOC), which tended to focus on offshore oil and natural gas exploration and production, had its presence in LAC area by joining hands with Sinopec to purchase the oil and gas assets of Talisman Energy Inc., a Canadian company, in Trinidad and Tobago.

The year 2009 saw a significant milestone for the Chinese investment in LAC hydrocarbon sector. China's energy investment projects in the region since then present two distinct features. First, the companies seemed to start establishing a preference in terms of investment channels. Before 2009, most companies had invested through bidding, cooperating with local petroleum enterprises, or purchasing exploration and management rights from private companies. Only a few projects were accomplished by international mergers and acquisitions. In contrast, since 2009, more companies, with rare exceptions, such as Sinochem winning the bidding for five blocks located in Maranon Basin and Ucayali Basin of Peru in 2010, have invested through purchasing existing projects in the region, especially by acquiring strategic assets from those financially distressed European or American multinational enterprises (MNEs). Second, investment volume has increased robustly, and the projects have also expanded to more countries in the region. After 2009 and especially since 2010, the volume of most Chinese investment projects in LAC's hydrocarbon sector have reached one billion dollars or higher. This has contributed to the rapid increase of Chinese non-financial FDI in the region, surpassing \$10 billion in three consecutive years. In terms of geographic distribution, the Chinese investment is now seen in almost all the major oil producing countries in the region, except for Mexico.[19] The table below enumerates China's key oil investments in LAC in the last two decades.

Table 2: Chinese companies' oil investment in Latin America (1993-2013)

Date	InvestorS	Investment activities
October 1993	CNPC	Block 7 in Talara Oilfield, Peru
July 1995	CNPC	Block 6 in Talara Oilfield, Peru
June 1997	CNPC	Caracoles and Intercampo Oilfields, Venezuela
June 2001	CNPC	Orimulsion Cooperation with PDVSA
August 2003	CNPC	Block 11 of Amazon Project, Ecuador
November 2003	CNPC	Purchased 45% stake of the Argentine company PLUSPETROL on Block 1-AB/8 in Peru
December 2003	SINOCHEM	Purchased CRS Resources (Ecuador) LDC from ConocoPhillips Co. of USA. Its asset concludes 14% of the interests of Ecuador Block 16.
August 2005	CNPC &SINOPEC	Jointly purchased oil and gas assets and development rights and interests of five blocks owned by EnCana in Ecuador, and established Andes Petroleum Ecuador Ltd.
December 2005	CNPC	Signed risk exploration contracts with Peru's Ministry of Energy & Mining covering Block 111 and Block 113 in the MDD basin.
August 2006	CNPC	Signed a joint venture agreement on Zumano Oilfield in Venezuela with PDVSA.
September 2006	SINOPEC	OVL and SINOPEC Jointly bid for 50% stake in Omimex de Colombia. Each of them has 25% stake.
March 2007	CNPC	Joint venture for exploration, drilling and upgrading production with PDVSA on Block Junín 4 in the Orinoco heavy oil belt in Venezuela.
March 2007	SINOPEC	Purchased 80% of rights and interests of POSA field from PDVSA.
May 2009	SINOPEC & CNOOC	Jointly purchased all assets of Talisman Energy Inc. in Trinidad and Tobago.
October 2009	SINOCHEM	Acquired 100% equity of Emerald Energy PLC, including 50%-100% rights and interest of 8 blocks in Colombia and 100% rights and interests of block 163 in Peru.

March 2010	CNOOC	Established a 50%-50% joint venture with Argentina's Bridas Energy Holdings.
May 2010	SINOPEC	Purchased 40% stake of Peregrino Oilfield (Brazil) from the Norwegian Statoil ASA.
October 2010	SINOCHEM	Won concession of five blocks in Peru: blocks 178, 185 and 165 in Marañon field and Blocks 173 and 175 in Ucayali field.
October 2010	SINOPEC	Purchased 40% stake of Repsol Brazil
December 2010	SINOPEC	Purchased all assets of Occidental Petroleum Corp. oil and gas unit in Argentina.
December 2010	CNPC	Signed a joint venture operation agreement with PDVSA on Block Junín 4 in the Orinoco heavy oil belt.
February 2011	CNOOC	Pan American (owned by Bridas Corp — itself co-owned by China's CNOOC and Argentina's Bulgheroni family) purchased an oil refinery and more than 700 service stations in Argentina, Paraguay and Uruguay from Exxon Mobil Corp.
November 2011	SINOPEC	Purchased 30% stake in Galp Energia SGPS SA (GALP)'s Brazilian unit.
December 2011	SINOCHEM	Purchased 10% stake of the Brazilian unit of French oil and natural-gas company Pereneo SA in five offshore blocks in the Espirito Santo Basin.
February 2012	SINOCHEM	Purchased TEPMA BV (Total SA's Colombian assets), which has a stake in the Cusiana field as well as shares in the OAM and ODC pipelines in Colombia.
October 2013	CNPC &CNOOC	Formed a consortium with other oil companies and won the concession of exploration and extractions in Libra oilfield, Brazil. CNPC and CNOOC each has 10% stake.
November 2013	CNPC	Purchased the Peru unit of Petrobras.

Note: Sources are diversified, including the relative companies' website, publications of Chinese governmental authorities such as State-owned Assets Supervision and Administration Commission of the State Council (SASAC), the Ministry of Land and Resources and the Ministry of Commerce (MOFCOM).

Chinese investment projects in LAC are mainly found in the natural resource sector, which make up over 80% of total Chinese investment volume in the region. The phenomenon can be attributed to several factors, including surging demand of natural resources in China, high commodity prices in the international markets and comparatively higher return of investment. Since such an investment usually requires huge capital outlays, and is usually involved in topics of non-traditional security, ordinary companies may not be able to bear the cost as well as the risk. Therefore, it is natural that the central SOEs, which often enjoy better access to financing from state-owned policy banks and commercial banks, have become absolutely leading investors. These giant central SOEs, with their resources strategy, state ownership background, financial capabilities and distinctive behavior, have elicited close attention of various stakeholders on international stage. Their bucking-trended expansion since the financial crisis of 2008, especially a succession of high-profile acquisitions, have magnified China's image as a "super-investor," which is not necessarily a positive label. In the winter of 2013, during an interview with a commercial counselor of a Latin American country in China, I asked her opinion about the robust growth of Chinese investment in her homeland. Her comments, which were understandable but still surprising to me at first, were rather negative. She believed that a win-win scenario does not virtually exists when either trade or investment, or both, is overly concentrated in certain sectors. The bilateral economic relations cannot develop with sustainability unless it brings mutual benefits to both parties. To a certain degree, I agree with her analysis. Where is the way to win-win situation? Diversification seems to be the only solution to this problem.

3. Toward Diversification: Seeking the Path of Common Development

Diversification is, no matter by the current situation or the future tendency, the ideal path for China and LAC countries to strengthen and sustain their economic relations. As trade is less "controllable" than investment, it may take more time and effort to build a more balanced China-LAC trade structure. By contrast, it is comparatively easier to promote and adjust investment. In fact, the last few years witnessed that economic ties between China and LAC achieved considerably diversification regarding the types of investor, investment fields and geographical distribution of ventures. That can be attributed to various factors, including Chinese government's adjustment and improvement of policies, LAC countries' stronger interest in and more supporting measures for attracting Chinese investment, the accumulated survival experience and more mature governance of Chinese overseas companies, as well as dramatically increased pressure from China's domestic markets to change development model and upgrade industries. Investment is no longer only a means to gaining natural resources supply, but rather an opportunity to explore overseas market, reduce production and logistic costs, transfer overcapacity, increase competitiveness, and increase the R&D competences. In terms of sectors, Chinese investment has already expanded beyond natural resources, and can now be virtually found across numerous industries, including manufacture, agriculture, electronics, power, information technology and software, finance, whole sale and retail, clean energy, infrastructure, textile, pharmaceutical industry, transportation, warehousing, catering service and tourism, etc.

To this date, it's not hard to name at least one or two successful investment cases in each of the industries listed above. For instance, Huawei Technologies Co. Ltd, a leading information and communication technology (ICT) solution provider based in Shenzhen, has operations across numerous countries in the region. With rich overseas operation experience, Huawei's internationalization model has won wide recognition in the states which received its investment. ZTE, another Chinese ICT service provider, has also gained a considerable share of LAC market. MNEs in other industries, such as personal computers (Lenovo), automobiles (Chery), household appliances (Gree), televisions (Skyworth, Konka and TCL), and heavy machinery (Sany, Zoomlion, and XCMG), have also developed rapidly in the region. Several countries, such as Brazil and Mexico, have attracted many Chinese companies to establish manufacturing bases or subsidiaries there with their comparatively large national economy, growing consumer market, strategic geographic locations (either close to North American market or adjacent to numerous countries in the region), and quite healthy or improving investment environment, Since 2007, amid the rising food prices in the international market, Chinese agricultural corporations, both SOEs and private entities, have started eyeing Brazil, Argentina, Bolivia and other countries in the region with wealthy agricultural resources. Some of them have gained a foothold in the region by purchasing or leasing land (Chongqing Grain Group in Brazil and Argentina, Zhejiang Kasen Group in Brazil, and Pengxin Group in Bolivia), or through acquiring local agricultural assets (COFCO acquired one of the top ten wineries in Chile and COMPLANT got several sugar mills in Jamaica). Giant state-owned power and infrastructure corporations of China, such as State Grid and Gezhouba Group, have also set foot in the region. They participate actively in local infrastructure construction and management via acquiring electric transmission system assets from European enterprises or financing cooperatively some huge hydropower projects in Brazil, Argentina and Ecuador. At the same time, private Chinese companies in the business of clean energy resources (like solar, wind, and geothermal energy), such as Sinovel Wind Group, Xinjiang Goldwind Science & Technology, Sky Solar Holdings, are keeping to seek opportunities to expand their local business and increase their investment by means of participating renewable energy projects in Chile, Cuba and Central America countries. The presence of several Chinese state-owned banks in the region is impressive as well. Since China officially joined the Inter-American Development Bank (IDB) in 2009, in order to promote China-LAC trade and provide better financial services for companies from both sides, major Chinese financial institutions have established their subdivisions in LAC. China Development Bank (CDB) now has working groups in several countries there. Bank of China (BOC) established its first operational branch in Brazil (in 2009) and opened "Chinese business service desks" in Peru, Chile and Mexico. Over the last two years, the Industrial and Commercial Bank of China (ICBC) accelerated its expansion in the region. In 2012, ICBC purchased 80% stake of

Standard Bank Argentina (a subsidiary of Standard Bank of South Africa), turning it into the ICBC Argentina Branch. After a rough and rugged application procedure, ICBC received approval to set up branches in Brazil and Peru in 2013, which officially opened for business in September 2013 and February 2014, respectively. By the end of 2013, China Construction Bank (CCB) had reached an agreement with BicBanco to purchase its 72% stake. If nothing unexpected happens, it may enter the LAC market before long.

It needs to be pointed out that, although to some degree diversification is a visible tendency large asymmetries persist evident within different countries and sectors. On the whole, the largest amount of Chinese investment has gone to South America, corresponding to China's trade with the region. Investments in Brazil and Argentina become diversified to a greater extent, in terms of sectors and related investors, than those in other LAC countries. The table below, which enumerates 61 Chinese investment projects (from 2005 to November 2013) of more than a hundred million dollars in the region, clearly presents the differences.

The differences manifested in the table above may not be explained from a single dimension. On January 28 and 29, 2014, at the Second Summit of the Community of Latin American and Caribbean States (CELAC) in Havana, Cuba, the creation of China-CELAC forum, proposed by China over a year ago, was officially approved. Inspired by the experience of the Forum on China-Africa Cooperation, China expects to take CELAC, a multilateral organization joined by all LAC countries under the new circumstances, as a platform to promote a comprehensive, all-round China-LAC cooperation. According to the director general of Department of Latin American and Caribbean Affairs, the Ministry of Foreign Affairs of China, the goal of China-CELAC Forum is to "establish a platform for advancing wide-ranging cooperative partnership between China and Latin America," and to achieve "mutual benefit and common development."[20] This statement underlines two of the key words of this article: "mutual benefit" and "development". As China-CELAC Forum was not launched in 2014, neither has any information on the first ministerial meeting scheduled for 2015 been published, it up to now

Table 3: 61 Chinese investment projects of more than a hundred million USD in LAC (2005- Nov. 2013)

Sector / Country	Energy	Mining	Agriculture	Finance	Automotive	Chemical	Real Estate	Telecom
Brazil	7*	4	2	4	4	-	3	2
Venezuela	1	1	-	-	1	-	-	-
Peru	1	7	1	-	-	-	-	-
Argentina	3	-	1	2	1	1	-	-
Chile	2**	2	-	-	-	-	-	-
Ecuador	1	2	-	-	-	-	-	-
Colombia	2	-	-	-	-	-	-	-
Mexico	-	2	-	-	-	-	-	-
Jamaica	-	-	1	-	-	-	-	-
Bahamas	-	-	-	-	-	-	1	-
Trinidad & Tobago	2	-	-	-	-	-	-	-
Amount (USD 100 million)	346.7	171	42.3	20	16.2	10.1	9.6	3.5

Note: Original data from the Heritage Foundation. The author has edited the information based on study and comparison with other sources. The table presents the results of the author's confirmation and calculation.
* Two of the seven are State Grid invested projects; the others are oil and gas investments.
** One is solar energy and the other is wind power.

remains unclear whether the Forum can eventually archive any substantial progress toward its declared goals. However, against the backdrop of current China-LAC economic links, the composition of the Forum, with China as the initiator on one side, and 33 LAC countries on the other as a whole, will at least foster the Chinese government and companies to pay more attention to those countries and sectors that is beyond South America, and outside the range of present trade partners and recipients of investment. The member states have a plan to establish various bilateral cooperative agreements under the framework of the Forum, which will propel the China-LAC trade and accelerate the Chinese investment in the corresponding sub-regions. Moreover, commonly funding programs under the Forum will also guide the relative companies to realize a more evenly distributed and balanced investment strategy. The whole arrangement is based on the actual situation of LAC, where each country has a distinctive feature. Therefore, it is reasonable to expect that the China-CELAC Forum will contribute to the diversification of the China-LAC economic ties.

In order to accomplish the goal of mutual benefit and common development through China-CELAC Forum and mechanisms within the frame, it is vital to establish some premises. First of all, it is necessary for China to have a clear understanding of major commonalities and differences among LAC countries, and that will help China make the most of the Forum. Due to the structure of CELAC and the Forum, it is often easy to ignore the differences among 33 member states. For instance, there are some subjects that are more suitable for bilateral negotiations. Thus, if they were brought to the plenary session inappropriately, instead of reaching consensus, it could probably cause unnecessary complications, therefore lead to misunderstandings or even controversy. Moreover, as the originator of the Forum, it is important for China to recognize each and every member's distinctiveness and expectation. China should also openly articulate its own vision and objectives in order to avoid any unnecessary misinterpretation of her standing. LAC countries, on the other hand, should recognize China's pragmatic strategy, reduce suspicion, enhance mutual trust with China, determine the common interests and keep working together to improve the China-LAC relations. Only in this way can all the participants benefit most from the Forum. In June 2012, the then Chinese Premier Wen Jiabao delivered a speech entitled "Trusted Friends Forever" at the headquarters of ECLAC. He honestly acknowledged in the speech that "the pursuit of common interests lies at the core of China-Latin America relations."[21] Identifying these common interests is essential for achieving sustainable relations between China and LAC.

In summary, the China-LAC relations have risen to an unprecedented level over the last decade. For the first time in history, the two economies separated by the vast Pacific Ocean are linked up so closely that on some occasions or in some areas a certain amount of mutual dependency could be perceived. Maybe just because of such a "first," the well-built Chinese presence in the region is breeding imagination and myths. The title of this article, "too big to fail," can be read as one of the interpretations for the phenomenon. There is an interesting expression in Spanish, "*cuento chino*," which literally means "Chinese story," but actually indicate a "fantasy". This expression somehow coincides with a real story about the relationship between China and LAC. The China-LAC relationship is indeed much more than a fantasy, but rather contains numerous dimensions in the reality. China's role in this story, as well as the solutions to the various problems, is still pending for observation and analyses. Over the last two centuries, too many "golden ages" have ended up as a flash in the economic history of the region. Let us hope the golden age of China-LAC relations become sustainable and enduring.

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13 For detailed reports, see *Shougang Daily* and Shougang research fellows' publications, such as Che Hongqing's article "Lessons from Shougang Acquiring Peruvian Iron Mining Company,"carried in *Global Management Review*, No. 4, 1996, as well as Hu Jingshan's book *Legend of Steel: One Hundred Years of Shougang, One Hundred Years of Legend*, Beijing: Central Party Literature Press, 2014.

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15 Available at: http://www.minmetals.com.cn/detail.jsp?article_millseconds=1397435631637&column_no=01,

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17 It is unclear why CNPC made Peru as its first choice. In fact, compared to some countries in the region, Peru's oil reserve and production were not impressive. For example, in 1995, Peru ranked the 8th in LAC in terms of oil production, falling behind Ecuador and Trinidad & Tobago, not to mention the Petro states such as Mexico and Venezuela. For data of oil production, see *Yearbook of China's Oil and Gas Industry*, 1996, Beijing: Petroleum Industry Press, 1996, p. 544.

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