China in Latin America: The Storm on the Horizon

Investigating Chinese Investment and its Effects in Colombia, Ecuador, and Bolivia

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Over the past decade, China has steadily increased its economic presence throughout the global south.[1] However, when it comes to scholarly analysis of Chinese investment policy, much of the scholarly focus has been placed on Africa despite major Chinese investments throughout Latin America. I plan to investigate the nature of Chinese investment in Latin America and how China plans to benefit from said investments. Therefore, this project seeks to discover: What kind of influence is China generating in Latin America through its economic investments, and how does/will that influence affect the balance of power in the region?

This question interests me largely due to my experience within the realm of national security. While I was working with the State Department, I learned of the priority placed on China within the Intelligence Community. There were so many facets to the issue that it was hard to keep track of them all; however, I naturally gravitated towards the analysis of Chinese involvement in less developed countries. I had read about Chinese projects in Africa during my work with the Cipher Brief writing about developments in Africa, and to a lesser extent heard about China in the context of my Latin America regional classes. So, to research China in Latin America is a way that I can learn more about a topic relevant to the career I aspire to while contextualizing that new region within an area I am already familiar with. Finally, I hope to

[1] Koleski, Katherine and U.S.-China Economic and Security Review Commission. Backgrounder: China in Latin America. Washington, D.C.: U.S.-China Economic and Security Review Commission, 2011

create something new and useful to continue the conversation surrounding Chinese expansion and influence.

As for why others should be interested in this topic, China is a growing powerhouse within the developing world. China has pioneered a new method of dealing with less developed countries that brings them both benefits in the form of resources and influence within those nations. By investing in developing nations, China can gain access to the natural resources needed to power its economy. Furthermore, by loaning money to those nations as an incentive for access to resource rights, China gains potential leverage over the governments in those countries, especially if those countries cannot pay their loans back.

Chinese influence in developing nations could have profound effects on those countries' policies, economies, and even the regional balance of power. Investment from China is attractive, as it claims to bring development and capital without the requirements imposed by western counterparts such as the World Bank. However, though China claims a policy of non-interference, countries often bend their policies before receiving Chinese help.[2] Debt generated from Chinese loans has the potential to further persuade nations to fall in line with China or risk being faced with default.

In spite of the gloomy outlook presented thus far, this question is important to consider in the negative as well. It is important to consider what happens if China's investment turns out to not have as serious of consequences as are feared at the moment, and what that means for United States foreign policy regarding both China and the nations involved in Chinese investment.

[2] Meservey, Joshua. "The U.S. Should Call China's 'Non-Interference' Policy in Africa What It Is-A Myth." The Heritage Foundation, July 6, 2018. https://www.heritage.org/global-politics/report/the-us-should-call-chinas-non-interference-policy-africa-what-it-myth.

Looking at China's role investing in Latin America, I have chosen three countries to act as case studies. Choosing three case studies, rather than looking at the entirety of Latin America, allows this investigation to go deeper into analyzing the drivers within each state and the possible outcomes that stem from each country's cooperation with China. To best illustrate the spectrum of states within Latin America in the context of China, I have chosen Colombia, Ecuador, and Bolivia as the three case studies.

While I will delve into the value of each individually, together they provide a spectrum of Latin America in terms of its closeness to United States interests. This is key because Chinese investment is seen as, in part, filling a void created by receding United States support. Furthermore, the nation with the least ties to the United States, Bolivia, demonstrates the closest ties with China, while Ecuador appears to have middling ties with both nations, and Colombia with the closest ties to the United States and the fewest apparent ties to China. It is important to investigate whether the relationship is truly inverse, or just appears that way.

Colombia is the United States' closest ally in Latin America and a country whose formal political system is known for its animosity towards leftism. Long-term civil war with socialist and communist guerillas have left the Colombian public wary of any state seen as leftist, as those forces often received funds from states such as Venezuela and Cuba. Compared to nearby countries, there is little Chinese investment in Colombia compared to neighboring countries such as Ecuador and Venezuela. However, as peace negotiations with the Revolutionary Armed Forces of Colombia (FARC) progressed, Chinese interest in new infrastructure projects increased. However, this isn't to say that China has no foothold in the country whatsoever, but rather that the process by which it would achieve such a hold is made more difficult by political and social factors than it would be in friendlier states. China has invested in Colombian oil and infrastructure, including financing development projects using the Chinese Development Bank and Chinese state-run corporations. For example, Emerald Energy PLC, a property of China's state-owned Sinochem, was awarded a contract to explore an area of 239,415 hectares in eight Colombian municipalities to exploit oil for the next 30 years.

This is to say, the potential for Chinese expansion into Colombia is greater than one might assume for the closest American ally in the region. By looking at the role of China in Colombia, this paper will investigate how Chinese influence grows in the face of hostile conditions. This will serve to establish a lower boundary for the growth of Chinese influence in the region while examining China's potential success in what is currently a United States-dominated market.

The next case, Ecuador, has complex relations with both the United States and China. Ecuador very recently transitioned out from under the Correa administration, which was notably anti-American in favor of a distinctly Latin American leftism that condemned what Correa saw as exploitation and neo-imperialism by the United States. However, Correa's successor and Vice President Lenín Moreno took an unexpected and sharp turn to the political right. Moreno has reversed most of Correa's progressive policies, even rescinding Julian Assange's asylum status.[3] The right-wing movement, empowered by Moreno's shift, declared Ecuador allied to the United States. However, the truth is more complicated than a simple yes-or-no to being aligned with the United States. While Moreno government has made progress in improving Ecuador's relationship with the United States, it is important to remember that Ecuador still has ties with

[3] Council on Hemispheric Affairs. "From Rafael Correa to Lenín Moreno: Ecuador's Swing to the Right." COHA. Council on Hemispheric Affairs, July 3, 2019. http://www.coha.org/from-rafael-correa-to-lenin-moreno-ecuadors-swing-to-the-right/.

China and that Correa's base still makes up a large percentage of the constituency. This throws into question the likelihood of continued advancement in U.S.-Ecuadorian relations.

As of now, Ecuador is in an intermediary limbo between Pro-Chinese and Anti-Chinese sentiment fueled by dependence mixed with outrage about Chinese methods. For example, Ecuador's energy minister, Carlos Pérez, told the New York Times: "China took advantage of Ecuador. The strategy of China is clear. They take economic control of countries."[4] However, just last year, President Moreno flew to Beijing to negotiate some of Ecuador's massive debt to China and borrow another $900 million. Ecuador might be looking to shift away from China and re-align with U.S. interests, but whether or not they have the ability to get out from under China is a different question. This is the lens through which this paper will analyze Ecuador, the moderate of the three case studies.

The final case study, Bolivia, represents the most China-friendly of the case studies in this paper. Bolivia has a fraught history with the United States, from CIA interference in the 1960s to populist and anti-U.S. leader President Evo Morales in the current day. On the level of popular opinion, there is a widespread belief in Bolivia that the U.S. Embassy has interfered with and even "controlled" the Government of Bolivia, leading to considerable resentment among Bolivians, including but not limited to the groups that elected Evo Morales president in 2005.[5] President Morales told his followers that "the US Embassy is here to organize a conspiracy"

[4] Casey, Nicholas, and Clifford Krauss. "It Doesn't Matter If Ecuador Can Afford This Dam. China Still Gets Paid." The New York Times. The New York Times, December 24, 2018.
[5] Pike, John. "Bolivia - US Relations." Bolivia - US Relations. Accessed September 28, 2019. https://www.globalsecurity.org/military/world/bolivia/forrel-us.htm.

against his government,[6] meanwhile praising China: "China's support and aid to Bolivia's economic and social development never attaches any political conditions."[7]

Bolivia is this research's example of a favorable environment for Chinese investment in Latin America. There is no preexisting superpower that has favor in the country, and the nation is in need of both capital and infrastructure with which to develop. If China is to gain influence via its investments in developing nations, Bolivia would be an ideal candidate. It will also be interesting to analyze how this favorable attitude affects China's interaction with Bolivia, and what approaches are reserved for more hesitant partners. Bolivia will provide the perspective of a country welcoming Chinese investment, rounding out the three case studies to be used in this paper.

When this project investigates China's role in other countries' decision making, it will do so in terms of Chinese influence. For this paper's purposes, influence will be categorized into Hard and Soft categories, following the example given by Joseph Nye in *Soft Power;* more specifically, this project will analyze use Hard Economic Power and Soft Power.[8] Hard Economic Power, or economic influence, is simply the use of economic coercion, sanction, or aid as an inducement to change the behavior of an actor. Soft Power, or social influence, is one actor convincing another to match a behavior by presenting it as an attractive example. The actor obtains what it wants because others want to follow it, not due to an inducement or threat.

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[6] Pike, John. "Bolivia - US Relations." Bolivia - US Relations. Accessed September 28, 2019. https://www.globalsecurity.org/military/world/bolivia/forrel-us.htm.
[7] "Xi, Morales Hold Talks, Agree to Establish China-Bolivia Strategic Partnership." Xinhua, June 19, 2018. http://www.xinhuanet.com/english/2018-06/19/c_137265305.htm.
[8] Nye, Joseph S. Soft Power: The Means to Success in World Politics. 1st ed. New York: Public Affairs, 2004.

In addition to examining the situations of the cases and the present-day state of Chinese investment, this project will present the potential consequences for the countries based on their engagements with China. Each country has different degrees of ties and obligations to China which frame, and in some cases limit, future options. Elements such as debt frameworks, leases on resource rights, and development projects can set a timeline for Chinese involvement within those governments and economies.

Furthermore, Chinese goals may vary based on the resources available in each country, or possibly the level of involvement in each country. While China might seek to expand influence in a country where they are not currently the primary international partner, priorities likely shift when China already has a strong standing. And, while China may be interested in oil resources from countries with abundant reserves, minerals and other basic materials such as zinc and gold are also frequent targets of Chinese investment and require different levels of infrastructure investment. Finally, inducements differ based on the infrastructure and development level of the country and such projects each have different timelines and obligations.

In Colombia, Chinese investment is focused primarily around oil. In addition to multiple Chinese companies exploring in order to search for oil to exploit, China imports $2 billion in Colombian oil. For reference, Colombia imports $8.6 billion in goods from China, primarily technology and machinery. However, China has also shown interest in investing in Colombian agriculture, highways, and major ports on the Pacific coastline. One such project is the Buenaventura Port Industrial Park, which would be located in Colombia's most important commercial port. China announced a plan by which both countries would invest around $16 million in infrastructure surrounding the port, and the two countries signed a memorandum of understanding agreeing to move forward negotiating the project.[9]

Chinese interest in infrastructure investment is not new, and so there are many reference points to compare to glimpse possible consequences for Colombia. Common issues often include construction delays and lack of construction quality. Meanwhile, the development of the agriculture sector is an interesting opportunity that could lead to fast development but could leave China with a stronger strategic position in the region. Finally, the escalating, long-term resource investment ensures China will be present in Colombia for decades to come, providing a baseline level of Chinese involvement in the region. This involvement could lead to Soft Power: Colombia wanting to continue doing business with China and thereby increasing Chinese share of Colombian FDI. Additionally, China could begin leveraging ongoing infrastructure investment to promote Chinese bids for mineral rights.

In Ecuador, China has invested in several multibillion-dollar projects including oil and gas refineries, education and technology initiatives, migration support, and infrastructure projects. While many projects were announced under the Correa administration, Chinese investment has by no means stopped under Moreno; in August of 2019, Chinese feed manufacturer Haid announced plans to build a 50,000-metric-ton capacity shrimp processing plant in Ecuador after the company broke ground on a $35 million shrimp feed plant in January.[10]

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[9] Palau, Mariana. "China Looks to Expand Colombia's Buenaventura Port." 中外对话 China Dialogue, November 29, 2017. https://www.chinadialogue.net/article/show/single/en/10250-China-looks-to-expand-Colombia-s-Buenaventura-port.

[10] Palau, Mariana. "China Looks to Expand Colombia's Buenaventura Port." 中外对话 China Dialogue, November 29, 2017. https://www.chinadialogue.net/article/show/single/en/10250-China-looks-to-expand-Colombia-s-Buenaventura-port.

Possibly the most famous Chinese investment in Ecuador is hydroelectric power, namely a series of expensive dams. The projects were financed using around $19 billion in Chinese loans packaged for not just this project but also for bridges, highways, irrigation, schools, and health clinics. Ecuador pays the loans by sending 80% of its oil exports to China at a reduced price; meanwhile, the dams are beginning to fail due to quality issues and poor geological conditions.[11]

Though Ecuador is already beginning to see consequences from Chinese investment, its future could involve even more of a more severe nature. Ecuador owes billions of dollars to China, and as a result, will likely have to continue to furnish its payments to China with oil. China has a strong incentive to maintain this deal, as it not only receives discounted oil for its own uses but can resell that oil on the open market for profit. China can further leverage its situation to maintain hospitable conditions for Chinese firms in Ecuador, possibly gaining better deals for manufacturers there.

In Bolivia, a number of Chinese companies have invested in the developing nation, including Sinohydro, Sinosteel, Sinopec, China International Water, Electric Corp, CAMC Engineering, Shenzhen Vicstar, and China Harzone. According to data from the Bolivian Institute of Foreign Trade, China is the largest exporter to Bolivia, accounting for around 18 percent of the country's total imports.[12] China has financed President Evo Morales' development plans to the tune of $10 billion, almost one-third of the nation's GDP. This pushes Bolivia's total foreign debt over the 50% of GDP recognized as 'safe'. [13]

[11] Casey, Nicholas, and Clifford Krauss. "It Doesn't Matter If Ecuador Can Afford This Dam. China Still Gets Paid." The New York Times. The New York Times, December 24, 2018. https://www.nytimes.com/2018/12/24/world/americas/ecuador-china-dam.html.
[12] Xinhua. "Morales Hails Chinas Cooperation, Investment in Bolivia." ECNS. China News, October 22, 2016. http://www.ecns.cn/business/2016/10-22/231225.shtml.
[13] Coha. "Chinese FDI in Bolivia: Help or Hindrance to National Development?" COHA, September 19, 2017. http://www.coha.org/chinese-fdi-in-bolivia-help-or-hindrance-to-national-development/.

Holding the future of key development plans and a massive amount of Bolivia's debt, China has the potential to dictate terms to Bolivia when it comes to Chinese companies, investment, or even policy. Helping this process is a political dynamic that prohibits Bolivia from going to the IMF or other major lenders for fear of imperialist agendas. China has a close partner in Bolivia, allowing it to avail itself of Bolivia's mineral wealth.

This paper will look at Chinese influence in terms of hard power gained through loans and investment, and soft power gained through exposure and public opinion shifts. Economic Power will be measured in metrics such as Foreign Direct Investment (FDI) to be found through AidData[14] and Bilateral Investment Treaties (BIT) to be found through the United Nations Conference on Trade and Development.[15] Soft Power, though admittedly more difficult to pin down, will be measured by indicators such as opinion polling and public opinion, agreements with China in major areas such as the illegitimacy of Taiwan (including the treatment of Taiwanese citizens) or its Belt and Road Initiative, and sales of technology such as the Smart City System. These metrics won't all be in any database per se, but research on each case can determine what pure metrics cannot. Public opinion can be found through various surveys conducted over the last decade including Pew Research and the Latin American Public Opinion Project (LAPOP).

The paper will open discussing the increased role of Chinese investment in Latin America, including data illustrating the increase in Chinese investment in the region. From there, I plan to explain the importance of China in Latin America and its potential impact going

[14] "AidData: AidDatas Geocoded Global Chinese Official Finance, Version 1.1.1." AidData, a research lab at William and Mary, September 11, 2018. https://www.aiddata.org/data/geocoded-chinese-global-official-finance-dataset.
[15] "IIA Navigator." International Investment Agreements Navigator | UNCTAD Investment Policy Hub. Accessed September 29, 2019. https://investmentpolicy.unctad.org/international-investment-agreements.

forward. The following pages will discuss the case studies and the rationale for selecting them. From there, the paper will be broken into two sections, discussing the current situation and potential future impact of Chinese investment respective for each case. The paper will close with an analysis of the implications of the three cases in the context of Latin America as a whole, discussing commonalities and differences between them. It is here I hope to answer: What kind of influence is China generating in Latin America through its economic investments, and how does/will that influence affect the balance of power in the region?