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WHAT ROLE FOR CHINA'S POLICY BANKS IN LAC?

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China's engagement with the Latin American and Caribbean (LAC) region was for many years characterized by extensive, state-led finance issued to LAC governments or state-owned enterprises (SOEs). As exhibited in the China-Latin America Finance Database, jointly produced by the Inter-American Dialogue and the Boston University Global Development Policy Center, this finance mostly supported large-scale energy and transport infrastructure projects put forth by governments or companies in Argentina, Brazil, Ecuador, and Venezuela.[**]

However, as noted in our previous briefs on Chinese development finance in LAC,[1] China's policy banks—China Development Bank (CDB) and China Export-Import Bank (Eximbank)—are no longer issuing the sorts of multi-billion-dollar, oil-backed loans that once characterized Chinese financial engagement with the region (see Figure 1). In fact, in 2021, as in 2020, Chinese policy banks issued no new loans to LAC governments or state-owned enterprises (SOEs). This stands in stark contrast to policy bank activity in 2009, for instance, when China Development Bank alone issued nearly $30 billion in credit to the region.

Although they aren't providing sizable sovereign loans in LAC at present, China's policy banks, in addition to an increasingly wide range of Chinese creditors, are still actively supporting China's broader economic activity in the region, whether by issuing finance directly to Chinese and LAC companies, which then invest in regional projects, through policy coordination with regional development banks, or else by partially backing regional private equity funds, such as the China-LAC Cooperation Fund.

China's policy banks are no longer issuing the sorts of multi-billion-dollar, oil-backed loans that once characterized Chinese financial engagement with the region.

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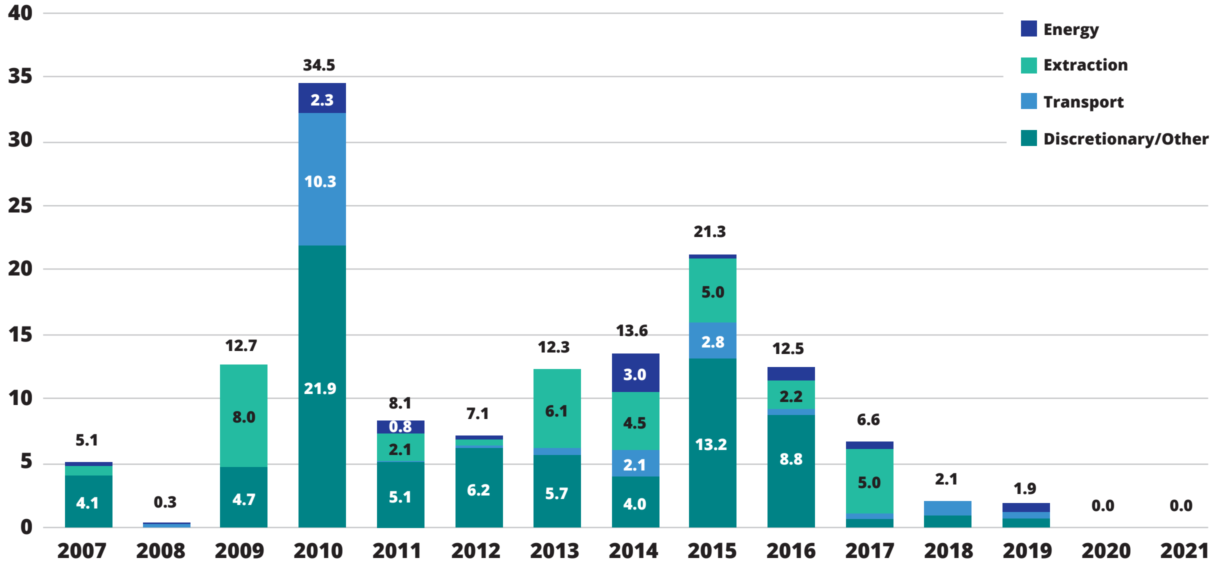
[**] A detailed description of our methodology is available at https://www.bu.edu/gdp/2021/03/23/gdp-center-database-methodology-guidebook/. We add any new loans to the database annually, but also revise past year estimates when and if projects do not come to fruition or are for amounts of financing that are different than earlier reported. Our list of Chinese loans to LAC from 2005-2021 is available in the online China-Latin America Finance Database (https://www.thedialogue.org/map_list/).

FIGURE 1: CHINESE FINANCE TO LAC BY YEAR, 2005-2021 (USD BILLIONS)

Source: Gallagher, Kevin P. and Margaret Myers (2022), "China-Latin America Finance Database," Washington, DC: Inter-American Dialogue.



A Turning Point

There are several probable reasons why Chinese sovereign lending to the region has halted in recent years. Just as in 2020, China's ability to offer state-to-state finance in 2021 was likely impacted to some degree by the global pandemic. According to a report published in China's *Guangming Daily*, the pandemic has been challenging for the Belt and Road Initiative (BRI) for three main reasons: 1) construction projects were suspended in certain countries; 2) global supply chain interruptions slowed the speed of construction projects; and 3) economic conditions deteriorated in some partner nations, limiting governments' ability to contribute promised funds or materials.[2] As a result, policy bank overseas activity in 2021 was at least partially focused on ensuring operational continuity for Chinese projects already underway. China's Ministry of Commerce and CDB issued a statement in February 2020 noting that high-quality projects and enterprises would be eligible to receive low-cost financing and working capital loans.[3]

Additionally, CDB in particular would appear committed to meeting key development goals at home rather than abroad, directing hundreds of billions of yuan into the sorts of domestic manufacturing and technology industries deemed critical to the nation's economic well-being. *Sina Finance* reported that CDB issued 1.69 trillion yuan in total finance in the first half of 2021, but only 28.9 billion (0.02 percent) of that was dedicated to advancing BRI objectives.[4]

China's sovereign lending to the region was slowing even the before the Covid-19 pandemic, however (see Figure 1). The decline in state-to-state lending also preceded the May 2020 announcement of China's "dual circulation" strategy, which refocused some policy bank attention on boosting China's self-sufficiency through technological breakthroughs. Indeed, China's policy banks have seemingly weighed the costs and benefits of state-to-state deal-making for several years, noting some of the challenges associated with lending in LAC. As Tian Yunhai, then senior export in the Americas Department of CDB's International Cooperation Business Bureau, mentioned at the 9th International Infrastructure Investment and Construction Summit Forum in Macau in 2018, despite considerable activity in the LAC region over the past decade, CDB "has struggled to meet the needs of Latin American countries and the demands and expectations of Chinese and Latin American companies."[5] Tian also detailed the problems associated with issuing sovereign loans in the region, including that the region's governments are "burdened by fiscal deficits, relatively high levels of debt…and insufficient capacity for new large scale loans."[6]

Over the years, Chinese banks have certainly grappled with a sometimes-problematic portfolio in LAC, including the prospect of losses in Venezuela and delays in other scheduled projects. Difficulties mounted following the drop in global commodity prices, when Venezuela, also facing US sanctions, struggled to make on-time oil payments. China sought to address the situation in Venezuela by offering grace periods on principal payments and extending the life of at least one loan.[7] But Beijing's patience with Caracas has worn thin over time, with numerous Chinese scholars noting the security and economic challenges associated with continued engagement.[8] In May 2020, China seemingly prioritized domestic energy sector reforms over its long-standing, oil-based partnership with Venezuela when it taxed imports of bitumen. Amid US sanctions, Venezuelan crude has been imported from China as a bitumen blend through Malaysia.[9] Venezuela was reportedly concerned about this development given that China was effectively the only buyer of its oil besides Cuba since the US sanctioned PDVSA's crude-for-diesel swaps with Reliance, Repsol, and Eni. Venezuelan officials were also reportedly caught off guard by the China Ministry of Finance decision to tax bitumen.[10]

China's continued reluctance to issue new credit to Venezuela also accounts for at least some of the recent drop in Chinese lending to the region. Venezuela represents 45 percent of total policy bank finance to LAC since 2005, but neither CDB nor Eximbank have issued loans to the country for the past five years (see Figure 2). Lending has also slowed to other traditional recipients of Chinese policy bank finance in LAC, including Brazil's Petrobras and the government of Ecuador. Like Venezuela, these countries received sizable loans from China in the early-to-mid 2010s, which were often semi-collateralized by oil.

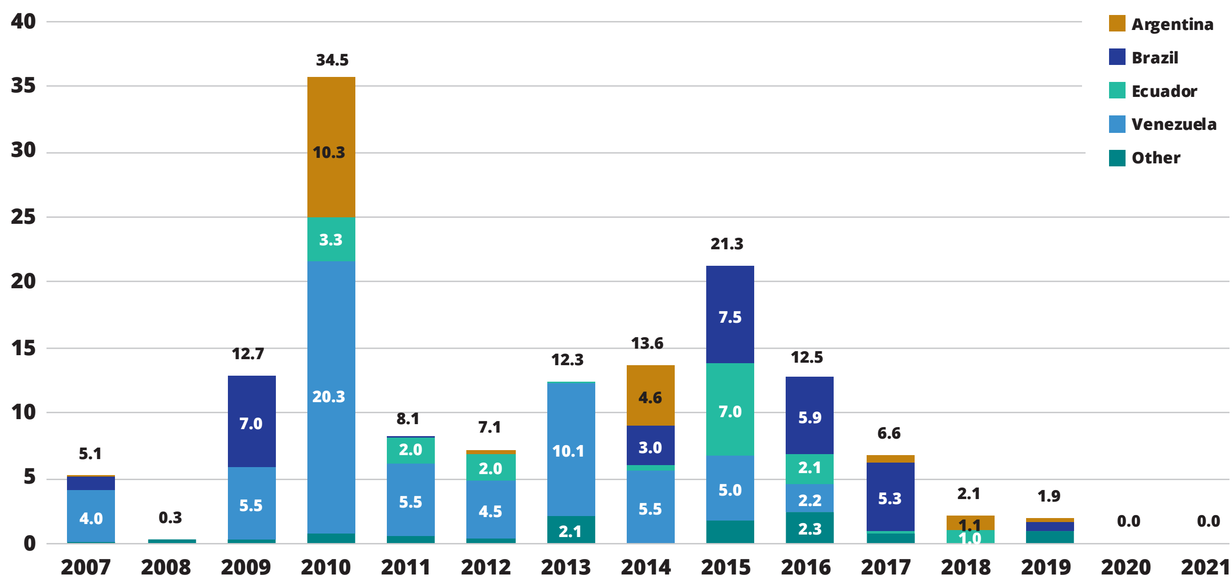
The needs of Chinese companies are also shifting. China once viewed so-called "tied loans" in LAC as critical to internationalizing Chinese companies, which was a primary of objective of China's "going-out strategy." Policy bank loans, which have sometimes encouraged the use of Chinese companies or equipment, indeed helped certain Chinese construction and other companies to establish themselves in the region in the first decade of the 2000s. However, as Chinese companies have developed their own regional offices, networks of contacts, and reputations, there is presumably less of a need for policy bank intervention in support of Chinese SOE deal-making. Additionally, as Chinese companies increasingly pursue public-private partnerships and other forms of deal-making, CDB is not among the Chinese financial institutions that are best equipped to support them, according to CDB's Tian Yunhai. Public-private partnerships initiated by Chinese companies are problematic for the bank, he said, given their relatively slow rate of return and uncertainties related to project approval.[11]

Down, But Not Out

Although sovereign loans have declined precipitously in recent years, there is some possibility of continued CDB and Eximbank lending to LAC governments and SOEs. Argentine state-run utility Agua y Saneamientos Argentinos

FIGURE 2: CHINESE POLICY BANK FINANCE BY COUNTRY, 2005-2021 (USD BILLIONS)

Gallagher, Kevin P. and Margaret Myers (2022), "China-Latin America Finance Database," Washington, DC: Inter-American Dialogue.



(AySA) has sought financial support from Eximbank for the Río Subterráneo Aqueduct Section 2 and Esteban Echeverría Lift Station for a number of years. As of 2020, AySA was waiting to finalize the financing procedures with Eximbank and then schedule the start of construction, according to the company's external communication manager and director of corporate affairs.[12] Eximbank will also reportedly back the expansion (phases IV and V) of Argentina's Cauchari solar project, as it did Cauchari I, II, and III,[13] and may also play a role in some of the other agreements struck between Presidents Alberto Fernández and Xi Jinping during their meeting in February 2022.

China's policy banks would also appear committed to some degree of commercial lending in LAC, as they have been for a number of years, albeit in relatively small amounts. For example, Telecom Argentina obtained a $100 million loan from China Development Bank in 2020. The company plans to use the funds to purchase telecommunications equipment.[14]

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Chinese companies and partnerships are also the recipients of policy bank finance. In Colombia, for example, which has never received a sovereign loan from China's policy banks, Autopistas Urabá, a Chinese and Colombian consortium, secured dual-currency loan for $652 million from CDB and Japan's Sumitomo Mitsui Banking Corporation to finance the Autopista al Mar 2 toll road. Colombia's national development bank, FDN, supplied an additional 16.5-year, $150 million loan for the project in local currency, according to media accounts.[15] Sinohydro, a partner in Peru's stalled Hidrovía Amazónica project, also reportedly received financing directly from Eximbank. And Chinese firm COSCO, which will build and operate the $2 billion port in Chancay, Peru, received funding from CDB for its BRI projects in LAC and other regions.[16]

If the *China-CELAC Cooperation Plan for Joint Action in Key Areas (2022-2024)*, which was released during the 3rd Ministerial Meeting of the China CELAC Forum in December 2021, is any indication, Chinese finance, whether from the policy banks or other platforms, will continue to feature in certain LAC nations. The plan suggests a focus on financing packages for small island developing states, low lying coastal countries, and Central American isthmus countries. It also suggests a continued role for China in conducting feasibility studies for infrastructure projects.[17]

Also, though not as prominent a lender as it once was in LAC, CDB has nevertheless led the establishment of the first multilateral financial cooperation mechanism between China and Latin America, which it developed in 2019 with the Foreign Trade Bank of Latin America, Argentine Investment and Foreign Trade Bank (BICE), Development Bank of Ecuador B.P., Mexico's National Bank of Foreign Trade (Bancomext), Peru's Development Finance Corporation (COFIDE), the National Bank of Panama, and Colombia's National Development Finance Corporation (FDN). According to reports, CDB has so far prepared 18 multilateral and bilateral cooperation plans for 14 Latin American countries.[18]

Other Sources of Chinese Finance

Even as state-to-state lending slows, China's regional funds—the China-LAC Industrial Cooperation Investment Fund (CLAI Fund), China-LAC Cooperation Fund (CLAC Fund), and Special Loan Program for China-Latin America Infrastructure (see Table 1)—are still technically active, having invested in a handful of projects across the region (see "Shifting Gears: Chinese Development Finance in LAC, 2020" for details). Financing from these funds has been limited since their inception, however, with each applying only a very small percentage of their maximum allocated funds.

These funds were also recently subject to some administrative reorganization. Rather than operating independently, the CLAI Fund and the China-Africa Fund for Industrial Cooperation (CAFIC) are now jointly managed by the Siyuan Investment Co., Ltd.[19] This was done, according to Chinese news magazine *Caixin*, to better serve Chinese companies, noting that the Chinese firms that invest in Africa also tend to conduct business in Latin America and vice versa.[20] Siyuan Investment Co., Ltd. is managed by

TABLE 1: CHINA'S FUNDS IN LAC

Source: Author compilation.

NAME	YEAR INITIATED	TOTAL SIZE	NOTES
China-Latin American Production Capacity Cooperation Investment Fund (CLAI) (中拉产能合作投 资基金)	2015/grouped with CAFIC in 2021	$30 billion prior to its grouping with CAFIC under the Wutongshu Investment Platform	SAFE Wutongshu Investment Platform (85%) and CDB capital; has since been reorganized
Special Loan Program for China-Latin America Infrastructure Projects (中拉基础设施专项贷款)	2015	$20 billion	SAFE capital; CDB participation
China-LAC Cooperation Fund (CLAC) (中拉合作基金)	2015	$10 billion	SAFE and Eximbank capital
Brazil-China Cooperation Fund (中国 – 巴西扩大产能合作基金)	2017	$20 billion	$15 billion from CLAI; $5 billion from Brazil; now affiliated with the SAFE Wutongshu Investment Platform management
IFC China-Mexico Fund (中墨投资基金)	2014	$1.2 billion	China Investment Corporation and CDB capital
China Co-Financing Fund for Latin America (中国-泛美开发银行专项基金)	2013	$2 billion	Established by the People's Bank of China and the IDB; $500 million for public sector loans and $1.5 billion for private sector finance

the Wutongshu Investment Platform, which falls under the State Administration of Foreign Exchange (SAFE). In 2015, Wutongshu reportedly took a stake in several of China's commercial banks, including Bank of China, Shanghai Pudong Development Bank, Bank of Communications, and Industrial and Commercial Bank of China.[21]

In other cases, Chinese banks have partnered with multilateral banks in the region to co-finance select projects. The IFC's China-Mexico Fund, which started in 2014 with $1.2 billion in capital, has so far participated in a telecommunications project and an energy sector deal. In 2017, the IDB Invest-administered China Co-Financing Fund for Latin America and the Caribbean contributed 13 percent of a $75 billion IDB package for the Solem solar photovoltaic plant in Mexico, which was constructed by Spanish firm Grupo Ortiz.[22] A year later, the China Co-Financing Fund also partially funded construction of the Ituango hydroelectric dam in Antioquia, Colombia.[23] Unfortunately, the Ituango dam collapsed in July 2018, raising questions about the extent to which these cooperative funds are living up to their potential to combine Chinese finance with IDB risk management standards.[24] Also in 2018, the China Fund allotted $20 million as part of a co-loan for the German Development Bank (KfW)'s eco.business Fund, which partners with financial institutions in Latin America and the Caribbean to channel financing to sustainable agricultural and other businesses.[25] Several of China's commercial banks additionally engaged with IDB Invest projects last year, including one to support Brazil's women entrepreneurs and small and medium-sized enterprises (SMEs) through credit from Brazil's Banco Daycoval.[26]

Beyond the co-financing projects and regional funds, China's "big five" commercial banks (ICBC, Bank of China, Agricultural Bank of China, China Construction Bank, and Bank of Communications) are increasingly active in Latin America and other regions, often taking part in syndicated loans for Chinese or LAC companies. In 2020, ICBC provided finance for the Pamplona Cúcuta Highway in Colombia and Loma Negra cement production in Argentina. The bank will also reportedly provide $1.1 billion for the development of the Plomer Transmission Station in Argentina.[27] A syndicate of Chinese banks led by ICBC will also reportedly finance the development of Argentina's Atucha III nuclear facility.[28] A number of other financial entities, sometimes affiliated with Chinese companies, are also establishing themselves in the region. In January 2020, Banco XCMG, owned by a Chinese construction company of the same name, announced its arrival in Brazil, pledging to support infrastructure projects and machinery purchases.[29]

Total combined Chinese finance to the LAC region is unlikely to ever approximate the previous peaks of policy bank lending.

The Asian Infrastructure Investment Bank (AIIB), though not exclusively Chinese, has also provided some limited finance to LAC. This includes a loan from the AIIB and World Bank to Ecuador's largest public bank, Corporación Financiera Nacional B.P. (CFN), to counteract the liquidity constraints faced by micro, small, and medium-size enterprises (MSMEs) as a result of the Covid-19 induced economic crisis.[30] The AIIB also recently approved $100 million for the Banco de Desenvolvimento de Minas Gerais (BDMG) in Brazil for its Renewables and Asia Connectivity facility.

Looking Ahead

Even if the policy banks feature barely at all in future transactions, the combined effect of Chinese policy bank activity, co-financing initiatives, commercial bank finance, private equity investment, and other forms of engagement will ensure a sizable Chinese financial presence in the region for years to come.

Total combined Chinese finance to the region is unlikely to ever approximate the previous peaks of policy bank lending, however. Credit from the commercial banks and regional funds has rarely exceeded $1 billion for any given project. Nor is policy bank finance likely to increase dramatically in the coming years. Policy banks and commercial banks, though still active in the region, face both demand and supply-side constraints when operating in the LAC region. These include a greater emphasis in Beijing on the selection of bankable and "high quality" projects amidst slowing economic growth in China and an apparent refocusing of policy bank efforts on China's domestic economic development.[31] Also, Chinese projects continue to face a range of on-the-ground challenges in LAC, such as project delays and suspensions resulting from local-level opposition. In addition to all of this is a sense among the policy banks that their traditional model of engagement is not well aligned with the evolving interests of Chinese companies.[32]

Much also depends on whether China's financial offerings are of interest to Latin American governments and companies. Chinese Foreign Minister Wang Yi's July 2020 offer of $1 billion in loans to LAC governments to assist in the purchase of Chinese Covid-19 vaccines wasn't immediately embraced by LAC officials.[33] Whether China's Special China-LAC Anti-Epidemic Loans, as mentioned in the recently released *China-CELAC Cooperation Plan for Joint Action in Key Areas (2022-2024)*, will be of interest to LAC governments remains to be seen.

Finally, it is worth noting what did *not* happen during the pandemic years of 2020 and 2021. Although LAC economies were hit harder by the pandemic-related global recession than any other global region, driving several nations into debt distress, China has not taken draconian action against countries unable to repay their Chinese debt.[34] Instead, it began a process of debt payment suspensions and restructurings that is still ongoing as of early 2022. Noting Ecuador's financial difficulties, CDB agreed in 2020 to restructure two tranches of Ecuador's China debt.[35] The two countries agreed to further debt talks when Ecuador's President Guillermo Lasso and Xi met in December 2021, though the extent of the eventual renegotiation is unclear. According to *Reuters*, China also awarded a new grace period to Venezuela in 2020, on $19 billion loans, though this deal was not confirmed by either government.[36] Argentina worked with China to renew a bilateral currency swap agreement worth 130 billion yuan ($18.2 billion), or 43 percent of Argentina's total foreign exchange reserve, in August 2020.[37]

This pivot from large-scale lending to restructuring, paired with a pause in additional loans, lends weight to the hypothesis that China has not laid a "debt trap." Due to the scale of the debts and the continued value of the commodities that in some cases underly these loan agreements, China has an incentive to pursue a strategy of "patient capital."[38] It remains to be seen, of course, whether China will engage in additional debt restructuring for countries that still owe significant amounts to Chinese banks. Suriname, which has never figured among the top regional borrowers, but which reports the highest level of bilateral debt to China as a share of its GDP, has begun an IMF program which requires its outstanding Chinese debt to be restructured. According to the IMF, China has agreed to this process, and has also agreed to equal treatment with other lenders including India and Paris Club creditors.[39]

ENDNOTES

1. See, for example, Myers and Ray (2021), "Shifting Gears: Chinese Finance in LAC, 2020" and Myers and Gallagher (2020), "Scaling Back: Chinese Development Finance in LAC, 2019."
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