

Economic Watch

China

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Economic Analysis

Asia

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Trends in Lending and Outward Foreign Direct Investment from China into Latin America

- **The note reviews the new dataset that the Inter-American Dialogue has put together (http://thediologue.org/map_list) with the latest source of information on Chinese lending into Latin America (LATAM)¹.** Other than drawing relevant conclusions on the lending side based on the knowledge of our local experts in Latin America, we also analyze the trends in China's outward foreign direct investment (OFDI) into Latin America.
- **There has been a massive growth in lending activities from Chinese Banks to LATAM, especially in 2010. Meanwhile, China's OFDI to LATAM economies has also increased considerably. The trends vary a lot depending on the country**

Lending activity from Chinese Banks to Latam reached a peak in 2010 with \$37 Bn USD granted. The main target was Venezuela, followed by Argentina and Ecuador. In the same year, China's OFDI also reached a peak but the majority of the investment was directed to Brazil, and to a lesser extent, Peru. There seems to be some contrast in the countries China chooses to lend the most to and those it invests in. In fact, the former target countries generally tend to have difficulties in borrowing from abroad and are closer politically to China while this is not the case for investment.
- **China Development Bank (CDB) is the main lender into the LATAM region. As for the sector distribution of the lending, natural resources and infrastructure constitute the lion share of total lending into LATAM.**

China Development Bank granted a total amount of \$69.3 billion since 2005, compared to the amount given by the China Export-Import Bank of \$7.7 billion. From 2005 to present, \$44.9 billion of Chinese loans have financed infrastructure projects and an amount of \$19.7 billion has been allocated to energy projects.
- **For OFDI, the geographical distribution of official figures may be very far from truth as a very large part channeled through tax havens,** such as Cayman and Virgin Islands (other than the best known: Hong Kong).

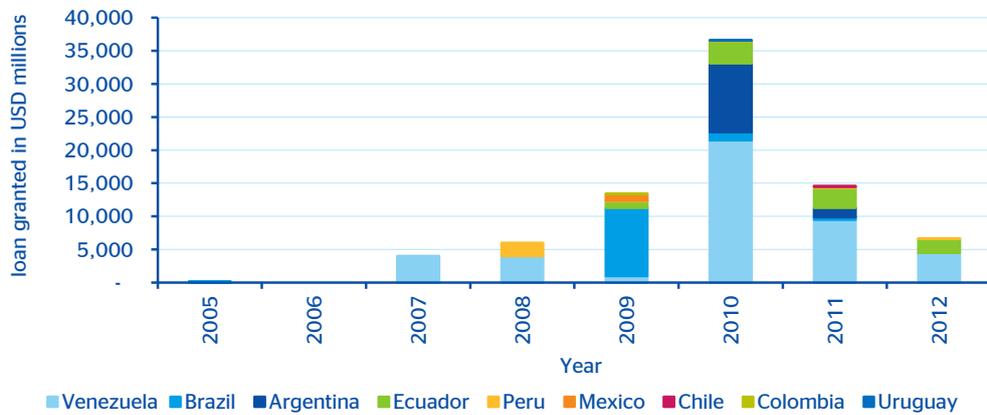
1: The Inter-American Dialogue had already issued a report on this topic in 2012
(http://thediologue.org/PublicationFiles/IAD8542_China_Abstract_021512e2-finalabstract_1.pdf)

1. Chinese Banks lending to Latin America

Since 2005 until 2012, China's loan commitments to Latin American countries have reached a total amount of approximately \$85 Bn² (see Chart 1). A total of four countries; Venezuela (\$44,5 Bn), Brazil (\$12,1 Bn), Argentina (\$11,8 Bn) and Ecuador (\$9,3 Bn) have received up to 91% of the total, namely \$77.7 Bn (see Chart 2).

As for the sector distribution, the main purpose of these loans has been infrastructure followed by natural resources, mainly energy and mining (see Chart 3). In particular, from 2005 to present, \$44.9 billion of Chinese loans have financed infrastructure projects and an amount of \$19.7 billion has been allocated to energy projects.

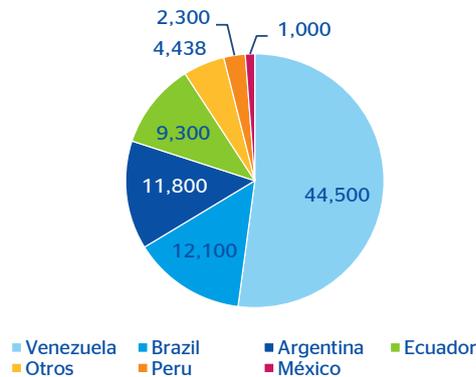
Chart 1
Amounts granted annually as loans to main Latin American economies, since 2005 until 2012



Source: The Inter-American Dialogue online China-Latin America Finance Database and BBVA Research

Chart 2
Loans given by Chinese banks to LATAM economies, since 2005 until 2012

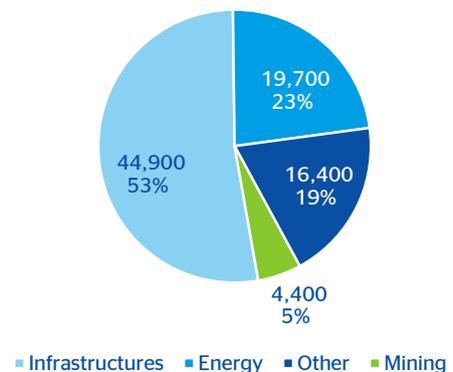
Loan destination, amount in USD mn



Source: The Inter-American Dialogue online China-Latin America Finance Database and BBVA Research

Chart 3
... Mainly the purpose of these loans is to finance infrastructure and energy projects

in USD mn



Source: The Inter-American Dialogue online China-Latin America Finance Database and BBVA Research

2: The Inter-American Dialogue online China-Latin America Finance Database. They have gathered the information from a wide range of sources. In the appendix we can find, amongst others; Trade Finance Magazine, Codelco Memoria annual, Ministerio de Relaciones Exteriores y Culto Costa Rica, Gaceta Oficial de la Republica Bolivariana de Venezuela, SinoLatin Capital, El Universo, Petrobras, The Bahamas Investor, China Daily, China CNR Corporation Limited, El ciudadano, etc.

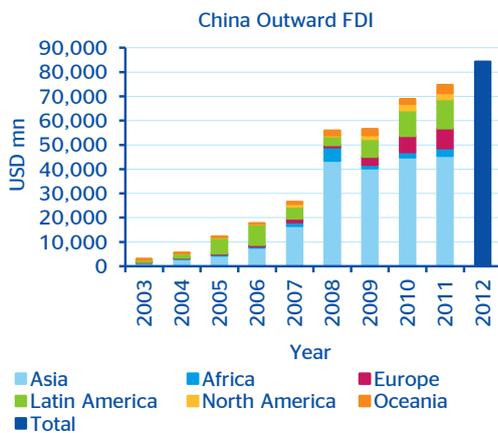
Most of China's international lending come from the CDB which has granted a total amount of \$69.3 billion since 2005, compared to \$7.7 billion from China Export-Import Bank. Unfortunately, there is no readily available information on CDB's international lending patterns. Nevertheless, the above information provided by the Inter-American Dialogue has been contrasted by BBVA research staff in Latin America. All in all, it can be confirmed that China has become the largest bilateral and multilateral lender into LATAM (well above the World Bank and the IADB).

2. China's OFDI to Latin America

China is not only ensuring a significant degree of influence in LATAM economies by lending them money (and securing energy supply), but it is also establishing direct long term investment relationships through OFDI.

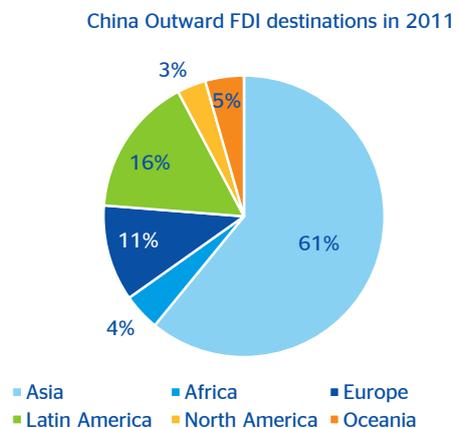
In 2011³, China's total FDI reached \$74.6 Bn, more than 25 times its level in 2003. Asia continued to be the most target as it received more than 60% of the total. Latin America, with an absolute value of roughly \$12 Bn ranked second although at large distance from Asia (see chart 4). It should be note that this amount (which is equivalent to 16% of total lending, as shown in Chart 5), includes the OFDI into Cayman Islands, which means that it could be overestimated.

Chart 4
Historical Outward FDI flows of China



Source: Ministry of Commerce, World Investment Report 2013 and BBVA Research

Chart 5
China Outward FDI continue to go mainly to Asia countries



Source: Ministry of Commerce People's Republic of China, Statistical Bulletin of China's outward Foreign Direct Investment and BBVA Research

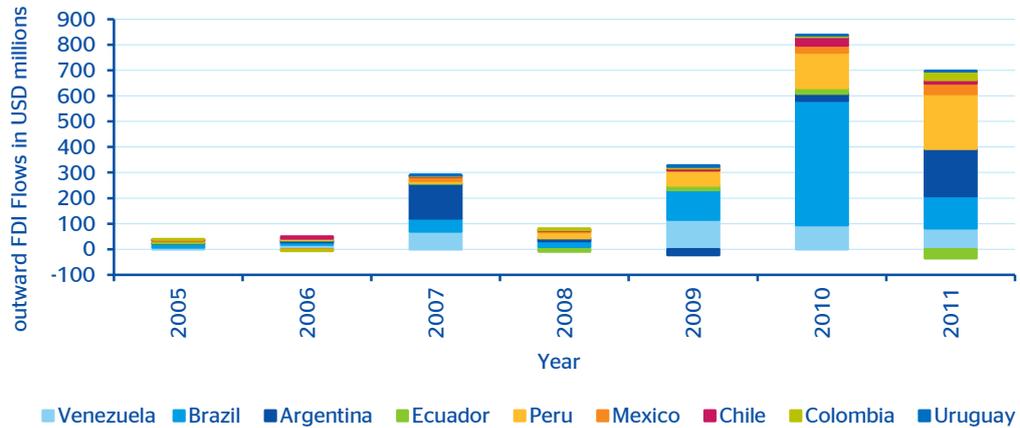
It seems quite likely that the share of Chinese investment into LATAM may have increased further in 2012. This is not only because total OFDI from China rose further but also because total FDI into LATAM actually fell. 2% compared to 2011, to \$ 244 Bn (from \$ 249 Bn in 2011). As mentioned above, China's outward investment to this region in 2011 was \$12 Bn, meaning that 4.79% of the total inflow that LATAM received was provided by China.

As shown in the country breakdown of China's OFDI into LATAM (see Chart 6), the key targets have been Brazil, which can easily explained by its large size. The second target, however, is a much smaller economy, namely Peru. This may be explained by Peru's close ties with China; in

³ This is the latest year for which a geographical breakdown of OFDI is available for China. We, however, do know that the total figure increased further in 2012 to \$ 84 Bn according to the World Investment Report.

fact it has had an FTA with China since 2009. On the other hand, Mexico's investment from China is very low for its economic size.

Chart 6
China's OFDI to main Latin American economies, since 2005 until 2011



Source: The Inter-American Dialogue online China-Latin America Finance Database and BBVA Research

When looking into the trends in lending and investment, we come to the conclusion that China's lending ties are harder to explain on a pure economic basis (especially country size) than investment trends.

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