



GLOBAL CHINA INITIATIVE



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# China-Latin America and the Caribbean

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## EXECUTIVE SUMMARY

Latin America and the Caribbean (LAC) continued to face challenges stemming from the COVID-19 pandemic and resulting economic strains in 2022. After a seven percent contraction in 2020, the region's GDP growth rebounded to 6.2 percent in 2021, according to a recent projection from the Economic Commission for Latin America and the Caribbean (ECLAC 2022). This was slightly higher than the global 5.8 percent growth rate, but slower than China's 8.0 percent growth rate. As both LAC and China continue to recover economically, their economic relationship offers opportunities for sustainable growth in trade, investment and finance.

These are among the findings of this year's China-Latin America and the Caribbean Economic Bulletin, the seventh annual note summarizing and synthesizing trends in the China-Latin America economic relationship, expanded this year to include the Caribbean. The goal of the bulletin is to provide analysts and observers a handy reference to the ever-changing landscape of China-LAC economic relations, a landscape where data is not always readily accessible.

Highlights include:

- China has established a strong and growing investment and trade presence in LAC commodities that are crucial for renewable energy development, including alumina, balsa wood, and metals such as lithium, molybdenum and niobium.
- LAC's trade deficit with China reached 1.2 percent of regional GDP, a record level, driven by China's rebounding production amid ongoing LAC supply chain lags. China accounted for one third of the region's extractive exports and one fifth of its agricultural exports.





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- LAC purchases of COVID-19 vaccines from China have expanded rapidly to over 1.5 billion doses, or 29 percent of LAC's total contracts. This is roughly in line with China's 31 percent share of overall LAC merchandise imports from vaccine-producing countries.
- LAC governments signed no new official financing commitments with China Development Bank (CDB) or the Export-Import Bank of China (CHEXIM) for the second year in a row. A debt suspension agreement between China and Ecuador expired in 2021, and further negotiations for restructuring are ongoing as of March 2022. Argentina and Suriname have also sought debt relief, to be negotiated in 2022.
- New ("greenfield") Chinese investments in LAC were depressed in 2021, totaling \$646 million, less than \$1 billion for the first time since 2005. Two data centers in Brazil and one home appliance manufacturing plant in Mexico accounted for \$500 million.
- Mergers and acquisitions (M&As) totaled nearly ten times new investments at \$5.9 billion, driven by China's continued interest in LAC's electricity sector. In the past five years, over 70 percent of Chinese M&As have been in the electricity sector, compared to only 7 percent of non-Chinese deals, which have the largest concentration in extraction.
- In December, Nicaragua established diplomatic relations with China and joined the Belt and Road Initiative (BRI). Argentina also joined the BRI in February 2022. In the past year, three LAC countries joined the China-led Asian Infrastructure Investment Bank (AIIB): Argentina, Chile and Peru.
- In 2022 and 2023, investment and finance packages for these new BRI and AIIB members are likely, with Argentina and China already signing a Memorandum of Understanding for \$23 billion in financing. Debt renegotiation may continue with Ecuador, and Suriname has indicated it may seek renegotiation considering its new agreement with the International Monetary Fund (IMF).

In the sections that follow, this bulletin outlines major developments in China-LAC economic relations in 2021, beginning with rising trade and investments in commodities supporting green energy. It then covers important updates to trade patterns, contextualizing the year in ongoing trends, with special attention to China's COVID-19 vaccine exports. The following section details China's foreign direct investment in LAC, before discussing official financing and debt renegotiations, highlighting a potential debt-for-nature swap. The bulletin concludes with a review of this year's noteworthy achievements in bilateral and multilateral diplomacy and a brief outlook for 2022 and beyond.

## **RISING TREND: COMMODITIES FOR RENEWABLE ENERGY DEVELOPMENT**

The China-LAC economic relationship has long centered around raw materials, leading to concerns of re-primarization, or a retreat from industrialization (Ahumada 2019, Aviles and Wong 2019). Specifically, past editions of the China-Latin America Economic Bulletin have emphasized the significant role of just a few basic commodities, with most LAC-to-China exports concentrated in just four categories: soybeans, crude petroleum oil and copper and iron ores and concentrates.

New information on Chinese trade and investment in LAC show that while these core commodity sectors continue to be important, new sectors are beginning to rise to join them. In particular, commodities crucial for renewable energy development have grown rapidly over the last decade



in the LAC-China relationship. Aluminum, produced from Caribbean bauxite deposits, most notably in Jamaica, has numerous renewable energy applications and is among the commodities most expected to grow in demand from energy transitions by 2050, according to a recent World Bank projection (Hund et. al. 2020). Lithium is a key component of energy storage technology necessary for intermittent power generation from sources like solar and wind power; its largest deposit straddles the intersecting borders of the “lithium triangle countries” of Argentina, Bolivia and Chile (Vásquez 2020). Meanwhile, Ecuador is the world’s largest exporter of balsa wood, necessary for wind turbine blades. As the world transitions towards renewable energy and a carbon-neutral economy, LAC states are poised to become an integral part of green energy supply chains.

**Table 1: China’s Average Annual Imports of Selected Renewable Energy Components in Thousands of Metric Tons**

	2012-2016	2017-2021	Growth
Ecuadorean balsa wood	4.3	6.8	57.2%
Jamaican alumina	14.4	425.3	2,849.2%
LTC lithium carbonate	14.4	41.9	91.1%

**Source:** Authors’ calculations from UN Comtrade, General Administration of Customs data.

**Note:** LTCs include the “lithium triangle countries” of Argentina, Bolivia and Chile. China includes Hong Kong and Macao.

These new commodity sectors also open possibilities for finance and investment alongside a boom in trade. As Chin and Gallagher (2019) explain, China’s overseas economic activities leverage a coordinated credit space, combining state finance, commercial lending and investment to develop markets and supply chains for key materials. One example of this practice is Argentina’s Cauchari Solar Park; financed with a loan from CHEXIM, Argentina contracted PowerChina to provide engineering, construction and installation services (“Cauchari” n.d.). Strategic Chinese investments in Latin American lithium, balsa wood, bauxite and other metals suggest room for a new credit space in renewable energy commodities.

**Table 2: Selected LAC Renewable Energy Components and Chinese Involvement**

Commodity	China’s Share of LAC Exports by Weight, 2016-2020	Major Chinese investors and sub-sector
Alumina	23%	Guyana: Bosai Minerals, mining Jamaica: JISCO and Jamalco, refining Mexico: Minth Group, manufacturing
Balsa wood*	54%	
Lithium	26%	Argentina: Ganfeng and JEMSE, extraction Bolivia: Ganfeng, extraction Chile: Tianqi, extraction Mexico: Ganfeng, extraction
Niobium	20%	Brazil: China Molybdenum Co., mining

**Sources:** DeaLogic 2022, Dussel Peters 2017-2021, FDI Markets 2022, UN Comtrade 2020, Vásquez 2020.

**Note:** Not intended to be a comprehensive list of Chinese investors. \*Balsa is primarily exported to China by Latin American producers rather than Chinese investors.



## Balsa Wood

Because of its flexibility, durability and light weight, balsa wood is often used as a core material in the internal structure of wind turbine blades (Beauson and Brøndsted 2016). Despite its small geographic area, Ecuador is the world's largest exporter of balsa wood, surpassing second-place Indonesia by a factor of more than ten in 2020 (Comtrade 2021). China is the overwhelming market for this production, accounting for 88 percent of Ecuador's 2020 balsa exports. In fact, balsa is now Ecuador's third most important export to China, behind crustaceans and petroleum (Comtrade 2021).

This demand is likely to continue to grow. In November 2021, China's National Energy Agency proposed raising its renewable energy generation target to 40 percent by 2030, with just over 25 percent from wind and solar power (Lo 2021). To meet this challenge, environmentalists estimate China would need over 750 million cubic meters of balsa wood for its wind turbines by 2030, vastly outpacing its annual imports from Ecuador, which amount to less than 1 million cubic meters per year (Acción Ecológica, General Administration of Customs).

## Bauxite and Alumina

Aluminum, used in both the body and batteries of electric vehicles, in interior structural components of wind turbines and in the frames for photovoltaic panels, is refined from bauxite through its intermediate product, alumina. Because of the variety of renewable energy applications, demand for aluminum is projected to increase by up to 200 percent by 2050 (Church and Crawford 2018). In Latin America, bauxite reserves are found in Brazil, Jamaica, Suriname and Guyana. Brazil is home to the world's third largest reserves of bauxite and produces the third most bauxite and alumina, after China and Australia. Jamaica and Suriname also make the top ten list of global bauxite reserves, but only Jamaica is also a top ten producer of alumina (ABAL 2017).

While China is one of the world's top producers of bauxite and alumina itself, increasing demand for these raw materials has led China to look abroad for new sources. In 2016, Chinese state-owned Jiuguan Iron and Steel Company (JISCO) bought Jamaica's largest alumina refinery Alpert (Aluminum Partners of Jamaica), which had been dormant since the 2008-2009 financial crisis ("RUSAL Sells Alpert" 2016). However, in 2019, Jamaica's environmental regulatory agency cited 16 violations at JISCO's refinery plant related to air and water pollution, leading to severe respiratory illnesses among residents (Minto 2019). The plant subsequently suspended operations for upgrades and expansion but has not yet re-opened, as the COVID-19 pandemic closed travel between Jamaica and China and slowed the renovation (Linton 2019, Morrison 2020). As global demand for bauxite and alumina grows, both Chinese investors and LAC governments must find sustainable solutions to manage potential health and environmental damages from mining and refinery operations.

## New Metals Sectors

The final group of materials likely to see a boom from rising demand for renewable energy are a new generation of metals, including lithium, molybdenum and niobium. Lithium will power electric vehicles and support renewable energy transmission and storage with lithium-ion batteries. Molybdenum is commonly used as a strengthening alloy for steel and has extensive applications in the construction of steel framed wind turbines (Mohrbacher 2011). Research has also shown potential uses for molybdenum in the back electrode of thin film technologies in solar panels, due to its high heat resistance (Shields 2013). Currently, molybdenum is mined as a copper by-product, but demand for these new technologies is likely to drive up demand for molybdenum itself. Niobium is most commonly used as a ferrous alloy in the production of steel, also used in wind turbines, and niobium oxide is used as a semiconductor in the lithium-ion batteries in electric vehicles (Griffith et. al. 2021).



The “lithium triangle countries” of Argentina, Bolivia and Chile share the world’s largest lithium reserves, with Mexico, Peru and Brazil also boasting significant deposits of their own (Vásquez 2020). Behind the United States and China, Chile and Peru are home to the world’s largest molybdenum reserves, and are the third and fourth largest in terms of global production, respectively (World Bank 2017). The largest niobium deposits in the world are in Brazil, giving it significant market power (Freitas Paes 2019).

China’s demand for molybdenum skyrocketed between 2019 and 2020, from 1.4 million pounds to 100 million pounds of net imports, with prices rising 60 percent in the same time period (Treadgold 2021). China is already heavily invested in copper and molybdenum mining in Peru, with Chinalco’s operation of the Toromocho project and China MMG’s Las Bambas mine. China Molybdenum Corporation (CMOC) has operated a niobium mining and processing plant in Goiás, Brazil since 2016 (“Brazil-Niobium” n.d.), and China Niobium Investment Holdings, a consortium of four Chinese state-owned companies, purchased a minority share in 2011 of the Brazilian Metallurgy and Mining Company (BMMC), the largest niobium producer in the world (Freitas Paes 2019). These operations both extract niobium and produce ferroniobium, an alloy used in steel manufacturing, most of which is exported directly to China.

Balsa wood, bauxite and alumina and these new metals are all crucial commodities supporting the global transition towards green and sustainable energy. As demand from China and other countries continues to grow, LAC governments have the opportunity to build collaborative partnerships along the supply chain, from local communities to foreign investors. These partnerships, paired with robust environmental governance, can ensure sustainable extractive processes, minimize negative environmental consequences and increase value-added exports from the region.

## TRADE

China’s trade surplus with the world hit record levels in 2021, and trade with LAC was no different (Mellow 2022). As a result, LAC’s trade deficit with China rose to the highest ever level in 2021, reaching 1.2 percent of regional GDP, as Chinese production and LAC consumption began to rebound from the crisis year of 2020, while LAC production and exports continued to lag. This occurred despite the prices of LAC’s main exports to China rebounding in 2021 and in some cases hitting their pre-crisis peak. For example, the price shocks of copper are partially due to stalled production in LAC as a result of the pandemic, along with increasing demand from China as its economy recovered more quickly in 2021 (“Las Razones” 2021, “Cobre registra” 2021).

The trade relationship continues to be dominated by raw materials in the agricultural and extractive sectors. In 2020 (the last year with available detailed export information), China accounted for over one-third of the region’s extractive exports – a record level – and one-fifth of the region’s agricultural exports, as Figure 2 shows.

Also of interest is China’s recent apparently flat share of LAC agricultural exports, which is noteworthy given the recent broader context of Chinese imports in general. Over the last five years, as agricultural trade between the US and China fell and then rose again, Chinese purchases of LAC agricultural goods rose sharply, but did not then fall as sharply once imports from the US resumed. This is particularly true for soybeans and meat. These trends have significant environmental implications, as the expansion of their production frontiers has often been cited as the primary drivers of Amazon-basin deforestation (Kirby et. al. 2006, López-Carr and Burgdorfer 2013).

China’s 2018 tariffs on US agricultural products – particularly soybeans – led to a sharp increase in China’s purchases from South American exporters, as China’s importers switched to less expensive



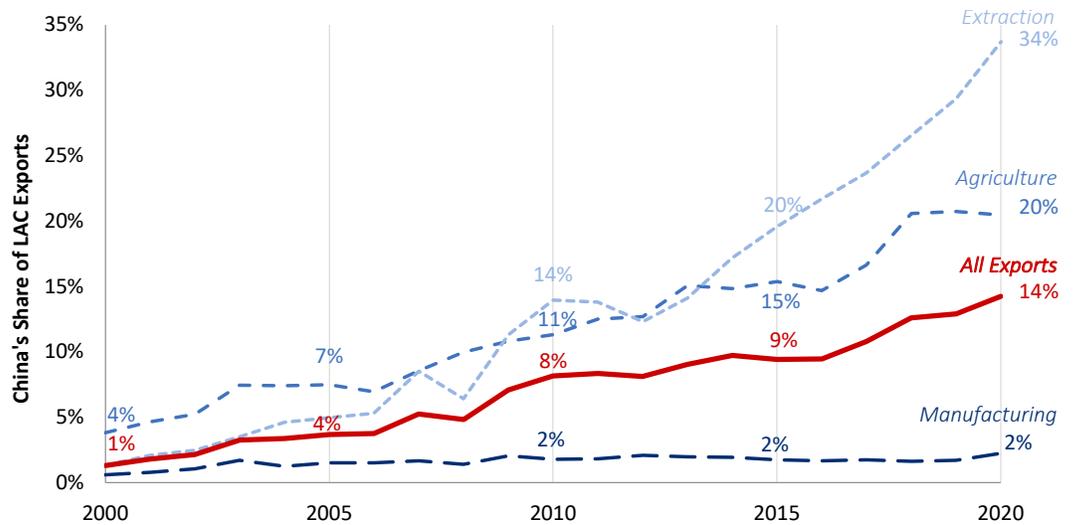
**Figure 1: LAC's Trade Balance with China in Goods, 2001-2021**



Source: Authors' calculations from UN Comtrade, General Administration of Customs and IMF data.

Note: China includes Hong Kong and Macao.

**Figure 2: China's Share of LAC Exports, by Sector**



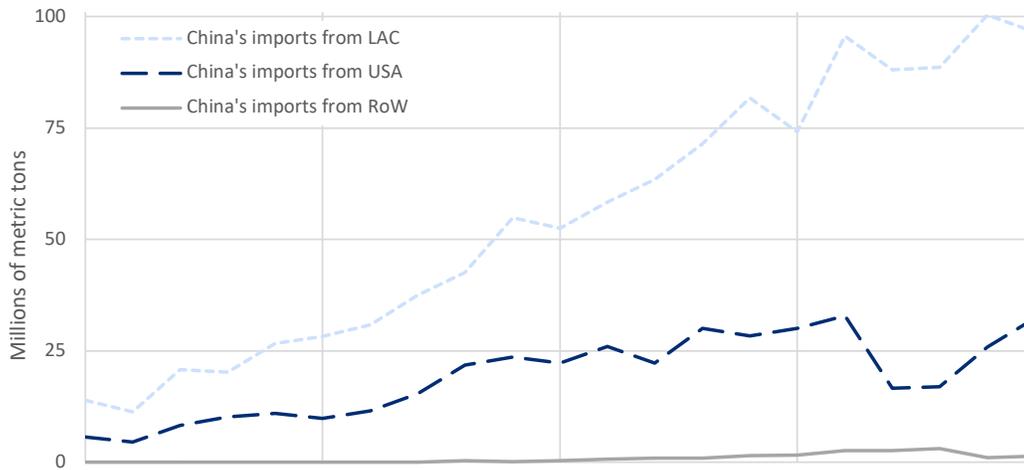
Source: Authors' calculations from UN Comtrade data.

Note: China includes Hong Kong and Macao.

sources. This shift is shown as a sharp increase of China's purchases of LAC agricultural exports in Figure 3. In negotiations to ease these trade tensions in early 2020, China committed to buying \$200 billion in agricultural goods from the US, including at least \$40 billion in food, agricultural and seafood goods annually (USDA 2020). Since that time, China has met its commitment by approximately 83 percent (Bown 2021). However, rather than pulling away from South American suppliers, Chinese importers continue to have strong demand for LAC soy, in part due to the end of the African swine fever epidemic in China and a return to demand for hog feed (Lee 2021).



**Figure 3: China's Imports of Soybeans, by Source**

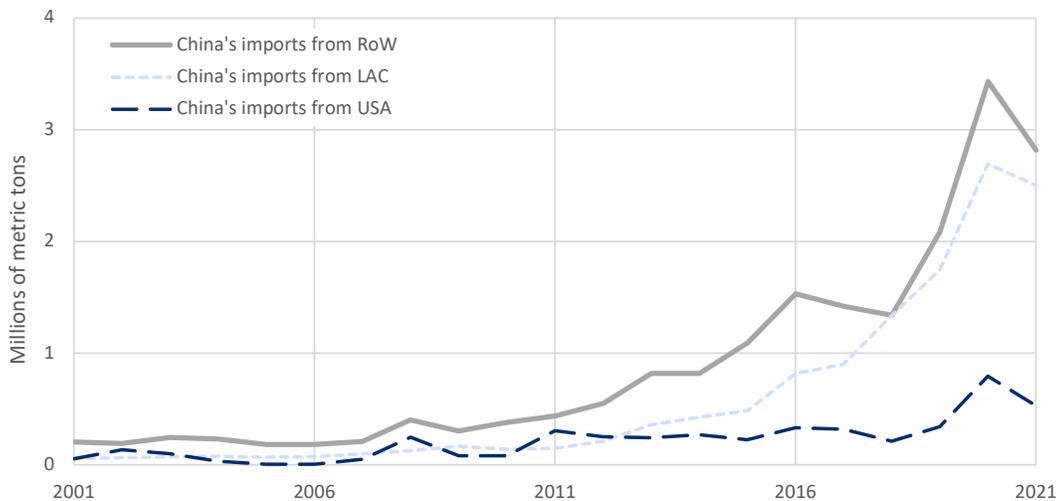


**Source:** Authors' calculations from UN Comtrade and General Administration of Customs data.

**Note:** China includes Hong Kong and Macao.

The end of the African swine fever epidemic, along with the COVID-19 pandemic, has led to a decline in Chinese imports of pork and beef (a common substitute for pork). However, as Figure 4 shows, Chinese imports from LAC fell by much less than other sources, including the US. Thus, it seems likely that these supply relationships have remained strong. Given rising concerns surrounding the impacts of these sectors on tropical deforestation, particularly in Brazil and Bolivia, these will be important trends to continue to monitor.

**Figure 4: China's Imports of Bovine and Porcine Meat, by Source**



**Source:** Authors' calculations from UN Comtrade and General Administration of Customs data.

**Note:** China includes Hong Kong and Macao.

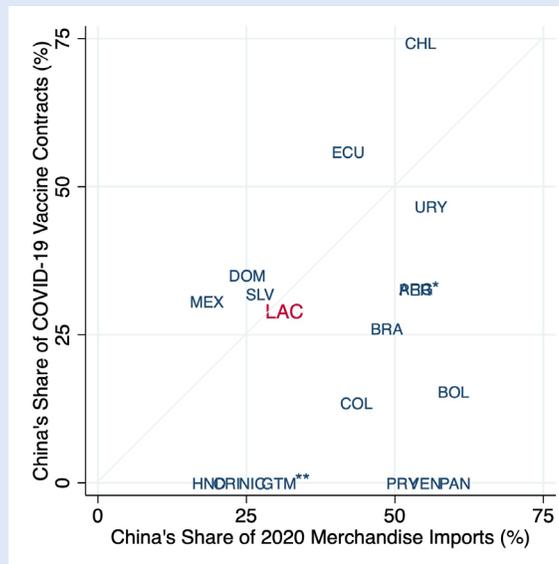


## Box A: China-LAC COVID-19 Vaccine Trade

The 2021 bulletin reported on China's extensive COVID-19 aid to LAC in 2020. In 2021, pandemic cooperation shifted to vaccine exports from China, garnering significant attention from regional observers. For example, Voss, Zhou and Shuldiner (2021) note that LAC is "awash in Chinese vaccines," and Stott et. al. (2021) note that Chinese vaccines are "dominating" the LAC market. Indeed, LAC contracts with Chinese vaccine manufacturers have grown quickly, amounting to over 1.5 billion doses as of January 2022 (Harrison, Horwitz and Zissis 2022).

When compared to China's overall exports to the region, as Figure A shows, China's market share among LAC vaccine contracts is roughly in line with other trade. A few countries (most notably Chile and Ecuador) have contracted a greater share of their COVID-19 vaccines from China than other merchandise imports. On the other extreme, Panama, Paraguay and Venezuela have not sourced any of their vaccines from China, though over half of their overall merchandise imports are Chinese in origin. In general, LAC has contracted with China for 29 percent of its COVID-19 vaccines, very close to the 31 percent of its overall merchandise imports from China.

**Figure A: China's Share of LAC Countries' COVID-19 Vaccine Contracts and Share of Overall Merchandise Imports from Vaccine-Source Countries**



\* Argentina and Peru overlap here. \*\* From left to right: Honduras, Costa Rica, Nicaragua and Guatemala.

**Source:** Authors' calculations from Harrison, Horwitz, and Zissis (2022) and UN Comtrade (2022).

**Note:** Contracts are normalized by dose, with one dose of Johnson & Johnson or CanSino equivalent to two doses of Moderna or Sinovac, for example. Merchandise share is defined as China's share of trade from the five major vaccine-source countries (China, US, UK, Russia and Cuba) and measured from these five countries' exports, to account for variations in LAC import data availability. India (which has provided just one million vaccine doses, or 0.06 percent of the region's total vaccine contracts) is not included.

Harrison, Horwitz and Zissis (2022) also show a tendency to diversify vaccine contracts among countries of origin. In fact, no LAC country has sourced COVID-19 vaccines from just one source. Instead, for example, Argentina, Mexico and Peru have each contracted with four



different sources (China, Russia, the UK and the US) for their vaccines. Six additional LAC countries (Brazil, Chile, Colombia, Dominican Republic, Ecuador and Uruguay) have contracted with all but Russia. Overall, Harrison, Horwitz and Zissis show LAC has contracted with the US for 45 percent of doses, with China for 29 percent, the UK with 19 percent and Russia for six percent, with the remaining doses from Cuba (one percent) and India (0.1 percent). Thus, the rise of China as a source of COVID-19 vaccines is likely a sign of a regional interest in diversification, to source these critical resources from as many companies as possible and minimize the risks of shortages, rather than a preference for China in particular.

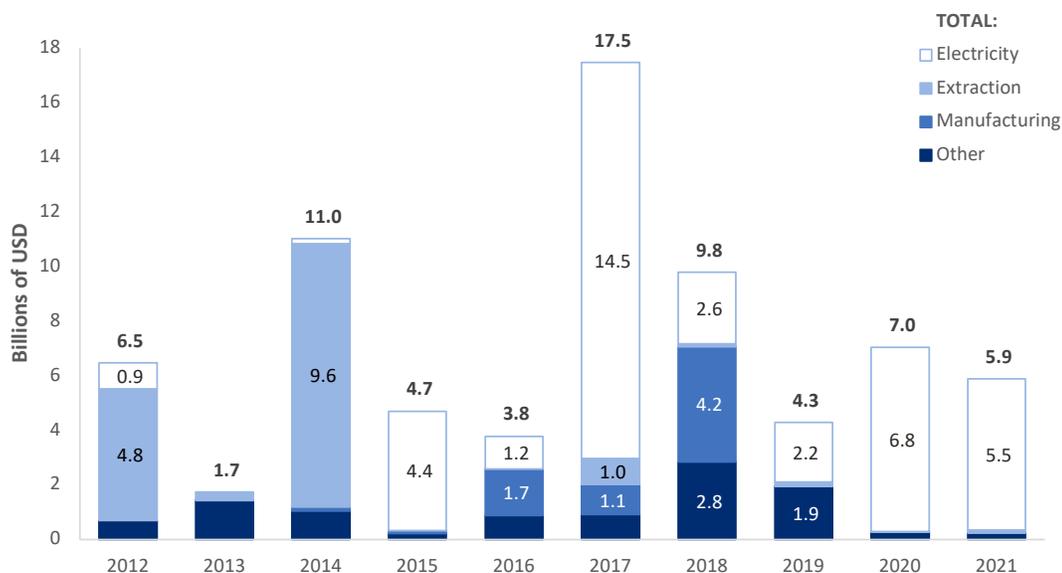
## INVESTMENT

Foreign direct investment can take one of two forms: greenfield FDI (GFDI), representing new projects, and mergers and acquisitions (M&As), representing the purchase of already-existing assets. Chinese M&As have long outpaced Chinese GFDI in the LAC region, as Peters (2017-2021) has frequently noted. This trend accelerated in 2021 as Chinese firms continued to buy up assets and Western firms left the LAC region in the second year of the COVID-19 pandemic, while very few new GFDI projects began. In fact, Chinese M&A announcements in LAC outpaced GFDI announcements by nearly tenfold in 2021, with \$5.9 billion in announced M&A deals, compared to just \$646 million in new Chinese GFDI projects in the region.

### Mergers and Acquisitions

In 2021, Chinese M&As in LAC continued the recent trend of focusing on the electricity sector, particularly in Brazil, Chile and Peru. As Figure 5 shows, earlier years of the China-LAC investment relationship were focused on extraction, particularly mining and oil extraction, but this focus has shifted dramatically toward electricity-related infrastructure since 2015.

**Figure 5: Chinese M&A Deals in LAC, by Sector and Year**



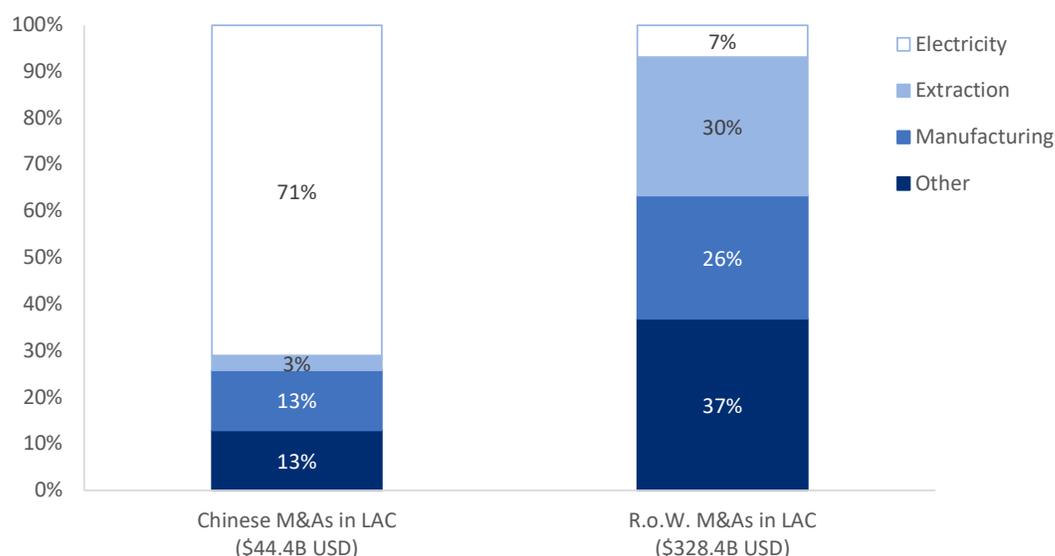
Source: Authors' calculations from Dealogic.



Two major 2021 Chinese M&A deals characterized this trend. In February, China Three Gorges Corporation (CTG) bought a 13.5 percent stake in Peru’s Luz del Sur utility for \$561 million. This comes in addition to the 2020 purchase of an 83.6 percent stake, bringing their total holdings to 97.1 percent. Luz del Sur is the largest electricity distributor in the country, with over 1.1 million clients (“Luz del Sur” 2019, Luz del Sur 2020, Rojas 2021). In July, State Grid Corporation of China finalized its purchase of a 96 percent stake in Chile’s Compañía General de Electricidad (CGE) from Spain’s Naturgy Energy Group for €2.7 billion, or an estimated \$5 billion at the time of the sale. This sale was first announced in 2020 and finalized in 2021.

This recent concentration in the power sector represents a significant difference from other investors in the region, who are selling out of the LAC electricity sector at the same time Chinese investors have been buying into it. As Figure 6 shows, other investors have had more broadly distributed portfolios, with the largest concentration in extraction (particularly oil and gas). The largest non-Chinese M&A deals in LAC in the last year included US firm New Fortress Energy’s purchase of Brazil’s natural gas company Hygo Energy Transitions, for \$2.7 billion, Luxembourg-based Millicom Cellular’s purchase of the remaining 45 percent share in Tigo Guatemala for \$2.2 billion and the United Arab Emirates’ Mubadala Investment Company’s \$1.7 billion purchase of the RLAM oil refinery from Brazil’s Petrobras (“Petrobras” 2021, Millicom 2021, Valle and Krishna 2021).

**Figure 6: Chinese and Other M&A Deals in LAC, 2017-2021, by Sector**



Source: Authors’ calculations from DeaLogic.

### Greenfield Investment

In 2021, overall GFDI in LAC came to a near standstill as the region endured a second year of the COVID-19 pandemic, and Chinese GFDI was no exception. Total GFDI announcements in LAC fell to just \$35.0 billion (down from \$74.6 billion in 2020 and \$109.0 billion in 2019). Chinese GFDI fell even more drastically, to just \$646 million (down from \$3.6 billion in 2020 and \$13.5 billion in 2019). This marks the first time since 2005 that Chinese GFDI announcements in LAC registered below \$1 billion.

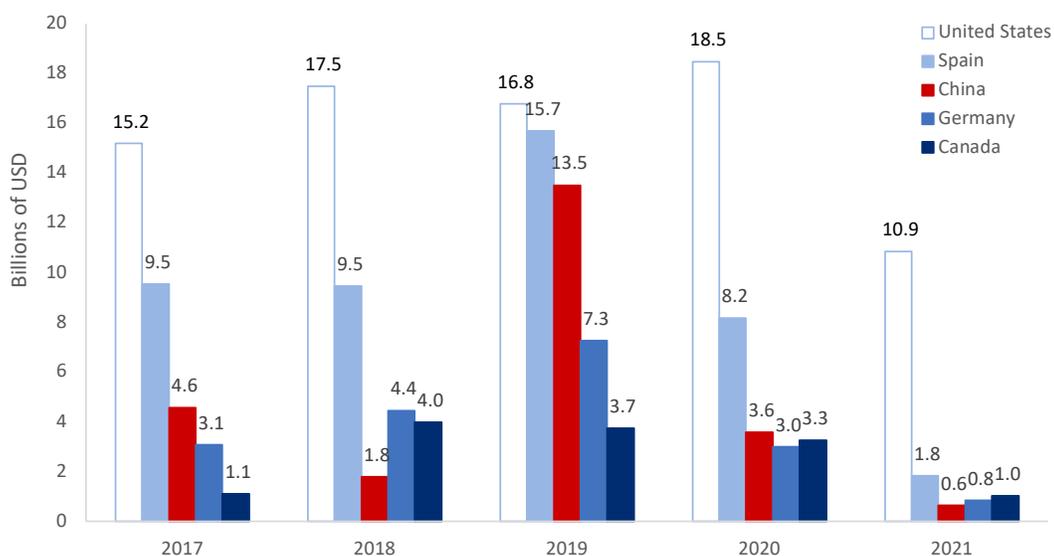
Furthermore, just three Chinese GFDI announcements comprised over \$500 million of the \$646 million total for 2021. In January, Huawei announced a second data center in Brazil, the AZ2,



representing an investment of approximately \$134 million (“China’s Huawei” 2021). In February, Hisense announced an intention to invest \$260 million in a new home appliance manufacturing plant in Monterrey, Mexico (Hisense 2021). Finally, in November, Tencent Cloud joined the Brazilian data center sector with an investment of \$128 million.

Overall, 2021 saw China fall well behind other sources of new investment announcements in LAC, after peaking in 2019 before the COVID-19 pandemic. Figure 7 shows the top five sources of GFDI announcements over the last five years, with China slipping behind Germany and Canada in 2021. The two largest non-Chinese GFDI announcements were Australian firm EneGix Energy’s \$5.4 billion hydrogen production facility in Brazil and US subsidiary Bravo Motor Company Brasil’s \$4.8 billion electric vehicle factory, also in Brazil (“Corporate Presentation” n.d., Bland 2021).

**Figure 7: Top Five Sources of GFDI Announcements in LAC, 2017-2020**



Source: Authors’ calculation from FDI Markets.

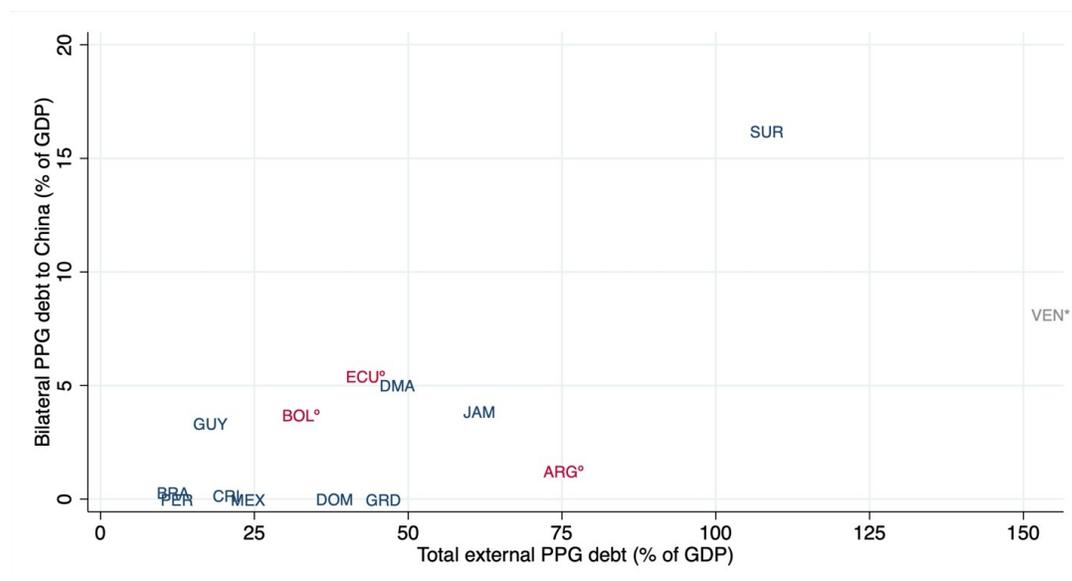
## FINANCE

For the second consecutive year, China extended no new loans in 2021 to LAC countries through its two main policy banks, CDB and CHEXIM. However, significant debt obligations remain from earlier years, as Figure 8 shows. In 2020, as the COVID-19 pandemic brought economic pain to the LAC region, China negotiated relief for some of the outstanding debt. At least one of those agreements (with Ecuador) has now expired, leading to a new round of negotiations.

Suriname stands out in Figure 8, with 17 percent of GDP in PPG debt to China and over 100 percent of GDP in PPG debt overall. In 2021, Suriname worked toward debt restructuring with China and other creditors, and reports having received “assurances” of China’s willingness to work together on debt restructuring, along with other creditors including India and Paris Club lenders (IMF 2021a). In June 2021, Suriname proposed a 30 percent reduction in debt principle from official creditors, including China, but as of February 2022, these restructuring efforts have not yet taken shape (Campos 2021). Suriname’s most recent loan from China was an RMB\$1.4 billion (or approximately \$200 million) commitment in 2019 for upgrades to the J. A. Pengel International Airport. As this loan carried a five-year grace period, it is not yet in repayment. Once the grace period has passed, it carries a repayment period of an additional 15 years.



**Figure 8: Total PPG Debt Exposure to China and the World, Most Recent Data**



**Sources:** Banco Central de Bolivia 2021, IMF2021a, Ministro de Economía 2021, Ministerio de Economía y Finanzas 2021, Myers and Ray 2021 and World Bank 2021b.

**Note:** PPG debt: public and publicly guaranteed debt. Data reflect 2020 values except where otherwise marked. °Argentina, Bolivia, and Ecuador show data for 2021. \*Venezuela data on outstanding debt to China is unavailable; the amount shown here reflects the highest total value possible of direct debt, as reflected in Myers and Ray (2021). Venezuela data do not include pre-purchase oil contracts, which account for a significant share of total credit approvals.

As reported in earlier annual bulletins, Ecuador and China agreed to a suspension of \$891 million in debt payments in 2020. Although Ecuador’s finance ministry reported no 2021 debt service payments to China (through its latest report in November), that agreement has now expired, and negotiations have begun for further restructuring (Ministerio de Economía y Finanzas 2021).

### Box B: Linking Debt Sustainability with Environmental Sustainability

As reported in last year’s bulletin, a Chinese fishing fleet was found operating close to the Exclusive Economic Zone surrounding the Galapagos Islands of Ecuador in 2020, and the Chinese government agreed to allow Ecuadorian monitoring of the fleet. When the fleet attempted to evade detection, China toughened regulations on distant water fishing fleets and announced a moratorium on squid fishing near the Galapagos. This incident demonstrated willingness from both China and Ecuador to work together to solve thorny bilateral issues.

Meanwhile, Ecuador has continued to face problems of external debt, recently estimated at \$46 billion, representing just under half of GDP (“Ecuador Proposes” 2021). The country owes approximately \$5 billion of this debt to China, more than eight times the debt owed to the next highest bilateral foreign creditor, Agence Française de Développement (Larrea and Ramos 2021). Moreover, much of this debt is due within the next three years (Valencia 2022a). The debt crunch has prompted President Guillermo Lasso to visit China to renegotiate its debt directly with Chinese leader Xi Jinping (Valencia 2022b).

Debt-for-nature swaps could be a potentially useful tool in negotiations, wherein the creditor (China) cancels a set amount of debt, contingent on a commitment from the debtor



(Ecuador) to use some part of the funds diverted from repayment for long-term conservation and sustainability projects (Ray and Simmons 2021). Larrea and Ramos (2021) offer a detailed proposal for a debt-for-nature swap between China and Ecuador to fund Amazon rainforest conservation. Their proposal includes a mechanism for calculating the value of such a swap, suggesting that the amount of debt forgiveness be based on a value assigned to each ton of CO2 emissions avoided.

With this kind of arrangement, Ecuador could reduce its debt burden while tackling substantial climate and conservation threats. President Lasso proposed this idea at the 2021 United Nations Climate Change Conference (COP26), when upon announcing that Ecuador would expand the marine reserve around the Galapagos by 60,000 square kilometers, he suggested it be funded by the “highest amount for a debt swap so far in the world” (“Ecuador Proposes” 2021). However, as of March 2022, no reports have emerged of Western creditors accepting this proposal, leaving China to explore this type of creative financing.

Ecuador’s ongoing debt renegotiation with China are a chance to explore a debt-for-nature swap as funding for expansion and protection of either marine or Amazonian reserve protections, including enforcement against actions like illegal forest clearing or fishing. If negotiated and carried out effectively, a debt-for-nature swap with China has the potential to bring Ecuador substantial fiscal and environmental benefits.

## BILATERAL AND MULTILATERAL RELATIONS

Economic diplomacy between China and LAC achieved some noteworthy milestones in the past year as well. In December 2021, Nicaragua recognized China, breaking off relations with Taiwan and acknowledging the One China Policy (“Comunicado Conjunto” 2021). While the full details of the agreement have yet to be released, China has already donated 200,000 doses of its Sinopharm COVID-19 vaccine to Nicaragua, the first part of a promised 1 million doses (Medina 2021). Shortly thereafter, in January 2022, the two countries signed a Memorandum of Understanding (MoU) for Nicaragua to join the BRI, opening the possibility for increased investment and financing from China (“China and Nicaragua” 2022). Nicaragua joins Costa Rica, El Salvador, Panama and ten other Caribbean countries as BRI members without AIIB membership.

During 2021, two LAC countries became full members of the AIIB: Argentina in March 2021 and Chile in July 2021; Peru followed suit in January 2022, as discussed below (AIIB n.d.). Argentina and Chile’s capital subscriptions are \$5 million and \$10 million respectively, and Peru’s paid in capital totals just over \$156 million. Bolivia and Venezuela remain prospective members. To date, the only approved loan from the AIIB to a LAC country remains the 2020 loan to Ecuador’s Corporación Financiera Nacional, co-financed with the World Bank under the AIIB’s COVID-19 Crisis Recovery Facility, to alleviate liquidity constraints and support small and medium enterprises (“Ecuador: Corporación Financiera” 2020).

Chile and Peru became the third and fourth LAC countries, along with Ecuador and Uruguay, to participate in the BRI and hold full membership in the AIIB (“Argentina joins” 2022). In 2022, an MoU between Argentina and China for over \$23 billion in financing was signed, earmarked mainly for infrastructure projects. The MoU states \$14 billion will be disbursed under the Diálogo Estratégico para la Cooperación y Coordinación Económica (Decce), which has financed railroads, hydro- and nuclear power facilities and other major projects since 2017 (“El Gobierno anuncia” 2022, “Tercer



Diálogo” 2017). The other \$9.7 billion will be allocated by a new Ad Hoc Working Group, and will target energy, water and sanitation, transportation and housing projects.

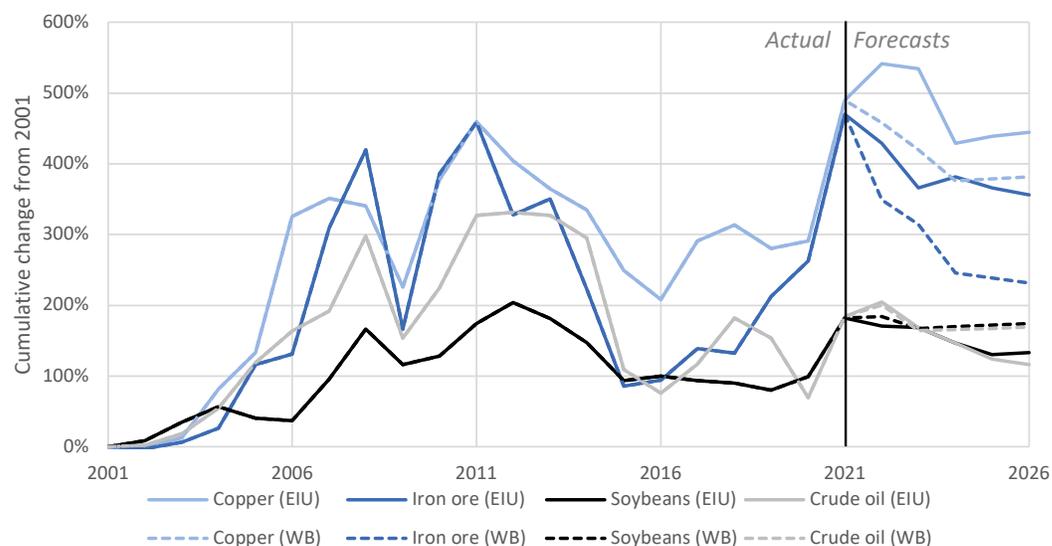
## PROSPECTS FOR 2022 AND BEYOND

Although the past two years have seen no new official loans to LAC from China’s two policy banks, this is likely to rebound in the coming years. Nicaragua and Argentina’s diplomatic announcements likely precede significant financial commitments in the coming year. Argentina President Alberto Fernández’ recent visit to China included signing over \$20 billion in financing agreements as outlined above (Fernández 2022). In general, Chinese overseas official finance has a significant relationship with the country’s level of international reserves, which have begun to rebound after 2021’s record trade surplus (Dreher et al 2021, Mellow 2022).

Furthermore, renegotiations of existing debts continue. In 2022, a debt renegotiation agreement with Ecuador is likely, following President Lasso’s trip to China in February, where the two countries announced they would initiate formal talks later in 2022 (Valencia 2022b). Suriname and Argentina may also seek renegotiation with China in the coming year, after the IMF recently agreed to restructuring plans for both countries – formally for Suriname and verbally for Argentina at the time of writing (IMF 2021a, Tett 2022).

Trade in 2022 is likely to continue its uneven rebound after the COVID-19 pandemic, albeit with the increasing relevance of new commodities for green energy. The prices for major LAC-China export commodities rose sharply in 2021, in some cases hitting earlier peaks. However, as Figure 9 shows, they are expected to abate as production returns to pre-pandemic levels. As new commodities such as lithium, alumina and balsa wood continue to grow in importance, they may provide some buffer to the price shocks of these core raw materials.

**Figure 9: Prices of LAC-China Export Commodities, Actual and Forecast**



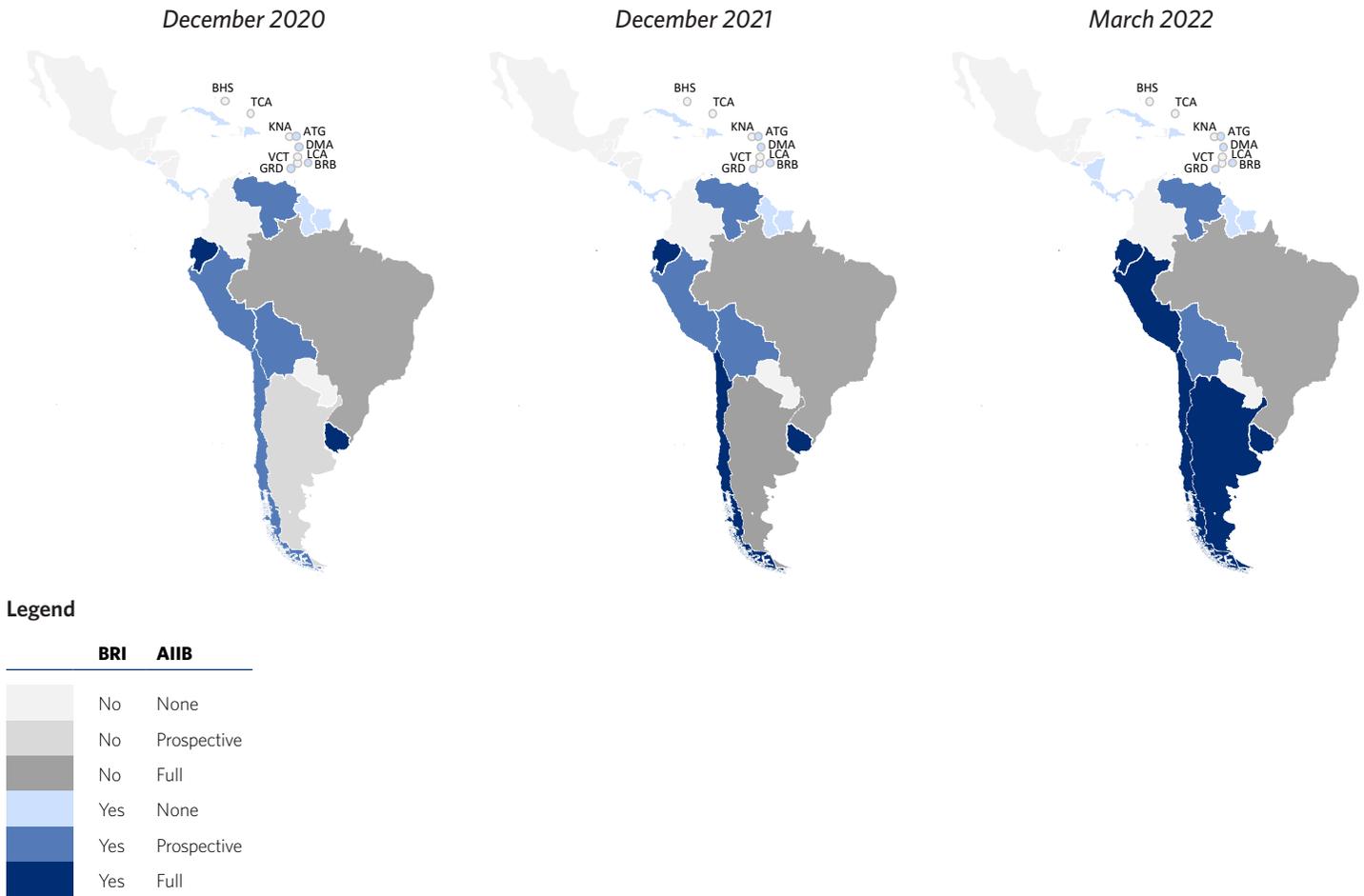
**Source:** Author calculation from EIU 2021 and World Bank 2021a.

China-LAC multilateral diplomacy was very active in the past year and promises to remain so into 2022, as Figure 10 shows. Argentina and Chile joined the AIIB in 2021 and Peru joined in January of 2022. Venezuela and Bolivia are now the only LAC countries that remain prospective members of the AIIB. The BRI also continues to grow in LAC in 2022, as both Argentina and Nicaragua have



joined. Argentina joins four other countries (Chile, Ecuador, Peru, and Uruguay) as full AIIB members and BRI countries. Nicaragua joins neighbors Costa Rica, El Salvador and Panama as well as ten Caribbean countries in joining the BRI without AIIB membership. Brazil is now the only LAC country with full BRI membership without joining the AIIB.

**Figure 10: AIIB and BRI Memberships in LAC**



Sources: AIIB (2022), State Information Center (2022).

In 2022, the economic relationship between China and Latin America is poised to continue growing and strengthening, driven in part by the continuation of earlier trends in commodities trade and electricity sector M&As. In addition, trade and investments in new commodities for renewable energy, innovative financing mechanisms such as debt-for-nature swaps and deeper multilateral cooperation have also come to the forefront in the past year, setting the stage for an evolving economic relationship. The success of this relationship will depend partially on China and LAC's joint governance of economic, environmental and social aspects of these new investments, financing agreements and trade patterns.



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# GLOBAL CHINA INITIATIVE

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