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Rio de Janiero, Brazil.
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EXECUTIVE SUMMARY

In 2023, Latin America and the Caribbean's (LAC) economic relationships with China began to recover from the COVID-19 pandemic, with three new loans made to the region for the first time since 2019, alongside a slight uptake in Chinese foreign direct investment in the region and significant movement towards new Free Trade Agreements (FTAs). These developments come at a challenging time for the region, as inflation and the global repercussions from Russia's war in Ukraine have stalled economic recovery.

The International Monetary Fund (IMF) estimated a 3.9 percent GDP growth rate for the LAC region in 2022, slightly above the estimate of 3.4 percent global GDP growth (IMF 2023). For the first time in four decades, China's annual GDP growth of 3.0 percent was below the global average, and below that of LAC. This context implies both challenges for the China-LAC economic relationship, as well as opportunities to reshape relations in trade, finance and investment.

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

Main findings:

- In 2022, LAC trade with China once again rose to record levels, with the LAC region exporting an estimated $184 billion to China and importing an estimated $265 billion in goods in return. The LAC trade deficit with China reached a record high for the second year in a row, at 1.4 percent of regional GDP. LAC continued to grow its share of the Chinese market for a few core commodities (including iron, copper and beef), but LAC purchases of Chinese goods grew at an even faster pace. LAC nations with strong trade surpluses with China include Chile, Peru, and Brazil. Those with trade deficits include Mexico, Colombia, and Argentina.

- Over the last 20 years, China has risen in importance as a regional export market, while LAC has shifted away from heavy reliance on the US and European markets. For example, Chile, Peru and Brazil each primarily exported to the European Union in 2001, but shifted to China by 2021. Nonetheless, over the last 20 years, most LAC countries have diversified their exports across the US, EU and China, rather than focusing on one trading partner.

- Two countries advanced in their pursuit of FTAs with China. Ecuador and China concluded negotiations in December 2022, while Uruguay announced the conclusion of a feasibility study for an FTA in July 2022.

- Chinese development finance to LAC rebounded slightly in 2022 to $813 million. The China Development Bank (CDB) and Export-Import Bank of China (CHEXIM) signed three new loans for the transportation and finance sectors, to Barbados, Brazil and Guyana.

- Debt sustainability continues to be a challenge for the region's economic relationship with China. Ecuador and China restructured $3.2 billion in loans from CDB and

CHEXIM and extended oil delivery deadlines for Ecuador's oil-backed loans. Debt relief for Suriname, the LAC country with the highest bilateral debt to China to GDP ratio at 18 percent, urgently awaits the start of debt restructuring negotiations.

- Chinese announcements of new (greenfield) investments declined somewhat to $3.5 billion in 2022, while Chinese mergers and acquisitions (M&As) of existing investments in LAC grew to $2.3 billion in 2022 from $900 million in 2021. Both greenfield and M&A investment was centered on emerging supply chains in the renewable energy and electric vehicle (EV) industries, including lithium mining and manufacturing batteries and EVs.

- LAC faces new challenges in managing Chinese FDI. For only the second time in regional history, a Chinese company brought an investor-state dispute settlement (ISDS) case against a LAC government. Mineral resources firm Junefield filed for ad hoc arbitration in October 2022 after an Ecuadorian court halted mining operations at the Rio Blanco gold mine for violations of local Indigenous communities' right to prior consultation.

- Significant advances in diplomatic relations came through Argentina's announcement that it had joined the Belt and Road Initiative (BRI) in February 2022 and its overtures to join the BRICS group. Honduras' 2023 opening of diplomatic relations with Beijing signals continued warming.

- Looking ahead to the rest of 2023, China-LAC relations are likely to see advancements on FTA finalization with Ecuador and Uruguay. Notably, Bolivia has already announced a massive $1 billion deal for lithium development with a Chinese consortium.

In sum, after more than a decade of significant Chinese presence in LAC, regional governments are showing signs of putting forth their own strategies for the relationship through trade agreements, new supply chain investment deals and novel portfolios of potential development finance projects.

The remainder of this report outline the major developments in China-LAC economic relations in 2023, beginning with LAC countries' initiatives to formalize and upgrade their trading relationships with China. It then discusses the rebound in development finance loans to the region and contextualizes them amid larger questions of debt sustainability. The following section details the trends in investment towards green transition materials and supply chains, while noting the challenges of ISDS claims and other environmental concerns. The report concludes with a brief outlook for 2023 and beyond.

TRADE: FORMALIZING AND UPGRADING

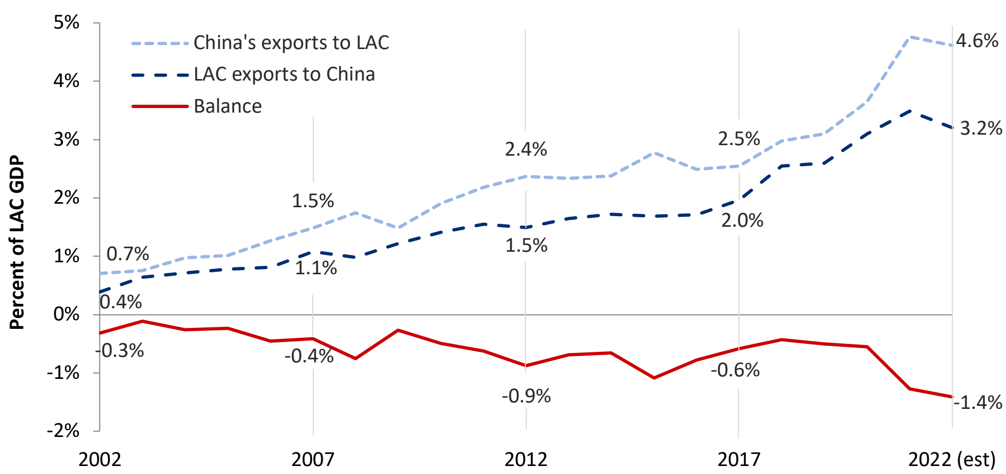
Recent editions of this report have highlighted major changes in the relationship between China and LAC in the wake of the COVID-19 pandemic, both short-term effects and potential acceleration of longer trends. The decline of the commodity boom after 2011 and China's slowing growth in the past decade have challenged the trade relationship, which has been traditionally dominated by LAC's exports of commodities, such as soy, beef, iron and copper. LAC's economy contracted 7 percent in 2020, more than any other region around the world, compounding the challenges of providing healthcare and vaccines to the population

(UNCTAD 2021). China's own economy still faces hurdles to recovery after three years of periodic shutdowns and supply chain issues. The effects of climate change have manifested in LAC, with major hurricanes devastating Caribbean countries, droughts impacting soy production across South America and wildfires destroying communities and ecosystems in Chile (see, for example, WMO 2022). As China's official development finance in the region has declined in recent years, trade and foreign direct investment (FDI) have become more central to the China-LAC relationship. These long-terms trends and recent challenges have created a new set of opportunities for LAC to capitalize on policy priorities for its relationship with China.

Recent Trends in Trade

As Figure 1 shows, LAC's trade deficit with China grew in 2022 to a record of over $80 billion, or 1.4 percent of regional GDP.[1] LAC exported $184 billion in goods to China and imported $265 billion in Chinese goods. Figure 1 shows these trends over the last 21 years. In 2022, LAC-China exports and imports fell as a share of GDP for the first time in several years, but this is a result of regional GDP outpacing trade as the region began to rebound from the economic downturn of the COVID-19 pandemic. Trade in both directions continued to grow in nominal terms.

Figure 1: LAC-China Trade Balance in Goods, 2002-2022

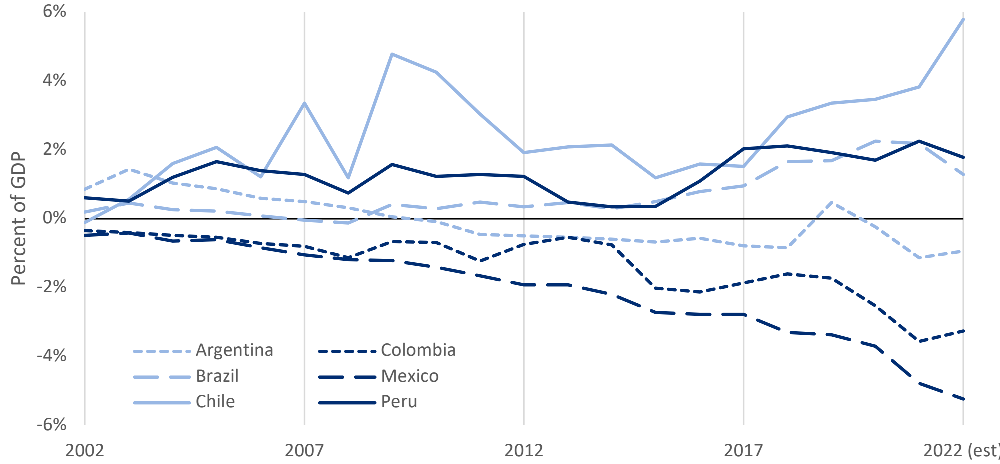


Source: Author analysis of China General Administration of Customs (2023) and UNSD (2023).

The LAC-China trade balance varied widely across the region. For example, Chile saw record trade surpluses with China of over 5 percent of GDP. Mexico led the region's trade deficit, importing approximately $75 billion more in Chinese imports than the value of the goods they exported to China. Figure 2 shows balance of trade in goods between China and several of the LAC region's largest economies: Argentina, Brazil, Chile, Colombia, Mexico and Peru.

[1] The two sides of a trading relationship generally report significantly different figures for trade, because of the costs of freight and insurance which are borne by just one partner. However, LAC's reported 2022 imports will not be published for some time. Thus, these estimates for 2022 are derived by adjusting China's reported 2022 exports to LAC by previous years' difference between LAC's reported imports from China and China's reported exports to LAC, and vice versa.

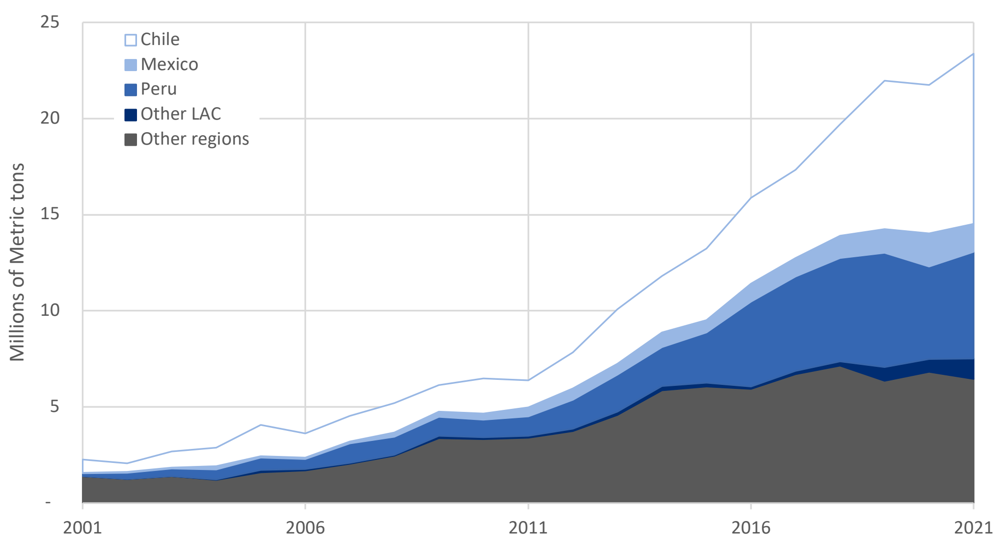
Figure 2: Trade Balance between China and Select LAC Economies, 2002-2022



Source: Author analysis of China General Administration of Customs (2023) and UNSD (2023).

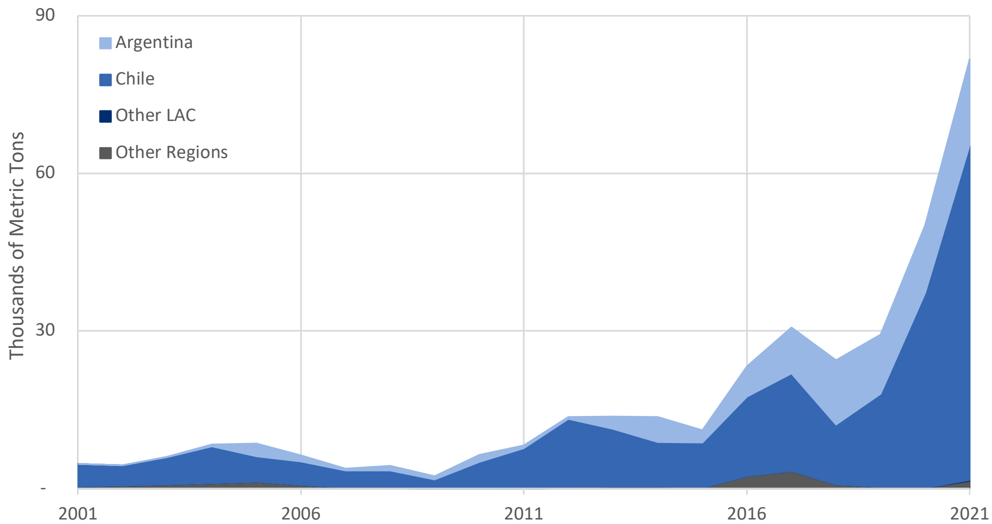
In part, the variations of experiences among LAC economies reflect different commodity baskets. For example, Chile's growth is related to the growth of two major export commodities: copper ores and concentrates and lithium carbonate. For both of these commodities, LAC makes up the majority of China's imports, and Chile makes up the majority of LAC-China trade. Figure 3 shows China's imports of major commodities: LAC continues to grow in importance as a source of almost all of these commodities compared with other regions.

Figure 3A: China's Imports of Major Commodities, by Source - Copper Ores and Concentrates



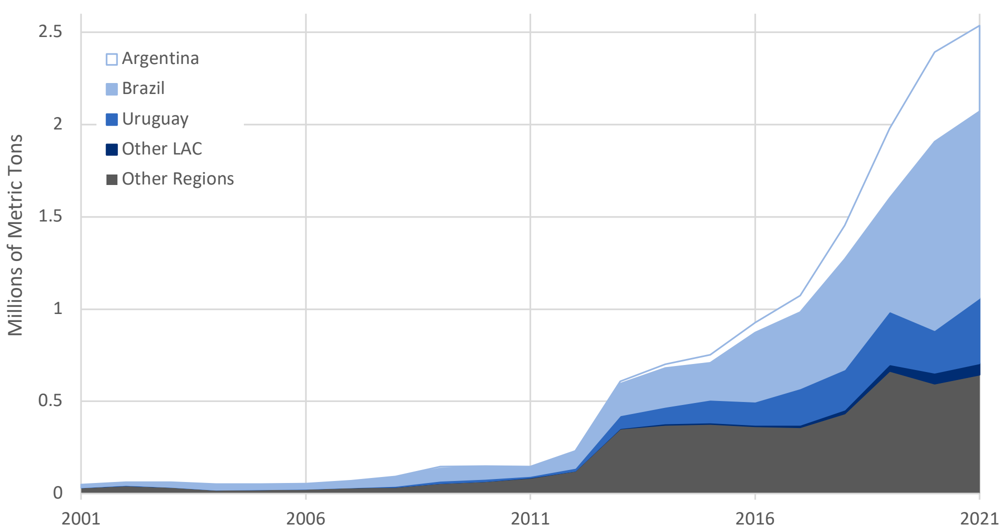
Source: Author analysis of UNSD (2023) data.

Figure 3B: China's Imports of Major Commodities, by Source - Lithium Carbonate



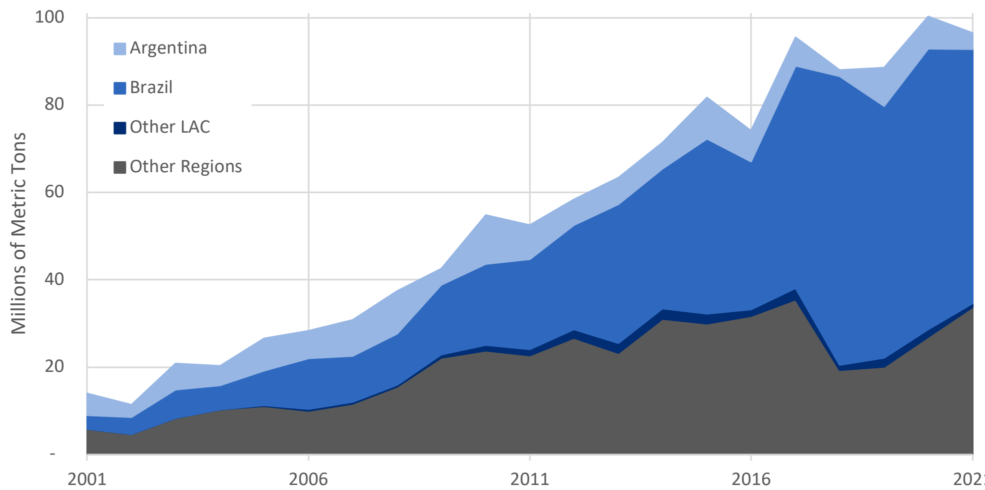
Source: Author analysis of UNSD (2023) data.

Figure 3C: China's Imports of Major Commodities, by Source - Frozen Beef



Source: Author analysis of UNSD (2023) data.

Figure 3D: China's Imports of Major Commodities, by Source - Soybeans, Whole or Crushed



Source: Author analysis of UNSD (2023) data.

The only major commodity in which LAC lost market share in China was soy. LAC-China soy exports have risen and fallen recently as LAC temporarily served as an alternative to United States crops during the US-China trade dispute of recent years. LAC-China soy exports rose significantly between 2016-2018, but have since lost ground again as China has returned to buying from US sources.

Ongoing Developments in China-LAC Trade

In 2022, several LAC countries moved to diversify their trade with China through formal Free Trade Agreements (FTAs). In 2022, Uruguay concluded a feasibility study for an FTA with China, and official statements from the Uruguayan President's office have indicated progress (Uruguay Presidencia 2022). Ecuador concluded negotiations with China for an FTA in December 2022, and the signing of a final agreement is expected in the near future (Ministerio de Producción Comercio Exterior Inversiones y Pesca 2023). Panama's negotiations with China have not resumed since April 2019, but at this year's Ninth Summit of the Americas in Los Angeles, President Laurentino Cortizo reiterated Panama's intentions to restart negotiations (García Armuelles 2022). Colombia's long-stalled feasibility study and FTA negotiations with China received renewed attention this year in light of Uruguay's successful conclusion of its study ("China pide", 2022).

If all four of these agreements enter into force, China's FTAs in the region would more than double. Currently, only Chile, Costa Rica and Peru have FTAs with China, and all were signed over a decade ago, dating to 2006, 2010 and 2011, respectively. However, both Chile and Peru have renegotiated key aspects of their FTAs in recent years. Chile and China's updated agreement entered into force in 2019 and included new chapters on electronics trade and environmental protections (MOFCOM n.d.). The new chapter on environment and trade places the FTA firmly within the context of Chile's broader goals for sustainable development and the UN

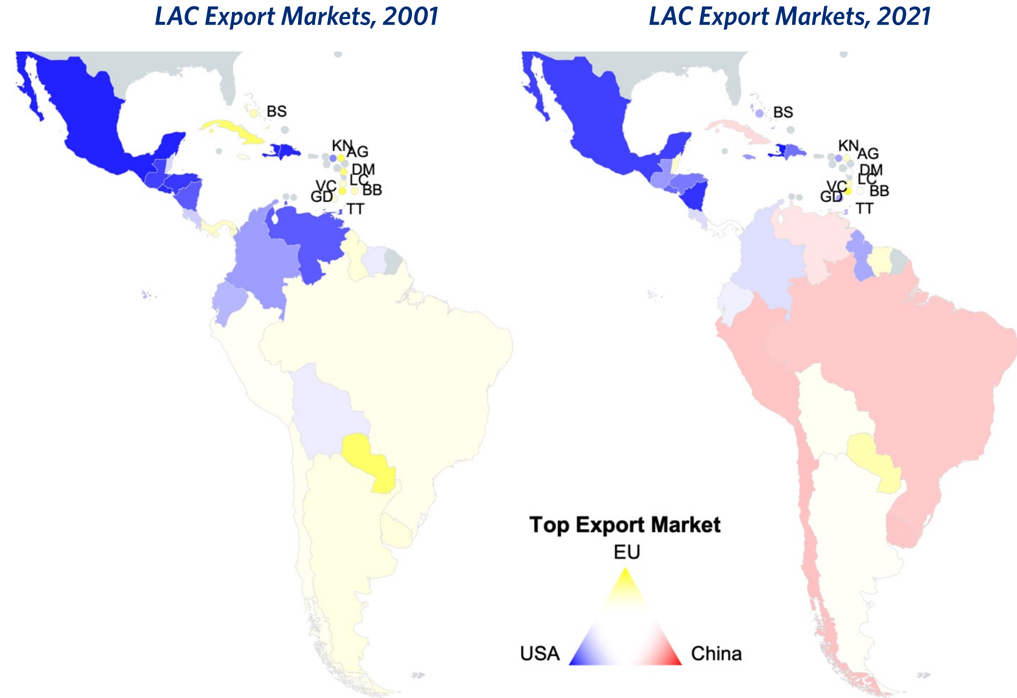
2030 Sustainable Development Goals (SDGs), emphasizing the need for continued evaluation of trade's environmental impacts ("Protocolo de Modificación" 2017). Peru's negotiations with China have been ongoing since 2019 ("Sobre El Acuerdo" n.d.). Planned updates to the agreement include new chapters on competition policy and electronics trade. Peru's statements on negotiations have underscored its longer-term goal to establish itself as a key center for LAC-Asia interconnectivity ("Tratado de Libre Comercio" n.d.).

In each of these cases, LAC countries have initiated negotiations and have consistently expressed preferences for moving their exports to China up the value chain and attracting more investment in non-traditional sectors. In the press release announcing the conclusion of Ecuador's negotiations with China, the Ecuadorian government highlighted the agreement's potential to create jobs and attract investment, as well as secure preferential market access for 99 percent of Ecuador's exports to China (Ministerio de Producción Comercio Exterior Inversiones y Pesca 2023). While the majority of these exports are currently in the agricultural sector, the press release also emphasized new opportunities to export non-traditional products. Negotiations began after President Guillermo Lasso's official visit to China during the Beijing Olympics in February 2022 to discuss the possibility of an FTA alongside debt renegotiations (Ministerio de Producción, Comercio Exterior, Inversiones y Pesca 2023). Meanwhile, Panama's negotiation documents prioritize attracting investment in the financial, logistics and technology sectors and securing market access for Panamanian exports (Cámara de Comercio, Industrias y Agricultura 2018).

Similarly, Uruguay's President Luis Lacalle Pou focused on the benefits for exporting not only primary products to China, but also industrial and technological goods (Uruguay Presidencia 2022). Uruguay's negotiations with China have been proceeding unilaterally since September 2021, despite objections from the other members of the Mercosur trade bloc, including Paraguay, which still recognizes the Republic of China (Taiwan). President Lacalle Pou's statement included an offer to negotiate multilaterally as a bloc, though it also affirmed that Uruguay will move ahead with or without its Mercosur partners (Uruguay Presidencia 2022). The announcement is the latest in an ongoing internal discussion within Mercosur about the level of flexibility member states should have to act unilaterally on trade issues, which both Uruguay and Brazil have tended to support (Koop 2022). The dispute within Mercosur comes amid the already delayed formalization of a trade agreement between the bloc and the European Union (EU). In 2019, the two sides reached a political agreement on a new trade deal (European Commission 2019), but the deal has yet to be signed or ratified by the parties. Paraguay's upcoming elections in April 2023 may pave the way for a Mercosur-China FTA if the opposition candidate wins, having promised to switch diplomatic recognition to Beijing (Desantis 2023).

While this report focuses on LAC's economic relationships with China, Mercosur's ongoing negotiations with the EU, as well as Panama's attempts to reopen negotiations on its FTA with the US, underscore the importance of placing these relations in a broader context. China has become the main trading partner for many countries in the region, and for South America as a whole, but trade with the US and EU remains robust. Figure 4 shows the evolution of LAC export markets from 2001-2021, the two decades in which China has risen to prominence as a major player in global trade.

Figure 4: LAC Countries' Top Export Markets, 2001 and 2021



Source: Author analysis of UNSD (2023).

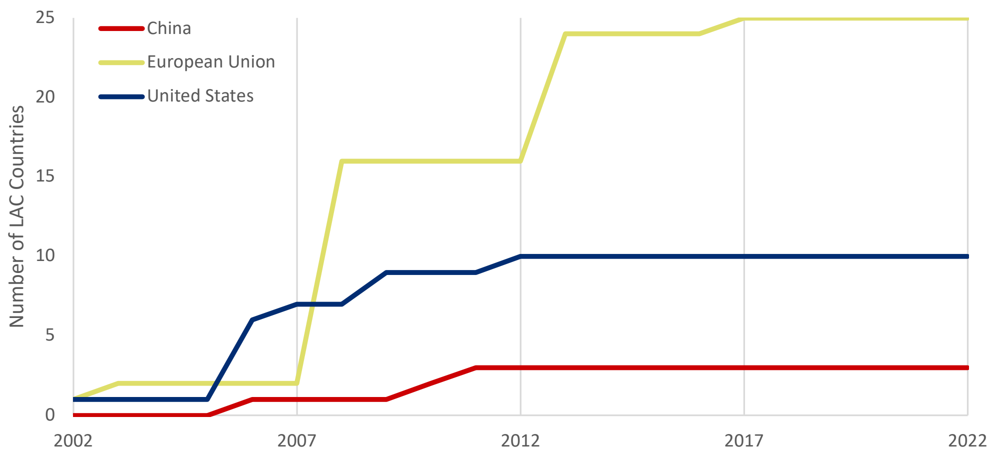
Note: Territories in grey are non-sovereign or non-LAC. Calculated from the US, EU and China's reported imports, to compensate for gaps in LAC data reporting.

Figure 4 demonstrates the shifting importance of three major trading partners: the United States, the European Union and China. For the years 2001 and 2021, Figure 4 shows each LAC country's top export market.The depth of each color indicates how important each country's top export market is as a share of its export basket: blue countries primarily export to the United States, yellow countries primarily export to the European Union and red countries primarily export to China.

Two trends stand out in Figure 4. First, several LAC countries that primarily exported to the EU in 2001 (including Brazil, Chile, Cuba, Peru and Uruguay) now primarily export to China, while most countries that primarily exported to the US in 2001 continue to do so. The only country to shift from blue (primarily exporting to the US) to red (primarily exporting to China) is Venezuela, which is currently under US sanctions strictly limiting its exports to the US. Secondly, in 2021 most countries appear in relatively light versions of each color: no countries appear in medium or dark red and only two countries (Paraguay and St. Vincent and the Grenadines) appear in medium or dark yellow. In fact, several countries have kept the same color, but appear lighter in 2021 (including Argentina, Colombia, Ecuador, Guatemala, Honduras, St. Kitts and Nevis and Trinidad and Tobago), showing a transition away from heavy reliance on one export market. Thus, it appears that LAC on the whole now exports in a relatively diversified manner among these three top export markets.

Figure 5 demonstrates that the new FTAs with China, while significant, follow in a longer tradition of countries – and blocs – in the region concluding FTAs with extra-regional partners. Notably, the EU has concluded several multilateral trade agreements with blocs in LAC, including the Andean Community (Colombia, Ecuador and Peru), CARIFORUM (Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Lucia, Saint Vincent and the Grenadines, Saint Kitts and Nevis, Suriname, Trinidad and Tobago, the Dominican Republic and Haiti), and Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama). LAC countries are building on the longer histories of FTAs with extra-regional partners to pursue new agreements with China, exploiting the new opportunities available in the context of its now comparable trade status to the US and EU.

Figure 5: LAC Countries with FTAs in Force with China, the European Union and the United States



Source: Author analysis of European Commission (2023) and Organization of American States (2023).

These groundbreaking developments are poised to dramatically reshape the China-LAC trade relationship in the coming years. Sentiments expressed by LAC leaders like those above underscore the importance of these agreements for diversifying trade beyond traditional commodities, as well as bringing in more Chinese investment to support value-added export initiatives. As discussed in depth by Ray et al (2017), LAC-China exports have traditionally been heavily concentrated in raw materials with low-technology sectors, resulting in a process of “re-primarization,” or the reversal of LAC industrialization processes. If Ecuador, Colombia, Panama and Uruguay successfully use the FTA process with China to encourage economic diversification, it will represent a significant break from past LAC trade agreements, which have been associated with deepening commodity dependence rather than diversification (see for example, Capaldo and Ömer 2021; Gallagher and Porzecanski 2010). These trends and vulnerabilities raise important questions for LAC countries navigating and attempting to expand Chinese trade and investments in the region beyond traditional extractive sectors, and these new FTAs may provide a timely opportunity to formalize environmental and social protections.

FINANCE: NEW LOANS AND DEBT RENEGOTIATION

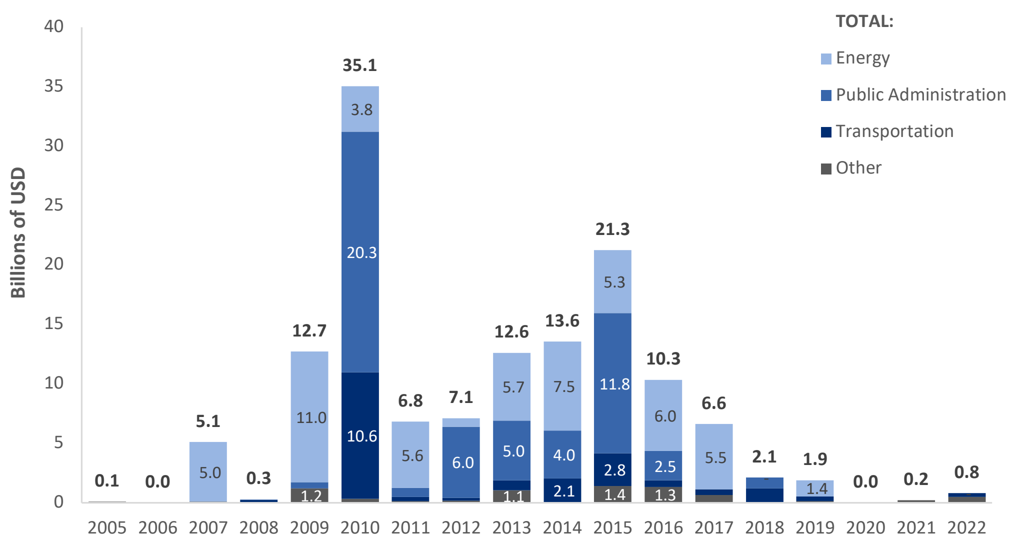
While 2020 saw no new loans from China to LAC countries and 2021 saw just one, three new loans were signed between LAC countries and China’s development finance institutions (DFIs), China Development Bank (CDB) and the Export-Import Bank of China (CHEXIM) in

2022.[2] The year 2022 also saw several LAC countries reach out to China to renegotiate the terms of existing debt (Myers and Ray 2023).

Recent trends in China-LAC development finance

In 2022, the continued gradual return to China-LAC development finance centered on targeted support for specific policy and project goals. In January 2022, the Banco do Brasil signed a loan agreement with CDB for $500 million (Santibañez 2022). The bank will primarily use the funds to support social projects, including expanding accessible housing, financing for small- and medium-sized enterprises, bolstering socioeconomic empowerment and providing access to essential services.

Figure 6: China's Development Finance to LAC Countries, 2005-2022, by Sector



Source: Myers and Ray 2023.

In February, Barbados signed a $121 million concessional loan agreement with CHEXIM to finance the Scotland District road rehabilitation project ("US $121 Million Loan" 2022). Prime Minister Mia Amor Mottley highlighted the importance of the project for repairing infrastructure that is central to the tourism industry, a sector that provides a significant number of jobs and income for Barbados's economy (Henry 2022). The terms of the loan include a 2 percent interest rate and a 20-year repayment period; the market rate for the loan would have been 4 to 5 percent.

The final loan came in December 2022, when Guyana signed a $192 million agreement with CHEXIM for the second phase of the East Coast Road Project (DPI 2022b). The project aims to boost commercial activity in the area and reduce commuter congestion. Also in December, Guyana announced a further $172 million loan agreement with the Bank of China (BoC), one of China's commercial banks, to cover part of the cost of a $260 million contract that

[2] CDB and CHEXIM are referred to as "policy banks" in previous Boston University Global Development Policy Center publications. However, the government of China classifies CDB as a commercial bank that is also a DFI, rather than a policy bank. Based on characteristics, both CDB and CHEXIM fit the definition of a DFI used by Finance in Common. For this reason, both CDB and CHEXIM are henceforth labelled as DFIs.

the government had awarded to China Railway Construction Corporation (CRCC) in May 2022 (DPI 2022a). The $260 million contract is to build a new bridge over the Demerara River as part of the government's initiative to modernize transportation infrastructure. The loan announcement was unexpected, as funds from domestic sources had been previously set aside to cover the contract, and opposition politicians have requested more transparency on the loan negotiation process (*Kaieteur News* 2023).

To track China's overseas lending and development finance to LAC, the Boston University Global Development Policy Center and the Inter-American Dialogue developed the Chinese Loans to Latin America and the Caribbean (CLLAC) Database, an interactive database tracking loans from CDB and CHEXIM to LAC governments and state-owned enterprises. The CLLAC Database is updated annually, and was most recently updated in March 2023 to reflect the three new loans disbursed in 2022. The CLLAC Database only records loans from China's DFIs; therefore the BoC loan is not recorded in the CLLAC Database.

The $813 million in total loans from China's DFIs in 2022 is a small portion of the $136 billion in total lending since 2005 and does not approach the peak lending levels of China's development finance activity in 2010 and 2015, when commitments surpassed $30 billion and $20 billion, respectively. However, the loans are at a roughly similar level to the years immediately before the COVID-19 pandemic: $2.1 billion in 2018 and $1.9 billion in 2019. Notably, the loans to Barbados and Guyana potentially signal a shift in focus from South America towards the Caribbean for development finance, as the relationships with South American countries deepen into FTAs and direct FDI.

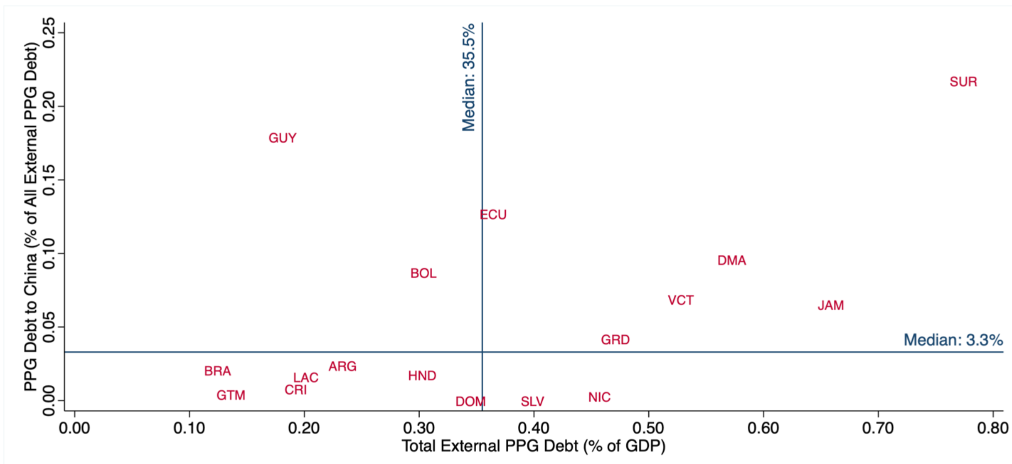
Ongoing debt renegotiations

The year 2022 was also active on the debt renegotiation front. Following President Lasso's trip to Beijing in February, Ecuador and China agreed to a major debt restructuring deal in September for a total of $1.4 billion relief in debt service payments through 2025 (Presidencia de la República del Ecuador 2022). The deal restructured $1.4 billion in loans from CDB and $1.8 billion in loans from CHEXIM for a total of $3.2 billion, reduced interest rates on existing loans, extended the maturity on existing credit lines by three years and granted a six-month grace period on all CHEXIM commercial credit lines. In addition, the two countries renegotiated the terms of Ecuador's oil-backed loans, allowing the country to sell more barrels at market prices over the next several years. The IMF reports that the deal extends the deadline for oil deliveries from 2024-2027, but increases the overall debt service payments to China by $386 million as a result (IMF 2022a).

In January 2023, Argentina and China formalized a 35 billion renminbi ($5 billion) currency swap extension negotiated in November 2022 (BCRA 2023; Raszewski 2022). This swap agreement followed the signing of a memorandum-of-understanding (MOU) in February 2022 for Argentina to join the Belt and Road Initiative (BRI) that included plans for $23.7 billion in financing for strategic infrastructure ("Acuerdo Con China" 2022). While the two countries have not announced any specific projects to be funded as of April 2023, Argentina and China have agreed to re-open the credit lines for the Presidente Dr. Néstor Carlos Kirchner and Gobernador Jorge Cepernic hydroelectric facilities in Santa Cruz. The amendment agreement will restart financing from China and extends the availability period for another 30 months (*Acuerdo de Enmienda* 2022; Dolabjian 2022). As of April 2023, a further debt restructuring agreement with China has not been concluded.

The LAC country with the highest bilateral debt to China to GDP ratio is Suriname, which stands at 18 percent of GDP as of March 2022 (IMF 2022b); China is also Suriname's largest bilateral creditor. Suriname has undergone extensive debt restructuring negotiations with its only other two official creditors, the Paris Club (Paris Club 2022) and India ("India Agrees" 2023). Although there has been no formal deal struck as of April 2023, Suriname is also in negotiations with private bondholders whose loans account for 23 percent of its GDP (IMF 2022b). China and Suriname have not reported any debt restructuring deal, despite the latter's arrears on payments. In the first review of its IMF Extended Fund Facility program, Suriname reported that in February 2022, CHEXIM withdrew $1.4 million from a $2.9 million offshore repayment reserve account set up as security for a $94 million loan contract signed in 2017 (IMF 2022b). As of March 2022, the IMF report stated that Suriname had shared a restructuring offer with China, but as of April 2023, no formal agreement exists.

Figure 7: LAC Public and Publicly-Guaranteed (PPG) Debt to China and all External PPG Debt, 2021



Source: Author analysis of IMF (2022b) and World Bank (2023).
Note: Countries with no reported PPG debt to China are not included.

In sum, 2022 showed slight progress towards renewing lending relationships that China and LAC countries held before the pandemic, but the economic fallout from the past three years continues to challenge these relationships. Ecuador and Argentina have formalized arrangements for managing debt, but Suriname has yet to do so.

FOREIGN DIRECT INVESTMENT: NEW CHALLENGES AMIDST A GREEN TRANSITION

FDI can take one of two forms: greenfield FDI (GFDI), representing new projects, and mergers and acquisitions (M&As) of existing investment assets.[3] In 2022, both avenues of FDI

[3] Greenfield investment (GFDI) occurs when investors establish a new or expanded subsidiary in another country. The announcements traced here are intentions to begin greenfield investments in the future, rather than already realized financial flows. Mergers and acquisitions (M&As, sometimes also known as "brownfield" investment) investment occurs when investors purchase or merge with an existing company. The M&A investment traced here refers to the value at the point of sale.

remained subdued. Chinese M&As in LAC rebounded slightly from $0.9 billion in 2021 to $2.3 billion in 2022, while GFDI announcements eased from $5.2 billion in 2021 to $3.5 billion in 2022. These investments bring the totals for the past decade to $63 billion in Chinese M&A investment and $59 billion in Chinese GFDI.

Recent Trends in China-LAC FDI

Across both avenues of FDI, Chinese firms focused primarily on lithium, renewable energy and electric vehicles (EVs), indicating that both China and LAC are eager to leverage the region's unique placement in the green transition supply chain.

As Figures 8-10 show, Chinese investment in LAC during the commodity boom was overwhelmingly in extractive industries such as copper mining. In the decade following the boom, most M&As were in the infrastructure sector, often as part of projects financed through CDB or CHEXIM. These investments often supported China's strategy to internationalize its development model by ensuring access to raw materials abroad and securing foreign contracts for its infrastructure firms (Wise 2020). Thus, the shift in 2022 toward renewable energy and EV supply chains marks a difference from recent years' focus on infrastructure.

MERGERS AND ACQUISITONS (M&AS) In 2022, the top Chinese M&As in LAC were in renewable energy and electric mobility. The top three deals completed in the year were:

- Ganfeng Lithium Co. Ltd., one of the world's largest lithium producers, spent $962 million to buy Lithea Inc., which owns the Pozuelos-Pastos Grandes (also known as "PPG") evaporative lithium project, an Argentina-based lithium mining ("China's Ganfeng" 2022).

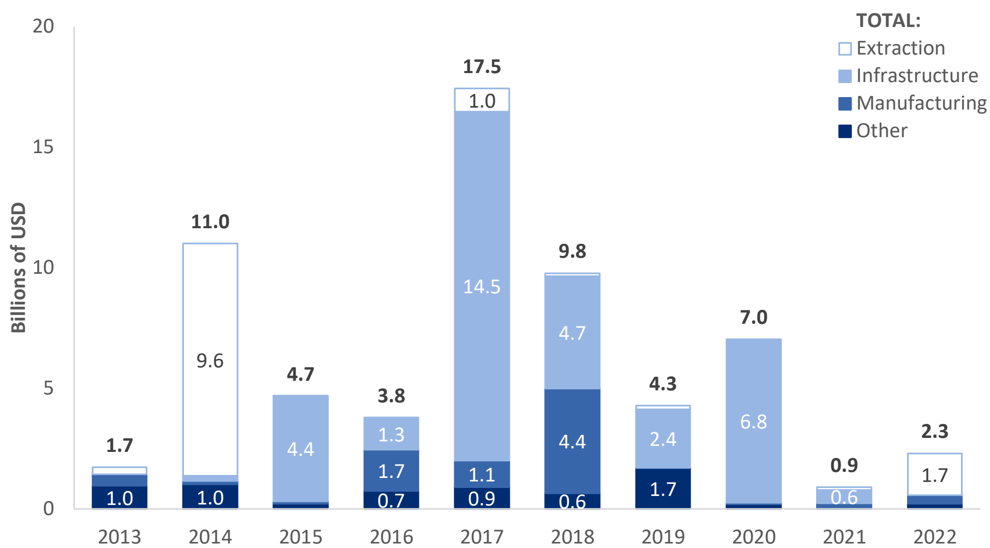
- Zijin Mining Group, another Chinese multinational mining company, spent $767 billion to buy Neo Lithium Corp, which owns the Tres Quebradas (also known as "3Q") evaporative lithium project in Catamarca, Argentina ("Tres Quebradas" 2016, "Zijin Mining Completes" 2022).

- Great Wall Motor Company Ltd., an automotive manufacturer, purchased a Daimler auto manufacturing plant in Brazil for $351 million, with plans to develop EVs and batteries ("Great Wall" 2022).

These investments in lithium mining meant that 2022 was the first year since 2014 to see more than $1 billion in Chinese extractive M&A investment in LAC. In January 2023, Bolivia announced a $1 billion investment deal to develop its extensive lithium reserves (Ramos 2023). As a critical component in batteries for EVs and renewable energy projects, lithium is a key transition material, and the largest reserves in the world are located in the Lithium Triangle countries of Argentina, Bolivia and Chile. These investments indicate China's significant stake in these materials and their supply chains for the foreseeable future.

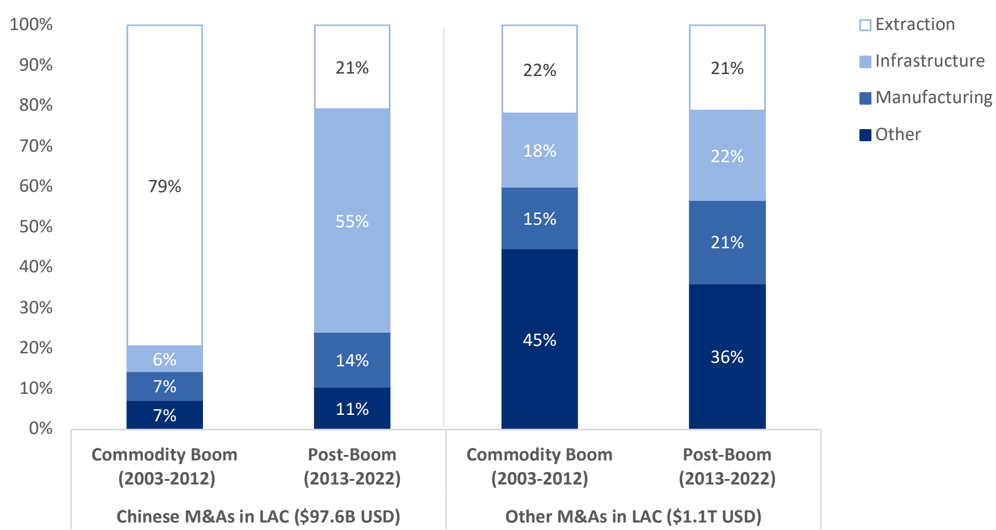
Overall, though, the last decade of Chinese M&As in LAC has still been dominated by infrastructure – in contrast to the previous decade and also in contrast to other investors in the region. Figure 9 shows the sector distribution of M&A investment by both Chinese and other investors in LAC, and demonstrates the pivot from extraction to infrastructure after 2012.

Figure 8: Chinese M&As in LAC, by Sector, 2013-2022



Source: Author analysis of DeaLogic data.
Note: Extraction includes ore processing.

Figure 9: Chinese and other M&As in LAC, by Sector and Time Period



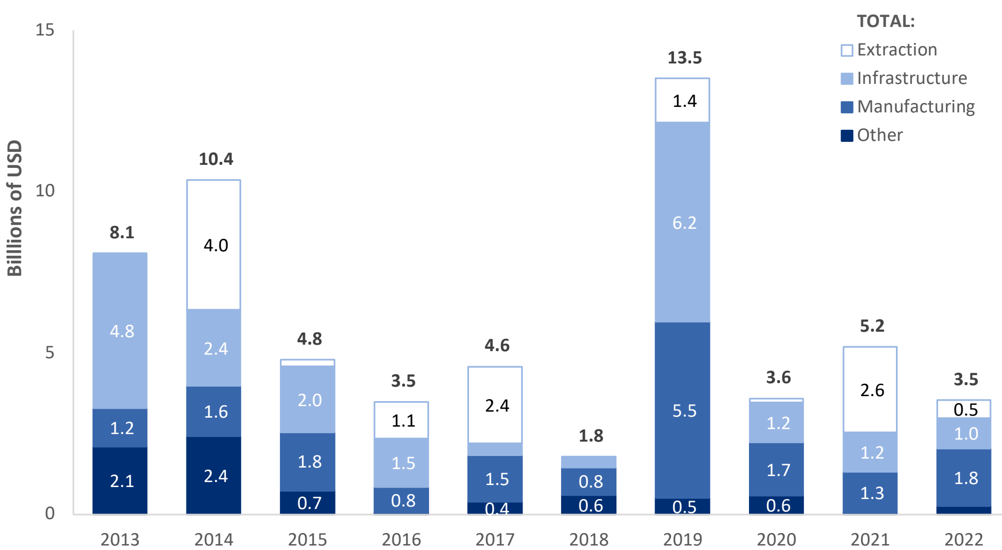
Source: Author analysis of DeaLogic data.
Note: Extraction includes ore processing.

GREENFIELD FDI Chinese GFDI announcements also centered on renewable energy and EV supply chains, ranging from lithium processing in Argentina to EV manufacturing in Argentina and Brazil. Top GFDI announcements for 2022 included:

- Electric automaker BYD announced its intention to invest $565 million in three new factories in Brazil, including one factory for lithium and iron phosphate for batteries and two automotive chassis plants ("China's BYD" 2022, Moraes 2022).

- Another Chinese automaker, Chery Automobile, announced $225 million in new investments Argentina, including an EV factory and leather tannery for aumotive interiors ("Chery Confirmó" 2022).
- Liex, a lithium producing subsidiary of Zijin Mining, announced its intention to build a new $380 million lithium carbonate factory in Argentina ("China's Zijin Mining" 2022).

Figure 10: Chinese GFDI Announcements in LAC, by Sector, 2013-2022



Source: Author analysis of FDI Markets, *Financial Times* (2023) data.

Ongoing Issues in Investor Environmental Performance and Investor-State Disputes

A recent working paper by Ray et al (2022) explores the relationship of China's investments and LAC's environmental and social governance policies before, during and after the recent commodity boom. In the Amazon basin countries of Brazil, Bolivia, Ecuador and Peru, the robustness of these regulations to protect the environment and local communities has risen and fallen parallel to commodity prices. Ray et al find that after the commodity boom of 2002-2012, Amazon basin countries relaxed their environmental and social protections in a bid to prolong the China-led resource boom and attract or expedite further investment. However, Chinese investment did not rebound, nor did the average time elapse between project announcement and project groundbreaking accelerate. Moreover, as Figure 9 shows, Chinese investment continued to pivot away from natural resource extraction and toward the infrastructure sector. These results support the "patient capital" hypothesis, wherein China's state-owned enterprises and state-backed lending are willing to wait for longer-term returns on investment, rather than react to short-term regulatory price changes (Kaplan 2021).

New developments have provided importance nuance to this story. Ray et al (2022) note that China MinMetal's 2014 purchase of the Las Bambas copper mine in Peru occurred in the context of relaxed environmental and social regulations in the post-boom era, but has faced nearly continuous protests from the community over environmental concerns. Moreover, in mid-2022, China MinMetals was forced to suspend production for nearly two months due to protests from the local Indigenous communities related to these issues ("MMG Suspends" 2022). Despite these major setbacks, China MinMetals has retained its investment in the mine and has repeatedly resumed production after closures. The first months of 2023 indicate that these trends will continue; protests in January over the impeachment and arrest of then President Pedro Castillo blocked roads in and out of the Southern mining corridor ("Recortan proyecciones" 2023). Protests moved to the capital in February, but the evolving nature of the political situation as of April 2023 leaves significant uncertainty about the mine's future. China MinMetals' willingness to ride out this turbulence illustrates the "patient capital" framework in action.

In neighboring Ecuador, a seemingly similar mining dispute has led to a different outcome. Hong Kong-based Junefield, operating as Ecuagoldmining, purchased the Rio Blanco gold mine in 2013, just after the peak of the commodity boom, and operations began in 2018. Like Las Bambas, the local communities have protested the company's transportation practices for overtaking local roads and have raised concerns about damages to local water supply and ecosystems (Ning 2019). In 2018, protests escalated, and local Indigenous groups took Junefield to court, arguing that the company failed to consult them prior to beginning operations as required by national law. In a historic first for Ecuador, the court sided with the community and ordered a halt to all mining operations in June 2018 (CONAIE 2018).

Junefield announced in February 2020 that it would seek to negotiate with Ecuador before filing a lawsuit for the breach of the China-Ecuador Bilateral Investment Treaty (BIT), taking advantage of the ten-year sunset clause for investor-state dispute settlements (ISDS) ("Ecuagoldmining notifica" 2020). In October 2022, after negotiations failed to produce a satisfactory result for Junefield, the company filed for ad hoc arbitration ("Junefield demanda" 2022). This marks only the second time that a Chinese company has filed an ISDS claim in Latin America, with the first being Tza Yap Shum's successful claim against Peru in 2007 for seizure of the firm's bank accounts over unpaid tax debts (*Tza Yap Shum v. Republic of Peru* 2011). In that case, China sent relevant court documents and a team of experts to work on behalf of the state of Peru, rather than the Chinese investor, including one of the original Chinese negotiators of the China-Peru BIT (Irwin 2014). Witness testimony before the International Centre for Settlement of Investment Disputes (ISCID) panel indicated that these actions aimed to prevent international arbitrators from deciding on whether expropriation had occurred. The Junefield case marks a dramatic shift from past precedent.

While the outcome of Junefield's claim is uncertain, it is part of a larger wave of ISDS claims brought by Chinese investors globally. Of the 15 instances of Chinese investor-led ISDS claims recorded by the United Nations Conference on Trade and Development (UNCTAD), eight have been initiated since 2020 (UNCTAD n.d.). Furthermore, despite the leading role of state-owned enterprises in Chinese investment in LAC and globally, neither the Tza Tap Shum or Junefield case involves a state-owned enterprise (SOE). *Beijing Urban Construction v. Yemen* remains the only Chinese SOE-initiated ISDS case on record (Pathirana 2017). These cases shed light on the limits of China's patient capital, indicating that China-based private investors may act more like their Western counterparts when dealing with regulatory costs and other obstacles to operations. These developments will be critical for LAC states to monitor, especially in light of increasing private Chinese investments in transition materials, such as lithium and battery production in coming years.

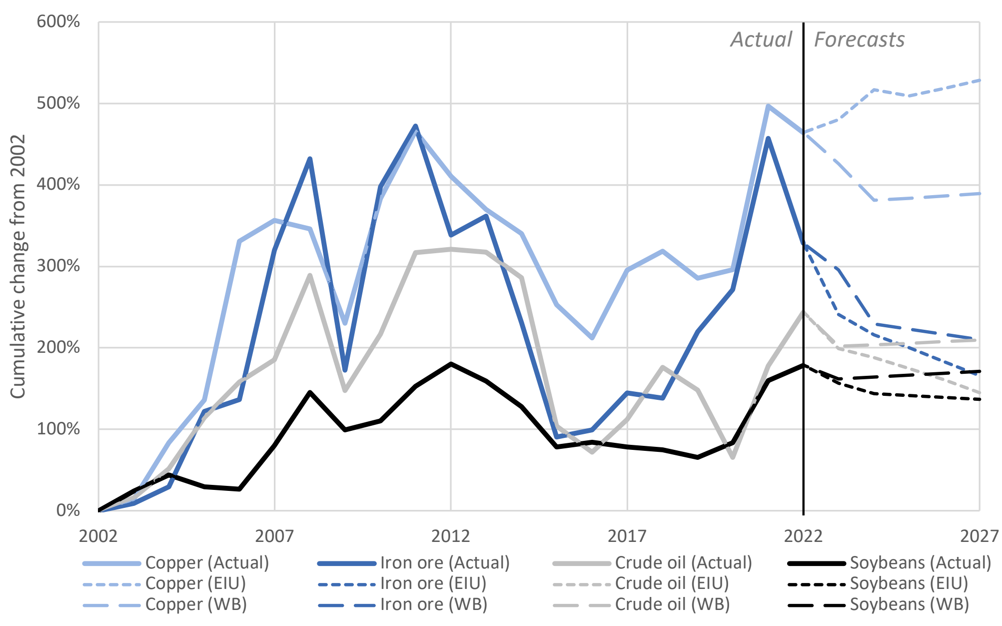
As nations around the world plan energy transition strategies, ISDS provisions present another challenge to LAC countries wishing to green their energy production. Globally, countries could face up to $340 billion in liability to ISDS claims for limiting or cancelling fossil fuel investments (Tienhaara et al. 2022a). Countries in the Global South, including LAC, carry disproportionate burdens of the legal and financial risks from the Energy Charter Treaty (ECT), an international agreement that protects fossil fuel investments (Tienhaara et al. 2022b). Guyana and Venezuela are two of the most vulnerable countries, facing between $5 billion to $21 billion and $3 billion to $21 billion, respectively, in potential losses, primarily from oil and gas projects (Tienhaara et al. 2022a). Junefield's claim, while not in the fossil fuel space, nonetheless may make LAC countries hesitant to take drastic steps towards pursuing green energy transitions in the context of Chinese firms' new ISDS assertiveness.

PROSPECTS FOR 2023 AND BEYOND

The year 2022 saw a tentative rebound in some areas of trade, financing and investment, which may signal a new, subdued baseline for the China-LAC economic relationship, or may herald a return to growth in the relationship. In 2023, the economic relationship between China and LAC has many opportunities to expand and diversify across sectors and types of economic engagement.

LAC-China trade will likely continue to center on core commodities of copper, iron, petroleum and soy. While these commodities' prices grew in 2021 and 2022, those increases are expected to reverse or slow in the coming years, according to the Economist Intelligence Unit (EIU) and the World Bank, as Figure 11 shows.

Figure 11: Commodity Prices and Forecasts, 2002-2027



Source: Author analysis of EIU 2023a, b; World Bank 2022.

The intrinsic instability of commodity prices is one reason why ongoing LAC-China FTA negotiations – and the extent to which LAC countries negotiate for more diversified trade – will be important upcoming developments. In 2022, Uruguay announced positive results of a feasibility study for an FTA, and may consequently open formal negotiations with China in 2023. In December 2022, Ecuador and China concluded negotiations, with the public release and signing and ratification of the formal agreement likely to follow. Meanwhile, Panama's negotiations and Colombia's feasibility study are both ongoing, though the timelines for resolution remain vague as of early 2023.

China-LAC development finance saw a tentative rebound in 2022, primarily with smaller loans to Caribbean countries for construction and rehabilitation of transportation infrastructure. Debt sustainability and management continues to be a challenge for LAC countries, and both Argentina and Suriname may seek renegotiations with China in the next year. Relief for Suriname is particularly urgent, as its public and publicly-guaranteed (PPG) debt to China stands at 18 percent of GDP, the highest in the region.

Significant new development finance deals may be finalized in 2023. For example, in March 2023, Honduras opened diplomatic relations with China after China agreed to provide financing for the expansion of the Patuca hydropower complex ("Honduras Establishes" 2023; Pinell 2023). Argentina has approached China in hopes of financing an expansion of the Cauchari solar plant in Jujuy, while Bolivia has secured $350 million in Chinese development finance for a zinc refinery in Oruro ("China Approves" 2023, Yacono and López 2022). Moving forward, Myers and Ray (2023) emphasize the need for LAC states to balance competing imperatives of reducing debt burdens and seeking capital to promote growth, while China also navigates its domestic economic recovery and how it will position itself amid calls for international debt relief.

Both the Patuca and Cauchari expansion projects fall generally under the category of renewable energy, but both also pose significant challenges for environmental and social risk management. The China's Overseas Development Finance Database managed by the Boston University Global Development Policy Center (Boston University 2023) finds that the existing Cauchari solar park's geographic footprint overlaps with three types of environmentally and socially sensitive territory: Indigenous peoples' lands, possible or likely critical habitats and national protected areas. The Patuca hydropower project does not overlap with these sensitive territory categories, but is upstream from all three types, a critical consideration for any major dam project. Thus, the expansion of both projects may require China and the respective host countries to work together on environmental and social governance of these ambitious projects. If China finalizes financing for these projects, it will be an opportunity to implement China's new high-level guidance on green finance, green investment and green construction (Nedopil Wang 2021, 2022; Nedopil Wang and Bing 2022).

China-LAC investment is likely to continue to center on supply chains for renewable energy and EVs, as LAC countries continue to push for more value added to be located in the region. In January 2023, Bolivia agreed to a massive $1 billion deal for a Chinese consortium to develop the country's lithium reserves in the Uyuni and Oruro salt flats (Ramos 2023). The consortium includes the Chinese battery maker CATL and mining company CMOC. The deal includes terms for building transport infrastructure and two plants that would produce battery-grade lithium carbonate. This announcement is in line with the largest investments by Chinese companies in LAC in 2022, which were dominated by green energy and EV production.

However, opportunities for investment in new transition materials are constrained by LAC's vulnerability to ISDS claims by private firms. Treaty protections for operational and planned investments in fossil fuels in the region limit LAC countries' policy space to green their energy sectors. Simultaneously, the outcome of Junefield's claim over the Río Blanco mine will be an important precedent for other private Chinese investors facing environmental performance challenges in the complex sector of evaporative lithium extraction.

While 2022 was quiet on major bilateral and multilateral diplomatic developments, 2023 may see important changes on this front. Honduras' announcement of opening diplomatic relations with Beijing may be followed by several new multilateral agreements. In July 2022, Argentina announced that China supported its bid to join the BRICS group that consists of neighbor Brazil, as well as Russia, India and South Africa ("Argentina Says" 2022). While the organization has yet to incorporate new members, Argentina submitted its formal application in September 2022 ("Argentina Formalizes" 2022). These announcements follow Uruguay's acceptance to prospective membership of the New Development Bank (NDB), the bank founded by the BRICS, in 2021 ("NDB Admits Uruguay" 2021). As of April 2023, however, Uruguay has yet to deposit its accession capital.

In sum, after more than a decade of significant Chinese presence in LAC, regional governments are showing signs of putting forth their own strategies for the relationship through trade agreements, new supply chain investment deals and novel portfolios of potential development finance projects. As these developments continue and new ones emerge, they will be covered in future editions of the China-LAC Economic Bulletin.

Maras, Peru.
Photo by Stuart Croft via Unsplash.

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