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FEATURED Q&A

Are Ties With China Paying off for Latin America?



Chinese President Xi Jinping visited Panama earlier this month following the G-20 Summit. Panamanian President Juan Carlos Varela and Panamanian youths greeted him at Tocumen International Airport. // Photo: Panamanian Government.

Q Chinese President Xi Jinping on Dec. 3 made his first state visit to Panama, during which the two countries signed more than a dozen agreements on trade, infrastructure and other areas. During Xi's trip Latin America, where he attended the G-20 Summit in Buenos Aires, China also signed a \$9 billion currency swap deal to help boost Argentina's foreign reserves. How important is China's support to Argentina and Panama, and what are the main benefits that China will see from the relationships? What costs will Latin American countries face in exchange for China's support and largesse? How well are relations with China paying off for the countries, including the Dominican Republic and El Salvador, that have severed ties with Taiwan and established them with China over the past year and a half? What are China's main goals in extending its influence in the Americas?

A Jorge Heine, public policy fellow at the Wilson Center in Washington and former Chilean ambassador to China: "With President Xi's fourth visit to Latin America since 2013, he has visited 12 countries in the region, more in six years than Presidents Obama and Trump have in 10 years. In Panama, 19 agreements were signed. As Álvaro Méndez of LSE has pointed out, the only reason a China-Panama FTA negotiated in record time was not signed was to avoid embarrassing the United States. (Secretary of State Mike Pompeo visited Panama in November to warn Panama about growing links with China). China is keen to make Panama its regional transport and logistics hub and is investing heavily, including in its largest port. A Chinese company, CCCC, won a \$1.4 billion bid to build the fourth bridge over the Panama

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TODAY'S NEWS

POLITICAL

López Obrador Moves to Reverse Education Reform

Mexican President Andrés Manuel López Obrador took a step toward reversing his predecessor's overhaul of the country's education system. López Obrador has said the overhaul threatens teachers' labor rights.

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BUSINESS

Companies Face Fines in Brazil Train Bid-Fixing Case

Brazil's antitrust authority recommended convictions against 16 companies and 52 individuals allegedly involved in a scheme to fix bids for public train contracts.

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POLITICAL

Russian Bombers Sent to Venezuela to Return Friday

Russia had sent the Tu-160 bombers to Venezuela in a move U.S. Secretary of State Mike Pompeo called "two corrupt governments squandering public funds."

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Pompeo // File Photo: U.S. State Department.

POLITICAL NEWS

Russian Bombers Sent to Venezuela to Return Friday

A pair of Russian bombers that were sent to Venezuela in a show of support to President Nicolás Maduro will return to Russia on Friday, the White House said Wednesday. "We have spoken with representatives of Russia and have been informed that their military aircraft,

The planes are capable of carrying nuclear weapons, but Russia did not say whether they were armed.

which landed in Venezuela, will be leaving on Friday and going back to Russia," White House press secretary Sarah Sanders said in an emailed statement sent to Reuters. The Tu-160 bombers flew to Venezuela on Monday, prompting complaints from the United States, The Wall Street Journal reported. In a tweet this week, U.S. Secretary of State Mike Pompeo said Russia's dispatching of the two planes was a case of "two corrupt governments squandering public funds, and squelching liberty and freedom while their people suffer." Russia's Foreign Ministry blasted Pompeo's comments as "unacceptable" and "unprofessional." On Dec. 6, the Pentagon announced that it had carried out a flight over Ukraine under the international Open Skies Treaty in order to "reaffirm U.S. commitment to Ukraine." Russia's Defense Ministry said the two bombers that were sent to Venezuela were accompanied by a military transport plane as well as a passenger aircraft carrying Russian officials and support staff. The bombers are able to carry nuclear weapons as well as conventional ones. Russia did not say whether the planes were armed, but experts have said it is unlikely that they were carrying nuclear weapons.

López Obrador Moves to Scrap Education Overhaul

Mexican President Andrés Manuel López Obrador on Wednesday took a first step to reverse the previous administration's overhaul to the country's education system, El Universal reported. López Obrador signed an initiative proposing the cancellation of the education reform, saying it threatened teachers' labor rights. The proposed scrapping of the reform will now go to the lower house of Congress for analysis. During the presidential campaign, López Obrador had promised to revoke the education overhaul. The reform, pushed by former President Enrique Peña Nieto in 2013, sought to make teacher performance a key part of the education process, making performance evaluations mandatory for public school teachers applying to new jobs or



López Obrador // File Photo: Mexican Government.

seeking promotions, The Wall Street Journal reported. Teachers' unions fiercely opposed the changes, and López Obrador said Wednesday that the reform was imposed "against the will of the teachers." The president said he plans to increase access to education, especially for low-income students, and that his government will guarantee free public education, including at a university level. He added that he will seek to open 100 public universities. López Obrador would need a two-thirds majority in the Senate and the lower house, plus the approval of more than half of the country's state legislatures, to move forward with constitutional changes. [Editor's note: See related [Q&A](#) in the Sept. 5 issue of the Advisor.]

NEWS BRIEFS

Ecuador Secures \$900 Million Loan From China

Ecuador secured a \$900 million loan from China at the "lowest interest rate in history," President Lenín Moreno said on Twitter on Wednesday, Reuters reported. The Ecuadorian president is on a trip to Beijing this week to discuss the terms of the South American country's debt with China. Moreno said China had provided Ecuador a \$69.3 million loan at a 2 percent interest rate for "reconstruction" and \$30 million in "non-refundable" assistance.

BHP Calls off Sale of Chilean Copper Mine

BHP has called off the sale of its Cerro Colorado copper mine in Chile after the would-be buyer failed to meet a deadline for financing the \$230 million deal, Mining.com reported Wednesday. The agreement for Australian private equity firm EMR Capital Advisors to buy the mine was announced in June. The mine, located in northern Chile, is BHP's smallest copper operation. The company had sought to offload it in an effort to focus on larger assets.

Former Head of Venezuela's PDVSA Dies in State Custody

A former president of Venezuelan state oil company PDVSA died while in state custody on Wednesday, authorities said, the Associated Press reported. Nelson Martínez, who was arrested by the Venezuelan government as part of an anti-corruption purge last year, died from a serious and chronic illness at a medical facility where he was receiving treatment, according to Venezuela's chief prosecutor's office. Rafael Ramírez, Martínez's former boss, criticized the conditions at which Martínez was being held and called his death "[President Nicolás] Maduro's responsibility."

BUSINESS NEWS

Companies Face Fines in Brazil Train Bid-Fixing Case

Brazilian antitrust authority Cade on Wednesday recommended that a court convict 16 companies and 52 individuals allegedly involved in a scheme to form a cartel to fix bids for public train contracts, Globo 1 reported. Cade said in a statement that the companies, including local units of Mitsui, Bombardier and Alstom, could pay as much as 20 percent of their annual gross revenue if convicted, and

The companies could be fined as much as 20 percent of their annual gross revenue if convicted.

individuals could pay fines between 50,000 and two billion reais, roughly between \$13,000 and \$514 million, Reuters reported. Cade's court, which is responsible for the final ruling, is investigating the case. The parties involved allegedly committed fraud in the biddings of at least 27 projects including in São Paulo, Minas Gerais and Rio Grande do Sul. A representative for Alstom said the France-based railway company would review Cade's report and take "appropriate legal measures," Reuters reported. Bombardier denied wrongdoing and said it had cooperated with authorities. Representatives for Hyundai, CAF and Balfour Beatty, whose local units were also allegedly involved, did not immediately respond to Reuters' request for comment. The wire service was also unable to reach a Mitsui representative for comment. As part of the case, Cade signed a plea bargain with Siemens, which self-reported its involvement in the price-fixing scheme to Brazilian authorities in 2013, Reuters reported.

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Canal. In Argentina, Xi, the only G-20 head of state to undertake a state visit, held his fifth meeting with President Mauricio Macri in three years and signed 37 cooperation and commercial agreements, on infrastructure, energy and finance, for \$3.35 billion. A \$4.5 billion nuclear plant project is pending. The countries made a joint commitment to multilateral cooperation on global issues and signed a five-year bilateral action plan. In El Salvador, China may develop and operate the La Unión port on the Pacific coast, while in the Dominican Republic, increased flows of Chinese tourists may be in the offing. China brings resources to the table (\$105 billion in loans since 2005 and twice that amount in FDI), and Latin America brings key commodities. China-LAC trade, at \$228 billion from January to September 2018, is up 20 percent year-on-year. China and Latin America are valuable international partners in turbulent times."

A **Andrea M. Ewart, CEO of DevelopTradeLaw:** "China is emerging as the partner of choice for Latin American and Caribbean (LAC) countries in development of transportation infrastructure. Since 2000, China has provided \$2 billion for the construction of roads, bridges, railways and ports across LAC, projects that Western governments and banks have been reluctant to fund. Countries, however, run the risk of assuming debt that they are unable to repay, leading to loss of control of the finished project to the Chinese builders, as has happened in several countries involved in the Chinese 'Belt and Road' initiative. Though the LAC region is not formally part of the initiative, China is targeting countries whose strategic location enhance its ability to move goods, people and investments. Panama is an obvious choice. Already the second-largest user of the Panama Canal, China will be designing and building a fourth bridge over the canal. Panama and China have agreed to establish direct routes for commercial traffic

and provide Panamanian-registered ships preferential treatment in China's ports—a boost to China's ship registry. Panama has also gained approval as a destination for Chinese tourists and agreements on export of Panamanian food products to China.

“Countries, however, run the risk of assuming debt that they are unable to repay...”

— Andrea M. Ewart

The Dominican Republic, also strategically located and with the strongest economy in the Caribbean, hopes to gain similar benefits from its 2018 decision to establish ties with China. While trade is important, China has bilateral investment treaties with 14 countries in the LAC region and plans to spend \$250 billion by 2019 throughout LAC, but only to countries that adhere to its One China policy and have no diplomatic relations with Taiwan."

A **Ray Walser, retired U.S. Foreign Service officer and former Latin American policy analyst at the Heritage Foundation:** "With each passing year, China deepens its ties in the Western Hemisphere. Given the advantages ranging from rapid economic growth, abundant foreign reserves and a state-dominated economy, China's approach appears disciplined, relentlessly seeking to leverage diplomatic influence and competitive economic advantage. Moreover, China's leaders, including President Xi Jinping, do not travel abroad without offering what in the parlance of the diplomatic game are called 'deliverables.' Unlike other Chinese clients such as stagnant Cuba, problematic El Salvador and failing Venezuela, Argentina and Panama

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appear to be relative success stories and worthy targets for mutually beneficial ties. Argentina's agricultural and economic potential remains great, and the critical importance of the Panama Canal to global commerce will not diminish. Debt traps, a lack of transparency and potential corrupt trade practices clearly lurk beneath the surface, representing a potentially dangerous undertow. Relative indifference to governance issues has long been a staple for

“China's leaders, including President Xi Jinping, do not travel abroad without offering ... 'deliverables.' ”

— Ray Walser

Western critics of China's way of conducting overseas business. Stern warnings regarding the Dragon's embrace played publicly during Secretary of State Pompeo's visit to Panama in October. Yet they did not stop Panama's President Varela from welcoming President Xi with open arms. Clearly, the best U.S. response to China's advances is a proactive, comprehensive, disciplined approach to the region. Efforts by the Departments of State, Treasury and Defense to highlight initiatives such as America Crece, intensified focus on energy infrastructure and security cooperation often appear out of sync and undercut by President Trump's fiery America First economic nationalism, fulminations against asylum-seeking migrants and relative disinterest in the geostrategic importance of the Americas. China's continued regional encroachment needs to be met with serious 'deliverables' rather than lecture tours and fretful handwringing.”

A Ricardo Barrios, program associate for the Asia & Latin America program at the Inter-American Dialogue: “China's relations with Argentina and Panama are important to both countries, albeit for different reasons. In troubled Argentina, China has simultaneously positioned itself as an export market, infrastructure financier and source of geopolitical support. These elements were all on display in President Xi Jinping's recent visit to Buenos Aires, the result of which included Chinese support for a freight train restoration project, a protocol for the import of Argentine strawberries and an e-commerce agreement. Meanwhile, Panama's strategic position as a hub of world trade has translated into several port construction projects and accelerated free trade agreement negotiations. In contrast, China's bilateral ties with El Salvador and the Dominican Republic are only just beginning to take shape. The former secured \$150 million in Chinese aid in November, and the latter held its first round of business talks with China just this month. Overall, Taiwan remains an influential factor in explaining China's behavior toward Latin America and the Caribbean. Chinese engagement is not without its potential pitfalls, though, which include asymmetric trade and the possibility of high debt burdens. While China presents itself as a welcoming market, the country has repeatedly demonstrated that it is not shy about tossing its economic weight around. Argentina itself has already experienced what it's like to be shut out of the Chinese market. Beijing froze Argentine soybean oil imports earlier this decade. In the case of countries with fewer exports, excessive borrowing for things such as infrastructure could prove detrimental over time.”

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