Footprints:

Chinese Investment Models in the Caribbean, The Andes & Brazil

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4.16.2012

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1. Introduction

A. Background - Since the turn of the century, Chinese economic relations with Latin America have shifted in two major stages. The first stage, from 2000-2007 featured explosive trade growth. Overall, in the first decade of 2000s, trade between the People's Republic of China and Latin America ballooned from USD$10bn to USD$180.2bn.[1] The second stage, beginning roughly in 2007, involved massive Chinese infrastructure investment throughout the region. This second, rapidly developing stage will have tremendous political, social and economic consequences that could redefine hemispheric spheres of influence.

In his influential article *The Expanding Chinese Footprint in Latin America*, China-Latin America expert Evan Ellis analyzes this foreign direct investment by breaking it down into three subgroups: A)Chinese investors building facilities and contracting Chinese companies to do the work, B) Donations from the Chinese government with the contracts going to Chinese firms for execution, and C) works paid for by the host country, but financed by China, and executed by Chinese firms.[2]

Ellis' approach is well argued, and certainly a good starting point for understanding the nature of Chinese investment in Latin America. However, the analysis does not offer a complete framework. For example, Chinese investment in Caribbean beach resorts appears to play a similar geopolitical function to Chinese gifts of, say, a new football stadium in Costa Rica. These 'investments' should be considered in a similar vein, yet under Ellis' framework, they fall under different categories of investment. Similarly, Ellis' framework would consider the construction of a Chinese copper mine in Ecuador in a similar vein to Chinese construction of an iron ore mill in Brazil. This paper will argue that the two investment models are, in fact, quite different.

B. Thesis - In this paper, I will use a series of case studies to argue for a different three category analysis of Chinese investment in Latin America. I begin by considering non-commodity related loans and gifts to the Caribbean. These loans and gifts are frequently high cost- low yield projects of little direct economic value to China. However poor, heavily indebted countries of the Caribbean are in dire need of project investment, and they offer little resistance to Chinese terms, such as importing thousands of migrant Chinese laborers. With these loans, China appears to be establishing a beachhead in Latin America. I will use the case study of the Baha Mar Hotel Resort in The Bahamas to underscore the powerful position the Chinese hold in Caribbean and Central American projects.

I proceed to consider Chinese foreign direct investment in the Andean region. Ellis contends that countries such as Ecuador use China almost as a development bank, but the connection runs deeper than finance. In the Andes, Chinese firms can command a dominant, ownership position in major commodity operations that would be difficult to imagine in Brazil. However, unlike in the Caribbean, Andean governments and civil societies can at least form some degree of protest when China overtly disregards host country citizenry, either by importing Chinese labor, underpaying domestic labor, or by maintaining subpar labor and environmental standards. The result is a series of profitable and strategically important investments for China in the Andes that have also caused consistent turmoil and controversy. I will investigate the nature of these investments using the case studies of *Shougang Group* in Peru, and *Ecuacorrientes* in Ecuador.

I conclude the paper by considering Chinese infrastructure investment in Brazil. Brazil is rich in commodities of great import to China including iron ore, soy, energy and beef. However, as the largest economy in Latin America with ample international reserves and thriving domestic consumption, Brazil projects international power unattainable to its regional neighbors. As such, Chinese investment in Brazil appears less explicitly exploitative as it may be in countries such as Ecuador or Peru, and certainly less lopsided then in the Caribbean.

Unable to exercise the influence it can elsewhere in Latin America, Chinese investment in Brazil seems to focus on improving Brazilian efficiency, so that Brazilians can better export to China. I will explore this trend by considering the Chinese role in the development of a Super Port north of Rio de Janeiro, and through Chinese financing of Brazilian soy farmers.

2. Investment Type A: The Caribbean Model

China invests in construction projects in poor and/or heavily indebted Caribbean and Central American countries to extend political and economic influence rather than to score high return rates, or to achieve access to resources. In the 1990s, the aim of such projects may have been to win state recognition over Taiwan, but China currently appears to be using major construction projects in poor countries to establish a beachhead in the Americas.

To better understand this class of investment, I proceed to consider the Chinese role financing and constructing a USD$2.6bn resort hotel in the Bahamas. As the biggest of many similar projects in the region, it is a key case study for understanding this class of investment.

Caribbean Case Study – Baha Mar

The Baha Mar study is particularly apropos as the coming months will feature a great influx of Chinese migrants on the project. Compared to Andean countries and Brazil, China's ability to import labor to the Caribbean with minimal controversy underscores their dominant position in the relationship. In this case study, I A)Briefly summarizes the project, B) Consider the powerful roles of Chinese State Owned Enterprises, C)Discusses the role of Chinese migrant labor, and D) Addresses US concerns over such labor.

A. *Baha Mar* is a megaresort under construction on the Bahamas' Cable Beach. Slotted for completion in December 2014, the complex will consist of four hotels, 2,250 rooms, a golf course, a casino, and millions of dollars of other amenities. The resort is understood as the largest of its type in the Caribbean.[3] An Oxford Economics study forecasts that the project will contribute USD$14.8bn to The Bahamas' Gross Domestic Product over the next 20 years, while *Baha Mar* contends that as of 2/2012, the project had employed over 14,000 Bahamians both directly and indirectly.

B. The project is financed by a $2.6 billion dollar loan by the state owned Export-Import Bank of China (China Exim Bank).[4] China Exim Bank works almost exclusively with government and financial institutions, and this initiative represents Exim's first tourism project outside of China.[5] The framework for this 20 year deal was signed on September 4th, 2009 after Harrah's Entertainment backed out of the project in 2008.[6]

Also as part of the September 4th, 2009 agreement, China State Construction and Engineering Cooperation (CSCEC), China's largest contractor, was tapped to execute the project.[7] Whereas in Brazil, Chinese financers often have to work with Brazilian developers such as Eike Batista and his LLX Group, in the Caribbean, Chinese loans come with the implicit guarantee that the project will be developed by Chinese firms.

C. CSCEC negotiations included provisions for up to 7,000 Chinese migrant laborers to work on the project. These laborers are to arrive in stages.[8] Over the coming months, a consistent influx of migrant Chinese laborers is expected, culminating from June 2012 to February 2013 when more then 2,000 Chinese workers are expected to arrive.[9]

The influx of Chinese labor created but a small degree of local backlash; nothing like what was seen in Peru (see section 3B). Bahamian unions demonstrated concern that Chinese laborers would accept subpar standards. However, Bahamian Labor Minister Dion Foulkes' announcement in 2010 that all Chinese workers would be paid minimum wages and receive all benefits required under Bahamian Law allayed local union objections.[10]

D. The US Department of State is concerned that Baha Mar may be more than a beachhead into Latin America: It may also function as a beachhead into the United States. Secret State cables exposed by WikiLeaks suggest that, "Regardless of whatever number of workers the parties agree upon, the continuous arrival of thousands of low-wage Chinese workers in the Bahamas will likely lead to a significant increase in illegal migration of Chinese from the Bahamas to the United States."[11] The cables continue to state that the Governing Commonwealth of the Bahamas (GCOB) does not have the institutional capacity to effectively monitor the movements of the Chinese workers nor effectively detect inauthentic travel documents.[12]

E. Case Study Conclusions: Small, poor and indebted, Central American and Caribbean states are little match for Chinese economic power. Wooed by gifts and cheap loans with sticker prices in the hundreds of millions, China has financed major construction in countries with the implicit guarantee that the contracts would go to Chinese SOEs that will subsequently import skilled and unskilled Chinese labor. Given the negligible economic payoffs of these investments, some (especially in the US State Department) fear the investments are something of a Trojan horse with increased political and social power hidden implicitly within gaudy "gifts" such as beach resorts and stadiums.

3. Investment Type B – The Andean Model

From oil, to zinc to copper, the Andean bosom holds the commodities China will need as it pursues massive urbanization. However, many Andean countries appear to have neither the physical nor institutional infrastructure to guarantee efficient exploitation of these resources.[13] Thus, the Chinese have purchased major mining operations in countries such as Peru and Ecuador.

I proceed to consider two key case studies of such resource-oriented Chinese foreign direct investment in the Andes. The first considers the flagship purchase of *Hierro Peru* by the Chinese SOE *Shougang* Group. The second case considers the implications of a recently announced Chinese investment into the first major mining operation on Ecuadorian soil. In both cases, China's heavy handed intervention has proven controversial.

Andean Case Study A: *Shougang* Hierro Peru

In 1992, Chinese state-owned *Shougang* Group purchased *Hierro Peru*, and thus gained access to a key Peruvian iron ore mine. The purchase was a seminal investment, and Chinese stake in Latin American mining has since grown exponentially. It has also been a focus of controversy, with labor strife that continues into year 2012. *Shougang* Peru provides insightful clues into the conditions of Chinese investment in the Andes. This case study A) Considerers the history and context of the *Shougang* Mine, and B) Discusses the persistent labor stoppages and the demands of frustrated Peruvian miners.

A. *Shougang Group*, a Chinese State Owned Enterprise, is one of the largest steel companies in China. In 1992, the firm purchased the Peruvian state owned *Hierro Peru* at a cost of USD$118mn, and thus gained ownership to *Hierro Peru's* iron ore mine in Southwest Peru. In addition to the purchase price, *Shougang* agreed to assume *Hierro Peru's* debt (USD$42mn), and to invest USD$150mn into the region over the next three years.[14]

Now approaching the 20th anniversary of the purchase, *Shougang Hierro Peru* has proven both very profitable and very controversial. Ranked the Number 1 business in Latin America in 2010 by the Latin Business Chronicle, the iron ore giant grew 123.9% in 2010, while profits reached USD$700mn – a 456.1% increase over 2009 profits.[15]

However, the project also generated significant local backlash unseen in the Caribbean. Resentment to the *Shougang* project began early on when the firm reneged on promises to invest USD$150mn into infrastructure for the mine and surrounding neighborhood preferring instead to pay a USD$14mn fine.

B. Labor stoppages have been common at the *Shougang* Peru mine, with notable strikes occurring in 2002[16], 2008[17], 2009[18], 2010, 2011[19] and 2012[20]. Unlike in the Caribbean, strong unions prevent China from importing labor, and Chinese bosses have clashed with Peruvian employees. Clashes between protesters and private security guards have at times turned violent. In 2009 a 21-year-old construction worker was shot dead as protesters attempted to occupy *Shougang* land. The fact that the shooting did not lead to any criminal charges remains a sore point for the community, and has lent credence to the notion that *Shougang* operates beyond the control of Peruvian law enforcement.[21] Labor stoppages have demanded 1) Wage hikes, 2) Improved Living Conditions, and 3) Improved Health Standards. There arguments reflect an ability to make demands of Chinese investors:

> **1. <u>Wage Controversy</u> - Miners have consistently alleged that wages at *Shougang* are among the lowest in Peru's multi-billion dollar mining industry.** According to a 2012 report, Peru's National Society of Mining, Petroleum and Energy determined that *Shougang* miners earn an average of USD$14/day, or less than half of the USD$33/day averaged by miners throughout Peru.[22]
>
> **2. <u>Living Conditions</u> - *Shougang* Peru's miners contend that they are maintained in sub par housing units.** Company housing is bleak and not universally available.'[23]
>
> **3. <u>Health Standards</u> - Health and environmental conditions are frequently derided by striking workers, regional and congressional government, and**

> **international NGOs.** The firm has been fined four times for environmental infractions, most notably in 2006 when the regional government declared an environmental emergency after *Shougang* was found guilty of pumping waste water into the nearby San Nicolas Bay.[24]

Andean Case Study B: Chinese mining in Ecuador

In a deal struck with the Ecuadorian Government on March 5th, 2012, two Chinese state owned enterprises will begin developing the first major mine in Ecuador. The *El Mirador* mine will cull copper, but subsequent projects could mine gold and silver as well. This timely example demonstrates the leading role China takes in Andean countries that have key resource, but not the sophistication to extract them. This case study address A)The mine as evidence of China's increasing presence in Ecuador, and B) the Ecuadorian backlash.

C. On March 5th, 2012, the Ecuadorian Government and Chinese-backed *Ecuacorrientes* SA signed a contract calling for the first large scale mining operation on Ecuadorian soil.[25] El Mirador Mine, expected to be in operation by the end of 2013, will cull upwards of 5,000 million pounds of copper from the bowels of the southeastern province of Zamora-Chinchipe.

Ecuacorrientes, an Ecuadorian subsidiary of *Corriente Resources*, is a joint venture of China Railway and Tongling Nonferrous Metals Group, two state-owned Chinese firms. The *Ecuacorrientes* deal appears indicative of a rapidly expanding Chinese presence in Ecuador. As of February, 2012, Chinese lending to Ecuador had increased to US$7.25bn, summing nearly 16% of Ecuadorian GDP.[26] *El Universal* reports that loans from the Chinese Development Bank are tied to the delivery of 72,000 barrels of oil per day – 75% of Ecuador's oil output.[27]

The Ecuadorian Government is trumpeting the terms of the *El Mirador Deal*. *Ecuacorrientes* will pay 52% of the mine's profits to the state in the form of royalties and taxes, and $100mn in advance royalty payments that will be used to fund social development projects in the areas around the mine.[28] According to Ecuadorian Energy Minister William

Pastor, "With this project Ecuador will be the world leader in terms of how much revenue it will be obtaining." However, while royalties may be high, China will own the mine outright, a key contracts to certain Brazilian investments.

D. The agreement to develop the *El Mirador* mine has sparked controversy from residents of the Zamora – Chinchipe Province, where the mine is to be dug. With an area of 10,566 square kilometers and a population of 88,778, this southeastern Amazon province is home to an indigenous community, as well as vibrant flora and fauna. Locals have opposed mining operations sighting a lack of participation of affected individuals in environmental management discussions; lack of adequate consultation with indigenous peoples and forceful land acquisition practices that have displaced locals.[29]

Indigenous leaders and environmental activists have protested since the early March 2012 announcement. Eight women occupied the Chinese Embassy in Quito and had to be removed by police.[30] A protest march entitled Water, Life and Dignity began March 8th in Zamora, with participation reaching a zenith of 7,000.[31]

E. Case Study Conclusions: With investment in the Andes, China seeks to gain direct access to needed commodities. As seen in the case of *Shougang* Group, these investments can be quite profitable. Such investments can also allow China to generate the necessary infrastructure to access commodities in countries that may not be able to do it on their own. As owners of the mines, China will have direct and consistent access to the commodities. Even if they have to pay stiff taxes, it is still a control they cannot enjoy in Brazil. However, unlike in the Caribbean, the Andean political and civil institutions are strong enough to at least protest Chinese practices that seem exploitative. Excessive importation of Chinese labor draws stiff resistance and politicians in Ecuador trumpet that "100% of unskilled positions will go to area residents."[32]

4. Investment Type C: The Brazilian Model

In 2010, Chinese foreign direct investment in Brazil topped USD$20bn, making China the biggest investors in Brazil - quite a feat considering that in 2009, the Chinese ranked 29th in investment in Brazil.[33] As in the Andes, the bulk of this investment is geared towards assuring Chinese resource security. However, in apparent deference to Brazilian state strength, China has not sought purely to dominate Brazilian commodity production. Rather it has also sought to invest in or finance Brazilian commodity oriented development.

This section on Brazil will begin by considering disappointing levels of international investment in Brazilian infrastructure, and why China has emerged to fill this void. It will proceed to consider two case studies: 1) China's role in the development of the Açu Superport - the so-called 'Highway to China', and specifically, China SOE Wuhan Iron & Steel's USD$5bn investment in an iron mill at the Açu Superport site, and 2) Chinese investment in Brazilian soy fields. In Africa, China demonstrated a preference to purchase such fields outright, but in Brazil, political pressure made this option not viable. Instead, China has financed Brazilian farmers, and invested in soy processing infrastructure in Brazil. This strategy has effectively earned Brazil preferential access to Brazilian soy.

A. Brazilian Infrastructure & Chinese Finance: A Good Match

Eike Batista decided to build his 'Highway to China' port out of frustration from the bottlenecks in Brazilian infrastructure that prevented the timely delivery of his iron ore to China. "Land your cargo at a port, and it it's in a container, it may stay there for 30 to 60 days," he lamented.[34] Mr. Batista is not alone. Brazilian fields produce grain "twice as fast as the rest of the world, but getting that grain to port across unpaved roads can cost almost half its value," while vast mineral deposits remain buried deep within the earth for want of railroads to transport the goods.[35]

Statistics support these anecdotes. A Morgan Stanley Blue Paper determined that Brazilian infrastructure investment has been on a consistent decline, from 5.4% of GDP in the 1970s all the way down to 2.1% in the 2000s – only slightly above the estimated 2.0% required to simply maintain the existing infrastructure stock.[36]

Significant infrastructure investment will be required for Brazil to transition from a world player to a world power. Despite recently assuming the mantle as the world's 6th largest economy, the 2011-2012 World Economic Competitiveness Report found Brazil to rank 64th globally in infrastructure.[37] All told, trending conditions (stable politics, consistent growth, and the need for infrastructure improvement) have generated tremendous investment opportunities in Brazilian infrastructure (or "opportunities to arbitrage inefficiencies," according to Batista[38]). Nevertheless international private sector investment has been underwhelming – something that analysts at both the World Bank and the United States Department of the Treasury struggle to explain, especially considering the potential of high returns and the lack of great restraints to international investment.

There are a number of hypothesized reasons why Brazilian development has not attracted international financing. Potential bidders can be discouraged by the convoluted bidding process. Inevitable courtroom proceedings can easily freeze a construction project for 6 to 12 months.

Furthermore, the Brazilian government may be overzealous is setting return rates for projects: the government recently received little interest in an announced contract to build a Greenfield Airport in the city of Natal. According to Sameh Whaba, a World Bank analyst working on Brazil, the advertised internal rate of return of between 6-8% was not sufficient to offset risks, especially as Brazilian inflation challenges the ability to realize real returns.

Finally, OECD-based firms may maintain an impression that insider knowledge and connections are required to work in Brazil, a view that seems to be corroborated by BNDES favoritisms towards domestic firms.[39] The awarding of development contracts to subpar domestic firms at subsidized rates not only distorts the market but it prevents the most favorable allocation of capital and resources.

These reasons suggest why OECD-based investors seeking returns are not jumping at the opportunity to invest in Brazilian infrastructure. But China is seeking more than returns – it is seeking access to the raw materials. Unable to exercise the influence it enjoys in other parts of the Americas, China's strategy appears to be to supply the missing finance and infrastructure to help the Brazilians become more efficient in exporting their commodities to China.

Brazilian Case Study A: Açu Super Port & Wuhan Iron & Steel

Four hours drive north of cosmopolitan Rio de Janeiro lies São João da Barra, the poorest city of the state. However, changes are adrift in this former backwater town. The airport is fully staffed with Chinese interpreters, and local youth enjoy free Mandarin lessons at the town hall.[40] Perhaps a microcosm of the BRIC experience, a spectacular financial investment is poised to transform the area from dusty poverty to global relevance. São João da Barra is the nearest city to the *Superporto do Açu* – ground zero of the new 'Highway to China.'

This superport, scheduled to open in 2012, will be a 2 mile long, 10-berth pier capable of moving millions of tones of Brazilian commodities east to feed China's apparently inexorable growth.[41] However, while China is investing in related infrastructure, Brazilian

Eike Batista and his LLX Group retain important authority as developers of the project. Featuring a four lane highway, pipelines and massive conveyor belts, the port is intended to address Brazil's infrastructure underdevelopment and transportation bottlenecks that create inefficiencies. In an indication of expected clientele, the port was specifically built to host the *Chinamax* vessel, a new Chinese ship capable of carrying upwards of 400,000 tons of iron ore between Brazil and China.[42]

The Chinese appear to be using the port as a springboard to launch major investments into the Brazilian commodity sector, with a key example being Wuhan Iron and Steel's USD$5bn investment in an iron mill at the Açu port. Since the announcement of the port, Chinese energy firm Sinopec has also invested billions of dollars into pre-salt oil excavation off the coast of Açu, and Chinese SOEs may sell Batiasta oil rigs to help recover this oil.[43]

The Wuhan iron mill at the Açu port is a clear example of China attempting to guarantee access to Brazilian commodities through financing infrastructure development that will make Brazil more efficient:. A more efficient Brazil can export more commodities to China. As the second largest supplier of iron to China,[44] Brazilian supply of iron or iron ore is vital to mainlander goals of massive urbanization. However, on an annual basis, the first 5 million tons of steel developed may be earmarked for domestic use, and any surplus would subsequently be sold to China.[45] This element of the deal underscores the bargaining weight Brazil commands in negotiations with China.

Brazilian Case Study B: The Financing Brazilian Soy

Even Chinese investment in areas typically associated with 'land grabs' have included infrastructure investments and financing of Brazilians rather than a clear Chinese takeover. A controversial example has been Chinese involvement in Brazilian soy.

Soy has emerged as a critical food stuff to feed animals that will in turn feed China's burgeoning middle class. China essentially imports sunlight and water in the form of soy beans from fertile plains in Brazil, Argentina, and the United States.

In 2009, Brazil exported USD$6.3 billion in soybeans to China - 56% of all Brazilian foreign sales of this commodity.[46] Chinese demand for soy is expected to rise exponentially. The United States Department of Agriculture pegs Chinese soy imports to increase by 50% before 2020, making access to Brazilian agricultural produce an issue of food security for China.[47] Yet unlike in Peru and Ecuador where China has simply purchased entire mines seen as strategically important, in Brazil, China finances domestic farming of soy, and even provides a spot of infrastructure along the way. Once again, this investment model will improve Brazilian efficiency in exporting commodities to China without a clear take over as in the Andes or an overbearing presence as in the Caribbean.

Chinese state-owned enterprises originally attempted to buy large tracts of fertile Brazilian soil in 2010. For example, Chongqing Wanzhou Grain and Oil Group sought to purchase 100,000 hectares in Western Bahia.[48] However, such purchases became politically toxic as foreign ownership of Brazilian land surged 11.5% from 2008 to 2010, leading to a powerful backlash.[49] After similar land grabs led to a coup d'tat in Madagascar, Brazilian Attorney General Luiz Inacio Adams reinterpreted a 1971 agricultural law to restrict foreign investment in agriculture.[50] A resultant government campaign rendered outright selling of Brazilian land to China unpalatable, if not illegal.

Undeterred, China modified its approach. Unable to purchase Brazilian land, Chinese State Owned Enterprises turned to financing Brazilian farming of soy. Low-interest rate loans to Brazilian farmers could quickly treble Brazilian soybean production.[51] Kory Melby, an agricultural investment consultant in Brazil, summed up the new relationships:

> "Instead of trying to buy land directly, they are saying, 'Here's USD$10mn at a below-market interest rate. You go buy more land and equipment. You go do what you do well, but we have the option of setting a price and getting paid back in soybeans if we need them.'[52]

Through this strategy, China appears to have avoided the brunt of resource nationalism while enhancing ties to Brazilian soy. They have also avoided the labor strife and controversy witnessed in the Andes. The results are telling: On April 6th, 2012, the Financial Times reported that Brazil soy export revenues had increased 99% in 1Q12 over 1Q11 "largely due to more Chinese demand (for soy) being met by Brazil than the US."[53]

Furthermore, in efforts to secure preferential access to Brazilian soy, the Chinese have agreed to build soy processing plants in Brazil – an infrastructure investment that will benefit the Brazilians as well as the Chinese. Unable to directly buy the land, the Chongqing Grain Group, has agreed to invest up to USD$2.4bn to build a soybean processing plant in Brazil's Bahia State.[54] The resultant industrial base will include processing, warehousing and delivery infrastructure that will not only produce food stuffs, but also refine soy into cooking oil and bio-diesel fuel for Brazil, as well as for China.[55] Meanwhile, China's Sanhe Hopeful Grain & Oil plans to invest USD$7.5bn into a similar processing facilities in Goias in exchange for an annual supply of 6 million tons of soy.[56] In these cases, the processing plants will buy soy from Brazilian farmers who will maintain control over the commodity.

5. Conclusion

If we accept that the case studies discussed in this essay are indicative of China's general approach in the region, three distinct models emerge. Heavy in debt, poor and institutionally dysfunctional, Caribbean and Central American countries cannot resist cheap finance or gifts for construction infrastructure. However, given there tenuous position, these countries cannot demand that China use only local labor. They also must accept the implicit guarantee that the contract to develop the project will be Chinese. As such, China may not make a great deal of money from these investments, but they do not loss it either, as one state owned company finances another for a project in the Caribbean. Furthermore, China gains a foothold to the region by funneling thousands of workers into countries whose unions are not strong enough to protest.

Whereas the Caribbean investments appear to reflect efforts to establish an American beachhead, investments in the Andes absolutely reflect China's resource insecurity. In order to maintain growth, China will need consistent access to Andean copper, iron and oil, among others. China may consider these countries too unstable to be a trusted provider, and thus China takes a more active investing approach, literally purchasing former Andean-state owned mines. In these cases, the Andean governments may have enough political capital to prevent the excessive importation of Chinese labor, or to levy heavy royalties on mine exploitation. But these countries do not appear capable, at least in China's eyes, of extracting the resources themselves. It is telling that *Ecuacorrientes* investment in Ecuador will build that nation's first major mine.

In the case of Brazil, however, China appears to be treating the South American giant as a partner, and not as an inferior. For one, Brazil appears to be demanding it. The legality of foreign purchases of soy fields has yet to be officially determined, but any such Chinese investments have become politically untenable, and unlike the Caribbean and the Andes, Brazil is not nearly as desperate for Chinese assistance. Instead, China appears apt to use infrastructure financing to help compliment and improve Brazilian efficiency, rather than assuming control of resource extraction. Recall that Brazil, not China, is building the Acu Superport, and the Wuhan Iron Mill will be a complementary investment that will generate efficient processing of commodities that Brazilian firms such as Valle have already extracted themselves. This model may not be China's preference, but for Brazil, is has lead to a more healthy investment relationship with the giant to the East.

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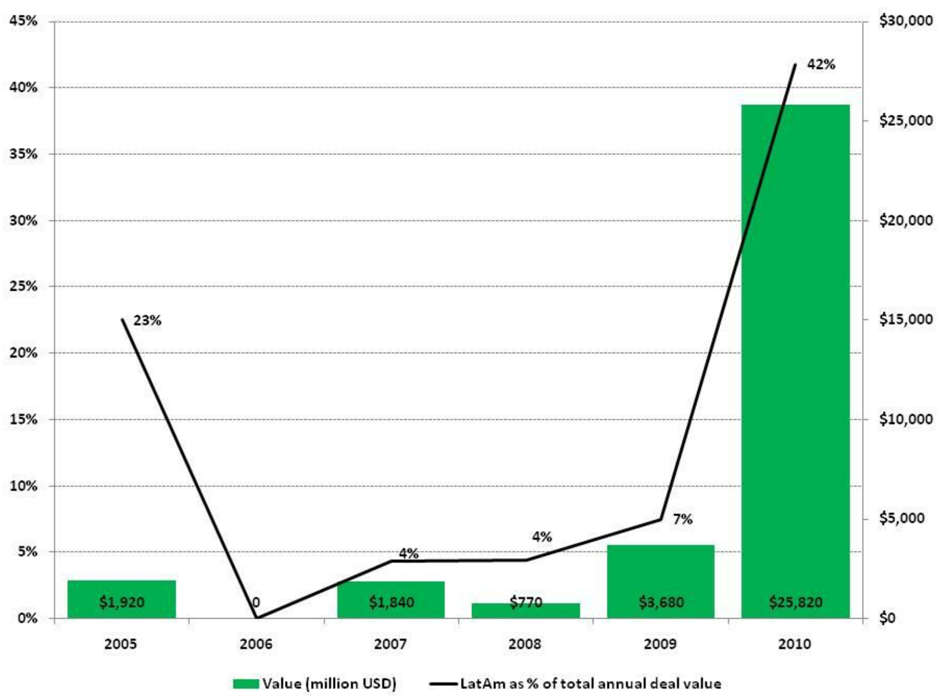
6. Appendix

Commodity Export Destinations 2010 Top Five (Share Commodity Exports)	1	2	3	4	5
Argentina	China (11.2%)	Brazil (5.1%)	Chile (4.8%)	Iran (3.1%)	USA (2.8%)
Bolivia	Brazil (36.8%)	Argentina (8.1%)	Japan (7.1%)	Belgium (5.9%)	Korea (5.7%)
Brazil	China (18.3%)	Japan (3.3%)	USA (3.2%)	Russia (2.7%)	Netherlands (2.2%)
Chile	China (25.2%)	Japan (9.8%)	USA (7.2%)	Korea (5.2%)	Brazil (5.2%)
Colombia	USA (47.2%)	China (5.2%)	Netherlands (4.7%)	Switzerland (2.3%)	Panama (2.0%)
Peru	China (13.8%)	USA (7.2%)	Japan (4.9%)	Germany (2.8%)	Chile (2.7%)
Uruguay (09)	Free Zones (17.1%)	Brazil (8.2%)	Russia (4.8%)	Iraq (2.5%)	Spain (2.5%)
Venezuela	N/A	N/A	N/A	N/A	N/A
Mexico	USA (71%)	Spain (5%)	China (1%)	Canada (1%)	India (1%)

China is the number one destination for both Brazilian and Peruvian commodities,
yet China deals with each very diferently
Sourse: United States Department of the Treasury

China's Large Foreign Investments in Latin America (Billions, USD & % of total overseas investment



Chinese investment in Latin America has exploded
Source: China Sign Post

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