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The Pattern of China's Financial Initiative in Latin America: A Comparative Study

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Since the start of the 21st century, it is clear that China has increasingly turned its attention to Latin America. Although not included in China's "One Belt, One Road" initiative officially, Latin America has already garnered substantial commitment from China as a result of the latter's financial funding for development projects and the enhancement of two-way trade relations.

In recent years, scholarly research has tended to analyze China's financial clout and its impact on the governmental domestic and external decisions of Latin American countries. In this study, my purpose is to examine China's financial initiative and its influence on development projects in Latin America.

With the advent of a "new normal" in China, Xi Jinping and Li Keqiang respectively proposed a "$1 + 3 + 6$" model and "3×3" model in 2014 and 2015 — a reflection of China's assertive economic diplomacy during the Xi era. Their plan was to have China adopt a more active position toward the provision of financial loans to Latin American nations.

China's financial funds and construction assistance have been poured into key infrastructural projects, such as those related to power generation and transportation in Ecuador and Argentina. It can be expected that such projects satisfy the needs of both the people as well as the government, and contribute to genuine development there. On top of the involvement of China in relation to technology, equipment, and design, an expansion in cooperation and partnership is currently and will also be in the future the best reward for China.

Keywords: China; economic strategy; financial initiative; Ecuador; Argentina.

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Since the beginning of 2016, we have observed both political power struggles and economic change in Latin America. The disappointing economic performance and political scandals have brought down several left-wing governments, such as in Argentina and Brazil. In Brazil, President Dilma Rousseff was removed from office mainly by politicians from the center-right Brazilian Democratic Movement Party (Partido do Movimento Democrático Brasileiro, PMDB) for manipulating the budget (Brazil President Dilma Rousseff, 2016). In Argentina, President Cristina Fernández de Kirchner was indicted on a corruption charge and US$643 million of her assets were frozen (Park & Quiñones, 2016).

Then, power struggles have erupted in Venezuela and Ecuador. The Venezuelan economy shrunk by 10% in 2016 and its inflation rate may reach 1,600% in 2017, which has caused widespread misery (Gramer, 2017). In fact, the worst crisis of its 200-year history has forced people to pour into Colombia for medicine and food. The subsequent confrontation between the Maduro government and the opposition-controlled National Assembly has resulted in political deadlock (Gramer, 2017). Despite the fact that the amendment of the Ecuadorean constitution in 2015 allows for unlimited consecutive re-elections of political posts, including the president, the current president Rafael Correa has changed his mind and decided to step down in 2017 (Ecuador sets 2017 election date, 2016). However, Lenin Moreno, the candidate from Correa's PAIS Alliance, won the 2017 Ecuadorean Presidential Election and, it is believed, will continue Correa's policy (Pleno del CNE, 2017).

With the fall of left-wing regimes and the return of conservative ones in Latin America, several questions are raised. Is it necessary for China to readjust its economic strategy and policy toward Latin America and the Caribbean? How does China utilize its financial resources to support development in the region? What is the sector on which China's financial initiative is focused? Can China's financial initiative create a win-win situation? This paper proposes to address all these questions.

Contemporary China's Economic Strategy toward Latin America

Firm political support in China is necessary for the formation, promotion, and implementation of China's economic strategy toward Latin America. Although Latin America is not officially part of China's "One Belt, One Road" initiative, the resolution and commitment of China's leaders to this region have been reflected in the state visits and key policy statements of President Xi Jinping and Prime Minister Li Keqiang in 2014 and 2015, respectively. During their state visits in Latin America, they officially declared an innovative economic strategy and policy toward Latin America backed up by concrete plans. However, their trips to Latin America were to strengthen economic and trading ties, and not to form an anti-American alliance (Rathbone, 2014). More importantly, they would like to demonstrate a new direction for China's foreign policy behavior toward Latin America without being accused of engaging in neo-colonialism.

The main purpose of Xi's Latin American trip in 2014 was to inject new elements and momentum into Beijing's economic relationship with the countries there through new trade, investment, and financial initiatives. In his keynote speech before the leaders of Latin America and the Caribbean, Xi advocated joint efforts to forge a "$1 + 3 + 6$" cooperation framework. He went further to elaborate on this new framework: "1" means one plan that is aimed at inclusive growth and sustainable development; "3" means three major engines, i.e., trade, investment, and financial cooperation as driving forces pursuing full cooperation; and "6" means six key cooperation areas, i.e., energy and resources, infrastructure building, agriculture, manufacturing, scientific and technological innovation, and information technologies (Xi Jinping gives keynote speech, 2014).

In the follow-up 2015 trip, Li stressed a "3×3" model for industrial production cooperation between China and Latin America on the basis of a win-win situation. With the knowledge, experiences, and capacity it has accumulated in industrial production, especially in infrastructural construction, China would like, he stated, to elevate economic interactions between the two sides to a higher level. This will be a new direction for bilateral cooperation (Wang, 2015). China's booming equipment manufacturing industry is an indicator of its ability to manage this higher level of cooperation. For example, this industry in China has already forged an integrated industry system, has obtained positive effects in international production cooperation, and has been ranked No. 1 in the world for five consecutive years. In 2014, its total exports reached RMB 2,100 billion and, for large-sized equipment, US$110 billion (Wang, 2015).

The essential elements of the "3×3" model for industrial production cooperation are described as follows (Guo & Mo, 2015). The first "3" refers to bilateral cooperation in building three arteries for Latin America in the fields of logistics, power, and information. Prime Minister Li specifically indicated what cooperation in power generation and transmission would mean:

> Latin American and Caribbean countries enjoy abundant oil and gas resources and enormous potential in solar, wind and nuclear power, while Chinese businesses boast rich experience in the development and management of power grids as well as leading technologies in long-distance power transmission. Therefore, cooperation based on highly efficient power transmission technologies and smart grids between the two sides will help Latin American and

> Caribbean countries enhance their capacity in power generation and transmission and build an energy artery to connect countries and regions in Latin America and the Caribbean. (Li, 2015)

The second “3” refers to virtual interaction among businesses, society and government on the basis of market regulations. Both China and Latin American countries need to make sure that their cooperation is commercially viable, led by businesses with the participation of the people, and facilitated by the government. Li recognized the critical role of trade unions and local communities and emphasized the importance of social responsibilities, such as environmental protection (Li, 2015).

The third “3” refers to the expansion of the three main financial resources, i.e., funds, credit and insurance. As the most attractive and practical part of the model, Premier Li’s subsequent commitment has become the actual backbone of the model: a US$30 billion special fund for industrial cooperation between China and Latin America and the Caribbean; a finance leasing company for equipment leases, such as for oil tanks, natural gas transport vessels and oil rigs, to countries in the region; and medium- and long-term export credit insurance for Chinese businesses exporting to the region (Li, 2015). Prior to Premier Li’s leaving for his Latin American trip, the State Council proclaimed the “Directive Opinions on the Promotion of International Production and Equipment Manufacturing Cooperation,” clearly listing how government will provide substantial support. This signals an eagerness on the part of the Chinese government to strengthen its economic relations with Latin American nations.

Xi’s “$1+3+6$” cooperation framework and Li’s “3×3” model complement each other: the former lays out his vision and the latter elaborates the action plan. To have a comprehensive understanding of China’s economic strategy toward Latin America, we have to examine both together. They recognize the importance of the market mechanism, partnership, and the win-win situation that cooperation can produce. Then, the first core proposition is that China would like to foster a partnership with Latin American countries. Another essential element of these two models is the provision of a huge amount of financial resources. The third core proposition is that China, on the basis of South-South cooperation, would like to make every effort to help those who are in need in Latin America.

China’s economic strategy toward Latin America is closely connected to the needs of its economic development. In China’s Policy Paper on Latin America and the Caribbean of 2008, two specific sectors identified as the focus of economic cooperation are infrastructure and resources and energy (China’s policy paper, 2008).

Given China’s urgent need for economic development, natural resources have constituted the core sector through which China and major Latin American nations have interacted with each other the most frequently (Peters, 2015; Wu & Wei, 2014).

The majority of Chinese financial loans have been channeled into the oil sector—two-thirds of Chinese loans to Latin America were loans-for-oil during 2009–2010 (Gallagher, Irwin, & Koleski, 2012). In short, natural resources have been the focus of China's financial funding toward Latin America.

In addition, infrastructure has been the second most important sector in terms of attracting financial loans from China (Peters, 2015). The rising importance of infrastructural construction projects has resulted from the deterioration in infrastructure in Latin America as well as the experiences of China in its pursuit of economic development (Gransow, 2015).

According to statistics, both infrastructure and energy projects accounted for 75% of China's loans toward Latin America from 2005 to 2014 (Peters, 2015). China's financial loans for infrastructure investment projects in Latin American nations are on the rise. According to the China–Latin America Finance Database, about 40% of all Chinese loan commitments in Latin America from 2005 to 2014 were in the infrastructure sector (Gransow, 2015). The main questions are: What are the relative weights for energy projects and infrastructure? Have there been any changes in the relative weights over time?

In addition, a healthy institutional system is needed for the sustainability of China's economic strategy toward Latin America. According to this system, three categories of Chinese actors are illustrated by Zhimin Yang: the Chinese governmental agencies (such as the Ministry of Commerce and the National Development and Reform Commission), Chinese public and private enterprises, and quasi-governmental organizations (i.e., the China Council for the Promotion of International Trade) (Yang, 2015b). Yang specifically lays emphasis on the quasi-governmental organizations that make up the platform on which governmental agencies and Chinese enterprises interact with each other (Yang, 2015b). While the role played by government agencies and Chinese enterprises is beyond doubt, his highlighting of quasi-governmental organizations remains questionable, simply because he fails to provide any empirical evidence to support his arguments.

It is important that many scholars pinpoint the critical role played by state policy banks in China's institutional system, such as the China Development Bank (CDB) and The Export-Import Bank of China (China Eximbank), while analyzing China's financial loans toward Latin America (Downs, 2011; Gallagher & Irwin, 2017; Norris, 2016). It is reasonable to differentiate Chinese state policy banks from government agencies, because both CDB and China Eximbank are under the direct leadership of the State Council and the former even enjoys full ministerial rank (Downs, 2011). Overseas scholars go further to argue that state policy banks play the role of a bridge between not only government agencies and Chinese enterprises, but also between China and Latin America.

CDB and China Eximbank have to carry out the mission given by the government (Downs, 2011). CDB plays a dominant role in providing loans to Chinese enterprises for overseas expansion that focuses on electric power, road construction, railways, petroleum and petrochemicals, coal, post and telecommunications, agriculture and related industries, and public infrastructure, while The China Eximbank provides export credit to facilitate exports and imports of specific products, loans to overseas construction and investment projects, and concession loans (Gallagher & Irwin, 2017). Although Chinese enterprises seek to capitalize on the huge state financial resources for their external expansion, the immediate question concerns how they can obtain the financial resources at the least cost. The cooperation and coordination between state policy banks on the one hand and Chinese enterprises on the other have created an appropriate environment in which to successfully implement financial initiatives.

At the same time, the Chinese enterprises in Latin America can play a very constructive role in providing business opportunities for state policy banks as well as feedback on the design of the strategies and policy-making of the government agencies (Yang, 2015b).

Having reviewed the discussion concerning the institutional system, a question emerges: Why is there no input or feedback from the loan–recipient country in Latin America regardless of whether it comes from a government agency or local enterprise?

Based on the preceding discussions, questions regarding the pattern of China's financial initiative in Latin America emerge as follows. What are the relative weights of two important sectors (namely, natural resources and infrastructure)? Has there been any change in the relative weights? What are the inter-relationships among three important actors (namely, governmental agencies, state policy banks, and enterprises)? What is the role of actors within the loan-recipient country? What is the rationale behind China's loans to Latin America and their focus on infrastructure investment projects?

The Basis of China's Financial Initiative

The economic clout of China has been widely recognized and the future trend of the economy is expected to continue to be upward. For a long time, it has been expected that China will eventually pass the United States as the world's biggest

Table 1.
Statistics on China's Foreign Exchange Reserves, 2005–2016

Year	Amount (100 Million US Dollars)	Growth Rate (%)
2005	8,188.72	34.3
2006	10,663.44	30.2
2007	15,282.49	43.3
2008	19,460.30	27.3
2009	23,991.52	23.3
2010	28,473.38	18.7
2011	31,811.48	11.7
2012	33,115.89	4.1
2013	38,213.15	15.4
2014	38,430.18	0.6
2015	33,303.62	−0.13
2016	30,105.17	−0.1

Note: Sourced from the website of the State Administration of Foreign Exchange, <http://www.safe.gov.cn/wps/portal/english/Data/Forex>.

economy as early as 2030. China's economic expansion has been very rapid. In 2010, when China overtook Japan to become the world's second-largest economy behind the United States, its gross domestic product amounted to US$1.33 trillion while that of Japan was about US$1.28 trillion (Barboza, 2010). China surpassed Japan to become the world's second-largest stock market in 2014 after China's market capitalization reached US$4.48 trillion (China overtakes Japan, 2014).

The most critical asset of China has been its foreign exchange reserves (see Table 1), which increased from US$8,188.72 million in 2005 to US$38,430.18 million in 2014. With about US$4 trillion in reserves, China is determined to invest overseas to earn a profit and exert its influence further. However, the decline in its reserves from 2015 onward has been a challenge to China. The question concerns whether the decline may affect the financial support extended by China to Latin America.

With sufficient capital in hand and its Going Global strategy, the penetration of Chinese enterprises into external markets has greatly increased in recent years. China's outward foreign direct investment flows and stock in 2014 were US$123.1 billion and US$882.6 billion, respectively. Accordingly, China was ranked No. 3 among all countries in terms of foreign direct investment (FDI) flows for three consecutive years and No. 8 in terms of FDI stock, compared to No. 11 in the previous year (Ministry of Commerce of the PRC, National Bureau of Statistics of the PRC, & State Administration of Foreign Exchange, 2015). In addition, China's outward FDI flows to developing countries in 2014 amounted to 79.3% of the global total (Ministry of Commerce of the PRC et al., 2015).

The critical position of Latin America in China's grand economic strategy can be proved further by examining the total amount of the financial commitments by the Beijing government. In his speech at the 2014 Sino-Latin America & Caribbean Leaders' Summit, Xi made the following pledges: its stock of investment in the region would rise to US$250 billion in the coming decade; there would be US$30 billion in special loans for infrastructure projects; there would be US$10 billion in preferential loans to Latin American and Caribbean countries; a US$5 billion Fund for China-Latin America and Caribbean Cooperation would be set up; and there would be a US$50 million special fund for agricultural cooperation (Xi Jinping gives keynote speech, 2014). Adding together all the aforementioned figures, the total amount of financial support from China would surpass that of the "One Belt, One Road" initiative. The critical position of Latin America in China's grand initiative can be substantiated by the participation of both Chilean President Michelle Bachelet and Argentine President Mauricio Macri into the 2017 Belt and Road Forum for International Cooperation. More importantly, Xi stressed that Latin America is the natural extension of the 21st Century Maritime Silk Road during his meeting with Macri (China, Argentina pledge, 2017).

With its powerful financial basis, China has penetrated Latin America and built up a stronghold there with various kinds of loans. In the last four years, China's loans to Latin American nations have increased from US$7 billion in 2012 to US$14 billion in 2013, US$10 billion in 2014, and US$29 billion in 2015 (Gillespie, 2016). The total amount of loans to Latin America in 2015 was almost twice as much as the combined totals of all of the Western multilateral development banks, including the World Bank, the Inter-American Development Bank, and the Latin American Development Bank (Ray, Gallagher, & Sarmiento, 2016). However, this rising political and economic involvement in Latin America has drawn attention from the United States (Ellis, 2017).

From the perspective of a liberal economy, there are concerns that China's unconditional financial funding for Latin American nations has resulted in a wider budget deficit and even another debt crisis (Kaplan, 2016). However, from the perspective of Keynesian economics, the government must apply fiscal and monetary policies to restore the economy, especially through vast investment in infrastructural construction projects. In the following analysis, the focus of our comparative study lies not only in China's financial initiative, but also the recipient country's efforts to engage in infrastructural construction with the financial funding.

A Comparative Study of China's Financial Initiative

In this research, Ecuador and Argentina are selected in order to perform a comparative analysis; the former is an oil-based economy and the latter is a non-oil-based one. Since 2005, both Ecuador and Argentina have been among the biggest four recipients of China's financial loans in Latin America (Myers, Gallagher, & Yuan, 2016). Moreover, their relationship with China has become closer, because China upgraded its relations with Argentina and Ecuador to the level of a comprehensive strategic partnership in 2014 and 2016, respectively.

Ecuador: An Oil-Based Economy

Ecuador's sovereignty credit rating was downgraded to junk class following the 2008 financial turmoil. This means that Ecuador was shut out of the international credit market and China has become the only feasible financial provider ever since. As the major oil exporter in Latin America, Ecuador must rely upon its oil resources as the leverage to acquire capital for development.

Loans for oil scheme

Under the loans for oil financial scheme, Ecuador obtained loans from two different sources. Most came through the agreements between the Ministry of Finance of Ecuador and the respective policy banks of China (namely, The Export-Import Bank of China and China Development Bank), with the rest coming from agreements between the State Petroleum Company of Ecuador (Petroecuador) and PetroChina.

As a matter of fact, China extended eight loans to Ecuador on the basis of acquiring crude oil in return (see Table 2). In July 2015, almost 90 percent of Ecuador's oil exports had been designated to China to pay off its loans (Krauss & Bradsher, 2015).

Among the eight loans awarded by Chinese state policy banks, three were specifically related to the needs of the petroleum industry. Generally speaking, Ecuador has repaid the loans from the sales of its oil. For the purpose of maintaining the sustainability of its oil industry, the Ecuadorean government must earmark part of the loans for sustaining and enhancing its oil exploration, production, and processing with financing mainly in the form of loans from China.

There were two loans in accordance with the agreements between the two state oil companies, Petroecuador and PetroChina, respectively. First, PetroChina offered assistance in July 2009, depositing US$1 billion in Ecuador's Ministry of Finance and

Table 2.
China's Financial Loans toward Ecuador, 2009–2015

Year	Principal Loan Recipient	Principal Loan Provider	Amount (Unit: Millions of US Dollars)	Purpose
2009	State Petroleum Company of Ecuador (Petroecuador)	PetroChina	1,000	For the petroleum industry
2010	Ecuadorian Government	The Export-Import Bank of China	1,682.7	Sopladora hydroelectric project
2010	Petroecuador	China Development Bank	1,000	80% for the purpose of agreed matters, 20% for infrastructure and energy sector
2010	Ecuadorian Government	The Export-Import Bank of China	571	The construction of the hydroelectric power station at Sopladora (Part of the Paute hydroelectric complex)
2011	Petroecuador	PetroChina	1,000	For the petroleum industry
2011	Ecuadorian Government	China Development Bank	2,000	70% for the purpose of agreed matters, 30% for energy sector (including the construction of the hydroelectric power stations at Quijos, Minas-San Francisco, and Mazar Dudas)
2011	Ecuadorian Government	The Export-Import Bank of China	1,680	The construction of the hydroelectric power station at Coca Codo Sinclair
2015	Ecuadorian Government	China Development Bank, Bank of China, The Export-Import Bank of China	7,530	Construction project of Pacific Refinery; Public works, such as irrigation and transportation
Total			16,463.7	

Note: Source from Gallagher et al. (2012, p. 6); Sanderson and Forsythe (2013, pp. 123–143); ITUC/GUF Hong Kong Liaison Office (2015).

the loan which was to be repaid over two years carried a 7.25% fixed interest rate (Schneyer & Perez, 2013). In return, Ecuador committed to allocating 96,000 barrels per day to Chinese firms (Alvaro, 2011). Then, Ecuador again received a US$1 billion prepayment in February 2011 from PetroChina after both sides agreed to renew an agreement on the supply of Ecuadorean crude oil for two years, starting in August of that year (Alvaro, 2011). For China, these two agreements are really based on loans-for-oil by nature.

The third loan from the Chinese banks was for constructing the Pacific Refinery with the capacity to refine 300,000 barrels of heavy crude per day, which is the largest project in Ecuador's history. Currently, Ecuador produces about 550,000 barrels of crude oil a day and hopes to expand this to about 755,000 barrels a day in 2018 (Alvaro, 2011). With this new refinery, Ecuador can greatly reduce its reliance on American oil refineries as well as the related costs. This refinery is mainly owned by three oil companies, i.e., Petroecuador (51%), Petróleos de Venezuela (17%), and PetroChina (30%) (Rowe, 2015).

In terms of non-oil-related loans, Ecuador has also had to pay back its loans with revenue from the sales of oil. For example, Ecuador's Finance Ministry and CDB signed a US$2 billion loan contract in June 2011. Accordingly, Ecuador would sell 130 million barrels of crude oil to PetroChina and 18 million barrels of fuel oil over the next six years, including about 1.08 million barrels per month of Oriente crude and 720,000 barrels of Napo crude (Alvaro, 2011).

Loans for infrastructure: Hydroelectric power station

The most important element of China's financial initiative toward Ecuador is the emphasis on power generation projects, including hydroelectric power and wind farm projects. Four loans were related to the power generation project, and not the oil industry. This emphasis contradicts the findings of some research in which China's financial loans toward Latin American countries have been awarded to natural resources and natural resources-related projects (Gallagher & Irwin, 2017; Gransow, 2015). What is the rationale behind China's financial support for the development of the fourth smallest country by area in South America? Some argue that the geographic location of Ecuador is the reason; others argue that it is the left-leaning political position of Ecuador President Correa (Narins, 2012).

My argument concerning the emphasis on power generation projects lies in the well-documented plan (i.e., National Plan for Good Living 2009–2013 and the Master Plan of Electrification 2009–2020) with a goal of "replacing consumption of oil by-products by electricity" (Hydroelectricity, the key, 2016). The Ecuadorean government has, subsequently, executed the plan quite successfully through the construction of eight key hydroelectric power stations (namely, Coca Codo Sinclair, Delsitanisagua, Manduriacu, Mazar Dudas, Minas-San Francisco, Quijos, Sopladora, and Toachi Pilaton) with a view to increasing hydropower generation to account for 90% of power output in 2016 (Hristova, 2014). Owing to its achievements, the Chinese government would of course like to provide financial loans continuously because of the predictability and feasibility of these power generation projects launched by the Ecuadorean government (Gill, 2015).

In reviewing all these eight hydroelectric power station projects (see Table 3), we can observe the critical role played by China's financial loans as well as giant Chinese construction corporations. As a matter of fact, the first hydroelectric power station at Manduriacu was built by Brazil's Odebrecht América Latina with financial loans from the Brazilian National Economic and Social Development Bank (Brazilian financing, 2012). Thereafter, all of the other seven have been built or are being built by Chinese construction and engineering corporations (i.e., Power Construction of China Corporation, China Three Gorges Corporation, China Gezhouba Group, China National Electric Equipment Corporation, Sinohydro, and Harbin Electric International Company). Among them, five stations were completed and/or were in operation in 2016 and the construction of the other two stations will be finished within one year.

The achievements of power station building in Ecuador have mainly come about as a result of the Beijing government's directives on the one hand, and teamwork between financial resources from state policy banks and professional expertise from the related enterprises on the other. In the power generation sector, CDB and The Export-Import Bank of China are major financial centers providing loans and credit. Six Chinese construction groups are EPC (Engineering, Procurement, and Construction) general contractors in Ecuador and responsible for the construction of seven hydroelectric power plants. More importantly, Chinese corporations must have local partnerships in these investment projects. There are two key partners in Ecuador: the Ministry of Finance and Corporacion Electrica del Ecuador (CELEC); the former is in charge of the negotiation of loan deals and the latter is responsible for the implementation of the construction of hydroelectric power stations.

All of these six Chinese construction corporations entered the Ecuadorean market in 2010 or 2011. They have followed a similar path and have overcome various kinds of barriers and challenges ever since (Ecuador completes, 2015; HydroChina Corporation, 2015; Liu, 2010; Power Construction of China Corporation, 2011).

For example, the China Gezhouba Group signed its first construction deal in Latin America with CELEC for the construction of the Sopladora hydroelectric power

Table 3.
Newly-Built Hydroelectric Power Plants Master Plan of Electrification 2009–2020 in Ecuador

Power Plant	Major General Contractor	Principal Loan Provider	Generating Capacity	Current Status
Mazar Dudas	China National Electric Equipment Corporation	CDB	21 MW	Completion: December 2016
Toachi Pilaton	China International Water & Electric Corp (under China Three Gorges Corporation)	Russian Consortium Inter Rao UES	254 MW	Completion: June 2016
Minas-San Francisco	Harbin Electric International Company	CDB	270 MW	Under construction
Coca Codo Sinclair	Sinohydro	The Export-Import Bank of China	1,500 MW	First phase operation: October 2016
Manduriacu	Odebrecht América Latina of Brazil	Brazilian National Economic and Social Development Bank (BNDES)	62.5 MW	In operation: March 2015
Sopladora	China Gezhouba Group	The Export-Import Bank of China	487 MW	In operation: October 2016
Delsitanisagua	HydroChina Corporation (under Power Construction of China Corporation)	CDB	115 MW	Under construction
Quijos	China National Electric Equipment Corporation	CDB	50 MW	Completion: March 2016

Note: Sourced from Ellis (2013); the surge of Chinese (2012); various issues of report from *Hydroworld* and *Business News Americas* (BNamericas).

station, as part of the Paute hydroelectric complex, on August 23, 2010 (Liu, 2010). Moreover, the Gezhouba Group won the bid as part of a team with Fopeca — a construction corporation in Ecuador. Later, the government of Ecuador signed a credit agreement providing US$571 million from The China Export-Import Bank to build and equip the 487.8-MW Sopladora hydroelectric project on October 17, 2011 (China provides funding, 2011). It is noteworthy that they have learned a lot.

Regarding wind power, China's Xinjiang Goldwind Company built the Villonaco wind farm with 16.5 MW turbines and it started to operate in January 2013 (Hristova, 2013). This is the first wind farm in Ecuador with a financial loan from CDB.

Chinese corporations have also won contracts for other kinds of infrastructural projects. A 1.25 mile, four-lane bridge over the Babahoyo River was built by the Guangxi Road & Bridge Engineering Corp. at a cost of over US$100 million (Krauss & Bradsher, 2015). The flood control and irrigation project of the Bulubulu, Cañar and Naranjal rivers was completed in 2015 by a consortium of Chinese firms — China Gezhouba Group, HydroChina Corporation, and China CAMC Engineering Company (under Sinomach) at a cost of US$55.6 million (Krauss & Bradsher, 2015).

For the period from 2009 to 2015, China's financial loans to Ecuador were valued at more than US$16 billion. A part of these loans was for the development of power generation and a part for the enhancement of oil production and processing. Can we say that these have benefited Ecuador much more?

While providing all these loans for Ecuador's development, what is the Chinese image there — is it good or bad? Alberto Acosta, who served as President Correa's Energy Minister during his first term, labeled China as another imperialist state like the United States (Krauss & Bradsher, 2015). However, for the left-leaning President Correa, China represents "a civilization and history that awakens admiration to those who know it" (Krauss & Bradsher, 2015).

Moody's credit rating report in 2014 elevated the rating for Ecuador from the original B3 to Caa1 and, as a result, Ecuador can obtain capital from the international credit market (Moody's upgrades, 2014). In addition, with the excellent economic performance of China over the period from 2003 to 2013, the return on investment in Ecuador is the highest in Latin America and is equal to 23% of gross domestic product (Domínguez, 2015). Based on these observations, Ecuador has benefited from the loans offered by China in terms of the completion of the above-mentioned infrastructural projects. Further achievements in economic development must rely upon the implementation of the next phase of the development plan.

Argentina: A Non-Oil-Based Economy

The closer economic cooperation between China and Argentina began when Argentine President Cristina Fernandez de Kirchner made her first visit to China in July 2010 and opened a new page in the bilateral relationship between the two countries with fruitful results. One of her major proposals for China's financial loans was the renovation and improvement of Argentina's extensive railway network. As a result, the signed bilateral agreement "calls for China to invest in 10 separate rail projects in Argentina over the next two to five years" (Hall, 2010). In addition, six contracts were inked, including those related to railway technology, rail line electrification, and credit for exports of locomotives to Argentina. The second important financial loan was awarded by the Beijing government in 2014 when President Xi made a state visit to Argentina.

Railway and inter-city subway system

In examining two financial loans for Argentina's railway system (see Table 4), we have observed not only the vital role played by China's policy banks in the renovation of the Belgrano Cargas railway network, but also the cooperation between the policy banks and Chinese commercial banks. CDB by itself and in cooperation with the Industrial and Commercial Bank of China put forward these two loans in 2010 and 2014, respectively. The first one is a 19-year US$10 billion loan, carrying an interest rate of Libor plus 600 basis points and the second one is a US$2.1 billion loan (Hall, 2010; Paranga, 2014; Rogers, 2014).

Furthermore, policy banks have created business opportunities for Chinese enterprises. At the first level, Chinese enterprises were designated as the general contractors. In the case of a US$10 billion loan, China Machinery Engineering Corporation (CMEC) and CDB signed agreements with their counterparts in Argentina to renovate the Belgrano Cargas freight network. In the case of a US$2.1 billion loan, CMEC Machinery and the Electric Equipment Import and Export Company became the EPC general contractor (Ye & Zhao, 2015).

At the second level, other Chinese enterprises became the suppliers of equipment. For example, the US$2.5 billion rail-renovation project in Buenos Aires requires the procurement of materials and technology from two major rolling stock manufacturing corporations in China, i.e., China North Locomotive & Rolling Stock Industry (Group) Corporation (CNR) and China South Locomotive & Rolling Stock Corporation (CSR) (Qin & Xin, 2010). In a similar vein, CRRC Corporation reached a deal with China Machinery Engineering Corp, the general contractor of the

Table 4.
China's Financial Loans toward Argentina, 2010–2015

Year	Principal Loan Recipient	Principal Loan Provider	Amount (Unit: Millions of US Dollars)	Purpose
2010	Argentine Government	China Development Bank	10,000	Renovation of freight railroad lines and improvement of the Belgrano Line
2012	Generadora Eolica Argentina del Sur	China Development Bank	3,000	Wind Farm Project
2012	Grupo Isolux Corsa	China Development Bank	261	Wind Farm Project
2014	Belgrano Cargas	China Development Bank; Industrial and Commercial Bank of China	2,100	Renovation of Belgrano cargo railway with China Machinery Engineering Corp as general contractor; Purchase of new diesel locomotives and wagons by China's CRRC Corp
2014	Electroingenieria	China Development Bank; Industrial and Commercial Bank of China	4,700	Hydroelectric power construction in Patagonia; China Gezhouba Group Corp as general contractor
Total			20,061	

Note: Sourced from Gallagher et al. (2012, p. 6); Sanderson and Forsythe (2013, pp. 123–143); ITUC/GUF Hong Kong Liaison Office (2015).

Belgrano cargo railway Renovation project, and provided 100 diesel locomotives and 3,500 wagons of various types (Paranga, 2014).

A breakthrough for China's rolling stock manufacturers was the export of multiple-unit cars to Argentina. CSR obtained two contracts in January and May 2013 to provide 709 cars altogether for a light railway system, such as the Sarmiento Line, Mitre Line and Roca Line. The price tag for these cars was US$1 billion (Ye & Zhao, 2015). In November of the same year, CNR won a bid to replace train cars and track on the Belgrano Sur railway (Yang, 2015c).

In addition to train cars, Chinese enterprises offer high-end products and services as follows: electric traction motors, train communication systems, signals, and communication diagnosis equipment. CRRC Times Electric Company supplied electric traction motors and train communication systems for 300 cars on the Roca Line (Ye & Zhao, 2015). In early 2013, the China Railway Signal & Communication Company (CRSC) entered the Argentina market by acquiring a contract to replace the signal systems on the Sarmiento Line and Mitre Line (Ye & Zhao, 2015).

Having examined the exports of Chinese railway equipment to Argentina in the past five years, it can be noticed that the triangular relationship between government, policy banks and railway-related industrial corporations in China has resulted in benefits for all. Stratfor, a Texas-based geopolitical intelligence corporation, has pointed out that Chinese investment in infrastructure in Latin America has kept Chinese enterprises busier (Yang, 2015c). Its report pinpoints that the rationale behind it was the policy changes in China. In the past several years, there has been a tendency for more value-added products and services to become the mainstream of Chinese exports instead of low-end manufacturing goods. For one thing, China has sped up its exports of rolling stock for metro subway systems, light railway systems, heavy railway systems, and high-speed railway systems. According to statistics, China's exports of machinery and equipment have accelerated rapidly and reached US$1 trillion in 2013, which is about 11 times the amount in 2001. Exports of railway equipment reached US$4.36 billion in 2014 with an annual growth rate of 22.6%.

The renovated railway and subway systems have led to a reduction in transportation costs and an improvement in living standards. For a long time, the low level of usage of railway freight transportation in Argentina pushed up domestic transportation costs. Highway transportation costs are about twice those of rail freight transportation and four times what it costs to transport goods by ship. According to statistics, the transportation cost of moving one ton of soybeans Salta province to the seaport of Rosario was higher than that of shipping it from Rosario to Rotterdam in the Netherlands (Ye & Zhao, 2015). The high domestic transportation cost undermined the competitiveness of exports and brought about a high inflation rate. With the renovated railway and subway system, 97% of respondents in a survey expressed satisfaction with its comfort and safety (Ye & Zhao, 2015).

In the case of the renovation of Argentina's railway system, Chinese financial loans have resulted in a kind of win-win situation.

Power generation system

China's participation in a wind power project in Latin America originates from regional needs. In South America, the total electricity generated by wind farms increased from 76 MW in 2005 to 2,200 MW in 2014, with the growth rate surpassing that in other regions (Nielsen, 2012). Argentina possesses huge potential to develop wind power and plans to enhance the ratio of renewable energy to 8% and that of wind power to 4% by 2016 (Yang, 2015a).

In addition to its advantage over the construction of power plants and provision of wind turbines, Chinese enterprises are in another excellent position — due to financial support from state policy banks (see Table 4). Owing to its default on US$95 billion of debt during the 2001–2002 financial crisis, Argentina was shut out of the international credit market and could not obtain loans from European countries or the the United States (Nielsen, 2012). Furthermore, the commercial banks in the region did not want to offer multi-year loans to a wind power project. Although the Banco de Inversion y Comercio Exterior has the responsibility to extend loans for development projects, it always charges a high interest rate of 15% for infrastructure construction projects (Nielsen, 2012). Consequently, financial resources from China have become very attractive.

In the case of wind power generation, CDB has been involved in wind power projects and its partnership with Chinese-related enterprises has won many contracts for the latter. China's Beijing Construction Engineering Group first entered the wind power project market in July 2012 when it wrapped up a contract with Generadora Eolica Argentina del Sur SA for a US$3.5 billion wind power project, the largest one of its kind in Latin America (Nielsen, 2012). CDB is certainly the provider of the loan. In the past, wind farms tended to use turbines made in the European countries. Under this project, 1,350 MW of Chinese turbines will be installed across 45,000 ha of southern Argentina. Through the loan package, Chinese producers of turbines can make inroads into the Latin American market. Another example of financial support for a wind power project from CDB was a US$261 million loan to Grupo Isolux Corsa, which was agreed on November 15, 2012. One of the strings attached to the loan is to use 100 MW of turbines from Xiangtan's XEMC Windpower Company (Nielsen, 2012).

Next, HydroChina of the Power Construction Corporation of China also entered the Argentina market to develop a 500-MW wind farm in Buenos Aires in October 2014 in cooperation with Atlantic Power Corp (Yang, 2015a). With the recognition of the State-Owned Assets Supervision and Administration Commission of the State Council, HydroChina sealed an EPC general contract with La Rioja province to carry out the expansion of the Arauco wind farm from the current 50.4 MW to 104 MW (Yang, 2015a).

Beyond wind power, related hydroelectric power construction groups have made every effort to enter Argentina's hydro power market. With a US$4.7 billion loan from CDB, China Gezhouba Group did win two bids from Electroingenieria and is in charge of building two dams in Patagonia as part of a hydroelectric power project (China, Argentina agree, 2014).

In addition, China has been engaged in nuclear power generation in recent years. After five years of negotiations, the China National Nuclear Corporation inked two contracts with Argentina's Nucleoelectrica during the 2015 G-20 Antalya Summit in Turkey in November 2015. These two contracts are the "Argentine Heavy-Water-Reactor Nuclear Station Commercial Contract" for the fourth nuclear power station and the "Pressurized-Water-Reactor Nuclear Station Framework Contract" for the fifth one (Anderlini & Rathbone, 2015). In view of its cooperation with France's Électricité de France in the building of a nuclear station in the UK, China has demonstrated its ambition to advance its capability, capacity, credit, and competitiveness in the global nuclear power generation market. The nuclear power generation project in Argentina demonstrates China's intent to be a key player in the developing countries.

The total cost of the fourth nuclear power project in Argentina is estimated to be US$6 billion and 85% of the funding is expected to rely on loans from Chinese banks and businesses, with an annual interest rate below 6.5% (Anderlini & Rathbone, 2015). China National Nuclear Corporation will cooperate with the Canadian Candu company to build up the station that is to be equipped with a heavy-water reactor. According to the contract for the fifth nuclear power station, a Hualong One pressurized-water reactor is to be jointly developed by the China National Nuclear Corporation and China General Nuclear Power Corporation (Lin, 2015).

The good news for China is that the current Macri government has reiterated its assurance about the nuclear power plant deal and has even signed a memorandum of understanding to set up the date of construction of the first unit in 2017 and that of the second one by 2019 (Argentina says, 2016; China and Argentina reaffirm, 2016).

According to China's estimation, more than 60 countries have expressed their interest in having a nuclear plant and more than 200 nuclear plants will be under construction by 2030 (Anderlini & Rathbone, 2015). China continues to pay close attention to this lucrative market. Both China and Argentina have a sound base to further their nuclear capability. The two countries' cooperation might lead to their penetrating other Latin American countries and beyond.

Both wind power and nuclear power are major factors contributing to the reduction in pollution and the improvement of greenhouse effects. The Argentine government has devoted a lot of resources to beef up the usage of renewable energy.

With the key role being played by soybeans in the Argentine economy and an outcry from the public for a better public transportation service, it is natural for the focus to be on transportation construction projects with Chinese financial funding.

Conclusion

The current Chinese economic strategy toward Latin America focuses on its financial initiative and its supporting role for local economic development through mobilizing Chinese public and private corporations. To avoid the accusation of neo-colonialism, China should consider how to elevate the level of economic development of Latin American countries and putting in place a sound infrastructure should be the first step.

From this comparative study of Ecuador and Argentina, we have observed the changing pattern of China's financial initiative in Latin America, which can be reflected by the focal sectors, Chinese partner enterprises, the inter-relationships among partners, and the underlying motivation.

The strategy and plans launched by both Xi and Li reveal the all-out economic cooperation between China and Latin American countries. In the first place, it represents the confidence of China's highest decision-makers and their determination to uphold feasible development plans proposed by Latin American countries. More importantly, this kind of South–South cooperation has created a win-win situation. Not only have Chinese enterprises benefited, but also the loan-recipient countries.

The increase in electric power generation in the case of Ecuador and the improvements as the result of the massive transportation systems in Argentina have laid a sound foundation for the further development of both countries. In the wake of the 2008 global financial tsunami, both Ecuador and Argentina were shut out of the international credit market and their sovereign credit rating fell to junk status. Consequently, they have experienced difficulties obtaining loans from other nations and international financial institutions. Under these circumstances, China is the only possible source country that has the capability, capacity, and willingness to give a hand. In the case of Ecuador, which is an oil-exporting country, China can acquire oil in return; in the case of Argentina, which has a sound basis for industrial development, China can have a partner in the future expansion of the region. Up to now, the financial loans from China and the involvement of these conglomerates have resulted in good results for both Ecuador and Argentina.

However, it is hard to foster a win-win situation in both countries. We have observed the domestic challenges for China's supporting projects. Some objections come from the suspicions of the opposition parties, some from the preservation of precious local natural resources, and some from the concerns about working conditions, environmental and safety issues. To achieve a higher degree of satisfaction from the assisted recipient countries, it is critical for China to accommodate the needs of the people as well as of the society as a whole. It is thus necessary to learn from the experiences of Western industrialized countries.

China has adopted an assertive financial initiative by concentrating funds and loans in infrastructure construction. To implement its scheme, policy banks and huge Chinese industrial enterprises have been mobilized to participate in infrastructure investment projects. In the past, only a limited number of enterprises were involved in the financial scheme, pushed forward the expansion of business globally, or even enjoyed the profits. As more emphasis has been placed on infrastructural construction, a diversity of enterprises have entered the market. At the first level, these enterprises are general contractors for the specific project and more enterprises are participating in the second level as suppliers of different products. After all, state policy banks and even commercial banks play a pivotal role in connecting three kinds of actors: Chinese governmental agencies, Chinese enterprises, and actors from loan-recipient countries. With the decline in its foreign exchange reserves, China has not given any signal that it is considering terminating its financial loans in Latin America in the near future.

As a result of analyzing the cases of both Ecuador and Argentina, we can find that China has provided its financial resources to cooperatively ignite the process of infrastructural construction, but in specific areas Chinese enterprises have their own package of technologies and equipment as well as the capacity to carry out their missions. It is very important for major conglomerates in China to be involved in cooperating in infrastructural construction. Most of the time, they are general contractors providing engineering design, procurement, and construction services. Their participation is a kind of guarantee for a smooth implementation of the related contracts as well as a recognition of their capabilities and capacities to carry out major infrastructural construction projects.

In the end, the valuable experiences from all these projects are critical inputs that provide helpful feedback for the Beijing government to revise and fine tune its development strategy and plans for Latin America — the hidden partners of China's "One Belt, One Road" initiative.

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