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ISSUE BRIEF

Belt and Road in Latin America: A Regional Game Changer?

Four Issues to Watch

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The Adrienne Arsht Latin America Center broadens understanding of regional transformations through high-impact work that shapes the conversation among policymakers, the business community, and civil society. The Center focuses on Latin America's strategic role in a global context with a priority on pressing political, economic, and social issues that will define the trajectory of the region now and in the years ahead. Select lines of programming include: Venezuela's crisis; Mexico-US and global ties; China in Latin America; Colombia's future; a changing Brazil; Central America's trajectory; combatting disinformation; shifting trade patterns; and leveraging energy resources.

With one hundred and thirty-one countries signing on, and with more than $575 billion worth of investments mobilized, the Belt and Road Initiative (BRI) could mark a paradigm shift in infrastructure development around the world.[1] Will it help to advance countries' prosperity through improved interconnectivity, or is it primarily focused on extending China's reach? The answer is neither simple nor binary. Much depends on how BRI projects are conceptualized, implemented, and enforced, and which interests are driving these actions.

At a time of heightened geopolitical tensions, supporters and critics of BRI battle over the program's intentions and consequences—both sides claim to have abundant evidence. According to recent estimates, global trade could grow up to 6.2 percent on the back of fully implemented BRI transport projects, bringing up to 2.9 percent real-income gain.[2] But highly publicized cases in Malaysia, Myanmar, Sri Lanka, Pakistan, and the Maldives have given rise to concerns about debt sustainability, project delays, and transparency.

Four characteristics and emerging trends will determine the impact of BRI on Latin America in the years to come, with each potentially defining the region's infrastructure and overall economic development. That is why this issue brief produces recommendations for regional governments and the business community—as well as the United States—for how to effectively engage the massive, diverse, and evolving initiative that is BRI, six years after its official launch in September 2013.

REGIONAL PARTICIPATION IN BRI

Inspired by the ancient Silk Road trade routes, China initiated BRI in 2013 primarily as a project linking Eurasia through physical infrastructure, but it has since expanded into other sectors and regions. By late 2017, Beijing had formalized Latin America and the Caribbean as a "natural extension of the 21st Century Maritime Silk Road."[3] In November 2017, Panama became the first Latin American country to officially endorse BRI, five months after switching diplomatic ties from Taiwan to China. In the next two years, eighteen of the thirty-three countries in the region would join BRI, with some notable exceptions. Argentina, Brazil, Colombia, and Mexico—the four largest economies in the region, accounting for nearly 70 percent of its GDP—have closely followed the initiative, but have yet to sign on.

Many Latin American governments and companies consider BRI an opportunity for furthering international engagement. As in other regions of the world, a main allure of BRI is expanded access to China, a growing export destination and source of external financing. Over the past twenty years, China has transformed from one of the region's modest commercial partners to one of its most important. Bilateral trade grew twenty-five times, from $12 billion in 1999 to $306 billion in 2018, placing China as Latin America's second-largest trade partner, after the United States.[4] Since 2005, Chinese policy banks have provided more than $141 billion in loan commitments to Latin America—exceeding, in several years, the lending of the World Bank, the Inter-American Development Bank, and the CAF Development Bank of Latin America combined.[5] China is also becoming an increasingly important foreign direct investor for the region, especially through mergers and acquisitions.[6]

That said, BRI has yet to spur a visible surge of Chinese commercial activities in Latin America and the Caribbean. BRI has not dictated recent changes in bilateral trade and investment flows; other macroeconomic forces (namely, the effects of global trade tensions and subdued regional and Chinese growth outlooks) have been more significant. China has been less active promoting BRI in the Western Hemisphere than in other regions. The six BRI economic corridors across Eurasia still take top priority globally.[7] In addition, BRI may cause unnecessary confrontation with the United States. Latin America's long-standing hemispheric ally and most important commercial partner has consistently warned about BRI and "debt-trap diplomacy."

Despite the seeming lack of immediate gains associated with BRI, however, most Latin American and Caribbean countries have responded neutrally or favorably to the initiative. A different risk-return analysis seems to be at play. On the risk side, given its limited weight, many consider Chinese lending alone to be insufficient to trigger systemic debt issues in most Latin American economies—unlike in some parts of Asia and Africa.[8] Environmental, labor, and transparency issues remain critically relevant in the region, but resistance against questionable business operations has long pushed local governments and foreign companies to improve compliance—with growing success. With a sense of downside protection, many in the region tend to focus more on the potential economic upside of BRI, and of China more broadly.

As a result, for many in Latin America and the Caribbean, BRI appears a low-risk gamble for greater economic growth and international cooperation—especially at a time of rising protectionism, and in the absence of truly global alternatives. At the minimum, BRI represents a useful mechanism for high-level dialogue and exchange, critical to cultivating long-term commercial relations with China and other international players. The Belt and Road Forum for International Cooperation (BRF) exemplified the extent of BRI's appeal, as well as the corresponding Latin American and Caribbean reaction. The second BRF was held in Beijing on April 25–27 this year, three years after the first BRF. About thirty high-level Latin American and Caribbean government officials participated, including twelve ministers and President Sebastián Piñera of Chile. The BRF produced a series of multilateral agreements among participants, notably a Joint Communique signed by thirty-seven heads of state in attendance from around the world.[9] The forum also saw the signing of more than twenty agreements between China and at least one Latin American or Caribbean country, covering different cooperation areas including energy, science, finance, and regulatory coordination.[10] Some agreements involved Argentina, Mexico, and Brazil—each of which has yet to become BRI members, but still followed BRI and sent delegates to attend the BRF.[11]

In a region with great heterogeneity and distinct levels of engagement with China, each country should formulate its own BRI strategy, but Latin America should take stock of at least four ways in which BRI is pivoting to stay ahead of the game.

Coca Codo Sinclair - Ecuador's Coca Codo Sinclair dam has raised cost and quality concerns about Chinese-funded projects in Latin America. Photo credit: Photo credit: Carlos Rodríguez / Andes

FOUR TRENDS TO WATCH

1: BRI is adapting to address debt and sustainability concerns

Since the early days, BRI has been noteworthy for the initiative's flexibility and immense scope. While BRI was able to scale quickly by encompassing different projects and countries, the hasty proliferation of "BRI projects" would later prove difficult to manage. One official source estimated a total of 3,116 projects by late 2018.[12] Governments, companies, banks, and developers—both Chinese and foreign—generously applied the BRI label as a public-relations buzzword. Some construction work that had started before BRI's launch in 2013 was also conveniently rebranded as BRI.

A correction is under way. A number of problematic BRI projects have led to local and international pushback against BRI in parts of Asia and Africa. This reputational risk has moved Beijing to provide more clarity and guidelines on BRI, especially around some hot-button issues such as debt and environmental sustainability.

For instance, amid growing concerns around debt sustainability, relevant government agencies in China have published a series of documents to help guide investment decisions. The Ministry of Finance produced a BRI Debt Sustainability Framework (DSF), partially based on the International Monetary Fund (IMF)'s Debt Sustainability Framework for Low-Income Countries (LIC-DSF).[13] The State Administration of Foreign Exchange (SAFE) issued a country-specific report on BRI economies' exchange arrangements and restrictions, partially based on the IMF's Annual Report on Exchange Arrangements and Restrictions (AREAER).[14] The Ministry of Commerce updated its country-specific investment guides for all BRI countries.[15] These documents are designed mainly to guide Chinese investors and developers, but may also help leaders in BRI member countries better understand their relative competitiveness and perceived riskiness.

Despite these efforts, however, debt-related challenges will likely remain relevant in at least some BRI economies. A recent World Bank analysis estimated that, over the medium term, twelve of the forty-three low- and middle-income BRI member countries—in Asia, Africa, and Europe—would experience heightened debt dynamics associated with BRI.[16] Latin America and the Caribbean should take caution, as some countries currently bear a higher debt-to-gross-domestic-product (GDP) ratio than BRI members elsewhere. Although the relative size of Chinese lending remains small in most Latin American and Caribbean economies, it could still have an aggravating effect, especially where non-Chinese lending and overall debt burden are already significant. Importantly, such projects and countries will also become less attractive to Chinese banks and developers over time. Growing domestic financial concerns about unsound investments and project implementation abroad are increasingly turning Chinese enterprises adverse to risk.

To promote environmental sustainability across the BRI, China's Ministry of Ecology and Environment created the BRI International Green Development Coalition (BRIGC) with international partners, namely twenty-six environment ministries around the world (two in Latin America: Cuba and Guatemala), eight international organizations (including four United Nations entities), sixty-nine research institutions (including ten based in the United States), and thirty companies.[17] BRIGC has been uniquely active in promoting an environmentally sustainable BRI. In 2019 alone, it has held two high-level coordination meetings among partners, and co-organized or participated in high-level events around Summer Davos 2019, United Nations Climate Summit 2019, and the second BRF. Additionally, it aims to produce six reports by 2021, covering different "green" aspects of BRI, from supply chain and climate change to biodiversity and case studies of "Green BRI champion countries and projects."[18] On the operational side, the Export-Import Bank of China (China Exim Bank) and other institutions have pledged support for green finance development in BRI. Such support includes considerable financial resources for green-energy projects, more rigorous environmental safeguards in project assessment, and lending and procurement "company blacklists" to help prevent environmental malpractices.[19]

These efforts can be particularly relevant for Latin America and the Caribbean, where Chinese interests abound in the renewables and extractive industries, and have, at times, failed to comply with local or international standards. The myriad of BRI environmental tools and initiatives, if utilized adequately, can be helpful for creating more and better green projects in the region.

Successful implementation and enforcement will be crucial going forward, but will take time with a program of BRI's scale. Besides BRIGC, several other initiatives have also launched: the Green Silk Road Envoys Program, the Belt and Road Green Lighting Initiative, the Belt and Road Green Cooling Initiative, and the Belt and Road Environmental Technology Exchange and Transfer Center, among others.[20] Over the short and medium terms, such a proliferation of programs will likely lead to an internal consolidation of sorts, given their potentially overlapping jurisdictions and objectives. Over the long term, however, BRI and BRI member countries should benefit from these important "greening" efforts and resource mobilizations if, in fact, host-country governments and China are serious about the importance of a greener approach to BRI.

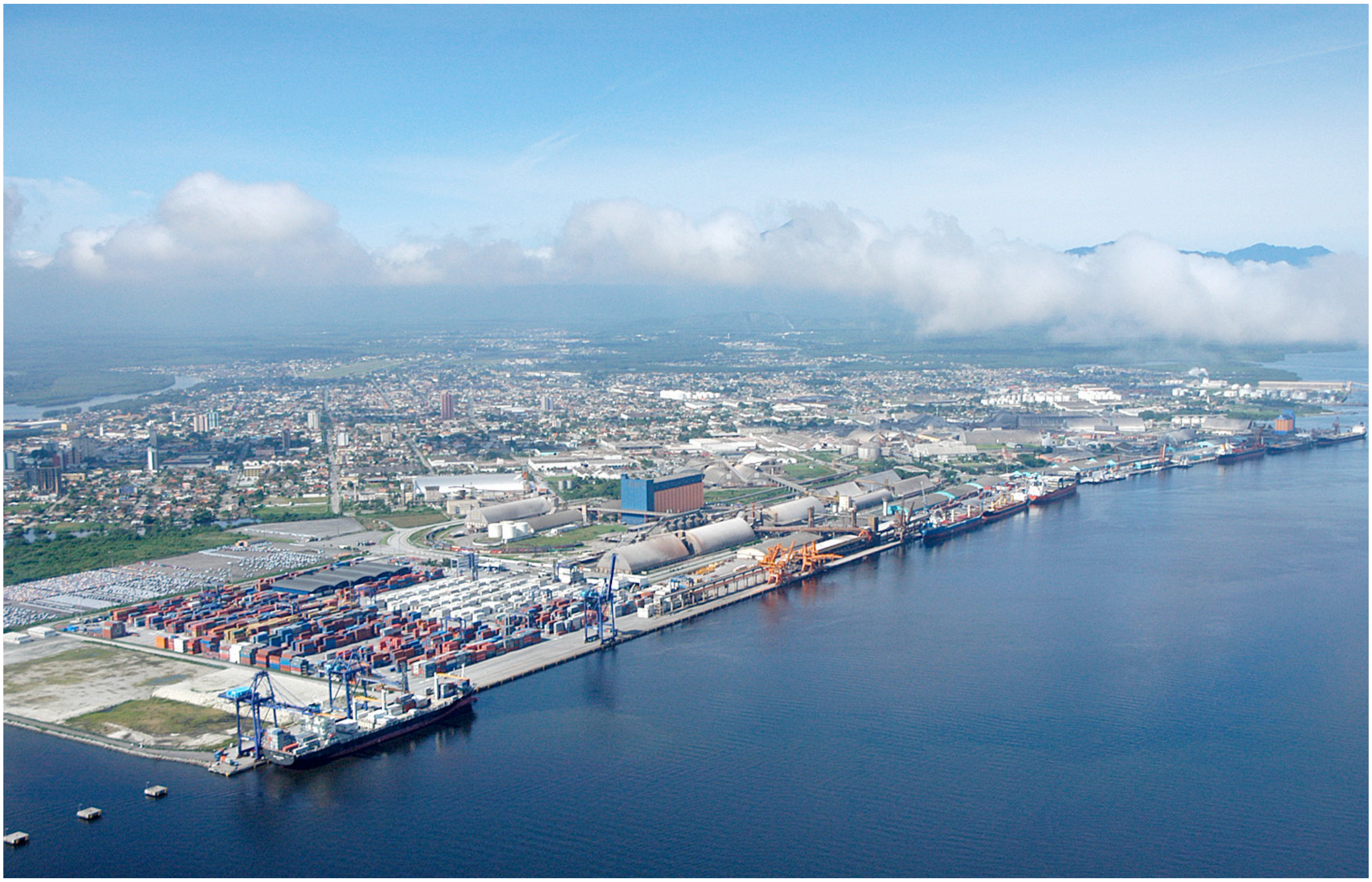
2: The private sector has an (increasingly) vital role in BRI

While initiated and coordinated at the highest level by governments, BRI will not meet its full potential operating as a pure government-to-government exchange. As a result, this year's BRF incorporated—for the first time—a daylong business forum as part of the official agenda. The BRF saw a significantly higher degree of private-sector participation, with a growing number of businesses attending the event and signing agreements. The BRF Business Forum attracted more than eight hundred and fifty business executives from eighty countries.[21] More than twenty Latin American business leaders participated in the business forum, representing diverse sectors such as engineering, banking, agriculture, minerals, and consulting.

Given the need for private-sector expertise, financing, and dynamism, private enterprises and public-private partnerships (PPPs) are poised to have a key role in the future of BRI. Collaboration between private firms from different countries will also be vital. In the construction sector alone, local Latin American firms, as well as European and North American firms, can contribute a wealth of complementary knowledge and products to develop infrastructure projects. Some Latin American businesses are already exploring such synergies, as evidenced by the cooperation agreement between Chilean developer Sigdo Koppers and China Railway Group Limited (CREC).[22]

Improved infrastructure also creates greater linkages with, and spillovers into, other sectors of the economy. Latin American exporters will have an opportunity to reap the benefits of such connectivity dividends. If fully implemented, BRI has the potential to reduce global trade costs and shipping time up to 2.2 percent and 2.5 percent, respectively.[23] Putting this in perspective, previous research has shown that a 1-percent reduction in ad valorem transport costs can increase agricultural, mining, and manufacturing exports by 1.5 to 7.9 percent in five major Latin American economies.[24]

To successfully translate these opportunities into real export gains, however, there is much work ahead in Latin America and the Caribbean. If mishandled, BRI can even turn into a double-edged sword. As BRI improves the global transportation network, producers and exporters from the region will likely encounter new competition from other parts the world. In the Chinese consumer market, for instance, newly added rail connectivity will disproportionately benefit some Southeast Asian, South Asian, and Central Asian exporters along the BRI economic corridors—as opposed to Latin American exporters that rely on maritime shipping to reach China.



Port of Paranaguá - In 2018, China Merchants Port (CMP) acquired 90% stake in Paranaguá Container Terminal (TCP), Brazil's second largest container terminal. Photo credit: Rodrigo Leal -APPA

Similarly, in Latin America, some local manufacturers may see their competitive edge diminish as they compete with a fresh influx of Chinese and other products, possibly renewing concerns over China's role in Latin American deindustrialization.[25]

Compensating for these disadvantages will require a host of complementary policies and business actions, to boost the inherent competitiveness of regional exports and economies. This may include lowering the cost of production or improving product quality by incorporating innovative technologies and adding value, or solving broader market-access issues through bilateral customs, regulatory, and phytosanitary collaboration. In addition, Latin American and Caribbean exporters should attempt to derive export gains from integrating BRI consumer markets or supply chains other than China. Especially of interest are potential clients and partners located along BRI that were previously too costly to reach due to inadequate infrastructure. Notably, this could represent an opportunity to boost intraregional trade within Latin America, or to diversify with new clients in Eurasia and other regions.

3: Advanced economies are an integral part of the BRI ecosystem

With Chinese state-owned enterprises (SOEs) accounting for 70 percent of the contract value of BRI construction projects, questions have been raised about BRI's procurement and bidding processes and transparency requirements.[26] In this context, one main takeaway from this year's BRF was the "third-party market cooperation agreements." These agreements pave the way for advanced economies and multilateral institutions to participate in BRI projects alongside China as partners, investors, contractors, and suppliers. The governments of Switzerland, France, Austria, and Singapore have signed memoranda of understanding (MOUs) to explore BRI synergies with China in third-party markets. There is also considerable interest from the private sector, with Mizuho Bank and Standard Chartered signing similar MOUs, and some projects already under way. The Silk Road Fund—a BRI-focused, state-owned Chinese investment fund—partnered with General Electric to establish an energy-infrastructure co-investment platform.[27] The Exim Bank of China collaborated with Credit Suisse to provide a syndicated loan to MTN Telecommunications in Nigeria.[28] Siemens set up a Belt and Road office in Beijing, and has supplied key components for projects in BRI countries, such as gas turbines for the Sirajganj power plants in Bangladesh.[29]

Cooperation between Chinese and US and Western multinationals in third-country markets is not a novel practice. However, such a concept is gaining renewed importance, especially as BRI multilateralizes beyond the developing countries. This can be particularly relevant for Latin America, where such synergistic cooperation has been relatively limited or underreported. Involving more non-Chinese actors in BRI may benefit Latin America in at least four ways, with regard to infrastructure development.

a. **Financing** Despite continued commitment from Chinese, Western, and multilateral institutions, Latin America still needs an additional $120–150 billion per year in infrastructure investment just to keep up with its economic growth.[30] Coordinated actions and aggregated financing can be useful for alleviating the infrastructure-funding gap in emerging markets.

b. **Value for money** Latin American and Caribbean governments should be incentivized to involve non-Chinese companies in BRI projects. Well-coordinated third-country participation can provide additional complementarity of skills and knowledge to the projects, as well as better products and services. For instance, US and European companies and institutions can help introduce and enforce world-class environmental, labor, and other standards. At a minimum, their participation contributes to a more competitive and transparent bidding process, which ultimately helps reduce cost inflation and improve the value for money of tenders.

c. **Project preparation** Where investors are interested, the lack of well-packaged, attractive projects constitutes another bottleneck in scaling infrastructure investments in Latin America and the Caribbean. With adequate third-party participation and assistance, projects and tenders in the region—BRI or not—can become more appealing to potential investors and partners. More importantly, the transfer of expertise to local government officials and project managers helps to strengthen the region's capacity in future project preparation, assessment, and implementation. The multilateral development banks (MDBs) can naturally play a vital role here, as they tend to bundle financial assistance with much-needed technical assistance. For example, CAF Development Bank of Latin America already supported coordination and feasibility studies for a BRI project in the region.[31]

d. **De-politization** While sometimes necessary, outsourcing strategic infrastructure projects can be inherently controversial, especially at a time of heightened global geopolitical tensions. The presence of non-Chinese firms should therefore be welcomed, even by Chinese companies. By inviting and assessing all qualified countries and companies through a transparent, rigorous, and competitive selection process, Latin America has an opportunity to move the public discussion away from choosing political sides between China and the West, and instead focus on the project-specific technical merits of all participating bids.

4: BRI's reach extends beyond infrastructure

As BRI moves beyond rhetoric, Latin America should focus on exploring BRI's implications for specific sectors and projects—including, but not limited to, infrastructure. Some countries in the region are already putting this into practice. During this year's BRF, Chile signed new agreements with China on customs information sharing, tax treaties, information and communications technology (ICT), scientific cooperation, and the Asia-Pacific Economic Cooperation (APEC) meetings (chaired by Chile this year).[32] While the development of *hard* infrastructure remains front and center in BRI, *soft* infrastructure—regulatory, scientific, and other cooperation mechanisms—is rapidly emerging as a priority BRI area.

The region could also think beyond BRI memberships. A formal membership is not a prerequisite to engaging with the BRI. Many countries that are not BRI members—including a few from Latin America, such as Brazil and Argentina—have explored ministerial-level cooperation agreements with China (for non-infrastructure sectors)

Ollagüe, Chile - CIF@10 View of the solar panels from above. China is making a strong push into renewables (wind, solar, and hydro) in Latin America. Photo credit CIF Action

in the context of BRI or BRF. This ample "gray area" of BRI possibilities deserves attention and a case-by-case analysis. Constructive and project-based collaboration with China and other international partners may take place without the BRI label. Alternatively, the BRI denomination alone does not automatically exclude or mitigate potential project risks, warranting careful due diligence and enforcement.

RECOMMENDATIONS FOR THE UNITED STATES

The United States could—and should—engage BRI in a number of important ways. The participation of the US government, US-led institutions, and US companies can introduce higher environmental, labor, and quality standards to the developing world. Influencing and setting these standards for BRI would help advance US interests and leadership, and the United States would be better positioned to achieve this while sitting at the table.

Some parts of the United States' current BRI strategy may warrant reassessment. On one hand, Washington's warning about the BRI "debt trap" in Latin America and elsewhere has caused strong Chinese pushback, further straining an already-tense relationship amid bilateral trade and other tensions.[33] On the other hand, the rhetoric seems to reduce BRI to a yes-and-no question, at times giving the impression that BRI countries should choose sides between the United States and China. This has not yielded the expected result in Latin America and the Caribbean. For reasons explained earlier, most countries in the region have a different risk-reward perception when it comes to BRI, and do not see it as a zero-sum game. A pragmatic, nuanced approach, focused on meaningful engagement, could prove more effective for accomplishing US policy goals.

Also, increased US participation has the potential of generating more and better BRI projects, thus contributing to greater economic prosperity in BRI countries. In many cases, this can be directly pertinent to US interests. For example, in a Latin American context, the socioeconomic well-being of Central America has a direct effect on migration flows, which affect US policies.[34] Redoubling US support for economic development in

Latin America and the Caribbean—through BRI or other channels—can send a reassuring message to friends and allies in the region, and beyond.

The newly created US International Development Finance Corporation (DFC), with a high investment cap and enhanced product offering, is a major step forward in this regard. Through the Better Utilization of Investment Leading to Development (BUILD) Act, the DFC will now be able to deploy equity investments and up to $60 billion to finance economic-development projects around the world—more than doubling the $29-billion investment cap of its predecessor, the Overseas Private Investment Corporation (OPIC).[35] The DFC is one new policy instrument through which the United States can improve its financial positioning in a region where Chinese lending has gained profound traction.

CONCLUSIONS

Six years into operation, the BRI has expanded and evolved significantly, incorporating a wide range of countries, projects, and ideas. In response to growing skepticism—especially in some parts of Asia and Africa—Beijing is now increasingly shifting focus from topline measures to quality BRI growth. Key actors have made important progress to provide more clarity and structure to BRI, especially on controversial issues such as debt and environmental sustainability, but more challenges and opportunities remain. Proper implementation, enforcement, and follow-up mechanisms will remain key to translating BRI agreements and guidelines into better policies, projects, and business decisions. Greater transparency—from planning to procurement—is indispensable to mobilizing capital and participation from the private sector, as well as from non-Chinese governments, companies, and multilateral institutions. For BRI to scale meaningfully and continuously, it must stay true to its commitment to multilateralism and "an open, inclusive, interconnected, sustainable and people-centered world economy can contribute to prosperity for all."[36]

While Latin America and the Caribbean may be relative latecomers to BRI, they should not be considered merely peripheral players. The region has much to gain—and to lose—from a program of BRI's scale and potential. BRI could bring about greater connectivity and trade and investment flows—a major boost to these economies. However, countries in the region must accurately assess and mitigate the potential downside, ranging from project-level risks to fiscal implications and competitive pressure on local firms. Failure to do so could set back regional economic development, especially if other parts of the world are more successful in balancing BRI opportunities and risks.

To this end, regional governments and companies should continue to engage and help shape the initiative, by making their distinctive voices and needs heard in the planning phase. BRI strategies must be tailored on a country-specific basis to reflect each country's particularities, especially in a region with as much diversity as Latin America and the Caribbean. However, at times, combining forces with fellow BRI member countries with similar demands and concerns will help make a stronger case. As BRI projects and agreements move from planning to implementation, countries in the region must also maintain direct and constant communication with relevant Chinese and international authorities—a useful strategy to enforce compliance in the likely absence of an independent, dedicated, and centralized BRI governance body.

Adopting a pragmatic and creative approach is key to ensuring that a massive and evolving BRI provides concrete benefits to the region. This policy brief proposed a host of recommendations to help better navigate BRI, through forward-thinking and effective engagement. However, ultimately, the extent to which BRI can play out in the region's favor depends not only on the BRI itself, but also on national governments' capacity to steer projects toward long-term, national development needs.

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ENDNOTES

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