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CHINA'S BRI & LATIN AMERICA: A New Wave of Investments?

一带一路和中国在拉丁美洲的投资：危机中的新一波投资？

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GRI Club
— INFRASTRUCTURE

**Baker
McKenzie.**

China's BRI & Latin America: A New Wave of Investments?

China played a key role in supporting Latin America to recover after the 2008-2009 global financial crisis. Will that be the case again after the coronavirus (COVID-19) crisis? Many say China will be far from irrelevant in this process, and many analysts expect a fast recovery for the Asian country. But it's still uncertain whether China will emerge as capable of helping and investing as it did in the past.

It is also clear that Latin American countries have solid projects in the pipeline in sectors ranging from transport, mobility, energy, and social infrastructure that could fit into what is usually of interest of Chinese companies.

Has the coronavirus pandemic changed China's priorities in the region?

During the GRI Club eMeeting on August 18, 2020, GRI members from Spanish speaking countries and Chinese players discussed these issues.

一带一路和中国在拉丁美洲的投资：危机中的新一波投资？

在2008-2009年全球金融危机后，中国在支持拉丁美洲经济复苏中发挥了关键作用。新冠病毒（COVID-19）危机后，情况会再次出现吗？许多人说，中国在这一过程中并非无关紧要，许多分析家预计亚洲国家将快速复苏。但是，仍然不确定中国是否会像过去那样有能力提供帮助和投资。

同样显而易见的是，拉美国家在运输、交通、能源和社会基础设施等各个领域都有扎实的项目计划，这些项目均属于中国企业感兴趣的领域。

新冠病毒大流行是否改变了中国在该地区的优先考量事项？

在2020年8月18日举行的GRI俱乐部电子会议上，来自西班牙语国家的GRI会员和中方人员针对此类议题进行了探讨。



1. Current trends in Belt and Road Initiative (BRI) and Chinese investment in Latin America

1. 一带一路倡议 (BRI, 英文缩写) 和中国在拉美投资的最新趋势

Although Chinese outbound investment has generally decreased in the last few years, investment into Latin America has increased. With BRI creating new opportunities for China - Latin America infrastructure cooperation, Latin America is the second largest destination for Chinese investment and the third largest market of China's foreign contracted infrastructure projects. Latin America is a key emerging market with huge infrastructure potential and foreign investment in infrastructure is always welcomed.

虽然中国对外投资在过去的几年里普遍减少,但对拉美的投资反而有所增长。随着一带一路的倡议为中国与拉美的基础设施合作创造了新的机遇,拉美是中国第二大投资目的地,也是中国对外承包基础设施项目的第三大市场。拉美是一个关键的新兴市场,拥有巨大的基础设施潜力,在基础设施方面的外来投资一直相当受欢迎。



2. Impact of COVID-19 on infrastructure investment from China into Latin America

COVID-19 has significantly affected people's lives and their health, as well as the global economy. One of the key measures for China to resume work and production is to increase investment in infrastructure (traditional economic and social infrastructure, new types of infrastructure in information and communication technology and integration of traditional and new types of infrastructure). Infrastructure projects can stimulate economies and create jobs.

From China's perspective, governments should strengthen reform and opening-up, improve governance capacity and leverage the private sector. With increasing fiscal pressure, governments would adopt the PPP model to attract domestic and foreign private sector to invest in infrastructure. Governments should manage the fiscal risk arising from PPP projects to ensure long term fiscal and economic sustainability. The PPP model, which has been widely used in China, will be an important driver for bringing more Chinese investors into the Latin American infrastructure market.

One specific challenge brought by COVID-19 upon infrastructure investment is the **inability to travel**. Notwithstanding how much can now be achieved online and through the use of technology like drones, this inability has affected due diligence, site visits and face-to-face negotiations, which are particularly important in creating long-lasting partnerships. As Chinese teams cannot travel to projects, they are unable to efficiently leverage their competitive advantage.

Notwithstanding the above, there are still many **positives arising from the crisis** including the following:

- The crisis has accelerated development and application of new information and communication technology infrastructure (e.g., internet, data, artificial intelligence, cloud computing).
- Substantial infrastructure transactions have and continue to be progressed and closed during this time.
- One speaker noted that their investment strategy has not changed - they continue to invest and monitor for opportunities and remain very optimistic about the Brazilian economy.
- In recent months, Chinese state-owned enterprises (SOEs) appear to be seeking increased exposure to the region and looking for new acquisition opportunities.

2. COVID-19对中国于拉美基础设施投资的影响

COVID-19已严重影响人们的生活、健康和全球经济。中国恢复工作和生产的关键措施之一是增加对基础设施的投资 (传统的经济和社会基础设施、信息和通信技术中的新型基础设施,以及传统和新型基础设施的整合)。基础设施项目可以刺激经济发展并创造就业机会。

从中国的角度来看,政府应加强改革开放、提高治理能力并善用民营领域的企业。随着财政压力的增加,政府将采用PPP模式来吸引国内外民营企业投资基础设施。政府应管理由PPP项目引起的财政风险,以确保长期的财政和经济的可持续性。在中国已广泛使用的PPP模式将成为吸引更多中国投资者进入拉美基础设施市场的重要推动力。

COVID-19给基础设施投资带来的具体挑战是无法远行。尽管现在可以通过使用无人机等技术来提高在线能力,但也对于无法实地考察和面对面交谈等带来相当大的影响,这对于建立长期的合作伙伴关系尤其重要。由于中国团队无法前往项目现场,因此他们无法有效利用自身的竞争优势。

尽管如此,此次危机仍然带来了许多积极的方面,包括:

- 危机加速了新的信息和通信技术基础设施 (如互联网、数据、人工智能、云计算) 的发展。
- 在此期间,已经有大量的基础设施交易,并将继续进行。
- 一位演讲者指出,他们的投资战略没有改变,他们将继续投资和监测机会,对巴西经济保持非常乐观的态度。
- 近几个月来,中国国有企业似乎在寻求增加接触的区域,并寻求新的收购机会。

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3. Opportunities and challenges for Chinese investment in Latin American infrastructure

3. 中国于拉美基础设施投资的机遇与挑战

Opportunities and challenges for Chinese investment in Latin American infrastructure were discussed as speakers reflected on recent transactions.

演讲者对最近的交易进行了回顾,讨论了中国在拉美基础设施投资方面的机遇和挑战。

Culture, language, local knowledge and governance

文化、语言、地方知识和治理

From both Chinese and Latin American perspectives, there are challenges arising from differences in culture (including enterprise and business culture) and language. However, there is confidence that these challenges can be overcome, noting the history of Chinese investment in the region.

To be successful in Latin America, it is very important Chinese investors have deep local knowledge of the markets in which they are investing. Chinese companies could gain such knowledge by either acquiring experienced local players, or forming or joining a consortium comprising them. There are examples where these models have brought success.

Chinese companies, many of which have experience in large projects, should be more proactive in seeking opportunities. For example, Chinese investors may need to be prepared to make unsolicited proposals. They are often competing against incumbents that do not face the same challenges. Being proactive could be an advantage to Chinese companies.

In relation to Chinese SOEs, good coordination between transaction teams and headquarters will contribute to their success.

Latin American counterparties are keen to understand how Chinese entities grant approvals and make decisions and governance processes and structures within Chinese entities. They are also keen to find out the purpose of an investment and how the investment fits into the existing structure and plans of that entity.

Investment banks and other advisors play an important role in helping Chinese and Latin American companies navigate these challenges and ensuring a project is successful. They also provide local knowledge needed by Chinese companies to take up the opportunities available.

从中国和拉丁美洲的角度来看，文化（包括企业和商业文化）和语言的差异都带来了挑战。然而，注意到中国在该地区的投资历史，人们就有信心可以克服这些挑战。

为了在拉美取得成功，重要的是中国投资者必须对自己所投资的市场有深刻的本地知识。中国公司可以通过收购经验丰富的本地公司，或者组建或加入一个由他们组成的联合体来获得此类知识。在某些例子中，这些模型相当成功。

许多在大型项目方面都有经验的中国公司应该更积极地寻求机会。例如，中国投资者可能需要准备主动提出建议。他们经常与没有面临同样挑战的现有企业竞争。积极主动是中国企业的优势。

对于中国国有企业而言，交易团队与总部之间的良好协调将有助于他们的成功。

拉丁美洲的交易对手渴望了解中国业主如何批准以及在中国业主内部制定决策、治理流程和结构。他们还渴望找出投资的目的以及该投资如何符合相关业主的现有结构和计划。

投资银行和其他顾问在帮助中国和拉美公司应对这些挑战，并确保项目成功方面发挥着重要作用。它们还为中国企业提供利用现有机会所需的当地知识。

Managing risk

管理风险

In light of challenges in the investment market, more attention will need to be paid to the risks in the Brazilian and other Latin American markets. Investors may need to seek projects with higher margins and higher revenues to deal with these risks.

Chinese banks have invested significant funds into Latin American infrastructure and energy projects and assets have grown rapidly. However, as losses and risks continue to emerge, more caution is required. Many countries in the region are no longer providing sovereign guarantees and support from ECAs (export credit agencies) has decreased, along with political and social circumstances, where risks have increased.

One speaker did not foresee many take or pay projects in the infrastructure and energy sectors in the near future. Accordingly, given market risk will be a key feature of projects, it is even more important that investors have deep local knowledge.

Chinese SOEs, which are subject to particular conditions, have sought projects with no market risk which has seen many of them in the power generation sector.

鉴于投资市场面临的挑战，将需要更加关注巴西和其他拉美市场的风险。投资者可能需要寻求利润更高，收入更高的项目来应对这些风险。

中国的银行已在拉丁美洲的基础设施和能源项目上投入了大量资金，资产迅速增长。但是，随着损失和风险的继续出现，需要更加谨慎。由于该地区许多国家不再提供主权担保，而且非洲经委会（出口信贷机构）的支持减少，而且政治和社会环境风险也逐渐增加。

一位演讲者没有预见在不久的将来有许多基础设施和能源领域的承接或付款项目。鉴于市场风险将是项目的关键特征，因此拥有深厚的本地知识尤为重要。

受制于特殊条件的中国国有企业一直在寻求没有市场风险的项目，而这些项目已经出现在发电行业。



Finance (debt and equity) and volatile local currencies

金融 (债务和权益) 和动荡的当地货币

Another challenge raised by a number of speakers was in regard to the **availability of debt finance** and the consequences of **volatile local currencies**. Given the size of infrastructure projects, local finance is not sufficient and finance from international providers or from China is often required. However, there is increased difficulty in obtaining such finance. As the debt is denominated in, e.g., US dollars or Euros, and infrastructure projects are of long duration, the volatility of local currencies has created significant challenges in arranging hedging. The ability to leverage is also less compared to developed markets. However, there are positive developments in secondary markets, e.g., in Brazil, and the ability of institutional and retail investors to access debt instruments.

Equity investors who take the long term view are more comfortable with volatility and returns. There are funds that are willing to contribute equity to projects. Collaboration between Chinese government entities and the private sector to form consortia could also lead to success.

一些演讲者提出的另一个挑战是对债务融资的可获得性和当地货币动荡的后果。考虑到基础设施项目的规模和地方资金不足，通常需要国际供应商或中国的资金。然而，获得这种资金的难度增加。由于债务以美元或欧元计价，并且基础设施项目的期限很长，因此当地货币的波动性在安排套期保值方面带来了重大挑战。与发达市场相比，杠杆能力也较弱。但是，二级市场（例如巴西）有积极的发展，机构投资者和散户投资者获得债务工具的能力也很强。

长期来看，股票投资者更容易适应波动性和回报。有一些基金愿意为项目贡献股本。中国政府业主与民营企业之间组成联合体的合作也可能会取得成功。



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Specific opportunities and other challenges

具体机遇和其他挑战

Speakers shared their observations on specific opportunities throughout Latin America.

- In **Brazil**, a new regulatory framework for basic sanitation has the potential to create many investment opportunities as well as improve the quality of life for many in the country. There are also opportunities in the telecommunication, transportation, ports, railways, energy, and oil and gas sectors. Infrastructure will be required to be built in Brazil to facilitate agricultural exports.
- In **Mexico**, there are opportunities in the energy, ports and transportation sectors.
- **Colombia** is another destination for Chinese outbound investment, including in the mining and renewable energy sectors.

More opportunities are also arising from shifts in the global value chain. Challenges arising from current geopolitical circumstances and specific regulatory restrictions were also noted.

演讲者分享了他们对特定机会的看法。

- 在巴西，新的基本卫生监管框架有可能创造许多投资机会，并改善该国许多人的生活质量。在电信、运输、港口、铁路、能源、石油和天然气行业中也存在机遇。巴西需要建造基础设施，以促进农产品出口。
- 在墨西哥，能源、港口和运输行业都有机会。
- 哥伦比亚是中国对外投资的另一个目的地，包括矿业和可再生能源领域的行业。
- 全球价值链的变化也带来了机遇。

与会者还指出了当前地缘政治情况和具体监管限制带来的挑战。



Closing remarks

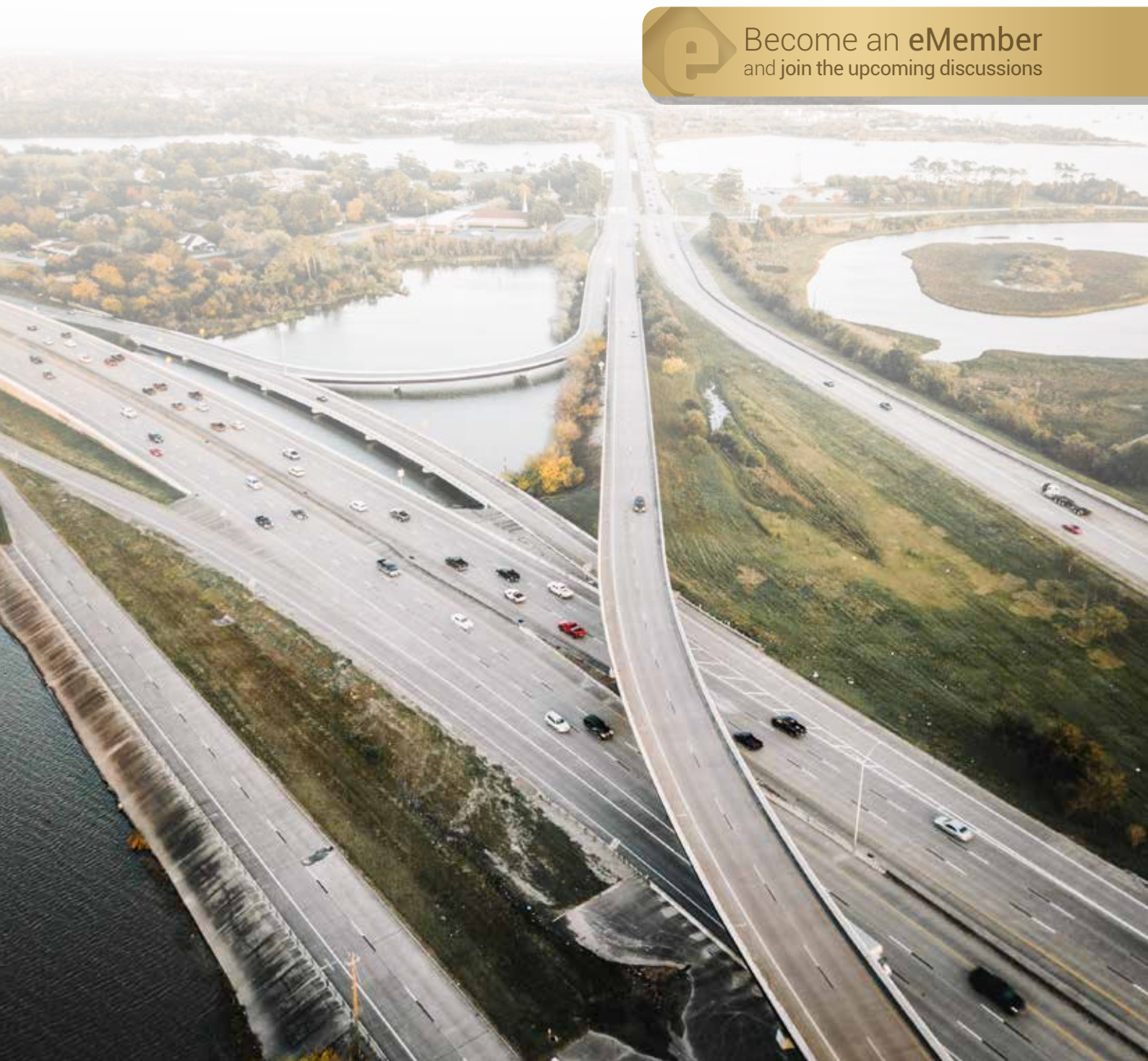
闭幕词

It is clear from both Chinese and Latin American perspectives that there is much optimism about future Chinese investment into Latin America.

从中国和拉丁美洲的角度来看，很明显，中国未来对拉美的投资前景非常乐观。



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Contact



Bee Chun Boo

AP Head of Energy & Infra Projects
bee.chun.boo@bakermckenzie.com



Roberto Martins

LatAm Head of Energy, Mining, Infra
j.roberto.martins@trenchrossi.com



Juan Carlos de los Heros

LatAm Head of Financial Institutions
juancarlos.delosheros@bakermckenzie.com

The mission of GRI is to connect leaders from these markets and contribute to the building of privileged relationships and real business opportunities. In this context, more than 6 thousand businessmen, senior executives and investors participate annually in the club's programming in the world.

GRI is a global club bringing together key players in the real estate and infrastructure sectors. Founded in 1998 in London, it is present in 25 strategic countries. In Brazil, it has been active since 2010.

GRI Club Infra, in particular, has made itself the great meeting point for infrastructure and energy abroad. Its exclusive platform provides meetings focused on exchanging experiences, thematic discussions between members and government authorities, and propositional dialogues with the authorities, as well as holding large events open to other members of the market.

The GRI Club Infra portfolio also includes a series of practical suggestions for enhancing industry competitiveness, the GRI Hub, an online news platform, and the GRI Thermometer, a six-month gauge of market mood.

Contact

Pedro Nicolau

Partner | Global Head of Infrastructure
& Portfolio Director for India
pedro.nicolau@griclub.org

Melissa Dalla Rosa

Head of Infrastructure Latam
melissa.dallarosa@griclub.org

Our Offices

USA - New York

480 6th Avenue
Suite 308
New York NY 10011
+1 866 399-1210

Europe - London

Suite 01-103
5 Merchant Square
London, W2 1AS
+44 20 7121-5060

Brazil - Campinas

Rua Gustavo
Armbrust, 464,
Campinas - SP
+55 19 3203-0645

Mexico - Mexico City

Blvd. Miguel de Cervantes
Saavedra, 301 - Miguel Hidalgo
Ciudad de México

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