



Cooperation between China and Latin America within the Extended OBOR Initiative: a Case Study on Railway Infrastructure

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Abstract: In Latin America, infrastructure construction needs to be upgraded so, connectivity is one of the 5 Sectorial Axes for the Community of Latin American and Caribbean States. The Sino-Latin American general cooperation and the strategic spirit of the building of “the Belt and Road” enjoy the same foundation, and the former is the likely extension of the latter. In particular, the construction in infrastructure has grown into a shared consensus, but Latin American authorities should bear in mind the financial dimension of this undertaking: works should abide by the same rules of the game that Beijing imposes on companies that invest in its territory, that is to say associating with foreign companies with local ones.

Keywords: China & Latin America, OBOR Extension, Infrastructure Cooperation, Railways.

Introduction

The People’s Republic of China (hereafter PRC) has been a strategic partner for the Latin American and Caribbean region, as revealed by the unceasing efforts made by both parties and as displayed in China’s Policy Papers on Latin America and the Caribbean (henceforth LAC), published in 2008 and 2016; the free-trade agreements with Chile, Peru and Costa Rica; the creation of the CELAC-China Forum and the Cooperation Plan 2015-2019; and the numerous two-ways visits by high authorities, which have been aimed at buttressing the mutual commitment to reinforcing economic and cooperation ties.

Both LAC are significant axes for carrying out China’s comprehensive opening up policy. In particular, since the beginning of the 21st century, with the steady deepening of economic globalization, the trade and financial relations between China and Latin America have achieved unparalleled leap-forward growth.

After almost 30 years of growing political cooperation and economic integration, China and Latin America have molded a close relationship. As the two sides are going through economic restructuring, there is a mounting need for moving towards quality growth. A new structural complementation has arisen, demanding further cooperation between the two sides to institute operational paths.

The Sino-Latin American general cooperation and the strategy beneath the “One Belt One Road Initiative (OBOR or BRI) enjoy the same foundation and the former is the likely extension of the latter. In particular, the construction in infrastructure (such as the ocean-to-ocean railway system) has grown into a shared consensus.

On the one hand, China’s existing overproduction capacity and financial surplus come across Latin American needs for industry specialization and product value chain moving upward. In Latin America, infrastructure construction needs to be upgraded; therefore, connectivity is one of the 5 Sectorial Axes for the Community of Latin American and Caribbean States (CELAC being its acronym in Spanish).

Against this backdrop, the Integration of the Regional Infrastructure of South America (its acronym in Spanish IIRSA), has experienced noteworthy development. The integration of railways is a crucial component of the IIRSA, whose plans for railway reconstruction and development provide outstanding opportunities for the cooperation of railway construction between China and South America.

This paper aims to analyzing South America’s synergy with the BRI in terms of infrastructure development, probing into the feasibility of railway development. It includes a case study on China’s contribution to the development of three railway lines in Argentina, a leading South American nation. Its conclusion identifies the pros and cons of extending the BRI to the railway domain, namely geopolitics, hubs and terms of financing.

The Central Role of Infrastructure in Latin America’s Development

Improving infrastructure integration is one of the crucial preconditions for developing countries to join in the process of economic globalization and to obtain developmental gains.

Challenged with such a great request for investment, most developing countries do not have enough domestic savings, and government and private funding for investment are also restricted. While multilateral financial institutions have made substantial contributions, they are still far from meeting their demands.

As it was affirmed by Santiago Levy Algazi, Vicepresident of the Inter American Development Bank (IADB), “Whether it is integration into the global production chain, or

realization of inclusive growth and development in urban and rural integration, developing countries would need a lot of investment of infrastructure”¹.

With the world’s political and economic focus shifted to Asia and the Pacific, economic cooperation around the Asia-Pacific region has become the focus of present-day international affairs. Accordingly, Latin American countries have considerably augmented their attention on the Asia-Pacific. This trend has been embraced by South American countries, where most nations recognizing officially the PRC in the Latin American subcontinent are located².

Since the beginning of the 21st century, China has become a leading trading partner for Latin America. Whereas in 2000 just 1% of regional exports were sent to China and 2% of imports came from there, in 2015 these figures had risen to 10% and 18%, respectively. China is already the first or second destination for exports from several South American countries, and it is one of the three top providers of imports for nearly all Latin American countries.

In addition, particularly since 2010 China has become a relevant foreign investor in the region – reaching its historical peak that year with around US\$ 14 billion (equivalent to 11% of the total FDI received by the region in 2010) – and an important source of credit for some countries. Furthermore, under the CELAC-China Cooperation Plan, both parties expect to increase trade to US\$ 500 billion and reciprocal direct investment to US\$ 250 billion by 2025³.

Latin American countries have therefore prioritized China when adjusting their foreign policies. In addition to realistic economic considerations, strengthening the partnership with China is also in line with the geopolitical interest of Latin American countries of diversifying diplomatic relations and upholding independent foreign policies.

From August 31 to September 1, 2000, heads of state from 12 Southern American countries, including Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay, Venezuela jointly proposed the Plan of Action for the

¹ Santiago Levy Algazi, “Infraestructura, Logística y Conectividad: Uniendo a las Américas”, in “II Cumbre Empresarial de las Américas: Tendiendo Puentes en las Américas: Integración Productiva para un Desarrollo Inclusivo”, Ciudad de Panamá, Panamá, April 8-10, 2015.

² Almost fifty percent of the nations recognizing Taipei worldwide are in Central America and the Caribbean, while only one in South America recognizes Taipei (Paraguay).

³ Alicia Bárcena, ECLAC’s Executive Secretary “One Belt One Road is a Civilizing Proposal of Interconnectedness and Shared Prosperity” in Belt and Road Forum for International Cooperation, Beijing May 14 2017. <http://www.cepal.org/en/pressreleases/one-belt-one-road-civilizing-proposal-interconnectedness-and-shared-prosperity-eclac>.

Integration of Regional Infrastructure in South America in the jointly issued communiqué in Brasilia. In December the same year, ministers of 12 countries in charge of transport, energy, and communications held a ministerial meeting in the Montevideo, Uruguay's capital, formally putting forward the Initiative for the Integration of the Regional Infrastructure of South America (IIRSA) and the 2000-2010 Action Plan.

The organization of the IIRSA includes the Coordinating Committee, Coordinating Committee on Financing, Working Groups, the Secretariat and other supporting bodies. The Coordinating Committee has a number of working groups amongst them the Working Group on Rail Integration, which was established in November 2011 (it held its first meeting in September 2013). The Working Group on Rail Integration is further divided into a number of subgroups in charge of the several railway corridors. The Coordinating Committee on Financing is composed of multilateral financial institutions such as the Inter-American Development Bank, the CAF-Latin America Development Bank and the La Plata Development Fund (FONPLATA). The Secretariat sets up its office in Buenos Aires, Argentina. The Secretariat works with the Inter-American Institute for Integration of Latin America and the Caribbean (its acronym in Spanish being INTAL) of the Inter-American Development Bank, which is in charge of daily activities⁴.

On December 4, 2014, the South American Infrastructure and Planning Council (COSIPLAN)⁵ of UNASUR⁶ held its annual ministerial meeting in Montevideo, Uruguay, to discuss the work summary 2014 of the IIRSA and to approve the work plan 2015.

According to the “Work Summary 2014”, the IIRSA has confirmed 579 Integration Priority Projects by September, 2014. The total investment amounts to US\$ 163.3 billion, involving three major sectors in transport, energy and communications⁷.

The Prospects for Infrastructure Cooperation between China and South America

⁴ IIRSA - COSIPLAN Quiénes Somos. <http://www.iirsa.org/Page/Detail?menuitemld=123>.

⁵ The South American Infrastructure and Planning Council of UNASUR (*Consejo Suramericano de Infraestructura y Planeamiento*, abbreviated as COSIPLAN) was established in January 2009 under the UNASUR Constitutive Treaty.

⁶ Union of South American Nations, or in Spanish *Unión de Naciones Suramericanas*, abbreviated as UNASUR. In May 2008, 12 South American countries, including Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay and Venezuela, signed the UNASUR Constitutive Treaty, marking the formal establishment of the UNASUR. The headquarter of the UNASUR is located in Quito, the capital of Ecuador.

⁷ *Foro Técnico IIRSA, Comité de Coordinación Técnica, Cartera de Proyectos del COSIPLAN - V Reunión Ordinaria del COSIPLAN*, Montevideo, Uruguay, December 4th 2014.

In 2008, the Chinese government recommended Jointly Building a Comprehensive Partnership in the New Era, and published the China's Policy Paper on LAC, the first policy document formulated by the PRC toward the region, as a parameter of China's policy towards Latin America.

Almost ten years after the publication of this hallmark document, innovation of bilateral cooperation between China and Latin America calls for infrastructure construction and interconnection. The construction of the major infrastructure in Latin America, such as the ocean-to-ocean railways, does not only meet the need to reduce the regional transportation cost, enlarge the scale of trade, but also promotes the docking of markets and industries⁸.

In line with the available information, the infrastructure investment by sector in Latin America in 2012 was only 3.49% (as a percentage of GDP). To close the gap between the supply and demand of infrastructure, the countries of the region should invest yearly 6.2% of their GDP between 2012 and 2020 -some US\$ 320 billion-. According to ECLAC, these investments in transport, energy, telecommunications, water and sanitation works will contribute to increasing the coverage and quality of infrastructure services and will increase the general welfare of the population.

According to *Corporación Andina de Fomento* (CAF), logistics costs in LAC range from 18% to 35% of the final value of the products, compared to 8% in OECD countries. For small and medium-sized enterprises, this percentage can exceed 40%. If all countries in the region would improve their infrastructure to the average level of other middle-income countries, regional growth in Latin America would increase by an average of 2 percent a year⁹.

To increase export to China, countries in Latin America should strengthen cooperation with China in infrastructure construction. The First Ministerial Meeting of the China-CELAC Forum, held in Beijing in January 2015, approved the China-Latin American and Caribbean Countries Cooperation Plan (2015-2019). The IV part (Infrastructure and Transportation) in the cooperation plan made it clear that China and Latin American countries would promote infrastructure development in areas such as transportation, ports, roads and warehouse facilities, business logistics, information and communications technologies, broadband, radio and TV, agriculture, energy and power, and housing and urban development¹⁰.

In March 2015, the Chinese government officially published the Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road (Vision

⁸Statistics from the CELAC (http://estadisticas.cepal.org/cepalstat/WEB_CEPALSTAT/Portada.asp), October 2015.

⁹ *Corporación Andina de Fomento* (CAF), “*IDEAL 2014: La Infraestructura en el Desarrollo de América Latina-Desarrollo empresarial en los mercados de infraestructura y servicios relacionados*”, CAF, 2015.

¹⁰ Commission for Latin America and the Caribbean (ECLAC), *Latin America and the Caribbean in the World Economy*, pp.14-16, Santiago, Chile, 2015.

and Actions on Belt and Road). Although the document, which indicated that “the Belt and Road run through the continents of Asia, Europe and Africa”, did not include the Latin America, improving infrastructure integration worldwide is indeed the rationale of the Belt and Road Initiative. In May 2015, Premier Li Keqiang proposed the “3x3” model for capacity cooperation between China and Latin American countries during his visit to Latin America. The first “3” is to jointly build the three major passages of logistics, electricity and information in Latin America.

The demand for investment into the infrastructure construction in Latin America is huge. The CELAC 2020 Planning Agenda Proposal, or “*Propuesta Agenda 2020*”, published in August 2015 set Infrastructure and Connectivity as one of the 5 hubs, targeting sectors in transport, energy, telecommunications, water and sanitation. The agenda proposed to increase investment to 5.5% of annual regional GDP in the construction of infrastructure¹¹.

When Chinese President Xi Jinping began a state visit to Peru on November 2016 after the conclusion of the APEC Economic Leaders’ Meeting in the Peruvian capital of Lima, he stressed that the Belt and Road is an open initiative and that China is looking to bringing its international trade and infrastructure initiative known as the Belt and Road to Latin America. He said China “welcomes all countries along the route and in Asia, as well as our friends and partners around the world to take part in these endeavors”¹².

When President Xi Jinping ended his third visit to Latin America in November 2016, the PRC issued a second China’s Policy Paper on Latin America and the Caribbean. The document puts forward 39 cooperative conceptions in 8 major areas: politics, trade, society, culture, international collaboration, peace, security, judiciary, overall cooperation and tripartite cooperation, many of which are new areas.

On May 14th 2017, on the occasion of the Forum “One Belt One Road for International Cooperation”, Chile’s President Michelle Bachelet expressed her view on OBOR’s complementarity with Latin American infrastructure projects. She started by saying that “according to international organizations, the global economy will continue to grow slowly with low productivity and increasing inequality, which could pressure governments to adopt restrictive economic policies. This would be a result of the growing disaffection with globalization and a more widespread protectionism. To this, we must respond on the

¹¹ CELAC, “*Propuesta Agenda 2020*”, Ecuador, 2015. (The other four are Sectorial Axes are Reducing Poverty and Inequalities, Education, Science, Technology and Innovation, Environment and Climate Change and Financing for Development).

¹² “Latin America, another end of the Belt and Road?”, November 22nd 2016. https://news.cgtn.com/news/3d55444d3541544d/share_p.html.

international and national levels, developing policies like Agenda 2030 for Sustainable Development or national policies that they do not let anyone behind”¹³.

She added that “fortunately, in areas like infrastructure, connectivity and sustainable development, there are clear openings for more cooperation at the regional and global levels. We see the OBOR Initiative as key in this process, as it promotes regional trade agreements and improves connectivity in Asian countries, Europe and Africa, but also in Latin America. Chile welcomes the great effort led by China to search for new mechanisms to bring us closer together, in connectivity, innovation and sustainable development. The breadth of the OBOR, the high level of participation and its strategic dimensions, highlight its capacity to become the biggest economic cooperation project in place today”¹⁴.

With regards the development of Latin America’s infrastructure through the BRI, President Bachelet said: “Chile has been working to make integration a reality. We have advanced together with Brazil, Argentina and Paraguay, to implement a Bioceanic Corridor between Puerto Murtinho in Brazil and the ports in the north of Chile that will connect the Atlantic with the Pacific Ocean in a fast way. We are also working with Argentina on three priority infrastructure projects, which will better connect us. Initiatives like these are backed by the political will of our countries. They require, at the same time, a strong investment and could be an integral part of the OBOR Initiative”.

President Bachelet added that “there is also a need to broaden our infrastructure and build ports, airports, pipelines and digital bridges, as well as to collaborate in the areas of energy, finance, science and technology and R+D. We know that our participation in the AIIB will also contribute to accomplish these tasks. We believe that the AIIB will find excellent partners in our region, such as the IADB or the Development Bank for Latin America, entities that today finance many infrastructure projects. We are convinced that this is the right time to seek new horizons that will allow us to strengthen the role of our countries in global value chains, a central part of the world economy in the next decades”¹⁵.

In a joint press conference given by the Chilean President and AIIB President to announce Chile and Bolivia were new members of the AIIB, Bachelet said "We think there are a lot of projects that can link Asia with or through Latin America," adding that she had spoken with Jin Liqun about the possibility of investing in a Trans-Pacific optic fiber cable to improve digital connectivity between Asia and Latin America. “The cable could be considered a part of the BRI and transform the Pacific Ocean into a bridge between our

¹³ Speech by H.E. Ms. Michelle Bachelet Jeria, Republic of Chile’s President participating in the Plenary Session of One Belt One Road High Level Dialogue, Beijing, May 14th 2017.

¹⁴ Ibidem.

¹⁵ Ibidem.

regions" she said. Other investments could include tunnels and highways across the Andes Mountains and ports to link Latin America and South America to Asia, Bachelet added¹⁶.

Similarly, on May 15 2017, Argentina's President Mauricio Macri said that the possibility of South America converging with the BRI "is an opportunity we do not want to miss". Macri formulated these concepts by presenting on the topic "Synergy Policy for a Closer Association" with other leaders in the Yanqi Lake International Conference Center at Beijing¹⁷.

In this regard, he said that there is a coincidence with the initiative presented by the President of China, Xi Jinping, in order to create "an architecture of open, inclusive and balanced global economic cooperation that benefits everyone and contributes to boost our own objectives of poverty reduction and creation of economic opportunities through the development of logistics, energy and productive infrastructure". The Head of State indicated that in UNASUR, whose presidency is upheld this year by Argentina, there is a decision to establish the Integration of the South American Regional Infrastructure (IIRSA), with which "we seek to achieve greater and more sustainable physical integration". He remarked "We are interested in OBOR being articulated with IIRSA to promote between our regions the key to the 21st century: connectivity"¹⁸.

Macri said that Argentina is projected from a region "that has the potential to integrate into the world from the four cardinal points". He mentioned as an example the Paraná-Paraguay Waterway, which allows the efficient transportation of products between Argentina, Bolivia, Brazil, Paraguay and Uruguay, from and to the Atlantic Ocean. Similarly, he noted that bioceanic corridors also enable Argentina and Chile to connect to the Atlantic and the Pacific. "We are strengthening the regional bioceanic dimension through a systematic dialogue and an agenda of convergence between the two main economic blocs of Latin America: the Mercosur and the Pacific Alliance," he said¹⁹.

The Argentine President also alleged that improving connectivity will mean an advance in "our goal of reducing poverty and will allow us to be part of the solution to major global problems". He recalled that the Government launched the "most ambitious" infrastructure plan in history along with the Belgrano Plan that promotes the social and productive development of the ten provinces of northern Argentina. Macri finally mentioned that

¹⁶ As Asia and the region strengthen ties, Washington could be left on the outside looking in. May 13th 2017. <https://www.telesurtv.net/english/news/Asia-and-Latin-America-Strengthen-Economic-Ties-20170513-0003.html>.

¹⁷ <http://www.caserosada.gob.ar/slider-principal/39552-el-presidente-expuso-en-el-foro-una-franja-y-una-ruta-para-la-cooperacion-internacional>

¹⁸ Ibidem.

¹⁹ Ibidem.

Argentina works "side by side" with financial institutions in China and Asia and seeks to "be part of the Asian Infrastructure Investment Bank"²⁰.

In accordance with the view presented by the Chilean and Argentine Presidents, Alicia Bárcena, the Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC), said during the high-level meeting that took place in the Chinese capital on May 14-15: "The countries of Latin America and the Caribbean have a historic opportunity to strengthen ties with China and the rest of the Asian economies, and the Belt and Road Forum for International Cooperation offers us a civilizing proposal of interconnectedness and shared prosperity". She added "The One Belt One Road initiative represents a renewal of, and a profound commitment to, the values that are fundamental for our global economic and social well-being: interconnectedness, deeper trade and investment ties, transparency and openness, and the need for economic growth to be coupled with social progress"²¹.

Finally, Chinese Foreign Minister Wang Yi when jointly meeting the press in Panama City with Vice President and Foreign Minister Isabel Saint Malo de Alvarado of Panama on September 17, 2017, expressed that Latin America is the natural extension of the 21st Century Maritime Silk Road, and the Belt and Road Initiative has become a new opportunity for current China-Latin America cooperation²².

To conclude, these assessments suggest that there are concrete projects to materialize the extension of the Belt and Road initiative to Latin America, being South America an appropriate region to steer such extension.

A Case Study on China's Development of South American Railways: The "Belgrano Cargas" Refurbishment Project

In terms of trade, China became in the mid 2000s Argentina's main Asian partner (and the second worldwide after Brazil), whereas a decade later turned out to be Argentina's main investor and lender²³. With regards railway infrastructure, the "Belgrano Line" faced

²⁰ Ibidem.

²¹ Alicia Bárcena, ECLAC's Executive Secretary "One Belt One Road is a Civilizing Proposal of Interconnectedness and Shared Prosperity" in Belt and Road Forum for International Cooperation, Beijing May 14 2017. <http://www.cepal.org/en/pressreleases/one-belt-one-road-civilizing-proposal-interconnectedness-and-shared-prosperity-eclac>.

²² Wang Yi: The Belt and Road Initiative Becomes New Opportunity for China-Latin America Cooperation. September 18th 2017. http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1494844.shtml.

²³ "Se está hablando con China para ampliar el swap", December 11th 2015. <http://www.pagina12.com.ar/diario/ultimas/20-288037-2015-12-11.html>.

serious problems as a result of decades of disinvestment and neglect. There was an urgent necessity of financing to reactivate the railroad.

China's two most important investment of its type in Latin America are located in Argentina: the "Belgrano Cargas Refurbishment Project" (amounting almost US\$ 2.5 billion) and the "Santa Cruz River Hydro-electrical Resources Exploitation Project" (totaling US\$ 4.7 billion)²⁴.

As Argentine expert on Chinese investment in infrastructure Dr. Juan Uriburu Quintana has explained in detail²⁵, the "Belgrano Cargas Refurbishment Project" (hereafter BCRP) was put into practice by Chinese financial institutions and corporations associated with Argentine firms (State-owned). From the Chinese side, financial support was provided by the China Development Bank (characterized by its strategically oriented lending activities), the Industrial and Commercial Bank of China and the Bank of China (more commercially-oriented). There was also the insurance company China Export & Credit Insurance Corporation (a.k.a. "Sinasure"), while the contractor firm was the China Machinery Engineering Corporation²⁶.

From the Argentine side, the clients were the ministries of Finance and Transport, and the firm "*Trenes Argentinos Cargas y Logística S.A.* (TACyLSA) which operated under the business name "*Belgrano Cargas y Logística S.A.*" (BCyLSA). It should be noted that the latter is a State majority shareholding company, given its composition by State-owned enterprises: "*Sociedad Operadora Ferroviaria S.E.*", "*Administración de Infraestructura Ferroviaria S.E.*", and "*Administración General de Puertos*". TACyLSA was created by Presidential Decree number 566 on May 21 2013, 21 by Head of State Cristina Fernández de Kirchner (being at that time Minister of Transport Mr. Florencio Randazzo)²⁷.

The Decree states that the BCRP is "a central tool" for achieving broad economic policy goals and regional development in particular, through increasing the national cargo system total capacity and contributing to the connection of production centers with merchandise collection centers, ports and consumers' areas. This document also defines the BCRP as a "key factor" for the development and growth of Argentina's local economies given its

²⁴ "Ratifican las represas de Santa Cruz y dan 60 días para reformular el proyecto", May 6th 2016. <http://www.telam.com.ar/notas/201605/146364-hidroelectricas-represas-santa-cruz.html>.

²⁵ Dr. Juan Uriburu Quintana was ELING Group's Manager of Legal and Institutional Affairs – China, as well as *Trenes Argentinos Cargas* - BCyLSA's Manager of the China Desk. He is member of the Argentine Council for International Relations' China Working Group.

²⁶ Uriburu Quintana, Juan "Proyecto de Rehabilitación del Ferrocarril Belgrano Cargas", Presentation delivered before the Asian Affairs Committee – Argentine Council for International Relations (CARI), December 4th 2014.

²⁷ Ibidem.

contribution to exports, as well as “a priority” to the Central State because of its commitment to providing cargo transport services in the respective railway line²⁸.

There were two contracts signed in the year 2010 (which were amended four times until final approval in the year 2014): a financial agreement between the above-mentioned banks and Argentina’s Ministry of Finance, and a commercial agreement between the contractor and the client (Argentina’s Ministry of Transport). The approximate US\$ 2.5 billion are financed by the two governments: the PRC’s provides 85% (US\$ 2.099 billion) and Argentina’s the remaining 15%. With regards China’s financial contribution to the project, the China Development Bank provides almost 91% of the funding, while the Industrial and Commercial Bank of China runs with the remaining 9%.

The total amount of financing is divided equally between the procurement contract and the civil works contract (US\$ 1.235 billion each). The procurement comprises one hundred engines (narrow, medium and broad gauges); 3,500 new freight cars (for the three types of gauges); spare parts for other 2,000 freight wagons; 2,500,000 concrete-made sleepers and 200,000 tons of rails²⁹.

This mega-project encompasses the refurbishment of three railway lines: “*Ferrocarril San Martín*” (broad gauge 1,676 mm), “*Ferrocarril General Urquiza*” (medium gauge 1,435 mm) and “*Ferrocarril General Belgrano*” (narrow gauge 1,000 mm). The existing equipment of the three lines accounts for 88 engines and 4,650 wagons. Its cargo network extends along 17 provinces: Jujuy, Salta, Catamarca, Tucumán, Santiago del Estero, La Rioja, San Juan, Mendoza, San Luis, Córdoba, Santa Fe, Chaco, Formosa, Entre Ríos, Corrientes, Misiones, Buenos Aires) and reaches Buenos Aires’ City Railway Terminal (called “*Retiro*”).

This huge network covers 9,344 km, goes through Argentina’s 70% of its territory and connects with five international crossing passes that link the country with Chile, Bolivia, Paraguay, Brazil and Uruguay. In particular, the C14 railway branch that goes through the *Salta-Socompa-Antofagasta* crossing pass could open Argentina another access to the Pacific Ocean across Chilean ports, which in turn may burst sales to Asian markets³⁰.

The China Machinery Engineering Corporation received the funding provided by the Chinese banks with the mandate of employing it in the refurbishment of the *Belgrano Cargas* railway network. The term of payment of the credit is fifteen years, with a grace period of four years, by a 7.1% annual interest rate backed by Sinasure. The National

²⁸ InfoLEG. Base de datos del Centro de Documentación e Información, Ministerio de Economía y Finanzas Públicas. <http://servicios.infoleg.gob.ar/infolegInternet/anexos/210000-214999/214826/norma.htm>.

²⁹ Uriburu Quintana, op. cit.

³⁰ Ibidem.

Treasury of Argentina affords US\$ 370 million, which amounts for almost 15% of the total investment³¹.

The agreement on the BCRP was put into practice by the Presidential Decree 1090/2014, which includes a buyer credit agreement for US\$ 2.099 billion. President Mauricio Macri, who was sworn in on December 10th 2015, ratified the agreement on July 2016³².

In his visit to China for the BRI Forum in May 2017, President Macri signed an agreement to extend the credit aimed to refurbishing the Belgrano Railroad's cargo branch. On an original loan of US\$ 2.47 billion, this extension was another US\$ 1.6 billion to advance the works. The loan comprised aspects such as a greater participation of components of national origin and the inclusion of key works for the integral recovery of the railway.

Specifically, it was agreed that the component of national origin be 65 percent and the remaining 35 percent of inputs such as rails and track fixings, maintenance machinery and rolling stock. The goal was to increase the number of tons transported by fivefold, growing from 847,282 in 2015, which was the lowest figure in history, to 4.4 million tons by 2019. The first stage that is in full execution for the sections Santa Fe, Chaco and Santiago del Estero, will cover 535 kilometers. The second consists of 500 kilometers in Salta and Jujuy and will begin before September. The third phase, covering 558 kilometers, was tendered soon after. It is expected that all the works will be completed by the end of 2019³³.

In January 2018 Xinhua informed "107 engines and 3,500 wagons were purchased, the wagons have already arrived in their entirety and the locomotives are still arriving". In dialogue with Han Bing, deputy director of the Belgrano Railroad Refurbishing Project, he said the initiative "has not only stimulated a large export from China to Argentina, but has also become an example of cooperation between two countries under the framework of the Belt and Road Initiative". He added "the total time for the logistics of cereals and agricultural products will go down, which helps the economy and exports"³⁴.

In this direction, Germán Hanacek, official of the state-owned company *Belgrano Cargas y Logísticas* in the Projects area, said that "We are very satisfied with the locomotives and the

³¹ "Harán una inversión de US 2400 millones en el Belgrano Cargas", December 6th 2013. <http://www.lanacion.com.ar/1645111-haran-una-inversion-de-us-2400-millones-en-el-belgrano-cargas>.

³² InfoLEG. Base de datos del Centro de Documentación e Información, Ministerio de Economía y Finanzas Públicas. <http://www.infoleg.gob.ar/infolegInternet/anexos/230000-234999/232517/norma.htm>.

³³ "Más dinero chino para trenes: el Belgrano Cargas quintuplicará su capacidad". May 19th, 2017. <http://agrovoy.lavoz.com.ar/actualidad/mas-dinero-chino-para-trenes-el-belgrano-cargas-quintuplicara-su-capacidad>.

³⁴ "Argentina recibe lote de locomotoras chinas para servicio de carga". January 4th 2018. http://spanish.xinhuanet.com/2018-01/04/c_136870289.htm.

wagons, the price is an important advantage, the technology is also good, and the electronics"³⁵

To conclude this section, it can be said that Argentina is one of the largest producers of cereals in the world, but logistics costs demand up to 50 percent of the total due to the antiquated railway infrastructure. With the refurbishment project in cooperation with China, Argentina seeks to increase its international competitiveness by reducing the prices of its agricultural products. The BCRP doesn't have precedents in Argentina's railways history in terms not only of scale but also capital. Also, it can be affirmed that there is no investment in strict sense but project financing instead. The party most benefited with the agreement is CMEC, given the circle in which the capital leaves China but returns through the Chinese State company. As Kevin Gallagher assessed when analyzing China's financial support to Buenos Aires, "the US\$ 10 billion line of credit China granted Argentina is in fact a line of credit to Chinese railways companies, which means the capital will stay in China"³⁶.

The Pros and Cons of Extending OBOR: Geopolitics, Hubs and Terms of Financing

China's BRI stretches ever further around the globe, which converts it into a geopolitical phenomenon. First launched as the "new Silk Road" to burst centuries-old economic relations with Central Asia, it was rapidly extended to comprise a "maritime Silk Road" running to the Indian Ocean across Southeast Asia. Later renamed "One Belt One Road," it was thought to extend to Africa and Europe. Now not less important, Chinese Foreign Minister Wang Yi has said that Latin America is a "natural extension" of the maritime Silk Road.

As Peter Gordon has explained, "*La Ruta de la Plata*" (the "Silver Road") began in 1565 when Andres de Urdaneta found how to navigate across the Pacific from Asia to the Americas. This gave way to an explosive growth in trade between China and Asia on the one hand and Spanish America and Europe on the other, through frequent sailings between Manila and Acapulco. The trade route was also called the "Manila Galleon" and "*Nao de China*" ("the Ship of China")³⁷.

Whether part of the maritime Silk Road or a new Silver Road, Chinese-Latin American relations are currently articulated without much allusion to the U.S. As Gordon affirms, "for the first time in history, an Asian power has the potential for a significant footprint in Latin America: if there is to be new major infrastructure in Latin America, it will be

³⁵ Ibidem.

³⁶ Gallagher, Kevin, Amos Irwin & Katherine Koleski, "*Un Mejor Trato - Análisis comparativo de los préstamos chinos en América Latina*", Cuadernos de Trabajo del CECHIMEX (Universidad Autónoma de México) Nro.1 (2013) pp. 11-12.

³⁷ Gordon, Peter "China's Latin America ambitions highlight 'silver way' strategy", in Asia Nikkei, November 8, 2017. <https://asia.nikkei.com/Viewpoints/Peter-Gordon/China-s-Latin-America-ambitions-highlight-silver-way-strategy?page=2>.

Chinese rather than U.S. interests leading the way”. In addition, trade between China and Latin America has grown 22 times since 2000 to over \$200 billion annually. “As the world is redefined by China's outward thrust, the current U.S. administration seems more committed to undoing existing relationships with both Asia and Latin America than in restoring Washington's position”³⁸.

According to the IIRSA, South America can be divided into ten Integration and Development Hubs, which encompass more than 500 projects from three major sectors in transport, energy and communications. Such Integration and Development Hubs are in alphabetical order: Amazon Hub, Andean Hub, Capricorn Hub, Central Interoceanic Hub, Guianese Shield Hub, MERCOSUR-Chile Hub, Paraguay-Paraná-Waterway Hub, Peru-Brazil-Bolivia Hub, Southern Andean Hub and Southern Hub³⁹.

Within these ten hubs several Integration Priority Projects (in Spanish PPI) are identified, in relation with the development of four bioceanic corridors and three economic belts at the Amazon Hub, the Capricorn Hub, the Central Interoceanic Hub, the MERCOSUR-Chile Hub and the Peru-Brazil-Bolivia Hub. They account for a total investment of US\$ 140 billion.

From the North to the South, the three major economic belts are: Peru, Ecuador, Colombia, Brazil Economic Belt with the development of the Amazon basin as the main target, Peru, Bolivia, Brazil Economic Belt with the main goal of developing the southern hinterland of the South American continent, and the Chile, Argentina, Paraguay, Uruguay, Brazil Economic Belt aiming to strengthen integration⁴⁰.

The advancement and implementation of the IIRSA are confronted with two major difficulties or challenges. The first difficulty is the shortage of financing and the second one is the terms of financing provided by the PRC. The IADB is the main source of financing for the IIRSA. Since 2000, the IADB has been providing financing for the IIRSA. In the decade from 2000 to 2010, \$ 2.9 billion of loans were issued by the IADB to support almost thirty Projects, accounting for 28% of all investment.

In July 2014, during the visit of Chinese President Xi Jinping to Latin America, China, Brazil and Peru jointly released a statement assuring joint efforts to build a bi-oceanic railway corridor, and China will cooperate with the two countries carry out a feasibility study on the project, which is aimed at linking the Brazil and Peru. At the same time, the sector of infrastructure was also confirmed as one of the six cooperation priorities between China and Latin America. Therefore, in the light of the existing plans considered by the IIRSA, this undertaking might prove to be a major platform for the cooperation in infrastructure between China and Latin America.

In November 2017, Argentine Ambassador Miguel Velloso affirmed in Chile “based on constant 2010 prices, qualified studies estimate that between 2011 and 2040 the total

³⁸ Ibidem.

³⁹ <http://www.iirsa.org/proyectos/>.

⁴⁰ Ibidem.

demand for infrastructure construction in Latin America will reach US\$ 1.32 billion. All these works must be financed by the IADB, CAF and FONPLAN”⁴¹.

He went on saying “the good news is that China is a member of the IADB since 2009, and according to the Inter-American Dialogue, between 2005 and 2016 it displaced the World Bank and the IADB, becoming the main source of loans, with a value of US\$ 141 billion towards Latin America and the Caribbean. But the bad news is that far from channeling its financial contribution to the region through this regional institution (the IADB), it has bilateralized its financing offer through the bilateral CELAC-China scheme, where it easily imposes its rules”⁴².

Velloso affirms “clearly, the biggest problem will be the financing of the undertakings, but not the only one. The Chinese public works companies are in expansion in the world, due to the expansion of OBOR, and their presence in our region acquires more and more dimension. Today it is observed that there is a strategy that would disrupt the traditional pattern of current interregional exchanges, from raw materials for manufactured products, to raw materials for infrastructure works, but carried out by Chinese companies”⁴³.

The Argentine diplomat considers “this is what is observed in the Economic Cooperation Agreement signed between China and Argentina in July 2014 -then approved by the Law of Congress-, which institutes that whenever there is Chinese financing, the tender will be directly awarded to a Chinese company. An option to evaluate would be that any works related to South American infrastructure, in case the support of the PRC is available, they should abide by the same rules of the game that Beijing imposes on companies that invest in its territory. If the Investment Law in force in China is observed, the text of April 10, 2015 establishes *associating* with foreign companies with local ones, imposing 51% participation on local, in all large-scale initiatives”⁴⁴.

Then, Velloso concludes “all this calls for consideration of a *Regional Investment Agreement*, within the CELAC-China framework, which takes into account the potential of our infrastructure companies in the integration undertakings. If it were possible to move forward with an agreement of these characteristics, the confidence between both parties would increase, and therefore the Center-Periphery *modus operandi* that characterized the financing of post-Bretton Woods would be modified”⁴⁵.

⁴¹ Velloso, Miguel A. and Nadia Radulovich "Oportunidades de Cooperación China-América Latina en el marco Sub-Nacional", Paper presented before the *I Foro Académico de Alto Nivel CELAC-China*. ECLAC, Santiago de Chile, October 17-18 2017.

⁴² Ibidem.

⁴³ Ibidem.

⁴⁴ Ibidem.

⁴⁵ Ibidem.

Final Remarks

East and Southeast Asia demand for natural resources from Latin America will continue to grow, and China is not exception to the rule. From 2016 to 2020, the expected average growth rate per year of China's import of agricultural products, minerals and crude oil from Latin America are 3.8%, 5.8% and 6.1% respectively; from 2021 to 2030, these number are expected to be 2.0%, 2.8% and 2.7%⁴⁶.

One of the bottlenecks that deter economic growth in Latin America is its insufficient infrastructure; therefore inadequate infrastructure in the region is critically hindering its trade with China. The call for investment into the infrastructure construction in Latin America has turn out to be central. That is the reason why infrastructure is increasingly becoming a major part of the cooperation between China and Latin America.

As Antonio Hsiang has stated, four years after it was revealed, the BRI "is rapidly being expanded to Latin America and paying dividends for China and its partners. Whether the BRI meets all of Beijing's expectations in Latin America remains to be seen". But even now, "it contributes to the future of Sino-Latin American relations in three ways: first, China is forging new markets and exporting Beijing's model of state-led expansion. Second, China is building infrastructure as a diplomatic tool and expanding its circle of friends by inviting more South American countries to join the AIIB, and third China is extending the BRI to the Americas and helping enhance the region's connectivity to the rest of the world through projects such as the proposed 19,000-kilometer, trans-Pacific fiber-optic internet cable from China to Chile"⁴⁷.

Antonio Hsiang goes on to affirm "with so little opposition from the United States, China's BRI will naturally and easily extend to Latin America. This may be acceptable to the current American administration. But American influence in Latin America, once lost to China, will be extremely difficult to recover"⁴⁸.

With regards South America's gains from OBOR, the decade from 2000 to 2010 was the preparation phase for the IIRSA and in 2011 it proposed COSIPLAN as responsible for coordinating and implementing the region's integration in terms of infrastructure. Accordingly, the IADB has defined the IIRSA as the most imaginative and dynamic initiative for regional infrastructure development undertaken in the Western Hemisphere⁴⁹.

⁴⁶ Statistics from UN Comtrade Database of United Nations Conference on Trade and Development, <http://comtrade.un.org/data/>.

⁴⁷ Hsiang, Antonio C. "As America Withdraws From Latin America, China Steps in", in The Diplomat, January 04, 2018. <https://thediplomat.com/2018/01/as-america-withdraws-from-latin-america-china-steps-in/>.

⁴⁸ Ibidem.

⁴⁹ Inter-American Development Bank, Initiative for the Integration of Regional Infrastructure in South America - Building a New Continent: A Regional Approach to Strengthening South American Infrastructure, Washington, D.C., 2006.

The quinquennium 2018-2022 is an important period for the IIRSA to continue to progress, during which 63 priority projects are expected to be completed, such as the Port of Antofagasta (Chile) – Port of Paranaguá (Brazil) Bioceanic Railway Corridor API project. In the light of IIRSA's thrust which is hindered by lack of funding, the IIRSA would be able to become a key platform for the cooperation in infrastructure between China and South America.

The purposes of the BRI match with the process of infrastructure integration embraced by South America. Consequently, OBOR's extension to South America can be foreseen as pertinent. Such appropriate matching can be also justified by means of grand strategy considerations: as it was stated by Italian sinologist Giovanni B. Andornino, "by projecting the BRI as a catalyst for a new vision of global governance, Beijing does not engage in mere rhetoric. It seeks to enhance China's moral appeal by effectively suggesting that the diverse policy streams implemented under the BRI rubric respond to an updated *raison de système* that would be better suited for an international system moving past its unipolar era. Namely, one premised on the pursuit of an agenda of third generation solidarity rights"⁵⁰.

Dr. Andornino goes on assessing that "seen in this perspective, China's effort to complement the development strategies of the countries involved in the BRI by leveraging their comparative strengths through policy coordination, infrastructural connectivity, unimpeded trade, financial integration and people-to-people exchanges amounts as much to an institutionalized provision of public goods to match such would-be *raison de système*, as it responds to the profit-seeking logics of the current international economic order"⁵¹.

In OBOR, China has engaged itself in promoting cooperation in the construction of infrastructure, energy resources, manufacturing, market and other capacities. As a result, the construction of a Trans-Pacific Economic corridor linking Latin America and China might be an extension of the BRI.

In the light of the positive prospectus for South America, national authorities should pay particular attention to the financial dimension of this undertaking, given it is suggested that works related to infrastructure, in case the support of the PRC is available, they should abide by the same rules of the game that Beijing imposes on companies that invest in its territory, that is to say associating with foreign companies with local ones, in all large-scale initiatives. Therefore, the extent to which South America may benefit from higher Chinese commitment with the region will depend more on its aptitude for strategic provision, policy coordination and ability to deal with Beijing than on being incorporated to the BRI.

⁵⁰ Andornino, Giovanni B. "The Belt and Road Initiative in China's Emerging Grand Strategy of Connective Leadership" in China & World Economy (Beijing: Institute of World Economics and Politics – CASS), Vol. 25, No. 5, 2017, pp. 4–22.

⁵¹ Ibidem.

