

Chinese Foreign Direct Investment in MERCOSUR: How does it converge with the Belt and Road Initiative objectives?

*Investimento Direto Chinês no MERCOSUL: Como converge com os objetivos da
Iniciativa Cinturão e Rota?*

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ABSTRACT

As one of the largest world economies, China maintains close political and economic ties with its commercial partners. The country aims to strengthen those links through Foreign Direct Investment (FDI), referring to the Belt and Road Initiative (BRI) in infrastructure projects. This initiative seeks to help develop the participating countries' infrastructure, provide ways to solve the excess capacity faced in some industry sectors in China, promote the renminbi's internationalization, and tighten the already existing ties. Within this context, one must consider the context of the MERCOSUR countries, which have a long-standing relationship with China regarding commercial flows and political convergence. Therefore, this paper assesses whether Chinese FDI in MERCOSUR countries converges with the stated BRI objectives. Through the deductive method, it concludes that in the three main sectors benefited by Chinese FDI in each MERCOSUR country, regardless of formal ties to the BRI, there is an evident focus on Energy, Transportation, and Metal fields, which not only converge with the above-stated objectives but also provide China with essential commodities to fuel their high-tech industry.

KEYWORDS: MERCOSUR; Foreign Direct Investment; China; Belt and Road Initiative; Infrastructure.

RESUMO

Como uma das maiores economias globais, a China mantém próximos laços políticos e econômicos com seus parceiros comerciais. O país objetiva reforçar essas conexões pela utilização de Investimento Estrangeiros Diretos (IED), se valendo da Iniciativa do Cinturão e Rota (ICR) em projetos de infraestrutura. Essa iniciativa almeja desenvolver a infraestrutura dos países dela participantes, solucionar a capacidade excedente em setores industriais chineses, promover a internacionalização do *renminbi* e reforçar os laços existentes. Nesse contexto, deve a situação do MERCOSUL ser considerada, vez que possuem uma duradoura relação com a China em termos comerciais e políticos. Portanto, o presente artigo verifica se o IED Chinês nos países do MERCOSUL converge com os objetivos da ICR mencionados. Através do método dedutivo conclui-se que nos três principais setores beneficiados pelo IED Chinês em cada país do MERCOSUL, independentemente de laços formais à ICR, existe um claro foco nos setores de Energia, Transporte e Metais, que não apenas convergem com os objetivos acima elencados, mas também garantem à China as commodities essenciais para alimentar a sua indústria de alta tecnologia.

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PALAVRAS-CHAVES: MERCOSUL; Investimentos Estrangeiros Diretos; China; Iniciativa de Cinturão e Rota; Infraestrutura

SUMMARY: INTRODUCTION; 1. BRI'S GENERAL CONTEXT; 2. FDI IN MERCOSUR; 3. BRI'S STRUCTURE; 3.1 GENERAL CHARACTERISTICS; 3.2 THE REASONING BEHIND THE BRI; 4. CHINA – MERCOSUR LINKS; 5. CHINESE FDI IN MERCOSUR COUNTRIES AND THEIR CORRELATION TO BRI OBJECTIVES; 6. CONCLUDING REMARKS; REFERENCES.

INTRODUCTION

China's sway on global economic relations has been rapidly growing. In the last decade, the country has positioned itself as a protagonist in international trade and politics, as a way to expand and solidify its position and further its external goals.

Chinese influence extends worldwide, reaching even its geographical opposite - the American continent. This region includes the Mercado Común del Sur (MERCOSUR) countries, most of which have China as their primary economic partner.

One of the ways said influence is exerted is through Foreign Direct Investment (FDI) in the infrastructure domain, which is the focus of the Belt and Road Initiative (BRI). Three out of the five MERCOSUR members are officially involved in the project.

Considering the context above, this paper aims to answer the following question: does Chinese FDI in MERCOSUR countries converge with the perceived BRI's objectives?

The analysis is first performed through a literature review of existing papers on the BRI to understand its structure and perceived goals. Next, the paper conducts a comparative analysis of the initiative's goals and the data on regional Chinese FDI. Finally, the paper concludes with the analysis of the collected data.

1. BRI'S GENERAL CONTEXT

The premise of a solid international Chinese presence is not groundbreaking. Since 130 B.C.E., China has been utilizing land and maritime trade routes that reach countries from Southeast Asia, Northern Africa, and Europe (SELBITSCHKA, 2018). Said routes helped disseminate languages, technologies, styles, religions, and genes (CHRISTIAN, 2000), contributing to the spread of Chinese influence to targeted countries.

This ancient method of commerce ended around 1450 due to internal and external conflicts (ROSSABI, 2020) and the desertification of the trade routes (DONG; WANG; ZHANG, 2020). However, the Chinese interest in maintaining its economic and political influence continued, as its trade routes returned in the 1980s (SEN, 2023) and, more recently, through the BRI implemented in 2013 by the Chinese government.

The BRI is a project that aims to connect China to its partners through widespread FDI, providing funds and resources for more commerce and integration in favor of the benefitted countries. The Chinese government has implemented the initiative through investments in infrastructure, especially in ports, roads, railroads, airports, power plants, and telecommunication networks (EUROPEAN BANK FOR RECONSTRUCTION, 2023).

It is essential to highlight that the initiative targets low and high-income countries alike (NEDOPIIL, 2023), allowing China to diversify the destination of its investments.

2. FDI IN MERCOSUR

The MERCOSUR is a trade bloc composed of Argentina, Brazil, Paraguay, Uruguay, and Venezuela, with the latter being currently suspended due to a violation of the bloc's democratic clause (MERCOSUR, 2017). Despite its name, it is commonly referred to as an imperfect customs union, as it fails to meet more advanced steps in economic integration (ANDRIANOVA; KOVAL, 2022).

Participation in a regional trade agreement does not prohibit a country from individually receiving FDI. As an example, the difference in investment policies within MERCOSUR is evident when the liberal FDI approach adopted by Uruguay through Federal Law 16.906/1998 (URUGUAY, 1998) contrasts with the very restrictive provisions of Venezuela (WORLD TRADE ORGANIZATION, 2022).

The possibility of MERCOSUR members to establish their own FDI provisions allows for them to receive foreign investors per their development needs. Therefore, within the scope of the BRI, different kinds of infrastructure projects can be implemented to better suit the receiving country.

3. BRI'S STRUCTURE

To identify the impacts of the BRI in MERCOSUR countries, it is first necessary to identify its implementation methods and objectives.

3.1 GENERAL CHARACTERISTICS

China splits the BRI into three programs: the Silk Road Economic Belt, the 21st Century Maritime Silk Road, and the Digital Silk Road. They are essential to allow China to reach countries that benefit from different kinds of investments (HUANG, 2016).

The Silk Road Economic Belt aims to reach geographically closer partners through the establishment of commercial corridors connecting China to Europe and other Asian countries (LI; WEN; JIANG, 2017). The 21st Century Maritime Silk Road aims to reach countries through water and develop seafaring infrastructure (KOBEOVIĆ; KURTELA; VUJIČIĆ, 2018). Lastly, the Digital Silk Road aims to improve technology-intensive infrastructure (XINHUANET, 2017) and develop terrestrial and aquatic cables to facilitate information transmission among partners (SHEN, 2018).

All BRI divisions adopt a decentralized approach to their implementation, as they are not overseen by a federal agency but rather defined at a regional, municipal, or district level (GHIASY; ZHOU, 2017). The same is true for the initiative's funding, as it may come from private or public entities, regardless of Chinese nationality (GHIASY; ZHOU, 2017). Due to national security concerns, the BRI also allows countries to establish a minimum participation quota for national entities in infrastructure projects (LI; VAN ASSCHE; QIAN, 2022).

The initiative's capital transfers are performed through FDI, a type of investment characterized by a foreign investor having equal or more than 10% of a company's voting power (THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT, 2023). It is known to positively contribute to the recipient's external balance and to the decrease of fiscal deficits (BOSWORTH; COLLINS, 1999). It also allows for technology and practical know-how transfers (TRADE AND DEVELOPMENT BOARD, 2011).

This type of investment has been most expressive in pollution-intensive industries and those suffering from overcapacity (NUGENT; LU, 2021), which are critical to China's BRI strategy.

3.2 THE REASONING BEHIND THE BRI

The BRI serves commercial and political goals. While the former category represents the intention of Chinese companies to maximize profits, the latter encompasses the Chinese goal of expanding its zone of influence (LIU, Zhigao; SCHINDLER; LIU Weidong, 2020).

Among the commercial objectives of the BRI, China aims to internationalize the renminbi, efficiently use its foreign reserves, export its companies suffering from excess capacity, and develop the western regions of China; at the same time, it aims to help develop its partners' infrastructure (LI; VAN ASSCHE; QIAN, 2022).

In this paper, only the aspects of the initiative relevant to the MERCOSUR will be analyzed.

3.2.1 Development of partners' infrastructure

BRI's boost to regional development is mainly directed towards the receiving partner's basic infrastructure. Through these investments, it seeks to create functional sites to host key industrial activities and create logistical chains (SCHINDLER; KANAI, 2021).

Wide-scale investments in infrastructure, such as the ones performed within the scope of the BRI, are related to an improvement in the receiving country's development, as, when combined with spatial organization, they may compensate for market and government failures (LIU, Zhigao; SCHINDLER; LIU Weidong, 2020).

The BRI's infrastructure focus has already shown to be successful in improving regional development. This was the case, for instance, of investments in coastal infrastructure in the region of Kuantan, in Malaysia, and Gwadar in Pakistan (LIU, Zhigao; SCHINDLER; LIU Weidong, 2020), demonstrating its potential to contribute to other developing sites.

3.2.2 Internationalization of the renminbi

The BRI's goal of promoting the *renminbi's* internationalization represents a way for China to strengthen its position internationally. As its national currency is utilized to finance international projects, which are mainly performed by state-owned construction companies (FUNG et al., 2018), the coin's stability and predictability is increased (LIU; WANG; WOO, 2019).

The *renminbi's* internationalization also creates a tighter link between the recipient country and China. As the benefitted country starts to rely on Chinese investments, it develops a higher degree of commercial and policy integration with China (CAI, 2022).

There are also internal benefits to the widespread utilization of a country's currency, such as protection from inflation and decreased transaction costs (EUROPEAN CENTRAL BANK, 2008), justifying the Chinese interest in internationalizing its currency.

3.2.3 Export of Chinese excess capacity

The phenomenon of excess capacity happens when, within a specific industrial sector, the availability of a particular product or service exceeds its demand (CROTTY, 2002). In this situation, profit decreases significantly, reducing a company’s economic viability.

Excess capacity is also harmful from a macroeconomic perspective. Companies are more likely to employ unfair market practices in a hostile internal environment to guarantee their survival, as with cut-throat pricing (CROTTY, 2002), resulting in worse market conditions.

Excess capacity has been present in China in several sectors, most prevalent in pollution-intensive fields, such as in mineral and metal extraction. With the BRI, China aims to tackle excess capacity by exporting of its industries to increase their demand and prevent defaults (HUANG, 2016).

At the same time, the goal of reducing excess capacity also functions as a way for China to substitute its heavy, labor-intensive industries with technology-intensive ones (HUANG, 2016). Therefore, it is able to modernize its procedures and increase the aggregated value of the goods it produces.

4. CHINA – MERCOSUR LINKS

Even though China and MERCOSUR countries are geographically distant, their commercial relations are extensive. Since 1970, most MERCOSUR members have maintained political and economic relations with China (SHIXUE, 2006). The only member that still does not recognize China is Paraguay, with whom it nonetheless maintains a significant number of commercial flows.

Chinese – MERCOSUR relations have significantly increased in the last decade. This fact can be verified through the increased value of imports and exports from China from 2011 to 2021, except for Venezuela, whose data after 2011 is not available.

Table 1 - Imports from China to MERCOSUR countries

Imports	2011	2015	2019	2021
Argentina	US\$ 10.57 B	US\$ 11.82 B	US\$ 9.25 B	US\$ 12.52 B
Brazil	US\$ 35.022 B	US\$ 31.99 B	US\$ 37.46 B	US\$ 53.46 B
Paraguay	US\$ 3.66 B	US\$ 2.41 B	US\$ 1.92 B	US\$ 4.06 B
Uruguay	US\$ 1.43 B	US\$ 1.74 B	US\$ 1.61 B	US\$ 1.97 B

Continues

Venezuela ³	US\$ 6.49 B	N/A	N/A	N/A
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Source: The World Bank, 2021

Table 2 - Exports from MERCOSUR countries to China

Exports	2011	2015	2019	2021
Argentina	US\$ 6.03 B	US\$ 5.17 B	US\$ 6,81 B	US\$ 6.15 B
Brazil	US\$ 44.30 B	US\$ 35.15 B	US\$ 63.35 B	US\$ 87.90 B
Paraguay	US\$ 30.38 M	US\$ 30.2 M	US\$ 10.74 M	US\$ 30.56 M
Uruguay	US\$ 526.14 M	US\$ 1.06 B	US\$ 1.91 B	US\$ 2.59 B
Venezuela	US\$ 492.22 M	N/A	N/A	N/A

Source: The World Bank, 2021

It is essential to highlight that most exports from MERCOSUR countries consist of commodities, contributing to their low industrialization levels (AFONSO; DE ANDRADE BASTOS; PEROBELLI, 2021). In contrast, Chinese imports are primarily technological goods (THE OBSERVATORY OF ECONOMIC COMPLEXITY, 2023), converging with its goal of preserving its tech-intensive industries.

5. CHINESE FDI IN MERCOSUR COUNTRIES AND THEIR CORRELATION TO BRI OBJECTIVES

Since 2013, Chinese FDI levels in MERCOSUR countries have been kept consistent. The exception is Paraguay, which, due to its political-ideological distance from China, has not received those investments (LONG; URDINEZ, 2021).

The tie-in of the investments to the BRI relies on the formalization of the involved countries in the signature of a Memorandum of Understanding. Within the scope of the MERCOSUR, that has been the case with Argentina, Uruguay, and Venezuela.

The sectors benefited by the investments are highly dependent on the receiving country's interests and development needs. This paper will analyze only the three most expressive sectors in terms of FDI from China in each MERCOSUR country.

The data on countries formally committed to the BRI are the following:

Argentina:

³ The World Bank does not have data on Venezuelan imports and exports after 2011.

Table 3 - Chinese FDI in Argentina

Sector	Investors	Total Value	Start Year
Energy - Alternative	PowerChina; Envision Group; Xianjiang Goldenwind; SAFE; China Energy Engineering	US\$ 2.090.000.000,00	2015
Energy - Gas	CNOOC; China Communications Constructions; Powerchina	US\$ 2.310.000.000,00	2013
Energy – Hydroelectric	China Energy Engineering; China Communications Constructions	US\$ 4.020.000.000,00	2017
Energy – Distribution	China Communications Constructions;	US\$ 690.000.000,00	2019
Metals - Lithium	Tibet Summit; Jiangxi Ganfeng; Zijin Mining; Tsingshan;	US\$ 2.920.000.000,00	2018
Metals – Gold	Shandong Gold	US\$ 960.000.000,00	2017
Transportation – Roadways	State Construction Engineering	US\$ 2.130.000.000,00	2018
Transportation - Railways	Sinomach	US\$ 820.000.000,00	2022

Source: American Enterprise Institute, 2023

Uruguay:

Table 4 - Chinese FDI in Uruguay

Sector	Investor	Total Value	Start Year
Energy - Distribution	Sinomach	US\$ 180.000.000,00	2021

Source: American Enterprise Institute, 2023

Venezuela:

Table 5 - Chinese FDI in Venezuela

Sector	Investors	Total Value	Start Year
Energy – Oil	CNPC; China Development Bank	US\$ 2.070.000.000,00	2016
Energy – Coal	PowerChina	US\$ 1.500.000.000,00	2015
Energy – Hydroelectric	Dongfang Electric	US\$ 1.080.000.000,00	2014
Real Estate - Construction	CNIC	US\$ 760.000.000,00	2014
Metals – Aluminium	Chinalco	US\$ 500.000.000,00	2014

Source: American Enterprise Institute, 2023

Even though Brazil is not officially tied to the BRI, Chinese FDI in the country presents a similar distribution:

Table 6 - Chinese FDI in Brazil

Sector	Investors	Total Value	Start Year
Energy – Oil	CNPC; CNOOC; Industrial and Commercial Bank of China	US\$ 10.720.000.000,00	2013
Energy – Hydroelectric	Three Gorges; China Development Bank; State Power Investment Corporation;	US\$ 8.570.000.000,00	2013
Energy – Alternative	Three Gorges; BYD; Sinomach; China General Nuclear; PowerChina; StateGrid	US\$ 2.920.000.000,00	2014
Energy – Distribution	StateGrid	US\$ 12.600.000.000,00	2014

Continues

Energy – Gas	CIC; Shandong Kerui; State Power Investment Corporation	US\$ 2.920.000.000,00	2016
Transportation – Vehicles	Didi Chuxing; China Communications Construction; China Railway Construction; Great Wall	US\$ 1.840.000.000,00	2016
Transportation – Railways	BYD; PowerChina; China Railway Engineering	US\$ 1.170.000.000,00	2019
Transportation – Shipping	China Communications Construction; China Merchants	US\$ 1.260.000.000,00	2017
Transportation – Aviation	HNA	US\$ 460.000.000,00	2015
Agriculture – General	Shangai Pengxin, COFCO, Hopu Investment, CITIC-led fund	US\$ 2.390.000.000,00	2014

Source: American Enterprise Institute, 2023

The above information shows that Chinese FDI in MERCOSUR countries is most prevalent in the energy sector, which is intimately tied to infrastructure development (WANG et al., 2020), apart from being one of the sectors suffering from excess capacity within the Chinese market (LIN; KHARL; LIU, 2018). That is also the case with transportation (CHEN et al., 2022), railways (LIN; KHARL; LIU, 2018), and aviation (BIALA; CHENG KA LAR, 2002) sectors.

The investments in the metal and agricultural sectors do not appear to be related to the objectives of the BRI. However, they serve as vital exports from MERCOSUR countries to China, which justifies the Chinese interest in developing the related infrastructure.

6. CONCLUDING REMARKS

It is essential to consider that all countries that receive Chinese FDI maintain tight economic and political ties with China, which are boosted even further with the Chinese aid to their infrastructure, converging with the BRI's goals. This distinction can be perceived through the Paraguayan experience, as the country does not receive any investments due to its ideological and political distance from the CCP.

Subsequently, most of the Chinese investment in the region is tied to industries suffering from excess capacity in China's national market. That fulfills another one of the BRI's objectives, improving the overall health of suffering Chinese enterprises.

It must be highlighted, however, that investments made within the scope of the BRI go beyond what is often attributed to its goals. That is the case, for instance, of the investment in Lithium mines to guarantee the maintenance of commodity transfers necessary for China to continue developing the electronics it produces.

This paper could not identify the extent to which the *renminbi* is used in Chinese FDI. The data shown by the World Bank and the American Enterprise Institute utilize American dollars as their selected currency, which does not necessarily indicate that the investments are not made using the *renminbi*, although it prevents an assessment of whether that goal is attained.

The initiative's goal of infrastructure development is attained when considering the FDI directed to MERCOSUR countries. This paper's data shows that investments are mainly made in critical sectors for development, as is the case for energy, which is essential for further construction and industrialization, and transportation, necessary for the distribution of raw material and finished products inside a country.

In conclusion, the data analyzed in this paper shows a clear convergence between Chinese FDI in MERCOSUR countries and the perceived objectives of the BRI. Furthermore, there are no indications that Chinese investments in the region differ based on the receiving country's participation in the BRI.

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