

# New Directions for China's FDI in South America Based on the Belt and Road Initiative: What to Expect From South-South Relations in the Future

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The main objective of this study is to identify and analyze China's investments in selected countries in South America before and after joining the Belt and Road Initiative (BRI). It is believed that with adherence to the route, investments in infrastructure, electricity and transport gained greater proportions due to the terms of commitment established by the Chinese. The official invitation for integration took place in 2018 during the II Ministerial Meeting of the China-CELAC Forum, since then with the participation of 20 countries from Latin America and the Caribbean. The study analyzed the pattern of investments according to the year of entry of nations in the BRI, namely: Chile (2018), Ecuador (2018), Venezuela (2018), and Peru (2019). The countries listed are the route members that have the largest stocks of Chinese FDI accumulated in South America, with the exception of Argentina, included in the plan in 2022 and therefore not part of the sample. The data indicate that after the invitation to join the BRI, investments in the region gained greater proportions and began to favor sectors that collaborate with the development of countries, with a win-win relationship between those involved.

*Keywords:* Belt and Road Initiative, foreign direct investment, international productive cooperation, South-South relations

## Introduction

In 2013, Chinese President Xi Jinping officially launched two strategies that together formed the Belt and Road Initiative (BRI), namely the Silk Road Economic Belt and the Century Maritime Silk Road. The first sub-strategy has three objectives: (i) linking China-Europe across Central Asia and Russia, (ii) China-West Asia across Central Asia, and (iii) China-Southeast Asia across the Indian Ocean. The Century Maritime Silk Road, on the other hand, aims to connect the channels: (iv) China-Europe through the South China Sea and the Indian Ocean, and (v) China-South Pacific Ocean through the South China Sea. In this way, the BRI is a multifaceted strategy, with land and sea routes that connect more than 147 countries, connecting Europe, Africa, Asia and, recently, Latin America (Freitas, 2023, p. 73).

Initially, the countries of Latin America and the Caribbean were not part of the Chinese geopolitical strategy, the invitation to join the route took place only in 2018 during the II Ministerial Meeting of the Forum China-

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Community of Latin American and Caribbean States (Forum China-CELAC). Despite the invitation being recent, around 20 Latin countries have adopted the BRI, so that China has been building strong commercial and productive ties in a region that has historically been characterized as strategic for the United States. Strengthening China-CELAC was an important factor for countries to accept the invitation, gaining greater weight after the 2014 summit, held in Brazil, where those involved committed themselves to promoting a “1+3+6” cooperation scheme.

Given the above, the article aims to carry out a comparative study of China’s investments in selected countries in South America before and after joining the BRI. It is believed that with adherence to the route, investments in infrastructure have gained greater proportions due to the terms of commitment established by the Chinese. The four countries that received the most investments from China as of 2010 were selected, namely: Venezuela, Peru, Chile, and Ecuador. The research was limited to the years 2010 to 2022, when FDI flows from the Asian country gained large proportions in the region.

This text is divided into two sections, in addition to this introduction. The second section sought to explore the productive relationship between the countries of South America and China in the last 12 years, analyzing the pattern of investments in general. In the third section, a comparative study of Chinese investments was carried out before and after the formal invitation for countries in the region to join the BRI, so that the four countries that accumulated the most FDI in South America were selected.

### **FDI Flows From China to South America Before and After the BRI**

In a short period of time, China has become the main trading partner and one of the biggest investors in South America, surpassing the United States in terms of trade and being the main player in several sectors. Aiming to guarantee the necessary supply for its development, as well as to enable insertion opportunities for its companies, investments in South American infrastructure represent a great opportunity for the Chinese (Jaeger, 2016, p. 9).

According to data from the China Global Investment Tracker (CGIT), between 2010 and 2017, prior to the invitation to join the BRI, the countries that had accumulated the most Chinese FDI were Brazil US \$58,770 million, Venezuela US \$25,630 million, and Argentina US \$24,600 million. Chinese FDI in the period reached the mark of US \$141,260 million, benefiting a total of nine countries among the 12 that make up South America, as highlighted in Figure 1.

After the invitation to join the BRI, China’s investments changed in the region both in volume and in the destination country. Nations that had not yet received FDI, such as Uruguay and Suriname, now have important projects after officially adhering to the strategy. It is also possible to identify changes among the main countries that had been receiving investments until 2017, so that Chile, until then, was the seventh country that had accumulated the most FDI and became number one after joining the Chinese strategy in 2018. Peru also began to accumulate greater investments after joining in 2019, surpassing Argentina, which joined in 2022. Contrary to the movements observed, Venezuela has stopped accumulating Chinese FDI in recent years compared to neighboring countries, because the country faces several economic, political, and social crises that have driven away investments, despite still being one of the countries that have accumulated the most FDI since 2010.

Figure 1 illustrates the main beneficiaries of Chinese FDI after the BRI, making it possible to confirm that the countries that joined the Chinese initiative began to receive greater investment flows to the detriment of those that have not yet officially joined. Brazil, being the largest country in Latin America and having a large consumer

market, seems to have lost relevance for the Chinese, since diplomacy between the countries has undergone numerous clashes after the strengthening of the extreme right in the Latin country. It is also important to mention that the only countries in South America that do not appear in the CGIT database are Paraguay and French Guiana, the latter not being considered a country but a region of France, while Paraguay apparently does not receive projects valued at more than US \$100, the minimum value computed by the base.

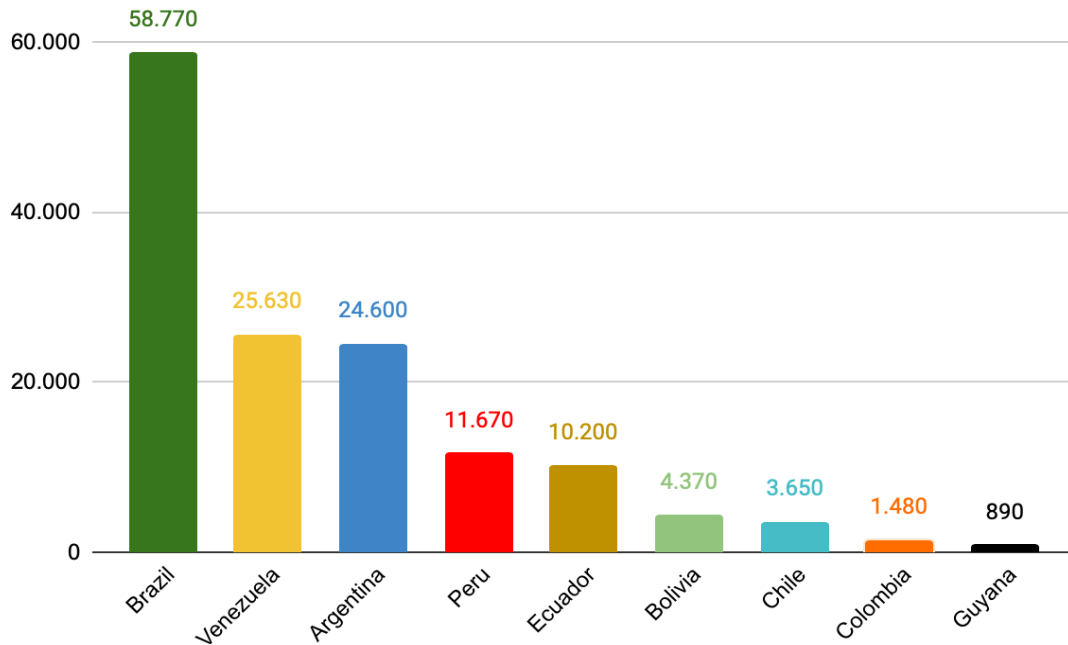


Figure 1. Cumulative FDI from China by country in South America during 2010-2017 (values in millions of US\$).  
Source: Own elaboration based on China Global Investment Tracker data.

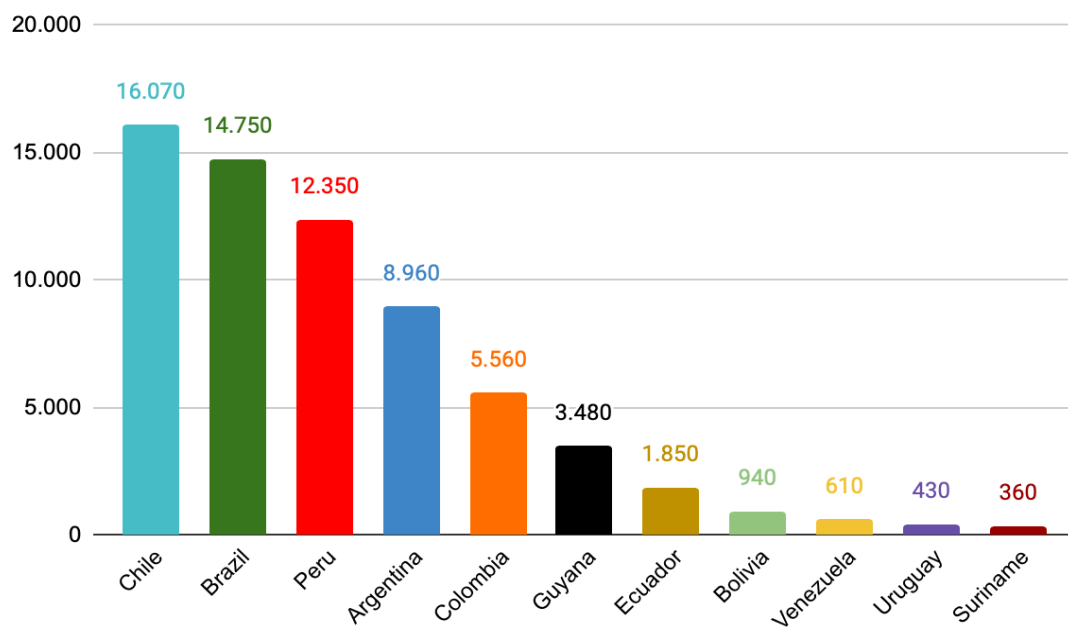


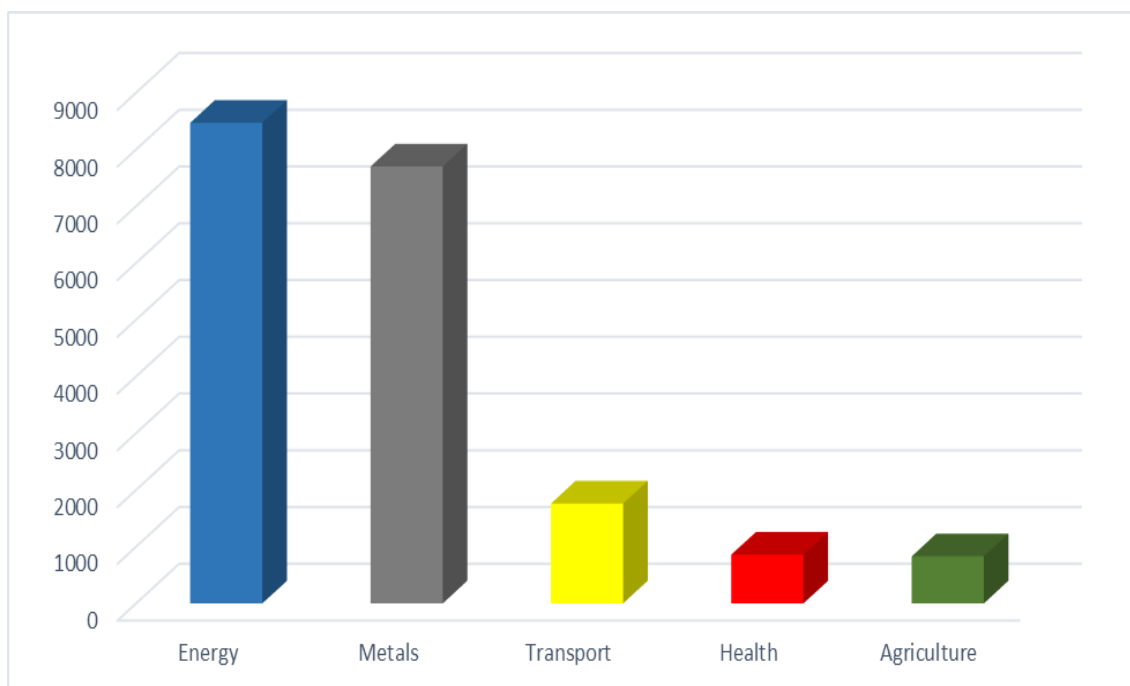
Figure 2. Cumulative FDI from China by country in South America during 2018-2022 (values in millions of US\$).  
Source: Own elaboration based on China Global Investment Tracker data.

The main sectors that have received investments from China also become fundamental for verifying the effect of the BRI in South America, so that after the II Ministerial Meeting of the China-CELAC Forum in 2018, it is expected that investments in infrastructure have gained greater proportions, at least for the countries that officially joined the initiative. The next subsections highlighted the pattern of Chinese investments in selected countries, seeking to identify whether infrastructure projects gained greater relevance after the BRI.

### **Investments From China Accumulated Among the Main Countries That Joined the BRI**

#### **FDI Flows From China to Chile**

Chile is the third country among those analyzed that accumulated the most FDI from China between 2010 and 2022 and the first after the BRI, with good diplomacy between the countries since 1970, becoming the first in South America to establish formal relations with Beijing (Guilisasti, 2006, p. 170). The amount of accumulated FDI is concentrated at US \$19,720 million, increasing significantly in recent years and expanding among the metals sectors with US \$7,700 million, energy with US \$8,470 million, and transport with US \$1,760 million. Figure 3 illustrates the sectoral distribution of China's accumulated investments on Chilean soil during the period, also being present, in smaller proportions, in the health and agriculture sectors.



*Figure 3.* Cumulative FDI from China to Chile by sector during 2010-2022 (data in millions of US\$).

Source: Own elaboration based on China Global Investment Tracker data.

Before the BRI, China's investments were concentrated in the sectors of metals 91% and, to a lesser extent, energy 9%. After the accession of the Latin country, investments increased in flows and sectoral distribution, making it possible to identify that the investments aim both at maintaining the growth of the Chinese economy through the energy security of the Chinese people via investments in energy, and at the South-South integration that the route proposes from projects in the transport sector. Figure 4 illustrates Chinese investments by sector before (above) and after the BRI (below).

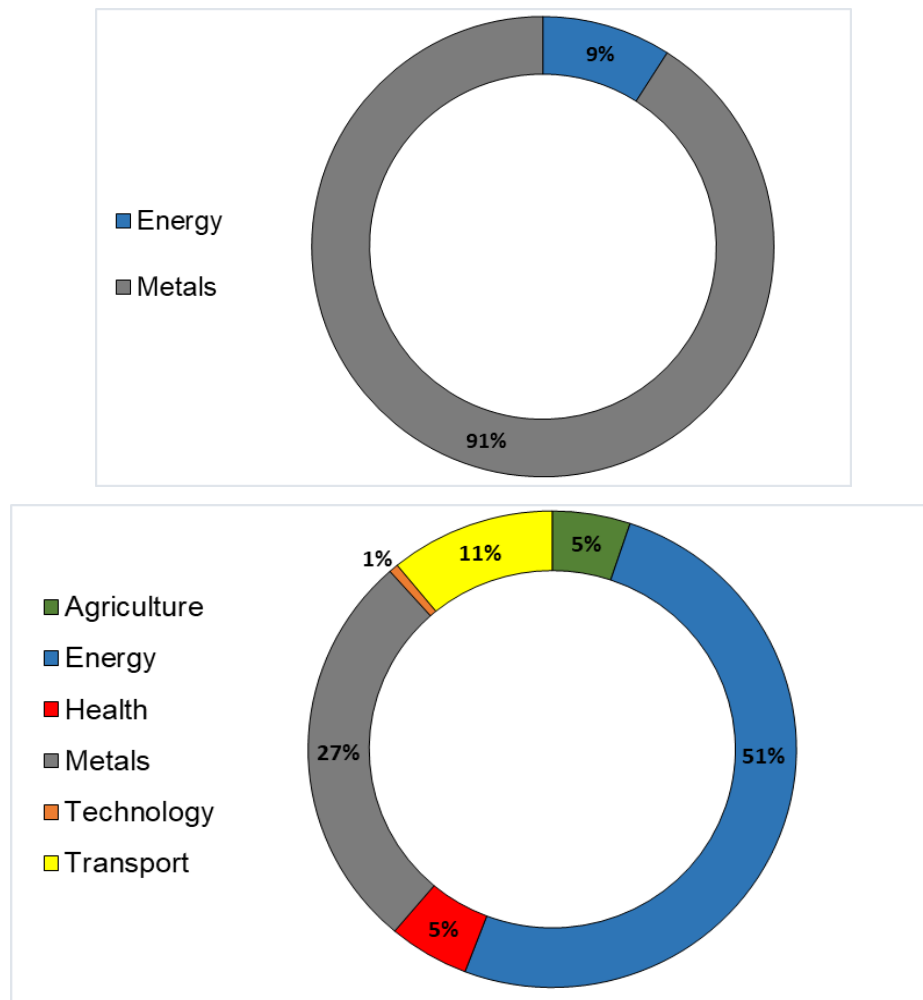


Figure 4. Comparison of FDI from China to Chile before and after joining the BRI (data in millions of US\$).  
 Source: Own elaboration based on China Global Investment Tracker data.

**Chinese FDI Flows Into Ecuador**

Ecuador has also been one of the countries in the region that received the most Chinese FDI after the BRI, being one of the richest in natural resources. In all, China has invested in six sectors, the main ones being: energy US \$6,800 million, metals US \$3,610 million, and transport US \$660 thousand. Figure 5 illustrates the sectors benefited during 2010 and 2022.

Unlike Chile, which began to receive investments in a greater number of sectors, Ecuador, after joining the BRI, was restricted to investments in energy, metals, and transport. Before the BRI, the energy sector accounted for 62% of investments and after the initiative, 27%, giving greater space to the metals sectors, became the main beneficiary, accounting for 50% of FDI and transport, rising from 2% to 23% with the initiative. Figure 6 illustrates Chinese investments by sector before (above) and after the BRI (below).

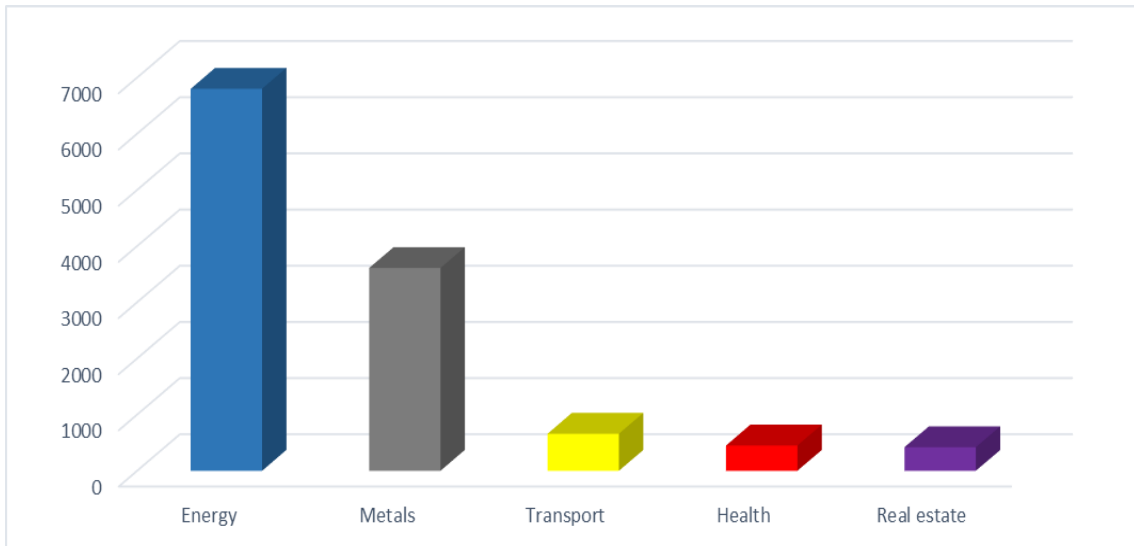


Figure 5. Cumulative FDI from China to Chile by sector during 2010-2022 (data in millions of US\$).  
 Source: Own elaboration based on China Global Investment Tracker data.

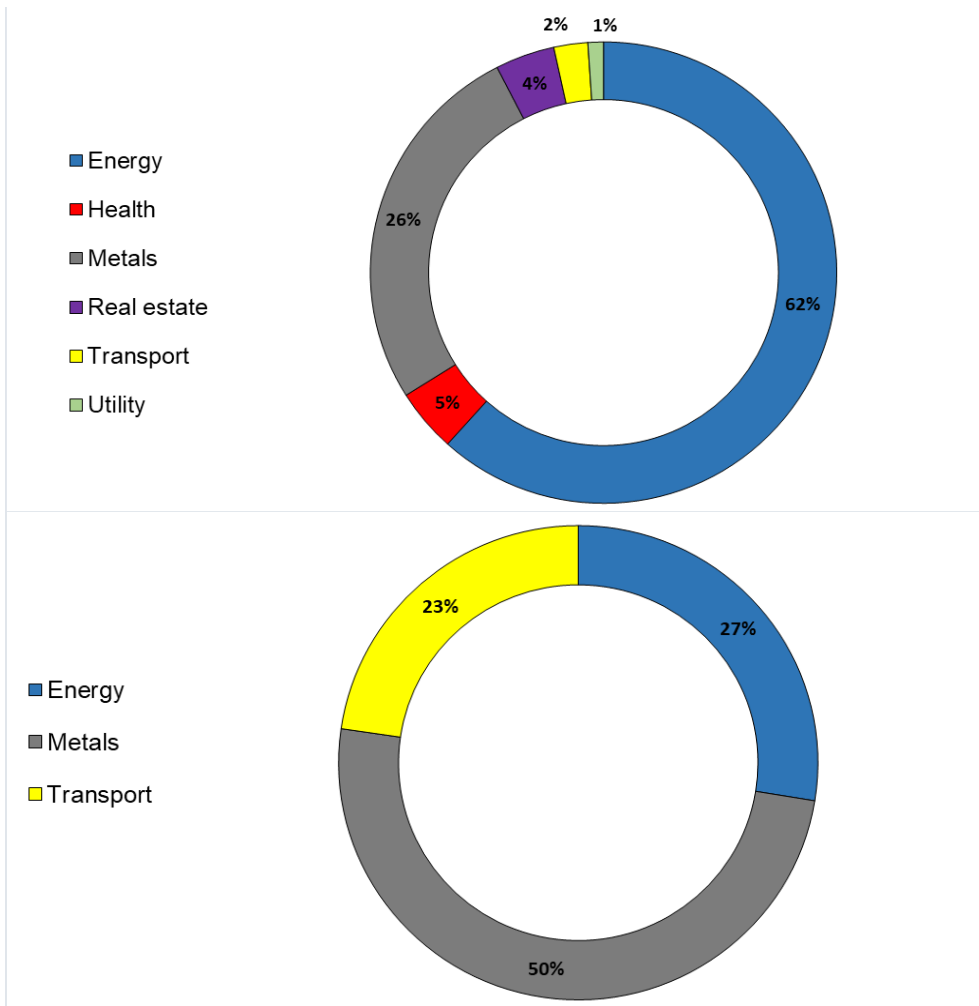


Figure 6. Comparison of Chinese FDI in Ecuador before and after joining the BRI (data in millions of US\$).  
 Source: Own elaboration based on China Global Investment Tracker data.

### FDI Flows From China to Peru

Peru officially joined the BRI in 2019, being the fourth country in South America that accumulated the most FDI between 2010 and 2022, with important projects aimed at win-win cooperation. The friendly relationship between the countries dates back at least to 1849 when there was the first Chinese immigration to Latin America, where most immigrants remained in Peru (de Amorim, Fernandes, & Oliveira, 2017). In commercial terms, reports date that the first cooperation agreement between the countries took place in 1874, where the treaty of “Friendship, Commerce and Navigation” was signed. Peru also played a decisive role in China’s entry (Post-Revolution) into the United Nations (UN), with Minerva’s vote.

Since 2014, China has established itself as Peru’s main trading partner. In 2022, exports to the Chinese accounted for 33% and imports for 26% (Reporte de Comercio Bilateral, 2022), with emphasis on the ore, metal, chemical, fishing, and textile sectors. The listed sectors gained even greater proportions after Peru’s accession to the BRI, where trade reached the mark of US \$34 million, the highest value traded between countries according to the Reporte de Comercio Bilateral (2022).

Chinese foreign investment flows in Peru have also been significant in recent years, so that between 2010-2022 accumulated investments reached the mark of US \$24,020 million. Among the main sectors, metals US \$11,640 million, energy US \$9,550 million, and transport US \$2,010 million stand out. Figure 7 illustrates the sectoral distribution of China’s accumulated investments on Peruvian soil during the period, also being present, in smaller proportions, in the utilities, logistics, other and finance sectors.

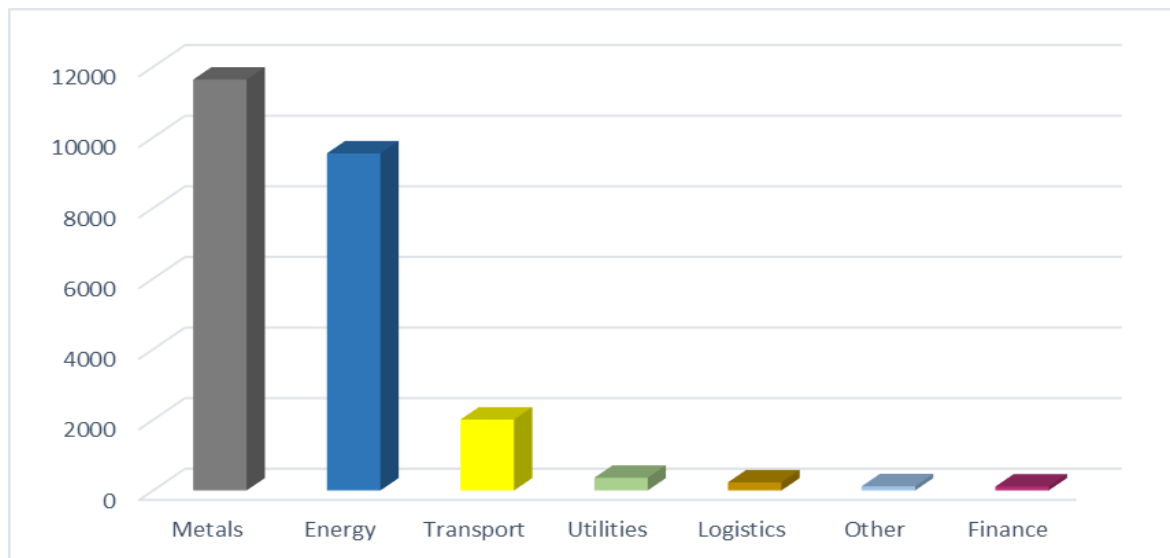


Figure 7. Cumulative Chinese FDI in Peru by sector during 2010-2022 (data in millions of US\$).

Source: Own elaboration based on China Global Investment Tracker data.

The pattern of Chinese investments has also changed since Peru’s entry into the BRI, and it is possible to confirm that after its accession in 2019, investments in energy, logistics, and transport have gained greater proportions. Between 2010 and 2018, the period prior to Peru’s accession to the BRI, the energy sector accounted for 31% of accumulated FDI, totaling US \$5,400 million. In the post-BRI period, between 2019 and 2022, the sector’s share jumped to 61%, totaling US \$4,150 million in a short period.

The transport and logistics sectors, which usually receive combined investments, also began to gain greater proportions as a result of Peru’s adherence to the strategy. Between 2010 and 2018, accumulated FDI in transport

accounted for 2%, a total of US \$370,000 through the automobile sector. The participation of the transport sector jumped to 24% between 2019 and 2022, represented by US \$1,640 million that was divided between the subsectors of aviation US \$110 thousand and shipping US \$1,530 million. In addition, after joining the BRI, the logistics sector began to receive investments, totaling US \$230,000. Figure 8 illustrates Chinese investments by sector before (above) and after the BRI (below).

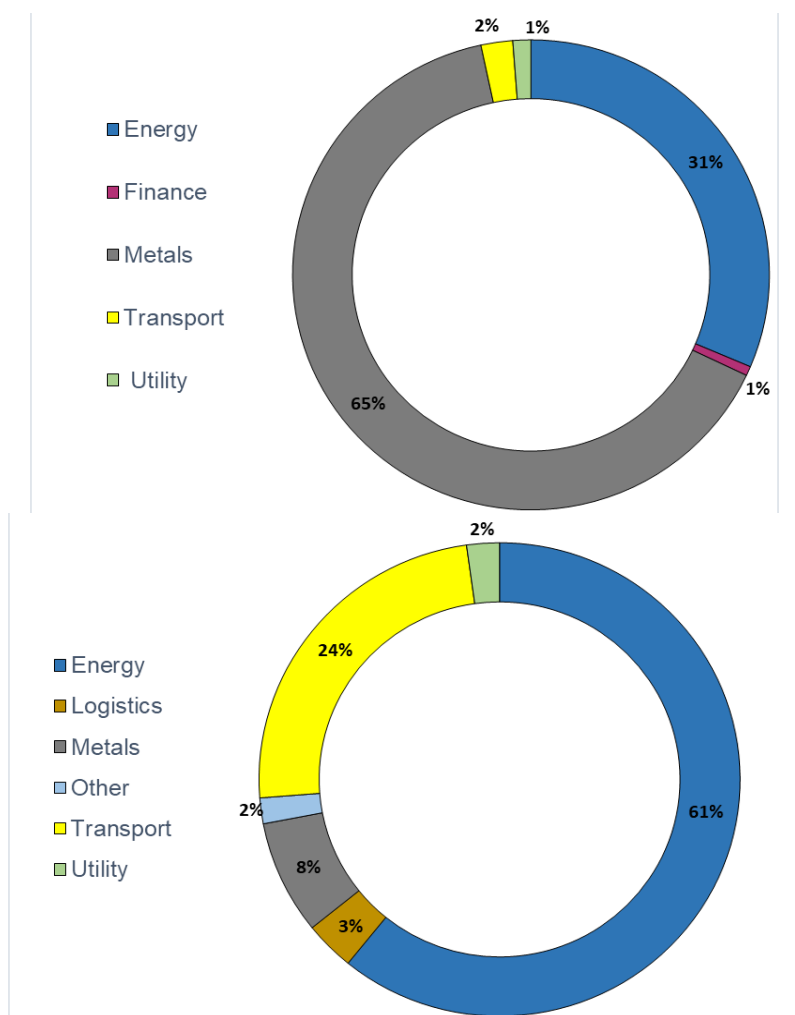


Figure 8. Comparison of Chinese FDI in Peru before and after joining the BRI (data in millions of US\$).  
 Source: Own elaboration based on China Global Investment Tracker data.

Despite Peru’s recent accession to the BRI, it is possible to identify that the pattern of China’s investments in the country has been changing as it seeks mutual benefit among those involved. Investments have been changing both in proportions and sectors that collaborate directly with Peru’s economic development, so it is possible to conclude that the terms proposed by the BRI have been fulfilled in Peru, even if we take into account the short period of analysis and the impacts caused by the COVID-19 pandemic that slowed down the world economy, especially FDI flows from China.

**China’s Investments in Venezuela**

Data collected by CGIT identified that, between 2010 and 2022, the Chinese invested in nine sectors of the Venezuelan economy, with the main beneficiaries being: energy US \$11,410 million, transport US \$8,500, and



real estate US \$2,350. Figure 9 shows the main sectors that China has invested in the Latin country, representing a variety of segments that aim at cooperation between those involved.

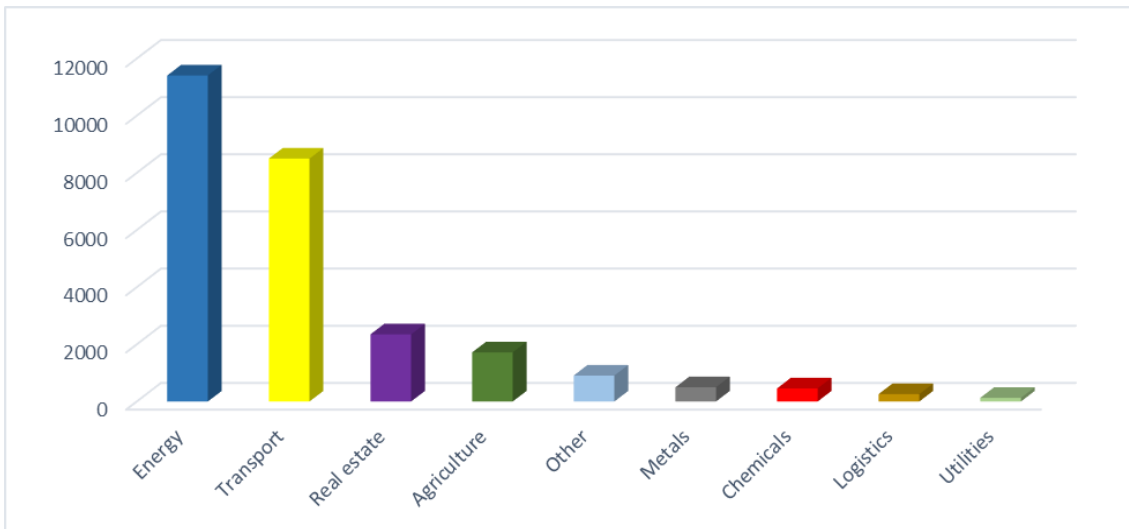


Figure 9. Cumulative FDI from China to Venezuela by sector during 2010-2022 (data in millions of US\$).  
Source: Own elaboration based on China Global Investment Tracker data.

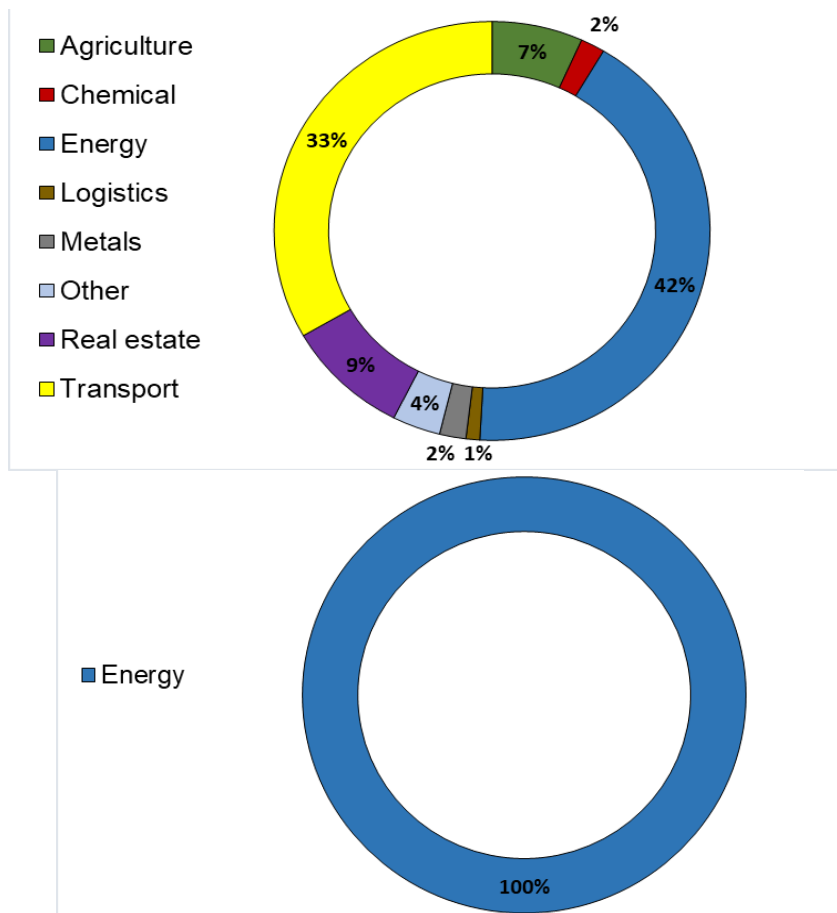


Figure 10. China's FDI in Venezuela before and after joining the BRI (data in millions of US\$).  
Source: Own elaboration based on China Global Investment Tracker data.

Venezuela represents a peculiar case of Chinese investments in South America, either because of the numerous economic, social, and political difficulties that the country has been going through in recent years, or because of its abundance of oil that overshadows its other sectors. Despite having received investments in nine different sectors, since joining the route, the Latin country has started to receive FDI only in the energy sector, especially in oil. Figure 10 shows Chinese investments by sector before (above) and after the BRI (below).

### Final Considerations

South America is one of the regions that most concentrate natural resources in the world, becoming in recent decades of strategic interest for maintaining China's long-term economic growth. The Asian giant is already the main trading partner of the vast majority of countries and since 2008 has been one of the main investors in the region, operating mainly in sectors that aim to guarantee the energy security of the Chinese people.

The results obtained by the China Global Investment Tracker database indicate that after countries joined the BRI, investments have increased both in flows and sectors that aim at the mutual cooperation proposed by the strategy. Sectors such as transport and logistics began to receive greater investments with the initiative, so that the concentration of FDI in metals and energy remained active, but it gave room for other sectors to also benefit. So that, in general terms, it is possible to confirm the hypothesis that Chinese investments in the region aim to guarantee both energy security in China and to promote investments in infrastructure that the region lacks.

Among the countries that the study analyzed, it was possible to identify that joining the route was beneficial both in terms of investment volume and quality by encouraging essential sectors for economic growth. Countries such as Chile and Peru began to rely on investments in various segments, while Ecuador gained greater support in the transport sector. Venezuela is the only country that still seems to be too early to analyze from the BRI, because the energy sector has been the only beneficiary since joining the route. Given the time constraints due to South America being recently included in the BRI, future research tends to be very promising when analyzing how the Chinese strategy can be beneficial for the countries that agreed to participate.

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