

The political economy of Chinese investments in Latin America: the cases of electric vehicles and lithium.

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Abstract for Oral Presentation in English:

Overview:

In view of growing foreign direct investments (FDI) made by Chinese firms in Latin America in the energy sector, and more specifically in lithium and now also electric vehicles, the present research has the main purposes of understanding the nature of these investments, the strategic perspective of the firms involved and the impacts on the political economy of the countries in the region. The research has selected three countries for its analysis: Argentina, Brazil, and Chile. These countries are the biggest economies in South America, have growing ties with China in trade and investments and present differing strategies/positions vis-à-vis their engagement with the PRC.

Chinese engagement with the region has only grown stronger in the last twenty years, with increasing foreign direct investments (FDI), diplomatic efforts, and greater trade complementarity. Chinese FDI initially aimed at assuring food and energy security, mainly through mergers and acquisitions with local and foreign companies in the agricultural, oil and gas sectors. The period between 2002-2012 encompassed the launching of the first White Paper outlining Beijing's vision for the engagement with the region in 2008, while its firms were still acquiring knowledge as well as assessing strategic objectives and learning to navigate the political economy, regulatory and institutional environment in different countries (Xu, 2017).

While Chile and Argentina have received large investment in mining and lithium, Brazil has received substantial investments in the generation and distribution of electricity and more recently in automotive and electric vehicles firms. These countries are significant exporters of commodities to China and receive substantial amounts of Chinese investments (Wise, 2020; Meyers and Melguizo, 2024). In Argentina, mining and energy concentrate almost 90% of total Chinese investment flows, while in Chile these sectors represent circa 60% and that figure reaches 73% in Brazil (AEI, 2024). Chile has strong capabilities in mining and a national strategy for industrializing its lithium sector, while in Argentina provinces control the minerals resources, which makes it harder to articulate a national strategy for the sector.

Brazil holds particular strengths in hydropower generation and energy distribution, areas that have attracted the attention of Chinese state-owned firms in the last decade. Since Covid-19, Chinese firms working on renewable energy and electric vehicles have been arriving in Brazil. The country has released in 2023 two industrial policy programs for the 2024-2027 period to entice foreign investments and to develop technology related to decarbonization, namely "Mover 2030" and the "New Brazilian Industry Program", amounting to US\$ 60 billion. Partnering with Chinese firms is essential in these processes. Up to this moment, Brazil has attracted a wave of more than US\$ 30 billion in FDI from various countries, which is related to the launching of these industrial policies.

Methodology and findings:

The methodologies used in the research were mainly qualitative, through case study of economic sectors in selected countries, following the logic exposed by Bennet (2004), seeing that this method is adequate for objects of study where there isn't a plethora of established sources, and in which the specificity of case studies can complement the existing body of knowledge. Regarding the tools, data from China's FDI in the selected sectors will be used towards analyzing specific investment projects in each country. Semi-structured interviews were also conducted with experts, professionals and academics working in research institutions, universities and firms related to the topic.

The key findings are preliminary, but allow us to assess that there is a new phase of Chinese engagement in Latin America post-Covid, with a change in the profile of investments: 1) investments are now conducted not only through state owned enterprises, but increasingly made by private firms; 2) sectors of destination are slowly changing from oil, gas and agriculture towards renewables, electric vehicles and mining of strategic minerals; 3) the flows of investments are smaller in the total quantity, but there are a higher number of projects; 4) the FDI projects are increasingly directed in knowledge/technologically intensive sectors, instead of capital intensive ones, as was the case in traditional (legacy) sectors of the pre 2019 phase.

Conclusion:

The main conclusions point to our current hypothesis that China could be articulating a regional value chain in green technologies led by Chinese firms, with Chile and Argentina producing strategic minerals, for example, while manufacturing capacity for EVs and solar panels is located in Brazil, which could then serve as a hub towards exporting to the region as a whole. If this configuration confirms itself, it demonstrated a certain degree of intentionality or strategic thought by the part of the Chinese state and a certain coordination between the state and its firms in the sense of orienting these investments.

This configures a case of geoeconomic influence or economic statecraft – concepts related to when a State uses economic resources to attain objectives related to its national interests or its influence/power in a particular territory (Blackwill, Harris, 2016; Heath, 2016). This would be especially relevant for the region – whose countries need to develop their own plans and strategies towards creating higher value-added goods, innovating, and industrializing their production in order to make use of Chinese capital for their own long term developmental trajectories.

Key words: China; foreign direct investment; energy; Brazil; Chile; Argentina.

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