

## RESEARCH ON THE CURRENT SITUATION AND COUNTERMEASURES OF FINANCIAL INTEGRATION IN CHINA AND LATIN AMERICA

PESQUISA SOBRE A SITUAÇÃO ATUAL E AS MEDIDAS DE INTEGRAÇÃO FINANCEIRA NA  
CHINA E NA AMÉRICA LATINA

INVESTIGACIÓN SOBRE LA SITUACIÓN ACTUAL Y MEDIDAS DE LA INTEGRACIÓN  
FINANCIERA EN CHINA Y AMÉRICA LATINA

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**Resumo:** Desde o começo do século XXI, as trocas econômicas entre a China e a América Latina se fortaleceram significativamente e a integração financeira tornou-se mais ativa. Investimento e financiamento, serviços financeiros e gerenciamento de risco são as três forças motrizes por detrás da expansão da integração financeira China-América Latina. Atualmente, a construção de sistemas de investimento e financiamento na China e na América Latina têm se desenvolvido, e a cooperação financeira entre governos e a cooperação de produtos financeiros também está se aprofundando constantemente. Ao mesmo tempo, a escala do investimento direto também está em constante crescimento, e um sistema de crédito está gradualmente sendo estabelecido. De um modo geral, o desenvolvimento das relações China-América Latina está em boa forma. A cooperação entre os dois lados, incluindo a cooperação financeira, está no seu melhor na história, da mesma forma que a cooperação para a promoção do desenvolvimento econômico entre China e da América Latina e sua contribuição para a economia global. Este artigo propõe contramedidas para promover a interação benígna entre a China e a América Latina a partir dos aspectos da economia real e serviços virtuais, e de micro e macro regulamentações envolvendo os seguintes pontos: enfrentar o déficit de

financiamento, aumentar o investimento de capital, realizar cooperação financeira multilateral, expandir o investimento “greenfield”, apoiar a economia real, incentivar empresas chinesas a fazer investimentos diretos diferenciados e complementares na América Latina e construir um sistema regional de alerta de risco financeiro.

**Palavras-chave:** integração financeira; cooperação financeira; investimento direto; sistema de crédito

**Abstract:** Since the 21st century, economic exchanges between China and Latin America have been significantly strengthened, and financial integration has become more active. Investment and financing, financial services and risk management are the three driving forces behind the booming of China-Latin America finance integration. At present, the construction of investment and financing systems in China and Latin America has developed, and the financial cooperation between governments and the cooperation of financial products are also constantly deepening. At the same time, the scale of direct investment is also constantly developing, and the credit system is gradually being established. Generally speaking, the development of China-Latin America relations is in good shape. The cooperation between the two sides, including financial cooperation, is at its best in history. At the same time, this kind of cooperation is at the highest level in history for the promotion of China and Latin America's economic development and its contribution to the global economy. This paper proposes countermeasures to promote the benign interaction between China and Latin America from the aspects of real economy and virtual services, micro-regulation and macro-law formulation: solving the funding gap, increasing equity investment, carrying out multilateral financial cooperation, expanding greenfield investment, supporting the real economy, encouraging Chinese companies to make differentiated and complementary direct investments in Latin America, and building a regional financial risk warning system.

**Keywords:** financial integration; financial cooperation; direct investment; credit system

## 1. Introduction

With the advancement of China's "going out" strategy and the improvement of international economic development, China's economic cooperation with Latin America is becoming increasingly close. Under the impetus of the "Belt and Road Initiative" and in the context of the "new normal" of the economy, the Latin American region on the "One Belt, One Road" extension line has become the priority direction of China's economic diplomacy. In the "five links" of the "Belt and Road" construction, the financial integration is an important support. Investment and financing, financial services, and risk management are the three driving forces behind the booming of China-Latin America finance integration.

Latin America is located on the "One Belt, One Road" extension line, featuring a large population, abundant natural resources, broad market prospects and huge development potential. Since the 21st century, China has had frequent financial interactions with Latin American regions, ranging from the signing of the inter-governmental currency swap agreement to the cooperation between financial institutions and branches of financial products, from the China-Latin America production capacity fund officially put into operation to the long-term strategy of China-Latin America cooperation in production capacity. China-Latin America relations are at their best in history. Since the economic and trade interactions between China and Latin America in 1990, Latin America has developed into the second largest investment destination in China, and China has become the second largest trading partner of Latin America.

In addition, Latin America has rich natural resources and habits of excessive consumption similar to those of developed countries in Europe and America. The market prospect is broad, which is conducive to multilateral financial cooperation and mutual exchange of funds. At the same time, Latin American countries look forward to strengthening cooperation with China in finance and other aspects, which provides an opportunity for more Chinese companies and financial institutions to move into Latin America and for the

accelerated internationalization of the RMB. Therefore, investigating the financial integration between China and Latin America is of important theoretical and practical significance.

## **2. The development of financial integration between China and Latin America**

### **2.1 Investment and financing system construction**

#### **2.1.1 Commercial finance is gradually developing but efficiency needs to be improved.**

From the perspective of commercial finance, the five major traditional banks in the banking system have established their branches in Latin American countries, such as Argentina, Brazil, and Chile (as shown in Table 2-1). As the most promising region in China's "One Belt, One Road" extension line, Latin America is bound to become a hot spot for various commercial banks to expand their overseas business. While China is actively exploring Latin American commercial financial markets, some financial institutions in Latin America have begun to gradually enter China's capital and financial markets.

**Table 2-1: Latin American financial markets opened up by China's commercial banks since 2013**

| Year | Development of financial institutions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2013 | Industrial and Commercial Bank of China: The Argentine sub-branch was established and began to provide financial services to Chinese-funded enterprises such as Sinopec and Huawei. Sub-branches was established in Brazil to strengthen investment and financing cooperation with local financial institutions.                                                                                                                                                                                                                                                                                                                                         |
| 2014 | Industrial and Commercial Bank of China: On February 6, the Peruvian branch officially opened its doors to provide clients with a range of financial services including account management, transfer and remittance, international settlement, trade finance, corporate credit, etc. On November 17, National Banking and Securities Commission (CNBV) formally approved the establishment of Industrial and Commercial Bank of China (Mexico) Co., Ltd.                                                                                                                                                                                                 |
| 2016 | Construction Bank: The Chilean branch of the Construction Bank was opened and the Chilean RMB Clearing Center was established.<br>Bank of China: The National Banking and Securities Commission (CNBV) officially announced on June 27 that it approved the Bank of China's bank license application in Mexico, and agreed to establish Bank of China (Mexico) Co., Ltd. Bank of China Peru Representative Office was officially opened in Lima on December 19.<br>Bank of Communications: On November 30, Bank of Communications and the original shareholder of Brazilian BBM bank completed the equity delivery and officially owned 80% of the bank. |
| 2018 | Bank of China: On June 7, Beijing time, Bank of China opened its Chilean branch, which is the fifth branch of Bank of China in Latin America.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

**Data source:** The official website of the Central Bank and the official website of each commercial bank.

With the official opening of a branch established in Shanghai in 2014, the largest bank in Latin America and Brazil, the Bank of Brazil became the first Latin American bank to open a branch in China, which also reflected the new opportunities for financial cooperation between China and Latin America. Subsequently, the Argentine National Bank Beijing Representative Office was officially established, and the opening ceremony of the Santander

Bank Beijing Branch was also held in Beijing. It can be seen that banks in Latin America are gradually entering the Chinese financial market.

The establishment of financial branches in the other country between China and Latin American countries to achieve financial cooperation has enabled the overseas business of commercial and financial institutions in China and Latin America to progress steadily. However, judging from the current financial infrastructure system and the extent of financial cooperation, the establishment of relevant infrastructure systems in China and Latin America is still not perfect, and there is a lack of advanced financial derivatives and related leading technologies, which makes financial cooperation less efficient and has an adverse impact on the investment and financing system.

## **2.1.2 Policy finance is developing rapidly, but not highly correlated with Latin America.**

China's policy financial institutions include China Agricultural Development Bank and China Export-Import Bank. China Export-Import Bank is one of the investors of Silk Road Fund. At present, the bank has specially set up project funds to support the investment of specific projects related to the countries along the "Belt and Road". While supporting the successful "going out" of relevant enterprises in China, it also supports some countries to invest in China, build factories and carry out economic cooperation. For this reason, in 2015, the central bank invested another 45 billion US dollars to support the establishment of various investment funds. As for China Agricultural Development Bank, the Ministry of Finance also added 100 billion yuan in funds to support its implementation measures in 2015. In 2017, China Export-Import Bank and the United Nations Industrial Development Organization signed a joint statement on promoting cooperation in sustainable industrial development along the "Belt and Road" countries<sup>1</sup>.

It can be seen that China's policy finance on the "Belt and Road" has developed rapidly. However, policy finance is not highly correlated to Latin American countries at present due to the fact that China and Latin American

countries are all developing countries with uneven development level of financial markets and imperfect financial infrastructure and the fact that Latin America is situated along the extension of the “Belt and Road”.

### **2.1.3 Developmental finance has begun to take shape but there is still room for improvement.**

In 2013, the first branch of China Development Bank in Latin America, Rio Representative Office, was established to promote in-depth cooperation and exchanges between China and Brazil in economy, trade, finance, energy and other aspects. At present, CDB has become the largest loan bank for China-Brazil economic cooperation.

In 2017, China Development Bank set up a “One Belt, One Road” infrastructure special loan (100 billion yuan worth of RMB) and a “One Belt, One Road” financial cooperation special loan (50 billion yuan worth of RMB) to provide support for some new areas of “One Belt, One Road” and contribute to their “going out”.

From the international perspective, China is vigorously developing development finance. Regional financial institutions such as the New Development Bank, the Asian Infrastructure Investment Bank, and the Asian Development Bank have been established. This indicates that China's development finance has reached a higher level. At the same time, China has actively participated in international financial institutions such as the World Bank and the International Monetary Fund in various ways, such as buying stocks or becoming a member state. China became the 48th member of the Inter-American Development Bank in 2009, which promoted the further improvement of the China-Latin America investment and financing system and the further deepening of financial cooperation, providing a broader platform for the economic development of China and Latin America.<sup>1</sup> For example, the Chilean Factotal SME financing project, the Zarate port expansion project in Argentina, the Brazilian financing project, and the

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<sup>1</sup> Ministry of Foreign Affairs official website

second phase of the Danper financing project in Peru are all key projects of the Inter-American Development Bank. At the same time, from the perspective of Latin American countries, Brazil, Argentina, Chile, Peru, Venezuela and Bolivia have become members of the AIIB.<sup>2</sup>

It can be seen that the development of China-Latin America in development finance has begun to take shape. However, since Latin America and China are both developing countries and have great potential for future development, there is still much room for improvement in the related aspects of development finance.

#### **2.1.4 The fund is carried out in an orderly manner but on a small scale.**

In recent years, the development of China-Latin America cooperation funds has also progressed in an orderly manner. For example, China-Latin America Cooperation Fund and China-Latin America Capacity Cooperation Fund have been established. At present, under the impetus of the China-Latin America Capacity Cooperation Fund, China's related enterprises have obtained the franchise rights of two hydro power stations in Brazil.

It can be seen from the above that the establishment of funds between China and Latin America has been promoted in an orderly manner. However, since both parties are developing countries, the number and scale of the projects currently under the fund support are relatively small.

#### **2.2 Intergovernmental financial cooperation**

Intergovernmental financial cooperation is the cornerstone and keynote of financial cooperation between the parties. Since the implementation of the “Belt and Road Initiative”, the interaction between China and the countries along the route has increased significantly in the bilateral currency swap agreement business and the RMB cross-border business. Latin American countries are located on the “Belt and Road” extension. In the past five years, facilitated by the “Belt and Road Initiative”, the financial cooperation with the Chinese government has naturally

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<sup>2</sup> People's Bank of China, Investment Opportunities and Risks

increased rapidly. As of the end of 2017, the People's Bank of China had signed bilateral currency swap agreements with Argentina, Brazil and Chile (see Table 2-2). The signing of the bilateral local currency swap agreement will help China to promote local currency settlement while interacting with other countries, which will help to reduce the risk of exchange rate fluctuations and transaction costs.

Judging from the constraints of intergovernmental financial cooperation, although the financial cooperation between China and Latin American countries has entered an in-depth development stage, it still needs to be further improved in terms of operational mechanism, so that financial cooperation between the two sides can have rules and regulations to follow, which will facilitate more in-depth mutual cooperation.

**Table 2-2: Bank swap agreements signed by the People's Bank of China and Latin American countries since 2013**

| Central bank/<br>monetary<br>authority | Signing time           | Swap amount<br>(RMB)<br>Unit: 100 million<br>yuan | Validity<br>period |
|----------------------------------------|------------------------|---------------------------------------------------|--------------------|
| Argentina                              | 2009.4.2               |                                                   | 3 years            |
|                                        | 2014.7.18              | 700                                               |                    |
|                                        | (renewal)              | 700                                               |                    |
|                                        | 2017.7.18<br>(renewal) | 700                                               |                    |
| Brazil                                 | 2013.3.26<br>(expired) | 1900                                              | 3 years            |
| Chile                                  | 2015.5.25              | 220                                               | 3 years            |

**Source:** People's Bank of China website, public information (as of the end of July 2017)

## 2.3 Financial product cooperation

China encourages financial institutions to carry out RMB overseas fund business (the initial scale estimated to be approximately RMB 300 billion) to provide financial support for the Belt and Road Initiative.<sup>3</sup>In terms of financial product cooperation, China and Latin American countries have

<sup>3</sup> List of results of the People's Network "Belt and Road" International Cooperation Summit Forum

adopted the methods of signing free trade agreements, free trade zone cooperation, and contracting projects.

As for the signing of the free trade agreement, the current development is sound. China has signed free trade agreements with Chile, Peru and Costa Rica, which are well implemented. In addition, joint research on the feasibility of China's free trade agreement with Colombia is also progressing, and China-Chile Free Trade Agreement upgrading negotiations and joint research on the upgrading of China-Peru Free Trade Agreement has also been announced.

As for cooperation in the free trade zone, cooperation between China and Latin American countries in this regard has just started. Uruguay has proposed to China its willingness to cooperate in the free trade zone. As for contracting projects, , although the contracts for contracted projects signed by Chinese enterprises in Latin America in 2016 increased by 5.3% on year-on-year basis, the turnover decreased by 2.3%. This means that the completion efficiency of Chinese enterprises has declined, and it may be that innovation is needed in the mode of cooperation on contracted projects. For example, Chinese companies can try to cooperate with Latin American countries in the form of BOT.

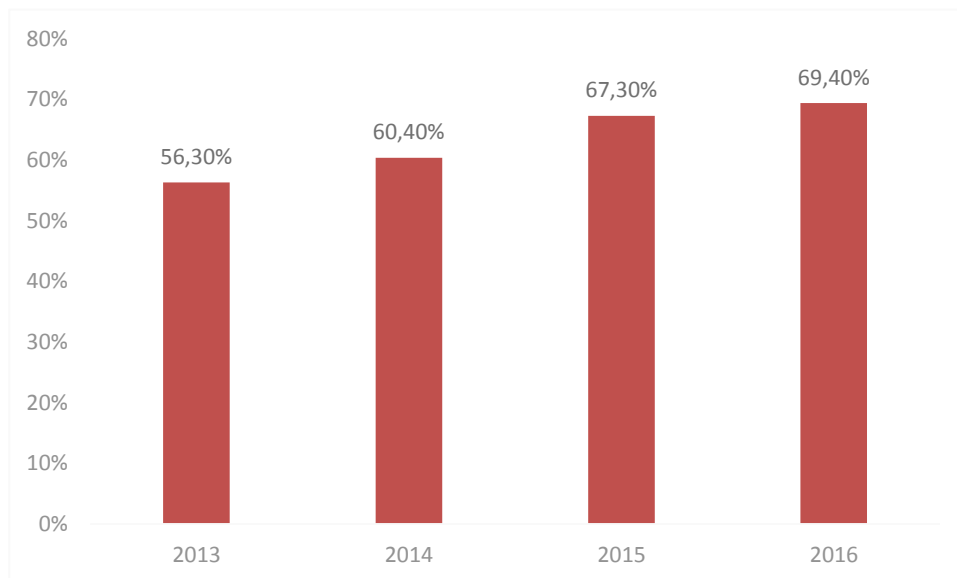
Judging from the constraints on financial product cooperation, China's financial products cooperation development in Latin America is not good enough, and the financial products lack variety. China can develop stocks, bond markets and RMB offshore markets at an appropriate time.

## **2.4 Direct investment**

### **2.4.1 The coverage of China's direct investment in Latin America has increased, but the concentration is still high.**

As can be seen from Figure 2-1, the coverage of China's direct investment in Latin America has increased in recent years, from 56.3% in 2013 to 67.3% in 2015 and 69.4% in 2016. In 2016, China began to invest in Honduras. However, as can be seen from Table 2-3, China's investment in Latin America in 2016 are still mainly concentrated in the Cayman Islands and the Virgin Islands. China's total investment in these two regions

accounts for about 95% of the total investment in Latin America. According to the statistics of the Bureau of Statistics, the cumulative investment stock in the two places reached 192.97 billion US dollars.<sup>4</sup> It can also be seen from the table that in addition to the two regions above, China's direct investment in Latin American countries and regions is quite limited, accounting for about 4.3% of the total. And it is unevenly distributed, mainly in Brazil and Mexico. The rest of the countries and regions account for only about 0.9%, far less than the total investment attracted by the Cayman Islands and the Virgin Islands, which means that the regional concentration is very high.



**Figure 2-1:** China's investment coverage in Latin America from 2013 to 2016

Source of data: “Statistical Bulletin of China's Foreign Direct Investment” jointly published by the Ministry of Commerce, the National Bureau of Statistics, and the State Administration of Foreign Exchange, 2013-2016 data compilation.

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<sup>4</sup> National Bureau of Statistics

**Table 2-3: Regional distribution of China's direct investment in Latin America in 2016**

| Area                       | Proportion |
|----------------------------|------------|
| Cayman Islands             | 49.68%     |
| The British Virgin Islands | 45.14%     |
| Brazil                     | 3.50%      |
| Mexico                     | 0.78%      |
| other                      | 0.9%       |

**Source of data:** According to the 2016 Statistical Data Bulletin of China's Foreign Direct Investment jointly issued by the Ministry of Commerce, the National Bureau of Statistics, and the State Administration of Foreign Exchange.

In summary, it can be seen that China's investment distribution in Latin America is extremely uneven, and the regional distribution corresponds to the characteristics of the investment field, that is, stock investment is mainly concentrated in business services and high-tech fields. We will analyze this in the next section.

#### **2.4.2 China's investment in Latin America involves a wide range of industries, but there is relatively insufficient industrial investment.**

From the distribution of industries involved in direct investment in Table 2-4, it can be seen that, as of the end of 2016, although China's stock investment in Latin America has involved multiple industries, investment in leasing, service and high-tech fields accounted for 50% of total investment. Different from previous years, the investment in the financial industry has dropped significantly, causing it to fall from the second place to the fourth place. This is exactly the result of the above-mentioned high concentration of direct investment in Latin America. The Cayman Islands and the Virgin Islands are known worldwide for tax avoidance. Many commercial and high-tech companies are registered here to avoid tax .

**Table 2-4: Industry Distribution of China's Direct Investment Stock in Latin America in 2016**

| Foreign direct investment industry                                      | Stock<br>(100 million US dollars) | Proportion (%) |
|-------------------------------------------------------------------------|-----------------------------------|----------------|
| Leasing and business services                                           | 690.4                             | 33.3           |
| Information transmission / software and information technology services | 380.2                             | 18.4           |
| Wholesale and retail trade                                              | 371.4                             | 17.9           |
| Financial industry                                                      | 242.6                             | 11.7           |
| mining industry                                                         | 159.3                             | 7.7            |
| total                                                                   | 1843.9                            | 89.0           |

**Source of data:** According to the 2016 Statistical Data Bulletin of China's Foreign Direct Investment jointly issued by the Ministry of Commerce, the National Bureau of Statistics, and the State Administration of Foreign Exchange.

It can also be seen from the above table that the industries with smaller direct investment stocks are mainly in the industrial sector, with a total of 37%, which is very small compared with the investment in the tertiary industry. It can be seen that China's investment in Latin America is still driven by corporate tax avoidance motives, and investment in industry is relatively insufficient.

#### **2.4.3 China's direct investment in Latin America is growing rapidly but the stock is small.**

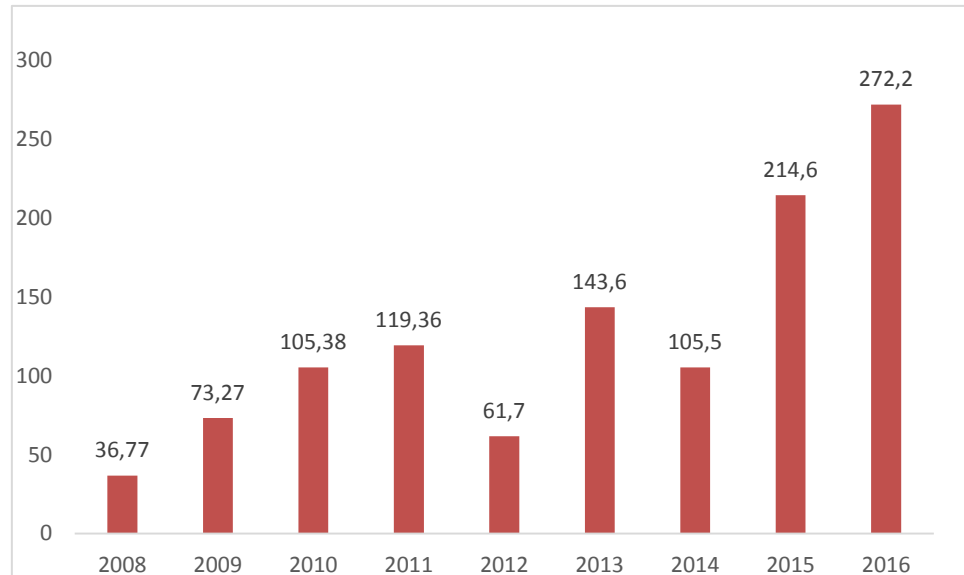
In the past 30 years, China has gradually increased the scale of direct investment in Latin America, which shows that Latin America is of great significance to China's future development. In the decade when China and Latin America began economic exchanges in 1990, China's direct investment in Latin American countries totaled about \$30.6 billion.<sup>5</sup> In 2010, China became the third largest direct investor in Latin America and the Caribbean. In 2011, Latin America was the second largest destination for China's foreign investment in developing countries and regions, second only to Asia.<sup>6</sup>

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<sup>5</sup> National Bureau of Statistics

<sup>6</sup> National Bureau of Statistics

**Figure 2-2: 2008-2016 China's direct investment in Latin America (unit: billion US dollars)**

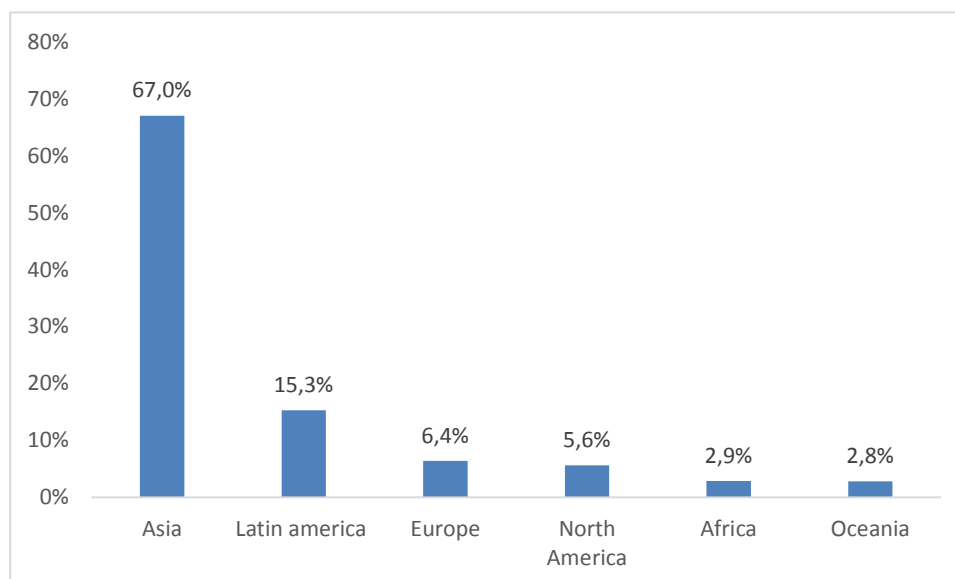


**Source of data:** According to the “Statistical Bulletin of China's Foreign Direct Investment” jointly published by the Ministry of Commerce, the National Bureau of Statistics and the State Administration of Foreign Exchange, the data was compiled in 2008-2016.

Although China's direct investment in Latin America has increased, it is still at a lower level than China's direct investment in other regions. As can be seen from China's investment in various continents in Figure 2-3, about 70% of China's investment is still concentrated in Asia. Investment in Latin America accounts for about 11.5% of total foreign investment. Compared with Asia, which ranks first, there is still a big gap and there is still room for development. Although there is still a big gap with Asia, after the Latin American region first surpassed Europe (which ranked second) in 2015 and became China's second largest investment destination, China's stock of direct investment in Latin America continued to increase to 29.8 billion dollars in 2016. Through the above data comparison, it can be seen that China's direct investment in Latin America in 2016 is equivalent to China's stock of direct investment in Latin America before 2009. This means that Latin America has gradually developed into an important receiving region for China's foreign direct investment, but it is still not a major

receiving region, and it still has great potential for development in accepting Chinese investment acceptance area.

**Figure 2-3: China's share of direct investment (stock) on all continents in 2016**



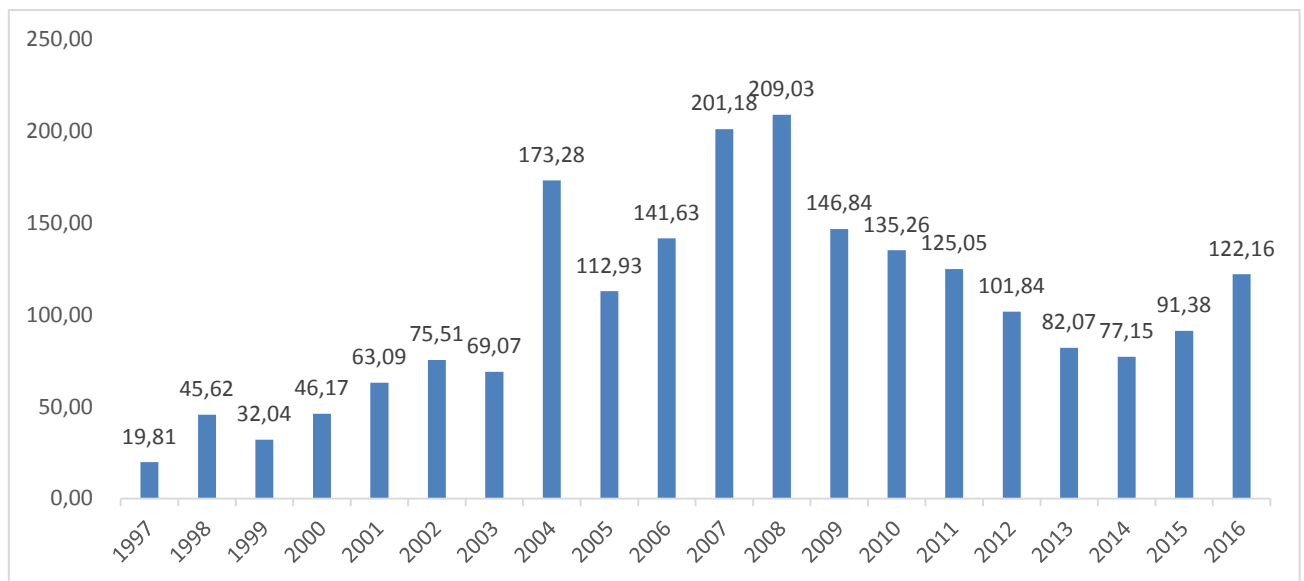
Source: According to the 2016 Statistical Data Bulletin of China's Foreign Direct Investment jointly issued by the Ministry of Commerce, the National Bureau of Statistics, and the State Administration of Foreign Exchange.

#### **2.4.4 Latin America's direct investment in China has increased but it has not reached the highest level in history.**

Since 1997, the scale of direct investment from Latin America to China has gradually increased, from 1.981 billion dollars in 1997 to 20.903 billion dollars in 2008, reaching the highest level in nearly 20 years. Subsequently, due to the global financial crisis, the economies of various countries experienced different levels of depression or even declined. The scale of Latin America's direct investment in China has also been declining. In the following figure, from 2008 to 2014, the investment scale gradually decreased from \$20.903 billion to \$77.15 billion, which is roughly the same as that of 2002. Since 2015, due to the "One Belt, One Road" initiative, exchanges between China and Latin America have become more frequent. This is manifested not only in the increase in the scale of Latin America's

direct investment in China (Figure 2-4), but also in China's direct investment in Latin America (Figure 2-2). However, as can be seen from Figure 2-4, although the scale of Latin America's direct investment in China is constantly increasing, there is still a large gap compared with that of 2007 and 2008.

**Figure 2-4: Latin America's direct investment in China from 2008 to 2016 (unit: billion US dollars)**



Source: Wind database

## 2.4.5 The Virgin Islands and the Cayman Islands are the major economies that invest directly in China.

The following table shows that the Virgin Islands and the Cayman Islands have been the most important regions for Latin America's direct investment in China, accounting for more than 95% of Latin American FDI to China, while Brazil, the Bahamas, Chile, Mexico and other Latin American countries account for less than 5%. This may be caused by a large proportion of return investment in China among international tax havens. As can be seen from the analysis above, the Virgin Islands and the Cayman Islands are the main areas for direct investment between China and Latin America. Both inflows and outflows of direct investment account for more than 95% of the investment scale.

**Table 2-5: Latin America's Direct Investment in China t by Region during 2012-2016 (Unit: US\$100 million)**

| Country (region)   | 2016     | 2015    | 2014    | 2013    | 2012     |
|--------------------|----------|---------|---------|---------|----------|
| Latin America      | 122.1618 | 91.3768 | 77.1545 | 82.0687 | 101.8357 |
| The Virgin Islands | 67.3957  | 73.8778 | 62.2566 | 61.5858 | 78.3086  |
| Cayman Islands     | 51.5133  | 14.4446 | 12.5509 | 16.6825 | 19.754   |
| Brazil             | 0.4667   | 0.5084  | 0.2811  | 0.2304  | 0.576    |
| Bahamas            | 0.4271   | 1.4895  | 0.8412  | 0.8192  | 0.3731   |
| Chile              | 0.03     | 0.0526  | 0.0625  | 0.2094  | 0.2075   |
| Mexico             | 0.0074   | 0.0731  | 0.0319  | 0.158   | 0.1487   |

**Source:** National Bureau of Statistics

## 2.5 Credit System Construction

### 2.5.1 The ability of regional coordinated supervision and response to financial crisis needs to be strengthened.

Most of the countries in Latin America are emerging developing countries, so there are differences not only in the stage of economic and financial development, but also in the challenges in political, economic, and social aspects. In addition, the overall financial strength of Latin American countries is weak, the primary and secondary markets are developing slowly, and the investment and financing system is lacking. More critically, the domestic regulatory system in some countries cannot adapt to the degree of openness of the country, resulting in an increase in financial risks. The financial cooperation between China and Latin America involves multiple countries, multiple currencies, and multiple sets of regulations, so it is necessary for China to establish a broad, effective and multilateral financial framework. At the same time, with the gradual deepening of financial cooperation between China and Latin American countries, the traditional financial risk generation methods will inevitably undergo qualitative changes. The changes in industrial layout and regulatory policies are also likely to increase the financial risks of Chinese financial institutions. In order to cope with the uncertainty of overseas financial investment and reduce the probability of financial risks, a new regional risk warning mechanism needs to be established.

## **2.5.2 Financial investment faces more risks.**

Compared with domestic investment, foreign direct investment usually faces more uncertainty and greater risk. Due to the political turmoil and economic backwardness in Latin America, when financial institutions provide financial services to these countries, they must not only take into account the local economic level, business environment, foreign exchange control, etc, but also carefully consider market operation risks and geopolitical conflict risks caused by local political and cultural factors. In addition, most of the overseas construction projects involve resource and energy-based industries and infrastructure construction industries. These industries require large investment funds, long capital operation cycles, and unknown future dividends. So, they have the characteristics of high investment cost and high risk. Therefore, financial institutions and Chinese companies face more diversified and greater risks than domestic investment when they provide financial investment to Latin American countries.

## **2.5.3 Credit guarantee mechanism is not perfect.**

There are many countries in Latin America, and there are huge differences between China and Latin America in both history and culture. Due to the lack of full understanding of the customs and customs of Latin American countries, financial institutions that “go out” often have difficulty in achieving accurate risk assessment and operational decisions as a result of information asymmetry. In addition, the financial institutions currently conducting business in Latin America are mainly using state-owned capital. In the process of foreign economic and trade interactions, they tend to focus on dealing with government relations and neglect the relationship with local civil organizations and citizens. From China's domestic perspective, although domestic regulators encourage financial institutions to keep up with the pace of domestic enterprises to “go out” and provide financial support for their business in Latin America, the domestic credit guarantee system has not been established for these financial institutions. From the perspective of

financial institutions themselves, the establishment of credit guarantee mechanism to reduce financial risks through financial instruments and product development, improvement of customer credit information, and regular communication with similar overseas institutions is not complete. In summary, in the process of financial integration in Latin America, the establishment of credit guarantee institutions needs to be improved.

### **3. Measures and Suggestions on Improving Financing between China and Latin America**

#### **3.1 Solve the funding gap and increase equity investment**

At present, there is still a funding gap in the “Belt and Road” construction. How to solve the financial gap and mobilize more financial resources to support its development is indeed a huge challenge for the financial sector. It is important to leverage capital investment or equity investment. Equity investment helps to reduce the debt ratio of enterprises, and plays an important role in credit enhancement and capital leverage. If the project has sufficient capital, it will be easier to leverage more loans or other forms of financing. Therefore, it is more important to mobilize more equity investment than to provide loans themselves. Silk Road Fund is positioned as medium and long-term development investment fund, with equity investment as the main investment. At present, equity investment accounts for more than 70%. Financial institutions should also consider how to provide more equity investment for the project in the construction of China-Latin America capital accommodation to stimulate the participation of other funds.

#### **3.2 Launching multilateral financial cooperation**

China should effectively carry out multilateral financial cooperation and promote the realization of a win-win situation in financial integration with Latin America. For Chinese companies to “go out”, financial support is what is needed most. Efforts should be made to promote the opening and operation of Asian Infrastructure Investment Bank. Silk Road Fund should

continue to increase its support and actively establish a pilot program for RMB settlement in Latin America to encourage financial institutions to provide RMB settlement support and convenience for Chinese companies that conduct economic activities such as trade and resource exploitation in Latin America. At the same time, it should establish a multilevel financial support framework encompassing financial instruments such as loans, insurance, and stocks. Through these two means, it can not only provide economic security and support for Chinese enterprises in Latin America, but also promote the process of internationalization of the RMB and achieve a win-win situation for China's financial cooperation with Latin America.

### **3.3 Expand greenfield investment and support the real economy**

In terms of investment stock, although China's investment in Latin America exceeded that in Europe for the first time in 2015 and Latin America became China's second largest destination for direct foreign investment, there even is still a big gap compared with that in Asia, which ranks first on the list. Even though the stock of investment increased in 2016, the gap has not narrowed significantly. Judging from the actual needs of local development, what is more urgent for Latin American countries is "greenfield investment". "Greenfield investment" can not only increase the total foreign investment in Latin American countries, but also increase its production capacity and employment rate. Its development power in the fields of oil and gas, metal minerals, forests and fisheries with large capital demand is relatively weak. These are areas where it is easy for Chinese enterprises to enter. Therefore, in formulating China's investment plan for Latin America, we must fully consider the demands of Latin American countries and the actual national conditions of their development, expand the scale of greenfield investment, and increase China's direct investment stock.

Affected by tax evasion, China's investment in Latin America is mainly concentrated in the two industries of leasing & business services and finance, and investment in industry is relatively insufficient. The Chinese government can introduce corresponding policies, actively guide and support

enterprises to further expand the field of direct investment in Latin America, guide more funds to flow into the industrial field, and improve the investment structure. For example, China's household electrical appliance industry is highly competitive internationally, and related technologies are relatively mature. If it is introduced into the Latin American market, a certain market can be obtained. Therefore, the industrial industry with international competitiveness in China can be introduced into the Latin American market to promote the development of related fields in Latin America.

### **3.4 Encourage Chinese companies to make differentiated direct investments in Latin America.**

In terms of regional distribution of investment, more than 90% of China's investment in Latin America is distributed in the Cayman Islands and the Virgin Islands, and the concentration is very high. On the one hand, it is not conducive to promoting the balanced development of Latin America. On the other hand, it is not conducive to China's full exploitation of the resource potential of Latin America. Therefore, to make different countries develop in a balanced manner, differentiated direct investment should be made according to the resource characteristics and actual development needs of different countries in Latin America. For example, Venezuela has great advantages in petroleum resources; Brazil and Chile are more competitive in metal resources. In addition, Argentina's food and meat production is also among the highest in the world. China can make differentiated investments according to the different development advantages of the above-mentioned countries, which not only can promote the rapid development of the relevant countries' economies, but also solve the lack of relevant resources faced by China's relatively strong domestic demand and huge potential for future development after China enters the “new normal” situation.

### **3.5 China should steadily promote financial openness to attract more Latin American companies and financial institutions to China.**

The long distance between China and Latin America and the asymmetry of related information are one of the practical factors that limit Latin American companies and financial institutions' investment in China. However, with the development of science and technology, we can make full use of e-commerce and other channels to establish a stable and authoritative platform and channel for information exchange, and enhance Latin American enterprises and financial institutions' understanding of the Chinese market. Latin America's investment in China is mainly concentrated in manufacturing and some service industries. This also reflects that Latin America's investment in China is an investment which intends to look for markets or resources such as labor. For this reason, China can steadily push forward the current relevant financial open policy, gradually eliminate the financial industry's restrictions on foreign ownership, and use the financial industry as a breakthrough to attract more Latin American companies and financial institutions to set up branches or investments in China, thereby expanding Latin America's scale of investment in China.

### **3.6 Building a regional financial risk warning system**

There are certain risks in transnational financing. On the one hand, Latin America and China have different policies, laws and regulations, customs, and consumption characteristics, which will bring risk to relevant enterprises in Latin America. On the other hand, the global investment in Latin America is concentrated in a few countries such as Brazil, Mexico, and Argentina, and investment and trade frictions are prone to occur, which will also create certain risks. Therefore, the Chinese government should give full play to the advantages of the government and collect relevant information to build a regional financial risk warning system, which will be transmitted to Chinese enterprises and financial institutions in Latin America through reports, documents and notices to help them avoid risks and make greater contributions to promoting China-Latin America investment and trade development.

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