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## ARGENCHINA

### THE CHINESE PRESENCE IN ARGENTINA

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Sino-Argentine relations have seen a comparative boom since the outset of the Argentine peso default in 2001 and Néstor Kirchner's 2003 presidency, and have further strengthened during current President Cristina Kirchner's tenure. As it stands today, China is, after Brazil, Argentina's second most important trading partner, having received eight per cent of Argentine total exports and providing 13 per cent of its total imports by 2011.<sup>1</sup> This represented a doubling of trade flows from the previous decade, with exports themselves quintupling and imports increasing tenfold (Table 1). These numbers are particularly significant given that, while a Chinese presence in Argentina was certainly not unknown in the pre-crisis era, it had never come close to matching other waves of East Asian inflow into South America (e.g. from Japan to Brazil/Peru).

China and Argentina differ in almost all measurable socio-economic aspects, save for two key features: the complementarity of their trade flows and a desire to distinguish themselves from former colonial and hegemonic powers. Although there still exists no major grouping of nations involving China and Argentina that does not also involve the United States, the EU or Japan, a socio-historical brotherhood between China and Argentina has played itself out in more strictly bilateral terms.<sup>2</sup>

1 | Marcelo Elizondo, "Asia, el nuevo continente emergente para los negocios argentinos", *Desarrollo de Negocios Internacionales*, 23 Oct 2012, <http://consultoradni.com/asia-el-nuevo-continente-emergente-para-los-negocios-argentinos> (accessed 21 Aug 2013).

2 | Eduardo Oviedo, "Argentina Facing China: Modernization, Interests, and Economic Relations Model", *East Asia*, 2013, Vol. 30, 8.

Table 1

**Bilateral Trade with China from 2000-2011**

<b>Year</b>	<b>Exports in mio. U.S. dollars</b>	<b>Exports, Variation in per cent</b>	<b>Imports in mio. U.S. dollars</b>	<b>Imports, Variation in per cent</b>	<b>Trade balance in mio. U.S. dollars</b>	<b>Trade volume in mio. U.S. dollars</b>
1998	681.79	-21.7	1,167.50	16.1	-485.71	1,849.29
1999	508.00	-25.5	992.12	-15.0	-484.13	1,500.12
2000	796.93	56.9	1,156.74	16.6	-359.81	1,953.66
2001	1,122.61	40.9	1,066.33	-7.8	56.29	2,188.94
2002	1,092.35	-2.7	330.17	-69.0	762.19	1,422.52
2003	2,478.42	126.9	720.76	118.3	1,757.67	3,199.18
2004	2,628.32	6.0	1,401.81	94.5	1,226.51	4,030.14
2005	3,192.65	21.5	2,238.09	59.7	954.56	5,430.74
2006	3,473.34	8.8	3,121.85	39.5	351.50	6,595.00
2007	5,172.60	48.9	5,092.68	63.1	79.92	10,270.00
2008	6,393.97	23.6	7,104.38	39.5	-710.41	13,498.35
2009	3,620.48	-43.4	4,823.15	-32.1	-1,202.67	8,443.64
2010	5,798.69	12.1	7,649.00	50.2	-1,850.31	13,447.69
2011	6,237.84	7.6	10,572.96	38.2	-4,335.13	16,810.80
Jan-Sep 2011	4,924.10	-	7,569.20	-	-2,645.10	12,493.30
Jan-Sep 2011	4,175.80	-15.2	6,944.50	-8.3	-2,768.70	11,120.30

Source: Dirección de Relaciones Económicas Bilaterales, Ministerio de Relaciones Exteriores y Culto, Buenos Aires, 2012.

Fig. 1  
**Province-Based Chinese FDI Targets in Argentina**



Source: Ramón-Berjano and Girado, n. 7 , Fig. Wikimedia, Tubs ©①②.

While Argentine investment in China has also been growing, the chief concern for many has been a spike in Chinese investment not just in Argentina, but all across Latin America, as part of China’s so-called “go out” policy.<sup>3</sup> Past analyses have focused on the Chinese presence in Africa as it seeks to secure precious minerals and hydrocarbon-based energy sources, but Latin America provides a newer and

3 | Zhu Hongbo, “Building the New Silk Road”, *Globalization, Competitiveness, and Governability*, Jun-Apr 2012, Vol. 6, No. 1, 133.

more complicated playing field.<sup>4</sup> Broadly speaking, it offers more established political and industrial/manufacturing institutions around which Chinese investors have had to navigate more carefully. Undeterred, China in 2008 issued its first “white book” on policy and investment guidelines for the region: *Chinese Policy towards Latin America and the Caribbean*.<sup>5</sup> This motions towards the Chinese state now considering Latin America a valuable enough market to where a unified and tailored approach to the region is merited. The Argentine government has no such guidelines for China.

Current trade and investment flows between China and Argentina can be principally described in terms of complementarity. Argentina supplies valuable natural resources to China (soy exports helped lift Argentina out of both its own financial crisis in 2001 and the global crisis of 2008), and China in turn provides low-cost manufactures: typically machinery, electronics, and other industrial goods.<sup>6</sup> While China has an undoubtedly rich topography (specifically in rare earth materials), its demand for agricultural products far outstrips what it is able to grow domestically. In this vein, Argentina is one of China’s biggest suppliers of soy and soy-based products (these alone came close to five billion U.S. dollars in 2011), with earth-based elements like iron ore also constituting an increasingly key export sector. China’s economic strategy mandates an FDI concentration in three main sectors within Latin America: energy, minerals, and foodstuffs/agriculture.<sup>7</sup> As such, Argentina finds itself a major player in Chinese FDI flows. Whether it is able to successfully exploit energy reserves in areas such as Vaca Muerta and the North Malvinas basin will likely determine its value as a future energy supplier, but it (like China) is currently a

**While China is undoubtedly rich in rare earth materials, its demand for agricultural products far outstrips what it is able to grow. In this vein, Argentina is one of China’s biggest suppliers of soy.**

4 | Axel Borgia, “Argentina: la ‘nueva África’ de la R.P. china”, *La Gran Época*, 4 Jan 2011, <http://lagranepoca.com/argentina-la-nueva-africa-de-la-rp-china> (accessed 16 Aug 2013).

5 | Pablo Nacht, “El Dragón en América Latina”, *Revista de Ciencias Sociales*, Sep 2013, Vol. 45, 147.

6 | Oviedo, n. 2, 19-20.

7 | Carola Ramón-Berjano and Gustavo Girado, “Las Crecientes Relaciones China-África y China-Latinoamérica”, Miguel Velloso and Jorge Malena (eds.), *Nuevas Estrategias de Relacionamento con la República Popular China*, CARI, Buenos Aires, 2012.

net energy importer.<sup>8</sup> Besides FDI from state and private sources, China also uses low-interest loans and diplomatic support to further bolster bilateral ties; Argentina, as a nation ineligible for traditional multilateral (e.g. IMF) loans and stuck in intractable foreign policy disputes (e.g. Falklands/Malvinas) in international forums, is in need of both.<sup>9</sup>

Argentina, for its part, cannot be said to have quite the same focused strategy as does China. It does not have an absolute need for imported Chinese manufactures (although neither does it turn them away), and in that sense it can be said to have an upper hand. This is to say that if trade flows were to stop, Argentina would certainly

lose a major buyer of its agricultural exports,

**While few investors seem currently willing to invest in the Argentine economy, Chinese companies continue to establish investment accords, thereby counterbalancing an overbearing United States.**

but it is not itself strictly dependent on any Chinese imports.<sup>10</sup> However, because of its financial difficulties and isolated diplomatic status, Argentina seems to have elevated

China to a strategic position the latter would

not otherwise occupy. While few investors seem currently willing to invest in the Argentine economy, Chinese companies continue to establish investment accords and, as stated earlier, represent a “new pole” to do business with, thereby counterbalancing an overbearing United States.<sup>11</sup> As will be discussed later, there are also other considerations within the Argentine government that have encouraged a strengthening in economic relations with China even if it is not necessarily in the long-term interests of the Argentine state. Currently, then, the economic relationship remains such that China provides Argentina with capital investment and diplomatic clout, while Argentina provides China with key agricultural and earth-based primary products.

8 | “Argentina’s Oil Industry, Feed Me Seymour”, *The Economist*, 16 Apr 2012, <http://economist.com/node/21552927> (accessed 16 Aug 2013).

9 | He Li, “China’s Growing Interest in Latin America and Its Implications”, *Journal of Strategic Studies*, Aug-Oct 2007, Vol. 30, No. 4-5, 836; see also Sergio Cesarín, “China y Argentina: Enfoques y Recomendaciones de Política para Potenciar la Relación Bilateral”, CEPES and Friedrich-Ebert-Stiftung, Buenos Aires, 2010, 6/26.

10 | Julio Sebares, “*Clarín*”, Buenos Aires, personal interview, 4 Jul 2013.

11 | Carlos Mendes, “China in South America: Argentina, Brazil, and Venezuela”, *East Asia*, 2013, Vol. 30, 2.

## SHORT-TERM OUTLOOK<sup>12</sup>

As Argentina has been characterised as having a “hyper-presidential” system steeped in a tradition of *caudillismo*, the presidency has at its disposal a vast amount of power to direct national economic policy. Thus, every presidential election represents a potential “pivot point” for Argentine economic relations, and indeed Néstor Kirchner’s 2003 victory and Cristina Kirchner’s second 2011 victory do seem to justify this label. This can be contrasted with, for example, China’s Politburo, which has emphasised a more gradual approach to any restructuring of economic policy; other core democracies like the United States and Japan also seem to have a far greater amount of continuity in the way economic relations are approached, regardless of the political affiliation of each individual administration.

Following her aforementioned second term victory, Cristina Kirchner’s economic policy has been erratic at best. Investors have been given mixed signals of an Argentina desperate for foreign financing and welcoming FDI with one hand while using the other to stymie major business ventures in the name of “self-sufficiency”.<sup>13</sup> Perhaps the most well-known example of this has been the expropriation of YPF from Spain’s Repsol, which Chinese investors had been examining for M&A purposes before Kirchner’s expropriation dashed hopes of any possible deal.<sup>14</sup> The general consensus from most economic experts, both China-based

12 | For our purposes, “short-term” will be defined as until the end of current Argentine President Cristina Kirchner’s mandate in 2015.

13 | “Chau chinos: ‘Miro con mucha desconfianza lo que va a pasar’, admitió Ríos”, *Sur54*, 29 Apr 2013, <http://sur54.com.ar/chau-chinos-miro-con-mucha-desconfianza-lo-que-va-a-pasar-admiti-ros> (accessed 16 Aug 2013); vgl. “La empresa resolvió vender la maquinaria almacenada en Chile”, *El Diario del Fin del Mundo*, 7 Jun 2013, <http://eldiariodelfindelmundo.com/noticias/leer/49113> (accessed 16 Aug 2013); cf. Brian Winter, “Why Are Investors Fleeing Argentina Again?”, *Reuters*, 15 Jun 2013, <http://www.abs-cbnnews.com/business/06/15/13/why-are-investors-fleeing-argentina-again> (accessed 16 Aug 2013); vgl. Diego Guelar, “Orgullosamente Solos”, *Infobae*, 23 May 2013, <http://opinion.infobae.com/diego-guelar/2013/05/23/orgullosamente-solos> (accessed 17 Aug 2013).

14 | Miles Johnson, Jude Webber and Anousha Sakoui, “Argentina swoop scuppers China oil deal”, *Financial Times*, 17 Apr 2012, <http://ft.com/intl/cms/s/0/483b1c78-88b3-11e1-9b8d-00144feab49a.html> (accessed 17 Aug 2013).

and otherwise, is that Argentina has no consensus itself.<sup>15</sup> The best guess here is that Kirchner seems to have shifted into a reactive decision-making mode; this is to say, economic policy is formed in the short-term as a reaction to individual incidents (e.g. congressional elections, shale gas discoveries, dollar reserves depleting, etc.)

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and national mood.<sup>16</sup> While Kirchner has undoubtedly gained populist points among certain blocs of the electorate for her reactive stances, it heavily constrains Argentina's options in the long-term via a lack of any real planning for the future. China has also been frequently frustrated by the Argentine government's accounting procedures for trade and investment flows via the latter's statistics agency, INDEC, which has already been censured by the IMF for misreporting inflation data.<sup>17</sup> The discrepancies between Chinese and Argentine bilateral trade numbers have led both governments to conclude that the other side has benefited disproportionately in recent years; however, most analysts agree that Argentina's surplus in trade with China ended around 2008, and it is now running a significant trade deficit.<sup>18</sup>

In the short-term, then, China has focused more on investment projects with provincial governments, although this is also due to the fact that natural resources are provincial as opposed to national economic property.<sup>19</sup> The majority of economic accords at the national-national level have so far

15 | Former Ambassador Guillermo Nielsen, Ministerio de Relaciones Exteriores y Culto, Buenos Aires, personal interview, 25 Jun 2013; Dr. Carlos Moneta, Universidad de Tres de Febrero, Buenos Aires, personal interview, 4 Jul 2013; Dr. Carlos Moneta, Universidad de Tres de Febrero, Buenos Aires, personal interview, 4 Jul 2013; Dr. Edmund Amann, University of Manchester, Manchester, personal interview, 27 Jun 2013.

16 | Ebd.

17 | "Motion of censure: The fund blows the whistle", *The Economist*, 9 Feb 2013, <http://economist.com/news/americas/21571434-fund-blows-whistle-motion-censure> (accessed 17 Aug 2013).

18 | Ambassador Eduardo Ablin, "China, Que China?", Centro de Estudios de Política Internacional, Buenos Aires, Feb 2013, 14.

19 | Argentine Republic, "Constitución de la Nación Argentina, Buenos Aires", 15 Dec 1994, Art. 124.

been strictly rhetorical in nature,<sup>20</sup> but national-provincial agreements have borne some fruit: petrochemical projects, mine exploration (see chapter “The Mines of Sierra Grande”), and transportation infrastructure have all seen varying amounts of actual Chinese FDI.<sup>21</sup> Even these projects, however, have met with questionable success, as the Chinese-backed petrochemical company TEQSA in Tierra del Fuego was recently forced to disinvest after a dispute between provincial and national Argentine officials.<sup>22</sup> Additionally, Chinese trains used for Buenos Aires transit have now come under scrutiny by labor unions for poor quality, and are seen as a possible causative element in the most recent fatal train crash in the urban rail network in June 2013.<sup>23</sup> An important cautionary note here is that, while these types of investments seem to be growing overall, they represent a miniscule fraction of China’s FDI abroad (see Table 2), and even of its FDI directed to Latin America and the Caribbean (LAC) specifically.<sup>24</sup> By 2009, financial crisis aside, Chinese FDI abroad reached 263 billion U.S. dollars, of which about 19 per cent was directed to LAC. However, banking havens in the Caribbean took 96 per cent of this sum, with Argentina receiving only 0.5 per cent of the FDI for LAC – approximately 252 million U.S. dollars.<sup>25</sup> This seems unlikely to change as long as tax laws remain so favorable in certain areas and political unpredictability continues elsewhere in Latin America, and in Argentina in particular.

**By 2009 Chinese FDI abroad reached 263 billion U.S. dollars. About 19 per cent was directed to LAC, with Argentina receiving only 0.5 per cent.**

20 | Andrés López and Daniela Ramos, “The Argentine Case”, *China and Latin America: Economic Relations in the Twenty-First Century*, in: Rhys Jenkins and Enrique Dussel Peters (eds.), DIE, UNAM and CECIMEX, Bonn and Mexico City, 2009, 137; cf. Li, n. 9, 845 and 854.

21 | Silvia Simonit, “Las Empresas Chinas en Argentina”, *Tejiendo Redes*, Carlos Moneta and Sergio Cesarín (eds.), 2012, 149-155.

22 | El Diario del Fin del Mundo, n. 13.

23 | Facundo Chaves Rodríguez, “Para el gremio de maquinistas, con el video quieren inculpar al conductor de la tragedia de Castelar”, *La Nación*, 1 Jul 2013, <http://lanacion.com.ar/1597271> (accessed 17 Aug 2013).

24 | López and Ramos, n. 20, 136.

25 | Hongbo, n. 3, 128.

Table 2

**China FDI Flows to LAC through 2009**

Country resp. Region	Investment before 2009	Investment in 2009	Share in per cent
World	220,000	43,000	
Latin America and Caribbean	41,179	8,000	100.0
Cayman Islands	27,682	7,354	67.2
British Virgin Islands	11,807	1,330	28.7
Brazil	289	72	0.7
Peru	279	85	0.7
Argentina	213	39	0.5
Venezuela	176	20	0.4
Mexico	175	2	0.4
Ecuador	90	1	0.2
Panama	77	10	0.2
Cuba	72	0	0.2

Source: Hongbo, n. 3, 128.

Apart from actual FDI, the Chinese presence has found a growing representation in the supermarket industry within major urban centers. These supermarkets – called *chinos* by locals – are owned and almost entirely operated by Chinese immigrants, and are typically able to offer competitive prices and convenient locales to rival bigger international chains. Regarding pricing and importation of goods, there has been speculation that the Chinese government, through the links of its Buenos Aires embassy with these supermarkets' CASRECH associative chamber, is heavily involved in organising and facilitating the mass purchase of goods for these supermarkets.<sup>26</sup> This is to say that, while the supermarkets are run on a day-to-day basis by private individuals, there is likely a higher level of supervision/orchestration carried out by Chinese state officials through a supply chain to the supermarkets. Much of this remains

26 | Borgia, n. 4; cf. López and Ramos, n. 20, 140; cf. Gonzalo Paz, "Argentina & Asia, 2001-2010: Re-Emergence of China, Recovery of Argentina" (draft paper), *Woodrow Wilson International Center for Scholars*, Washington, 2013, 15.

mired in speculation, but it is rather curious how such a large quantity of unskilled Chinese immigrants have found their way to Argentine urban centers – that alone is viscerally striking, as is the seeming ease with which these immigrants are able to set up their supermarkets in such vast numbers. Tellingly, as even high-end businesses leave Argentina over import restrictions, their locales are being replaced by the so-called *chinos*.<sup>27</sup> The intervention of a logistical “higher power” – whatever its form – would do much to clear up the mystery here.



Chinese presence in the streets of Buenos Aires: Immigrants from China set up supermarkets in vast numbers. | Source: © KAS Argentina.

Argentina, having formally recognised the PRC in 1972, was only the second Latin American nation to establish a full and resident embassy in Beijing, and has since continually paid state visits to China, beginning with General Videla during the military dictatorship and occurring again during each successive democratically elected administration.<sup>28</sup> Both Kirchners paid high-profile visits to China during their presidencies in an effort to increase bilateral ties, although Néstor seems to have had more success than

27 | “Former Escada Boutique to Become a Chinese Grocery”, InvestBA, 23 Nov 2012, <https://investba.com/2012/11/escada-buenos-aires-becomes-chinese-grocery> (accessed 17 Aug 2013).

28 | Former Ambassador Fernando Petrella, Ministerio de Relaciones Exteriores y Culto, Buenos Aires, personal interview, 18 Jun 2013.

Cristina in this regard. Because the former Kirchner was dealing in 2004 with a relatively “new” Chinese superpower at the time of his visit, there was a significant amount of low-hanging fruit vis-à-vis investment proposals and diplomatic accords for both countries; this was followed by his administration’s well publicised recognition of China as a “market economy” within the World Trade Organization (WTO) during Hu Jintao’s reciprocal visit to Argentina that same year.<sup>29</sup>

Table 3  
**Anti-Dumping Measures Against China from 2003-2010**

Country	Investigations	Investigations against China	Share in per cent
Columbia	50	24	48
Turkey	146	58	40
Argentina	284	83	29
Venezuela	31	9	29
Mexico	99	29	29
Peru	69	19	28
EU	421	99	24
USA	443	102	23
Ukraine	32	7	22
India	637	142	22
Brazil	216	44	22

Source: Martín Burgos, „Las Medidas Antidumping en la Relación Comercial Sino-Argentina“, Industrializar Argentina, Dec 2011, 39.

During Cristina’s 2010 visit to Beijing, things proved more complicated, as fears of Chinese competition to Argentine industry had begun to take hold; the financial crisis of two years earlier had set the stage for a protectionist mentality

29 | J. Ignacio Frechero, “Conociendo al Dragón Ascendente: La Política Exterior Argentina Hacia China, 2003-2007”, *La Inserción Internacional de Argentina Durante la Presidencia de Néstor Kirchner*, Sandra Colombo (eds.), UNCPBA and CEIPIIL, Buenos Aires, 2011, 148-150.

in response to the continued presence of Chinese low-cost manufactures. Merely days after Kirchner's visit (producing various economic agreements, but little else),<sup>30</sup> sectors of Argentine industry successfully lobbied for a new round of anti-dumping measures against China.<sup>31</sup> Revealingly, Argentina remains the largest Latin American claimant of anti-dumping disputes against China.<sup>32</sup> Months before Kirchner's visit, China, out of frustration with the Argentine national government, had banned the import of soybean oil – although, importantly, it had not banned the import of the soybean itself. Two lines of thought likely underscore China's decision: The first, and easiest to understand, is that the import ban was merely a tit-for-tat response to existing Argentine industrial protectionist measures.<sup>33</sup> The second, and less well publicised, was a deep concern shared by Chinese and Argentine economic officials over "value-added" jobs for soybean products like oil. The complementarity of Chinese-Argentine trade ends at the processing level of natural resources, as both countries have burgeoning industries (for soy, Huandong in China and Rosario in Argentina). Chinese importation of soybean products processed within Argentina is viewed by many in the Politburo as a loss of domestic employment, and the Chinese ban on soybean oil imports from Argentina was arguably a result of this consideration.<sup>34</sup> In reality, both factors probably played a role in China's half-year ban. This episode should be taken as a particularly good illustration of the tension in bilateral trade masked by the lauded "complementarity" rhetoric – Argentina and China both desperately value their value-added and industrial sectors, which causes significant strain in trade that is manifested in anti-dumping measures, import restrictions etc.

**Argentina and China both desperately value their value-added and industrial sectors, which causes significant strain in trade that is manifested in anti-dumping measures, import restrictions and other things.**

30 | "Mrs. Kirchner leaves China with no announcement on the soy-oil embargo dispute", MercoPress, 17 Jul 2010, <http://en.mercopress.com/2010/07/17/mrs.-kirchner-leaves-china-with-no-announcement-on-the-soy-oil-embargo-dispute> (accessed 20 Aug 2013).

31 | Oviedo, n. 2, 29.

32 | Petrella, n. 28.

33 | Dr. Jorge Malena, Consejo Argentino para las Relaciones Internacionales (CARI), Buenos Aires, personal interview, 1 Jul 2013.

34 | Oviedo, n. 2, 26.

A final short-term issue to consider is that of Mercosur, given past talk of a Mercosur-China FTA. Simply put, such conjectures were never realistic. The sticking points here are threefold: First, Mercosur is borderline non-functional as its two power players, Argentina and Brazil, are finding themselves in increasing disagreement over economic policy.<sup>35</sup> Second, currently suspended member Paraguay continues to recognise Taiwan as “China” and, due to the PRC-Taiwan détente beginning in 2008, this status quo will be maintained. Finally, due to the importance of the domestic industrial sector to Argentine (and Brazilian) officials, any consideration of an FTA with China is thought to be suicidal, as even more low-cost Chinese manufactures would flood the market.<sup>36</sup> For this same reason, even a theoretical FTA between Argentina and China is impossible; the Latin American nations (e.g. Chile, Peru) that have managed such an agreement have no real industrial sectors and more fully fit the “complementarity” model, thus nullifying any fears of the decimation of domestic industry.<sup>37</sup> Regarding Mercosur, it will most likely continue to remain adrift in the short-term as Brazil and Argentina become increasingly protectionist, although an FTA between Mercosur and the EU does remain a remote possibility.<sup>38</sup> Unless significant restructuring occurs soon, Mercosur will be an organisation in name only – momentum has shifted to the Pacific Alliance, which could now consider a kind of joint agreement or trade pact with Mercosur.<sup>39</sup>

## LONG-TERM OUTLOOK

Argentina’s (and indeed the whole of Latin America’s) long-term economic future concerning Chinese investment and bilateral trade has typically been described using one key term: re-primarisation. By re-primarisation, in the case of China and Argentina we specifically mean the wiping out of Argentina’s industrial sector due to low-cost Chinese competition, and Argentina’s devolution into a strictly primary product-exporting economy (in this case soybeans and a small number of limited value-added soy products).

35 | Amann, n. 15.

36 | Ibid.

37 | Malena, n. 33.

38 | Amann, n. 15.

39 | Moneta, n. 15.

In the past few years, approximately 80 per cent of Latin American exports to China have been extracted natural resources and primary products, while 90 per cent of imports from China were manufactured goods.<sup>40</sup> The debate surrounding re-primarisation assumes a number of variables, chief among them being China's continuing purchasing power and its sustained ability to provide low-cost goods. Taking them as exogenously given, Argentina seems to have two choices ahead of it in a post-Kirchner era: as a first option, it can maintain the trade momentum as is, which will continue to result in windfall profits for the soybean industry at the cost of further eroding the nation's industrial sector. Anti-dumping measures can stall, but not prevent, the inevitable here. Its other choice, which is clearly the more difficult one, would be to play economic hardball with China by diversifying its agricultural export basket and tying the existing exports and FDI on the bilateral agenda to significant Chinese investment in vulnerable sectors and communities.<sup>41</sup>

**Taking China's sustained ability to provide low-cost goods as exogenously given, Argentina can maintain the trade momentum, or play economic hardball with China by diversifying its agricultural export basket.**

Similar to the Chilean model, investors would have to agree to certain CSR-type commitments to the local community (public health, infrastructure, environmental protections, etc.) in order to gain at least preferential access to Argentine natural resources.<sup>42</sup> Until now, quite the opposite seems to have played out, as an Argentina starved for capital flows has granted notable concessions to China with almost no focus on CSR-related issues for those few

40 | Gaston Fornes and Alan Butt-Philip, "Chinese Companies' Outward Internationalization to Emerging Countries: The Case of Latin America", *Chinese Business Review*, Jul 2009, Vol. 8 (7), 17.

41 | Ablin, n. 18, 20; Former Ambassador Diego Guelar, Ministerio de Relaciones Exteriores y Culto, Buenos Aires, personal interview, 25 Jun 2013; Julio Sevaes, "El Ascenso de China", *Nueva Sociedad*, Sep-Oct 2011, Vol. 235, 48-49; Amann, n. 15.

42 | Amann, n. 15; Johanna Robles, *The FDI and the Regional Development in Chile*, University of Illinois, Doctoral Dissertation, 2010, [https://ideals.illinois.edu/bitstream/handle/2142/16790/4\\_Robles\\_Johanna.pdf](https://ideals.illinois.edu/bitstream/handle/2142/16790/4_Robles_Johanna.pdf) (accessed 18 Aug 2013); Paz Verónica Milet, "Corporate Social Responsibility in the Large Mining Sector in Chile: Case Studies of Los Pelambres and Los Bronces", *Corporate Social Responsibility in Latin America*, United Nations Conference on Trade and Development, 2010.

projects that have even come to fruition.<sup>43</sup> While Chile's near monopoly on the world's copper supply has given it a strong upper hand in investment and trade negotiations, the 2010 soybean oil dispute proved that Argentina also has significant bargaining power: China never once stopped the importing of actual soybeans, just the refined oil. Indeed, Argentina recently extracted a controversial agreement from China to export even genetically modified soy crops, underscoring China's high demand.<sup>44</sup> If Argentina views its current economic hardships as temporary, yet its competitive advantage in soybeans as long-term, then a more sustainable environmental and trade policy can result.

**At the turn of the 20<sup>th</sup> century, Argentina was one of the wealthiest countries in the world due to the complementarity in its trade flows with Great Britain.**

Complicating matters is, again, an element of history here similar to how a perceived "periphery" status has united China and Argentina, despite there being few historical links. Analysts talk of a "re"-primarisation of the Argentine economy because, at the turn of the 20<sup>th</sup> century, Argentina was one of the wealthiest countries in the world due to the complementarity in its trade flows with Great Britain.<sup>45</sup> As in the China case, Great Britain imported primary products from Argentina, and in turn supplied it with newly industrialised goods. This era, to many, represents a kind of *belle époque* in Argentine history. Yet, two details are overlooked here that greatly distinguish previous trade with Great Britain from that occurring with China today. The first is that, at the time of Argentina's original primarisation, there was no industrial sector to protect; it was complementarity in the truest sense of the word, and so naturally British trade and investment were not a threat to Argentine industry as Chinese trade flows currently are. The second issue is that, British self-interest aside, the real investments it

43 | Daniel Argemi and Javier Luchetti, "Algunas Cuestiones sobre las inversiones chinas en la Argentina", VI Congreso de Relaciones Internacionales, 21-23 Nov 2012, 10-11; "Programa de Vigilancia Social para las Empresas Transnacionales: La Inversión China en Argentina", Foro Ciudadano de Participación por la Justicia y los Derechos Humano, Buenos Aires, 2008; Ablin, n. 18, 50/56/71-73.

44 | "China import deal boosts Argentina's genetically modified crops", United Press International, 11 Jun 2013, [http://upi.com/Business\\_News/Energy-Resources/2013/06/11/UPI-83431370981488](http://upi.com/Business_News/Energy-Resources/2013/06/11/UPI-83431370981488) (accessed 19 Aug 2013).

45 | Hongbo, n. 3, 132.

made into Argentine infrastructure revolutionised domestic transportation, especially rail. China has yet to prove itself in this regard, and indeed many investments it has realised have been limited to its own resource extraction designs. As long as the investment paradigm remains this way, Argentina will see little benefit.

A final word is now necessary regarding the aforementioned assumptions in the re-primarisation debate: Chinese growth and labor costs. While China continues to grow economically, the truth of the matter is that it still has a lower GDP per capita than Argentina, and its wealth is highly concentrated in its seaside financial centers and special economic zones.<sup>46</sup> The recent slowdown of the Chinese economy along with fears of a looming debt crisis have called into question the ability of Chinese demand to support the economies of trade partners like Argentina. The amount of bad debt within China's "shadow banks" may trigger a crisis similar to 2008 (no one knows the magnitude of the debt given how well it has been hidden and/or denied until now).<sup>47</sup> While Argentina is not financially tied to China in the same sense as the U.S. via Chinese holdings of U.S. debt, a drop in Chinese imports of Argentine soybeans and soy products would undoubtedly be a significant loss for the Argentine economy.<sup>48</sup> There are other partners Argentina can turn to in order to offset this demand gap (chief among them being India), but even these third-party nations cannot wholly make up for the loss in immediate trade.<sup>49</sup> The financial ability of the Chinese government to maintain current levels of imports is thus in some doubt, and as the details of the debt crisis and Chinese financial sector restructuring come to light throughout the coming year, expectations will be adjusted accordingly. Until then, a wait-and-see approach is necessary. Additionally, China has now become a victim of its own economic success, as

46 | Oviedo, n. 2, 11-12.

47 | Frank Langfitt, "China's 'Shadow Banking' And How It Threatens The Economy", NPR, 28 Jun 2013, <http://npr.org/blogs/parallels/2013/06/28/196617073> (accessed 19 Aug 2013); Keith Bradsher, "Easy Credit Dries Up, Choking Growth in China", *The New York Times*, 15 Aug 2013, <http://nytimes.com/2013/0816/business/global/easy-credit-dries-up-crippling-chinese-cities.html> (accessed 19 Aug 2013); Moneta, n. 15.

48 | Nielsen, n. 15.

49 | Paz, n. 26, 23.

the labor costs of a wealthier and more demanding labor force have finally had their effect.<sup>50</sup> Manufacturing jobs are slowly drifting to Southeast Asian nations like Cambodia and Vietnam, who now have a comparative advantage over China in low-cost labor. Therefore, the ability of China to maintain low-cost manufacture exports to Argentina (and thus undercut the Argentine industrial sector and induce re-primarisation) must also be taken with a grain of salt. Certainly this will not happen within a matter of years, but a proportional decrease of Chinese manufactures is entirely possible over the next two or so decades, especially if anti-dumping cases and other industrial protectionist measures continue to be employed by Argentina. A certain amount of Chinese-assisted re-primarisation has already happened in both Brazil and Argentina,<sup>51</sup> but the extent to which it will continue unabated should be critically examined.

### **CASE STUDY: THE MINES OF SIERRA GRANDE**

Of the Chinese FDI projects ongoing in Argentina, Sierra Grande presents one of the most intriguing examples, complete with all the stereotypical features of how Chinese FDI has played out in the country. As previously observed, Chinese FDI in Argentina tends to be resource-seeking, with a particular emphasis on elements and minerals – importantly, China is the principal producer and consumer of steel in the world, and relies on iron imports to maintain this position.<sup>52</sup> The

**The mining town of Sierra Grande in Río Negro province fell into a state of economic decay until a Chinese company purchased the mine under a 20-year concession in 2005 for approximately six million U.S. dollars.**

town of Sierra Grande in Río Negro province provided a near-perfect backdrop, as its iron mines had been closed in the early 90s during the Ménem administration for lack of profitability. This caused the town to fall into a state of economic decay, which seemed inevitable until A Grade Trading – a company registered in the United States as a subsidiary of Shanghai-based Leng Cheng Mining – purchased the mine under a 20-year concession in 2005 from provincial authorities for approximately six million U.S. dollars after being granted a special extension for proposal submission, after which time an additional 20 million

50 | Amann, n. 15.

51 | Moneta, n. 15.

52 | Simonit, n. 21, 152.

U.S. dollars investment was immediately planned.<sup>53</sup> It subsequently entered into a joint venture with the China Metallurgical Group Corporation (MCC) such that MCC gained 70 per cent ownership; A Grade Trading, with 30 per cent, changed its name to Minera Sierra Grande. Along with their concession came the exclusive use of Punta Colorada port facilities for shipments to China, of which several have already been made since the initial shipment in 2010.<sup>54</sup> The mines contain a total of 96 kilometres of tunnels, with now refurbished processing facilities and a 32 kilometre ferroduct to the port facilities.<sup>55</sup> A forecasted total of 120 million U.S. dollars has been projected to bring the mine to full extraction capacity (2.8 million metric tons of iron ore and 1.2 million metric tons of concentrated iron in two to three years), of which 80 million U.S. dollars has already been invested.<sup>56</sup> Current production is estimated at 1.5 million metric tons of iron ore per year, and estimates put the amount of the mines' total proved iron deposits at 200 million metric tons, with another 200 million metric tons predicted, making it one of the largest iron mines in Latin America.<sup>57</sup>

Problems facing this particular Chinese FDI project have been both publicised and non-publicised. Turning first to the former issues, Sierra Grande requires an extremely large water supply to maintain its production levels. As of 2012, over 600,000 metric tons of iron had been exported,<sup>58</sup> yet this is not nearly the production level Chinese operators wish to reach. Part of the delay in achieving this level has been that in order to reach one million metric tons alone on investors' time schedule, 35 liters of water per second are needed at processing facilities.<sup>59</sup> Sierra Grande's main water supplier has so far been unable to provide that quantity, although improvements are expected. Additionally,

53 | López and Ramos, n. 20, 139.

54 | Soledad Maradona, "La difícil experiencia china en la mina de Sierra Grande", *La Nación*, 21 Mar 2010, <http://lanacion.com.ar/1245513> (accessed 19 Aug 2013).

55 | Ibid.

56 | Ibid.; Ablin, n. 18, 50.

57 | Ablin, n. 18, 49; López and Ramos, n. 20, 139.

58 | "Minera Sierra Grande prepara segundo embarque de hierro a China", *Rio Negro*, 26 Feb 2013, <http://rionegro.com.ar/diario/minera-1078753-9701-nota.aspx> (accessed 19 Aug 2013).

59 | Maradona, Fn. 54.

a series of well publicised worker strikes and complaints at the mines have stemmed from low salaries and unsafe mining conditions.<sup>60</sup> Union bargaining and government intervention eventually quelled these protests, but worker dissatisfaction has played a significant part in production delays so far.

Finally, and most recently, there has been talk of MCC/Minera Sierra Grande pulling out all together, as the national government has recently demanded that the joint venture only work with the Argentine government-affiliated port company, Maruba, in the loading and exportation of its iron shipments.<sup>61</sup> This has essentially raised shipping costs 30 per cent for the Sierra Grande venture, and Chinese investors are now threatening to pull out, as the business is becoming unprofitable. They have also cited government restrictions on capital imports (particularly U.S. dollars), a fall in steel demand, and a delay in a 70 million U.S. dollars IVA devolution they have been scheduled to receive.<sup>62</sup> As is typical, the provincial government has come down firmly on the side of Sierra Grande, and has even facilitated talks between the joint venture, the national Secretary of Mining, and the Chinese ambassador in Buenos Aires.<sup>63</sup> The results of the May 2013 talks were inconclusive, although Sierra Grande remains in operation.

**Particularly disconcerting to some has been the low price and perceived special treatment with which A Grade Trading was able to purchase the concession from the Río Negro government.**

Perhaps less well publicised have been issues related to Chinese investors' long-term strategy with Sierra Grande, as well as its labor demographics and conditions. Particularly disconcerting to some has been the low price and perceived special treatment with which A Grade Trading was able to purchase the concession from the Río Negro government. There has been some discussion of bribery

60 | "La Inversión China en Argentina", Fn. 43, 11.

61 | Nicolás Gandini, "Mayoral y Pichetto negocian contrarreloj con china MCC para evitar cierre de la mina Sierra Grande", *El Inversor*, 22 May 2013, <http://elinversoronline.com/?p=2981> (accessed 19 Aug 2013).

62 | Claudio Andrade, "Otra minera amenaza con dejar sus negocios en la Argentina", *Clarín*, 3 May 2013, [http://ieco.clarin.com/empresas/\\_0\\_912508822.html](http://ieco.clarin.com/empresas/_0_912508822.html) (accessed 19 Aug 2013).

63 | "El Gobernador Weretilneck Trato el Tema de la Minera", *El Cordillerano*, 15 May 2013, <http://elcordillerano.com.ar/index.php/politica/item/935> (accessed 19 Aug 2013).

here, although nothing has been proven.<sup>64</sup> Additionally, it has now been discovered that the quality of iron emanating from the mines, due to phosphorus contamination, is considered very low, and investors have experienced trouble in finding any buyers other than China itself.<sup>65</sup> MCC and Minera Sierra Grande seem unwilling to invest the necessary amount to improve refining processes, which has led many to speculate that China is either content with using inferior iron in its steel production, or that the iron extraction is merely a cover for something else. It is also possible that Sierra Grande was just a poor investment by China. Meanwhile, a point of contention has been the Chinese workers themselves in Sierra Grande, as Chinese companies typically employ their own FDI model wherein not just managerial personnel, but also ground workers are imported from China. Among FDI projects in Africa, for example, one study covering all major Chinese ventures found that 91 per cent of managers as well as 48 per cent of regular laborers came directly from China.<sup>66</sup> Included in the Sierra Grande concessions was an immigration deal with government officials such that approximately one third of Sierra Grande's 400 or so workers are of Chinese origin<sup>67</sup> – the numbers tend to differ in various reports, as Sierra Grande rotates its Chinese workers every half a year.<sup>68</sup> Many have theorised that this is in part because it does not wish for these workers (who are often thought to be little more than indentured servants, or perhaps even political prisoners) to become accustomed to a more Western lifestyle, including democracy and certain political freedoms.<sup>69</sup> As it stands, all Chinese workers live in a compound built exclusively for them, and have little to no contact with the Argentine community; most do not even speak Spanish.<sup>70</sup> This secrecy and segregation has led

64 | Liwei Fu, President of the Argentine Falun Dafa Association, Buenos Aires, personal interview, 2 Jul 2013.

65 | "Sierra Grande Sigue Siendo un Albur", Urgente24, 19 Aug 2012, <http://urgente24.com/203564-sierra-grande-sigue-siendo-un-albur> (accessed 19 Aug 2013).

66 | Ray Levitt, "Chinese Contractors in Africa: A Survey: Insights from a Survey", Collaboratory for Research on Global Projects, 2006, [http://crpg.stanford.edu/events/presentations/gcr3/Levitt\\_GCR3.ppt](http://crpg.stanford.edu/events/presentations/gcr3/Levitt_GCR3.ppt) (accessed 21 Aug 2013).

67 | Ablin, n. 18, 50.

68 | Maradona, n. 54.

69 | Liwei Fu, n. 64.

70 | Maradona, n. 54.

many to believe that human rights violations (specifically concerning labor conditions) are rampant in the mines, and Argentine workers have already complained as much from what they have experienced.<sup>71</sup> Analysts interviewed for this report said that they had no firsthand knowledge of such violations, but would also not be surprised if they were occurring, given the deplorable mining conditions in China itself.<sup>72</sup>

As Sierra Grande continues production, its story represents Chinese FDI in a nutshell: promising investment that has brought with it a threatening element, a grab for natural resources at bargain costs, a visible yet segregated Chinese labor community, and a lack of coordination between Argentine provincial and national governments. FDI ventures like Sierra Grande are more the exception than the rule, as Chinese investment in Argentina has so far been more promissory in nature than anything else. However, the extent to which projects like these will increase depends on a growing public awareness of the conditions surrounding FDI agreements and their implementation, as well as whether various levels of Argentine government will finally begin to cooperate in one direction or another.

## CONCLUSION

**China's overall impact is likely overstated. The fact remains that no significant investment has been made in the Argentine economy by Chinese sources on the same scale that is has been by the U.S. and the EU.**

While the Chinese diplomatic and economic "threat", if one can call it that, is certainly real concerning China's current impact on the Argentine industrial sector, its overall impact is likely overstated. Many in Argentina find themselves questioning the alienation of traditional allies, economists have become rattled by the amount of cheap Chinese manufactures in the country, and the ability of China to sustain current trade flows is questionable. At the end of the day, the fact remains that no significant investment has been made in the Argentine economy by Chinese sources on the same scale that is has been by the U.S. and the EU.<sup>73</sup> A lack of cultural compatibility and human rights concerns have also hampered Sino-Argentine business

71 | Fu, n. 64; "La Inversión China en Argentina", n. 43, 11-12.

72 | Moneta, n. 15; Sevares, n. 10.

73 | Dr. Edmund Amann, "Lecture 9: Foreign Direct Investment and Its Consequences", Johns Hopkins-SAIS, Bologna, 2013.

interactions in the past,<sup>74</sup> as have fears of environmental degradation. Indeed, throughout Latin America, there have been numerous examples of Chinese and other multinational deals falling through completely (Peru) or being subjected to stringent CSR regulations and expectations (Chile).<sup>75</sup> Perhaps, then, we would do better to talk in terms of “semi”-primarisation and not “re”-primarisation. That a shift to soybean production has occurred is indisputable, but Argentina’s industrial sector remains an influential power, and its fears have already ended any chances of an FTA between China and Mercosur or even between China and Argentina itself. For its part, China seems to have little appetite to deal with an unpredictable national government, cumbersome labor regulations, and a populace increasingly sensitive to environmental degradation.<sup>76</sup> It must also keep its own finances in mind during the next few precarious years.

To conclude, it is important to note that Argentina is not Africa. It has a much higher degree of labor protections, environmental concerns, and government obstacles to foreign entities purchasing and developing large swaths of land for natural resource extraction.<sup>77</sup> Certainly, out of all the Latin American countries, Argentina has not been the best at safeguarding its natural resource endowments, but this may be a more short-term issue related to temporary financial struggles and a reactive national government than anything else. Not helping matters is the fact that the general Argentine public has no real knowledge or opinion of the Chinese presence in the economy outside of the previously mentioned supermarkets – Sino-Argentine relations continue to remain a niche topic for policymakers and academics.<sup>78</sup> Regardless, as many of its neighbors find ways to deal with Chinese trade and investment, Argentina has a variety of paths that future governments can consider. It seems that the current government is too unwieldy to

**The general Argentine public has no real knowledge or opinion about the Chinese presence in the economy outside of the previously mentioned supermarkets – Sino-Argentine relations continue to remain a niche topic for policymakers and academics.**

74 | Sergio Cesarín, “China: Una Mirada Estratégica desde la Perspectiva Argentina”, Seminar: La Relación entre Argentina y China – Presente y Futuro, 12 Oct 2010, 6.

75 | Sevaes, n. 10; Amann, n. 15.

76 | Sevaes, n. 10.

77 | Amann, n. 15.

78 | Moneta, n. 15; Nielsen, n. 15.

choose any fixed path at all, but those in the post-Kirchner era would be wise to view China for what it is: a new economic power whose primary goal is maintaining consistent development. China has very little interest per se in serving as a counterbalance to the U.S., as that would mean unnecessarily entangling itself with the world's premier economic and military superpower, even while the Politburo's own hold on domestic power is contingent upon providing food, energy, basic services, and economic growth to its people.<sup>79</sup>

Argentine hopes of a new partner to shut out the U.S. and relive a golden age are wishful thinking, at best, and giving China near-unconditional access to natural resource extraction and non-stop soy exports would result in a much different form of primarisation than that of the past.<sup>80</sup> Therefore, the sooner Argentina realises the strength of its own position, the sooner the Sino-Argentine trade relationship can reach that elusive "win-win" quality that both sides claim to seek. For Argentina, this would ideally include a more diversified set of agricultural exports, and industrial and service sectors with higher degrees of investment and competitiveness. One would predict that the likelihood of this eventually happening to at least some extent is high, but the question of when exactly this will occur and how much environmental and industrial damage will be wrought until then remains to be seen.

79 | Carlos Escudé, "China y la Inserción Internacional de Argentina", CONICET, 2011, 10; Cesarín, n. 74, 7; Li, n. 10, 854-858.

80 | Cesarín, n. 74; Paz, n. 27, 27-28.