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VOICES FROM THE GROUND

Engaging with China in Latin America: A Conversation with Paulina Garzón

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Paulina Garzón is the Director of Latinoamérica Sustentable (LAS), a nongovernmental organisation (NGO) based in Ecuador that focuses on Latin America. Paulina is an Ecuadorian with 25 years of experience working on issues related to the environment, human rights, and international finance. Until 2012, much of Paulina's work focused on the impacts of projects supported by Western multilateral banks, but with the expanding role of Chinese finance in the region, her focus switched, and she began to explore the drivers, practices, and regulation of Chinese projects. With few organisations working exclusively on Chinese projects and finance from community and environmental perspectives, LAS plays a unique role in documenting trends and project impacts, supporting local civil society groups to enhance their understanding of Chinese investment, and seeking to build lines of communication with Chinese companies, banks, and policymakers. In this conversation, we discuss with Paulina how she came to work on these issues and what motivated the establishment of LAS, the trends and impacts of Chinese investment in Latin America, as well as how she thinks the environmental and social performance of Chinese projects can be improved in the future.

Mark Bo: Can you introduce yourself and tell us a bit about how you came to be interested in issues related to Chinese engagements in Latin America?

Paulina Garzón: I started working on issues related to the environment and community rights in Ecuador (where I am from) in the early 1990s. For 10 years, I was fortunate to be part of Accion Ecologica, one of the first ecofeminist groups in Latin America, before becoming the cofounder of a new NGO in Ecuador, the Center for Economic and Social Rights (CDES). Later, I moved to the United States. Before I started working on Chinese investments in Latin America, I was program director for the Latin America and the Caribbean Program at the Bank Information Center (BIC), an NGO based in Washington, DC. During all these years working, campaigning, and travelling extensively in many Latin American countries, I witnessed how vast and precious natural territories were being severely damaged by large extractive and infrastructure projects, many of which would never have seen the light if they were subjected to appropriate environmental and social risk evaluation or could at least have significantly reduced their impacts if appropriate standards, supervision, and mechanisms for public participation were put in place. It was especially hard to see how because of these projects, local communities were deprived of their lands, livelihoods, culture, and sometimes even their dignity.

Before 2012, my work mostly focused on helping local communities to address challenges caused by specific projects and trying to influence national governments and Western multilateral development banks to improve their regulatory frameworks and their implementation. Nevertheless, at that very moment, other important players were emerging in Latin America—in particular, the Chinese banks. As I observed them extending their activities in the region, I realised we knew very little about them. Watching Chinese financing grow rapidly in volume and importance, I was motivated to understand where these banks stood on issues related to the environment, community rights, public participation, and accountability. With these questions in mind, I began conducting research on the policies and guidelines that apply to Chinese banks and companies when operating overseas.

I found that, in fact, there are many significant commitments made by Chinese entities, regulators, and business associations to protect the environment and the communities that are impacted by the activities of Chinese financial institutions and state-owned companies—for example, the banking regulator's Green Credit Guidelines, which aim to improve banks' due diligence, client compliance review, and project assessment with respect to environmental and social issues. Unfortunately, these guidelines, at least at that point, had not yet made an impact in Latin America and the Caribbean (LAC). The idea of making these commitments and guidelines known and implemented in LAC was an important goal for me when I started to do advocacy work related to Chinese investments in the region.

MB: You recently established Latinoamérica Sustentable (LAS), a new organisation that focuses on finance and investment and the impact it has on the environment and human rights in the region. Can you tell us more about your organisation, what motivated you to set it up, and how you think it can contribute to promoting more sustainable development?

PG: We 'officially' established Latinoamérica Sustentable as an NGO in Ecuador in 2021. Since 2014 and before becoming LAS, we were known as the China–Latin America Sustainable Investments Initiative (CLASII), hosted by BIC. Therefore, although LAS is a new Ecuadorian NGO, it already had a longstanding commitment to these issues and a well-established portfolio of work.

Our mission is to support the protection of the environment and local communities within the context of Chinese investments in LAC. To achieve this, we share information and meticulous analysis with a broad audience in Latin America and in China, produce advocacy tools, work independently and with other civil society organisations (CSOs) in the region to conduct research, and produce materials to inform Chinese entities about the environmental and social conflicts related to projects with Chinese participation. We do all of this with the hope that the Chinese institutions involved in the approval, supervision, and implementation of Chinese overseas investments will be better prepared to address negative impacts on certain projects, but also to improve their environmental and social risk evaluations and management during the whole investment cycle.

There are many CSOs monitoring global Chinese investment and finance. However, LAS is the only NGO in Latin America fully dedicated to work on Chinese investments with a focus on the environment and community rights. Although there are many reasons to have a broader approach when focusing on international investors, our organisation is still small, while

Coca Codo Sinclair Dam

Considered China's gateway to power infrastructure in Latin America, the Coca Codo Sinclair Dam in Ecuador has caused significant environmental harm and quality problems have been reported. Source: coalicionregional.net.

Chinese investments are often complex, large-scale, and increasingly relevant for the region. We hope that, with time, we will be able to expand our work to include more international banks and companies.

MB: How would you describe the current situation in terms of Chinese investment in Latin America? Which countries are major destinations for Chinese investment and finance, and which sectors are receiving most attention? How has this changed in the past two decades? What are some of the issues in Latin America that may be unique compared with other regions and require special attention?

PG: LAC countries borrowed heavily from China between 2007 and 2017, peaking in 2015 (The Dialogue n.d.). In fact, according to our calculations, 35 per cent of the regional public debt during those years was linked to Chinese banks, and concentrated in Venezuela, Brazil, Argentina, and Ecuador. The largest Chinese lender in the area is the China Development Bank (CDB), which in just a few years managed to build a loan portfolio larger than that of the major multilateral financial institutions combined. However, this is no longer the situation.

During the past two years, Chinese finance has decreased dramatically in comparison with the previous decade. In 2018 and 2019, China lent US$3.2 billion to Latin America and the Caribbean compared with the US$125.8 billion it lent to LAC over the prior decade (see The Dialogue n.d., but the figure has been slightly adjusted based on our own research). However, this does not necessarily translate into a reduced Chinese presence in the region and, in 2019, while Chinese direct investment fell globally, Chinese direct investment in LAC increased lightly compared with the two prior years, reaching roughly 8 per cent of total foreign investment in the region. These data suggest the relationship between China and LAC could be moving from a financing to an investment axis. The Belt and Road Initiative (BRI) has become increasingly important in the region, with 21 countries signing memorandums of understanding (MoUs) to cooperate with the initiative—most recently, Argentina.

The core of the China–LAC relationship centres primarily on infrastructure and extractive projects and this will not change any time soon. Most governments in South America are announcing new programs to build infrastructure—such as the 'Pro-Brazil' plan (a US$43 billion plan to build transport infrastructure and part of the Brazilian Government's pandemic recovery plan)—and to increase the extraction of natural resources, such as mining in Ecuador and Peru. Argentina has also named China as a 'key partner' and, in February, its President, Alberto Fernández, confirmed his government had officially signed a BRI cooperation agreement (making it the twenty-first BRI member in Latin America) and declared his country will receive around US$23 billion in new investments. The Asian Infrastructure Investment Bank

(AIIB) is also steadily positioning itself in the region. Currently, Argentina, Brazil, Chile, Ecuador, Uruguay, and Peru are AIIB members, and Ecuador and Brazil have already received financing from it.

There is little doubt that China will continue to be a vital trade partner for most LAC countries. In fact, new and 'upgraded' free-trade agreements with China have been announced in Ecuador, Colombia, and Peru, among others. For many countries, the ability of the region to recover from the Covid-19 pandemic will be closely tied to additional financing from China, in the form of not only loans, but also public–private partnerships, joint ventures, and mergers and acquisitions.

All of this is happening based on strong and diverse cooperation frameworks between China and Latin American countries. Hundreds of bilateral agreements and declarations have been signed, but they say very little about the efforts that China and governments in the region will be willing to make to ensure that such cooperation not only prevents harm to the environment but also enhances protection for sensitive areas, such as forests of global importance in the Amazon region and the indigenous people who inhabit and protect them.

MB: What kinds of impacts are you seeing from these projects? How do you think Chinese financiers and developers can make a positive impact in the region, and what do they need to do better?

PG: Many civil society organisations are deeply concerned about Chinese banks and companies consistently choosing environmentally highly biodiverse and socially sensitive areas in which to invest, and the lack of proper environmental and social risk assessment. There is also much concern about the lack of information disclosure, high-quality standards, and means of accountability related to Chinese investments. These limitations have created social and environmental conflicts. A number of cases have been documented in a report titled *Third Cycle of the Universal Periodic Revision of the People's Republic of China Contributions of the Civil Society: Case Studies from Argentina, Bolivia, Brazil, Ecuador and Peru* (CICDHA 2019). This was a 'shadow report' presented by 21 CSOs for the Third Cycle of the China Universal Periodic Review in 2018—the UN member states' peer review of their human rights record. The report documented 18 projects with participation of at least eight Chinese banks and no less than 14 Chinese companies. Fifteen of these projects affected environmentally protected areas, and a large number have not fulfilled the obligations of Chinese state-owned actors to respect international covenants related to participation and consultation rights, environmental protection, and labour rights, such as International Labour Organization Convention 169.

Nevertheless, there are also reasons for hope. Increasingly, Chinese leaders are making commitments in China and globally to address climate change and to protect the environment. This could potentially translate into fewer projects related to fossil fuels, harmful hydropower, and large-scale extraction of raw materials; and more projects supporting truly green energy and sustainable development. At the same time, Chinese entities have promulgated a number of voluntary guidelines aimed at avoiding and mitigating environmental and social impacts in overseas operations. For example, in 2021, the Ministry of Commerce and the Ministry of Ecology and Environment of China issued the 'Working Guidelines for Green Development in Overseas Investment and Cooperation', which include several interesting advances. One very significant inclusion is that these guidelines promote the notion that Chinese overseas investments should go beyond 'host-country rules' in environmental protection standards when local regulations are lacking and adopt Chinese standards or international best practice. This marks a shift from the traditional approach of Chinese stakeholders to defer to host-country standards.

Very significantly, the China Banking and Insurance Regulatory Commission, which regulates and supervises China's financial institutions, is in the process of developing a mechanism for processing complaints related to overseas projects financed by Chinese banks. The China Chamber of Commerce of Metals, Minerals, and Chemicals Importers and Exporters (CCCMC) is also working towards establishing a compliance mechanism for Chinese overseas mining projects. There is little public information on how these mechanisms will work, how communities around the world will be able to access them, or when they will be operational, but we consider these developments are important stepping-stones towards establishing effective, accessible, and predictable mechanisms that could potentially result in improved accountability, transparency, and engagement in the context of Chinese overseas investments.

MB: What challenges do communities and CSOs experience when trying to respond to the social and environmental impacts of Chinese projects? How responsive are Chinese stakeholders to community and civil society concerns?

PG: In our experience, it is an enormous challenge to build relationships with Chinese stakeholders both in China and in the host country. While we understand that geography, language, and culture are practical and formidable obstacles, Chinese institutions could do much more by just taking some small steps to be more transparent. For example, providing information on their websites about departments and employees that are in charge of certain geographical areas or business sectors, providing contact information and institutional addresses would create channels for communication with communities and civil society groups.

It sounds incredible that in a world that is highly interconnected in almost every way, it is almost impossible to get basic contact information for institutions that have approval and/or supervision powers over Chinese banks and companies. For example, the National Development and Reform Commission and Ministry of Commerce, which play a role in approving or recording overseas projects, are both near-impossible to access, as is the State-Owned Assets Supervision and Administration Commission of the State Council. Other ministries, such as foreign affairs, finance, and ecology and environment are also challenging to access. The banking regulator and even the more progressive business associations that have promulgated environmental and social guidelines are also difficult to engage and often non-responsive.

Moreover, many times when, after much effort, an appropriate contact has been identified and civil society groups have been able to successfully send letters and documentation, there is no response from the Chinese recipient. This has been a common experience for us. For instance, in 2021, we worked on a report titled *Understanding the China Development Bank: Financing, Governance and Socio-Environmental Challenges for Latin America and the Caribbean*. We wrote letters to CDB offices in Beijing, Anhui, and Río de Janeiro to request information for the research and, later, to ask for reviews and observations of the draft report. We did not receive any answers. The same occurred last December when we sent the published report to these offices. It is relevant to remember that the CDB has made more than 85 per cent of the Chinese loans to Latin America and it is not only a relatively unknown bank to most people in the region, but also an inaccessible one.

In any case, there are signs that the contents of our communications are read, which is why we believe it is critical to continue sending them to keep Chinese stakeholders appraised of concerns on the ground and create a sense of urgency among decision-makers and regulators to take action. We have heard from partners that while they rarely receive direct responses to their letters, some have seen improvements on the ground after they have raised concerns. Many NGOs from LAC have also tried to establish contact with Chinese embassies and specifically with the economic and commercial counsellors, but so far these efforts have not been fruitful in a meaningful way. In some cases, the NGOs have received a kind acknowledgement of the receipt of the letter, but not much beyond that.

It is worth noting that it in previous years, at least the CDB, the Industrial Commercial Bank of China, and the Export–Import Bank of China have occasionally responded to the letters of LAC NGOs. Unfortunately, this small window of openness did not last. One important exception is the CCCMC, which so far is the only Chinese business association that appears to be genuinely interested in learning about the experiences of local communities with Chinese overseas mining operations and is actively trying to make its guidelines implementable, seeking to provide technical advice and establish pilot projects to train companies.

We are afraid that conflicts are likely to grow in the coming decades, given the fact that references to the environmental and social implications of Chinese financing have been virtually absent from the cooperation agenda with Latin America, and that CSOs and local communities have limited information, tools, and expertise to effectively influence Chinese entities.

MB: Looking back on the years you have been active in this field, how would you describe the strength of civil society actions regarding the impacts of Chinese engagements in Latin America? What do you think could be done to help this field grow?

PG: During the 1990s and early 2000s, we became used to seeing Chinese companies as subcontractors for Latin American state-owned companies, especially in the oil and infrastructure sectors. Their environmental and social practices were notably weaker but, at that time, most CSOs were focusing on the companies that bore responsibility for the projects, rather than on the subcontractors themselves. In Ecuador, it was common for public officials and foreign companies to ask local activists that were opposing their projects to think twice about their demands because if these international companies left the projects, the Chinese would take them over. For the most part in the past decade, the general assumption was the Chinese companies did not care about the environment, while the Chinese companies claimed they followed national regulations and showed limited interest in building their own reputation as environmentally and socially responsible entities.

Still, there were some opportunities to see Chinese companies 'in action' in the 1990s and 2000s, when they became the main operators and contractors of large infrastructure and extractive projects. In these cases, local communities and NGOs were not prepared to engage and influence them. There are obvious barriers like geographical distance, language, and culture that make it very difficult 'to get to know each other'. Moreover, the lack of information and desire to engage from the Chinese side have created an environment in which conflicts and frustration have grown.

LAS has been working to better understand Chinese stakeholders and to build a bridge between both shores by finding and taking advantage of opportunities for bringing Chinese and Latin American stakeholders closer together. We highly appreciate the work and experience of other NGOs and communities in Asia and Africa, their learnings, and their generosity to share them with us in Latin America. While we certainly benefit much from them, we also know that 'learning by doing' is necessary when advocating with Chinese entities, and we continue to develop approaches that will hopefully bring about a paradigm shift and more responsible approaches to investment and financing in our region.