CHINA-LATIN AMERICA ECONOMIC BULLETIN, 2019 Edition

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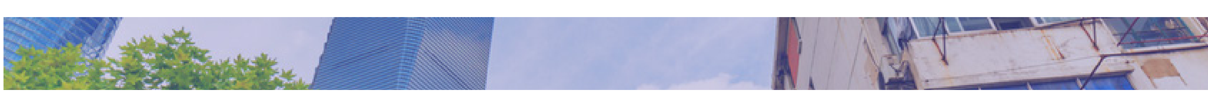
EXECUTIVE SUMMARY

In 2018, China-Latin America cooperation continued to deepen, though Chinese finance and investment in the region appears to have been relatively cautious in nature. These are among the findings of this year's China-Latin America Economic Bulletin, the sixth annual note summarizing and synthesizing trends in the burgeoning China-Latin America economic relationship. The goal of the bulletin is to provide analysts and observers a handy reference to the ever-changing landscape of China-Latin America economic relations, a landscape where data is not always as readily accessible. Highlights from this year's edition include:

- The Latin America and Caribbean (LAC) region's trade with China hit record levels in 2018, on both the import and export sides, which rose to 3.0 and 2.6 percent of GDP, respectively. China continues to be the most important export market for South America and remains second to the United States for exports from the LAC region overall.
- LAC's trade balance with China improved in 2018. The region had a trade deficit of approximately 0.4% of GDP, its lowest level since 2009. This improvement was spurred by two factors: improving prices in major commodities such as petroleum oil and copper, and the trade frictions between China and the United States.
- Chinese direct investment in LAC fell in both of its avenues, mergers and acquisitions (M&As) and new (Greenfield FDI, or GFDI) projects. China-LAC M&As fell from their record level of $17.5 billion in 2017 to just $7.6 billion in 2018. Chinese GFDI in LAC fell from $4.4 billion in 2017 to just $1.6 billion in 2018, its lowest level since 2006.
- Chinese official finance rebounded slightly from $6.2 billion in 2017 to $7.7 billion in 2018. Nonetheless, this level is still among the lowest in recent years.
- Chinese finance continues to be concentrated among a few borrowing countries. However, our analysis shows that Chinese finance alone has not pushed Latin American borrowers – with the important possible exception of Venezuela – over the debt sustainability thresholds established by the IMF.
- LAC countries are rapidly joining the China-led Asian Infrastructure Investment Bank (AIIB) and the China-initiated Belt and Road Initiative (BRI). As of this writing, seven LAC countries have become prospective AIIB members and twelve have signed BRI memorandums of understanding, cooperation agreements, or framework agreements.



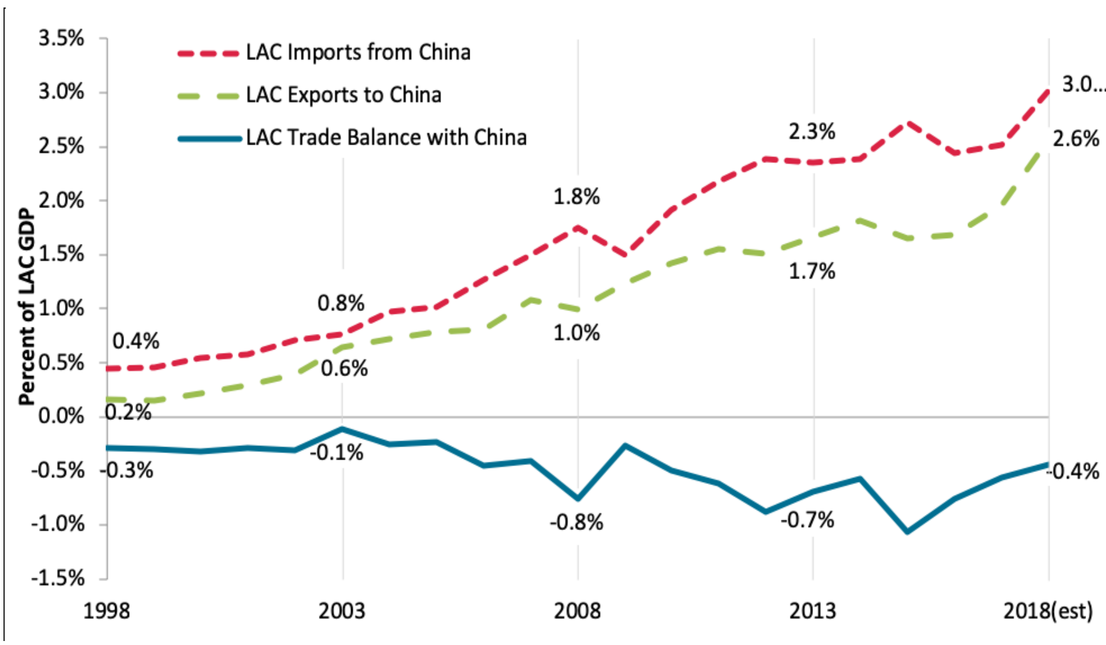
LAC-CHINA TRADE: Continued Concentration in Commodities, Shrinking Trade Deficit

Latin American and Caribbean trade with China grew in both exports and imports in 2018, continuing its upward trend over the last decade. China continues to be South America's top export market, and second only to the United States as an export market for the entire LAC region.

LAC-China Trade in 2018: Highlights

In 2018, Latin America and the Caribbean exported $148.8 billion in goods to China, and received $158.6 billion in Chinese imports in return. As a share of regional GDP, LAC countries' trade with China grew to a record level in 2018, with imports of Chinese goods rising to an estimated 3.0% of regional GDP and exports rising above 2.5%.

FIGURE 1: LAC TRADE BALANCE WITH CHINA, 1998-2018



Source: Authors' calculations based on General Administration of Customs, IMF WEO, and UN Comtrade data.

The estimates in Figure 1 show LAC's 2018 trade deficit with China at its lowest point since 2009. In 2009, the declining trade deficit was driven by a drop in LAC imports during the global financial crisis. In contrast, the 2018 results were due to rising LAC exports during a commodity price rebound. For example, crude petroleum oil, which formed 19.1% of all LAC-China exports in 2018, rose by 36% in price that year, according to World Bank (GEM Commodities database) estimates.

Nonetheless, as Table 1 shows, prices remain well below their 2014 peak for major commodities in LAC-China exports. LAC exports of all four of these commodities has grown significantly, when measured in weight, but the value of those exports has risen by much less, or even fallen in the case of iron ores and concentrates.

TABLE 1: CHANGE IN VOLUME AND VALUE OF MAJOR LAC-CHINA EXPORTS SINCE THE 2014 PRICE PEAK

	Soybeans	Crude Petroleum Oil	Iron Ores, Concentrates	Copper Ores, Concentrates
Thousands of MT				
2014	39.7	14.9	204.1	3.7
2018 (est.)	70.7	57.3	252.6	8.3
Change	78.1%	284.3%	23.8%	126.5%
Billions of USD				
2014	20.2	17.7	14.1	10.3
2018 (est.)	28.3	25.5	12.5	19.6
Change	40.0%	44.0%	-11.2%	90.8%
USD per KG				
2014	$0.51	$1.19	$0.07	$2.78
2018 (est.)	$0.40	$0.45	$0.05	$2.34
Change	-21.4%	-62.5%	-28.3%	-15.8%

Source: Authors' calculations based on China General Administration of Customs data.

Among LAC nations, the trade balance with China varied widely, with most countries registering balances between -4 and +3 percent of GDP. Panama, which imports petroleum products and ships from China, continued to see the region's largest trade deficit with China (at 10.6 percent of GDP), while Suriname stands out as having a particularly strong trade surplus with China. Suriname exported over $300 million in semi-manufactured gold to China in 2017, and China reports that its total imports from Suriname more than doubled in 2018.

TABLE 2: MERCHANDISE TRADE WITH CHINA AS A SHARE OF LAC COUNTRIES' GDP, 2018 (ESTIMATE)

Country	Exports to China	Imports from China	Trade Balance	Country	Exports to China	Imports from China	Trade Balance
Argentina	0.7%	1.9%	-1.2%	Guyana	1.0%	6.2%	-5.2%
Bahamas	0.1%	4.6%	-4.5%	Honduras	0.3%	4.4%	-4.1%
Barbados	0.2%	2.7%	-2.5%	Jamaica	0.4%	3.9%	-3.5%
Bolivia	0.9%	2.1%	-1.2%	Mexico	0.7%	4.1%	-3.3%
Brazil	3.5%	1.9%	+1.6%	Nicaragua	1.1%	3.8%	-2.7%
Chile	8.1%	5.5%	+2.6%	Panama	0.2%	10.8%	-10.6%
Colombia	0.9%	2.8%	-1.8%	Paraguay	0.2%	4.3%	-4.1%
Costa Rica	1.6%	2.9%	-1.3%	Peru	5.8%	3.7%	+2.0%
Dominican Rep.	0.2%	2.8%	-2.6%	Suriname	19.0%	5.8%	+13.2%
Ecuador	1.3%	3.6%	-2.3%	Trinidad & Tobago	1.7%	1.6%	+0.0%
El Salvador	0.3%	3.9%	-3.7%	Uruguay	2.4%	3.5%	-1.1%
Guatemala	0.1%	3.2%	-3.0%	Venezuela	7.7%	1.2%	6.5%

Source: Authors' calculations using China General Administration of Customs, IMF WEO, and UN Comtrade data.

BOX 1: US-CHINA TARIFF CONFLICT CREATES SHORT-TERM BUMP FOR BRAZILIAN SOY EXPORTERS

In 2018, Brazilian soy exports to China jumped by over one-fourth in volume, from 53.8 to 68.8 thousand metric tons, and by over one-third in value, from $20.9 billion to $28.8 billion, according to the Brazilian Economy Ministry. Brazil's increase more than compensated for a $6.9 billion fall in Chinese soy imports from the US, as was widely predicted after China imposed a 25% tariff on US soybeans (see for example "US-China-Brazil Soybean Trade," 2018 and Muhammad 2018).

Meanwhile, Argentina's soy exports to China fell by over three-fourths, from $2.7 billion to just $630 million, amid the most severe drought in 50 years (Gasalla 2018, Giammaría 2018). Thus, taking into account both Brazil's increase and Argentina's drop, overall LAC-China soy exports rose by about one-fourth in value.

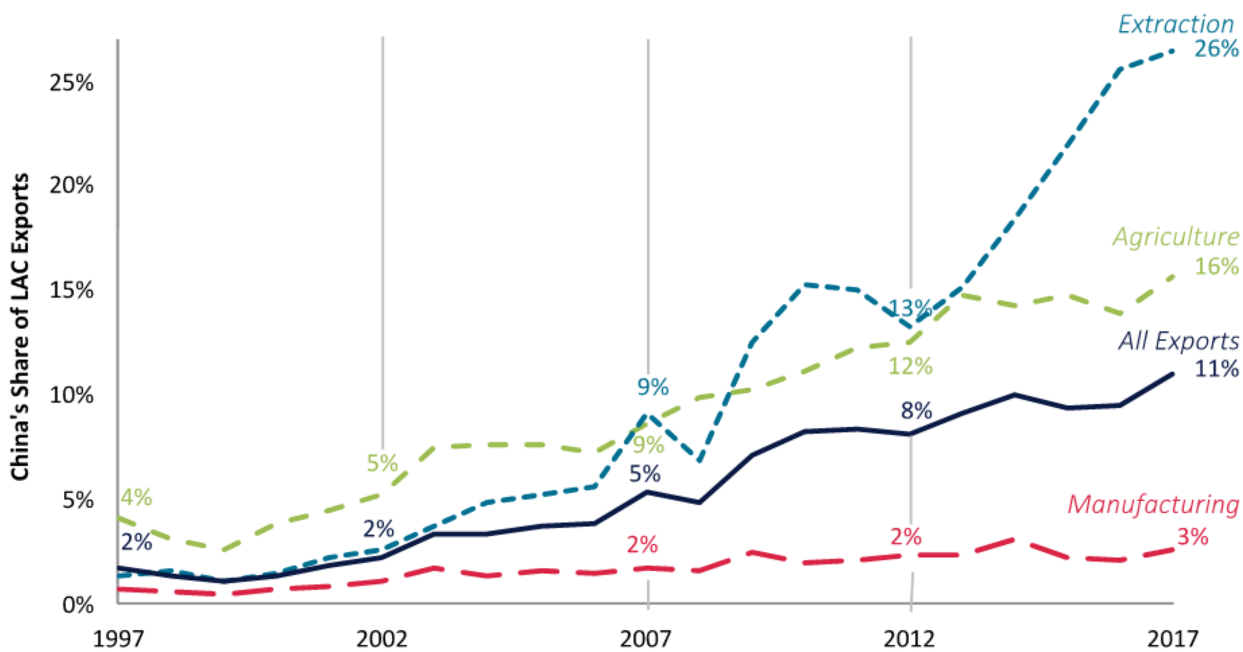
Many observers (such as Andreoni, 2018) expressed concern that the increased demand for Brazilian soy would put pressure on the Amazon. These concerns are reasonable as the soy-deforestation link has been well-documented in Brazil (see for example Fearnside and Figueiredo, 2015 and Kastens et al, 2017). However, it appears that Brazil satisfied this new demand by dipping into inventories rather than expanding production. Brazil's statistical agency reports only a 2.5% increase in the total national soy harvest (IBGE). Meanwhile, the USDA (2019) reports that Brazilian soy stocks fell by 88 percent between the 2016/2017 and 2017/2018 growing seasons, from 9.8 to 1.2 million metric tons.

Brazil's lack of soybean expansion in the 2017/2018 growing season is particularly strategic give the short-term nature of this bump in demand. It is likely that Brazil's soy exports to China will decline again in 2019 as China and the US soften their tariff dispute. Moreover, Argentina's soy exports are expected to jump in 2019 thanks to export tax reductions ("Argentina Suspends", 2018).

LAC-China Trade: Longer Term Trends

Overall, Chinese demand for LAC goods has continued its longer-term concentration in primary commodities. In 2017, the most recent year for which comprehensive data is available, China bought 11 percent of LAC's total exports, but 16 percent of the region's agricultural products and 26 percent of their extractive exports.

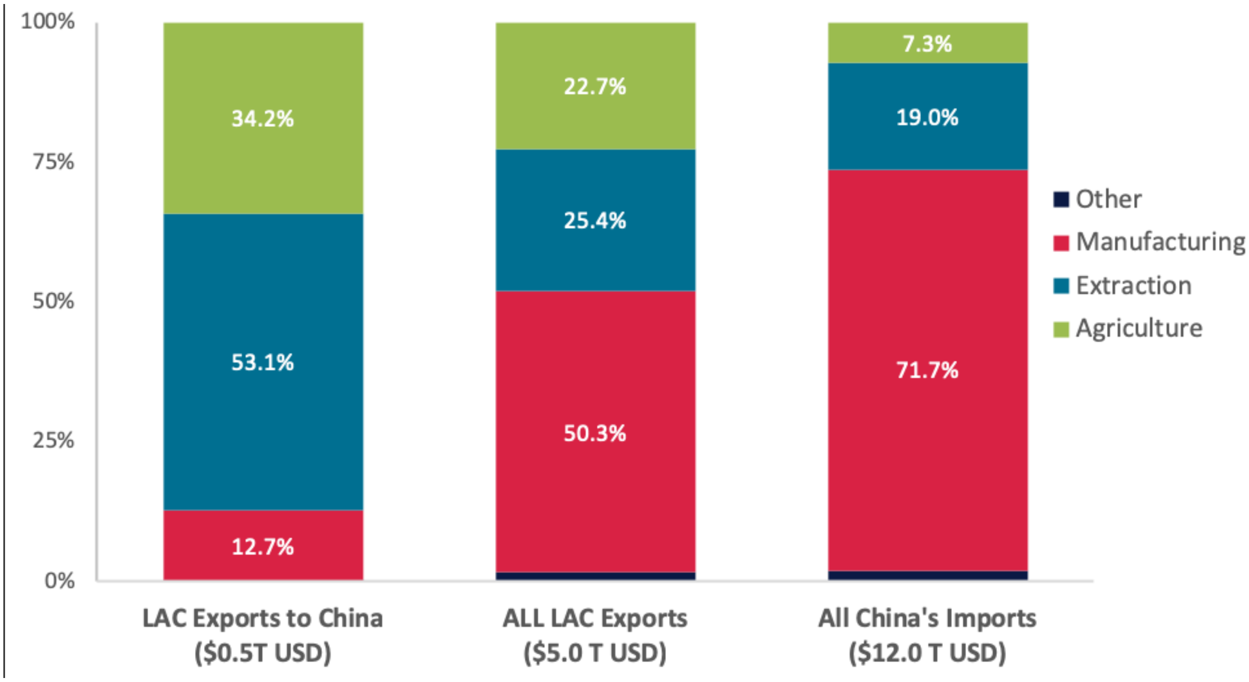
FIGURE 2: CHINA'S SHARE OF LAC EXPORTS, BY SECTOR



Source: Authors' calculations using UN Comtrade data.

In fact, extractive commodities accounted for over half of LAC-China exports in the five years from 2013 through 2017, as Figure 3 shows. That heavy concentration makes them more than twice as important to LAC-China exports than they were to LAC exports overall.

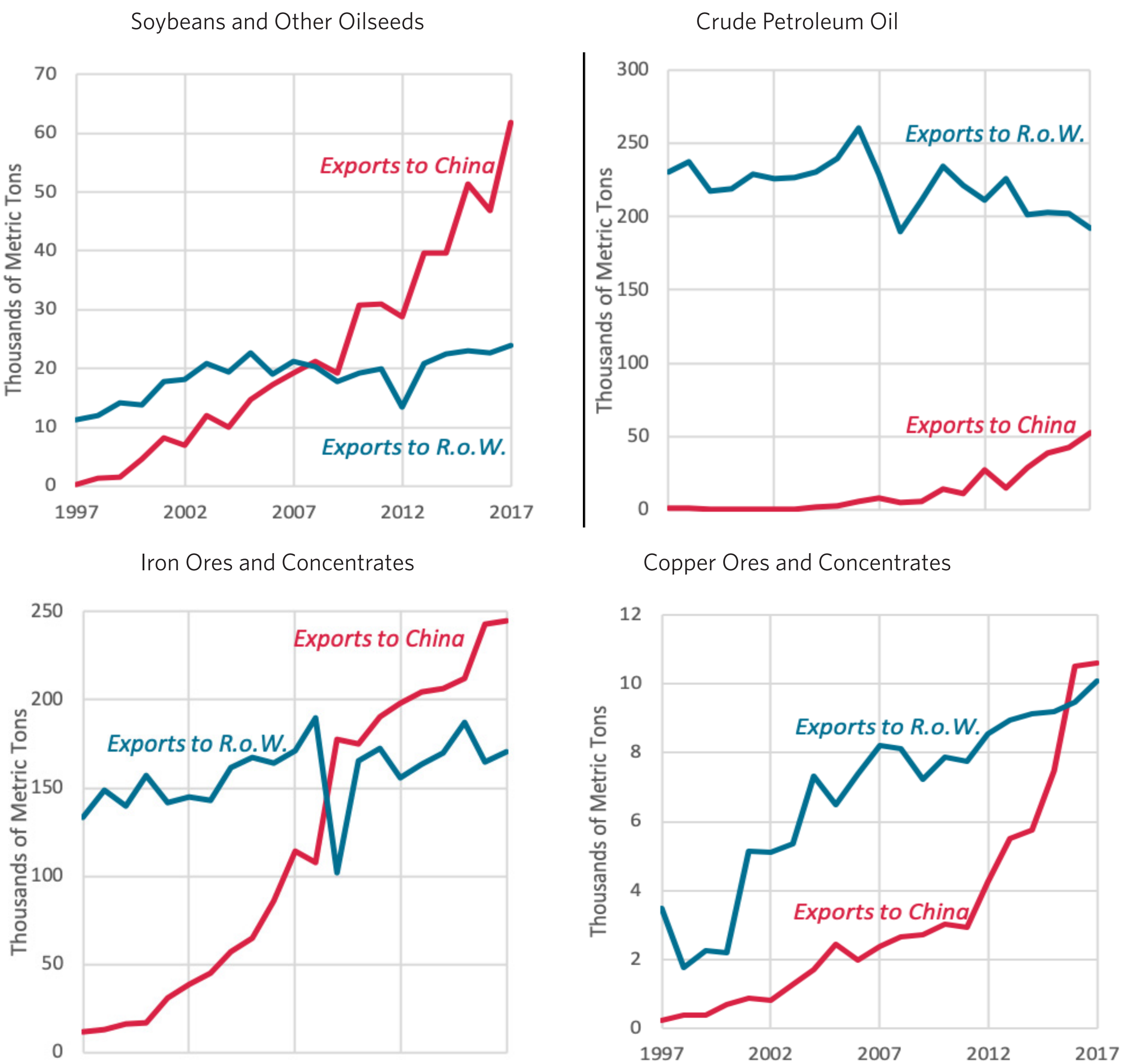
FIGURE 3: SECTOR DISTRIBUTION OF TRADE BASKETS, 2013-2017



Source: Authors' calculations using UN Comtrade data.

The rapid increase in China's share of LAC's raw materials is mostly due to concentrated demand for four specific commodities: oil-seeds (comprised almost entirely of soybeans), crude petroleum oil, iron ores and concentrates, and copper ores and concentrates. These four commodities account 59.2% of all LAC-China exports from 2013-2017, and in all four, Chinese demand has vastly out-paced demand from other markets. Figure 4 explores LAC's exports of each of these commodities by weight, and shows that when the last 20 years are considered together, China accounted for most of the region's growth in these exports. It should be noted that Figure 4 understates US demand for Latin American crude, which is often refined in third party countries such as the US before being shipped to China.

FIGURE 4: LAC EXPORTS OF SELECTED COMMODITIES TO CHINA AND ELSEWHERE, IN TONS



Source: Authors' calculations using UN Comtrade data.

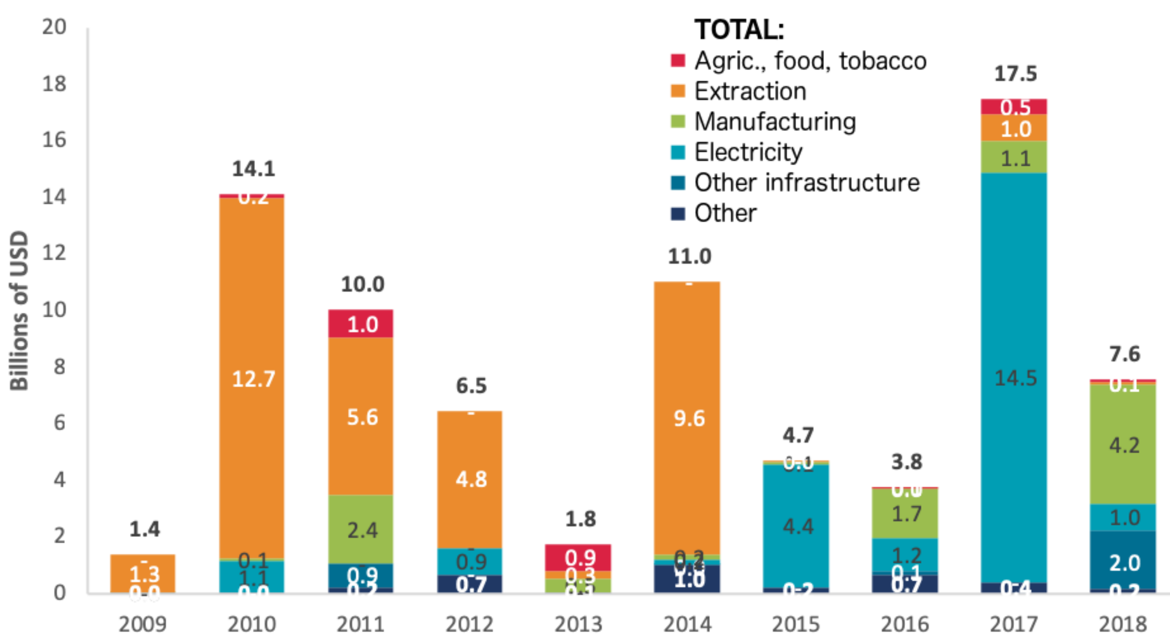
CHINESE FDI IN LAC

Chinese FDI to LAC fell in 2018. Mergers and acquisitions (M&As) fell from a record high of $17.5 billion in 2017 to $7.6 billion in 2018, echoing a broader fall in outbound Chinese M&A by approximately three-fourths between 2017 and 2018 (DeaLogic). Greenfield investment – establishing new projects or expanding existing ones – from China to LAC also fell, to its lowest level in over a decade. Chinese investment is still heavily concentrated in extraction and infrastructure, but, Chinese investors entered the LAC manufacturing sector to a greater degree than in past years, including the purchases of a chemical and car parts manufacturers.

Mergers and Acquisitions

Most Chinese investment in LAC comes in the form of mergers and acquisitions (M&As). Nonetheless, Chinese M&A investment fell in 2018, after a record year in 2017.

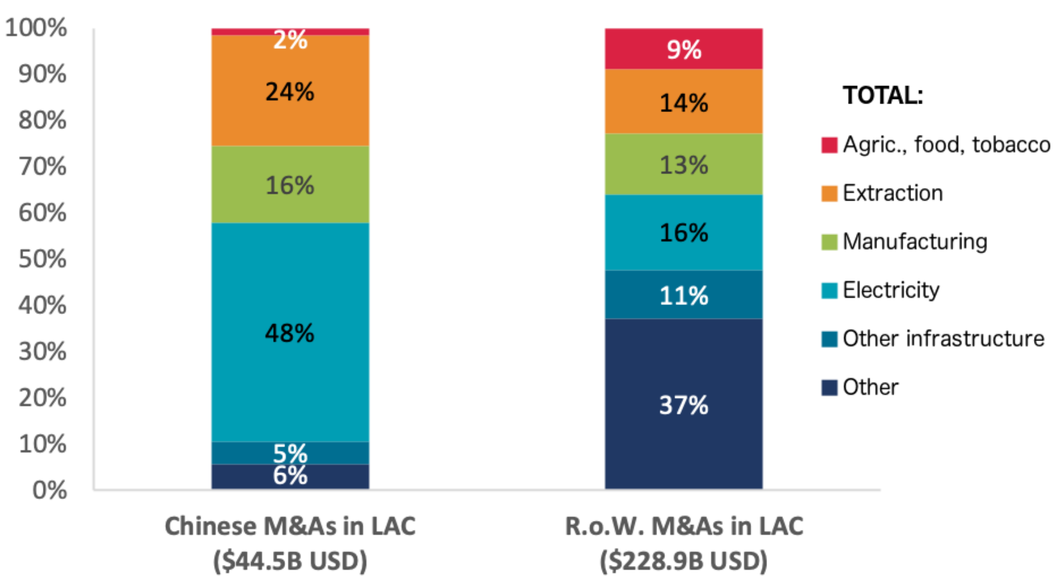
FIGURE 5: CHINESE M&A INTO LAC, BY YEAR AND SECTOR



Source: DeaLogic. Note: China includes Hong Kong, Taiwan, and Macao.

During that same time, however, overall M&A FDI into LAC also fell, to its lowest point in nearly a decade, as did overall outbound M&A from China. Over the last five years, China accounted for 16.3% of all M&A FDI in LAC, second only to the United States. From 2014 through 2018, infrastructure has accounted for roughly half of all Chinese M&A inflows into LAC. Extraction has comprised another fourth. This stands in stark contrast to other M&A in LAC, in which those two sectors together comprised less than one third of the total.

FIG



Source: DeaLogic. Note: China includes Hong Kong, Taiwan, and Macao.

The largest Chinese M&A deals announced completed in 2018 included the following:

- The Tianqi Lithium Corporation bought a minority stake (23.8%) in Sociedad Quimica y Minera de Chile (SQM), a chemical and fertilizer manufacturer, from the Canadian firm Nutrien for $4.1 billion.
- Tencent Holdings bought a minority stake (4.5%) in Brazil's Nu Pagamentos SA (also known as Nubank), a digital banking company, for $180 million.
- The Shanghai Daimay Automotive Interior Company acquired Motus Integrated Technologies, a sun visor company with assets in Mexico, the US, and France, for $147 million.
- Jiangxi Ganfeng Lithium Company bought a 37% stake in Minera Exar, which operates the Cauchari-Olaroz lithium project in Jujuy, Argentina, for $110 million. Jiangxi Ganfeng purchased this stake from SQM, the same chemical company listed above as the target of Tianqi Lithium Corporation's investment. The remaining ownership of Minera Exar rests with Canada-based Lithium Americas.

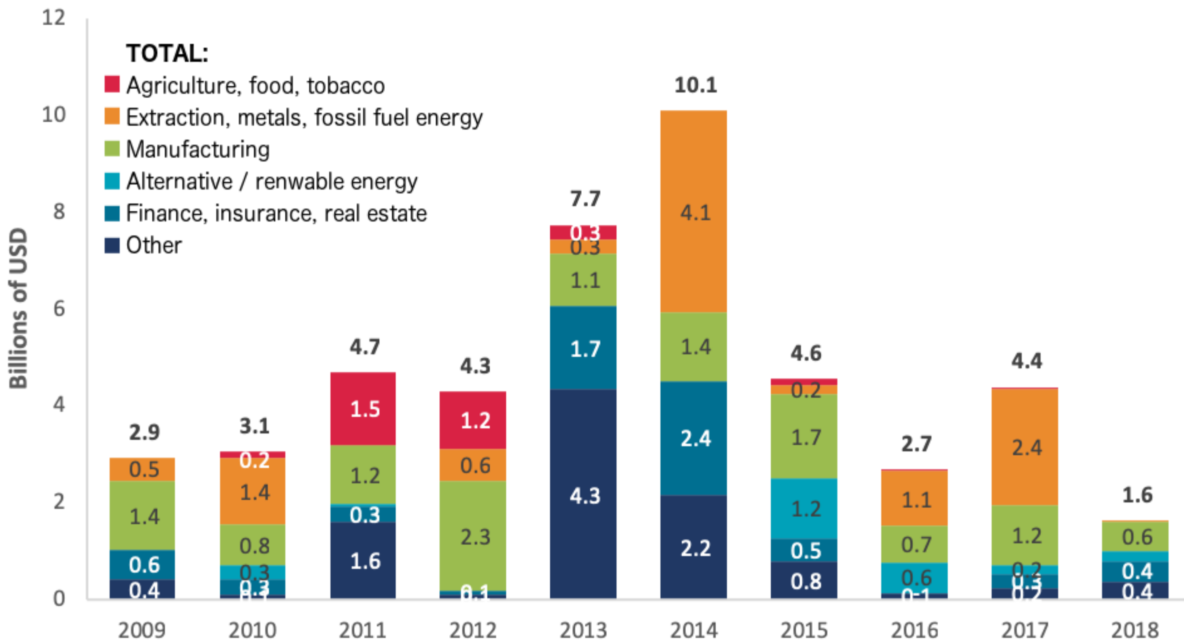
Further progress was made on the following M&A deals, all involving major infrastructure projects, which were originally announced in 2017:

- The China Merchants Port Holdings Company completed its acquisition of 90% of TCP Particpações S.A., which operates the Brazil's second-largest container port, the Terminal de Contêineres de Paranaguá, for $1.2 billion ("China Merchants Port," 2018).
- In 2017, it was announced that a consortium comprised of Hubei Energy Group, CNIC Corporation, and China Three Gorges Corporation would buy Peru's Chaglla dam for $1.4 billion from Brazil's beleaguered Odebrecht. However, a change in Peruvian law led to a cancellation in that deal. In 2018 a new deal was announced, in which a consortium led by China Three Gorges plans to buy it for just $618 million, paired with an additional, roughly equal payment for the project's debts and tax obligations ("Odebrecht Acuerda", 2018).
- The State Grid Corporation of China, previously a majority shareholer of CPFL Energias Renovaveis SA, bought the remaining 48.4% of the company for $938 million, in a deal first announced in 2017 ("State Grid Completes," 2018). CPFL Energias Renovaveis SA is a Brazilian energy firm that operates small hydroelectric plants, wind farms.
- The China Gezhouba Group Company, through its subsidiary CGGC Construtora do Brasil, completed its purchase of Sistema Productor São Lournço, a water treatment and supply company serving São Paulo, for $866 million, first announced in 2017 (Xuequan, 2018).

Greenfield FDI

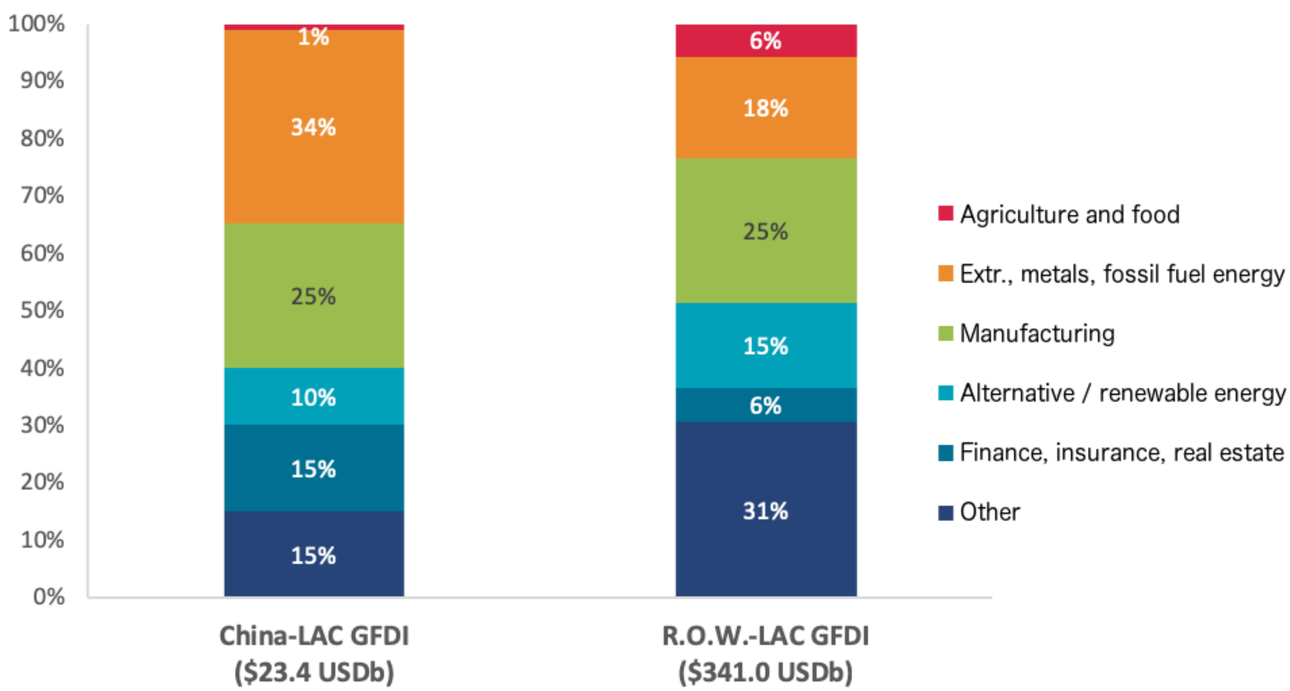
Chinse greenfield FDI – establishing new projects or expanding existing ones – in LAC fell to $1.6 billion in 2018, its lowest level since 2006.

FIGURE 7: CHINESE GFDI IN LAC, BY YEAR AND SECTOR



Source: Financial Times. Note: China includes Hong Kong, Taiwan, and Macao.

FIGURE 8: SECTOR DISTRIBUTION OF GFDI IN LAC, BY SOURCE, 2014-2018



Source: Financial Times. Note: China includes Hong Kong, Taiwan, and Macao.

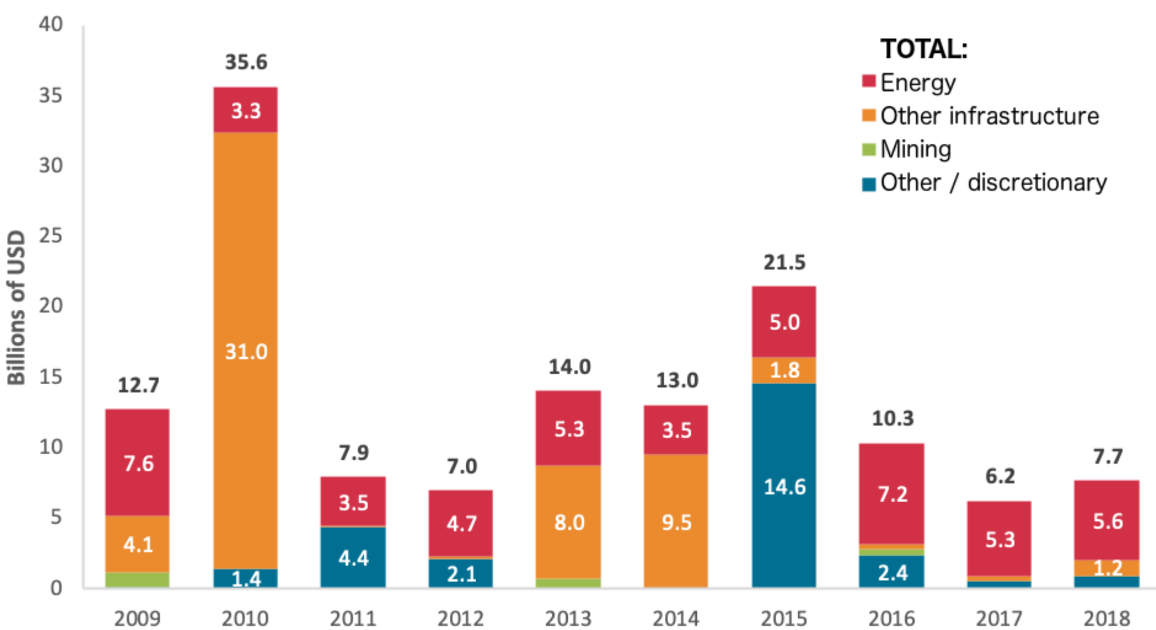
The largest Chinese GFDI deals announced in 2018 were:

- The Shanghai-based New Development Bank injected $255.5 million into its Brazilian office, after a $280.9 million investment in 2017.
- JinkoSolar announced an investment of $214 million in the 80MW Iglesia-Estancia Guañizuil solar plant in the province of San Juan, Argentina, with financing from IDB Invest, the private-sector finance office of the Inter-American Development Bank.
- Shandong BIHAI Packaging Materials (GsPak) announced plans for a $106 million packaging plant in Brazil.
- Club Mediterranee (a subsidiary of Fosun International) announced plans for a $100 million Club Med Michés Playa Esmerald in the Dominican Republic.
- Jinlihua Electric announced a plan to build a laboratory and manufacturing plant in Brazil to build glass insulators for Brazil's electricity infrastructure expansion projects.

CHINESE OFFICAL FINANCE IN LAC

Chinese finance in LAC rebounded slightly from $6.2 to $7.7 billion in 2018 but stayed among the lowest levels in recent years. Over two-thirds of the year's lending went to Venezuela, in the form of a $5 billion credit line for furthering oil sector development, which can be repaid in either cash or oil. An additional $900 in discretionary lending went to Ecuador, and $970 million to the Dominican Republic for electrical grid improvements. Transportation infrastructure included the realization of CHEXIM's 2017 agreement to upgrade the San Martín freight railway network in Argentina (which was also fell in cost from $2.4 to $1.1 billion), a $236 million loan from CDB for Argentina's purchase of equipment for the Ferrocarril Roca Eléctrico rail, and $69 million from CHEXIM to support Ecuador's post-earthquake rebuilding of the Manta airport.

FIGURE 9: CHINESE FINANCE TO LAC GOVERNMENTS, 2009-2018, BY SECTOR



Source: Gallagher and Myers, 2019.

Over the last year, Chinese finance to developing countries has come under scrutiny as potentially pushing borrowers' debt levels into unsustainable territory (see for example Tillerson, 2018 and Pence, 2018). Given this context, now is an appropriate moment to explore the impacts of Chinese lending on public debt levels in Latin America. Hurley, Morris, and Portelance (2018) set out a model of this approach, by comparing current debt levels of selected BRI countries with the anticipated debt levels including loans expected to be signed through BRI projects. This sections applies their methodology to the recent history of Chinese official finance in Latin America. A preliminary analysis suggests that while China has shown itself willing to lend to countries with high levels of public debt, Chinese finance alone has not pushed Latin American borrowers – with the important possible exception of Venezuela – over the debt sustainability thresholds established by the IMF.

Hurley, Morris, and Portelence (2018) limit their analysis to countries without investment grade sovereign bond ratings. Among Latin American countries, seven had bond ratings below investment grade between 2004 (the year before China first began extending loans to Latin America) and 2016: Argentina, Bolivia, Brazil, Ecuador, Guyana, Jamaica, and Venezuela. Of these seven, all but Argentina are included in the World Bank's International Debt Statistics (IDS) database. Argentina may not be included in IDS, but it has recently retroactively calculated external debt statistics to fit the IDF's definition (INDEC, 2017). Taken together, these sources allow for an elementary comparison of these seven countries' debt burdens in 2004 and 2016.

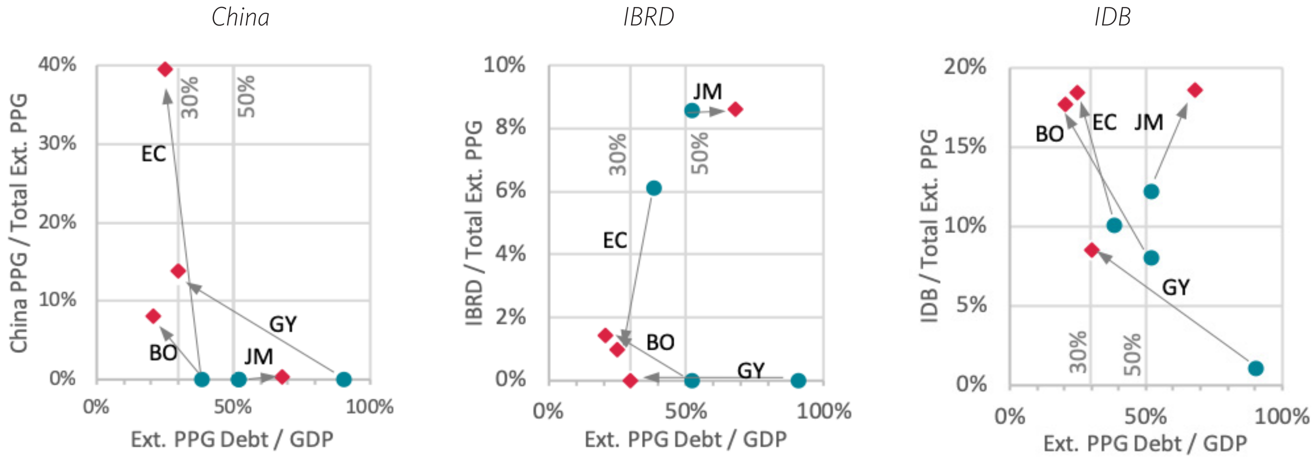
The IMF's Debt Sustainability Framework (DSF) sets thresholds for public and publicly-guaranteed (PPG) debt, at 30, 40, and 50 percent of GDP for countries with weak, medium, or strong institutional frameworks, respectively (IMF, 2017). Of the seven countries that fit the characteristics of Hurley, Morris, and Portelance (2018)'s study, only Jamaica had external PPG debt higher than 30% of GDP in 2016, according to the World Bank's IDS. Even this level is overstated, though, because while the DSF discounts relies on the present value of PPG debt, the World Bank IDS reports the total outstanding PPG debt levels. Furthermore, Jamaica has borrowed only $2.1 billion from China, so China cannot be said to have any appreciable role in Jamaica's high debt levels.

The following figures show each country's change in total external PPG debt as a share of GDP, and the role of Chinese lending has played in this debt accrual, in comparison with traditional multilateral sources of development finance: the World Bank's sovereign lending window (the International Bank for Reconstruction and Development, or IBRD), and the Inter-American Development Bank (IDB). The first three figures cover Bolivia, Ecuador, Guyana, and Jamaica: the four countries that publicly report their outstanding external debt to China. They cover 2004 to 2016 to match the last year before China began extending credit to Latin America (2004) and the most recent year for all three countries' reports of bilateral debt balances.

In the first chart, three of the four arrows are pointing up and to the left, indicating that even as debt to China grew for these countries, total external PPG debt fell. In other words, Chinese credit acted as a substitute for traditional sources of credit, but each of these three countries ended the time period with less external PPG debt than they had in 2004. The same is true in the third chart, showing IDB borrowing. The middle chart shows that IBRD borrowing fell in all three countries during this time frame.

As stated above, only Jamaica's total PPG debt to GDP ratio grew from 2004 to 2016. Instead, Bolivia, Ecuador, and Guyana all experienced falling total PPG debt, whether due to a partial default (in the case of Ecuador), debt forgiveness (in the case of (Guyana), or conservative fiscal management (Bolivia). While Chinese credit accounted for approximately one-third of all Ecuadorian external PPG debt, its total external PPG debt was only 25% of GDP in 2016, and its constitution limits total public debt (of all types) to 40% of GDP.

FIGURE 10: CHANGES IN PPG DEBT BY SOURCE FOR BOLIVIA, ECUADOR, GUYANA, AND JAMAICA, 2004 TO 2016

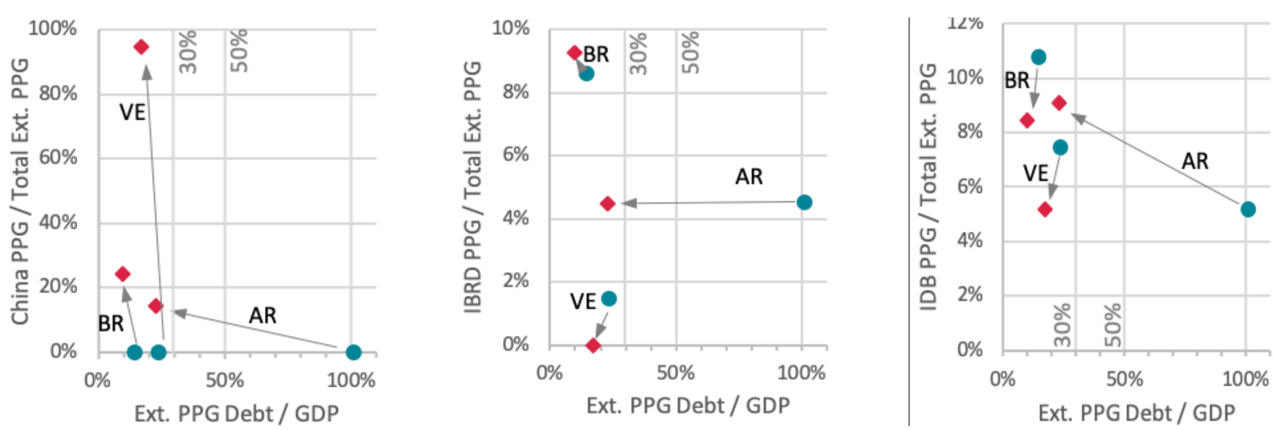


Note: ● 2004 ◆ 2016

Source: Author's calculations using Gallagher and Myers (2019), World Bank IDS, and MDB annual reports.

Argentina, Brazil, and Venezuela do not report bilateral PPG debt balances. Thus, the figures below reflect worst-case scenarios for each country's indebtedness to China. It should be emphasized that these estimates are worst-case rather than most-likely estimates for debt to China at year-end 2016, based on constraints posed by total external PPG debt and other external PPG debt to multilateral development banks. For example, World Bank IDS statistics show that Venezuela's entire external PPG debt was \$26.5 billion at year-end 2016, while the IBRD reported no balance for Venezuela that year and the IDB reported a balance of \$2.1 billion. Thus, Venezuela's worst-possible outstanding PPG debt to China was \$24.4 billion, or a little over one-third of the total amount of Chinese lending to Venezuela from 2004 through 2016. As with Figure 10, the first chart shows arrows pointing upward and to the left,

FIGURE 11: WORST-CASE POSSIBILITIES FOR TRENDS IN TOTAL AND BILATERAL PPG DEBT FOR ARGENTINA, BRAZIL, AND VENEZUELA, 2004 TO 2016



Note: ● 2004 ◆ 2016

Source: Author's calculations using Gallagher and Myers (2019), World Bank IDS, and MDB annual reports.

It is a matter up for debate whether to include in Ecuador's outstanding debt the oil pre-purchase agreements it has made with other countries, including China. Ricardo Hausmann (2019) has argued that they should be included, as funds are made available up front and oil is owed at a later date. However, unlike loans, these agreements do not have interest rates associated with them. Rather, their "price" can only be calculated after they have been repaid, as the difference between the agreed-upon price of the oil in the pre-purchase agreement and average price of the Ecuadorian basket of oil exports over the course of the agreement. Thus, it is impossible to calculate the debt service burden. For this reason, they are not included in debt-tracking efforts such as the China-Latin America Finance Database, maintained by the Inter-American Dialogue and Boston University's Global Development Policy Center (Gallagher and Myers, 2019).

Ecuador's Comptroller General's office noted in March of 2018 that if these pre-payment arrangements, signed under the previous President Rafael Correa, had been counted as debt, Ecuador's resulting national debt would have been between 41% and 42% of GDP, slightly above its constitutional limit of 40% ("Contraloría Ratifica," 2018). The same source lists Chinese pre-purchase agreements as valued at $1.679 billion at year-end 2016. If that value were added to total external PPG debt as listed in the IDS database, it would raise total Ecuadorian external PPG debt from 24.9% to 26.5% of GDP – still blow the IMF debt threshold.

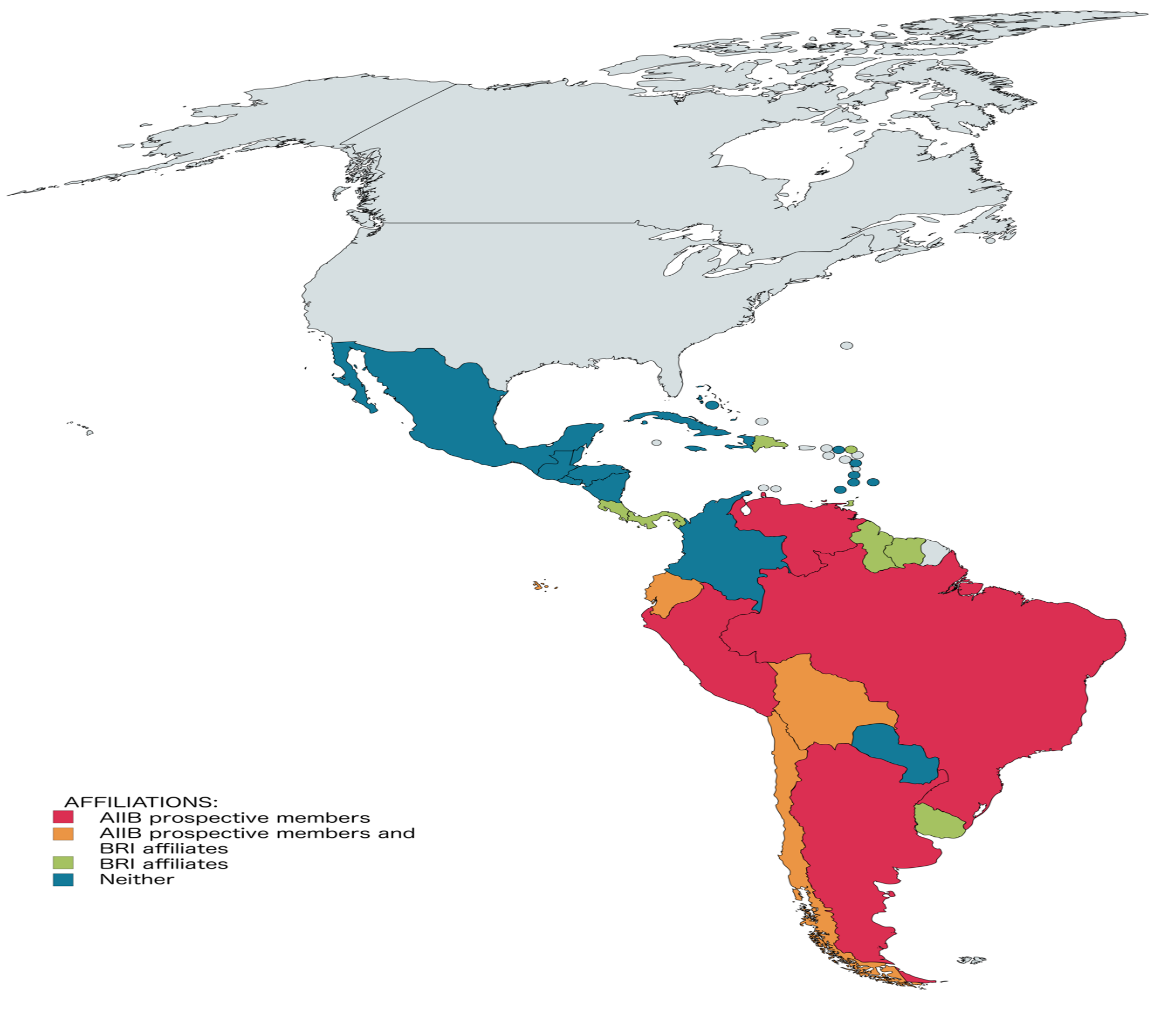
The Ecuadorian Economy and Finance Ministry's 2019-2022 budget outlook notes two pre-purchase agreements still outstanding in September 2018, both of which began in 2016 (Ministerio de Economía y Finanzas, 2018). The first agreement, with PPT Public Company (formerly known as the Petroleum Authority of Thailand), included a prepayment of $600 million in exchange for 122.76 million barrels of crude oil to be sent by 2022 (with $330 million worth of shipments still outstanding). In a second deal, Oman Trading International agreed to pay $300 million in exchange for 17.1 million barrels of fuel oil, to be delivered by 2019 (with 90 million still outstanding). Of the original $900 million for these two agreements, the Ministry reports that $420 million was still unpaid as of September 2018. The budget outlook does not mention outstanding Chinese pre-purchase agreements, but Ecuador paid off two existing credit lines ahead of schedule in September 2018, shortly before President Moreno visited China and secured two new loans. This early repayment, of $266.6 million, resulted in a savings of $9.34 million in anticipated interest payments (Rodríguez, 2018). In addition to these obligations, Ecuador re-entered the sovereign bond market in 2014, and by year-end 2016, its external public debt was roughly evenly split among multilateral ($8.2 billion), bilateral ($8.0 billion), and private ($8.8 billion) sources (Ministerio de Finanzas, 2016).

Unfortunately, it is impossible to repeat this type of estimate for Venezuela's pre-purchase agreements, as they are not listed publicly. It is clear that Venezuela's debt to China has become unsustainable, given the history of debt renegotiations between the two countries in recent years. As Myers (2019) states, in the most recent round of negotiations, China declined to continue extending Venezuela's grace period for repayment, even while issuing Venezuela a new $5 billion line of credit. However, Venezuela's publicly-reported data does not illuminate the precise extent of this unsustainability.

BROADER OFFICIAL COOPERATION AGREEMENTS: AIIB AND BRI

Over the last year, economic ties between Latin America and China continued to deepen through the official multilateral channels. Twelve LAC countries are listed as affiliates of the Belt and Road Initiative (BRI), and seven Latin American nations are now prospective members of the Asian Infrastructure Investment Bank (AIIB). Figure 12 shows the distribution of these affiliations across the LAC region.

FIGURE 12: LAC COUNTRIES, BY AFFILIATION



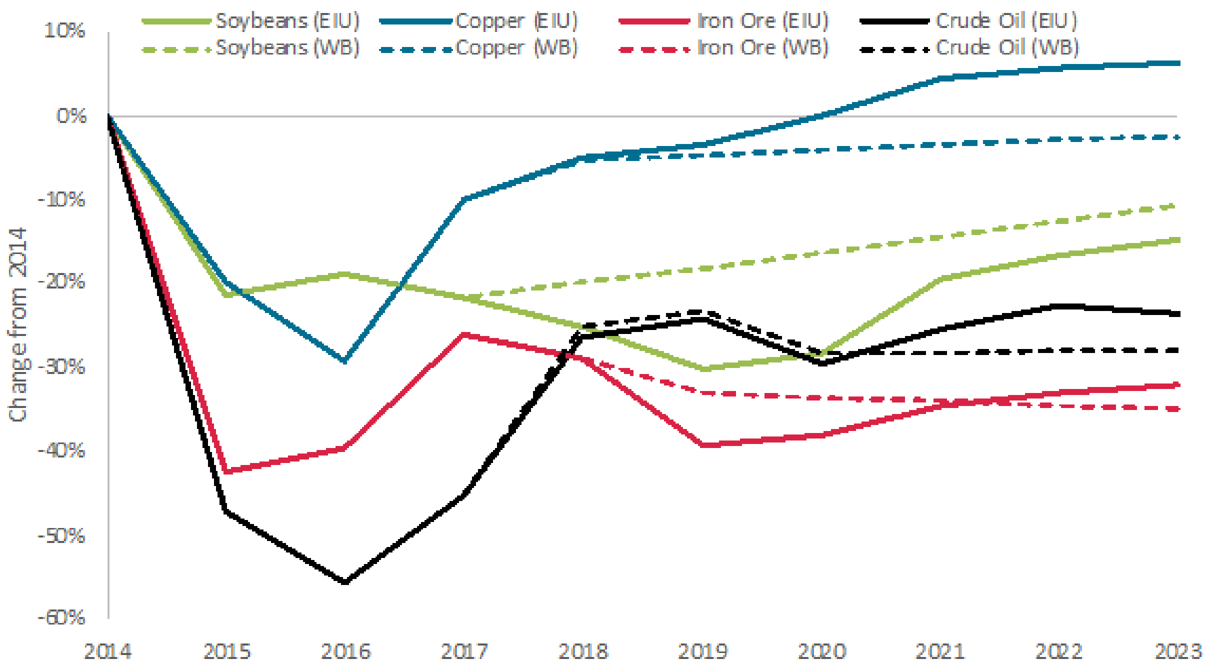
Note: Grey territories are non-LAC or non-sovereign. BRI affiliation denotes having signed a BRI memorandum of understanding, BRI cooperation agreement, or BRI framework agreement.

Source: “Cooperation Agreements” (n.d.), “Members and Prospective Members” (n.d.), “Profiles” (n.d.). Created with MapChart.net.

OUTLOOK FOR 2019 AND BEYOND

The improving terms of trade with China in 2018 are likely to continue in 2019. Projections by both the World Bank and the Economist Intelligence Unit anticipate higher prices for crude oil and copper, with the latter potentially nearing its 2014 peak levels. Crude oil prices are not expected to remain 20% to 30% below their peak levels, but are expected to return to relative stability in comparison to the extreme volatility of recent years.

FIGURE 13: MAJOR COMMODITY PRICE FORECASTS



Source: Authors' calculations using EIU and World Bank commodity price data.

It is likely that AIIB and BRI affiliations will continue to spread throughout the LAC region in 2019 and beyond. El Salvador and Venezuela have both signaled interest in joining the BRI, though they have not yet (as of this writing) signed official framework agreements, cooperation memorandums, or memorandums of understanding (Desheng 2018, Hermoso and Fermín 2019).

Two major sources of uncertainty will have significant impacts on the China-Latin America economic relationship moving forward. First, the outcome of continued US-China trade negotiations will have significant impacts on Latin American soy exports. The Brazilian Association of Vegetable Oil Industries has stated that it expects 2019 soy exports to China to fall by 16% compared to 2018's level, thanks to anticipated progress in US-China trade talks. However, even a 16% fall in 2019 would leave Brazil-China soy exports above their 2017 levels (Yunyi, 2019). Secondly, the political turmoil in Venezuela will continue to be felt throughout Latin America and may have significant impacts on China's relationship with the region.

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ACKNOWLEDGEMENTS

The authors thank Milos Zarkovic for research assistance on Chinese official finance.