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Can Latin America and the Caribbean Trust China as a Business Partner?

A lack of due diligence, corruption, and a disregard for indigenous rights and the environmental have characterized many Chinese infrastructure projects in the region.

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December 29, 2021

Ecuador's Coca Codo Sinclair dam.
Credit: Flickr/Ministerio de Turismo Ecuador

On December 7, a few days after the third China-Community of Latin American and Caribbean States (CELAC) Forum, the Chinese Foreign Ministry released the China-CELAC Joint Action Plan for 2022-2024. It laid out Beijing's plans to expand cooperation over a range of areas, including defense, finance, trade, public health, and cultural exchanges.

On that same day, the regional Latin American news website Infobae reported that the Ecuadorian government was suing Chinese company Sinohydro for shoddy work on the Coca Codo Sinclair dam, which has seriously harmed the Ecuadorian environment and economy. Constructed in 2016, the dam has over 7,000 cracks, is causing erosion along the Coca River, and is running well below its promised capacity. The erosion has also forced two of Ecuador's most important gas pipelines to shut down, potentially threatening Ecuador's ability to fulfill its export contracts. The U.S. Army Corps of Engineers is now working with the Ecuadorian government to mitigate the effects of the erosion.

The juxtaposition of these two events highlights the conundrum facing Latin American and Caribbean governments: Their aspirations of leveraging Chinese resources to finance national development and other objectives versus the very real risks that engaging with Chinese entities can bring.

Ecuador's Coca Codo Sinclair dam is just one example of a string of failed, problematic, or stalled Chinese infrastructure projects throughout the region. Is there something about PRC-funded or managed projects that leads to a disproportionate number of problems? There are three elements which contribute to an elevated risk of problems that can be highlighted by an in-depth examination of the Coca Codo Sinclair case: A lack of due diligence by the partner contracting the Chinese project; corruption; and disregard for indigenous rights and environmental protection.

Lack of Due Diligence

In 1992, the Ecuadorian government commissioned two feasibility studies on the Coca Codo Sinclair dam. One of those studies pointed out that the project could adversely affect the Coca River water supply, which could in turn cause "regressive erosion," eating away at the river bed and weakening land upstream. When the Chinese company Sinohydro began constructing the dam in 2010, it either did not follow through on due diligence to conduct a vulnerability or risk study, or it simply ignored the risks identified in the previous study.

In 2015, Ecuador's comptroller found more than 7,000 cracks in the dam's distributors, indicating that the work or materials used by Sinohydro were likely of poor quality. Similarly, due to Sinohydro's failure to address the hydrological risks from the project identified by the earlier analysis, in 2020, the flow of the Coca River was severely impacted, causing the iconic San Rafael waterfall to dry up and both the Trans-Ecuadorian Oil Pipeline System and the Heavy Crude Oil Pipeline to rupture. These issues all resulted in environmental damage and temporarily affected Ecuador's oil supply. As a consequence, as noted previously, in 2021, Ecuador decided to sue Sinohydro and bring the case to international arbitration.

Elsewhere in Ecuador, numerous other hydroelectric projects have faced problems. These have resulted in the Ecuadorian government fining China Water and Electric for non-compliance with contract commitments on the Toachi-Pilaton dam, the removal of China National Electric Equipment Corporation from the Quijos hydroelectric project for failure to complete the promised work, the cancellation of a project in Chone by the Chinese firm Tesijiu, and the deaths of three workers in a flooding accident in the Delsitsanisagua project, among others.

In Bolivia, the government has over the years rescinded the contracts of numerous Chinese companies for non-performance on infrastructure projects, including kicking Beijing Urban off Santa Cruz's Viru Viru airport, and rescinding China Railway Road and CAMC Engineering's contracts to build a railroad line from Montero to Bulo Bulo, among other incidents.

Over in the Caribbean, the sudden termination of Trinidad and Tobago's $71.7 million project between China Gezhouba Group International Engineering Company and the Housing

Development Corporation in 2019 highlighted a lack of transparency in the award of the contract and "overly generous concessions to the Chinese company," according to the Caribbean Investigative Journalism Network. In Guyana, the minister of public works denied a request by China Harbor Engineering Company to extend the time of completion of an upgrade of the Cheddi Jagan International Airport. This $150 million project remains incomplete after over a decade after it began due to various concerns over workmanship and other technical issues, although it is expected to be 65-70 percent complete by the end of the year.

These examples show a pattern of Chinese companies either not adequately conducting due diligence before a project commences or failing to follow through once the project begins.

Corruption and Improper Chinese Influence

In 2018, the New York Times detailed the fact that almost all of the Ecuadorian government officials involved in the Coca Codo Sinclair dam project are now in jail or being investigated for bribery. While those bribery charges largely have to do with receiving funds from Brazilian construction company Odebrecht, there was also a secretly recorded tape that was made public that suggested former Ecuadorian Vice President Jorge Glas had received bribes from the Chinese.

In Venezuela, there have been countless questionable, non-transparent projects in which it is not clear where the money went, but the projects were left uncompleted. One of the most glaring examples was a rice production facility contracted to China's CAMC Engineering. In September 2018, an Andorran court found that the Chinese had paid at least $100 million in bribes to Venezuelan officials to secure the project, which ultimately never was completed or produced any rice.

Perhaps the most high-profile case is the "Nicaragua Canal," a $100 billion project involving highly questionable non-transparent relationships between Nicaragua's ruling Ortega family, including the president's son Laureano, and Chinese telecommunication billionaire Wang Jing. In 2014, leveraging control of the Nicaraguan Congress by the Ortegas' ruling Sandinista party, Wang Jing's company HKND obtained broad authorization to construct a $100 billion canal across the country. The project ultimately vanished in 2016 after failing to attract outside investors, although in November 2021, just before Nicaragua's decision to establish diplomatic relations with the PRC, Wang Jing curiously re-appeared in public to advocate the continuation of the project.

While these are the most overt examples of how Chinese companies use bribes and other improper influence to secure projects on terms to their advantage, there are other subtle ways. After Panama established diplomatic relations with the PRC in 2017, the administration of then-President Juan Carlos Varela negotiated agreements with China directly through the president's office, prompting accusations of corruption.

In the Bahamas, local developer Sarkis Izmirlian has a pending $2.25 billion lawsuit against China Construction Americas for running that project into bankruptcy, leading him to ultimately lose control of the project. The lawsuit includes accusations that the firm submitted hundreds of millions of dollars in sham bills, intentionally understaffing the project and using it to train inexperienced workers for other construction projects in the region. Such corrupt activity isn't just happening in the Western Hemisphere; around the world, 35 percent of China's Belt and Road projects have encountered implementation problems, including corruption scandals, labor violations, environmental hazards, and public protests.

Disregard for the Community, Indigenous Peoples, and the Environment

Chinese projects across the region have repeatedly sparked protests by indigenous groups, environmentalists, and communities affected by their operations, for their manner of proceeding with respect to concerns over as the environment, land and water rights, and associated issues.

In 2018, the International Federation of Human Rights released a report finding that Chinese company BGP Bolivia broke its promise to the Tacana people of Bolivia, destroying a forest of chestnut trees, crucial to the local economy, and forcing animals to migrate. The collapse of a poorly constructed retaining wall in a Bolivian mining operation by the Chinese firm Jungie led to the injury of 18 workers and the contamination of the local community with metal tailings. In 2019, the Amazonian Community of the Cóndor Mirador Mountain Range in Ecuador demonstrated against a copper mining project by the Chinese company Tongguan, accusing the firm of violating national mining laws by not adequately consulting them about the project, and later forcibly evicting them from their land.

In Peru, local protests over the impact of the Rio Blanco mine, developed by the Chinese company Zijin near Piura, ultimately brought the project to a standstill. Also in Peru, in the Las Bambas mine, repeated protests by the Chumbivilcas community at the entrance to the site finally obliged the Chinese operator Minmetals to cease production. In Argentina, operations by China Metallurgical Corporation (CMC) in the Campana Mahuida mine have been frozen since 2009 due to resistance over the impact of the operation on the local community and environment. In Brazil, Chinese companies' soy cultivation, an extremely important commodity for China's own food security, in biodiverse areas is threatening the ecosystem and contributing to deforestation.

Can the Region Trust China?

Admittedly, the Chinese government and Chinese companies are learning from past failures in the region and adapting their business practices, even if not fundamentally altering their behaviors. For instance, Margaret Myers of the Inter-American Dialogue has written extensively about how Chinese companies are "Going Local," building *hermanamiento* – sister city relationships – with provincial and municipal governments, leveraging existing local Chinese diaspora communities, and relying less on policy bank loans and more on public-private partnerships to finance projects in the region.

But the persistent problems in Chinese funded or managed projects begs the question: How can Latin American and Caribbean countries trust China as a business partner? How does one do business with companies that all too often, if not closely supervised, don't do adequate due diligence, engage in corruption, and don't respect indigenous rights or the environment? How can regional governments trust companies that are connected in one way or another to an authoritarian regime that, just this month, was accused of hacking and spying on 29 countries, 17 of them in the region: Argentina, Barbados, Brazil, Chile, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Panama, Peru, Trinidad and Tobago, the United States and Venezuela? With Chinese companies' problematic track record, how can regional governments trust them as they expand their footprint in areas essential to national security, such as the electrical grid and telecommunications?

Of course, it isn't feasible for Latin American and Caribbean countries to cut business ties with Chinese companies altogether, given the importance of the PRC as a purchaser of their commodities, and an increasingly important source of investment and credit for their countries. However, there are new ways for governments to further scrutinize possible Chinese projects, and to take advantage of alternatives provided by democratic partners.

Viable Alternatives

First, local governments can do more to leverage the resources available from the U.S. to strengthen their ability to engage with the Chinese in an effective, transparent way. This will allow regional governments to better leverage the potential of Chinese investments and projects, while mitigating the associated risks. For example, as mentioned in the beginning of this article, the U.S. Army Corps of Engineers (USACE) is currently working with the

Ecuadorian government to assess the environmental impact of the Coca Codo Sinclair dam and help draw up a plan to mitigate those impacts. USACE is providing technical support to Brazil on water management; with the Panama Canal Authority on consulting and technical advisory services for the Water Projects Program for a key waterway; with the Dominican Republic to expand and further develop the Manzanillo port; and with Honduras to discuss the design of a Flood Risk Management Plan for the Sula Valley. Any country's ministry of public works can request assistance from USACE to conduct an adequate feasibility, vulnerability, and risk assessment before large infrastructure projects get underway.

Second, regional governments increasingly have alternatives to PRC-funded projects, involving greater transparency, safeguards by corporate and government practices against corruption, and strong corporate social responsibility track records in dealing with local communities, laws, and the environment. Representatives of the Biden administration recently visited Colombia, Ecuador, and Panama to explore private investment opportunities as part of the Build Back Better World (B3W). This initiative, supported by the U.S. Development Finance Corporation, focuses on strengthening infrastructure in the areas of climate, health and health security, digital connectivity, and gender equity and equality. The European Union also recently announced Global Gateway, which mobilizes 300 billion euros for sustainable investments in digital, climate and energy, transport, health, education and research. Both B3W and Global Gateway aspire to support projects that uphold the highest standards of transparency and anticorruption, financial sustainability, labor protections, and environmental preservation.

These tools and alternatives, offered by long standing democratic partners, will enable regional governments to allow projects that support economic growth in their countries without compromising their moral or environmental standards. And if regional governments still decide to work with potential Chinese bidders, they can hold those companies to high standards. It's what the people of the region need, and deserve.

The views expressed in the article are those of the authors and do not necessarily reflect those of the U.S. government.

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