



ONE BELT ONE ROAD:


**AN OPPORTUNITY FOR COLOMBIA**



Vali Consultores a public and government affairs consulting firm, we present an analysis of the opportunities that One Belt One Road symbolizes for Colombia.

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Since the beginning of relations with China, Colombia has sought to position itself as a strategic partner of the Asian country, due to China's growth as a relevant actor in economic terms. Thus, Colombia's strategic interests have focused on addressing economic and trade issues, without necessarily implying the absence of political interests.

Furthermore, the arrival of Gustavo Petro to the presidency of Colombia projects a favorable scenario to promote rapprochement with China, from the political aspect. The common interests in agendas such as energy transition, climate resilience, peace issues and regional development open opportunities for cooperation, where the Asian country can contribute with resources and experiences that will benefit Colombia.

Moreover, the development of China foreign policy will increase investment and resources in the region, thus, from Vali Consultores a public and government affairs consulting firm, we present an analysis of the opportunities that One Belt One Road symbolizes for Colombia.

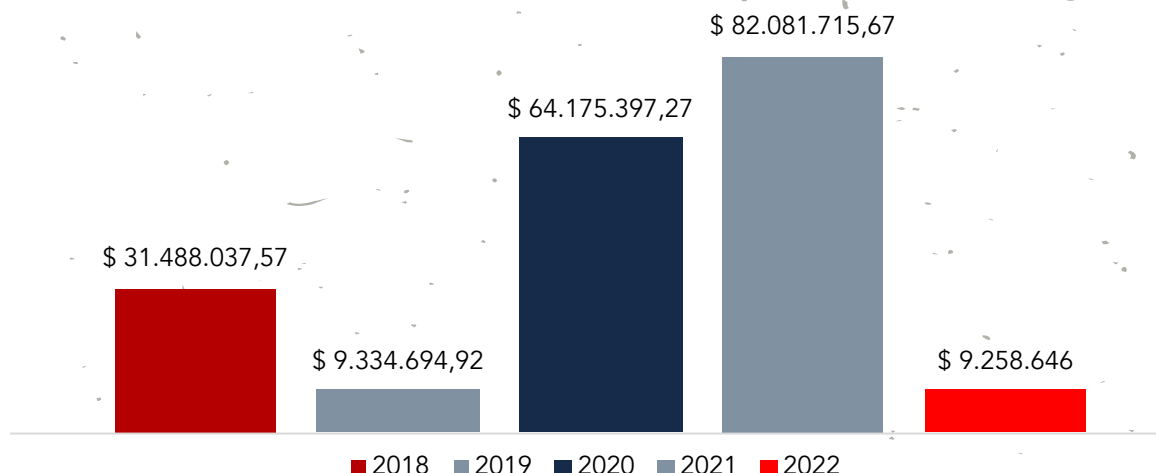
# Chinese presence in Colombia

During the last 25 years, trade between Colombia and China has maintained an upward trend, consolidating itself as the second most important trading partner for Colombia; with a growth rate of 18% per year (Banrep, 2022). Specifically, China's exports to Colombia during the first semester of 2022 reached a value close to USD \$9,258,646 million (DANE, 2022). In this aspect, imports from the Asian country experienced an increase of 45.82% with respect to the same period of the previous year, where the most requested products by the country were those related to machinery and textiles.

On the other hand, China accounted for 4.03% of Colombia's total exports (DANE, 2022), making it one of the country's main trading partners. However, it ranks below other economies such as the United States (25.7%), Panama (11.4%) and India (5.3%).

By October 2022, Foreign Direct Investment (FDI) reached USD \$5.8 billion, which represented a 77% growth compared to the previous year's results (MINCIT, 2022). An example of this has been the increase in the financing of infrastructure projects such as the Regiotram de Occidente or the Bogotá Metro, both projects totaling resources close to \$243 million dollars (Bloomberg, 2022). In addition to this, 36 projects are developing in the country for a value of close to US\$2.048 million in regions such as Bogotá (32), Bolívar (2), Valle del Cauca (1), Meta (1) and Antioquia (2).

## FOREIGN DIRECT INVESTMENT



Source: Prepared by the authors with data from "Sistema de Estadísticas Económicas Intercambiables" (MINCIT, 2022)

On the other hand, Colombia has managed to consolidate itself as a center of operations at the regional level for important technology and communications companies. By 2022, 118 Chinese companies were operating in the country (Cámara Colombo China, 2022).

Moreover, Chinese companies have become involved in different sectors of the Colombian economy, such as infrastructure, the automotive industry, mining and energy, which has positioned China as the Asian country with the largest volume of investments in Colombia (Procolombia, 2021).

In this regard, since 2015, road and multimodal infrastructure has been one of the main investment interests of Chinese companies in Colombia, specifically by China Harbour and China Civil Engineering Construction Corporation (CCECC) consortiums.

Furthermore, China Harbour Engineering Company Ltd (CHEC), oversees the PPP (Public-Private Partnership) Autopista al Mar 2 (highway), a project contracted in 2015, for an amount of \$1.8 billion pesos (4 million USD) where 254 km will be built to connect the department of Antioquia and the northern part of the country.

Additionally, the China Civil Engineering Construction Corporation (CCECC), is responsible for the construction of the Regiotram de Occidente (commuter train), awarded in 2019 for a value of 3.4 billion pesos (7.6 million USD) that will connect Bogotá and Cundinamarca through a line of 39.6 km and 17 stations. In terms of commerce, Colombia's greatest interest in China is to equilibrate the trade balance and encourage an increase in Chinese investments in the country.

Finally, the increase in the level of Chinese FDI in Colombia is due to the facilities that exist in relation to trade barriers and the entry of investment flows. In addition to this, Chinese companies have found comparative advantages in the purchase of land, investment in 4G highways, airports and ports, and opportunities in the manufacturing and technology sector.

# One Belt One Road

China's increased presence in Colombia has coincided with the development of a more active foreign policy by the government in Beijing, and its catalyzation with the Belt and Road Initiative (BRI). This initiative contemplates a connectivity network that integrates trade corridors between China, Eurasia, the Middle East, Europe, Africa and Latin America. Through this, the Chinese government seeks to empower international organizations, link various financial institutions, and develop multilateral and bilateral treaties, with the aim of boosting investment and the construction of a global infrastructure and trade system (Müller-Markus, 2016). The strategy also seeks to benefit the economic growth and development of China and other member countries, which contributes to the strengthening of global trade.

In the words of the president of the Asian country, Xi Jinping, the BRI seeks to "actively promote international cooperation through political, commercial, financial and people-to-people relations; to create engines of shared development" (2017). In this regard, China has invested more than \$1 trillion dollars in infrastructure and financing of cooperation programs globally, aimed at the fulfillment of those objectives (The Wall Street Journal, 2022).

Initially, the project is built on two strategically integrated commercial routes for trade between China and other countries:

- A land network of six corridors that would link China with Central Asia and Europe, crossing the Balkans.
- A maritime route linking the markets of Latin America, Africa and the Middle East through commercial ports in the Indian, Pacific and Atlantic Oceans.

This interest in promoting cooperation and closeness between countries has been pursued through a new approach to China's foreign policy, oriented along five lines:

#### POLITICAL COORDINATION:

Expanding shared interests, improving trust, and generating consensus on cooperation strategies, establishing common ground and intergovernmental communication that allows the priorities of the different countries to be aligned with the BRI objectives.

#### CONNECTIVITY:

Align infrastructure development planning, facilitating the construction of international networks of great importance for trade, as

well as the development of aspects such as energy supply, telecommunications, postal services, border controls and customs to promote the economic potential of the different countries.

#### FREE TRADE:

Mechanisms are established to facilitate the elimination of trade and investment barriers, creating a favorable outlook for companies based on the liberalization of the different economies, their integration and the improvement of value chains.

#### FINANCIAL INTEGRATION:

Increase financial cooperation to create a favorable environment for investment, financing and credit services, strengthening regulatory cooperation and facilitating interbank and multilateral contributions.

#### PEOPLE-TO-PEOPLE LINKS:

Connecting the different cultures that make up the initiative through greater interaction and mutual understanding, to strengthen political and social ties with China, which in turn will facilitate harmonious cooperation between the different countries, from civil society and government agencies.

The five principles are embodied in memoranda of understanding which, depending on the agreements established between the signatory country and China, may vary in their commitments in different commercial areas. In principle, the memorandum establishes the signatory country's willingness to cooperate in common interests, within the framework of the Belt and Road initiative. Moreover, it indicates a commitment by the signatory to advance in the implementation of projects and regulations favorable to the initiative, with financing from institutions such as the New Development Bank and the China Development Bank, as well as private investment resources.

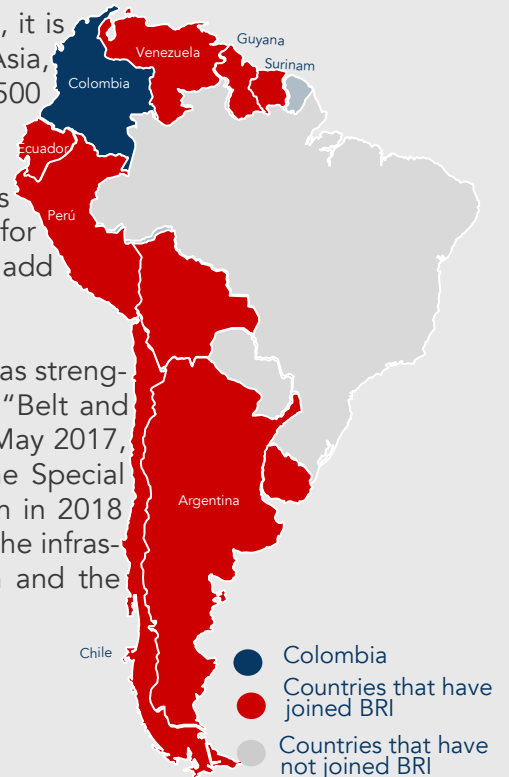


# One Belt One Road in Latin America

Latin America has established itself as one of the most important destinations for Chinese exports. It is one of the highest-growing regions. Besides, it is the second destination in terms of foreign investment, just below Asia, exceeding USD \$410 billion and with the presence of more than 2,500 companies (Xiao, 2022).

This has given China the position of the first trading partner of countries such as Perú, Chile and Brazil, and the second in terms of prominence for countries like Argentina, Mexico, and Colombia, which it has sought to add to its BRI initiative.

The commercial closeness between the region and the Asian country has strengthened the trust between the sides, which was demonstrated at the "Belt and Road" International Cooperation Forum, that took place in Beijing in May 2017, in which the region was involved in the BRI initiative. In this way, the Special Declaration of the II Ministerial Meeting of the CELAC - China Forum in 2018 made clear the intention of the region for "promote the coordination, the infrastructure interconnectivity, trading coordination, financial cooperation and the mutual comprehension", necessities for the development of the BRI.



## BRI INITIATIVE IN THE REGION

Source. prepared by the authors from the countries' memorandums of understanding



The desire of both parts to promote and expand the areas of cooperation, with the aim of strengthening economic growth and taking advantage of the complementarity of their economies, has led to some countries of the region to join the BRI, with the participation of 147 countries, 11 of them are from the region (FISF). Among these, Panama was the first actor of the region to sign the Memorandum of Understanding to incorporate the initiative, followed by Uruguay, Ecuador, Venezuela, Chile, Bolivia, Guyana, Surinam, Perú and Argentina. It is important to emphasize, in the last 10 years, more than US \$120 billion in Foreign Direct Investment has been announced for these countries.

In this regard, China has become the main financier and builder of large infrastructure projects in countries such as Perú and Ecuador. For example, Cosco Shipping Ports is one of the biggest Chinese companies that is currently building the "Terminal Multipropósito de Chancay Perú", with an investment of USD \$3,600 million. This project seeks to become the main hub for the exchange and distribution of commodities in the Pacific, "attracting close to 50% of the trade between China and South America" (González, 2022).

Likewise, in Ecuador, Chinese investment has favored the construction of important infrastructure projects and has contributed to the country's tax revenues. The company Sinohydro has built one of the biggest hydroelectric plants in the country, Coca Codo Sinclair, which generates 30% of the country's electricity and has an investment of USD \$3.2 billion (Ministry of Energy and Mines, 2022). Furthermore, the Export-Import Bank of China has financed the reconstruction of the General Eloy Alfaro International Airport in the coastal city of Manta with a loan of USD \$21 million (China-CELAC Forum, 2022). ECSA has invested a total of USD \$1.570 million in mineral mining in the country, contributing USD \$100 million in anticipated royalties to the Government, USD \$800 million in taxes, generating close to 5,000 direct jobs and more than 15,000 indirect jobs (Embassy of China in Ecuador, 2022).





Overall, the Belt and Road has strengthened China's presence in the region, attracting financing and technical expertise to advance projects of great importance to the countries. Loans from China's major development banks to Latin American governments and incentives for their own companies to integrate into our economies have boosted trade in a context of post-pandemic recovery, generating jobs and closing social gaps. In line with the objectives of the BRI, Chinese cooperation and investment has made it possible to establish long-term synergies in terms of collaboration (González, 2022). This has facilitated a qualitative leap in bilateral relations, achieving better coordination of agendas.

China's interest in Latin America's mining and energy industry has evolved into new sectors, such as machinery, renewable energy, and electric transportation fleets (González, 2022). Thus, the region has had instruments to comply with its 2030 Agenda for Sustainable Development, where China has the opportunity to continue contributing to the progress of the countries, from the 1+3+6 Practical Cooperation Program, on the sectors of infrastructure, culture manufacturing industry, energy, information technology, scientific and technological innovation (Xi Jinping, 2016). This has favored, for example, the development of a Chinese factory of electric transport and solar panels (BYD) in Chile, which contributed to the transformation of the public transport fleet in Santiago. Meanwhile, Argentina has been another actor that has managed to articulate Chinese cooperation with its development objectives, building the largest solar energy project in the region, Parque Solar Cauchari, financed by the Export-Import Bank of China (González, 2022).

Similarly, by participating in the initiative, Latin America has gained greater access to Asian markets. Likewise, the incursion into the region has allowed the Asian country to promote its financial institutions and its integration strategies. The projects that have been signed within the framework of this initiative have been related to areas such as the coordination of economic policies, connectivity and industrial, infrastructure projects and bank loans, and despite the risk of indebtedness to which the countries that adhere to the project are exposed, most of them have found a possibility for the stimulation and growth of their economies.

Finally, this initiative provides an ideal framework for strengthening relations and cooperation ties for the economic development of the countries in the region.

# One Belt One Road for Colombia

The network of trade and development connections proposed by the BRI initiative has the potential to significantly improve trade and foreign investment. Cultivating this relationship could foster the development of new infrastructure, renewable energy, technology and mining projects with private financing, as well as cooperation mechanisms and knowledge transfers that will benefit Colombia in the short, medium and long term.

It is estimated that trade in the economies that make up the initiative has been 30% below its potential and FDI 70% below its potential (World Bank, 2019). However, the capital infusion provided by the BRI can revitalize trade and investment in Colombia, decreasing the costs of operations, the social gaps in infrastructure, and in technology that remain in the country.

Colombia has been one of the countries with the lowest Chinese investment in the region; however, the reactivation of the Asian country's economy in 2023 may represent a possible increase of Chinese capital in the country in the coming years. This opens windows of opportunity for the Colombian economy, which is currently facing fiscal difficulties, high inflation rates and low growth projections.

Access to higher proportions of high value-added products to the market have produced an unfavorable trade balance for Colombia, which in 2022 reached \$8.4 billion dollars, however, the potential of Chinese investment to contribute to the development of the country's competitiveness can improve this scenario (MINCIT). The current interest of Chinese companies in financing projects such as the 5G network, important highways, energy generation from non-conventional sources and, especially, the approach of the Chinese market with better products, open a window of opportunity for the country.

Currently, the extensive technical knowledge of Chinese companies in terms of infrastructure and surplus industrial capacity can contribute to strengthening the country's road, maritime and air connectivity, as well as communications and electricity supply. Colombia has one of the smallest proportions of paved roads in the region, according to the National Roads Institute (Instituto Nacional de Vías). Most of its network is in the hands of subnational governments, which greatly limits the allocation of resources for its long-term expansion and maintenance. On the other hand, a small proportion corresponds to large highways in charge of the State, where the possibility of private participation through public-private partnerships (PPP) has been opened. This has brought to the table the limitations that the State has for the financing and development of infrastructure, and the potential that China has in terms of resources in this area.

So far, the development of PPPs has made it easier for Chinese resources to finance, build and manage strategic infrastructure projects for the country, in conjunction with the National Government, through concessions. In this way, the companies in charge of the concessions assume the risks associated with the design, construction and delays in execution, and in turn, their operation for a minimum period of 20 years. Thus, it has been possible to channel the necessary resources for the materialization of works such as the fourth-generation highways in the country as "Mar 2".

In this regard, the increase in Chinese investment projects on the Colombian coast would be one of the main entry points for BRI projects, particularly in

the Pacific. The Buenaventura port alone receives close to 60% of Colombian imports from China, it has five terminals, connections with 50 ports worldwide and is the most efficient to serve 65% of Colombia's domestic market, with the possibility of continuing to expand (Mintransporte, 2020). Thus, the signing of a Memorandum of Understanding for the construction of the Buenaventura Economic Activities Center in 2019 (CAEB) and the current government's interest in integrating Indo-Pacific markets to the country, show the opportunities that Chinese investment in the region may have with the signing of the BRI (Summit of Mayors of the Pacific Coast, 2022).

Chocó is also a potential focus for Chinese investment in the country. Currently, the company Yingli Energy has joined the Chocó Solar project, which seeks to build a solar park that will generate 1.8 MW and benefit six municipalities in the department (ACIS, 2021). Likewise, China Harbour has been one of the companies interested in participating in the construction of a deep-water port in Tribugá, which seeks to lower the cost of maritime freight and attract more development to Chocó (Bermúdez, 2019).

The signing of the Memorandum of Understanding, by which Colombia would join the Belt and Road Initiative, would enhance the development of similar projects which are betting on greater connectivity, competitiveness and insertion of the Pacific Coast and other regions of the country. The above, with increased loans, greater investment and growing assistance that will strengthen China's role as a strategic partner in sectors such as those we have already presented



In essence, this presents an opportunity for Colombia to maintain its position as the fourth largest economy in Latin America, without having to rely exclusively on defense assistance or the stringent security policies of other countries (Bouchard, 2022). This could, as it has done in other Latin American countries, drive a shift towards cooperation in economic and financial policy that would facilitate the country's leap out of the middle-income trap. This would be based on the channeling of public and private resources from the Asian giant that, aware of the country's potential in geographic and economic terms, would favor its competitiveness and its conditions for insertion in the international market.

Considering the foregoing, the confidence of Chinese companies in Colombia is fundamental, as long as understanding in economic matters is the basis of diplomatic relations between the two countries. This scenario has been achieved based on a favorable, predictable, and transparent legal framework, which protects investments and encourages private initiative, achieving positive results from low barriers to trade, the attraction of significant capital flows and the deepening of bilateral relations. In this way, benefits have been generated in terms of technology transfers, employment generation and infrastructure development for Colombia, which are intended to be enhanced with the signing of the BRI Memorandum of Understanding, increasing the competitiveness and insertion of our country in the Indo-Pacific markets.



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