

# Chinese Engagement with Bolivia

## Resources, Business Opportunities, and Strategic Location

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In October 2015, Bolivia's president, Evo Morales, announced an unprecedented expansion of financial support by and economic engagement with the People's Republic of China (PRC). China's Export-Import Bank had agreed to provide \$7.5 billion in loans to fund 11 "strategic projects" contemplated in Bolivia's 2016–2020 National Economic and Social Development Plan, with the work to be done by Chinese companies. In the process, Bolivia's national debt would more than double to \$13 billion.<sup>1</sup>

The announcement was the culmination of a growing relationship between China and Bolivia which has begun to bear fruit, especially in purchases of Chinese products and Chinese construction companies work for the Bolivian state. The China–Bolivia relationship has not always developed so rapidly. From the 2003 conflict over the export of Bolivian gas, until the resolution of Bolivia's constitutional crisis in January 2009, the lack of stability in the country both impeded the Bolivian government and gave pause to its Chinese suitor.<sup>2</sup>

The future of Bolivia's relationship with the PRC is of strategic importance to Latin America. The country lies at the geographic center of the South American continent, forming a bridge between Pacific-facing nations such as Peru and Chile and Brazil to the East. It also occupies a strategic position politically. The collapse of Venezuela, Cuba's rapprochement with the United States, and the election of the right-of-center government of Mauricio Macri in Argentina has increased Bolivia's importance as one of the region's few remaining proponents of populist socialism. Because of this, its behavior will impact the effectiveness of multilateral bodies such as the Organization of American States (OAS), Unión de Naciones Suramericanas (UNASUR) and the Community of Latin American and Caribbean States (CELAC), where Bolivia's President Morales is competing with Honduran president, Juan Orlando Hernandez, for the rotating presidency in 2017.<sup>3</sup> Indeed, some in Bolivia believe that the nation's time may soon come for a temporary seat on the United Nations Security Council.

Almost nothing of an academic character has been published on the relationship between the PRC and Bolivia. Indeed, Bolivia is regularly omitted from even those compiled volumes on China–Latin America relations containing country studies chapters.<sup>4</sup> Two of the few examples of China–Latin America academic works which include a dedicated analysis of the relationship are Pablo Poveda's "Bolivia and China: Indirect Relations in a Global Market," and a dedicated section of the 2009 work *China in Latin America: The What's and Wherefores*.<sup>5</sup> Both works, while useful, are increasingly dated, in light of the rapid expansion of Chinese activities in the country.

The present article seeks to address that void. It examines the evolving Bolivia–China relationship in ten areas:

- political and institutional interactions;
- the Chinese community in Bolivia;
- the trade relationship;
- the intellectual infrastructure in Bolivia for engaging with the PRC;
- Chinese projects and proposals in Bolivia's petroleum sector; and
- related activities inmining,
  - construction,
  - manufacturing,
  - telecommunications and space, and
  - military cooperation.

The work concludes by examining the implications of the observed pattern of engagement with Bolivia and the region.

## Political and Institutional Engagement

For much of the 20th Century, China's most common bond with Bolivia was shared underdevelopment and chaotic, insular politics. From 1964 until 1982, Bolivia was ruled by a series of conservative military governments which chose not to recognize the communist regime in the PRC. The Chinese, for their part, reciprocated with subversive activities such as broadcasting revolutionary messages in the indigenous language Quechua to the residents of Bolivia's Andean highlands. Bolivia's transition to civilian rule opened a door, already chosen by many of its South American neighbors, to establish diplomatic relations with the PRC.<sup>6</sup> On 9 July 1985, days before democratic elections in Bolivia, the embattled outgoing government of Hernán Siles Zuazo diplomatically recognized the PRC. Despite this important step, during the 20 years that followed, no Chinese president visited Bolivia, and Bolivian presidents only traveled to the PRC on two occasions: once, by Pres. Jaime Paz Zamora in 1992, and a trip by Pres. Gonzalo Sanchez de Lozada in March 1997.

The election of Evo Morales in December 2005 created a strategic opening for China's relationship with Bolivia, albeit one which would take time. Even before assuming office, Morales demonstrated an interest in building a closer relationship with China, traveling to the PRC in January 2006, where he publicly declared during a meeting with members of China's politburo that he was a "great admirer" of the PRC's former revolutionary leader Mao Zedong.<sup>7</sup> Since that visit, Morales has returned to China twice: in August 2011, and in December 2013. The latest trip was designed to allow Morales to be present when the PRC launched the satellite that it had built for Bolivia, the Tupac Katari.<sup>8</sup>

Beyond the previously mentioned interactions, Morales also traveled to Brazil in July 2014 to meet with Chinese Pres. Xi Jinping at the first summit held between the PRC and CELAC in Fortaleza, a gesture made by only a limited number of the CELAC heads of state. Overall, during the decade of rule by Evo Morales beginning in January 2006, certain areas of the PRC–Bolivia relationship have flourished. These include the import of Chinese products by Bolivian businesses; the Chinese construction of transportation, mining, energy, communications, space, and other infrastructure (with loans from Chinese banks); and, to a lesser degree, military cooperation. Under Morales, the credits provided for such work by PRC-based banks such as China Export–Import Bank have reached \$1 billion, and could expand to \$10 billion in the coming years led by the Bolivian government's exercise of the previously mentioned \$7.5 billion line of credit.

The Bolivian government has also deepened its ties to the PRC at an institutional level through people-to-people contacts at all levels of government. Such interactions include not only official visits but also the training of the key scientists and technicians for Bolivia's national space agency (ABE), created to support the previously mentioned Tupac Katari satellite built and launched by the PRC for Bolivia.<sup>9</sup> They also include the trip to China by four justices and 16 lower-level functionaries from Bolivia's constitutional court in 2015, widely criticized for leaving the body without a quorum when important cases needed to be addressed.<sup>10</sup>

## The Chinese community in Bolivia

The Chinese community in Bolivia is relatively small, with an estimated 7,000 persons of Chinese descent within a Bolivian population of 10.8 million.<sup>11</sup> The greatest concentration of ethnic Chinese in Bolivia is found in the city of Santa Cruz, where the Chinese government maintains a consulate bigger than the one maintained by the US government. A significant number of Chinese also live in Cochabamba, which has a modest Chinatown district, and where PRC-based companies are engaged in some infrastructure projects, as detailed later in this work. Small numbers of Chinese are also found in the capital, La Paz, as well as Bolivia's other principal cities.<sup>12</sup>

Bolivia's role as a transit country for the trafficking of immigrants was highlighted by a public scandal in 2007 involving the illegal sale of Bolivian passports to Chinese immigrants by the immigration offices in Santa Cruz and Beni.<sup>13</sup> As a product of such human trafficking, as well as the importation of workers by Chinese companies for construction projects, the Chinese community in the country is believed to be growing.<sup>14</sup>

## The China–Bolivia Trade Relationship

Reflecting Bolivia's position as a land-locked country, PRC trade with the country has been limited, characterized by a significant surplus in China's favor. According to the International Monetary Fund, in 2014, the PRC exported approximately \$1.82 billion in goods to Bolivia and imported \$434 million from it.<sup>15</sup> China's trade with Bolivia has expanded by a factor of six from the \$75.3 million in bilateral trade between the two countries in 2000.<sup>16</sup> Indeed, in 2014, China surpassed Brazil as the number one source of Bolivia's imports.<sup>17</sup> While such growth seems im-

pressive, China's trade with Latin America and the Caribbean as a whole has expanded 24-fold during the same period.

Bolivia imports \$4.2 in goods from China for every dollar of goods exported, compared to a balance of trade ratio of 2:1 for the region as a whole.<sup>18</sup> Such a poor trade balance vis-à-vis China is particularly notable given that Bolivia is rich in the petroleum, mining, and agricultural resources that China has most sought from the region traditionally.

Bolivia's exports to the PRC are dominated by a relatively limited range of primary products. In 2014 its principal exports to the country were zinc (which accounted for 27.5 percent of exports), silver (24.5 percent of exports), tin (18.4 percent), copper (9 percent) and lead (5.4 percent).<sup>19</sup> The country also exported some agricultural products to China, including quinoa, soybeans and wine.<sup>20</sup>

By contrast to the composition of its exports to the PRC, Bolivia imports a broad range of goods from it. At the low end, half of all Bolivian clothing imports come from the PRC.<sup>21</sup> Beyond such goods, Bolivia's principal imports from the PRC in 2014 by dollar value were helicopters (3.3 percent), motorcycles and scooters (2.4 percent), sugar industry equipment (2.4 percent), drilling equipment (2.4 percent), and cellphones and other wireless communication devices (1.9 percent).<sup>22</sup>

As in other parts of the region, the PRC is selling multiple brands of cars to Bolivia, generally imported by local dealers. The Chinese car brand JAC has been sold in Bolivia since the 1990s.<sup>23</sup> The Bolivian dealer Autokorp currently represents the Chinese brand "Great Wall,"<sup>24</sup> while Chery is imported and sold by SMX Automotores, and BYD by the Bolivian retailer Crown.

In addition to retail sales, the Bolivian national, departmental, and local governments are also important purchasers of Chinese goods. In 2015, the municipality of La Paz bought 80 cross-country buses from the Chinese firm King Long, while in October 2014, the national government spent \$35 million in Chinese credit for 1,500 security cameras.<sup>25</sup> In October 2015, the PRC provided a \$3.1 million interest-free loan for Chinese scanning equipment for the Bolivian customs service.<sup>26</sup> More infamously, the Bolivian government purchased five barges from a Chinese shipbuilder, but a dispute over the contract became a protracted legal battle until the Bolivian government finally agreed to pay for the barges plus a penalty for their storage during the dispute.<sup>27</sup>

### *The Bolivia-PRC intellectual infrastructure*

By comparison to other Latin American countries, the intellectual infrastructure supporting PRC-Bolivia commercial interactions, such as China-focused university programs, business councils, and government organizations in Bolivia, is limited, yet growing. Of the 36 Confucius Institutes in the region for the study of Chinese language and culture, as of February 2016, Bolivia had only one, which opened in 2011 in San Simon University in Cochabamba.<sup>28</sup>

To expand and diversify the nation's exports, including those with the PRC, Bolivia has a small organization, "Promote Bolivia" (formerly "CEPROBOL"). There is also an initiative funded by the European Union "Programa de Apoyo a la Promocion del Crecimiento y la Diversificacion de las Exportaciones (Program of Support for the Promotion of the Growth and Diversification of Exports, or "PROEX"). Neither has significant activities focused on China, and the resources of both are limited reflecting the emphasis placed by the Morales government on using national production to supply the domestic market.<sup>29</sup> The principal resources to help Bolivian businesses to make contacts in the PRC are found in the private sector, including the Bolivian Institute for Foreign Commerce (IBCE), the National Chamber of Industries, the Chamber of Industries of La Paz, and the Chamber of Exporters of Santa Cruz (CADEX). The China-focused resources of these groups are modest as well.

Despite such limitations, officials and businesspeople from Bolivia and the PRC are gradually learning how to work with each other. Bolivian contacts with Chinese vendors are also supported

by activities such as the annual Santa Cruz-based trade fair *Expocruz* where PRC-based companies have a special area.<sup>30</sup> Bolivian businesspeople also make exploratory trips to the PRC, conducted by organizations such as IBCE, often focused on major vendor events such as the biennial Canton Trade Fair. As an indicator of the expansion of direct ties between Bolivian and Chinese businesses, a greater portion of Bolivian importers now buys their products directly from the PRC, rather than through the more accessible yet more expensive ZOFRI free trade zone in Iquique, Chile.<sup>31</sup> On the PRC side, awareness regarding doing business in Bolivia is similarly expanding with the growing presence of Chinese companies in the country and informal networks of Chinese businesses in the country to help each other to function there.<sup>32</sup>

### *Oil and Gas*

Chinese oil companies have long shown interest in Bolivia's petroleum sector, but to date have realized few significant projects there beyond equipment sales and work done under contract. In the early 2000s, two minor Chinese petroleum companies, Hunanji and Shengli Oil held meetings in Bolivia to discuss possible investments in the sector, but nothing concrete materialized from such discussions. In 2012, Chinese company Eastern Petroleum and Gas similarly had preliminary discussions with Bolivia's national petroleum company YPFB regarding a partnership to explore for gas in Sanandita, in the Department of Tarija.<sup>33</sup> More concretely, China National Petroleum Corporation (CNPC) signed a letter of intention to partner with YPFB, and in 2013 reaffirmed its interest in working with YPFB as a consultant or partner on small projects.<sup>34</sup>

Despite such talks, the most substantial participation by Chinese companies in the sector has been their sale of \$60 million in drilling equipment to YPFB, financed by China Export-Import Bank.<sup>35</sup> Unfortunately, the equipment was deployed where there was little oil and it suffered breakdowns. Beyond the drilling rigs, in 2010, the Chinese firm Sinomach expressed interest in a \$1 billion venture to develop a fertilizer plant in a remote area near Cochabamba, to produce ammonia and urea.<sup>36</sup> The Bolivian government eventually selected a South Korean firm, Samsung, to build the project,<sup>37</sup> but selected the Chinese companies CAMC Engineering and China Railway Road to build part of the road and rail infrastructure to the plant, as discussed in the Construction section of this work.<sup>38</sup>

### *Mining*

By contrast to Bolivia's neighbors Peru and Brazil, where Chinese mining companies have committed to tens of billions of dollars in investments, Chinese firms in the Bolivian mining sector have principally worked under contract to build infrastructure and perform work for the Bolivian government. The largest and most recent project in Bolivia's mining sector awarded to a PRC-based firm was the construction of facilities for the processing of ore from the El Mutún iron deposit in the Department of Santa Cruz, by the Chinese company SinoSteel.

The project had a difficult history, involving multiple Chinese and other foreign companies. In 2006, the Chinese firm Shandong Luneng expressed interest in the project implying that its selection could also lead to Chinese financing and construction of \$10 billion in infrastructure improvements, including a rail line to transport El Mutún ore across Bolivia and Peru to the Pacific coast near the Peruvian town of Tacna.<sup>39</sup> However, Shandong Luneng withdrew from the bidding, and the concession was eventually awarded to the Indian firm Jindal, leading to the evaporation of discussions of Chinese funding for the rail line from Mutún to the Pacific.

Despite the setback, by 2008 the Bolivian government was in a serious dispute with Jindal over the mine and renewed semipublic discussions with the Chinese about El Mutún.<sup>40</sup> In April 2010, the Bolivian government cashed in the bond that Jindal had provided as a security deposit, bringing about an extended legal dispute with Jindal.<sup>41</sup> Within a month of the action, the Chinese

proposed to loan the Bolivian government \$15 billion to develop part of El Mutún, with the condition that the Chinese company Chung Hsing Mining get contracts for key areas of the work.<sup>42</sup>

The Bolivian government did not take the Chinese up on that proposal, but Bolivian ministers continued to discuss ways to take El Mutún forward.<sup>43</sup> Bolivia's Minister of Mining and the Minister of Planning and Development made trips to the PRC in October 2014, and there was a trip in May 2015 by the new Minister of Planning Rene Orellana.<sup>44</sup>

By late 2015, the Bolivian government was considering two Chinese firms to take the project forward, SinoSteel a competing firm, Hennan.<sup>45</sup> In January 2016, the government announced a three-year, \$450 million contract to SinoSteel to build and administer mining facilities on the site, to be financed by China Export-Import Bank, despite Hennan's lower, \$419 million bid.<sup>46</sup> While El Mutún is the most significant Chinese mining project in the country, it is far from the only one.

In September 2012, the Chinese company CITIC Guoan signed an agreement for a pilot project extracting lithium from the small salt flats in Coipasa, and in 2013, the Bolivian government contracted the Chinese firm Linyi Gelon New Battery Materials Company to construct a plant for producing lithium on the site.<sup>47</sup> Also, the Chinese company CAMC Engineering was contracted to build a plant for extracting and refining potassium chloride in the area.<sup>48</sup> In 2014, the Chinese company Henan Yuguang was contracted by the Bolivian mining authority Comibol to build a plant in Oruro and a plant in Potosi for the refining and casting of zinc, financed by the Bank of China.<sup>49</sup>

Beyond mineral salts, in 2011, the Chinese firm Vicstar was awarded a \$50 million contract to expand the state's capacity for processing of tin ore at the Huanuni mine in Potosi.<sup>50</sup> The facility was completed in February 2015.<sup>51</sup> Also in Potosi, the Chinese firm Subo was engaged in the extraction of magnesium.<sup>52</sup> In June 2012, however, its facilities were invaded by the economically marginalized population of the nearby commune Rio Mulato, part of a broader series of local protests, centered on the larger nearby Colquiri mine.<sup>53</sup>

In Oruro, the Chinese company Jungie Mining had a contract to operate a mining facility, but ran into difficulty in November 2014, when the dike for a containment pond that it had built to contain mining residues burst, injuring 18 miners and contaminating the nearby ground.<sup>54</sup> Nor was the incident the only difficulty for Jungie. In September 2015, the Bolivian government mining jurisdiction authority (AJAM) revoked a concession which it had granted to the conglomerate Alcira, finding that it had violated the country's new mining laws when it had transferred the concession to Jungie in 2010.<sup>55</sup>

### *Construction*

Perhaps the most wide-ranging activities by Chinese companies in Bolivia involve the construction of infrastructure, including important projects in the transportation, electricity, and telecommunications, sectors, among others. Of 49 public works projects tracked in Bolivia in 2015, 11 had been awarded to PRC-based companies, with the majority of such work financed by loans from Chinese banks. By the end of 2015, China had become Bolivia's largest creditor, with a debt of \$533 million owed to Chinese financial institutions by the Bolivian government.<sup>56</sup>

As in the mining sector, virtually all Chinese construction projects in Bolivia have experienced difficulties, including labor unrest, quality problems and rework, financial shortfalls, and other issues leading to project delays. The most significant of such problems, however, occurred in February 2016, when it became public that the Bolivian president, Evo Morales, had an illegitimate child with the manager of the Bolivian operations of the Chinese company CAMC Engineering, Gabriela Zapata. The secrecy regarding the child (who died shortly after birth), and an estimated \$580 million in contracts from the state in the years which followed, generated accusations of influence trafficking.<sup>57</sup> Days after the matter became public; CAMC Engineering was barred

from participation in further contracts with the Bolivian state.<sup>58</sup> Aside from CAMC Engineering and the scandal surrounding it, which was unfolding as this article went to press, multiple Chinese companies have won important infrastructure contracts in the country. The previously mentioned Shenzhen-based company Vicstar Construction is working on a series of road and bridge improvements in Cochabamba, plagued by delays.<sup>59</sup> In one case, work by Vicstar on two urban bridges in the city was forced to stop when one began sinking into the earth, raising concern that it would collapse.<sup>60</sup>

In the northwest of Bolivia, the construction arm of the Chinese firm Sinopec has also been working on a major bridge on the Beni River connecting the towns of San Buenaventura and Rurrenabaque. The firm has been criticized for the dumping excavated dirt and debris into the river.<sup>61</sup>

### *Highways*

Multiple Chinese companies have been awarded contracts for projects, generally funded by Chinese banks. Examples include:

- a \$253 million China Railway Road contract for a 158 kilometer El Espino–Charagua–Boyuibe highway in the Department of Santa Cruz,<sup>62</sup>
- \$86.9 million to Sinohydro in November 2015 for a 49-kilometer highway segment of from Padilla to El Salto,<sup>63</sup>
- a \$179 million to Nuclear Industry Nanjing Construction Group contract for a 74-kilometer highway segment from Santa Cruz to Cochabamba,<sup>64</sup>
- another contract to the same company supervised by the Argentine firm Bureau Veritas for a four-lane highway from Caracollo (Oruro) to Confital (Cochabamba),<sup>65</sup>
- a 2013 China Water and Electric contract to upgrade a 78 kilometer stretch of highway from Trinidad to San Ignacio de Moxos,<sup>66</sup> and
- Sinohydro was also awarded a \$144 million contract in 2014 to construct a four-lane highway from Ivirgarzama to Ichilo.<sup>67</sup>

As with the previously mentioned urban roads and bridge work, Chinese contractors have suffered multiple problems in the highway projects they have worked in Bolivia. In constructing the previously mentioned Ivirgarzama to Ichilo highway, for example, Sinohydro was plagued by five work stoppages in 14 months, including 350 workers who went on strike January 2016 alleging mistreatment by Chinese supervisors, and that Sinohydro had broken promises regarding providing work uniforms and other items.<sup>68</sup>

### *Railroads*

The most significant project assigned to Chinese contractors to date has been the Bolivian government's award in 2013 of a \$250 million contract for a 148 km highway and train line from Montero to Bulo. The two Chinese companies winning segments of the project were China Railway Road, and CAMC Engineering, whose country manager was later discovered to have secretly had a child with President Morales. A third segment awarded to the Spanish company Yapilo.<sup>69</sup>

Although Yapilo progressed with only minor difficulties on the segment assigned to it, both CAMC Engineering and China Railway Road ran into problems. By 2015, China Railway Road had only completed 30 percent of its assigned work, prompting the Bolivian Ministry of Public Works to revoke its contract. CAMC Engineering reportedly finished even less, and in December 2015, lost its contract as well.<sup>70</sup>

### *Hydroelectric Sector*

The Bolivian government has also awarded projects to Chinese firms in the hydroelectric sector. In October 2014, the Bolivian government awarded CAMC Engineering, a contract for three of the four parts of the hydroelectric facility Misicuni, near Cochabamba.<sup>71</sup> CAMC Engineering, already under pressure for its work on the Montero–Bulo Bulo highway and train line, ran into cash flow problems, and in January 2016 became the target of protests for not paying its local heavy equipment operators.<sup>72</sup> In June 2014, the Bolivian government awarded to Sinohydro a contract for the \$235 million, 124 MW San Jose hydroelectric facility, also in the Department of Cochabamba, but by January 2016, the project was paralyzed by a strike.<sup>73</sup>

Arguably the largest hydroelectric project in Bolivia considered for an award to a Chinese company is the \$1.3 billion, 600 MW Rositas complex on the Grande River in the Department of Santa Cruz. The project was first proposed in 1987, one of the oldest hydroelectric projects in the country.<sup>74</sup> In 2013, the Chinese company Hydrochina did a self-funded study of the Rositas project, seemingly positioning itself to win the work.<sup>75</sup> In December 2015, the Bolivian government conducted an exceptionally rapid 21-day public bidding for the project, even before the final design for the facility had been completed. The manner in which the auction was conducted, and the use of Export–Import Bank of China to provide funding, suggested that HydroChina was indeed favored for the award, although a decision had not been announced at the time this work went to press.<sup>76</sup>

### *Infrastructure Projects*

China's October 2015 \$7.5 billion line of credit suggests that the numerous Chinese infrastructure projects in Bolivia are only the beginning. Indeed, the February 2016 national referendum to change the constitution to permit the reelection of the president seems to give the Morales government even more incentives to emphasize the array of China-funded projects that will theoretically be used to develop the country during another, anticipated, Morales presidential term.

The Morales government has advanced 11 strategic projects to be financed by the new funds, and to be performed by Chinese companies. They include three major roads connecting central Bolivia to its northern border:

1. A highway from Charazani to Apolo to Tumupasa to Ixiamas to Chivé to Porvenir—from the north of the department of La Paz to the Department of Pando,
2. a highway from Trinidad to Guayaramerín, and
3. a highway from the north of Santa Cruz to the Southwest of the Department of Beni.<sup>77</sup>

Other projects mentioned in conjunction with the new funds include a \$500 million expansion to transform Santa Cruz' principal airport, Viru, into a major international cargo terminal, as well as a \$600 million, 500-kilometer highway from the town of Rurrenabaque to Riberalta.<sup>78</sup>

With the new funds, President Morales has also suggested that the Chinese might help construct a long-contemplated trans-Bolivia railroad, from Motacusito to Puerto Busch in Santa Cruz, to export iron from El Mutún, now in the hands of the Chinese firm SinoSteel.<sup>79</sup> Indeed, the project ties into the nation's hope to be part of a "central" route for a bioceanic highway and rail corridor, theoretically spanning from Ilo, Peru, to Santos, Brazil, via the route Tacna–Collpa–La Paz–San Lorenzo–Extrema.<sup>80</sup>

## Manufacturing

In the manufacturing sector, by contrast to countries like Brazil, Mexico, and to a lesser extent Colombia, Chinese firms have made almost no investments in Bolivia. As in the other sectors



examined in this work, however, they have built industrial facilities under contract with the Bolivian state, albeit with difficulties that have limited the contribution of those facilities to the national economy.

One of the first such projects under the Morales administration was an asphalt production facility in El Alto, on the outskirts of La Paz, financed and constructed by Chinese companies, and completed in 2012.<sup>81</sup> In an even bigger venture, in 2012, CAMC Engineering was contracted to build a \$174 million sugar factory in San Buenaventura, in the Department of La Paz.<sup>82</sup> The facility was completed in October 2015<sup>83</sup> but did not immediately begin producing sugar, due to the lack of infrastructure connecting the remote facility to the local economy, and the lack of farmers growing sugarcane in the area to supply the plant. Also in 2012, the Bolivian state organization PAPELBOL contracted the previously mentioned Chinese company Vicstar construct a paper mill in the town of Villa Tunari, in the Department of Chapare.<sup>84</sup> The \$25 million factory began operating in January 2014.<sup>85</sup>

## Telecommunications and Space

Huawei and ZTE are two PRC-based companies that have spearheaded the Chinese advance across Latin America and the Caribbean. They have made similar advances in Bolivia's telecommunications sector, selling their telephones and communications equipment and building networks for the nation's state telecommunications company, ENTEL. Huawei began doing business in Bolivia in 2008, but its first major advance occurred in October 2009, sixteen months after the Morales government nationalized the telecommunications sector. Entel signed a \$120 million contract with Huawei to provide telecommunications service to 1.5 million new users in 12,000 localities across the country in a project called "Total Territorial Coverage" (TCT).<sup>86</sup>

Huawei has also worked with the private telecommunications providers Tigo and Viva, on GSM, and 3G telecommunications standards networks.<sup>87</sup> By 2013, Huawei was also the third major seller of smartphones in the Bolivian market, behind Apple and Samsung, and was a principal supplier of other telecommunications equipment.<sup>88</sup> While Huawei has been the dominant Chinese company in Bolivia, ZTE has also made advances. In September 2014, it was selected by Entel as the exclusive supplier for building an FTTx broadband network covering the country.<sup>89</sup>

In the space sector, China has not only constructed and launched Bolivia's only satellite, the "Tupac Katari" but effectively built its entire space ground infrastructure and trained its personnel. The Bolivian government signed the contract for the "Tupac Katari," a telecommunications relay satellite, with the China Aerospace Science and Technology Corporation (CASC), on 2 April 2010.<sup>90</sup> Of the \$302 million project cost, 85 percent was financed by the PRC.<sup>91</sup> The satellite was successfully launched into geostationary orbit in December 2013 from China's Xichang launch facility, with President Morales, present in the PRC to watch.<sup>92</sup> It began functioning in April 2014.<sup>93</sup>

Paralleling the structure of China's support to Venezuela's satellite program, it has built two ground stations for Bolivia for communication, monitoring and mission control. Subsequently, they were put into the hands of the Bolivian military. One was established at Amachuma, near the capital city La Paz, and the other at La Guardia, in Santa Cruz. Also, Chinese technicians trained the Bolivians to operate the new facilities and administer the space program, including 64 Bolivians that were sent to the PRC for training.<sup>94</sup> Bolivia and the PRC have subsequently committed to a second, smaller satellite, the "Bertolina Sisa" to be developed and launched at an estimated cost of \$150 million.<sup>95</sup> The Bertolina Sisa will be dedicated to earth imaging rather than telecommunications.<sup>96</sup>

## Military Engagement

As with other countries in Latin America and the Caribbean, especially those of the Alianza Bolivariana para los Pueblos de Nuestra América (ALBA), the PRC has pursued a military relationship with Bolivia that features regular meetings of senior defense officials of each country, lower-level officer exchanges for professional military education, and arms sales.<sup>97</sup> In May 2013, the deputy head of the PLA, Wang Guanzhong, visited Bolivia, while in December 2011 then commander of the Bolivian armed forces, Armando Pacheco Gutierrez, visited the PRC.<sup>98</sup> In March 2011, the deputy head of the PLA joint staff, Ma Xiaotian, visited Bolivia, and in August 2010, the Bolivian minister of defense, Ruben Saavedra, visited the PRC.<sup>99</sup> At lower levels, Bolivian officers regularly attend courses in the PRC, such as those offered by China's National Defense University in Champing, outside Beijing, and technical courses for training on the use and maintenance of Chinese equipment that Bolivia has acquired.<sup>100</sup>

Bolivia was one of the first countries in the region to purchase Chinese military hardware, although its military officers have expressed discontent with its quality and durability.<sup>101</sup> During the period 1987–1996, the Bolivian military purchased 10,000 AK-47 assault rifles from the PRC.<sup>102</sup> It also purchased man-portable HN-5 air defense missiles, which were eventually delivered to the United States in November 2005 to be dismantled.<sup>103</sup>

The PRC has also periodically donated military and dual-use goods to the Bolivian armed forces, including an assault boat, infantry and artillery munitions, night-vision goggles, Kevlar helmets, trucks, buses, sport-utility vehicles, and gunboats.<sup>104</sup> In one such instance, in October 2013, the PRC donated eight busses and other military equipment valued at \$8 million.<sup>105</sup> Despite the frequency of such donations, almost none of the Chinese vehicles are currently in service. Bolivian experts interviewed for this study asserted that the Chinese vehicles seldom lasted more than five years. Indeed, one such donation of road construction and engineering equipment caused particular bad will when almost all of the vehicles donated quickly broke down.<sup>106</sup>

Beyond such gifts, during the Morales presidency, Bolivia also began acquiring Chinese military aircraft, leasing two MA-60 mid-sized military cargo and passenger planes, and in 2010, purchasing six K-8 aircraft, ostensibly for use as interceptors against narcotraffickers. The Bolivian armed forces also went on to acquire six H-425/Z-9 helicopters from the PRC, delivered in September 2014.<sup>107</sup> Most recently, the PRC has expressed interest in selling Bolivia 2 radars for \$80 million,<sup>108</sup> as well as new aircraft and rifles. However, Austria was rumored to be the favored vendor for the radars.

## Implications and Prospects for the Future

The Morales government in Bolivia is taking a substantial step to deepen its relationship with the PRC, with an apparent strategy of using it as its principal contractor and financier for a state-led project of national development. The scandal which broke in February 2016 regarding questions of improper influence and possible criminal wrongdoing stemming from Pres. Evo Morales's relationship with CAMC Engineering's Bolivia country manager Gabriela Zapata raises the prospect of the derailing of China's rapid progress. If it is not, Bolivia's particular approach to using Chinese companies and financing for its national development raises multiple concerns.

First, the mixed track record of Bolivian public contracting and the state's administration of sectors such as petroleum, mining, electricity, and telecommunications does not inspire confidence that the Chinese funds will be used in the most effective and efficient fashion to promote national development. Likewise, problems with the quality of products and services provided by Chinese companies contracted by the Bolivian government thus far has been problematic. Such concerns and multiple failures of these companies in meeting schedules while avoiding labor and social conflicts does not bode well when even larger contracts are at stake.

Also, the Bolivian government's income, the royalties, the tax revenues, and the income of state companies, is highly dependent on the export of primary commodities. Commodity prices are currently depressed with no immediate prospect of improvement, making the government's disposition to more than double the national debt for domestic infrastructure projects a risky proposition.<sup>109</sup>

The risks of the Bolivian gambit, if it is more than rhetoric for the February 2016 constitutional referendum, also raise questions concerning how the PRC plans to secure repayment of Bolivia's debt. As China's leaders and bankers, with nonperforming loan problems at home and watching the unfolding crisis in Venezuela—having lent them more than \$56 billion dollars—it is likely that the PRC has contractual mechanisms, economic leverage, or political strategies, to ensure that Bolivia will pay.<sup>110</sup> The history of state-led development efforts in Latin America does not bode well for Bolivia's current endeavor. The PRC's record of sustained high GDP growth suggests that state-led initiatives if well considered and competently executed through strong institutions and continuing oversight in synchronization with the imperatives of the global economy, can produce significant positive results for a while.

In China's engagement with Africa, Latin America, and the Caribbean there are few major countries where its engagement has focused as completely, as it has in Bolivia, on the self-financed provisioning of goods and services, without equity investment. As China's economy continues to decelerate, and as opportunities for construction projects and the productive investment of capital within the PRC dry up, the "Bolivia model" of engagement will become an increasingly tempting choice for China's leadership.<sup>111</sup>

If the "Bolivia model" succeeds in channeling Chinese resources to produce sustainable national development, the example will shape Latin America's policy debates and politics for years to come. If it fails, China's reputation as a driver of South–South engagement will suffer, Bolivia will return to its historical pattern of underdevelopment and instability, and the region's politics will turn more sharply toward the center-right. In either scenario, the Bolivia–PRC relationship will likely find its way into more studies on China's engagement with Latin America than it has in the past decade.

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