CHAPTER 6

ADDRESSING THE NEW CHALLENGES

Overview

The thesis of this book is that the expanding physical presence of Chinese companies and personnel in Latin America and the Caribbean creates new challenges for the Chinese. Some of these challenges include the establishment of projects and operations in the region, as well as the management of operational challenges once those companies are established. As Chinese commercial entities confront both types of challenges, the Chinese government will confront increasingly difficult decisions regarding how, and under what circumstances, to use its growing soft power to protect and advance the interests of those companies, their personnel, and the overseas Chinese community more broadly, even as their physical presence also impacts the dynamics of the region.

The challenges faced by Chinese companies as they establish themselves on the ground in the region do not arise because they are inherently less respectful of laws, labor standards, and the environment. Rather, the difficulties faced by these companies are the same as those faced by any newcomer rapidly expanding its human and corporate presence in Latin America. Nonetheless, a confluence of factors increases the magnitude of the challenge for Chinese companies and the likelihood of negative outcomes: (1) new Chinese physical presence is particularly concentrated in sectors in which social and environmental impacts (and associated sensitivities) are particularly high, including mining, petroleum, agriculture, construction, and manufacturing; (2) the “cultural distance” between the Chinese management of the companies and the Latin American governments, workers, and communities with whom they interact increases the possibilities for friction, misunderstanding, and conflict; and (3) the lack of experience of these companies in dealing with Latin America and the Caribbean increases the possibility that the challenges that do arise will be managed poorly.

R. E. Ellis, China on the Ground in Latin America
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Although, as suggested previously, Chinese companies operating in Latin America do not inherently behave worse than their Western counterparts, many do behave badly, sometimes due to a combination of willful imposition of Chinese norms and practices that do not function well in the new context, or accidentally, due to a lack of knowledge regarding local norms or the importance of accommodating them. Though the presence of Chinese companies as employers and beneficiaries of the community are seen in a positive light by many, for others—whether fairly or unfairly—Chinese companies and their personnel inspire particularly negative reactions. As one Latin America–based scholar put it, the Chinese presence “inspires a combination of racism, ignorance and resentment.”3

In analyzing the challenges faced by Chinese companies and personnel on the ground in Latin America, it is important to understand that there are notable differences between the types of Chinese commercial entities, and the associated level of experience and operating style that they bring when establishing themselves in Latin America or the Caribbean.

In general, companies that have traditionally had to maintain overseas operations, such as the logistics company Hutchison Whampoa or the telecommunications companies Huawei and ZTE, display a greater ability to adapt to operations in the Latin American environment. Such companies, for example, have generally proven more adept in employing local personnel as part of their workforce, including local managerial personnel to help them deal more effectively with local suppliers, contractors, regulatory bodies, and other relevant bodies in the countries in which they are operating. On the one hand, many large state-owned Chinese companies entering into Latin America have experienced problems, but have had the resources to hire local consultants and take other actions to adapt to the Latin American operating environment.4 On the other hand, some Chinese investor groups not directly tied to the national government have experienced problems because they have had less of a knowledge base about the politics and business dynamics of the area into which they are entering, and less access to resources, contacts, or other forms of assistance to compensate for this lack of knowledge. When explaining the difficulties faced by Chinese mining firms in Latin America, Vice President Wu Jian of Junefield Mineral Resources Holdings observes that many Chinese companies simply “didn’t become acquainted with the market and culture before they came here.”5

**Upcoming Challenges for China**

Overall, the challenges that Chinese companies face in Latin America may be grouped into three areas: (1) maintaining access to Latin American