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Inside the Dragon

China - LatAm relationship

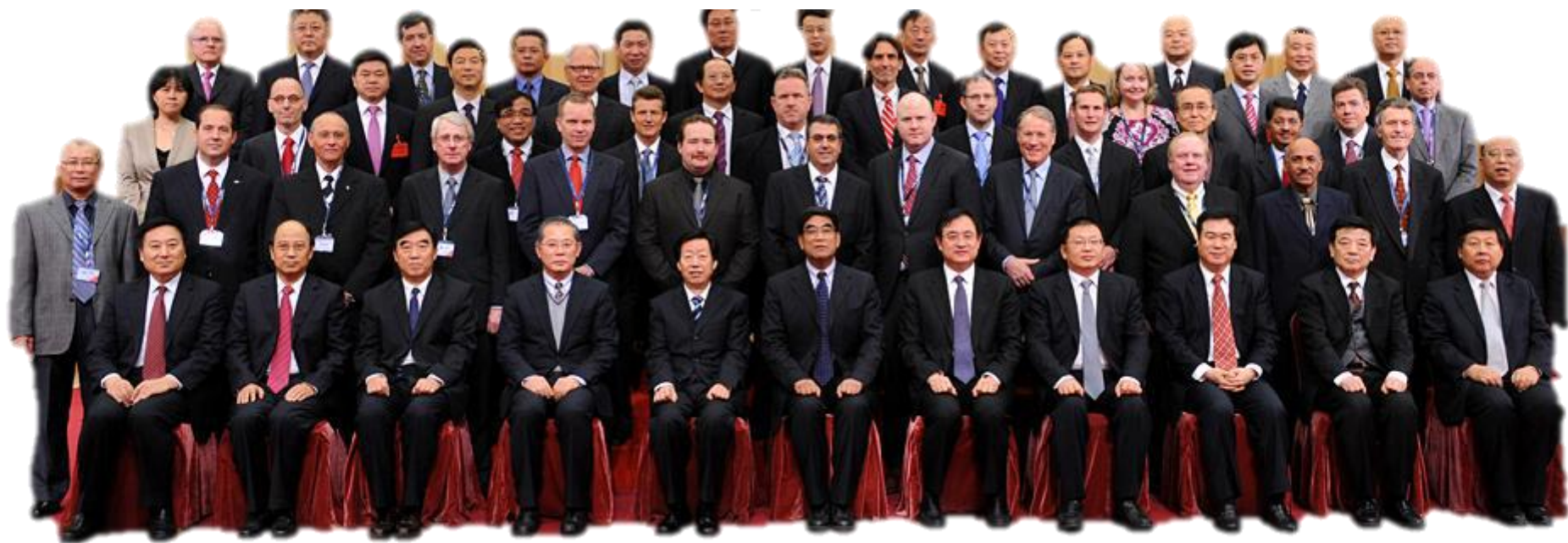
The Peruvian Case : Going Forward

Carlos Zapata Lui

Seminario Internacional China América Latina y el Caribe - UNAM

Mexico DF, Mayo 2012







- International Upstream – 12 year plan commencement (Beijing, HQ)

Things are changing in SOEs...new paradigm

1 Riding the Emerging Markets

2 It's all about Resources and Growth

3 Chinalco's Diversification Strategy

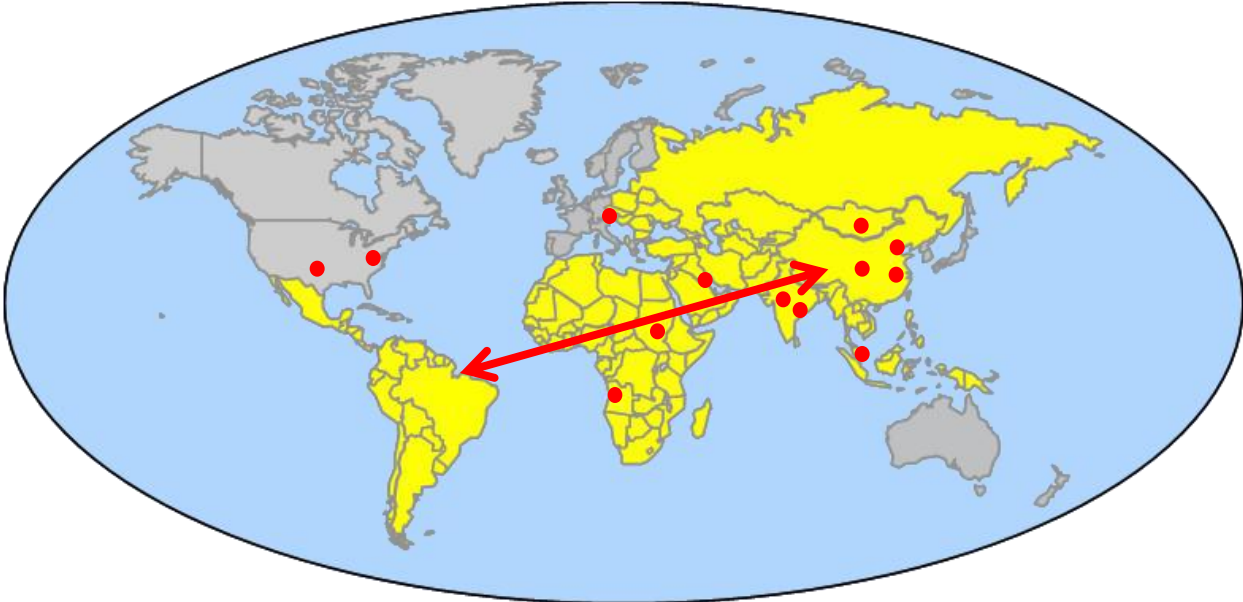
4 SINOPEC's Internationalization Process

5 Building the Relationship

1 Riding the Emerging Markets

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Emerging Markets – LatAm: Building the bridge



Academic

Professional

CEIBS

ISB

HARVARD Kennedy School
JOHN F. KENNEDY SCHOOL OF GOVERNMENT

University of St.Gallen

Columbia

pwc

Honeywell

SEMANAeconomica

SKF

SINOPEC
中国石化

CHINALCO

Reliance
Industries Limited

China – LatAm Research : Scope

Industries

- Mining, Energy, Agribusiness, FMCG, Apparel, Financial Services, Services

Drivers

- **Trade:** LatAm-China trade relationship
- **Investment:** China outbound and inbound investment

Territories



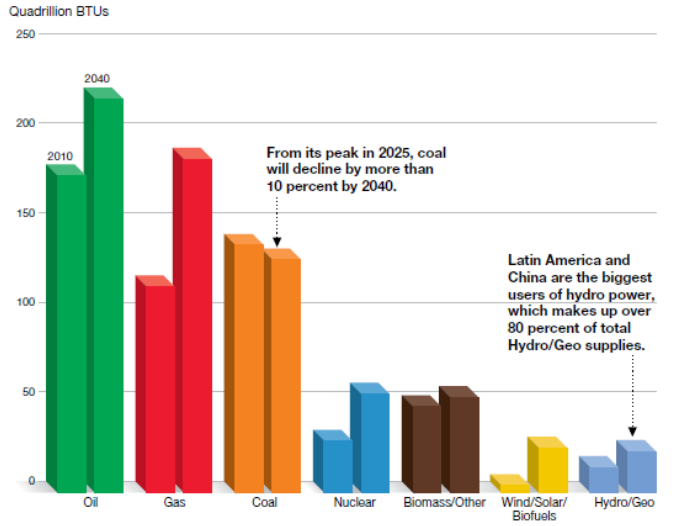
- FTA Countries (Red): **Chile, Peru, Costa Rica**
- Countries with Active Trade/Investment Relations with China (Green): **Mexico, Cuba, Colombia, Venezuela, Ecuador, Brazil, Bolivia, Argentina**

2 It's all about Resources and Growth

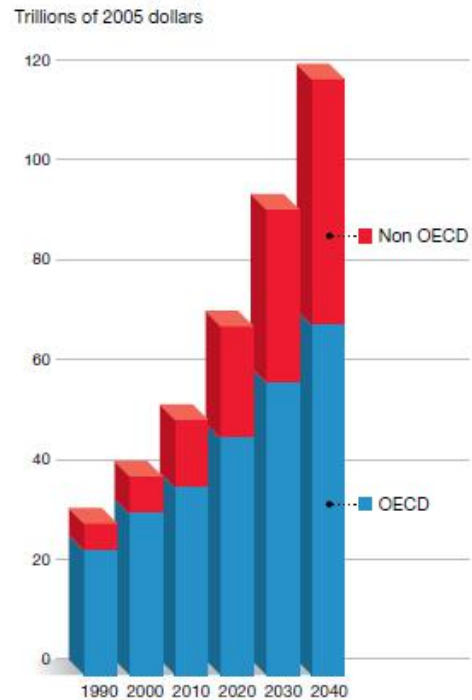
China Resources Requirement

- Strategic position, security dimension
- Strong demand (30% Rio Tinto)
- Secure assets
- Rare earths issue
- SOEs image race

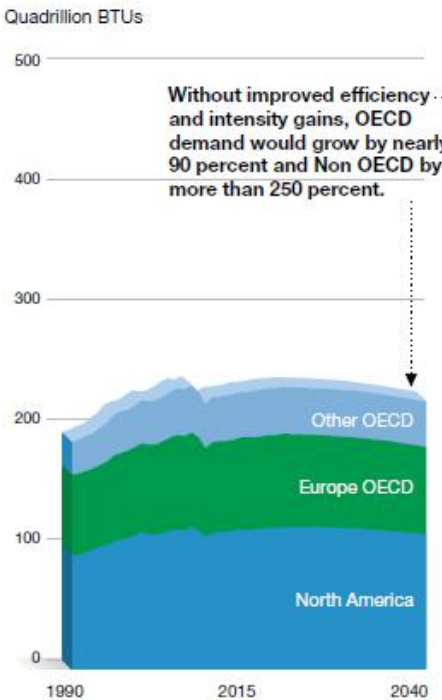
Global energy demand by fuel type



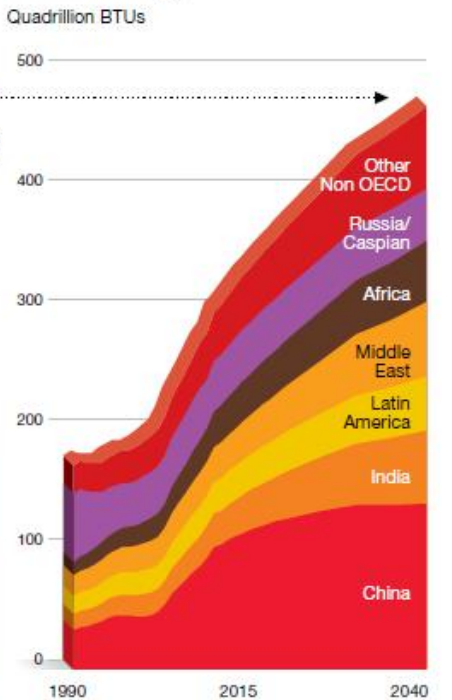
Global GDP by region



OECD energy demand



Non OECD energy demand



Source: ExxonMobil

Strong ties

- South-South approach (SEA, Africa, LAtAM – the last boundary), Resources focused
- Chinese Mining Investment Overseas:



8 years ago -----> 3 years ago -----> 2 years ago

- Similar to U.S. and UE strategies in the Colonial times. But China pays.
- China-LatAm framework (FTA and others)
- 5year Plan (long term view) – Industry Plan (industry focus) - SASAC (oversees) – SOE (execute)

China wave to LatAm is getting hotter...

3 Chinalco's Diversification Strategy

.....

Aluminum Corporation of China Strategy



- Main Aluminum producer in China (clusters)
- Around US\$ 20 billions in revenue (2011)
- Strategic move towards internationalization
- Toromocho – Peru (100%) 2007 (Copper)
- Rio Tinto attempts (2008) 13% stake
- Oyu Tolgoi – Mongolia 2010 (Copper/Gold). Ivanhoe Mines 2012. (Coal)
- Simandou - Equatorial Guinea (Rio JV 51/49) 2010 (Iron ore)
- Chinalco-Rio Tinto Exploration (CRTX – 2011) in China

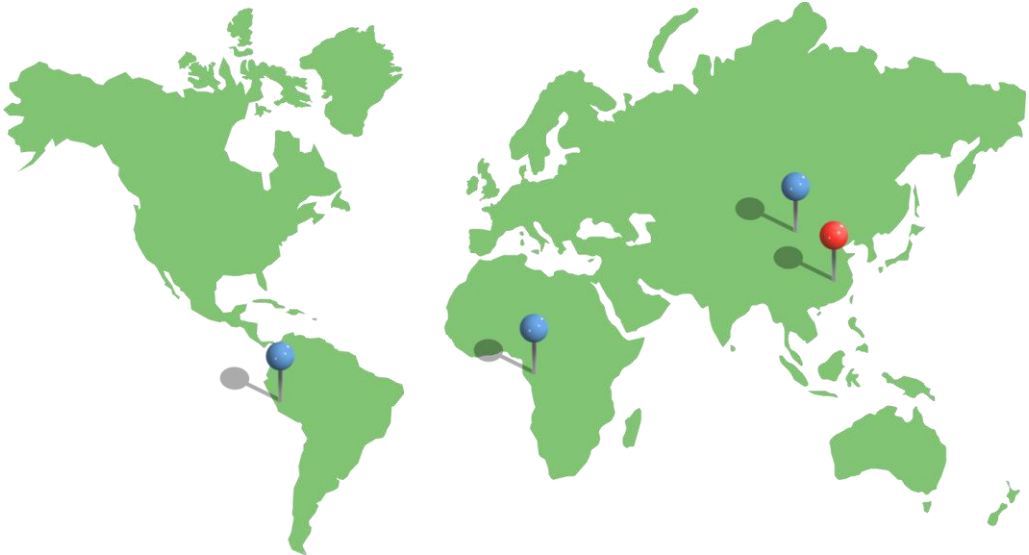
中国铝业大厦

中国铝业公司 ALUMINUM CORPORATION OF CHINA		财务部 Finance Dept.	16F
监事会 Supervisory Board	25F	投资管理部 Investment Management Dept.	12AF
办公室 Office	28F	企业管理部 Enterprise Management Dept.	12BF
人力资源部 Human Resources Dept.	23F	采购管理部 Procurement Management Dept.	12BF
财务部 Finance Dept.	22F	铝加工部 Aluminum Processing Dept.	11F
选煤管理部 Coal Selection Management Dept.	18F	中国铝业有限公司 China Aluminum Corporation Ltd.	8F
资本运营部 Capital Operation Dept.	20F	中国稀有稀土有限公司 China Rare Earths and High Purity Rare Earths Co., Ltd.	10F
安全环保健康部 Safety, Environment & Health Dept.	21F	中铝矿业有限公司 China Aluminum Mining Co., Ltd.	15F
科技管理部 Technology Management Dept.	21F	中铝海外控股有限公司 China Aluminum Overseas Holding Co., Ltd.	12F
审计部 Audit Dept.	20F	中铝财务有限责任公司 China Aluminum Finance Co., Ltd.	7F
党群工作部 Party and Mass Work Dept.	22F	中国有色金属工业集团 China Non-Ferrous Metals Industry Group	11F
纪检监察部 Discipline Inspection & Supervision Dept.	24F	中国资源综合利用协会 China Association of Resource Comprehensive Utilization	11F
法律部 Legal Dept.	20F	中国有色金属工业协会再生金属分会 China Association of Non-Ferrous Metals Industry Recycled Metals Branch	11F
信息化管理部 Information Management Dept.	6F	国资委公开招聘工作领导小组办公室 State-owned Assets Supervision and Administration Commission Public Recruitment Work Leading Group Office	9F
新闻中心 News Center	19F	中铝科学技术研究院 China Aluminum Science & Technology Research Institute	21F
投资发展中心 Investment Development Center	25F	中国铝业香港有限公司 China Aluminum Hong Kong Co., Ltd.	12AF
中国铝业股份有限公司 ALUMINUM CORPORATION OF CHINA (LIMITED)		中铝置业发展有限公司 China Aluminum Real Estate Development Co., Ltd.	19F
董事长秘书室 Chairman's Secretary Office	26F	老干部活动中心 Old Workers' Activity Center	9F

大厦一层消防疏散图
First Evacuation plan for F1 floor

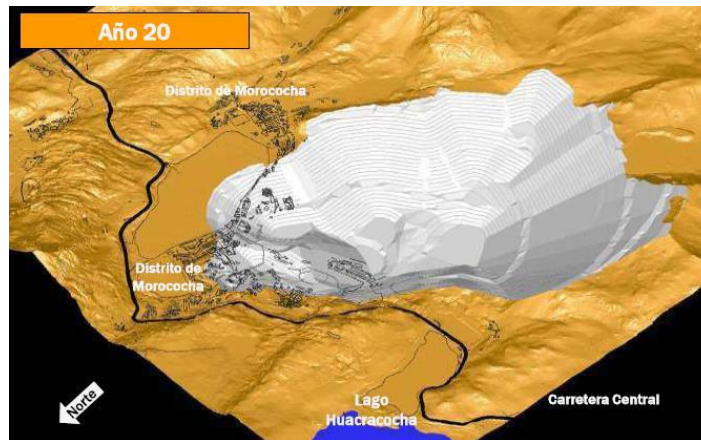
B1 食堂
Dining room

地下停车场
Underground parking



Aluminum Corporation of China in LatAM

- Chinalco bought Peru Cooper (Canada) 2007 – US\$ 794MM
- FTA Peru-China 2010
- Invest US\$ 20 MM in joint water program (social license)
- Construction License Jul 2011
- Construction Jul 2011 - 2012
- Moving Toromocho Community 2012-2013 (10,000 people)
 - New Morococha city US\$ 50 MM
- Low profile but strategic sponsor
- Foreign mining experts leading the local operation
- Shaker in the mining industry - compensations
- Slow pace entering the market and postpone stages



Peru is the bet to build a platform in LatAm



- Chinalco's batch between 27 and 35 (Beijing, HQ)

Leadership in the next 15 years will be different...

4 SINOPEC's Internationalization Process

.....

SINOPEC to a global National Oil Company (NOC)

- Strong Downstream player (3rd refiner worldwide)
- Revenues around 2010 US\$ 270 billions (5th), 2011 US\$ 400 billions (+30%)
- Overseas O&G production from 20 MM tons to 50 MM tons (2015)
- 5 elements in the Internationalization Strategy
 - Strengthening & developing production management (ensuring production)
 - Deepening development and adjustment for stable development
 - Enhancing capacity construction for project development
 - Accelerating difficult projects for production recovery
 - Optimizing reserves for production switch



- 47 projects – 23 countries
- 2004 Angola (stake)
- 2005 Ecuador (alone)
- 2006 Russia (JV Rosneft)
- 2007 Kazakhstan (alone)
- 2008 Iran (JV Iran Oil)
- 2009 Nigeria (Acq. Addax)
- 2009 Syria (alone)
- 2010 Argentina (Acq. OXY)
- 2010 Canada (stake)

Organic and Inorganic approach

The Brazilian Case

- PreSalt – shift in the Brazilian O&G
- Tight regulation with foreigners
- Strong local producers of E&M
- Petrobras – NOC benchmark
- E&M as part of the model
- Country blocked?
- Repsol triangulation: US\$ 7BN (40% stake)



- Presence:
 - Ecuador
 - Venezuela
 - Brazil
- Evaluating:
 - Colombia
 - Peru
 - Mexico
- Brazil as a platform for LatAm



Brazil is a must for the internationalization scheme

5 Building the Relationship

Focus

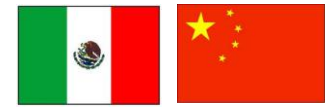
- Mining, Agribusiness, Financial Services

Timing

- **Start:** 2004 (5 meetings, every year or two years)
- **Meetings:** 2005, 2006, 2008, 2010, 2011 (June, Xi Jinping, Santiago)

Structure

- Chile chapter: G. Security (President), SOFOFA (secretariat), Corfo, ProChile
- China chapter: Minmetals (President), CCIIP (administration), MOFCOM
- promotes two-way trade and investment, economic cooperation and understanding, between the highest level business
- main Chilean and Chinese corporations, and keeps close relationship with governmental institutions on both countries.
- influential role as an advisor to the Chilean government on commercial and investment relations with China
- Network and contacts with Chilean private and public institutions involved in doing business and investing in Chile
- China-Latam Business Intelligence Monthly ©: monthly analytical newsletter
- Calendar of high level seminars, meetings China & Latam business
- Guides for Doing Business in Chile



Focus

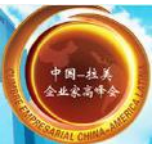
- Government Driven for strategic association. Foreign Affairs Ministers.

Timing

- **Start:** 2003 (4 meetings, every two years)
- **Meetings:** 2004(BJ), 2006(MX), 2008(BJ), 2010(MX), 2012 (BJ)

Structure

- 150 government officials from both countries together
- At the end of the 2010 meeting they sign a 2011-2025 Joint Action Program
- Subcommissions:
 - Political Affairs
 - Economic and Commercial
 - Scientific and Technological Cooperation
 - Cultural and Education Cooperation
- Taskforces:
 - Quarantine and inspection
 - Logistics and Tariffs
 - Communications and Transport
 - Agriculture
 - Tourism
 - Social Development
- Too broad, has received strong critiques in the implementation process



LatAm – China: Business Summit

Focus

- CCPIT, BID (Strategic Partner), LatAm Governments

Timing

- **Start:** 2007 (once per year)
- **Meetings:** 2007(CHL), 2008(Harbin), 2009(COL), 2010(Chengdu), 2011(PER)

Structure

- Massive event
- Roundtables:
 - Trade
 - Investment
 - FTA
- Networking:
 - Chambers
 - Bankers
 - Business
- Local organizers have a great influence in the agenda.
- Difficult to have accountability through the years
- Next time in Peru: 2020?

Peru – China: actual links

- Diverse one-touch-point events
 - Industry driven, transactional
 - Satisfy the short term relationship
 - They must continue with their good job
-

Mining

- China Mining (CH)
 - Peru Mining Summit (PER)
 - Gold & Silver Symposium (PER)
-

Imports

- CAPECHI – Canton Fair (CH)
-

Fruits

- SIAL (CH)
 - Asia Fruit Logistica (HK)
-

Tourism

- ITB Asia (SGP)
-

Financial S.

- Peru Day, INPeru (NY, UK, SGP, HK, SH)
-

• **BUT, we need a platform to “build” and “nurture” the Peru – China relationship...**

How we make it sustainable?

- Transactional approach
- Cultural and history possibilities
- Partnership and collateral effects
- Taking it to the next level – Peru China Forum (Academia, Business, Government)
- It is a mean not a goal



From a short-sighted transaction to a sustainable relationship...

Peru – China Forum

Focus

- Business / Government / Academia

Timing

- **Start:** 2012 - 2S (every semester)
- **Meetings:** Peru and China (different cities, decentralized)

Objectives

Generic

- Set the short and long term Peru – China agenda
- Motivate spillover effects related to the Peru – China relationship. Value added

Specific

- Business agreements accelerator
- Government interaction to enhance the relationship
- Cultural and historical ties framework. Academic & technological partnerships

Scope

Business

- Export promotion
- Investment attraction
- Tourism growth
- Associations
- Cross-industry
- Clusters development



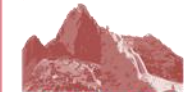
Government

- FTA framework
- Law and regulation
- Trade facilitation
- Investment environment



Academia

- Academic exchange
- Research centers
- Technological transfer
- Cultural historical ties
- Scholarships



Peru - China Forum: Structure

PERU

CHINA

BUSINESS



GOVERNMENT



ACADEMIA



Final Ideas.....

- China will continue to go overseas and we need a strategy
- Build and nurture the relationship
- SOEs are changing fast and will shape industries landscape
- Partnerships as a key element
- Communication and spillover effects will set the tone
- Coordination to find value added new revenue streams
- Understand the context to negotiate effectively
- LatAm could play a good hand



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Gracias – XieXie - Thanks

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