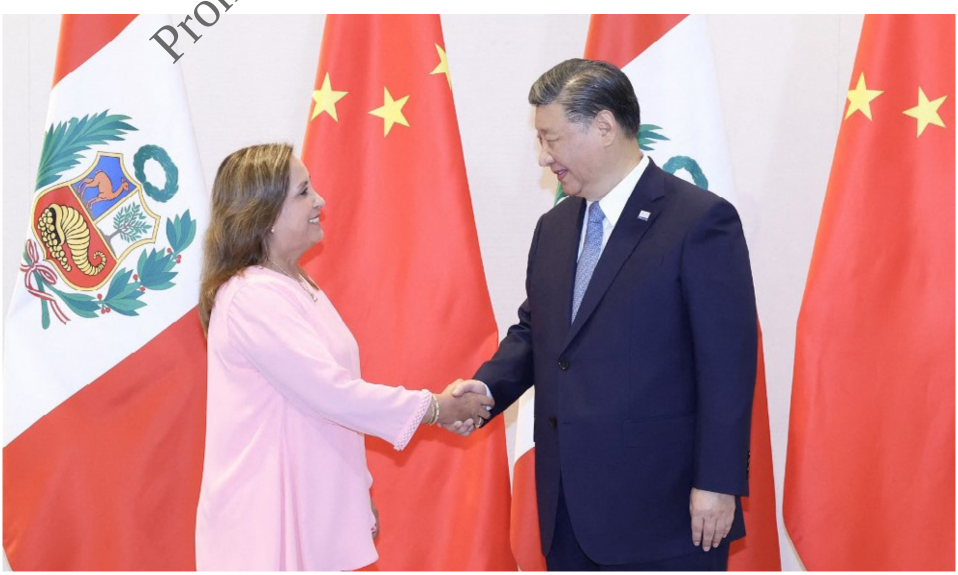
Peru: Colored by the Chancay Conflict

Peru is, along with Brazil, Chile and Mexico, one of the four main destinations for Chinese investment in Latin America. With a focus on mining, infrastructure and energy, conglomerates such as China Railway Group, Power Construction of China, Jiangxi Copper, Zijin Mining, China Three Gorges Corporation, China Minmetals, Jiangsu Juyang New Energy Technology and Trina Solar are present in the country. "Unlike Chile where there were some questions about the Chinese presence, this is not observed in Peru," says Sanborn. "In addition, although there is high political instability in Peru, the economic course remains unchanged and that is why an FTA 2.0 with new elements is being negotiated with China."

The current FTA came into effect in March 2010. Since then, Peruvian exports to the Chinese market have quadrupled. However, since 2019, meetings have been taking place between the governments to optimize the terms of the treaty. The intention is to incorporate new chapters such as those referring to electronic commerce, the exchange of customs information and intellectual property.

The objective of the Dina Boluarte administration is for the optimization agreement to be closed in the first half of this year so that it can be signed during Xi Jinping's visit to Peru scheduled for November as part of the Asia-Pacific Economic Cooperation (APEC) summit. However, these plans are at risk due to an unforeseen conflict around the construction of the Chancay deep-water megaport, which, once in operation, will be the most important port terminal in the South Pacific. Chinese shipping company Cosco Shipping Ports is building and intends to operate the port, which has been under construction since 2016 and will require total capex of some US$3.6 billion.

The project is key for China since the objective is for the port to become a new regional export center both for Peru and also for shipments from Brazil and Ecuador. However, expectations for the first phase of Chancay to open in November are at risk of falling apart. At the end of March, the National Port Authority (APN), via the ministry of transport and communications (MTC) attorney's office, requested the cancellation of the exclusivity contract on the port's essential services granted to Cosco Shipping in 2021. That agreement implies that no other company can operate in the port providing both cargo and construction services. According to the MTC attorney's office, exclusivity would go against free competition guaranteed by the constitution and the national port system law.



Dina Boluarte shakes hands with Xi Jinping, 2023. Credit: AFP

Given this, the Chinese company sent an arbitration notification to the economy and finance ministry in mid-April that grants a period of six months to seek an "amicable resolution" under the FTA between the two countries. If a solution to the exclusivity contract is not reached, Cosco Shipping would begin international arbitration against Peru.

Beyond this conflict, there are about 10 projects worth US$18 billion backed with Chinese capital in Peru. According to the BNamericas database, the majority are related to copper and iron. A project close to starting operations is the US$1.4 billion expansion of the Toromocho copper mine, which belongs to Chinalco. In addition, works began this year on the new Chalcobamba pit at Las Bambas, one of the largest copper mines in Peru, run by a consortium led by the Chinese-owned MMG. "When there are large investments in infrastructure or mining projects like Las Bambas, it is very difficult to disinvest," says Tornero. "However, questions like those that arose in the port of Chancay are something that Chinese investments consider."