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# LATIN AMERICA: Chinese banks will increase footprint

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## Abstract

The outlook for Chinese banks in Latin America.

Commercial banks from China have been increasing their footprint in Latin America in recent years. The latest example of this growing trend came in May when Chinese lender Bank of Communications (BoCom) announced it would purchase control in Brazilian Banco BBM, coinciding with the visit of China's Premier Li Keqiang.

## Full Text

**SUBJECT:**The outlook for Chinese banks in Latin America.

**SIGNIFICANCE:**Commercial banks from China have been increasing their footprint in Latin America in recent years. The latest example of this growing trend came in May when Chinese lender Bank of Communications (BoCom) announced it would purchase control in Brazilian Banco BBM, coinciding with the visit of China's Premier Li Keqiang.

**ANALYSIS:** Impacts.

This growing presence will support the increasing number of Chinese companies that are "going global".

Expanding Chinese banks can contribute to growth and job creation in Latin America's services sector.

Chinese appetite for banking assets will broaden the range of potential buyers for Latin America's many family-controlled banks.

China's so-called policy banks, the China Development Bank and the China Ex-Im Bank, have for many years provided billions worth of dollars in financing to Latin American countries and projects. This large-scale financing has been both profit- and diplomacy-driven, as China has sought increased influence in a region rich in natural resources. Countries with limited access to international capital markets, including Argentina, Ecuador and Venezuela, have been significant recipients ( see LATIN AMERICA/CHINA: Funding brings calculated risk - May 4, 2015).

The entry of some of the largest Chinese commercial banks into Latin America is a more recent phenomenon. Although the Bank of China opened a branch in Panama in 1994, and in Brazil in 2009, this process began in earnest when the Industrial and Commercial Bank of China (ICBC) acquired Standard Bank in Argentina in 2011.

Banking strategies.

The China Construction Bank (CCB) and BoCom are the other large commercial banks that have made Latin America a key part of their international expansion. They are entering Latin America through purchases of local banks and green-field operations for reasons including:

increased competition in the Chinese banking market;

global expansion strategies;

following Chinese corporations abroad;

tapping into growing trade and investment flows between China and Latin America; and

attractive acquisition opportunities.

The focus of Chinese banks' expansion has so far been on purchasing mid-sized banks and launching greenfield operations in countries with significant trade ties with China. BoCom's recent acquisition of Banco BBM also shows a long-term focus given that the Brazilian economy barely grew in 2014 and is expected to contract this year.

The presence of Chinese commercial banks is still very small compared to large Western banks, such as Spanish Santander and BBVA, Canadian Scotiabank and US- and UK-based banking giants Citigroup and HSBC. There is unlikely to be a wave of Chinese commercial banks entering Latin America in the coming years, but rather a limited number of banks with a strong focus on international expansion.

ICBC initiative.

The world's largest bank, ICBC, has been the pioneer in terms of expansion into Latin America. Its entry into several countries in the region is part of a global growth strategy that began in 1992 when it opened its first international branch in Singapore; it now operates in 41 countries.

ICBC's entry into Latin America began in 2011 when it paid approximately 600 million dollars for 80% of Standard Bank Argentina, a full-service bank formerly controlled by South African Standard Bank Group (SBG) focusing both on corporate and consumer banking. SGB had received offers from several banks, but chose to sell to ICBC, which had been a strategic partner since 2007 through a 20% stake in SBG:

The local shareholders sold their entire 25% ownership while SBG sold 55% and stayed on as minority shareholder in ICBC Argentina with a 20% stake.

The acquisition of this mid-sized bank was among the largest overseas deals by ICBC.

Argentina became a "natural" starting point for ICBC's Latin American expansion since its international partner SBG was looking to sell a bank in that market; significant bilateral trade and Chinese investment in the oil sector also made the country attractive for ICBC ( see ARGENTINA/CHINA: Oil investments buck wider trend - December 20, 2010).

The entry into Argentina was followed by Brazil and Peru where ICBC opened for business in 2013 and 2014, respectively. ICBC became the first Chinese bank to launch Peruvian operations; the free-trade agreement between China and Peru was a key factor behind this entry.

Brazilian acquisitions.

Brazil is the Latin American country most targeted by the large Chinese commercial banks, with two high-profile deals taking place in the last few years:

BoCom-BBM.

The latest of these deals was announced during Li's May visit to Brazil, during a bilateral summit in Brasilia. BoCom, China's fifth largest bank, agreed to pay approximately 525 million reais (168 million dollars) for an 80% stake in the mid-sized lender. The acquisition is subject to regulatory approvals and the price, based on BBM's estimated book value, could change upon closing of the deal.

This purchase was BoCom's first-ever acquisition abroad.

CCB-BicBanco.

The deal follows CCB's purchase of mid-sized lender Banco Industrial & Comercial (locally known as BicBanco) in 2013 from the Brazilian Bezerra de Menezes family. China's second-largest bank paid 1.62 billion reais for a 72% stake in the Sao Paulo-based bank, marking the start of CCB's Latin American expansion process.

Further expansion.

The Chinese commercial banks now present in Latin America will continue their expansion through more acquisitions and greenfield operations:

CCB is currently awaiting final approval to open a branch in Chile.

When announcing its purchase of Banco BBM, BoCom said that this deal represented the "first step" in its Latin American expansion.

Large countries in the region such as Colombia and Mexico are possible future destinations as both those nations are looking to increase trade and investment with China. These countries are also members -- together with Chile and Peru -- of the Pacific Alliance trading bloc, which banks from outside the region increasingly view as a strategic area of operations.

The entry and expansion of Chinese commercial banks in the region has thus far been cautious. However, as they gain more experience and become more 'comfortable' in Latin America these banks could aim to buy larger local banks as well as seizing purchase opportunities if European and US-based banks reduce their presence.

Latin America's banking sector also represents an opportunity for China and its banks to diversify the current strong foreign direct investment (FDI) focus on extractive industries to more services-related FDI. This might be welcomed by Latin American governments seeking to become less dependent on commodities exports ( see LATIN AMERICA: Commodity prices will weigh on FDI - June 2, 2015) -- the direction in which Chinese trade and investment has largely pushed them to date.

CONCLUSION: Chinese banks will continue to expand their presence in Latin America through the entry into new markets and the growth of existing banking operations. Their presence will facilitate deeper trade and investment ties between China and the region, and may help some Chinese banks in their quest to become larger and more recognised global players.

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