

Monitor of Chinese OFDI in Latin America and the Caribbean 2018 ¹

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Below are some of the main results of the updated statistical information presented by the Academic Network of Latin America and the Caribbean on China (Red ALC-China) and, specifically, of its Monitor of Chinese OFDI in Latin America and the Caribbean. We invite you to review the information available—bibliography, documents, various analysis and statistical information—in order to improve and deepen the analysis.² While the Monitor of Chinese OFDI in Latin America and the Caribbean 2018 includes aggregated and disaggregated information from a variety of sources for the period of 2000 to 2017, hereinafter the analysis will focus on the presentation of the main results of disaggregated information per transaction at the company level of OFDI (see Section 5 of this document).

The document is added to the recognition of the growing importance of Chinese OFDI in the world, as well as in Latin America and the Caribbean. Methodological studies, case studies, regional and bilateral studies, are also significant.

1. Context of Chinese OFDI in Latin America and the Caribbean (2000-2017)

Several aspects are relevant in order to understand the dynamics of China's outflows of foreign direct investment (OFDI) to Latin America and the Caribbean (LAC):

- i. Global foreign direct investment (FDI) has not recovered the 2007 level of flows. Nonetheless, during 2016 and 2017 the dynamics have been positive, particularly for developed countries, which expects to reach 1.8 trillion USD in 2017. Chinese OFDI grew 44% in 2016 and has consolidated as the second source of global FDI. Out of the top 100 non-financial multinational companies of developing countries and countries in transition, Chinese companies participated with 3 and 32 firms in 2016, respectively. *China National Offshore Oil Corporation (CNOOC)*, *China Costco Shipping Corp Ltd (COSCO)*, *Hutchison Holdings Limited* and *Lenovo*, among others appear in the respective lists (CEPAL 2017; UNCTAD 2017).
- ii. The People's Republic of China has launched a group of methodological regulations with the purpose of, particularly, recording the final destination of OFDI (MOFCOM,

¹ This document may be cited as follows: Dussel Peters, Enrique. 2018. *Monitor of Chinese OFDI in Latin America and the Caribbean 2018*. Academic Network of Latin America and the Caribbean

² The information is available at: <http://www.redalc-china.org/monitor/>

NBS y SAFE 2015). Such regulations, however, have not yet resulted in the official statistics to record Chinese OFDI.

- iii. The FDI flows to LAC reached their highest point in 2011, with 193.6 billion USD, and have constantly decreased since. In 2016, they reached 142.1 billion USD. In 2017, an increase in FDI to LAC is estimated to reach levels close to 150 billion USD, which represent around 15% of the gross fixed capital formation (UNCTAD 2017).

Table 1

LAC: Chinese OFDI Flows to LAC and Several Macroeconomic Indicators (2000-2017)

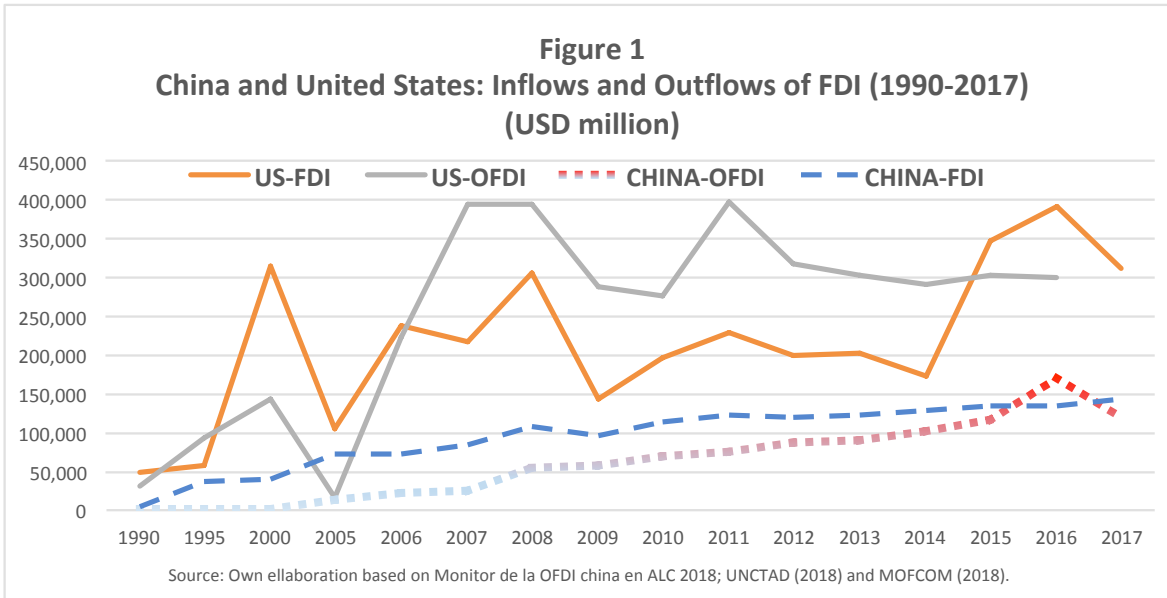
	Chinese OFDI (percentage over respective total)			
	Chinese OFDI	Regional FDI	Gross Formation of Fixed Capital	GDP
	(USD million)		(percentage)	
2000	20	0.03	0.00	0.00
2001	450	0.62	0.12	0.02
2002	0	0.00	0.00	0.00
2003	282	0.62	0.08	0.01
2004	3,588	5.28	0.86	0.16
2005	83	0.11	0.02	0.00
2006	3,841	5.20	0.61	0.12
2007	2,162	1.85	0.28	0.06
2008	3,890	2.80	0.42	0.09
2009	4,467	5.25	0.54	0.11
2010	20,138	11.91	1.95	0.40
2011	5,536	2.86	0.45	0.09
2012	3,998	2.12	0.32	0.07
2013	10,833	6.16	0.84	0.18
2014	12,510	7.36	1.00	0.21
2015	10,182	6.16	0.92	0.20
2016	15,687	11.04	1.67	0.31
2017 /e	11,461	7.68	1.17	0.23
2000-2005	4,423	1.11	0.18	0.03
2006-2010	34,498	5.91	0.82	0.17
2011-2017	70,207	5.93	0.87	0.18
2000-2017	109,128	5.03	0.75	0.15

/e Estimations.

Source: own elaboration based on WB (2018); UNECLAC (2017); Monitor de la OFDI china en ALC (2018) and UNCTAD (2017).

- iv. Unlike the last decade —which showed uninterrupted increases of Chinese OFDI—, in 2017 Chinese OFDI fell 29.41% for the first time since the statistics of Chinese OFDI have been recorded. As a result, in 2017 the inflows of Chinese FDI were once again greater than the OFDI (outflows) (see Figure 1). This performance is mainly due to a group of regulations of the Chinese public sector, which limited and controlled capital outflows (Chen 2017).

- v. Notwithstanding the previous performance, in 2017 China will surely remain as the second source of global OFDI³, with even greater levels if Hong Kong and Macau are included as sources of Chinese OFDI.



2. Main Trends of Chinese OFDI in LAC, from 2000 to 2017

From 2000 to 2017, Chinese companies carried out 328 transactions in countries of LAC. The accumulated flow of Chinese OFDI in LAC consisted of \$109,127 million USD. Chinese companies generated 294,423 jobs (see Table 2). The average transaction amount was \$333 million USD, and each job was created for \$370,648 USD.

Three stages of Chinese OFDI in LAC can be observed:

- 2000-2005, limited Chinese OFDI presence in LAC, which is reflected in barely 15 transactions.
- 2006-2009, accelerated increase of Chinese OFDI in LAC, which accumulated \$14,359 million USD and generated over 32,000 jobs.
- 2010-2017, highest dynamism thus far, which accumulated nearly \$91,000 million USD and generated 247,840 jobs.
- **In 2017, the Chinese OFDI to LAC fell 26.9%, to \$11,461 million USD. However, job creation rose 43.7%. This can be specifically explained by the significant growth in jobs generated per transaction in 2016 and in 2017, in relation to previous terms.**

³ In 2016, the United States, China and the Netherlands exhibited outflows of FDI of 299 billion USD, 183.1 billion USD and 173.7 billion USD, respectively (UNCTAD 2017).

Regarding the type of investment, the following can be highlighted:

- From 2000 to 2017, 111 transactions were mergers and acquisitions (M&A). They accounted for 61.62% and 61.68 % of the total amount and job creation, respectively, generated by Chinese OFDI.
- **In 2016 and 2017, M&A have gained a central place in Chinese OFDI and represented, in 2017, 90.46% and, in 2016, 78.84% of the total amount of Chinese OFDI (see Table 2).**

Table 2
LAC: Chinese OFDI and Employment (2000-2017)

	Transactions (number)	OFDI (million USD)	Employment (number of workers)	OFDI/Transaction (million USD)	OFDI/Employment employment / Transactio (number of workers)	
Total						
2000-2005	15	4,424	13,905	295	0.318	927
2006-2009	55	14,359	32,678	261	0.439	594
2010-2017	258	90,344	247,840	350	0.365	961
2000-2017	328	109,127	294,423	333	0.371	898
2015	35	25,869	29,554	739	0.875	844
2016	35	15,687	47,938	448	0.327	1,370
2017	45	11,461	68,904	255	0.166	1,531
M&A						
2000-2005	3	570	6,150	190	0.093	2,050
2006-2009	21	3,352	17,218	160	0.195	820
2010-2017	87	63,463	158,245	729	0.401	1,819
2000-2017	111	67,248	181,613	606	0.370	1,636
2015	8	7,759	17,845	970	0.435	2,231
2016	15	14,191	39,373	946	0.360	2,625
2017	25	8,765	54,322	351	0.161	2,173
New Investments						
2000-2005	12	3,854	7,755	321	0.497	646
2006-2009	34	11,008	15,460	324	0.712	455
2010-2017	171	27,018	89,595	158	0.302	524
2000-2017	217	41,879	112,810	193	0.371	520
2015	27	2,423	11,709	90	0.207	434
2016	20	1,496	8,565	75	0.175	428
2017	20	2,696	14,582	135	0.185	729

Source: own elaboration based on Monitor de la OFDI china en ALC 2018.

3. Chinese OFDI by Destination of Economic Activity (2000-2017)

From 2000 to 2017, company-level transactions have focused on three destination activities: raw materials (29.88%), manufacturing (36.28%), and services and domestic markets (32.62%). However, their relative share in terms of investment and employment have been very different (see Table 3).

Table 3
LAC: Chinese OFDI by Sector of Destination (2000-2017)

	2000-2005	2010	2014	2015	2016	2017	2000-2017
Raw Materials							
Number of Transactions	40.00	36.67	19.05	11.43	25.71	13.33	29.88
Amount (million USD)	85.35	61.47	54.89	68.29	28.72	23.61	57.93
Employment	50.69	76.64	60.70	15.22	27.35	18.13	41.04
Manufacturing							
Number of Transactions	26.67	23.33	40.48	48.57	34.29	51.11	36.28
Amount (million USD)	2.67	2.61	3.66	19.76	1.90	35.82	8.58
Employment	6.86	5.00	14.29	74.44	13.80	26.16	25.27
Services and Domestic Market							
Number of Transactions	33.33	40.00	40.48	31.43	40.00	33.33	32.62
Amount (million USD)	11.98	35.91	41.45	11.25	69.38	38.36	33.19
Employment	42.45	18.36	25.01	7.80	58.85	53.39	32.89
Purchase of Technology							
Number of Transactions	0.00	0.00	0.00	8.57	0.00	2.22	1.22
Amount (million USD)	0.00	0.00	0.00	0.70	0.00	2.21	0.29
Employment	0.00	0.00	0.00	2.54	0.00	2.32	0.80

Source: own elaboration based on Monitor de la OFDI china en ALC 2018.

- The previous Table clearly reflects the growing diversity in terms of the total amount of OFDI and job creation. For the period between 2000 and 2017, raw material accounted for 57.93% and 41.04%, respectively, when some earlier years their share was more than 90%. However, in recent years the share of raw materials has dropped significantly.
- **In 2017 raw materials participated in only 6 out of every 45 transactions and accounted for 23.61% and 18.13% of the total amount of Chinese OFDI, while manufacturing, and OFDI directed towards services and domestic markets, particularly, where the most important, with 38.63% and 53.39% of the total amount of OFDI and employment, respectively (see Table 3).**
- Chinese OFDI in technology purchases was not a relevant category in LAC from 2000 to 2017, which barely accounted for four transactions.

4. Chinese OFDI in LAC by Type of Company Ownership (2000-2017)

Transactions of Chinese private companies have accounted for 57.32% of all transactions during 2000-2017. However, public companies have the most investment and job creation (Dussel Peters 2015). From 2000 to 2017, Chinese public companies invested \$81,398 million USD, accounting for 74.59% of the total amount and generating 52.26% of jobs. Furthermore, they presented much higher average amounts per transaction and participated in more capital intense activities, which was associated with a higher average size of company. By type of investment, it is worth noting that private companies are more likely to opt for smaller new investments, with less capital intensity.

In 2017, private Chinese companies participated with 39.86% and 62.48% of the total amount of OFDI and job creation, respectively.

Table 4

LAC: Chinese OFDI by Type of Property of Chinese Investor (2000-2017)

	2000-2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2000-2017
TOTAL														
Number of Transactions	15	14	16	15	10	30	31	14	26	42	35	35	45	328
Amount (million USD)	4,424	3,841	2,162	3,890	4,467	20,138	5,536	3,998	10,833	12,510	10,182	15,687	11,461	109,127
Employment	13,905	7,269	8,761	12,963	3,685	48,946	21,294	4,321	9,023	17,860	29,554	47,938	68,904	294,423
Empresas públicas														
Number of Transactions	8	6	2	11	8	18	8	4	17	16	9	19	14	140
Amount (million USD)	3,869	2,529	107	2,881	4,207	18,327	3,171	3,150	9,638	8,274	4,974	13,378	6,892	81,398
Employment	7,839	2,791	1,400	9,950	1,932	37,596	4,424	913	6,581	11,509	7,239	35,832	25,851	153,857
Empresas privadas														
Number of Transactions	7	8	14	4	2	12	23	10	9	26	26	16	31	188
Amount (million USD)	555	1,312	2,055	1,009	260	1,811	2,364	848	1,195	4,236	5,208	2,309	4,569	27,729
Employment	6,066	4,478	7,361	3,013	1,753	11,350	16,870	3,408	2,442	6,351	22,315	12,106	43,053	140,566
	PERCENTAGE													
Empresas públicas														
Number of Transactions	53.33	42.86	12.50	73.33	80.00	60.00	25.81	28.57	65.38	38.10	25.71	54.29	31.11	42.68
Amount (million USD)	87.45	65.85	4.95	74.07	94.18	91.01	57.29	78.80	88.97	66.14	48.85	85.28	60.14	74.59
Employment	56.38	38.40	15.98	76.76	52.43	76.81	20.78	21.13	72.94	64.44	24.49	74.75	37.52	52.26
Empresas privadas														
Number of Transactions	46.67	57.14	87.50	26.67	20.00	40.00	74.19	71.43	34.62	61.90	74.29	45.71	68.89	57.32
Amount (million USD)	12.55	34.15	95.05	25.93	5.82	8.99	42.71	21.20	11.03	33.86	51.15	14.72	39.86	25.41
Employment	43.62	61.60	84.02	23.24	47.57	23.19	79.22	78.87	27.06	35.56	75.51	25.25	62.48	47.74

Source: own elaboration based on Monitor de la OFDI china en ALC 2018.

5. Chinese OFDI by Destination Country in LAC (2000-2017)

From 2000 to 2017, Chinese investment in LAC focused mainly on Brazil, Peru and Argentina. Said economies accounted for 72.61% of the OFDI and 62.47% of job creation (see Table 5). It is worth mentioning that, while Mexico accounted for 68 transactions (or 20.73% of all transactions), it barely represented 5.51% of Chinese OFDI in LAC and 13.79% of employment from 2000 to 2017. **In 2017, Mexico was the most dynamic country for Chinese OFDI reception, with 21.79% and 25.43% of the total amount of OFDI and job creation, respectively.**

Table 5

LAC: OFDI china por principales países (2000-2017)

	2000-2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2000-2017
Argentina														
Number of Transactions	0	0	1	0	0	3	1	0	5	3	0	3	3	19
Amount (million USD)	0	0	4	0	0	5,597	330	0	3,919	523	0	215	1,283	11,870
Employment	0	0	200	0	0	2,601	1,600	0	1,785	480	0	670	3,874	11,210
Brazil														
Number of Transactions	6	2	4	1	2	10	12	3	6	13	19	16	13	107
Amount (million USD)	3,565	30	152	60	425	12,867	2,919	3,232	902	1,747	5,319	13,903	2,902	48,021
Employment	6,303	2,111	4,174	61	61	15,208	15,748	1,200	2,551	7,128	13,950	37,163	32,955	138,613
Chile														
Number of Transactions	0	0	0	2	2	1	1	3	3	2	1	3	4	22
Amount (million USD)	0	0	0	39	2,450	18	11	227	45	36	286	215	2,764	6,091
Employment	0	0	0	78	250	0	55	64	81	43	175	4,284	5,691	10,721
México														
Number of Transactions	4	2	3	4	1	4	6	1	1	10	9	4	19	68
Amount (million USD)	563	45	109	331	40	84	39	70	8	1,140	1,001	81	2,498	6,010
Employment	6,354	103	1,409	3,654	1,000	478	1,106	144	3	2,470	4,915	1,455	17,524	40,615
Perú														
Number of Transactions	0	3	4	3	2	4	1	2	5	5	1	0	3	33
Amount (million USD)	0	109	1,714	3,552	360	296	26	37	3,936	5,182	2,500	0	1,635	19,347
Employment	0	1,571	1,911	6,009	540	3,552	0	332	3,494	5,381	3,000	0	8,300	34,090

Source: own elaboration based on Monitor de la OFDI china en ALC 2018.

6. Top Chinese Companies with OFDI in LAC from 2000 to 2017

A relatively small number of Chinese companies have recently concentrated the greatest portion of OFDI. For example, from 2000 to 2017, the top five Chinese job creation companies through OFDI accounted for 48.98% of jobs created in the region. Likewise, the top five companies in 2016 concentrated 77.94% of all job creation. This issue is extremely important for research and policy proposals to attract FDI and Chinese companies that generate employment. Companies such as *State Grid Corporation*, *China Communications Construction Company*, *Sinosteels* and *China Merchants Port Holding*, among others, are the most dynamic Chinese companies in the region.

Source: own elaboration b;

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Exhibit. Methodology for Preparing the Data Bank.

The integration of the data bank of the Monitor of Chinese OFDI in LAC was carried out in two stages. In the first, a team of six analysts developed a data bank of more than 1,000 Chinese transactions in LAC at a company level, for the period between 2000 and 2017, using the sources mentioned below.

The primary sources of information were: fDi Markets, Thomson-Reuters, Bloomberg, Capital IQ, China Global Investment Tracker (CGIT) and investment announcements reported by the trade press. From these hundreds of transactions, and after a careful assessment of each transaction, the date base was integrated. The team tracked news in specialized media and company reports, as well as reports from various public and private institutions in LAC, investment announcements, among others, based on various search criteria:

- i. Transaction status: Completed, canceled or in process.
- ii. Investment amount in millions of USD.
- iii. Type of investment: New investments and mergers and acquisitions. New investments imply a new capital inflow that amplifies the installed capacity and generates new employment. They can be either new (greenfield) or expansions. Cross-border transactions, such as mergers and acquisitions, imply solely a change in owners of an existing company, which, at least in the short term, does not strictly imply expansion of installed capacity or new employment.
- iv. Generation of employment: In the case of new investments, the data corresponds to the information reported on the companies' websites or to the announcements made at the time. In the case of mergers and acquisitions, the data refers, in general terms, to the amount of employment with which the acquired firm operated at the time of the transaction. It is important to emphasize that the database shows employment, without differentiating between permanent and eventual positions.
- v. Ownership of the investment company: Public or private.
- vi. Destination economic activity: In generic terms the various activities of destination were grouped into four types of activity: Raw Materials; Manufacturing; Services and Domestic Markets; Technology Purchases.

For the assessment of the transactions of each data bank, as well as of specialized media, an authentication of the FDI's data was performed, as well as of the amount, employment and location of the project, through information obtained from the buyer or seller company, from public sources, such as the Chancellery and/or Ministry or Secretariat responsible for FDI, as well as specialized business or academic organizations. If none of these sources allowed the authentication of the information, secondary sources, such as unions, mass media or related means, were consulted.

All interested parties are invited to improve the quantity and quality of this information by contacting: FDICHINA@UNAM.MX / <http://www.redalc-china.org/monitor/>