Monitor of Chinese OFDI in Latin America and the Caribbean 2018

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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. 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.


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,

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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/](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).

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 OFDI\(^3\), 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.

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\(^3\) 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).


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).
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.


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.

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<tr>
<th>Country</th>
<th>Total Number of Transactions</th>
<th>Total Amount (million USD)</th>
<th>Number of Transactions</th>
<th>Employment</th>
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Source: Own elaboration based on Monitor de la OFDI china en ALC 2018.


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.

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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 20017, 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:

References

MOFCOM (Ministry of Commerce), NBS (National Bureau of Statistics) and SAFE (State Administration of Foreign Exchange). 2015. Statistical Registry Procedure OFDI. Beijing: MOFCOM, NBS and SAFE.
UNECLAC (United Nations Economic Commission for Latin America and the Caribbean). 2017. Foreign Direct Investment in Latin America and the Caribbean 2017 Santiago de Chile: ECLAC.

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 database 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/