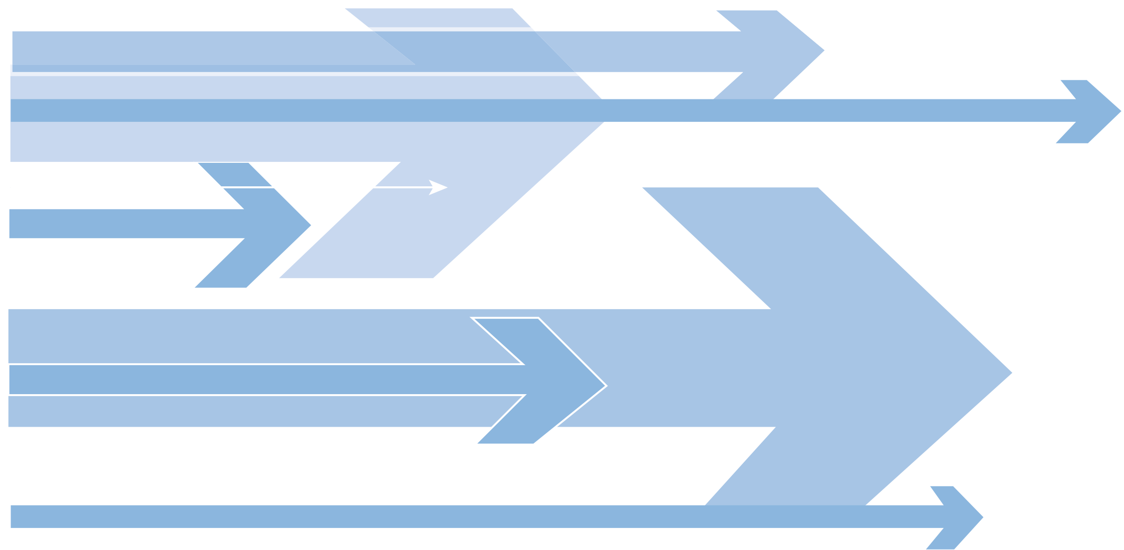
Working document

Chinese foreign direct investment in Latin America and the Caribbean

China-Latin America cross-council taskforce



Summit on the Global Agenda
World Economic Forum

Abu Dhabi, 18-20 November 2013

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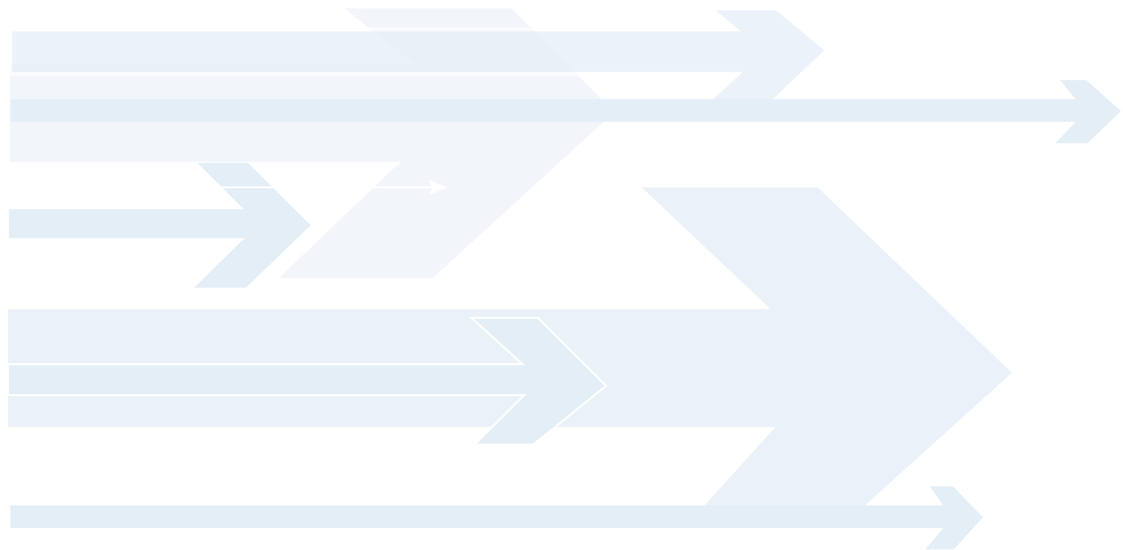

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ECLAC

This document was prepared jointly by Taotao Chen, Professor of Finance of the School of Economics and Management of Tsinghua University in China and member of the World Economic Forum (WEF) Global Agenda Council on China, and by Miguel Pérez Ludeña, Economic Affairs Officer at the Economic Commission for Latin America and the Caribbean (ECLAC), under the supervision of Alicia Bárcena, Executive Secretary of ECLAC and Vice-Chair of the World Economic Forum Global Agenda Council on Latin America.

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Introduction

Although Chinese corporations were relatively unknown in Latin America until a few years ago, their direct investments in the region have averaged about US$10 billion per year since 2010. Their presence and economic leverage have become very significant in many industries and countries of the region, but their motivation, strategy and procedures are not always well understood by Latin America's governments, businesses and civil society. Similarly, Chinese companies still need to gain a better understanding of Latin America's business environment and opportunities.

This working document is an input for discussing the future of Chinese foreign direct investment (FDI) in Latin America at the China - Latin America cross-council taskforce at the Summit on the Global Agenda, to be held under the auspices of the World Economic Forum (WEF), in Abu Dhabi on 18-20 November 2013. It was prepared jointly by Taotao Chen, Professor of Finance of the School of Economics and Management of Tsinghua University in China and member of the WEF Global Agenda Council on China, and by Miguel Pérez Ludeña, Economic Affairs Officer at the Economic Commission for Latin America and the Caribbean (ECLAC), under the supervision of Alicia Bárcena, Executive Secretary of ECLAC and Vice-Chair of the WEF Global Agenda Council on Latin America.

The authors have overcome certain limitations in the official data by constructing estimates on the basis of information provided by the companies themselves. These figures support a number of key conclusions:

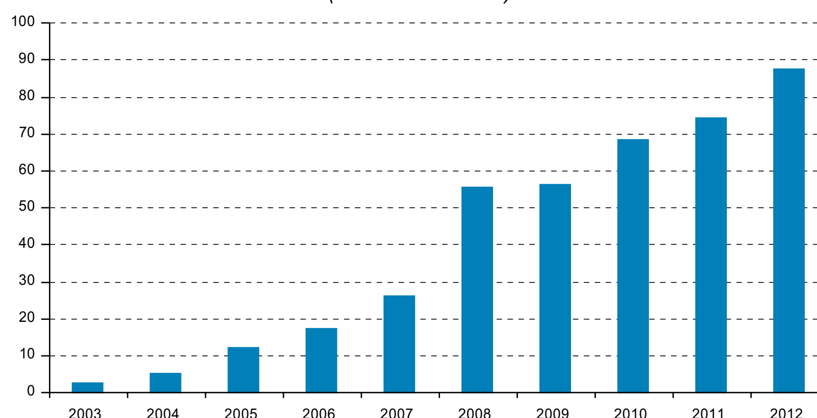
- Since 2010 Chinese companies have invested, on average, about US$ 10 billion per year in Latin American countries.
- China is still far from being one of the largest sources of FDI in Latin America, but Chinese companies have a significant presence in many sectors and industries, particularly in oil and mining.
- Not all Chinese investment projects in Latin America are successful. Chinese companies are still learning to operate in an economic environment that is very different from that of their home country, a factor that can lead to implementation problems and project cancellations.
- In the context of increasingly significant South-South economic relations, Chinese FDI in Latin America is expected to keep growing (and Latin America FDI into China to develop as well).
- Latin American countries should encourage Chinese companies to diversify their investments in Latin America. In turn, Chinese FDI could greatly enhance its welcome by further contributing to enhanced diversification and productivity in Latin American economies.

The authors propose that more attention should be paid to the strategies and practices of Chinese companies in Latin America and to the features that set them apart from others. Latin American governments should also assess how Chinese FDI can be treated as a new source of capital and knowledge with a view to raising productivity levels and enhancing the diversification of their economies. This working document is intended as a starting point for this fruitful discussion.

A. The rise in Chinese outward foreign direct investment

Outward foreign direct investment (OFDI) by the People's Republic of China was relatively modest in 2004, but has grown very rapidly since then and especially since 2008 when the world was gripped by financial crisis (see figure 1). In 2012, China's OFDI flows attained a new high of US$ 87.8 billion, placing China among the world's three largest outward investors for the first time. By the end of 2012, more than 16,000 domestic investing entities had established about 22,000 overseas enterprises in 179 economies. China's cumulative OFDI stock at that time stood at US$ 531.94 billion, and ranked thirteenth in the world.

Figure 1
China: outward foreign direct investment flows, 2003-2012
(Billions of dollars)



Source: Ministry of Commerce of the People's Republic of China (MOFCOM), 2012.

Although Chinese companies are latecomers in terms of investing abroad, they have ventured into all the world regions and entered a wide range of industries.

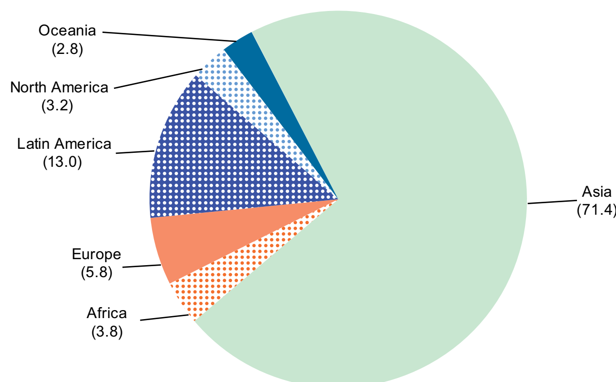
By region, Asia was the largest target for China's OFDI, accounting for 71.4% of total OFDI stock by end-2011. Second was Latin America, with 13% of the country's total OFDI stock, although 92% of this went to the British Virgin Islands and the Cayman Islands, and the remaining 8% went mainly to Brazil, Peru, the Bolivarian Republic of Venezuela and Argentina. The third largest destination by region was Europe, followed by Africa, North America and Oceania (see figure 2). Notwithstanding the regional distribution of Chinese OFDI, China has invested predominantly in developing countries. By the end of 2011, China's OFDI in developing countries stood at US$ 378.14 billion, accounting for 89% of total OFDI stock.

With regard to the distribution of FDI by industry, according to statistics published by the Ministry of Commerce of the People's Republic of China (MOFCOM), by the end of 2011, leasing and business services,[1] financial intermediation and mining were the top three sectors, representing 33.5%, 15.9%, 15.8%, respectively, of China's total OFDI, while the manufacturing sector attracts only 6.3%, and infrastructure[2] just 3.6% (see figure 3). However, a striking point to bear in mind is that, if investment is measured by the number of domestic investing entities rather than by investment value, manufacturing and commerce (wholesale and retail) are the top two sectors, accounting for 42.7%, 22.9%, respectively.

[1] "Leasing and business services" reflects mostly investments in holding companies in tax havens and regional financial centres. These funds are subsequently used for cross-border mergers and acquisitions in other sectors or countries.

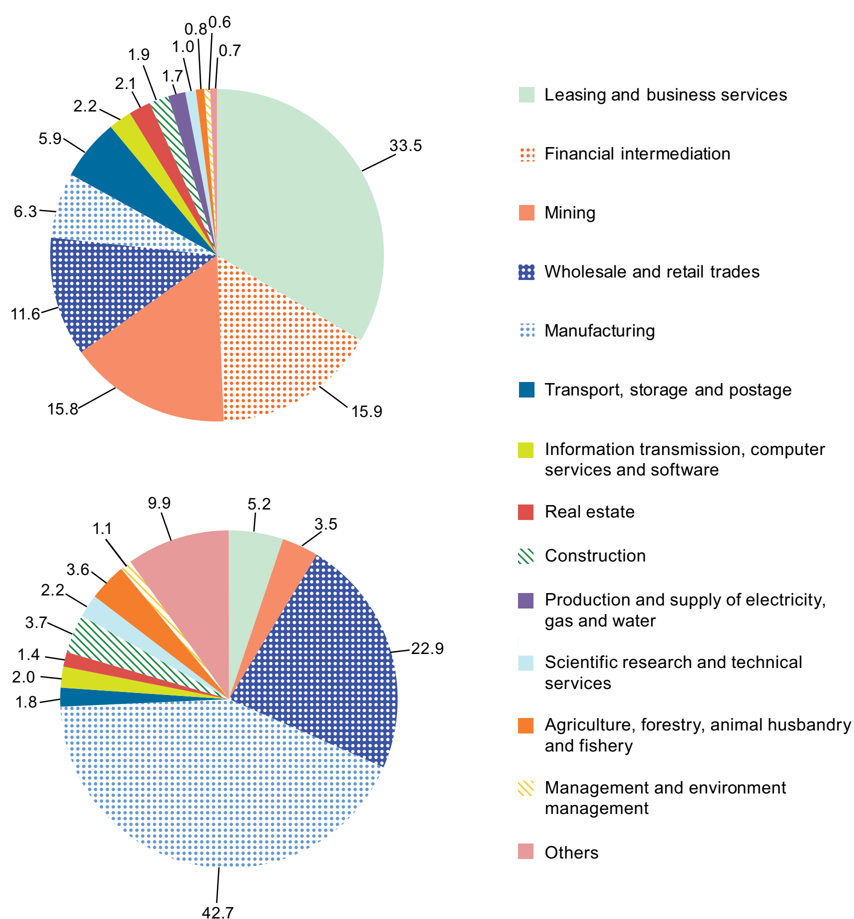
[2] Here the infrastructure sector is defined according to the MOFCOM industry catalogue, i.e. as construction plus production and supply of electricity, gas and water. In fact, the infrastructure sector should also include "information systems integration service", which is part of the "information transmission, computer services and software industry". However, it is not included here because it was not possible to separate it from other data.

Figure 2
China: stock of outward foreign direct investment by region, end-2011
(Percentages)



Source: Ministry of Commerce of the People's Republic of China (MOFCOM), 2012.

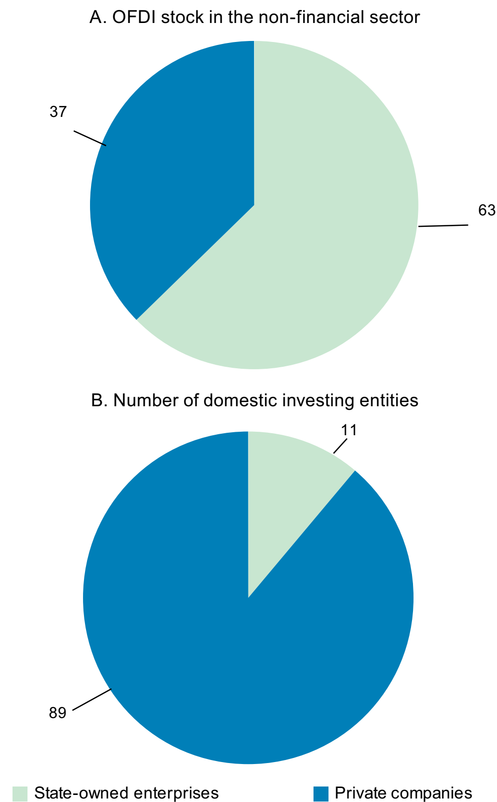
Figure 3
China: stock of outward foreign direct investment and number of domestic investing entities, by industry, end-2011
(Percentages)



Source: Ministry of Commerce of the People's Republic of China (MOFCOM), 2012.

By type of investing enterprise, State-owned enterprises[3] (SOEs) were without doubt the largest Chinese investors in the global market, accounting for more than 63% of China's total OFDI stock in non-financial sectors. In fact, most large deals in mining, business services, construction and finance were conducted by SOEs. If the measure used is the number of domestic investing entities, however, then 89% came from private companies and most went to manufacturing and wholesale and retail commerce (see figure 4). The background to this is that, after more than 30 years of economic reform in China, big State-owned enterprises mainly remain in strategic sectors, such as the financial sector and mining, whereas the other competitive sectors are occupied by private companies.

Figure 4
China's: stock of outward foreign direct investment in the non-financial sector and number of domestic investing entities, by type of enterprise, end-2011



Source: Ministry of Commerce of the People's Republic of China (MOFCOM), 2012.

The wide range of regions and industries penetrated by Chinese companies shows that their motivations have covered the full range from resource seeking, market seeking and efficiency seeking to all kinds of strategic asset seeking. However, they are quite different from region to region and industry to industry.

With regard to the mining sector, China is known to have a deficit in natural resources, and it is therefore important for the country to secure sources of these —this was, in fact, the original motivation for China's OFDI in mining. As young Chinese companies have developed their operations in these fields, they have grown into experienced international players, who sell at high prices remotely and buy at low prices close to home rather than simply shifting natural resources back to China (Moran, 2010). Related motivations include enhancing price-setting bargaining power and improving efficiency by seeking low-cost manufacturing locations for certain parts of the sector's supply chain. For all these purposes, China has invested in the mining sector in both developed countries, such as Australia and Canada, and developing regions such as South America, Africa and South-East Asia. Chinese overseas mining investment focused heavily on Australia during the late 2000s, especially in 2009, when the country's mining OFDI flow more than doubled, mainly reflecting large investments in Australia. Later, Chinese mining companies gradually eased up their investment in Australia, and have recently stepped up their investments in Africa and South America.

[3] In China, SOEs are defined as enterprises whose assets were wholly owned by the State government or local governments, but they do not include limited liability companies which are wholly government-owned.

In the infrastructure sector, China's rapid growth over the past 30 years has created a huge domestic infrastructure market and many infrastructure companies have developed strong domestic capabilities: CSCEC and Sinohydro in the construction industry, State Grid in the electric power industry, and Huawei and ZTE in the telecommunications industry, for example. Their main motivation for investing abroad is to acquire a share of the foreign infrastructure market. In the context of the global financial crisis, the developed countries launched massive infrastructure building and upgrading programmes to aid economic recovery and boost employment. Meanwhile, industrialization and urbanization in the developing countries has created a heavy demand for infrastructure. Both of these processes have attracted Chinese infrastructure companies, which are increasingly investing abroad. Another motivation for Chinese OFDI in infrastructure was to support the overseas investments of other Chinese investors, especially in Africa, where infrastructure conditions pose difficulties for the business of Chinese mining companies.

In the manufacturing and wholesale and retail commerce sectors, the basic motivation for investing abroad is to explore new markets, given that China has been a global manufacturing location for at least two decades. Many Chinese companies, including small and medium-sized enterprises (SMEs), are eager to establish commercial offices or branches in major markets such as the United States and Europe, as well as in large emerging markets such as the Russian Federation. In addition, investment for circumventing import restrictions still occurs, for example in some Latin American countries, especially Brazil. Besides the market, Chinese companies have other motivations for investing in both developing and developed countries. With domestic costs constantly rising in China, efficiency-seeking has become another major motivation to invest abroad, mainly in developing countries. Many Chinese manufacturers have transferred their labour-intensive operations to countries of the Association of South-East Asian Nations (ASEAN), including Cambodia, Thailand and Viet Nam. In developed economies, Chinese companies target mainly higher technology industries and research and development (R&D) capability, as well as brand names and other types of strategic assets, in response to pressures and aspirations to upgrade their own industries inside China.

In the finance sector, Chinese banks and financial institutions have ventured into both developing and developed countries, in order to support non-financial OFDI and strengthen their own portfolios by buying undervalued financial assets overseas. The subprime crisis struck a severe blow to financial institutions in developed countries, affording Chinese financial investors a good opportunity to buy undervalued financial assets there. In a typical example, China Construction Bank acquired AIG Finance (Hong Kong) Limited in 2009.

In summary, in the past 10 years, China began to emerge as one of the world's most significant investors. China's OFDI has entered every region in the world and most of the major sectors, based on home country strengths and advantages and host country conditions, especially the opportunities arising after the financial crisis. Despite being a latecomer, the motivations underpinning China's OFDI are in line with most multinational corporations (MNCs) in other countries.

Box 1

Why the figures presented in this document do not match official data

Official foreign direct investment (FDI) data from both China and Latin America present serious limitations for the purposes of this study.

In China, official FDI data are compiled by the Ministry of Commerce (MOFCOM, 2011), which follows international guidelines in its methodology and provides a good view of the aggregate trends. But the disaggregation of outward FDI (OFDI) from China by country of destination is distorted by the fact that most Chinese companies route their foreign investments through the Special Administrative Regions of Hong Kong and Macau, Taiwan Province of China and other financial centres and tax havens. Of all China's OFDI, 79% is registered as going to Hong Kong (SAR), Cayman Islands or the British Virgin Islands (ECLAC, 2011).

For the same reason, data from Latin American countries does not capture the full extent of Chinese FDI in the region. For example, the largest investment by a Chinese company in Latin America (Sinopec's acquisition of 40% of Repsol's subsidiary in Brazil for over US$ 7 billion) was registered as an investment from Luxembourg, because Sinopec routed the transaction through its affiliate there. This is common practice around the world, but Chinese companies use it more than the average.

Section A of this document uses data from MOFCOM to describe the aggregate trends in OFDI from China. For sections B to E, which quantify and analyse Chinese FDI in Latin America by sector, we have constructed our own estimates, using mostly data from the companies involved and identifying the most significant projects in the region, and complemented with information from Bloomberg and FDI Markets, official data from certain countries and the Heritage Foundation.

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

B. Overview of Chinese foreign direct investment in Latin America

Chinese FDI in Latin America was very limited until 2010. Our estimate is that inflows in the preceding two decades totalled around US$ 6 billion. These were carried out mainly in the framework of a few oil and mining projects which were started in the 1990s and continued over the years (ECLAC, 2011). It was not until 2010 that this slow trickle swelled into a large flow (see table 1). FDI from China in that year reached US$ 13 billion, three quarters of this figure in two very large oil acquisitions by Sinopec in Brazil and CNOOC in Argentina, respectively. But the rise was not limited to these two operations: many Chinese companies in different sectors arrived in Latin America or increased their presence substantially in 2010. They include State Grid (electricity), Chery (automobiles) and Chinalco (mining). It was also in 2010 that Chinese investments came to the attention of governments, companies and civil society in Latin America and, although the reception was largely positive, regulations were tightened in some specific sectors.

Table 1

China: estimated foreign direct investment in selected Latin American economies, 1990-2012

(Millions of dollars)

	1990-2009	2010	2011	2012
Argentina	143	3 100	2 450	600.00
Brazil	255	9 563	5 676	6 066.63
Chile	…	5	…	76
Colombia	1 677	6	293	996
Ecuador	1 619	45	59	86
Mexico	146	9	2	74
Peru	2 262	84	829	1306.84
Venezuela (Bolivarian Republic of)	240	900	…	…
Total	6 342	13 712	9 309	9 206

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of company reports, Bloomberg, FDI Markets, official data from the countries and Heritage Foundation.

Since 2010 Chinese FDI has continued to enter the region, at a level estimated around US$ 9 billion per year, and the pattern has remained the same in terms of the major companies, main sectors and most important target markets. Chinese companies are among the most important foreign players in the oil and gas industry in Argentina, the Bolivarian Republic of Venezuela, Brazil, Colombia and Ecuador, and have a smaller presence in Peru. In mining, Chinese firms have concentrated their investments in Peru and, to a lesser extent, in Brazil. The largest present of Chinese companies outside the natural resources sector is in Brazil, where there are a number of manufacturing companies operating and at least one large company in electricity services.

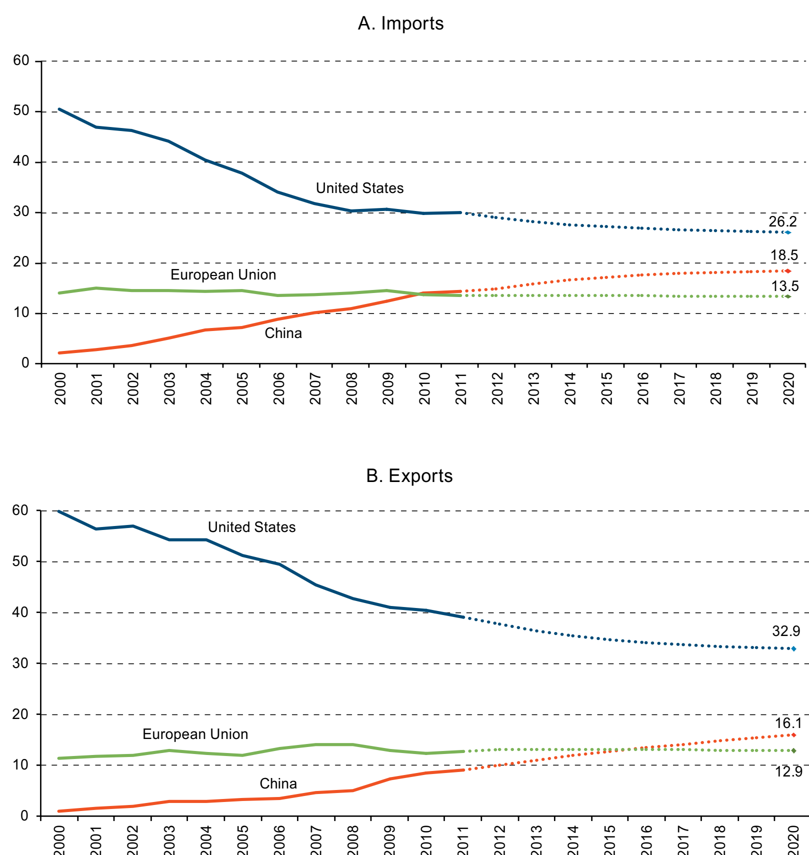
On the other hand, a number of countries, such as Chile and Mexico, have not yet attracted substantial FDI from China. Overall, China has become a significant direct investor in Latin America, but it is far from being one of the largest. Only in a few economies, such as Ecuador or (possibly) the Bolivarian Republic of Venezuela, could China be considered among the largest sources of FDI. The United States (25% of the total) and the European Union (40%) continue to be the largest sources of FDI for Latin America, and the share of China and other Asian economies remains modest (7%).

Chinese investments are also notably absent from the services sector, which accounts for about half of total inward FDI in Latin America. The only exceptions are banks and shipping companies, which have opened subsidiaries in Latin America mainly to serve trading relations with China. This reflects the relative lack of development of the Chinese services sector, and the fact that Chinese service companies are focused on the domestic market for the time being.[4] Interestingly, FDI in Latin America from Japan and the Republic of Korea also tend to steer clear of the services sector.

[4] On 31 October 2013, China Construction Bank acquired control of the Brazilian bank BicBanco for U$ 725 million. This is one of the very few examples of Chinese acquisitions in the services sector with the main objective of serving the domestic market.

Despite the rise in flows since 2010, investment relations between China and Latin America are not on a par with their trade relations. China is now the second largest source of imports for Latin America and will soon be its second largest export destination, in both cases behind the United States (see figure 5). In other words, China's economic influence over Latin America is conducted mostly through trade and not through direct investment (ECLAC, 2013).

Figure 5
Latin America: share of main trading partners in imports and exports, 2000-2011 and projections to 2020
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE) and national sources.

China's trade relations with Latin America influence the nature of many FDI projects today. Most Chinese companies investing in Latin America open commercial offices to facilitate trade, some of which grow into small manufacturing units for assembling components imported from China. In the services sector, the only important investments are in finance, where the key objective is to finance trade operations with China. Even in natural resources, many of the companies investing in mining and oil operations are large importers of these resources into China.

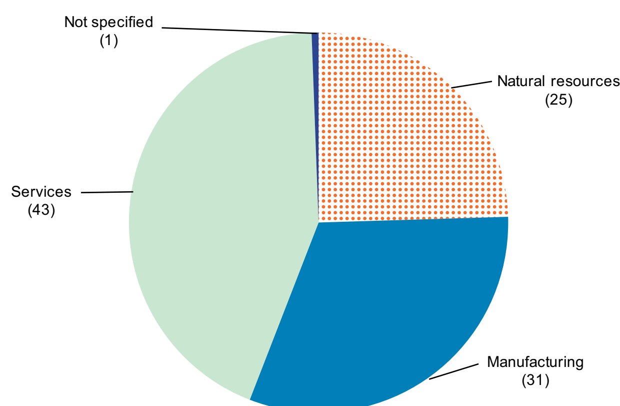
The following sections take a detailed look at the investment strategies of Chinese companies in the key sectors in which they operate in the region.

C. Extractive industries receive most capital

From the perspective of China, Latin America is mostly a producer of raw materials: 70% of China's imports from Latin America are commodities (ECLAC, 2013). Furthermore, China has become the world´s largest importer of oil, iron, copper and other commodities, so changes in Chinese demand for these products can have large impacts on international prices and, therefore, on Latin America's terms of trade.

This relationship shapes most FDI flows from China to Latin America: almost 90% of estimated Chinese investments have been in natural resources. In part, this reflects Latin America's endowment of natural resources, but nevertheless Chinese investments are disproportionately focused on this sector compared with others. Over the past few years, most worldwide FDI in Latin America went to the services sector (43%), followed by manufacturing (31%) and natural resources (25%) (see figure 6).

Figure 6
Latin America:[a] distribution of inward foreign direct investment by sector, 2007-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Refers to Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Mexico, Panama, Paraguay and Uruguay, which together represent 90% of total FDI inflows into the region.

There are four large oil companies in China, all of them State-owned, and they all have substantial investments in Latin America (see table 2). CNPC has the longest history in the region: it has been drilling for oil in Peru and the Bolivarian Republic of Venezuela since the 1990s, and has had a presence in Ecuador since 2003. In all these cases, CNPC entered via government concessions or joint ventures with a State-owned oil company.

Table 2
Major investments by Chinese oil companies in Latin America, 1994-2010
(Millions of dollars)

Company	Country	Year of entry	Estimated investments (cumulative)
CNPC	Peru	1994	326
	Venezuela (Bolivarian Republic of)	1998	1 140
	Ecuador	2003	199
Sinopec	Brazil	2010	11 911
	Argentina	2011	2 450
	Colombia	2006	1 081
Sinochem	Brazil	2011	3 070
	Colombia	2009	877
CNOOC	Argentina	2010	3 100

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of company reports, Bloomberg, FDI Markets, official data from the countries and Heritage Foundation.

Sinopec adopted a different entry strategy. Its largest investments have taken place in joint venture with other transnational corporations, notably with Repsol of Spain and Galp of Portugal, in both cases in Brazil. In Colombia and Argentina, Sinopec acquired assets from other private companies. Before its large acquisitions, Sinopec had entered Brazil as a provider of construction services for Petrobras, especially designing and constructing part of the GASENE pipeline for an estimated value of US$ 1.9 billion (CBBC, 2013).

Sinochem and CNOOC have also entered Latin America through acquisitions of assets from other companies. CNOOC has a joint venture with a local company in Argentina, and Sinochem has a joint venture with Statoil of Norway in Brazil and bought the assets of a United Kingdom company in Colombia.

All four companies are expected to continue investing in the region. In October 2013, CNPC and CNOOC each had a 10% share in the consortium that was awarded the exploitation of Libra field in Brazil, in the first auction of oil fields in that country in several years. Together, the two companies are expected to pay the Government of Brazil a signing bonus of US$ 1.4 billion and invest around US$ 20 billion over the next 35 years.

Chinese oil companies are present in every Latin American country that exports oil and gas, with the exceptions of Mexico (where the sector is closed to foreigners) and the Plurinational State of Bolivia. Conversely, Chinese mining investments are much more concentrated. Although there have been many small-scale investments in exploration projects around Latin America, all the large investments are in Peru and Brazil.

All the Chinese investments in Peru, with the exception of an iron-ore mine bought in 1992 by steelmaker Shoughan, took place after 2007. Currently there are at least four large investment projects owned by Chinese companies in Peru, although only one of them (owned by Chinalco) is at an advanced stage of development (see table 3). Chinese companies are responsible for one quarter of all projected investments in mining in Peru, but only Shoughan currently extracts minerals and only Chinalco is actually building a mine. This highlights the challenges that these companies face in developing ambitious projects in a complex environment very different from their home country.

Table 3

Major investments by Chinese mining companies in Latin America, 1990-2012

(Millions of dollars)

Company	Country	Year of entry	Estimated investments to date
Shougang	Peru	1992	453
Chinalco	Peru	2007	2 762
Zijin (45%), Tongling (35%) and Xiamen (20%)	Peru	2007	190
Minmetals (60%) and Jiangxi (40%)	Peru	2008	730
Nanjinzhao	Peru	2009	100
Wuhan Steel	Brazil	2010	400
East China Mineral Exploration	Brazil	2010	1 200
China Niobium	Brazil	2011	1 950

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of company reports, Bloomberg, FDI Markets, official data from the countries and Heritage Foundation.

While all Chinese companies in Peru are operating their mines on their own (or in partnership with other Chinese companies), in Brazil they have taken minority stakes in existing operations, in partnership with local companies.

Chinese companies have invested heavily in oil and mining extraction in Latin America but they are not the largest transnational corporations in the region, nor do they dominate any particular industry or country. Nevertheless, they have attracted much attention from governments and civil society, for two main reasons. The first is that most of them have arrived very recently, and almost at the same time. With the sole exceptions of Shoughan and CNPC, all of them have arrived in Latin America in the past five years and are therefore relative newcomers to their host countries. Indeed, some of them do not have a long experience operating projects outside China.

The second reason for the attention large Chinese companies in this sector have attracted is that they are all State-owned. This is by no means unique to China; many transnational oil and gas corporations are

State-owned —such as Petrobras, Total or Statoil. But investments abroad by Chinese companies have been criticized and even blocked for this reason in the United States. In fact, the entry mode and investment strategies of Chinese companies in Latin America are no different from those of other companies. Both oil and mining companies are in the business of acquiring reserves of oil and metals that can be exploited and can offset their exposure to world prices (Pérez Ludeña, 2012).

Beyond oil and mining, many Chinese companies have shown an interest in investment in agriculture and forestry, although the sums involved have been much more modest and the information on them very limited. Still, Chinese investments can have a large impact on local communities (like the timber industry in the Peruvian Amazon region), and for this reason they have been scrutinized very carefully by governments and civil society, especially in relation to land ownership. The threat of a massive influx of Chinese investors has prompted a review of the current, relatively lenient policies on land ownership by foreigners. The Government of Brazil passed a decree in 2010 to clarify the existing regulation, restricting and limiting the purchase of land by foreigners, and similar initiatives were taken in Uruguay and Argentina. In this last country an ambitious project by Heilongjiang Beidahuang Nongken to buy 300,000 hectares of land and invest up to US$ 1.5 billion in agricultural development was suspended owing to political pressures.

D. Infrastructure needs and capacities

For over two decades, China has invested more than any other country in all types of infrastructure. Beyond the impact that this had in the Chinese economy and society, these investments have permitted Chinese engineering and construction companies to develop capacities (financial, logistical and technological) that could be exploited abroad. A recent survey by the China Council for the Promotion of International Trade (2010) showed that construction companies were the least internationalized but had the greatest plans to increase their FDI in the near future.

Meanwhile, Latin American countries have large infrastructure needs and, often, lack the capital and expertise to meet them. However, Chinese FDI in infrastructure has been relatively modest so far, despite the fact that many Latin American governments actively seek out Chinese investments in this sector.

There are three access routes to infrastructure investment: acquiring existing assets, engaging in contracts tied to government finance and participating in competitive tenders. The first is the fastest way to increase size and market share, and it is the most appropriate method for more heavily regulated industries. Only the electricity transmission company State Grid has followed this route in Latin America: it acquired assets in Brazil for US$ 1.7 billion in 2010, followed by another acquisition for US$ 940 million in 2012, both from Spanish companies.

The second entry route usually involves a loan (on more or less concessional terms) from a Chinese State-owned bank to a Latin American government entity for the construction of a particular piece of infrastructure on the condition that the work is carried out by a Chinese company. The largest of these deals in Latin America have been carried out by Sinohydro in Ecuador and the Bolivarian Republic of Venezuela to construct power plants, but there are many other examples, especially in smaller economies.

Engineering and construction contracts for private companies are also common among Chinese companies, especially those with higher technological capacities. Among them are Huawei and ZTE, both manufacturers and installers of telecommunications equipment. Both have a presence in the region’s largest countries and have been awarded contracts to build telephone networks. Although the equipment is manufactured in China, these firms have built up a strong customer service capacity in several Latin American and Caribbean countries and even a research and development centre in Brazil.

The second and third routes are not officially considered FDI, as the piece of infrastructure built is not kept as an asset by the foreign company, but is treated as an export of goods and services. However, these are very often important ways for Chinese and other international companies to bring capital and technical knowledge into host economies.

E. Manufacturing investments are concentrated in Brazil

Manufacturing attracts the largest number of investment projects from Chinese companies in Latin America, even if the amounts invested cannot compare with those of the extractive industries (see table 4).

Table 4
Major investments by Chinese manufacturing companies in Latin America, 2000-2012
(Millions of dollars)

	Sector	Companies	Investments
Brazil	Automotive	Chery, JAC	355 25
	Motorcycles	CSIG, CR Zongshen	209
	Appliances	Gree, Midea	266
	Electronics	Lenovo	141 63
Mexico	Electronics	Lenovo	40
	Steel	Golden Dragon	50
	Automotive	Nexteer	50
Uruguay and Venezuela (Bolivarian Republic of)	Automotive	Chery	230

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of company reports, Bloomberg, FDI Markets, official data from the countries and Heritage Foundation.

Most investments in manufacturing target growing local markets, as opposed to exporting to third countries or even back to China. Chinese companies typically open a production plant following years of importing their products from China, either to gain proximity and understanding of the local market or to circumvent import restrictions. Most of these operations are in Brazil, which is the region's largest market and one of the most regulated in terms of tariffs, import restrictions and local content rules.

Many of the plants assemble components that the same company produces in China and source locally only the minimum necessary to comply with local content regulation. Reliance on imported components from China is key for many Chinese manufacturing subsidiaries in Brazil. In 2011 the Government of Brazil increased the tax on cars with less than 65% local content by 30%, and as a result JAC temporarily suspended the construction of its factory there (CBBC, 2013).

As with other sectors, most Chinese manufacturing companies are new to the region. Most of them arrived after 2010 and a large majority made investment announcements that have failed to materialize. The most notable exceptions are the air-conditioning equipment manufacturer Gree, which has been present in Brazil since 1998, and some motorcycle manufacturers which have been operating in the industrial zone of Manaos for several years.

The automotive industry is where most Chinese investment projects have taken place. Over the past six years, Chinese carmakers have announced investments worth almost US$ 6 billion. In some cases, the investments were dropped altogether when market conditions changed (as in the case of FAW automobiles in Mexico) and in many other they have been repeatedly postponed. To this date Chinese companies produced a very limited number of cars in Latin America.

All of these cases show that it takes some time for Chinese companies to become familiar with the Latin business environment. They can find it very difficult early on, and have a high possibility of failure before finally finding the chance to survive and grow.

While Brazil's manufacturing sector attracts large amounts of FDI (from many sources) mainly to produce for the domestic market, in Mexico and, to some extent, in Central America, transnational corporations produce manufacturing goods for export, mostly to the North American market. For the most part, Chinese manufacturing companies prefer to maintain their manufacturing base in China and therefore they have a very limited presence in Mexico and even less in Central American and Caribbean countries. Those with a presence in Mexico entered that market as part of a strategic asset acquisition strategy, when they took over companies based in the United States that owned manufacturing plants in Mexico. These were the cases of Lenovo in electronics and Nexteer in autoparts.

As Chinese manufacturing companies develop, they may find that establishing production plants in Mexico is a good strategy to serve the United States and Latin American markets, especially given that manufacturing wages in China have practically converged with those in Mexico.

F. Conclusions and perspectives

Economic relations between China and Latin America have become very strong in the course of the past decade. China is now a key trade partner for Latin American countries and in the past few years Chinese companies have begun to invest in Latin America, as well.

From China's perspective, Latin America is a distant region, with which it shares few historical links and in which the language, culture and business environment is unfamiliar. Since companies tend to start their international expansion investing in the countries that are closest to their home (geographically but also historically or culturally) it is only natural that Chinese companies have a smaller presence in Latin America than in other regions.

The relationship is even weaker in the other direction: there are very few investments by Latin American companies in China. Although this aspect has not been covered here, it may be expected that as Latin American corporations grow and develop they will move beyond investing in other Latin American countries and start opening operations in China.

Most Chinese direct investments in the region date only from 2010, and many of them have encountered implementation problems due to the great differences in business environments between the two regions. Nevertheless, Chinese FDI has a relevant presence now and, more importantly, it is likely to grow in the future, given China's size and increasing importance in the world economy. Latin American countries should analyse how different, if at all, FDI from China is, in order to produce the most appropriate policy response to a phenomenon that is likely to become more important over the coming decades.

Chinese companies have certain specific advantages, especially their size and access to financial resources. They represent a new source of capital for long-term financing and an alternative to traditional sources. They are also rapidly upgrading their operational and technological capacities and have become very competitive in certain key sectors of manufacturing and infrastructure.

On the other hand, Latin America offers many advantages as a location for FDI, beyond the natural resource availability which has so far been the focus of the largest investments from China. It has a large and growing middle class that demands modern goods and services, and some countries have proved to be an efficient export platform for world markets. Above all, Latin America has maintained a consistently open regime for FDI for the past two decades.

This openness has extended to Chinese FDI as well. Despite some concerns, Latin American governments have not raised hurdles to Chinese investments, with the sole exception of land ownership rules for investments in agriculture.

Governments, business and civil society in Latin America should reflect on what type of FDI is needed to pursue their countries' development objectives and make efforts to improve local conditions and policies to attract the type of FDI they need. At the same time, Chinese companies should be aware of wider range of location advantages and the national development trajectories of Latin American countries, and find appropriate ways for investing to achieve win-win situations for Latin America and China in future.

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