Working Group on Development and Environment in the Americas

Discussion Paper Number 33

Chinese FDI in Latin America: Does Ownership Matter?

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November 2012

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Executive Summary

Ownership matters when it comes to Chinese overseas foreign direct investment (OFDI) in Latin America and the Caribbean (LAC) during 2000-2011. Chinese OFDI is a new global trend that will continue to increase by leaps and bounds into the future. How will economies respond to this profound and aggressive investment growth in the future? Will laissez-faire, protectionism or ignorance prevail? No country in the world neither China itself, nor the US or Mexico will be able to isolate itself from this global trend. Do we understand the source and characteristics of Chinese OFDI?

Despite the burgeoning amount of new research on the China-Latin America relationship, there have been few concrete studies on China's OFDI. This paper helps to fill that gap and finds that China's OFDI is qualitatively different than the rest of foreign direct investment (FDI) in the region.

In recent history, there is no single country that has undergone such a profound level of structural change as China from massive capital importer to a capital exporter. China's OFDI shows additional characteristics that are different to the rest of the world's FDI: there are a group of state-run institutions – from the central government down to local institutions - that provide catalogues and guidelines that allow or reject for products, processes and specific OFDI from the private and public sectors. Thus, OFDI in China is not permitted unless given approval by powerful public institutions such as the National Development and Reform Commission, among several others. This in part explains why China has the largest share state-owned transnational enterprises - 26.7 percent of total public FDI in 2010 - in contrast to most of the world's FDI.

This analysis focuses on China's OFDI in Latin America during 2000-2011, and concludes that Latin America and the Caribbean (LAC) has become the second largest recipient of Chinese OFDI during this period. Additionally, 87 percent of the OFDI in LAC came from public companies (contrasted with only 13 percent coming from private firms) and 99 percent of the public OFDI was concentrated in companies and processes involving access to raw materials and energy (while only an estimated 8 percent of the private OFDI was focused in this area). In conclusion, there are widespread implications regarding the ownership of Chinese OFDI in LAC and other parts of the world, including legal, economic and political challenges in the respective recipient nations.

Introduction

This paper is based on two important facts concerning Chinese foreign direct investment (FDI) from a Latin American perspective. First, there is a coherence amongst Chinese public sector policies, including those aimed toward the attraction and outflow of FDI and OFDI (overseas foreign direct investment), which creates a certain political coherence that China has used in an attempt to strengthen aspects of its economy considered to be strategic in the long run. These policies include economic growth to promote an increase in employment and quality of life, as well as greater efficiency in the use of raw materials (Nappoleoni 2011, 2012). This coherence stands in stark contrast to what we see in a large part of Latin America and the Caribbean (LAC), where innumerable contradictory policies and instruments exist simultaneously with one another. For example, incentives and budget allocations for science and technology are granted, as well as funding for industrial innovation, while at the same time tariffs are reduced and exchange rates are overvalued, encouraging the import of the exact same products and processes which are meant to be developed and promoted domestically. Secondly, China has significantly increased its OFDI as a means of reaching its aforementioned goals, currently making it the second-largest exporter of capital in the world - with 8.5 percent of the total worldwide in 2010 (vis-á-vis the 18.35 percent of the United States). China has also been one of the main exporters of capital since the international economic crisis of 2007-2008 (Bittencourt, Dussel Peters, et al. 2012; UNCTAD 2012). Taking these numbers into account, it makes sense that the flow of Chinese OFDI is significantly affecting LAC. Until recently, it should be noted, Chinese FDI did not play an important role in LAC and its effects were largely insignificant. That being said, the former might be considered as a "second phase" of research, i.e. FDI beyond trade, in the relationship between LAC and China.[1]

This paper argues that Chinese OFDI is qualitatively different from other FDI. Until now, studies done by national and regional institutions like the Organization for Economic Co-operation and Development (OECD), the World Bank, the Inter-American Development Bank (IDB), and the Economic Commission for Latin America and the Caribbean (ECLAC) have focused primarily on quantitative and descriptive aspects of foreign direct investment. A more detailed analysis would likely show, however, that Chinese FDI needs to be treated differently from other FDI in terms of its place of origin, as well as its different effects. The results, as we will see, are not only relevant from a conceptual perspective in the second decade of the 21st century, but also from a political-economic perspective and in the "dialogue" between LAC and China. Furthermore, these results will be relevant for other countries receiving Chinese OFDI. A series of studies have been done on Chinese OFDI in the United States and European Union (Davies 2012; Kolm and Tilman 2012; Meunier and Hanemann 2012), although in general the results are merely descriptive and lack specific political analysis and proposals, as we will discuss in the conclusion of this paper.

[1] With this relationship in mind, the Latin American and Caribbean Academic Network on China –Red Académica de América Latina y el Caribe sobre China (RED ALC-CHINA)- was established at the end of May 2012.

Based on the discussion above, this paper will be divided into three sections. The first section will discuss the most pertinent outcomes of Chinese OFDI in LAC and will particularly focus on the Chinese institutions and criteria involved in the approval or rejection of overseas operations. The second section will analyze the general characteristics of OFDI from 2000-2011, specifically on OFDI centered in LAC. This information is important contribution that it allows us to verify the main tendencies and characteristics of this OFDI based on the type of firm (public or private), by sector, and country. The third section presents the main findings of the aforementioned analysis, as well as contrasting the main outcomes of this analysis with other existing studies.

1. Policies Oriented toward the Attraction of FDI to and from China

It is clear from a Latin American perspective that the Chinese public sector - in all of its complexity regarding its central government, provinces, cities, and municipalities - has pursued, with a great level of coherence, a national strategy for the short, medium, and long term in multiple arenas. These policies include agriculture, manufacturing and services, foreign trade, and scientific and technological innovation, the majority of which are well funded and supported on an institutional level (USITC 2007).[2] This coherence is significant due to the fact that in the majority of Latin American cases, we do not see even a general strategy for the short, medium, and long term, much less one that is specifically geared toward the attraction of FDI (Dussel Peters, et al., 2007).

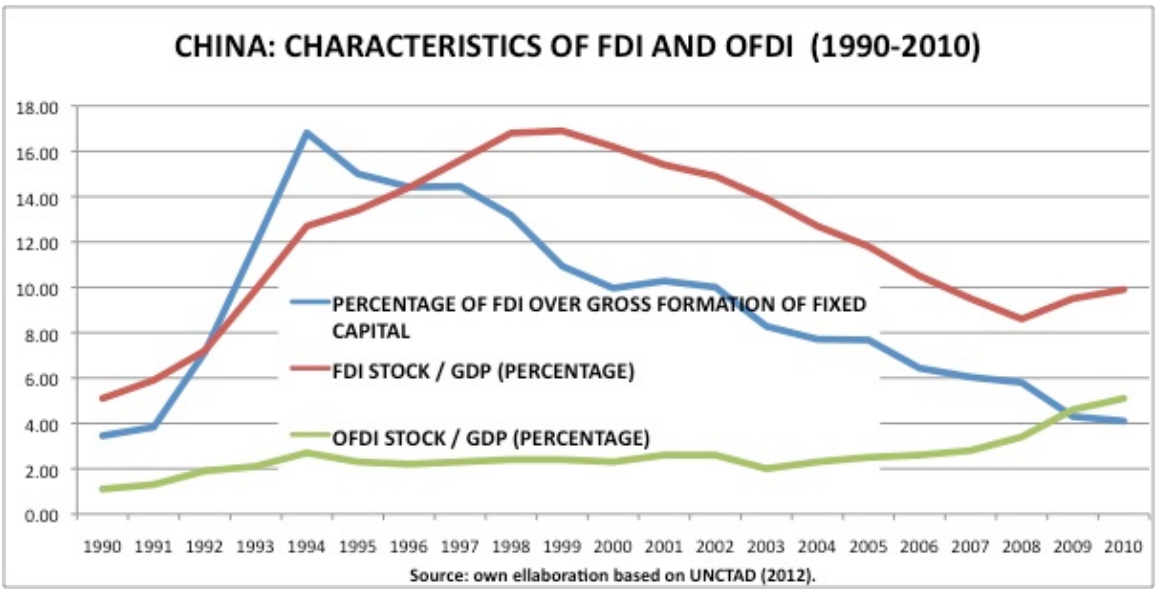
Previous studies (Bittencourt and Dussel Peters et al., 2012) have come to a series of relevant conclusions on this matter:

a. The previously mentioned general strategy for the Chinese public sector does not only manifest itself in multiple mechanisms and instruments which encourage Chinese exports, but also specifically in attracting FDI. Since 1993, China has become the main recipient of FDI out of all of the developing countries, with increasing levels of FDI / gross capital formation exceeding 5 percent by the mid-1990s and 10 percent for the period 1993-2002.

b. The attraction of FDI to China, however, slowed down during the period 1990-2010: during the 1990's - in 1994 with respect to FDI in terms of gross fixed capital formation and in 1999 with respect to FDI stock in terms of the China's GDP (see Graph 1) - the FDI coming into China reached its historic maximum. In other words, FDI during this period reached a certain degree of "saturation", and while the absolute flows of FDI into China continue to increase, both the gross fixed capital formation and the GDP continue to increase at an even greater rate, reflecting the dynamic of domestic growth since then.

[2] In 2006, the USITC (2007) identified hundreds of public instruments focused on industrial development, rationalization and privatization, supervision and administration of state-owned enterprises (SOEs), coordination of prices and profit rates, development of infrastructure, research and development, fiscal policies oriented toward the banking, industrial, and financial sectors, tariff and non-tariff barriers on imports, training programs for workers, etc.

Chart 1:



c. In addition, the total FDI coming into China seems to have stabilized after the 2007 crisis in terms of its absolute amount, but OFDI has increased significantly. The OFDI/FDI coefficient increased from less than 5 percent to 26.9 percent throughout the 90's up until 2007. Since then, it has remained at over 50 percent, reaching 64.31 percent by 2010 (see Table 1). Official Chinese sources estimate that by 2015, OFDI leaving China will surpass FDI coming in (Davies 2012).

d. The study by Bittencourt and Dussel Peters, et al. (2012) confirms a series of additional results regarding Chinese OFDI:

   i. There are significant statistical problems regarding the total FDI coming into China and the total OFDI leaving from it. This discrepancy is due to the fact that historically, and up until the present day, Chinese businesses and households have utilized external channels - whether through foreign transactions and/or informal and illegal exports - in order to reinvest the benefits gained from FDI back into China. This is a critical issue: from 2003-2009, 58 percent of Chinese OFDI went to Hong Kong, the Cayman Islands, and the Virgin Islands. These numbers are particularly problematic when we consider Chinese OFDI in LAC. According to official Ministry of Commerce (MOFCOM) figures for those same years, the Cayman Islands and the Virgin Islands represented 97 percent of Chinese OFDI in LAC (a total of 33.6 billion dollars in OFDI to LAC. If both tax havens are excluded, the total comes out to 1.1 billion dollars).

   ii. From 2004-2009, Chinese OFDI was principally concentrated in lease agreements and business services (34.77 percent), mining (21.12 percent), and the financial sector (14.04 percent), while the amount that has gone toward manufacturing (6.04 percent) remains secondary.

iii. Including the tax havens, from 2004-2009, Venezuela, Brazil, Argentina, and Peru were the principal recipients of Chinese OFDI at the company level, according to MOFCOM.[3]

iv. Until 2009-2010, Chinese OFDI underwent a rapid learning process, particularly in the case of LAC. It was estimated that OFDI in the region would increase rapidly and with a clear framework: from 2000-2010, 87 percent of the OFDI went toward projects involving energy and raw materials and 13 percent was allocated to the domestic market. However, Chinese OFDI in the realm of manufacturing and export markets, as well as technological access, was almost non-existent.

Table 1
China: main aggregated characteristics of FDI and OFDI (1990-2010)

	1990	1995	2000	2005	2006	2007	2008	2009	2010
FDI to China ($millions)	3,487	37,521	40,715	72,406	72,715	83,521	108,312	95,000	105,735
percentage over total FDI (flow)	1.68	10.95	2.91	7.34	4.98	3.98	6.12	8.53	8.92
percentage over gross fixed capital formation (flow)	3.45	15.00	9.96	7.68	6.43	6.04	5.80	4.30	4.10
stock of OFDI / GDP (percentage)	5.10	13.40	16.20	11.80	10.50	9.50	8.60	9.50	9.90
China's OFDI ($millions) (flow)	830	2,000	916	12,261	21,160	22,469	52,150	56,530	68,000
percentage over FDI (flow)	23.80	5.33	2.25	16.93	29.10	26.90	48.15	59.51	64.31
percentage over total OFDI (flow)	0.34	0.55	0.07	1.37	1.50	0.99	2.70	4.36	5.14
percentage over gross fixed capital formation (flow)	0.82	0.80	0.22	1.30	1.87	1.62	2.80	2.60	2.60
stock of OFDI/GDP (percentage)	1.10	2.30	2.30	2.50	2.60	2.80	3.40	4.60	5.10

Source: Own ellaboration based on UNCTAD (2012).

In general terms, in addition to massive funding from the predominantly public banking system, the principal measures that have been taken to promote exports are linked closely with a flexible monetary policy and a competitive exchange rate. Furthermore, many measures are linked to the promotion of science and technology, as well as industrial upgrading to stimulate higher value-added processes (OMC 2010/a; Zhang and Gang 2010). Second, we also see that aside from the export-promoting initiatives of the central government, there are numerous measures which have been decentralized and regionalized as a result of China's adherence to the World Trade Organization (WTO) since 2001 (Dussel Peters 2005/a). For some institutions, however, such decentralization has in fact permitted new forms of protectionism and created new trade barriers (WTO 2010/b:13).[4]

In terms of policies implemented to attract FDI and stimulate OFDI, China has taken a diverse array of concrete measures. During the 1990's and even until today, the Chinese public sector - in its various territorial dimensions - was able to attract FDI on a large scale. This FDI has come in various forms, and has been particularly channeled toward a

[3] Information sources will be examined in detail in the next chapter.
[4] In all such cases, the public sector, the National Development and Reform Commission (NDRC), and the State Council play a critical role. Such is the case with the policy on science and technology (Bittencourt, Dussel Peters et al. 2012), the National System of Accreditation for Products of Indigenous Innovation ("indigenous innovation") (Kennedy 2010), and technological upgrading in value-added terms through these institutions themselves as well as the MOFCOM.

process of scaling and knowledge acquisition by means of joint investment and purely foreign investment in areas considered strategic by the public sector (Wu, 2005). Since the early 2000's however, such measures have proven insufficient to support this learning process and, depending on the specific sector, have required the use of new foreign technology, access to new markets, and integration into a new era of the global marketplace. Having been a substantive part of the reform process initiated in the 1980's, as well as the learning processes mentioned above, China's FDI attraction policies have nevertheless played a functional role in these areas. As we will see shortly, China has been one of the most successful countries in the world at attracting FDI since the 1990's, due in large part to a group of policies explicitly linked with FDI. The Special Economic Zones (SEZ's), as well as sectoral and territorial mechanisms, have played a significant role in this attraction.[5]

Particularly since the second half of the 1980's and into the 1990's, the Chinese public sector offered huge incentives to foreign companies, favoring them by way of lowered taxes and a diverse array of policy instruments designed to advance their operations in China. Companies run with 100 percent foreign capital, however, were not permitted unless they allowed their products to be exported and/or they developed advanced technology (Ali and Wei 2005; Guoqiang 2005). In the case of FDI, specific requirements were set in place regarding the transfer of technology - particularly in import industries (such as the automotive industry) - from which exports were exempt (Yan 2009). China's adherence to the WTO at the end of 2001, however, entailed the gradual dismantling of instruments such as varying tax rates and project evaluation criteria based on investment nationality and saw increased openings for a growing number of FDI sectors (OECD 2003; WB 2004).

Considering that FDI in China has fallen as much in proportion to China's GDP as it has in relation to its capital stock - despite the total flows of FDI that we will analyze below - there are currently a series of specific measures being implemented to attract FDI (WTO, 2010a/b; Zhang et al., 2010; Zhang and Gang, 2010):

a. Important improvements in the FDI approval system, as well as an increasing decentralization of these procedures since 2005, in which cities and provinces are playing an increasing role.

b. Reinforcement of industrial projects which have been prioritized by the public sector into strategic areas linked to FDI attraction. These projects are increasingly oriented toward Chinese businesses and the domestic market in order to encourage internal demand, strengthen the dynamic of the service sector and a higher value-added manufacturing process, and promote generalized scaling alongside a massive process of urbanization.

[5] Zhang and Gang (2010) show that exports from SEZ's increased from less than 10% in the 1980's to more than 50 percent in the second half of the 1990's. Since then, this number has decreased to less than 50 percent of all total exports.

c. Reorient FDI to regions beyond China's coastline, particularly to the central and western regions, in order to disperse the flow of FDI to a wider range of territories.

The strategies mentioned above are currently reflected in a series of specific policy instruments, as well as in the Twelfth Five-Year Plan (2011-2015) (Davies, 2012). First, over the last decade, various changes have been made to the "Catalogue of Industries for Guiding Foreign Investment",[6] as well as to the "Catalogue of Priority Industries for Foreign Investment in the Central and Western Regions". These modifications embody the central government's main priorities with respect to FDI. The "Catalogue of Industries for Guiding Foreign Investment" presents a list of industries that are encouraged, restricted, or outright prohibited. Industries not falling into any of these categories are permitted as long as the public sector continues to offer increasing incentives to bring FDI to regions outside of China's coastal zone. Despite a slow decentralization process, the public sector and particularly the central government continues to define and regulate the majority of FDI coming into the country. For instance, the State Council defines the industries in both of the catalogues above, and projects that are "encouraged and permitted" which exceed 100 million dollars must be approved by the National Development and Reform Commission (NDRC) and MOFCOM. Restricted projects that exceed 100 million dollars must be approved by these same entities. Any other projects are examined, evaluated, and approved or rejected by local authorities. Secondly, both domestic and foreign companies must pay the same taxes,[7] and there are no significant differences in other tax-related matters. Since 2008, all companies must pay a 25 percent income tax.[8]

Thirdly, there are differences between domestic and foreign businesses regarding the incentives granted to them by the central government, and, above all, by the cities, provinces, and municipalities.[9] At the national level, for example, MOFCOM promotes FDI through the Investment Promotion Agency,[10] as well as through trade shows, scientific and technological exhibitions, etc.

All of these policy changes suggest that the attraction of FDI will continue to be an important priority for China, despite the fact that its quantitative importance has

[6] Here we are referring to the catalogues from 2007 and the most recent from 2011, which will take effect on January 30, 2012 (MOFCOM, 2011).

[7] The only exception is the maintenance and construction tax in cities which are only required to tax Chinese companies.

[8] As a result of this tax agreement, the new law planned for a transitional period into 2011 for those foreign businesses paying a 15 percent income tax. Gradually, the rate was increased to 25 percent until 2011.

[9] The majority of incentives are given through income tax reductions, and to a lesser extent through value-added tax reductions (a "horizontal" approach, non-discriminatory toward capital based on its country of origin). For example, these types of incentives are given to micro, small, and medium-sized businesses, as well as investments in developing regions and areas prioritized by the public sector, such as agriculture, environmental protection, renewable energy, and advanced technology. The prioritized spheres pay a 15 percent income tax. We also see, however, that FDI benefits from investments made in SEZs. In those cases in which FDI was realized in SEZs after January 1, 2008, for example, income tax payment was not required for the first two years, and was set at 12.5 percent afterwards (WTO 2010/b:51).

[10] See: http://www.fdi.gov.cn/pub/FDI_EN/News/MofcomECIPA/default.htm

diminished since the mid-90's. While this decrease is a result of diverse trends, China's continuing reorientation toward the domestic marketplace since 2007-2008, economic growth (which means a decrease in the importance of FDI), the appreciation of the renminbi, the increase in Chinese salaries, and an enhanced competitiveness in the global market are of particular importance. Such changes indicate that FDI in China will grow much more slowly than it did during the 1990's, but it is not expected to decrease. From the perspective of the public sector - and the policies implemented over the last five years are very clear in this respect - the composition of FDI in China is due for a change: greater investment in those spheres prioritized by the public sector in order to promote higher value-added products and processes, along with an emphasis on advanced technology and modernization of services.

On the other hand, it is important to recognize the increasing political difficulties of maintaining significant Chinese export growth. However, OFDI allows for the establishment of economic ventures abroad without the need to export products solely from China. Additionally, China's enormous reserves - estimated at more than 3 trillion dollars in 2011 - along with the appreciation of the renminbi in recent years, make the purchase of foreign assets, and/or OFDI in all of its varying forms, an attractive option.
Currently, the main instrument used by the central government to promote OFDI is the "Going Global Strategy". Initiated at the end of the 1990's, it continues to be a valid strategy for fulfilling macroeconomic as well as microeconomic objectives, such as reducing international reserves and obtaining new technologies, raw materials, and energy sources. In March 2009, the Rules for the Administration of Overseas Investments were enacted, and since May 2009 the MOFCOM has delegated to provincial authorities the power to examine and approve OFDI projects. Even in cases regarding larger, politically sensitive projects, MOFCOM must provide an evaluation of the project within 30 business days and the provincial authorities must come to a final decision within 20 business days.[11] Of particular importance is the fact that OFDI will not have restrictions on the purchase of foreign currency, and institutions such as the China Investment Corporation plan on investing part of their funds - with assets totaling around 200 billion dollars - overseas (WTO 2010/b).[12] It is important to remember that: 1) if historically there have existed methods of regulating OFDI, with the "Going Global Strategy," companies are now actively helped, if not pressured, to engage in OFDI; 2) Historically, companies that have engaged in OFDI have enjoyed significant incentives, such as being exempt from value-added tax for five years, as well as receiving funding from the Export-Import Bank of China (EIBC), the NDRC,[13] and the Credit Insurance Company

[11] The NDRC is the institution that defines the Board on Chinese foreign investment, while MOFCOM - both in the central government and in the provinces - plays the critical role of approving OFDI projects and ultimately granting the Investment Certification.
[12] Gallagher, Irwin, and Koleski (2012) estimate that China invested around 75 billion dollars in LAC from 2005-2010, particularly through the China Development Bank (82 percent of the total), the EIBC (12 percent), and the ICBC (Industrial and Commercial Bank of China) (6 percent).
[13] After 2005, the NDRC established strategic priorities for OFDI support: a) exploration of raw material projects in order to prevent a shortage in the domestic market, b) infrastructure and production projects that allow the export of technologies, products, and equipment from China, c) scientific and technological projects which would allow the use of advanced international technology and make use of talent and administrative experience, and d) the fusion and acquisition of companies and projects overseas - a diverse

(SINOSURE) in order to ensure the continuation of overseas projects at preferential rates[14] (Berger, 2008); 3) as a result of the global financial crisis, since 2008 the Chinese Banking Regulatory Commission has permitted commercial banks to directly finance all foreign purchases and transactions; and 4) paralleling its domestic incentives, China has promoted bilateral investment treaties and double taxation agreements - a total of 127 and 112, respectively - congruent with increasing levels of OFDI (Davies, 2010/b).

As a result of the diverse array of instruments of OFDI promotion, it is required that every OFDI project be approved by the NDRC. This approval process includes Chinese companies established in China as well as their foreign subsidiaries, and projects exceeding 200 million dollars, which, even after their approval by the NDRC, must be agreed upon by the State Council.[15] It is clear that the function of the NDRC is to coordinate and encourage OFDI through specific processes, which is why the NDRC demands to be informed of all negotiations with overseas counterparts and - contrary to a merely informative process - have the final say regarding OFDI approval (RBS, 2009). The NDRC is explicitly understood to be an "expedited coordinator"[16] in the event that multiple Chinese companies show interest in the same OFDI project.

This process of orienting investment toward foreign markets with a particular emphasis on higher value-added practices will continue to be promoted until the year 2020 at least, as is affirmed in China's Twelfth Five-Year Plan. The plan allows for the growth of new industries (such as those involved in environmental protection, advanced machinery, state-of-the-art information technology, renewable energy, new materials, and alternative energy for automobiles), given that the contribution of these industries to China's GDP could increase from 5 percent now to 8 percent in 2015 and 15 percent in 2020 (DRC 2010/a; Melton 2010; RBS 2009). All of this seems to indicate, therefore, that the Chinese authorities will continue this process for the short, medium, and long term.

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range of OFDI - which would increase competitiveness, presence, and recognition in international markets (RBS, 2009).

[14] While an investment proposed to the NDRC can be found in the catalogue of products and sectors, and projects currently exceeding 1 billion dollars must be approved by the NDRC and the State Council, Chinese businesses count on the financial support of the EIBC and the China Development Bank, as well as the guarantee of SINOSURE to reduce risk for Chinese companies. In concrete terms, these policies mean that only 30 percent of the funding must be obtained directly by the company, while the rest can be secured through the above-mentioned banks by means of privileged interest rates, fiscal periods, and loans.

[15] In the NDRC, project proposals are reviewed by two different departments: the Department of Foreign Capital and Overseas Investment (which, until the name was changed to reflect the growing importance of OFDI, was called the Department of Foreign Capital Utilization), and the Department of Economic System Reform.

[16] In RBS (2009), the initial steps that a Chinese company must follow in order to realize a potential OFDI projec are outlinedt. Generally, companies have no more than 25 business days to complete the initial steps, although in some cases the NDRC has approved a project in two days depending on the specific type of OFDI. The NDRC itself has said that it has no interest in interfering with or participating in project negotiations, but a it will verify the strategic relevance of a project in conjunction with the catalogues and ensure that it does not contradict national policies regarding increased energy consumption or pollution, for example. This contradiction with national policies on energy consumption and pollution was one of the reasons that the Chinese company Tengzhong Heavy Industrial Machinery was not able to purchase the American company Hummer in 2009.

The trade policies mentioned above are an excellent example of the concrete, detailed, and long-term efforts of China to promote OFDI. Since the initial phases in the 1980's, China was able to link these policies to a general vision of socioeconomic development. In this way, after decades of utilizing innumerable policy instruments and mechanisms, China was able to find those which were most beneficial in terms of trade and FDI in an array of different regions, sectors, and specific businesses, which will be examined in the chapters to come. There are two aspects of China's strategy in particular which are worth noting: 1) massive public funding granted by the bank to achieve a value-added increase demanded by the country's economic policies, and 2) policies and incentives enacted in the early 2000's - specifically those involving direct financing - designed to promote the flow of Chinese OFDI. There are many reasons behind the enactment of these types of policies. Macroeconomic arguments point to China's enormous reserves and the recent debates surrounding the actual exchange rate, while from a microeconomic point of view these policies are hoped to increase the learning curve of Chinese businesses.

2. Chinese OFDI: General and LAC-specific tendencies

With respect to the argument of this paper, it is important to note that contrary to international expectations, state-owned transnational OFDI projects increased from 2003-2010 - from around 89 billion dollars to 146 billion dollars. This increase reflects an average annual growth rate (AAGR) of 7.3 percent. Table 2 shows us that: a) surprisingly, the "developed" countries - particularly those in the European Union - are the ones that exhibit the highest levels of OFDI through state-owned transnational companies worldwide, with 49.96 percent during the period 2003-2010; b) by country, China's involvement has significantly increased, from 12.91 percent of state-owned OFDI in 2003 to 26.7 percent in 2010, followed by France and Germany with 14.22 percent and 7.94 percent in 2010, respectively; and c) the levels of OFDI exhibited by the United States and LAC are minimal.

Table 2
Selected countries: OFDI Projects of Transnational Corporations of State-ownership (2003-2010) (share over total OFDI)

	NUMBER OF TNCs (total = 653)	2003	2004	2005	2006	2007	2008	2009	2010	2003-2010
World	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Developed	**52.83**	**41.54**	**45.00**	**41.19**	**62.62**	**48.61**	**50.49**	**43.91**	**58.82**	**49.96**
Developing	**43.64**	**38.75**	**50.80**	**50.06**	**33.88**	**45.83**	**44.40**	**50.23**	**38.47**	**43.90**
Asia	35.99	29.15	27.42	37.78	60.39	45.59	43.31	40.81	51.11	43.76
Unión Europea	34.15	32.39	36.83	41.93	29.75	28.47	38.98	45.11	34.69	35.99
China	**7.66**	**12.91**	**5.85**	**7.41**	**10.30**	**11.35**	**14.70**	**16.92**	**26.70**	**13.83**
France	4.90	8.03	11.47	18.87	5.65	7.78	15.32	21.77	14.22	13.05
Arab Emirates	3.22	0.50	0.27	15.85	27.95	14.47	12.80	12.10	3.92	12.31
Germany	**2.76**	**14.29**	**11.39**	**8.16**	**5.36**	**5.54**	**4.53**	**5.97**	**7.94**	**7.06**
Russian Federation	2.14	19.66	4.19	8.69	3.48	4.79	4.85	5.85	2.61	5.94
Nowary	4.13	3.19	11.59	7.26	3.20	5.62	4.41	3.46	1.53	4.70
Italy	0.92	2.16	5.29	5.64	4.39	4.79	3.46	6.21	3.24	4.42
Malaysia	6.89	5.55	1.50	2.33	1.26	2.29	2.18	1.69	13.60	3.62
Latin America and Caribb	4.29	8.88	1.52	2.32	1.95	2.28	5.02	1.63	5.38	3.47
India	3.06	3.20	6.28	3.30	8.54	0.58	2.05	3.06	0.33	3.19
Africa	12.56	3.52	16.06	1.09	0.28	0.75	2.15	1.47	2.33	2.73
Brazil	1.38	6.02	1.13	2.16	1.07	1.33	4.34	1.41	3.99	2.61
Mexico	0.15	0.30	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02
Argentina	0.31	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Peru	0.15	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Costa Rica	0.15	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: own ellaboration based on UNCTAD (2012).

Table 3 reflects the differences in the composition of OFDI based on country and in terms of the coefficient of state-owned transnational OFDI projects over total OFDI. Put

another way, it is the approximate ratio of instances of state-owned capital export to total OFDI worldwide.[17] Given this specific relationship, there are three points worth mentioning in the table below: a) OFDI directed by state-owned companies made up 11.39 percent of the total OFDI from 2003-2010, b) there is a huge discrepancy between the coefficient of the "developed" countries and that of the "developing" countries - 6.2 percent of the total OFDI compared to 34.35 percent of the total, respectively - given that Asia and China are part of the latter group, and c) China's state-owned OFDI coefficient represented 67.77 percent of the total from 2003-2010, or more then ten times that of all the "developed" countries combined and 920 times greater than that of the United States.

Table 3

Selected Countries and Group of Countries: Public OFDI / total OFDI (2000-2010) (percentage)

	2003	2004	2005	2006	2007	2008	2009	2010	**2003-2010**
World	15.48	10.28	12.53	11.59	8.62	11.57	14.45	11.01	**11.39**
Developed	**6.66**	**6.11**	**7.42**	**4.78**	**4.70**	**6.37**	**9.98**	**5.99**	**6.20**
Developing	**80.16**	**35.45**	**37.28**	**44.98**	**30.97**	**36.13**	**27.43**	**26.16**	**34.35**
Asia	**110.24**	**28.73**	**48.54**	**64.88**	**38.53**	**43.83**	**31.44**	**30.45**	**41.13**
European Union	**9.83**	**9.35**	**7.64**	**7.02**	**4.45**	**9.51**	**20.62**	**12.41**	**8.77**
China	**401.51**	**101.70**	**66.82**	**79.24**	**94.65**	**62.31**	**50.62**	**57.21**	**67.77**
France	13.42	19.33	18.14	8.32	8.87	21.84	35.75	24.63	**18.31**
Arab Emirates	45.10	11.68	467.16	417.90	186.09	178.86	751.77	283.53	**274.38**
Germany	217.96	53.02	11.89	7.35	6.09	12.99	12.90	11.03	**12.79**
Russian Federation	179.53	29.10	75.22	24.50	19.53	19.28	22.67	7.37	**27.37**
Norway	46.77	208.52	36.54	24.46	77.58	37.50	20.44	18.33	**41.12**
Italy	21.19	26.23	14.91	16.98	9.88	11.42	49.40	22.50	**16.72**
Malaysia	360.01	69.47	83.64	34.05	37.90	32.16	35.99	148.64	**71.17**
Latin America and Caribbe	**37.10**	**5.18**	**7.54**	**4.66**	**6.91**	**13.78**	**6.05**	**10.28**	**9.88**
India	151.50	275.91	122.39	97.34	6.36	23.35	32.48	3.33	**42.58**
Africa	**247.73**	**745.03**	**61.20**	**6.65**	**13.15**	**48.83**	**44.06**	**51.06**	**71.58**
Brazil	2143.44	11.06	95.02	6.17	35.38	46.89	-23.61	50.42	**44.23**
Mexico	21.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.54**
Argentina	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
Peru	0.00	--	--	--	0.00	0.00	0.00	0.00	**0.00**
Costa Rica	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
United States	**0.00**	**0.01**	**0.11**	**0.01**	**0.01**	**0.22**	**0.11**	**0.11**	**0.07**

Source: Own ellaboration based on UNCTAD (2012).

By sector, 2003-2010 reflected a high concentration of state-owned transnational OFDI in mining and oil (with numbers increasing to 50.3 percent of the total in 2010) and a relatively low concentration in the area of manufacturing (showing a decreasing tendency resulting in 16.8 percent of the total in 2010). The service sector, like mining, has demonstrated relative stability in terms of state-owned transnational OFDI participation, making up 40.26 percent of the total from 2003-2010.

Table 4

OFDI Projects of State-owned Transnational Corporations by Sector and Subsector (2003-2010) (share over total OFDI)

	2003	2004	2005	2006	2007	2008	2009	2010	**2003-2010**
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	**100.00**
Primay	**41.18**	**41.08**	**30.80**	**34.21**	**27.25**	**43.72**	**41.24**	**50.30**	**38.64**
Mining and oil	**41.18**	**41.06**	**30.80**	**34.21**	**27.25**	**43.63**	**41.24**	**50.30**	**38.62**
Manufacturing	31.39	30.82	12.77	13.17	33.95	16.48	18.80	16.80	**21.10**
Metals and metal products	6.85	5.91	1.32	1.73	10.12	5.23	2.08	3.60	**4.68**
Motor vehicles and transport equipment	**18.16**	**10.09**	**6.23**	**7.16**	**4.17**	**6.24**	**6.28**	**7.44**	**7.40**
Services	**27.43**	**28.10**	**56.43**	**52.62**	**38.80**	**39.80**	**39.97**	**32.89**	**40.26**
Electricity, gas and water	2.39	6.06	17.81	4.47	7.41	13.06	24.41	9.26	**11.21**
Transport, storage and comunication	18.87	12.82	18.53	24.31	10.90	7.20	9.31	12.71	**13.52**
Business services	1.63	1.27	10.15	17.92	15.52	10.32	1.31	3.35	**8.64**

Source: Own Ellaboration Based on UNCTAD (2012).

[17] It is important to note that this calculation is not completely accurate - in some cases the coefficient is greater than 100 percent - considering that public OFDI projects were taken into account even though these were not necessarily projects that were realized. In other words, many projects that were publicly announced were not implemented. Regardless, this coefficient appears to us to be a valid indicator of the differences and general tendencies regarding the chosen countries.

In what follows, we will analyze information provided by Thomson-Reuters on Chinese OFDI at the company-level from 2000-2011. This data includes information on the total mergers and acquisitions (M&A) carried out by Chinese companies, as well as those specifically realized in LAC. We are provided with amounts of the transactions (acquisition projects), the names of the buyers and sellers, as well as information about the acquired companies. The information on company ownership (public - belonging to the central government, provinces, cities, or municipalities - or private) is a personal contribution. Only those transactions that have already been completed will be included in the analysis, including those realized in tax havens like the Virgin Islands, the Cayman Islands, etc.

The amount of information we have to work with allows for an extensive and in-depth analysis, although with respect to the argument of this paper we will highlight five important tendencies regarding Chinese OFDI in LAC.

First, from 2000-2011 there have been 2,459 OFDI transactions in China, of which 1,325 were completed (only 862 of these show amounts). In LAC, only 95 Chinese transactions have been completed, while of these only 56 show what they are worth (see Table 5).

Table 5
China: Main Characteristics of the Used Data Bank for 2000-2011 (Thomson-Reuters 2012)

	Transaction		Amount	
	Number	Share	$ million	share
Total number of transactions /a	2,459	100.00	375,200	100.00
Realized transactions	1,325	53.88	227,894	60.74
of public firms	460	34.72	189,776	83.27
of private firms	865	65.28	38,119	16.73
Realized, with amounts /b	862	35.05	227,894	100.00
public firms	**312**	**36.19**	**189,776**	**83.27**
private firms	**550**	**63.81**	**38,119**	**16.73**
raw materials, energy, water and gas	297	34.45	124,880	54.80
manufacturing	36	4.18	2,998	1.32
technology	188	21.81	20,455	8.98
domestic market	341	39.56	79,562	34.91
Transactions with Latin America and Caribbean /a	141	5.73	37,100	100.00
Realized transactions	95	67.38	25,565	68.91
of public firms	44	46.32	21,750	85.07
of private firms	61	64.21	3,816	14.93
Realized, with amounts /b	56	39.72	25,999	100.00
public firms	**22**	**39.29**	**22,600**	**86.92**
private firms	**34**	**60.71**	**3,400**	**13.08**
raw materials, energy, water and gas	**22**	**39.29**	**22,770**	**87.58**
manufacturing	3	5.36	77	0.30
technology	12	21.43	286	1.10
domestic market	**19**	**33.93**	**2,867**	**11.03**

/a The data bank informs on transactions in process, planned, failed and realized.
/b For different reasons (confidentiality, low amounts and/or no disponibility) the data bank does not report on the realized transaction.

Source: own ellaboration based on Thomson-Reuters (2012).

Second, Table 6 indicates certain characteristics of Chinese OFDI regarding its value in aggregate terms for the period 2000-2011. Hong Kong was the primary recipient of Chinese OFDI (26.82 percent), followed by LAC (11.41 percent), Canada, Australia, the United States, and Brazil at 9.72 percent, 8.04 percent, 7.63 percent, and 6.41 percent, respectively. The Latin American countries other than Brazil play a secondary role. OFDI

coefficients per transaction are also compared: while for the total Chinese OFDI the amount was 264 million dollars per transaction, in LAC the amount per transaction was 464 million dollars. In industrialized countries like Japan, the United States, and Germany, this coefficient was significantly smaller. Regarding the number of transactions, Hong Kong led with 31 percent of the total transactions, followed by Australia, the United States, and Canada, while LAC barely claimed 4.22 percent (56 transactions) of the total Chinese OFDI in this period.

Table 6
China: OFDI by Country (2000-2011) /a

	Value	Percentage	Number of transactions	percentage	value per transaction
TOTAL	227,894	100.00	862	100.00	264
Latin America and Caribbean	25,999	11.41	56	6.50	464
Angola	923	0.40	3	0.35	308
Argentina	5,550	2.44	2	0.23	2,775
Australia	18,326	8.04	136	15.78	135
Brazil	14,614	6.41	10	1.16	1,461
British Virgin Island	639	0.28	23	2.67	28
Canada	22,154	9.72	69	8.00	321
Cayman Islands	118	0.05	6	0.70	20
France	4,617	2.03	10	1.16	462
Germany	98	0.04	4	0.46	24
Hong Kong	61,128	26.82	298	34.57	205
Italy	775	0.34	5	0.58	155
Japan	1,035	0.45	30	3.48	34
Netherlands	873	0.38	9	1.04	97
Mongolia	175	0.08	8	0.93	22
Mexico	131	0.06	3	0.35	44
Norway	4,829	2.12	5	0.58	966
Russia	3,901	1.71	3	0.35	1,300
Singapore	7,505	3.29	41	4.76	183
South Africa	6,069	2.66	4	0.46	1,517
South Corea	1,420	0.62	14	1.62	101
Switzerland	7,446	3.27	3	0.35	2,482
Taiwan	47	0.02	7	0.81	7
United States	17,388	7.63	76	8.82	229
Rest	69,187	30.36	137	15.89	505

/a Only includes transaction with respective values.
Source: own ellaboration based on Thompson-Reuters (2012).

Third, upon examining the twenty main Chinese OFDI transactions in LAC from 2000-2011, we find a very small number of transactions carried out by private Chinese companies (only eight), as well as a contribution of only 12 percent from this group to the total amount of the twenty main transactions. Tellingly, all of the private Chinese OFDI transactions in LAC were aimed toward the Latin American market, while the other 88 percent of the total amount of the twenty main transactions was invested in public companies with an eye toward access to raw materials (oil, natural gas, etc.).[18]

[18] This discrepancy is very significant with regard to the total amount of Chinese OFDI: of the twenty main transactions, those carried out by private companies barely represented 2.4 percent of the total. Those transactions involved in the market represented 40.5 percent of the total, while those aimed toward raw materials made up 55.8 percent. Transactions in technology represented 3.7 percent.

Table 7
China: Realized OFDI in Latin America by 20 Main Transactions (2000-2011)

	Ownership	Use	Date	Seller	Buyer	Buyer/country	Seller/country	value
1	public	raw materials	10/01/2010	Repsol YPF Brasil SA	Sinopec Group	China	Brazil	7,111
2	public	raw materials	03/14/2010	Bridas Corp	CNOOC Ltd	China	Argentina	3,100
3	public	raw materials	05/21/2010	Peregrino Project,Campos Basin	Sinochem Group	China	Brazil	3,070
4	public	raw materials	12/10/2010	Occidental Argentina Expl	Sinopec Group	China	Argentina	2,450
5	public	raw materials	09/01/2011	CBMM	China Niobium Investment	China	Brazil	1,950
6	public	raw materials	05/16/2010	Expansion Transmissao Itumbiar	State Grid Brazil Holding Ltda	Brazil	Brazil	1,702
7	public	raw materials	09/13/2005	EnCana Corp-Ecuador Assets	Andes Petroleum Co	China	Ecuador	1,420
8	private	market	08/01/2011	GE SeaCo Ltd	Investor Group	China	Barbados	1,049
9	private	market	11/18/2002	Asia Global Crossing Ltd	Asia Netcom Corp Ltd	Hong Kong	Bermuda	870
10	public	raw materials	06/08/2009	MMX Sudeste Mineracao SA	Wuhan Iron & Steel Co Ltd	China	Brazil	400
11	private	market	02/10/2010	Garden Plaza Capital SRL	Skysail Investments Ltd	China	Barbados	328
12	private	market	08/06/2011	UTC-Air Conditioning Bus	Midea Electrics Netherlands BV	Netherlands	Brazil	223
13	public	raw materials	02/02/2004	PlusPetrol Norte SA	CNPC	China	Peru	200
14	private	raw materials	03/28/2008	Willsky Development Ltd	Travel Hunt Holdings Inc	China	British Virgin	138
15	public	raw materials	05/19/2009	MMX Mineracao e Metalicos SA	Wuhan Iron & Steel Co Ltd	China	Brazil	120
16	private	raw materials	10/27/2008	Pampa de Pongo Property,Peru	Zibo Hongda Mining Ind Co Ltd	China	Peru	100
17	public	raw materials	09/24/2003	Ecuador Block 16	Sinochem	China	Ecuador	100
18	private	market	09/28/2010	Tingzheng (Cayman Island) Hldg	Great System Holdings Ltd	China	Cayman Islands	84
19	private	manufacturing	04/08/2010	Evercharm Holdings Ltd	China Packaging Group Inc	China	British Virgin	83
20	private	market	04/06/2001	Envatap,Tapas Metalicas,Tapas	Diblo SA de CV(Grupo Modelo)	Mexico	Mexico	73
PRIVATE / TOTAL (percentage)								**12.0**

Source: own ellaboration based on Thompson-Reuters (2012).

Fourth, Table 8 takes an in-depth look at one of the principal characteristics of Chinese OFDI in LAC from 2000-2011: 87 percent comes from publicly-owned companies - which is 83.22 percent of public Chinese OFDI in total - and each public transaction exceeded 1 billion dollars. Of the 34 private Chinese OFDI transactions carried out from 2000-2011, each transaction only equaled around 100 million dollars. Aside from these large discrepancies, 87.4 percent of the total Chinese OFDI during this period was carried out in 2010 and 2011 alone (see Graph 2), showing exponential growth during the last two years of this period. Nevertheless, it is important not to exaggerate Chinese OFDI in LAC: until now completed transactions have been very limited - 56 in total from 2000-2011 - although we are seeing a positive trend for the growth of Chinese OFDI in the region.

Graph 2

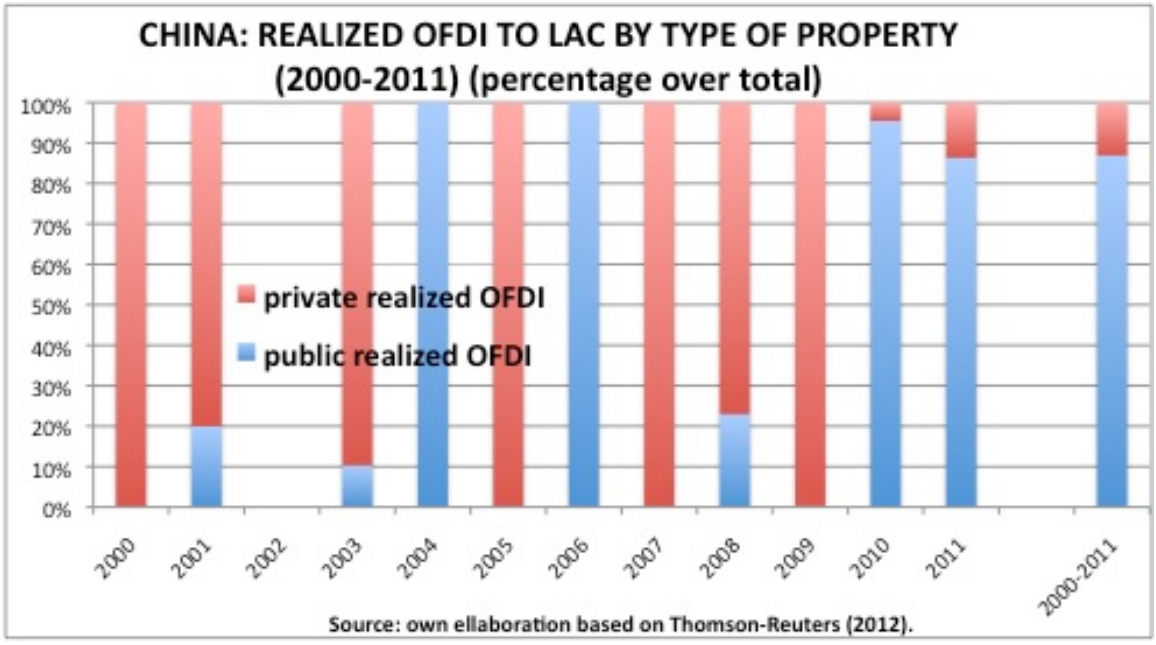

Table 8

China: OFDI to Latin America and Caribbean by firm (2000-2011) (in $ million)

	2000	2005	2009	2010	2011	2000-2011
			$ MILLION			
PUBLIC						
Value (in $ million) (1)	0	0	1	12,451	8,351	22,600
Number of transactions (2)	0	0	2	6	8	22
(1) / (2)	0	0	0	2,075	1,044	1,027
PRIVATE						
Value (in $ million) (1)	30	63	174	591	1,320	3,400
Number of transactions (2)	1	1	7	10	3	34
(1) / (2)	0	63	25	59	440	100
TOTAL						
Value (in $ million) (1)	30	63	175	13,041	9,671	25,999
Number of transactions (2)	1	1	9	16	11	56
(1) / (2)	30	63	19	815	879	464
			PERCENTAGE (over total)			
PUBLIC						
Value (in $ million) (1)	0.00	0.00	0.40	95.47	86.35	86.92
Number of transactions (2)	0.00	0.00	22.22	37.50	72.73	39.29
(1) / (2)	0.00	0.00	1.82	254.59	118.73	221.26
PRIVATE						
Value (in $ million) (1)	100.00	100.00	99.60	4.53	13.65	13.08
Number of transactions (2)	100.00	100.00	77.78	62.50	27.27	60.71
(1) / (2)	0.00	100.00	128.05	7.25	50.06	21.54
TOTAL						
Value (in $ million) (1)	100.00	100.00	100.00	100.00	100.00	100.00
Number of transactions (2)	100.00	100.00	100.00	100.00	100.00	100.00
(1) / (2)	100.00	100.00	100.00	100.00	100.00	100.00

Source: own ellaboration based on Thomson-Reuters (2012).

Fifth, 64.15% of the total Chinese OFDI was concentrated on raw materials during the period 2000-2011, and the search for market share accounted for 31% of the total. However, since 2007 OFDI in raw materials has increased to more than 80% while involvement in other areas has drastically diminished. In LAC, 99.58% of the public Chinese FDI was concentrated in transactions linked to raw materials and energy, while 84.32% of private Chinese FDI was oriented toward access to the Latin American market (banks, services, infrastructure, etc.) (See Table 9) Again, the differences in regard to public and private OFDI are critical.

Table 9

China: realized public OFDI in Latin America by firm (2000-2011)

	2000	2005	2009	2010	2011	2000-2011
			MILLION DOLLARS			
Raw materials						
amount (million dollars) (1)	0	0	0	12,433	8,331	22,504
Number of Transactions (2)	0	0	0	5	7	17
(1) / (2)	0	0	0	2,487	1,190	1,324
Manufacturing / exports						
amount (million dollars) (1)	0	0	0	0	20	77
Number of Transactions (2)	0	0	0	0	1	2
(1) / (2)	0	0	0	0	20	38
Innovation/technology						
amount (million dollars) (1)	0	0	1	18	0	19
Number of Transactions (2)	0	0	2	1	0	3
(1) / (2)	0	0	0	18	0	6
Market						
amount (million dollars) (1)	0	0	0	0	0	0
Number of Transactions (2)	0	0	0	0	0	0
(1) / (2)	0	0	0	0	0	0
TOTAL						
amount (million dollars) (1)	0	0	1	12,451	8,351	22,600
Number of Transactions (2)	0	0	2	6	8	22
(1) / (2)	0	0	0	2,075	1,044	1,027

Table 9 (continued)
China: realized public OFDI in Latin America by firm (2000-2011)

				PERCENTAGE (over total)		
Raw materials						
amount (million dollars) (1)	0.00	0.00	0.00	99.86	99.76	99.58
Number of Transactions (2)	0.00	0.00	0.00	83.33	87.50	77.27
(1) / (2)	0.00	0.00	0.00	119.83	114.01	128.86
Manufacturing/exports						
amount (million dollars) (1)	0.00	0.00	0.00	0.00	0.24	0.34
Number of Transactions (2)	0.00	0.00	0.00	0.00	12.50	9.09
(1) / (2)	0.00	0.00	0.00	0.00	1.92	3.75
Innovation/technology						
amount (million dollars) (1)	0.00	0.00	100.00	0.14	0.00	0.08
Number of Transactions (2)	0.00	0.00	100.00	16.67	0.00	13.64
(1) / (2)	0.00	0.00	100.00	0.87	0.00	0.61
Market						
amount (million dollars) (1)	0.00	0.00	0.00	0.00	0.00	0.00
Number of Transactions (2)	0.00	0.00	0.00	0.00	0.00	0.00
(1) / (2)	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL						
amount (million dollars) (1)	0.00	0.00	100.00	100.00	100.00	100.00
Number of Transactions (2)	0.00	0.00	100.00	100.00	100.00	100.00
(1) / (2)	0.00	0.00	100.00	100.00	100.00	100.00

Source: own ellaboration based on Thomson-Reuters (2012).

3. Conclusions and Discussion

Throughout this paper, a series of relevant conclusions have been reached which support our understanding that Chinese OFDI - both in total and in LAC - has qualitatively different conditions and characteristics from other FDI coming into the region. Institutionally speaking, Chinese capital can only be exported if it is both approved by the public sector - the NDRC, MOFCOM, SINOSURE, and the EIBC play a fundamental role in this process - and if the specific investments are justified in the catalogues and by the "Going Global" policies. Proposals on behalf of public and private companies that contravene the approved strategies, products, and processes are not permitted. The supply of Chinese OFDI, then, is different - insofar as it is qualitatively incomparable - from any other capital of which LAC is currently a recipient. These unique characteristics are supported by the conclusive results of this paper: state-owned Chinese transnational companies are the most dynamic in the world, representing 26.7 percent of the total OFDI coming from state-owned transnational enterprises in 2010 - much more than any of the other main capital-exporting countries, and more than all of LAC combined.

The empirical evidence presented in the second section of this paper reflects the recent dynamism of Chinese OFDI. At 68 billion dollars, China has become the second most prolific exporter of capital worldwide, and at least in the short term could become the primary source of global FDI. LAC was the second largest recipient of Chinese OFDI from 2000-2011, with only Hong Kong receiving more. The analysis for the period 2000-2011 highlights the importance of OFDI ownership in LAC: 87 percent of the OFDI in the region came from public companies (contrasted with only 13 percent coming from private entities), the amount per transaction exceeded 1 billion dollars (vs. 100 million dollars per transaction in the private sector), and 99.58 percent of the public OFDI was concentrated in companies and processes involving access to raw materials and energy (while only 7.82 percent of the private OFDI was focused in this area). In other words,

the strategic institutional requirements and guidelines followed by Chinese OFDI are clearly manifested in the transactions that have been effectively carried out during this period. The implications of the differences connected to OFDI ownership are relevant from multiple perspectives, three of which will be discussed here: the legal perspective, the economic perspective, and the political perspective.

From a legal perspective, there is a debate on how FDI on behalf of state-owned enterprises should be treated in contrast to private FDI. Authors like Feldman (2012), for example, argue that institutions such as the World Bank's International Center for Settlement of Investment Disputes should differentiate between private and state-controlled investors. While some precedents have been set on the matter, certain tensions still remain: currently, the International Center for Settlement of Investment Disputes itself deals only with private FDI cases, the settlement of disputes between states which would otherwise be heard by the International Court of Justice, and disputes between private entities. In the latter case, state-owned enterprises have generated new legal challenges that were not conceived of in Article 25(1) of the International Center for Settlement of Investment Disputes Convention.[19]

Massive public OFDI also generates important challenges from an economic perspective. While for the majority of foreign investment, the reasons for it are mostly microeconomic – such as profit maximization and/or access to new markets – or strategic from an intra and inter-firm viewpoint, in the case of public companies, the reasons for investing can vary. As was seen in the case of China, long-term guidelines have established specific products and sectors that are not, however, necessarily compatible with an economic rationality predominantly for international foreign investment. This difference is of even greater importance considering that the evaluation of OFDI is not necessarily compatible for public and private OFDI. In the case of public OFDI, for example, strategic, long-term criteria involving politics, national security, etc. may prevail, therefore moving beyond a strictly microeconomic approach.

Lastly, public OFDI generates challenges within the political realm. At the outset, it is a direct conflict with the Chinese public sector, – municipalities, cities, provinces, and/or the central government – the characteristics of which are different than if it were a relationship between private entities (in terms of negotiation, conflict, constraints, etc.). Public OFDI can generate misunderstandings, suspicions, and political responses within the receiving countries, and particularly among "sensitive" sectors, for reasons of employment, technology, national security, cultural preservation, etc.[20] The fact that

[19] Article 25(1) of the International Center for Settlement of Investment Disputes Convention applies to those disputes having to do with investments between a Contracting State and a national of another Contracting State, without making specific reference to state-owned enterprises (Feldman 2012:1).

[20] The Economist issue released on August 4, 2012, for example, analyzes a case involving the company Huawei, which specializes in telecommunications and electronics. With sales exceeding 32 billion dollars and employing more than 140,000 people, the company has clients in about 140 different countries. However, considering that it has become a critical provider of servers that could possibly affect the national security of many countries, as well as increase the potential for "espionage", Huawei's connection with the Chinese public sector has generated criticism and rejection of its products in many countries, including the United States. From this perspective, the structure and conditions of company ownership in China

public Chinese companies are starting to own mines as well as manufacturing and service companies means that conflicts within the labor, environmental, and commercial spheres must be considered too, given that Chinese involvement in these areas has never been experienced to such an extent internationally or in LAC. The topic, off course, is not only relevant in LAC, but also in other recipient countries of China's FDI.

Given the results identified above, OFDI has proven to be an enormous institutional and political challenge in LAC as well as in China. It requires the training of personnel in LAC not only to handle negotiations on foreign investment but also to effectively receive Chinese OFDI. Economic policies exclusively oriented toward the companies themselves are not sufficient for the success of OFDI. These policies do not take into account that Chinese OFDI is predominantly a result of the negotiations, the interests, and the strategies of the Chinese public sector. The rejection or acceptance of OFDI, therefore, is a complex process of evaluation and negotiation within the public sector of China.

We believe that two final aspects of Chinese OFDI in LAC are worth mentioning. First, contrary to the work of other authors – such as for the US (Kolm and Tillman 2012) and Europe (Hanemann and Rosen 2012) - this paper presents arguments which highlight the importance of political and strategic relations regarding the promotion and approval of Chinese OFDI in the region, i.e. ownership is by no means "neutral" and is substantial for understanding specific transactions and OFDI flows to countries. For example, if the relationship between the Chinese government and a government in LAC were not harmonious, friendly and/or strategic, we would not expect to see significant flows or vitality regarding OFDI between them.[21] Contrary to other systems of encouraging FDI, therefore, relations with China's public sector are essential to its success. Secondly, the huge (and still growing) Chinese investments in LAC could allow for a different type of trade relationship with China: until today, LAC – Argentina, Brazil, Chile, and Mexico, among others – export raw materials with little added value and import manufactured products with state-of-the-art technology. These commercial and productive processes have a long tradition in LAC independently of China (Dussel Peters and Katz, 2006), but they could be modified in light of a new dynamic of China's OFDI in LAC.

Several of these aspects of Chinese OFDI in LAC, without doubt, requires a broader bilateral research agenda for the future, also in a dialogue with other countries experience with China.

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generates and will continue to generate serious conflicts with their counterparts in Western states (Tejeda Canobbio 2011).

[21] Mexico is a good example in terms of a formally good relationship, but ineffective in real terms and concretely regarding China's OFDI. For a full analysis, see: Jenkins and Dussel Peters (2009).

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