

PRODUCTION DEVELOPMENT

Chinese Investments in Latin America

Opportunities for growth and diversification

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Summary

China has become the third largest source of FDI in the world, only behind the United States and Japan. Chinese outward FDI continues to grow every year, but inflows into Latin America have remained stagnant since the year 2010 when a large wave of acquisitions introduced many Chinese companies to the region. They also remain very concentrated on the extraction of natural resources and in a handful of countries. Slower growth in China, and lower commodity prices may force some Chinese companies to change their strategy and start looking for overseas markets in new sectors, particularly in services. Although in the long term Chinese companies can only be expected to increase their outward FDI, excessive debt can restrain their growth in the short run.

I. Half a decade of Chinese investments in Latin America

Chinese foreign direct investment (FDI)¹ in Latin America is no longer a new phenomenon. Until 2010 the presence of Chinese companies in the region was very modest, mostly limited to joint ventures between state-owned oil companies in Peru, Ecuador or Venezuela, but in that year several large acquisitions and investment projects were announced and since then Chinese transnational corporations (TNCs) have maintained a relevant presence in many of the region's largest economies.

In 2010 the prices for oil, metals and most other commodities were reaching their highest levels in decades, and economies in Latin America (and especially in South America) were growing at a 6% rate. FDI flows were also recovering fast after the drop in 2009, and would register consecutive record inflows in 2010, 2011 and 2012. Many of these investors were attracted by the commodity boom and the natural resources of the region, but FDI into the primary sector never represented more than a third of total FDI. Chinese investors, on the other hand, were much more focused on exploiting natural resources: 90% of estimated Chinese FDI in the region was in mining or hydrocarbons. They were also very concentrated in just three countries: Argentina and Brazil (for oil and gas) and Peru (for mining) (ECLAC 2011).

Six years later the economic environment in Latin America is very different, notably because lower commodity prices and the decline in economic growth. FDI flows have also declined in 2014 and 2015 and investments in mining and hydrocarbons have slowed down. Chinese companies have also felt the deteriorating conditions, and while they have not abandoned their investments in the region, there have been fewer large operations in the last years. In fact six of the ten largest Chinese acquisitions in the region were concluded in 2010 or 2011 (Table 1).

¹ Foreign Direct Investment (FDI) is one type of foreign capital flows registered in a country's balance of payments. FDI is characterized because the investor has operating control over the object of the investment (which is typically a subsidiary company of the foreign investor). Other types of foreign investments (portfolio investments and other investments) are not considered in this document, except when we refer to them specifically.

Table 1
Ten largest acquisitions by Chinese companies in Latin America
(Millions of dollars)

| Year | Target Name | Country | Acquirer Name | Seller Name | Industry | Value |
|------|--|-----------|---------------|-------------------|-------------|-------|
| 2010 | Repsol Brasil (40%) | Brazil | Sinopec | Repsol | Oil | 7 100 |
| 2014 | Las Bambas Mine | Peru | Minmetals | Glencore | Mining | 7 005 |
| 2012 | Petrogal Brasil | Brazil | Sinopec | Galp | Oil | 4 800 |
| 2015 | Jupia & Ilha Solteira hydro plants concession | Brazil | Three Gorges | Brazil Government | Electricity | 3 680 |
| 2010 | Bridas (50%) | Argentina | CNOOC | Bridas | Oil | 3 100 |
| 2011 | Peregrino field (40%) | Brazil | Sinochem | Statoil | Oil | 3 070 |
| 2014 | Petrobras Peru | Peru | CNCP | Petrobras | Oil | 2 600 |
| 2011 | Occidental | Argentina | Sinopec | Occidental | Oil | 2 450 |
| 2011 | Cia Brasileira de Metalurgia e Mineracao (15%) | Brazil | China Niobium | Moreira Salles | Mining | 1 950 |
| 2010 | Ribeirao Preto | Brazil | State Grid | Elecnor | Electricity | 1 701 |

Source: Bloomberg.

This document will try to quantify Chinese investments in the region in the past few years, analyze their strategies and see how they have adapted to the new economic environment. It follows on previous studies published by ECLAC on the same topic, notably (Chen and Perez Ludeña 2014). The next section will review the growth of Chinese outward FDI globally and its main determinants.

II. The continuous rise of Chinese transnational corporations

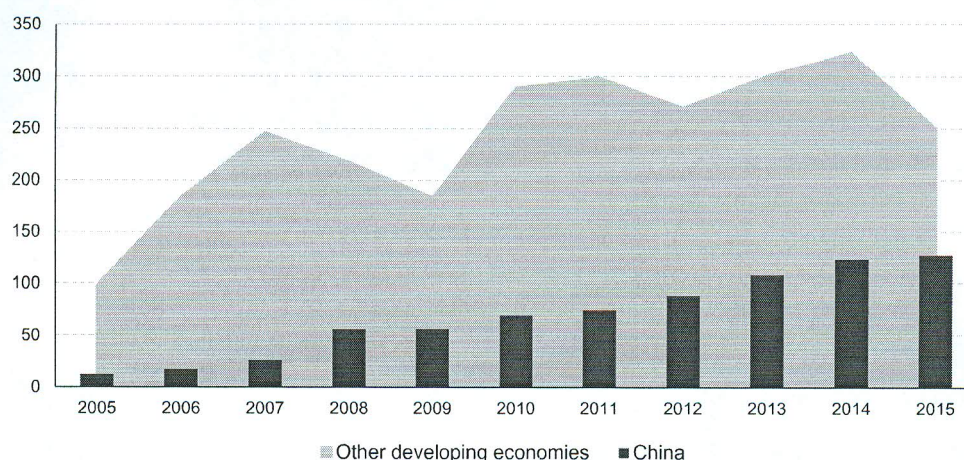
During the first decade in this century companies from China and other developing countries expanded their investments abroad at an unexpected rate. From 2003 to 2013 FDI outflows from developing countries as a whole grew from 40 billion dollar to 400 billion dollars, and their share in total FDI outflows went from 7% to 31%. FDI outflows from China grew even faster, from less than 3 billion dollars in 2003 to more than 100 billion dollars in 2013, and reached 128 billion dollars in 2015, when China became the third largest foreign investor in the world after the United States and Japan. Transnational corporations from developing countries shared some similarities in their background and strategies (for a full discussion see (Sauvant 2008)), but within that group Chinese TNCs stood out with some peculiarities.

To begin with, the growth in outward FDI was faster in China than in almost any other country. It has also been remarkably immune to the cycles that affected other countries; FDI outflows from China continued to grow during the global financial crisis in 2008 and 2009, or in 2015, when outflows from other developing countries declined (See Figure 1). We will review the most recent developments at the end of this section, but first we should consider some important determinants of Chinese outward FDI, beginning with the especially strong role of the Government.

The Chinese Government has an unusual direct control over FDI outflows because state-owned enterprises (SOEs) are very important in China. Although 89% of Chinese companies that invest abroad are privately owned, more than 63% of Chinese outward stock belongs to SOEs, which reflects the fact that the larger companies are still state-owned, especially in strategic sectors like finance or extractive industries (Chen and Perez Ludeña 2014).² Even nominally private companies have close links to the state, either because they are partially owned by local governments or because their top executives and board members occupy senior positions in the Communist Party (Milhaupt and Zheng 2015).

² It should be noted that Chinese companies are not the only SOEs engaging in foreign direct investment. In fact the largest TNCs that are state-owned come from developed economies (Sauvant and Strauss 2012).

Figure 1
China and other developing countries: FDI outflows, 2002-2015
(Billions of dollars)



Source: UNCTAD.

Of course private companies are also under the influence of the Government's policy on outward investments, which has been particularly active in China. Since the year 2000 outward FDI has been officially encouraged, but investments still require approval and there is an explicit bias in favor of those who contribute to China's development by providing access to scarce natural resources, promoting exports or expanding the country's technological base (Sauvant and Chen 2014). This policy is complemented with the important role of Chinese large state-owned banks, which back many of the largest outward investment projects, particularly in the infrastructure sector.

It will still be a mistake to consider FDI projects from China as being dictated by the Government. Chinese corporations, acting within the policy space set up by the Government still define their investment strategies in a way not very different from companies in other countries. In this way Chinese outward FDI can be analyzed following the OLI conceptual framework (Dunning 1981), which categorized foreign investments into four types depending on the company's strategy (to acquire natural resources, strategic assets, access markets or reduce costs).

- The key determinant of Chinese FDI into other developing countries has been to **secure access to natural resources**, particular minerals and hydrocarbons.
- Many Chinese companies go abroad in order to obtain the **strategic assets** (technologies or brand names) that would be difficult to build in their own country. Most of these investments end in developed countries (Chang 2014), like the acquisition of IBM's personal computer business by Lenovo or the takeover of Volvo by Geely.
- **Market seeking** is the most common motivation for FDI worldwide, but it is relatively less important for Chinese companies. Still, many manufacturing companies invest in other countries to assist their exports. Banks and construction companies are also trying to expand abroad in order to broaden their revenue base and reduce their risk of exposure to the domestic market.
- **Efficiency seeking** (or cost reductions) were never an important factor for Chinese companies to invest abroad, although in recent years the **rise of salaries in China** has pushed some manufacturing companies to set up operations in other Asian countries as well as in Africa.

These determinants have been pushing outward FDI from China for over a decade and the trend continues despite slower growth in the Chinese economy. In fact, domestic economic slowdown is also contributing to increase outflows of FDI. Investment spending as a share of GDP has been declining in China in 2014 and 2015, pushing up the gap between savings and investments to \$331 billion in 2015 after averaging around \$250 billion per year over the past decade. In previous years this excess of savings was mainly channelled as purchases of foreign assets by China's central bank, because companies were more interested in investing in China, but in 2015 the preferences changed and "private investor outflows to purchase foreign assets (or reduce foreign liabilities) were 673 billion more than private investor's inflows to purchase Chinese assets" (Wheeler and Klitgaard 2016). Most of those capital flows were for repayment of dollar-denominated debts by Chinese companies, as well as portfolio investments, but some was also in form of FDI by Chinese companies. Many Chinese companies seem to be focusing on their international expansion as opportunities for growth inside China diminish.

As noted above, official figures show an increase of outward FDI from China in 2015, but data on mergers and acquisition show even faster growth. In 2015 Chinese companies recorded 61 billion dollars in foreign acquisitions, 16% more than in 2014 and an absolute record. A lower percentage of the deals went into the natural resources sector, compared with previous years. Europe, the United States, and Australia accounted for almost two-thirds of all Chinese outbound M&A transaction value in 2015 (Hanemann and Gao 2016b). At the end of June 2016 there were 33 billion of announced Chinese acquisitions in the United States pending confirmation (Hanemann and Gao 2016a). Even with the recent surge, the share of China in the world's M&A is lower than what could be expected from its size. In fact, China's GDP is at least 14 percent of the global economy, while its share in total cross-border M&A lies between 2 and 6 percent, depending on the source (Garcia-Herrero 2016).

At the same time, since 2008 Chinese firms have doubled their debt-to-GDP ratios while they have severely reduced their repayment capacity (Garcia-Herrero 2016). The "credit to GDP gap", as measured by the Bank of International Settlements has reached 30.1 in China, much higher than in any other economy monitored (Bank for International Settlements 2016). Overleveraging is now the greatest threat to the international expansion of Chinese TNCs.

III. Chinese FDI in Latin America in the era of low commodity prices

Annual flows of Chinese FDI to the World have increased by 45% since 2012, but the flows into Latin America have remained stagnant. This section will analyze the recent evolution of Chinese FDI in the region up to 2015 based on our own estimates (See Box 1 for a discussion on methodology).

Chinese FDI in Latin America was very modest in the 1990s and the first decade of this century, but exploded in 2010 with a series of large acquisitions by oil companies in Argentina and Brazil (Table 2). Since then Chinese inflows have averaged about 8 billion dollars a year, with a slightly downward trend but with much volatility, to be expected because it depends on the occurrence of large acquisitions. For example, FDI inflows grew in 2014 because in that year Minmetals bought Las Bambas mine in Peru for 7 billion dollars.

Table 2
Estimates of Chinese FDI in Latin America and the Caribbean
(Millions of dollars)

| | 1990-2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-----------|-----------|--------|--------|--------|-------|--------|-------|
| Brazil | 255 | 9 563 | 5 676 | 6 067 | 2 474 | 1 161 | 6 230 |
| Argentina | 143 | 3 100 | 2 450 | 600 | 120 | na | 300 |
| Peru | 2 262 | 84 | 829 | 1 307 | 2 154 | 9 605 | 2 142 |
| Ecuador | 1 619 | 45 | 59 | 86 | 88 | 79 | 94 |
| Venezuela | 240 | 900 | 1 045 | 1 225 | 2 445 | 1 000 | na |
| Colombia | 1 677 | 6 | 293 | 996 | na | na | 50 |
| Others | 1 146 | 14 | 867 | 150 | 107 | 77 | 49 |
| Total | 7 342 | 13 712 | 11 219 | 10 431 | 7 388 | 11 922 | 8 865 |

Source: Author estimations on the basis of company reports, Bloomberg, official data from countries, Conselho Empresarial Brasil China and China Global Investment Tracker.

The distribution of Chinese FDI across Latin American countries has remained fairly stable across this period; they are very concentrated in Brazil and Peru and largely ignore other countries that receive much FDI from other sources such as Colombia, Chile or Mexico. Argentina registered two large acquisitions in the oil industry in 2010 and 2011, while investments into Ecuador and Venezuela, significant in the oil industry since the 1990s, have declined recently. By sector, the largest flows concentrate in the extractive industries but there have been significant investments in other sectors as well.

Box 1

Official FDI figures fail to capture Chinese FDI in Latin America

According to official data, there is hardly any FDI from China into Latin America. Many of the countries in which Chinese companies have made significant investments do not report FDI inflows by country of origin (Peru, Venezuela, Argentina) or underestimate them by large amounts (Brazil reported 400 million dollars of Chinese FDI in 2010, when there were several multi-billion dollar acquisitions in the oil industry only). Official data from China, compiled by the Ministry of Commerce (MOFCOM), also underestimates FDI flows to Latin America.

MOFCOM data provides a good view of the aggregate FDI outflows, but their disaggregation 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 centers and tax havens. 79% of all China's outward FDI 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 7 billion dollars) was registered as an investment from Luxembourg, because Sinopec routed the transaction through its affiliate there. This is not an issue that affects only China; across Latin America, 13% of all foreign affiliates are controlled directly by a company that sits in a third country, different from the one of the ultimate owner (UNCTAD 2016), but Chinese companies rely on this to a much larger extent. Besides, the second largest recipient of Chinese FDI, Peru, is the only major Latin American country that doesn't provide information about the origin of FDI.

To estimate Chinese FDI into the region this document combines information from official statistics with data on mergers and acquisitions from Bloomberg, company reports and estimates published by the Conselho Empresarial Brasil China, the American Enterprise Institute and the Heritage Foundation. This methodology is likely to underestimate Chinese investments, as it measures well the initial acquisitions but fails to capture many subsequent investments by Chinese subsidiaries, especially in the oil and gas industry.

Source: ECLAC (2011) and Chen and Pérez-Ludeña (2014).

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A. Primary Sector

Around 90% of the estimated Chinese FDI flows to Latin America between 2010 and 2014 were into extractive industries. Chinese oil companies³ are now present in most oil and gas exporting countries in the region, but they only have a leadership position in Peru, where CNPC produces one quarter of the oil in the country. They are the largest foreign investors in Ecuador and Venezuela, but in both countries the oil production has been declining and most of it is in the hands of the national state-owned company. In Argentina they are among the largest foreign producers, with a combined share of up to 10% of oil production. The largest investments have been concentrated in Brazil, where they are also among the largest foreign companies.

In mining, there have been some investments in Brazil⁴ and other countries but the largest operations also concentrate in Peru. In this country Chinalco and Minmetals have one large copper mine each under operation, while Shougang has been extracting iron ore since the 1990s but there are many

³ Oil is considered a strategic sector in China and is restricted to four SOEs: CNPC, Sinopec, CNOOC and Sinochem. All of them have operations in Latin America.

⁴ In 2010 Wuhan Steel acquired a stake in MMX Sudeste, an iron-ore mine, for 400 million dollars, and in 2011 a consortium of Chinese SOEs bought a 15% stake in Cia Brasileira de Metalurgia e Mineracao for 1,950 million dollars to produce niobium, a rare mineral used in steel alloys of which Brazil is the largest source in the world.

more projects by Chinese companies in the pipeline. In fact, Chinese companies are responsible for one third of all expected mining investments in Peru (Ministerio de Energía y Minas, Peru 2016) and are also behind the only large mining project in Ecuador.⁵

Most of these Chinese companies arrived in the region around 2010 when the prices of copper, iron ore or oil were at their highest. Over the past three years investments in the extractive industries in Latin America (both foreign and domestic) have declined significantly (ECLAC 2015) and Chinese companies cannot be immune to this trend. Although there may have been certain delays and downscaling of projects, no Chinese company has pulled out of a large project yet and there have been significant new commitments at the end of 2013 in oil⁶ and in 2014 in copper mining.⁷ It is true that only one third of Chinese investments in the region in 2015 have been in the primary sector, but it is still too early to assess if this is a new trend caused by lower commodity prices or if it is a short-term blip due to the unusual concentration of acquisitions in the infrastructure.

Chinese companies have much larger investments in the planning stage than in implementation and how many of these will materialize will depend mostly on the future price of copper and oil. Most investments by Chinese oil companies in Latin America are in the “pre-sal” fields in Brazil, which are technically difficult and financially expensive to operate. In fact, they may not be profitable below an oil price of US\$55 per barrel⁸, which means that future investments are contingent on a sustained rise in the oil price for the coming decades.

Beyond oil and mining, there have also been relevant investments in agriculture and fisheries, although the amounts registered are much smaller and the information available less precise. Some large agricultural projects were cancelled after local Governments and civil society groups feared they would bring great disruption to rural livelihoods.⁹ The most contentious aspect for investing in agriculture is land acquisition which may have prevented large-scale investments in farming but there have been significant investments in fisheries¹⁰ and agroindustry, like the acquisition by COFCO of the agricultural assets of Noble in 2014¹¹ and of a majority stake in Nidera.¹²

B. Manufacturing

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.

Most investments in manufacturing target growing local markets, as opposed to exporting to third countries or 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

⁵ A joint venture between China Railway Construction and Tongling Nonferrous (two Chinese SOEs) is planning to start producing copper and other minerals at the mine of Mirador in 2018. The expected total investment in the project will be around US\$2 bn.

⁶ Two Chinese estate-owned oil companies acquired a joint 20% stake in the Libra field, the largest sector of the “pre-sal” reserves to be opened to foreign investors in the past few years. The companies paid a combined 1.3 billion dollars at the time, but total investments by the consortium (which includes Petrobras, Shell and Total) are expected to reach 200 billion dollars over the next 20 years.

⁷ Minmetals, in partnership with other Chinese companies, bought Las Bambas copper mine in Peru from the Swiss company Glencore for 7 billion dollars in 2014.

⁸ “Brazil’s giant offshore subsalt oil and gas areas will only break even with oil worth 55 dollars per barrel or more” (OPEC, Organization of the Petroleum Exporting Countries 2015).

⁹ Heilongjiang province proposed to invest 100 million dollars in Argentina for soya production in 2010 but the project never materialized.

¹⁰ China Fisheries bought Copeinca, a large Peruvian fishing company, in 2013 for 948 million dollars.

¹¹ Noble, a trading company based in Singapore, sold its agricultural arm to COFCO in 2014. This was a global operation but the unit had many assets in Latin America, most of which are processing facilities for grains and sugar cane, as well as infrastructure for transport of these commodities.

¹² Nidera is a commodity trading company from the Netherlands with significant assets in Brazil and Argentina. COFCO paid 1,200 million dollars for 51% of the company.

components from China is key for many Chinese manufacturing subsidiaries in Brazil (Chen and Perez Ludeña 2014). 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 in other sectors, most Chinese companies in manufacturing are new to the region. Most of them arrived after 2010 and a large majority made investment announcements that have failed to materialize. Chinese car manufacturers announced plans to invest up to 6 billion dollars in Brazil, but most of these projects were initially delayed and, as car sales started to decline in 2014, were finally abandoned. At the moment only Chery and BYD are producing cars in Brazil. Other large Chinese manufacturers include Sanny, which has a 40% market share in cranes in the country, the maker of air-conditioning equipment Gree and several motorcycle manufacturers operating in the industrial zone of Manaus.

Despite the global dominance of Chinese companies in heavy industry, there have been no investments in Latin America in steel, cement, aluminum or petrochemicals. In fact Chinese companies are currently struggling to reduce steel production capacity in China, and therefore unlikely to look for expansion opportunities in Latin America or anywhere else. Oil companies have announced multi-billion dollar projects to build refineries in Ecuador, Costa Rica and Cuba but it is unlikely that these projects will materialize¹³.

Finally, there has been practically no Chinese investments in export-oriented manufacturing, although there have been cases of Chinese companies owning manufacturing facilities in Mexico because they bought US companies that had them. These were the cases of Lenovo in electronics and Nexteer in autoparts.

C. Infrastructure and other services

Over the past few decades China has invested in infrastructure more than any other country, and this has helped some Chinese companies to develop capacities in all forms of infrastructure building (energy, transport, civil works, etc.) that could be exploited through FDI. A survey among Chinese firms in 2010 found that construction companies were those that expected to increase their internationalization more (China Council for the Promotion of International Trade 2010).

So far the largest investments have concentrated in the Brazilian electricity sector. State Grid took over transmission lines in Brazil from two Spanish companies in 2010 and 2012, for a combined total of 2.7 billion dollars and in 2014 it led the consortium that won the tender to provide transmission lines to the new hydropower plant of Belomonte (Conselho Empresarial Brasil-China 2016). The acquisitions of Three Gorges in 2015 have been even larger: 4 billion dollars for rights over several hydropower plants. Chinese penetration in Brazil's electricity sector increased in September 2016 when State Grid bought a 23% stake in CPFL, the country's largest electricity provider, for 1.8 billion dollars, leaving the door open for further increases in its share.

Other Chinese companies are present in Latin America building infrastructure for others to operate.¹⁴ Huawei and ZTE, manufacturers and installers of telecommunications equipment, are present in the region's largest countries. 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 center in Brazil.

Many other Chinese companies have built large infrastructure works for Governments in the region, usually involving a loan from a Chinese State-owned bank 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

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¹³ The announced investments for these refinery projects totalled 700 million dollars for the project in Costa Rica, 3 billion dollars for the one in Ecuador and 6 billion dollars for Cuba.

¹⁴ This is not normally accounted as FDI but as an export of goods and services.

Sinohydro in Ecuador and the Bolivarian Republic of Venezuela to construct power plants¹⁵, but there are many other examples, especially in smaller economies (See box 2 on investments in the Caribbean).

Many Latin American Governments have tried to attract Chinese companies to bid for the construction and operation of large infrastructure projects, but with little success so far. Chinese constructors of railway equipment were among the favorites to win the tenders for the first high-speed trains in Mexico and Brazil but the contracts were cancelled.¹⁶ Most other Chinese companies are still not used to operate within the framework of competitive bidding, but it can be expected that, as infrastructure investment in China slows down, more and more Chinese companies will be looking abroad for contracts.

Beyond infrastructure, Chinese largest investments in the service sector have been in banking, notably the acquisition of Banco Industrial e Comercial in Brazil by China's Construction Bank in 2013 for 814 million dollars.¹⁷ There are many other subsidiaries of Chinese banks operating in Latin American but they limit to facilitate trade with China. The rest of the services sector receives almost no Chinese FDI, with one recent exception: Hanan Airlines bought a 24% stake in Azul airline in Brazil in 2015, for 460 million dollars.

Box 2 Chinese companies in the Caribbean

Compared with the figures in Brazil or Peru, Chinese investments in the Caribbean economies are small, but they can still have a large impact on the local economies. The largest acquisition was by the China Investment Corporation (a sovereign wealth fund), which in 2011 bought a 10% stake in a gas liquefaction plant in Trinidad and Tobago for 850 million dollars. There are also Chinese mining companies extracting bauxite in Guyana (Bosai Minerals) and Jamaica (Xinfa Group with a large investment announced in 2014).

The Caribbean sub-region, together with Central America, is especially important for China because of the diplomatic presence of the Taiwan Province of China. Of the 23 countries in the world who maintain diplomatic relations with the province, 5 are in Central America (El Salvador, Guatemala, Honduras, Nicaragua and Panama) and 6 in the Caribbean (Belize, Dominican Republic, Haiti, St Kitts and Nevis, St Vincent and the Grenadines and St Lucia). Taiwan Province of China has favored these countries with assistance and investments, and China stepped up the cooperation with the other countries in the area. In 2007 China offered 570 million dollars in soft loans for Chinese companies investing in the Caribbean, an offer to form 2,000 civil servants from the sub-region and promoted Chinese tourism there. The Chinese Government is a major shareholder of the Caribbean Development Bank and a large contributor to many of its projects.

Chinese loans for the construction of infrastructure projects are common across the Caribbean; a highway and the National Stadium in Bahamas, a Conference Centre and a theater in Barbados or a new terminal of the airport in Antigua and Barbuda are some examples. All works are executed by Chinese companies that not only do they bring from abroad most components and materials, but they also employ a large percentage of Chinese labor force.

Perhaps the largest of these projects is the tourist resort of Bahamar, in Bahamas, which includes five different hotels and many other facilities with a total investment of as 3.5 billion dollars, largely financed by the Export-Import Bank of China and built by a Chinese company as well.

Source: ECLAC (2011) and ECLAC (2015).

¹⁵ In September 2016 the Government of Bolivia awarded a Chinese consortium the construction of the hydroelectric plant of Rositas, for a total investment of 1 billion dollars.

¹⁶ The contract to build the first Mexican line of high-speed train was cancelled in 2014 after being awarded to a Chinese-led consortium. The line between Sao Paulo and Rio de Janeiro in Brazil was supposed to be running for the 2016 Olympics but the tender suffered several delays, and was finally postponed in 2013. Chinese companies were among the top runners for the contract.

¹⁷ Construction Bank's bigger rival, Industrial & Commercial Bank of China Ltd., is also expanding in Latin America. Beijing-based ICBC bought 80 percent of Standard Bank Group Ltd.'s Argentine division last year, after having opened in Peru and received authorization to open a bank in Brazil. (Bloomberg: <http://www.bloomberg.com/news/articles/2013-10-31/china-construction-agrees-to-buy-majority-of-brazil-s-bicbanco>).

IV. Policy reactions to Chinese Investments

Foreign direct investment from China raises negative reactions from civil society and Governments in many countries. Some of the concerns are common to foreign investments from any country, such as the fear that high value added activities may leave the country after a foreign takeover, or that host economies will not get adequate rewards from the exploitation of natural resources. But in the case of Chinese investments these fears are magnified by the size of the country, the fast growth of their foreign investments and by the fact that the largest Chinese TNCs are SOEs, which brings concerns of unfair competition and giving up sovereignty of national resources to a foreign Government.

The most vocal responses to Chinese FDI have been in developed countries. Between 2007 and 2008 the United States, Canada and Australia put in place review mechanisms for large mergers and acquisitions (in the case of Canada and Australia they apply only when the buyer is an SOE). Any foreign investor is subject to these procedures but they were established in response to a rise of FDI from China (Sauvant and Nolan 2015). More recently, in October 2016 the US Congress recommended curbing Chinese investments in media and internet companies as a response to repeated restrictions in China to media and internet companies from the United States (*Financial Times* 2016b).¹⁸

By comparison, Latin American Governments have been very open to Chinese FDI. In 2015 State Grid got 23% of the largest power company in Brazil, while in Australia it was prevented from acquiring electricity companies because of national security concerns (*Financial Times* 2016a). The only hurdles that Latin American Governments put to Chinese FDI regarded land acquisitions for agriculture investments (See Box 3) and one single episode in mining. This was in Chile in 2008, when Minmetals gave up its rights to acquire 49% of a copper mine from Chilean's national mining company CODELCO after the deal faced strong opposition from trade unions and civil society. Minmetals did not pursue the case through litigation, preferring to maintain a good relationship with the Chilean Government. There have been no relevant Chinese investments in Chile's mining sector since.

¹⁸ Access to the sites of internet companies such as Facebook and Twitter, or information ones like Bloomberg or the New York Times are sometimes restricted in China. Although this is done out of concerns about the flow of controversial news, they have commercial consequences because Chinese competitors don't face the same restrictions.

Box 3
In South America, Governments react against Chinese land acquisitions

Latin American countries are on average much more open for foreign acquisitions of land than countries in Asia and Africa. This openness was put to test in 2010, when Chinese companies announced several large scale investments in agriculture, raising concerns about displaced farmers, rural livelihoods and food security. As a result, Brazil was forced to modify its regulation to put a cap to the maximum amount of land a single foreign buyer could acquire, as well as limiting to 40% the share of the land in each municipality that could be owned by foreigners. Argentina followed in 2011 with a law limiting the amount of land a single foreign entity could own and other countries such as Bolivia and Uruguay are debating similar measures.

There is very little information about FDI in agriculture and it is therefore difficult to assess the impact of those measures. No large-scale farming projects have been registered, but given the availability of land and water, many Latin American countries will remain an attractive destination for Chinese investments in agriculture and Chinese companies will probably look for ways to invest in this sector without acquiring land.

Source: ECLAC (2011) and ECLAC (2013).

In Latin America, where most Chinese FDI is in extractive industries, the reactions from Governments and civil society have focused on the performance of Chinese mining companies. While these companies have some special characteristics (closer links to their Government, less tradition of dealing with trade unions and civil society organizations and less knowledge of host countries because they only arrived recently) there is no evidence to say that there is a different “Chinese style of mining” (Sanborn 2014). Shoughan (the first Chinese mining company to start operations in Peru, back in the 1990s) was performing poorly on social and environmental standards (Sanborn and Torres 2009) but these mistakes have been corrected lately and more recent studies concluded that Chinese companies don’t do worse than average for mining companies in Peru (Irwin and Gallagher 2012).

While there is no evidence to think that Chinese investments are more harmful than those coming from other countries, there is no indication either that Chinese FDI offers Latin American countries new and distinct opportunities for development. In this respect, the most promising sector has been infrastructure, and many Latin American Governments have been trying to attract Chinese investors to it, but with very little results so far. In manufacturing, investments remain small and with little impact on industrial development. Chinese subsidiaries provide little space for integrating local industries into global value chains as they focus on assembling components imported from China to sell the products in the local market.

Venezuela and, to a lesser extent, Ecuador have relied to a great extent on Chinese capital for their development strategies but this has come more in the form of loans than as FDI. Venezuela has received loans from China for a total of 65 billion dollars since 2005, and Ecuador for 15.2 billion dollars (Gallagher and Myers 2014). In the case of Venezuela these loans are paid directly by exports of crude oil. Some of those loans were directed towards constructing infrastructure, which was built by Chinese companies. Both Ecuador and Venezuela receive Chinese FDI in the oil sector but not enough to prevent a decline in production in recent years and while Chinese companies announced some large-scale industrial investments in these countries, so far they have not materialized¹⁹.

¹⁹ The Pacifico refinery in Ecuador would require 3 billion dollars of investment from CNPC.

V. Conclusions

Six years ago some of the largest Chinese companies arrived in Latin America with multi-billion dollar acquisitions and investment projects and generated much expectations among Governments, businesses and civil society. Many critical observers feared that Latin America may be flooded by a wave of Chinese investments that will operate under lower environmental and social standards and will appropriate most of the region's natural resources. Others expected Chinese FDI to represent an alternative source of capital for the region, at a time when the United States and Europe were struggling with the consequences of the financial crisis. Chinese companies were also expected to follow different incentives in their investments and therefore could become better partners for developing long-term infrastructure and large-scale industrial projects.

By now Chinese companies have become a regular feature of some Latin American countries, but their strategies have not been very different from other TNCs and their contribution to developing new sectors has been modest. More notably, the level of Chinese FDI flows to the region did not continue to grow over the past five years but on the contrary has remained stagnant and still concentrated in the same handful of countries and sectors as it was in 2010. There could be several reasons for this.

First of all, the general downturn of FDI into Latin America, observed since 2013, has affected Chinese companies as much as anybody else. The drop in oil, gas and metal prices has reduced the pace of many large investments in the primary sector. In manufacturing Chinese investors suffered from the economic recession in Brazil, which prevented many projected factories from opening.

Second, many Chinese companies in Latin America have struggled to implement the ambitious projects they set themselves to do around 2010. Out of four large mining projects in Peru announced at that time only one is in operation now, and the same can be said for most of the car manufacturing plants in Brazil. The business environment in the region proved challenging for many companies that had relatively little experience of operating outside China and the end of the commodity boom and subsequent economic downturn in the region did not help them to achieve the expected results.

Third and most important, the dominant strategies behind outward investments of Chinese companies are not conducive to expanding their investments in Latin America. With the end of the commodity boom, which has been partially generated by the expectation that China will consume less oil, iron ore and copper in the future, securing access to natural resources has slipped down in the order

of priorities for Chinese TNCs. The most recent wave of foreign acquisitions has two main objectives: acquire strategic assets, focusing on advance manufacturing (Europe) and software/entertainment (US) and hedging against a Chinese economic slowdown, which motivates deals in real estate and to some extent in financial services. In order to achieve these objectives, most of the current FDI outflows from China are directed to developed countries.

This does not mean that Chinese investments in the region will dry up. The mining and oil projects under way will require billions of investments in the following years and even if commodity prices remain depressed it is unlikely that Chinese companies will completely pull-out of their commitments. Furthermore, as Chinese companies continue to grow and develop, some of them will want to expand into other developing markets and will look for acquisitions in Latin America. At that moment many trans-Latin corporations could become targets for Chinese SOEs, which are much larger in size, and some Governments in the region may have to decide whether to restrict the takeovers of their “national champions” in the way developed countries have.

Further in the future Chinese companies that now only operate in China may start to invest abroad, notably in the services sector. Some Chinese companies have already become very competitive and are starting to expand abroad, for example in internet services. In the long run it is likely that Chinese investments in Latin America will diversify across many sectors and reach most countries in the region. The recent expansion into the electricity sector in Brazil is a first sign of this trend.

The future growth of Chinese FDI may not be straightforward. The key concern at the moment is the danger of excessive debt on many Chinese TNCs that could develop into a financial crisis that will put a brake on their international expansion or even force them to sell some of their foreign assets. But even a financial crisis may have only temporary effects in their international expansion, as it will only strengthen the need to diversify their asset and revenue base, and therefore their willingness to develop a global presence.

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