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Characteristics of Chinese Overseas Foreign Direct Investment in Latin America (2000-2012)

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This paper is based on two important facts concerning Chinese overseas foreign direct investment (OFDI). First off, there is a strong coherence amongst Chinese public sector policies, including those aimed toward the attraction and outflow of foreign direct investments (FDI) and OFDI, 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 and in line with recent policies oriented to strengthen China's domestic market and an overall upgrading process, including an increasing share of services over total GDP (Dussel Peters 2012; Han 2012). These include economic growth to promote and increase in employment and quality of life, as well as greater efficiency in the use of raw materials (Nappoleoni 2011, 2012). This 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. Secondly, China—including Hong Kong and Macao—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 8.66% of the total worldwide in 2011 (vis a vis the 23.41% 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 2013). Taking these numbers into account, it

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makes sense that the flow of Chinese OFDI is significantly affecting LAC,[1] as much in its dynamic as in its dimension. 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.[2] As part of this phase, however, China's OFDI might have decreased importantly in 2012.

This paper argues that Chinese OFDI is qualitatively different from other OFDI worldwide. Until now, studies done by national and regional institutions like the OECD, the World Bank, the IDB, and the ECLAC have focused primarily on quantitative and descriptive aspects of foreign direct investment. 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).

Based on the above, this paper will be divided into three parts. The first 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 transactions. The second part will analyze generally the characteristics of Chinese OFDI from 2000-2012, with a particular focus on OFDI centered in LAC. 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 and implications for China and LAC.

Policies Enhancing FDI and OFDI

In general terms, in addition to massive funding from the predominantly public banking system, the principal measures that have

[1] Economic Commission for Latin America and the Caribbean (ECLAC, 2012) estimates that Chinese OFDI in LAC in 2010-2011 could have exceeded 37 billion dollars, which would have made China the third source of FDI in LAC, trailing only the United States and the European Union.

[2] 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 of 2012 (http://www.redalc-china.org/).

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 (WTO 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).

In terms of specific policies implemented to attract FDI and stimulate OFDI, China has taken a diverse array of concrete measures. Up to 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 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.[1]

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

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% 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.

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",[1] 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 which 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 the Ministry of Commerce (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,[2] and there are no significant differences in other tax-related matters. Since 2008, all companies must pay a 25% income tax.[3]

Thirdly, there are differences between domestic and foreign businesses regarding the incentives granted to them by the central

[1] Here we are referring to the Catalogues from 2007 and the most recent from 2011, taking effect on January 30, 2012 (MOFCOM 2011).

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

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

government, and, above all, by the cities, provinces, and municipalities.[1] At the national level, for example, the Ministry of Commerce promotes FDI through the Investment Promotion Agency,[2] as well as through trade shows, scientific and technological exhibitions, etc.

All of this suggests that the attraction of FDI will continue to be an important priority for China, despite the fact that its quantitative importance has 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

[1] 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% 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% afterwards (WTO 2010/b:51).

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

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". Unveiled for the first time in 1999, 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, respectively. In March of 2009, the Rules for the Administration of Overseas Investments were enacted, and since May of 2009 the Ministry of Commerce (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.[1] 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).[2] 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

[1] 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.

[2] Gallagher, Irwin, and Koleski (2013) estimate that China invested around 75 billion dollars in LAC from 2005-2010, particularly through the China Development Bank (82% of the total), the EIBC (12%), and the ICBC (Industrial and Commercial Bank of China) (6%).

Export-Import Bank of China (EIBC), the NDRC,[1] and the Credit Insurance Company (SINOSURE) in order to ensure the continuation of overseas projects at preferential rates[2] (Berger, 2008); 3. as a result of the global economic 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,[3] 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).

As a result of the diverse array of instruments of OFDI promotion, it is required that every OFDI project be approved by the NDRC, the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and the State Administration of Foreign Exchange (SAFE).[4] This includes Chinese companies established in China as well as their foreign subsidiaries, and projects exceeding 200 million dollars,

[1] After 2005, the NDRC established the strategic axes 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 range of OFDI - which would increase competitiveness, presence, and recognition in international markets (RBS 2009).

[2] 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, this means that only 30% 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.

[3] On July 3, 2012, the NDRC with 12 other government departments issueed "The implementing Opinions on Encouraging and Guiding Private Enterprises to Actively Develop Overseas Investment" resulting in tax privileges and financial support in these key sectors to private enterprises investing abroad; resource projects involving less than $300 milllion or non-resource ones will not require submitting application reports, but more simplified forms (TUSIAD 2013:20-23).

[4] Bernasconi-Osterwalder, Johnson and Zhang (2013) offer an important overview of the legal and institutional framework of China's OFDI.

which, even after their approval by the NDRC, must be agreed upon by the State Council.[1] It is clear that the function of the NDRC is to coordinate and encourage OFDI through specific processes, which is why the Commission 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"[2] 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 (2011-2015). 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% now to 8% in 2015 and 15% in 2020 (DRC 2010/a; Melton 2010; RBS 2009; TUSIAD 2013). All of this seems to indicate, therefore, that the Chinese authorities will continue this process for the short, medium, and long term. It is expected that China will increasingly liberalize the "positive lists" for China's OFDI, but will still significantly guide this

[1] 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.

[2] In RBS (2009), the initial steps are outlined that a Chinese company must follow in order to realize a potential OFDI project. 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 that 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 was one of the reasons that the Chinese company Tengzhong Heavy Industrial Machinery was not able to purchase the American company Hummer in 2009.

process.[1]

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, FDI and OFDI 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 to achieve a value-added increase demanded by the country's economic policies, and in line with macroeconomic shifts towards the domestic market and, 2. policies and incentives enacted in the early 2000's—specifically those involving direct financing—designed to promote the flow of Chinese OFDI and improving the quality of acquired processes, brands and goods. 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.

Chinese OFDI: General and LAC-specific tendencies

There are significant statistical problems regarding the total FDI coming into China and the total OFDI leaving from it. This 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.[2] This is a critical issue: from 2003-2011, 81.54% of Chinese OFDI went to Hong Kong, the Cayman

[1] According to the 12th Five-Year Plan OFDI will total $150 billion in 2015 and account for $500 billion in OFDI stock, with more than a million Chinese nationals working on OFDI projects in "positive lists" of products and processes in energy, raw materials, biotechnology, agricultura, services, high-tech manufacturing and innovative technologies.

[2] For a full discussion on China's FDI, including massive statistical problems and different sources, see: Deng (2011); Dussel Peters (2013); Lin (2013).

Islands, and the Virgin Islands and the share of these financial heavens even increased throughout the period. These numbers are particularly problematic when we consider Chinese OFDI in LAC. According to official MOFCOM figures for those same years, the Cayman Islands and the Virgin Islands represented 95% of Chinese OFDI in LAC (a total of 56.1 billion dollars in OFDI to LAC (Mofcom 2013). If both tax havens are excluded, the total comes out to 2.8 billion dollars). In addition:[1]

i. Table 1 clearly reflects the decreasing relevance of China's FDI—particularly in terms of China's gross fixed capital formation and of its GDP—and contrary to OFDI flows: since 1990 the OFDI / FDI share increased from 23.80% to 69.12% in 2012. On the other hand, FDI's share over gross fixed capital formation and GDP has fallen significantly since the mid-2000s, and as a result of the shift towards the domestic market of China's macroeconomy.

ii. From 2004-2009, Chinese OFDI was principally concentrated in lease agreements and business services (34.77%), mining (21.12%), and the financial sector (14.04%), while the amount that has gone toward manufacturing (6.04%) remains secondary. These trends have continued until 2011, with a share of 37.31%, 21.13% and 10.26%, respectively.

iii. During 2005-2011 China's OFDI has specialized in greenfield investments, with 61.09% of total OFDI's value, but with a falling tendency (from 73.26% in 2005 to 53.26% in 2011), i.e. mergers and acquisitions (M&A) are becoming increasingly important for China's OFDI.

iv. China's OFDI to LAC accounted for 19.93% during 2003-2011—and including LAC's tax havens—and highly concentrated in Caymand Islands (11.73% of China's OFDI), British Virgin Islands (7.20%), Brazil (0.30%), Peru (0.16%), and Venezuela (0.14%). Countries such as Mexico and Cuba accounted for 0.04% of China's OFDI or around $120 millions each.

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[1] For a full analysis, see: Mofcom (2013); TUSIAD (2013); Bernasconi-Osterwalder, Johnson and Zhang (2013).

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

	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012
FDI flows into China (millions of $US)	3,487	37,521	40,715	72,406	72,715	83,521	108,312	95,000	114,734	123,985	121,080
percentage over world FDI (flows)	1.68	10.95	2.91	7.38	4.97	4.23	5.96	7.81	8.14	7.51	8.96
percentage over gross fixed capital formation (flows)	3.45	15.00	9.96	7.68	7.99	6.59	6.11	5.88	4.14	4.22	3.72
percentage over GDP (flows)	0.86	4.96	3.41	3.17	2.61	2.39	2.39	1.87	1.93	1.72	1.58
stock of FDI / GDP (percentage)	5.12	13.36	16.21	11.91	10.50	9.36	8.34	9.33	9.88	9.88	10.29
China's OFDI (flows)	830	2,000	916	12,261	21,160	22,469	52,150	56,530	68,811	74,654	84,220
percentage over FDI (flows)	23.80	5.33	2.25	16.93	29.10	26.90	48.15	59.51	59.97	60.21	69.56
percentage over world OFDI (flow)	0.34	0.55	0.07	1.36	1.48	1.17	2.79	4.92	4.57	4.45	6.08
percentage over gross fixed capital formation (flows)	0.82	0.80	0.22	1.25	1.92	1.64	2.83	2.46	2.54	2.24	–
percentage over GDP (flows)	0.21	0.26	0.08	0.54	0.76	0.76	1.23	1.12	1.16	1.04	1.08
stock of OFDI / GDP (percentage)	1.1	2.35	2.33	2.51	2.69	3.27	4.06	4.85	5.33	5.90	6.29

Source: own elaboration based on UNCTAD (2013).

With respect to the argument of this paper, UNCTAD (2011) stresses for state-owned transnational corporations that:

a. state-owned transnational OFDI projects increased from 2003-2010—from around 89 billion dollars to 146 billion dollars. This reflects an average annual growth rate (AAGR) of 7.3%.

b. by country, China's involvement has significantly increased, from 12.91% of state-owned world OFDI in 2003 to 26.7% in 2010, followed by France and Germany with 14.22% and 7.94% in 2010, respectively. China's state-owned OFDI over total OFDI coefficient represented 67.77% for 2003-2010, or more than ten times that of all the "developed" countries combined and 920 times greater than that of the United States.[1]

In what follows, we will analyze information provided by Thomson-Reuters on Chinese OFDI at the company-level from 2000-2012. This 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—

[1] UNCTAD (2013:12) concludes that "the trend towards liberalization and privatization in the past 30 years has been accompanied by the rising importance of the State in foreign ownerhip ··· There are now 18 SOEs among the world top 100 TNCs. The Chinese State is the largest shareholder in that country's 150 biggest firms, and State companies make up 80% of the stock market value ···".

or private) is a personal contribution and responsibility. Only those transactions which have already been completed and with respected amounts will be included in the analysis. The data set is of particular interest given important statistical problems according to the origin and final destination of OFDI, as we analyzed above for the case of China's OFDI channeled through Hong Kong, British Virgin Islands and Caymand Island.[1] 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 only highlight five important tendencies regarding Chinese OFDI in LAC.

First, from 2000-2012 there have been 2,817 registered OFDI transactions in China, of which 1,502 were completed (only 986 of these show amounts). In LAC, only 102 Chinese transactions have been completed, while of these only 58 show what they are worth (see Table 2).

TABLE 2
China: Main Characteristics of the Data Bank (Thomson-Reuters 2013)
(search chriteria: M&A by China 2000-2012)

	Transactions		Amount	
	number	share	$million	share
Total universe /a	2,817	100.00	436,845	100.00
Completed transactions /a	1,502	53.32	268,192	61.39
public firms	542	36.09	225,067	83.92
private firms	960	63.91	43,125	16.08
Completed, with amount /b	**986**	**35.00**	**268,192**	**100.00**
public firms	**380**	**38.54**	**225,067**	**83.92**
private firms	**606**	**61.46**	**43.125**	**16.08**
raw materials, energy, water and gas	323	32.76	151,589	**56.52**
manufacturing	47	4.77	3,159	1.18
technology	227	23.02	22,795	8.50
domestic market	389	39.45	90,649	**33.80**
Transactions with Latin America and Caribbean	169	6.00	41,084	100.00
Completed transactions /a	102	60.36	26,965	65.63
public firms	36	35.29	23,543	87.31
private firms	66	64.71	3,422	12.69
Completed, with amount /b	58	34.32	26,965	100.00
public firms	**23**	**39.66**	23,543	**87.31**
private firms	**35**	**60.34**	3,422	**12.69**
raw materials, energy, water and gas	**23**	**39.66**	**24,100**	**89.38**
manufacturing	4	6.90	95	0.35
technology	10	17.24	122	0.45
domestic market	**21**	**36.21**	**2,648**	**9.82**

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

Source: own ellaboration based on Thomson-Reuters (2013).

[1] While the data set has some limitations—such as not including all known Chinese OFDI—it also has substantial benefits, i.e. in particular that it registers OFDI according to its final destination, and independently of its financial or intermediary agents.

Second, Table 3 indicates certain general characteristics of Chinese OFDI regarding its value in aggregate terms for the period 2000-2012. Hong Kong was the primary recipient of Chinese OFDI (23.77%), followed by Canada (15.80%), United Kingdom (10.44%) and LAC (10.05%). Brazil and Argentina are by far the most relevant recipients of China's OFDI, with 5.80% and 2.07%, respectively for 2000-2012, while Mexico only plays a minor role (with 0.05%). Very relevant is also the fact, that the average amount per transaction in LAC is much higher than for total Chinese OFDI, of 465 million dollars vis a vis 174 million, and in the case of Brazil and Argentina it is of $1,414 million and $2,775 million. Australia is also an important case for China's OFDI, accounting for 156 transactions averaging $130 million each.

TABLE 3

China: realized OFDI for selected countries (2000-2012)

	amount	percentage	nr. of transactions	percentage	amount per transaction (in $US)
Hong Kong	63,741	23.77	326	33.06	196
Canada	42,370	15.80	83	8.42	510
United Kingdom	28,012	10.44	18	1.83	1,556
Latin America and the Caribbean	26,965	10.05	58	5.88	465
Brazil	15,557	5.80	11	1.12	1,414
Argentina	5,550	2.07	2	0.20	2,775
Barbados	1,377	0.51	3	0.30	459
British Virgin Island	660	0.25	23	2.33	29
Peru	300	0.11	2	0.20	150
Mexico	131	0.05	3	0.30	44
Caymand Islands	118	0.04	6	0.61	20
United States	23,159	8.64	91	9.23	254
Australia	20,230	7.54	156	15.82	130
Singapore	7,565	2.82	43	4.36	176
Switzerland	7,446	2.78	3	0.30	2,482
South Africa	6,169	2.30	5	0.51	1,234
France	5,109	1.90	14	1.42	365
Norway	4,829	1.80	5	0.51	966
Russian Federation	3,901	1.45	3	0.30	1,300
Germany	1,852	0.69	13	1.32	142
South Korea	1,471	0.55	18	1.83	82
Japan	1,043	0.39	32	3.25	33
Angola	923	0.34	3	0.30	308
Holland	887	0.33	10	1.01	89
Macao	840	0.31	4	0.41	210
Italy	793	0.30	7	0.71	113
Mongolia	175	0.07	8	0.81	22
Taiwan	47	0.02	7	0.71	7
RESTO	19,324	7.21	111	11.26	174
TOTAL	268,192	100.00	986	100.00	272

Source: own ellaboration based on Thomson-Reuters (2013).

Third, upon examining the twenty main Chinese OFDI transactions in LAC from 2000-2012, we find a very small number of transactions carried out by private Chinese companies (only seven), as well as a contribution of only 10.7% from this group to the total amount of the twenty main transactions. Tellingly, most of the private Chinese OFDI transactions in LAC were aimed toward the Latin American market, while the other 88% 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.).

TABLE 4
China: realized OFDI in Latin America by 20 Main Transactions (2000-2012)

	Ownership	Use	Date	Seller	Buyer	Target nation	Value
1	public	raw materials	10/01/2010	Repsol YPF Brasil SA	Sinopec Group	Brazil	7,111.00
2	public	raw materials	03/14/2010	Bridas Corp	CNOOC Ltd	Argentina	3,100.00
3	public	raw materials	05/21/2010	Peregrino Project,Campos Basin	Sinochem Group	Brazil	3,070.00
4	public	raw materials	12/10/2010	Occidental Argentina Expl	Sinopec Group	Argentina	2,450.00
5	public	raw materials	09/01/2011	CBMM	China Niobium Investment	Brazil	1,950.00
6	public	raw materials	05/16/2010	Expansion Transmissao Itumbiar	State Grid Brazil Holding Ltda	Brazil	1,701.55
7	public	raw materials	09/13/2005	EnCana Corp-Ecuador Assets	Andes Petroleum Co	Ecuador	1,420.00
8	private	domestic market	08/01/2011	GE SeaCo Ltd	Investor Group	Barbados	1,048.70
9	public	raw materials	05/28/2012	ACS-Transmission Lines(7)	State Grid Corp of China	Brazil	942.81
10	private	domestic market	11/18/2002	Asia Global Crossing Ltd	Asia Netcom Corp Ltd	Bermuda	870.00
11	public	raw materials	08/10/2011	Atlantic LNG - liquefaction pl	China Investment Corp (CIC)	Trinidad& Tobago	850.10
12	public	raw materials	06/08/2009	MMX Sudeste Mineracao SA	Wuhan Iron & Steel Co Ltd	Brazil	400.00
13	private	domestic market	02/10/2010	Garden Plaza Capital SRL	Skysail Investments Ltd	Barbados	328.00
14	private	domestic market	08/06/2011	UTC-Air Conditioning Bus	Midea Electrics Netherlands BV	Brazil	223.30
15	public	raw materials	02/02/2004	PlusPetrol Norte SA	CNPC	Peru	200.00
16	private	raw materials	03/28/2008	Willsky Development Ltd	Travel Hunt Holdings Inc	British Virgin	137.62
17	public	raw materials	05/19/2009	MMX Mineracao e Metalicos SA	Wuhan Iron & Steel Co. Ltd	Brazil	120.00
18	private	raw materials	10/27/2008	Pampa de Pongo Property,Peru	Zibo Hongda Mining Ind Co Ltd	Peru	100.10
19	public	raw materials	09/24/2003	Ecuador Block 16	Sinochem	Ecuador	100.00
20	private	domestic market	09/28/2010	Tingzheng (Cayman Island) Hldg	Great System Holdings Ltd	Cayman Islands	84.44
Subtotal							26,208
TOTAL							26,965
Top 20 public / TOTAL (percentage)							89.35

Source: own ellaboration based on Thomson-Reuters (2013).

Fourth, Table 5 takes an in-depth look at one of the principal characteristics of Chinese OFDI in LAC from 2000-2012: with only 40% of the transactions, 87.3% of China's total OFDI to LAC comes from publicly-owned companies—which is 83.92% of public Chinese OFDI in total—and each public transaction exceeded 1 billion dollars. Of the 35 private Chinese OFDI transactions carried out from 2000-2012, each transaction only equaled around 100 million dollars. Aside from these large discrepancies, 86.15% of the total Chinese OFDI during this period was carried out in 2010 and 2011 alone (see Table 5), 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 for the period. In 2012, however, China's OFDI to LAC fell by

66.6% and accounted for less than 6% of China's OFDI in 2011, the highest ever amount yet.

TABLE 5
China: OFDI in LAC by type of firm (2000-2012)

	2000	2005	2006	2007	2008	2009	2010	2012	2000-2007	2000-2012
					$US millions					
PUBLIC										
Amount ($US million) (1)	0	3	0	57	521	17,460	2,822	943	1,741	23,543
Nr. Of transactions (2)	0	1	0	1	4	7	5	1	5	22
(1) / (2)	0	3	0	57	130	2,494	564	943	348	1,324
PRIVATE										
Amount ($US million) (1)	30	1	93	307	51	638	1,272	23	1,131	3,422
Nr. Of transactions (2)	1	1	4	7	5	11	2	1	9	36
(1) / (2)	30	1	23	44	10	58	636	23	126	98
TOTAL										
Amount ($US million) (1)	30	4	93	364	572	18,099	4,094	965	2,872	26,965
Nr. Of transactions (2)	1	2	4	8	9	18	7	2	14	58
(1) / (2)	30	2	23	45	64	1,006	585	483	205	465
					percentage over respective total					
PUBLIC										
Amount ($US million) (1)	26,964.81 –	71.79	0.00	15.67	91.08	96.47	68.93	97.67	60.63	87.31
Nr. Of transactions (2)	0.00	50.00	0.00	12.50	44.44	38.89	71.43	50.00	35.71	39.66
(1) / (2)	0.00	143.59	*0.00*	*125.32*	*204.94*	248.06	96.50	196.34	169.75	220.17
PRIVATE										
Amount ($US million) (1)	*100.00*	*28.21*	100.00	84.33	8.92	3.53	31.07	2.33	39.37	12.69
Nr. Of transactions (2)	*100.00*	*50.00*	*100.00*	*87.50*	*55.56*	*61.11*	*28.57*	50.00	64.29	60.34
(1) / (2)	100.00	56.41	100.00	96.38	16.05	*5.79*	108.76	*4.66*	*61.25*	*21.03*
TOTAL										
Amount ($US million) (1)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Nr. Of transactions (2)	100.00	100.00	100.00	100.00	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	100.00	100.00	100.00	100.00

Source: own elaboration based on Thomson-Reuters (2013).

Fifth, 56.52%% of the total Chinese OFDI was concentrated on raw materials during the period 2000-2012, and the search for market share accounted for 33.80% of the total (see Table 2). However, since 2007 OFDI in raw materials has increased to more than 62% while involvement in other areas has diminished. In LAC, 97.29% of the public Chinese FDI was concentrated in transactions linked to raw materials and energy, while 77.37% of private Chinese FDI was oriented toward access to the Latin American market (banks, services, infrastructure, etc.); so far Chinese OFDI of its public sector has been minimal in order to link to its domestic market (see Table 6). Again, the differences in regard to public and private OFDI are critical.

TABLE 6
China: ODI to LAC by type of use (2000-2012)
(percentage over respective total)

	2000	2005	2006	2007	2008	2009	2010	2011	2012	2000-2007	2000-2012
PUBLIC											
Amount (in $US) (1)	0.00	95.74	71.79	0.00	15.67	91.08	96.47	68.93	97.67	60.63	87.31
Nr. of transactions (2)	0.00	50.00	50.00	0.00	12.50	44.44	38.89	71.43	50.00	35.71	39.66
(1) / (2)	0.00	191.49	143.59	0.00	125.32	204.94	248.06	96.50	195.34	169.75	220.17
Raw Materials											
Amount (in $US) (1)	–	100.00	100.00	–	0.00	100.00	97.80	100.00	100.00	100.00	97.29
Nr. of transactions (2)	–	100.00	100.00	–	0.00	100.00	75.00	100.00	100.00	100.00	78.26
(1) / (2)	–	100.00	100.00	–	0.00	100.00	130.40	100.00	100.00	100.00	124.31
Manufacturing/exports											
Amount (in $US) (1)	–	–	–	–	99.86	–	100.00	100.00	–	–	99.91
Nr. of transactions (2)	–	–	–	–	50.00	–	100.00	100.00	–	–	75.00
(1) / (2)	–	–	–	–	199.72	–	0.00	100.00	–	–	133.22
Innovation/technology											
Amount (in $US) (1)	0.00	–	–	0.00	0.00	7.48	0.00	–	–	0.00	0.58
Nr. of transactions (2)	0.00	–	–	0.00	0.00	66.67	0.00	–	–	0.00	20.00
(1) / (2)	0.00	–	–	0.00	0.00	11.21	0.00	–	–	–	2.91
Market											
Amount (in $US) (1)	–	0.00	0.00	0.00	–	0.00	0.00	0.00	0.00	0.00	0.00
Nr. of transactions (2)	–	0.00	0.00	0.00	–	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	0.00	–	–
PRIVATE											
Amount (in $US) (1)	100.00	4.26	28.21	100.00	84.33	8.92	3.53	31.07	2.33	39.37	12.69
Nr. of transactions (2)	100.00	50.00	50.00	100.00	87.50	55.56	61.11	28.57	50.00	64.29	60.34
(1) / (2)	100.00	8.51	56.41	100.00	96.38	16.05	5.78	108.76	4.66	61.25	21.03
Raw Materials											
Amount (in $US) (1)	–	0.00	0.00	–	100.00	0.00	2.20	0.00	0.00	0.00	2.71
Nr. of transactions (2)	–	0.00	0.00	–	100.00	0.00	25.00	0.00	0.00	0.00	21.74
(1) / (2)	–	–	–	–	100.00	–	8.81	–	–	–	12.47
Manufacturing/exports											
Amount (in $US) (1)	–	–	–	–	0.14	–	0.00	0.00	–	–	0.09
Nr. of transactions (2)	–	–	–	–	50.00	–	0.00	0.00	–	–	25.00
(1) / (2)	–	–	–	–	0.28	–	–	–	–	–	0.34
Innovation/technology											
Amount (in $US) (1)	100.00	–	–	100.00	100.00	92.52	100.00	–	–	100.00	99.42
Nr. of transactions (2)	100.00	–	–	100.00	100.00	33.33	100.00	–	–	100.00	80.00
(1) / (2)	100.00	–	–	100.00	100.00	277.57	100.00	–	–	100.00	124.27
Market											
Amount (in $US) (1)	–	100.00	100.00	100.00	–	100.00	100.00	100.00	100.00	100.00	100.00
Nr. of transactions (2)	–	100.00	100.00	100.00	–	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	100.00	100.00	100.00

Source: own ellaboration based on Thomson-Reuters (2013).

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 any other FDI coming into the region. Institutionally speaking, Chinese capital can only be exported if it is both approved by the public sector—particularly the NDRC—and if the specific investments are justified in the Catalogues for OFDI, by the "Going Global" policies and other public institutions such as Mofcom, SINOSURE, SASAC, SAFE, and EIBC, among others. Proposals on behalf of public and private companies which 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, parallel to the process of liberalization and globalization.

The empirical evidence presented in the second section of this paper reflects the recent dynamism of Chinese OFDI. At 84 billion dollars in 2012, China has become the third most prolific exporter of capital worldwide, and at least in the medium term could become the primary source of global FDI. LAC was one of the largest recipient of Chinese OFDI from 2000-2012, with only Hong Kong, Canada and the UK receiving more. The analysis for the period 2000-2012 highlights the importance of OFDI ownership in LAC: 87% of the OFDI in the region came from public firms (contrasted with only 13% coming from private entities), the amount per transaction exceeded 1 billion dollars (vs. 100 million dollars per transaction in the private sector), and 97.3% of the public OFDI was concentrated in companies and processes involving access to raw materials and energy (while only 19% 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 which have been effectively carried out during this period. From a Latin American perspective China's OFDI is surprisingly coherent with FDI, trade and overall development strategies, and parallel to incentives and an institutional framework.

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-controlled entities (SCE's) 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 (ICSID) should differentiate between private and state-controlled investors. While some precedents have been set on the matter, certain tensions still remain: currently, the ICSID 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, SCE's have generated new legal challenges which were not conceived of in Article 25(1) of the ICSID Convention.[1]

Massive public OFDI also generates important challenges from an economic perspective. While for the majority of foreign investment, the causes and 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 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

[1] Article 25(1) of the ICSID 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 SCE's (Feldman 2012:1).

preservation, etc.[1] The fact that 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, of 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. They 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

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

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. Mexico is probably paradigmatic in this case: until the end of 2012 the government-government (G-G) relationship was considered to be distant and non-strategic and thus, Chinese OFDI was not significant and even lower than in Panama. With the new political engagement between both countries—and respective visits of President Enrique Peña Nieto and Xi Jinping in 2013—it could be expected that China's OFDI would increase; the G-G relationship, however, is a necessary but not sufficient condition for understanding Chinese OFDI flows, since, in addition, the host country has also to comply with the strategic interests of China's development strategy, as discussed in the first part of this document. 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. The political negotiations for shifting these value-added and technological structures are fundamental for LAC, as China did in the last three decades and is currently actively pursuing to promote its domestic market.

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