

GLOBAL VIEWS



WANG XIAOYING / CHINA DAILY

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Dynamic inputs and outputs

LAC investment in China of growing significance

China's incoming foreign direct investments have been an important source of modernization for China in past decades. According to the United Nations Conference on Trade and Development, the Chinese mainland has become the second-largest recipient of FDI, only after the United States, and accounting for 14.61 percent of global FDI in 2022 (and 23.7 percent with the addition of the Hong Kong Special Administrative Region). By region, China's FDI from Latin America and the Caribbean, with a share of 10.27 percent of China's total FDI during 2003-21 (or above \$11 billion annually on average), has become increasingly important. From this perspective, China's FDI is still macroeconomically important and relevant in specific global value chains (GVC), but it has significantly shifted. In light of 2023 being the 45th anniversary of the launch of China's reform and opening-up policy, FDI is increasingly related to its high-tech requirements and depending on the specific modernization demands of its GVC.

In spite of these important macroeconomic dynamics, China's FDI from LAC has received surprisingly little attention in recent years; while the LAC region is mainly an FDI receiver, around 20 percent of LAC countries' FDI was exported as outward FDI in 2022 according to UNCTAD. Overall globalization and LAC's reorienting to the East, specifically China, have become increasingly significant.

The Academic Network of Latin America and the Caribbean on China (Red ALC-China) recently published a detailed analysis on LAC's overseas foreign direct investment to China in eight chapters, including a regional perspective, as well as historical and detailed country-analysis for Argentina, Brazil, the Caribbean, Central America, Chile, Mexico and Peru. In addition, the document examines the experiences of 15 multinational companies from LAC developing their businesses in China (including Accenture, Bimbo, Camposol, Coledo, Elecmetal, Ebraer, Herbalife, Interceramic, Suzano, and Tenaris). The analysis is very rich from several perspectives.

First, the experience of LAC's companies in China is not only

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macroeconomically relevant for LAC and China, but they also substantially enrich the LAC-China socioeconomic relationship. The LAC-China socioeconomic relationship accounts for not only China's increasing presence in LAC, but also for the very dynamic LAC presence in China, in this case specifically regarding LAC investments. Bilateral institutions should improve their knowledge and mechanisms to enhance the bilateral investment flows.

Second, LAC companies in China present an astonishingly important group of experiences and characteristics. Most of LAC companies in China initiated their experiences as trade representatives in China to deepen their manufacturing and service activities. These processes took over a decade in several cases because of difficulties of comprehending details of China's respective markets. Companies such as Bimbo supply complex products and services that the company does not offer in any other country. Bimbo's learning process — and that of several other LAC companies required a long and expensive process to achieve the current results in China. At least as important is

to understand that LAC companies, with exceptions — Brazil's Embraer canceled its FDI in China in 2016 — attempted to reap the benefits of low cost in China in the early 21st century in terms of labor power and a large consumption market. China today, however, has become an extremely sophisticated market and LAC companies have allowed their headquarters to learn globally.

Third, the analysis is particularly fruitful in terms of recent development. Considering their learning process and the profound socioeconomic transition of China since its reform and opening-up, LAC companies investing in China since the early 21st century have been able to not only integrate into the most dynamic domestic market, but also to learn from China with direct implications for their headquarters and global representation. This has been the case in terms of innovations, design, change in consumption, suppliers, new sales and payment formats in which China has become a global trendsetter.

LAC companies in China have made important efforts not only in raw materials, but also in adding value to raw materials, food, beverages, electronics, vaccines and overall consumption goods in China. Their experiences in over two decades — not only in terms of acquiring Chinese companies, but also in new (greenfield) investments — are also significant for other foreign companies in China.

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Counter measure

China needs to boost its innovation capabilities as the US is intensifying its weaponizing of science and technology

In the context of the intensified US-China competition, the Joe Biden administration, reevaluating the limitations of market-driven methods, is developing a comprehensive science, technology and innovation strategy. This strategic initiative is designed to recalibrate the balance between private sector strategies and state involvement, reshaping the innovation ecosystem within the nation and redefining the contours of the US' technological rivalry globally. Its overarching aim is to fortify and sustain the country's preeminence in the realms of science and technology.

A central element of Biden's strategy involves striking a balance between economic interests and national security concerns. However, the security aspects seem to be advancing more rapidly than the economic gains. To date, this strategy has led to certain outcomes. These include progress in reshoring initiatives, attracting leading chip manufacturers to the US, and preventing Chinese acquisition of advanced chip and semiconductor technologies. But despite these developments, this approach still faces considerable challenges.

Policies driven by political and security objectives are disrupting the international division of labor, which was established through free-market competition in the era of rapid globalization. From the end of the Cold War to the 2008 financial crisis, the global investment and procurement strategies of most US companies were primarily driven by economic logic, focusing on cost efficiency and leading to cheaper, more efficient offshore production. However, under the intensifying geopolitical competition and the impacts of the COVID-19 pandemic, considerations of security have become increasingly prominent in US strategy. In an effort to correct market-driven logic with state-driven approaches, the Biden administration has continued the approach of the former Donald Trump administration by proposing transitioning from efficient to more "resilient" supply chains, prioritizing national security over market efficiency. Consequently, this strategic shift has substantially escalated economic costs for US companies. It remains uncertain whether the US can strike a realistic balance between security and efficiency through "painful" adjustments and successfully establish resilient supply chain networks in the future.

Various factors may jeopardize the intended outcome.

Export controls and investment restrictions, grounded in security considerations, may provide some reassurance to policymakers in Washington. These measures will help to stem the flow of critical and emerging technologies to China to some extent, thereby slowing down China's technological progress. However, the heightened focus on security within technological development has also inadvertently stifled certain aspects of the US innovation system. In the short term, some mature high-tech companies will inevitably suffer direct economic losses. In the long run, they may even permanently lose the Chinese market for high-tech products, resulting in incalculable losses, thus reducing their R&D investment and other expenses in US domestic factories. If misused, export controls and investment restrictions, intended as tools of technological and economic statecraft, might severely harm the US innovation system. Many institutions and individuals, represented by the Semiconductor Industry Association and Colette Kress, executive vice-president and chief financial officer of Nvidia, have expressed these concerns explicitly.

Additionally, inherent contradictions exist within the so-called democratic tech alliance, both among governments of different countries and between governments and enterprises. The Biden administration's policies, such as "Buy American" and subsidizing US companies, have significantly increased the disputes between the US and its allies. Its export controls and investment restrictions on China have also sparked dissatisfaction and protests from enterprises and associations in allied countries. The de-risking dilemma lies in the fact that Western companies are not listening to politicians' rhetoric; instead, they are taking costly steps to restructure their relationship with China. It remains to be seen how much the allies are willing to bear the cost and adhere to the US government's lead. As long as the US government persists with this approach, challenges are likely to endure and even intensify over the long term. These challenges encompass questions from domestic political and commercial groups in the US, as well as enterprises and interest groups in allied countries, about the effectiveness of tech sanctions and controls, coupled with increas-

ing demands for expanding technological trade with China.

Furthermore, the perceived "double standard" of advocating healthy competition domestically while promoting unhealthy competition internationally has cast doubts on Biden's narrative of science, technology and innovation. Lael Brainard, the director of the White House National Economic Council, has highlighted the significance of healthy competition as a foundational principle of economic theory and a vital US value, central to the essence of capitalism. Nonetheless, the administration's approach to fostering open and fair competition appears to be predominantly focused on the domestic market. From the perspective of the global innovation ecosystem, the intention to "slow down competitors" through abusing weaponized interdependence and other tools is tarnishing the US' standing in the global science and technology arena.

Despite facing challenges, the US government is likely to continue incorporating security policies into its science, technology and innovation strategy for the foreseeable future, regardless of any change of administration. This shift in the US strategy for science, technology and innovation presents complex and severe challenges to China's development of cutting-edge technologies and the protection of its technology security. As China moves up the global value chain, the US is expected to persist in utilizing the asymmetric network structures to weaponize its technological strengths in the prolonged competition with China. This competition is deeply rooted in the structural dynamics of both economies.

In response, China should concentrate on fostering its own innovation capabilities while synergizing the efforts of the government, private sector and global partnerships. This strategy involves developing an effective and open national innovation system, to boost the overall efficiency of its innovation processes.

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