

EXCERPTED FROM

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Foreign Direct  
Investment in China  
in the Twenty-First  
Century

edited by  
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# INTRODUCTION

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China's foreign direct investment (FDI) has been one of the most outstanding socioeconomic and development events in the last 50 years, increasing from levels below 1% of global FDI during the 1980s to 8.25% in 2010 and 15.51% in 2020; China's share over global FDI (10.50% during 2017-2021) has been second only to the United States (17.67%) (UNCTAD 2023).<sup>1</sup> Acknowledging China's FDI increase in absolute terms until 2021, China's FDI flows achieved its highest levels as a share of GDP and gross fixed capital formation (GFCF) in the midst of the 1990s (of 5.98% of GDP and 16.93% of GFCF in 1994) and have fallen significantly since then to levels below 2% and to 3% since the 2010s, respectively. This impressive performance does not only reflect China's capacity to attract FDI, but also the dynamics of Chinese endogenous processes in terms of innovation, value-added and GDP; this is also the reason why FDI has fallen as a share of domestic variables. There is no question regarding the importance of FDI in China, particularly since reform and opening-up until the 2000s from a macro, meso, and micro perspective, as well as global value chains to modernize China's socioeconomy and to allow for

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<sup>1</sup> If we include Hong Kong, China's share would increase to 18.46% of global FDI during 2017-2021.

in-depth learning processes (WB and DRC 2012:148-150, 417-418). Regulations, strategic attraction of FDI, overall learning processes, as well as the increasing relevance of China's domestic market and the open confrontation between the US and China since 2018 have all played important roles in China's FDI in the 21<sup>st</sup> century.<sup>2</sup>

The goal of the book is to examine Latin American and the Caribbean (LAC) overseas foreign direct investment (OFDI) to China, including macro, meso, and micro perspectives. Rather surprisingly these type of investment flows to China have not received much attention yet, even less so from a historical perspective that includes country-level specificities. Based on chapters on Argentina, Brazil, Chile, the Caribbean, Central America, Mexico and Peru, the book examines the macroeconomic and historical features of their OFDI to China and including several firm-level case studies. While Chinese OFDI to LAC have been examined at least for a decade, particularly at the Academic Network for Latin America and the Caribbean on China (Dussel Peters 2014, 2023; ECLAC 2010, 2021; Ray and Gallagher 2017), there is no structured analysis on LAC's OFDI to China until today.

The book's seven chapters present an enormous richness regarding each country-study, embed the respective analysis on its OFDI to China within the wider bilateral socioeconomic relationship, integrate several firm-level case studies and include conclusions and respective proposals. Considering the specificities of each country and region, each author emphasizes issues relevant to their relationship with China and conclusions.

At least six topics are important.

First. Statistics matter. Each of the seven chapters of the book highlights enormous differences in the methodology of registration and resulting statistics between Chinese and LAC official sources, in addition to efforts by UNCTAD (United Nations Conference on Trade and Development) and other academic and non-

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2 As we shall see below, a detailed analysis on China's FDI goes beyond the scope of this book. For a discussion on the recent performance of Chinese FDI from different perspectives, see: Gereffi, Bamber, and Fernández-Stark (2023); MOFCOM (2022/a/b); Wang *et al.* (2021) and WTO (2021).

governmental organizations. As a result, statistics on LAC's OFDI to China are particularly weak: in most of the countries in LAC there are no OFDI statistics by country and to China. The chapters on the Caribbean and the Cayman and Virgin Islands — as discussed in detail in chapter 3 by Jevon Minto, Chevano Baker and Noel Young— are an important contribution of the book for understanding the methodological differences and specificities according to different sources, in this case regarding the significant role of the Caribbean as an offshore financial center, parallel to homegrown OFDI flows. Any future analysis on FDI and OFDI should be aware of these differences.

Second. According to the last public official statistics on Chinese FDI by country (NBS 2022), LAC's share accumulated almost \$210 billion up to 2021 (or 10.27% of China's accumulated FDI until 2021), particularly concentrated on the Cayman Islands and British Virgin Islands (with a 95.85% of China's FDI from LAC for the same period). As discussed throughout the chapters, however, LAC's potential for OFDI is substantial: During 2003-2021, LAC carried out an OFDI of \$270 billion or an annual average flow of \$12.3 billion; the annual average OFDI from LAC has constantly increased until the last period (2018-2021). In addition, 58% of LAC's OFDI was concentrated in LAC (or intraregional OFDI) during 2003-2021 and only 2.94% to China (Dussel Peters 2022). However, and as discussed in detail in each of the respective seven chapters, the “reorientalization” of the global economy, including LAC's, has been particularly profound in terms of trade, and will deepen in the future in terms of bilateral capital flows, with an enormous potential for bilateral cooperation between LAC and China.

Third. From a national perspective, the chapters of this book examine that in regions such as Central America and countries such as Peru (in addition to many other countries that have not been included in the book), OFDI to China is minimal or non-existent. The larger countries in the region like Brazil, Mexico and Argentina present an important dynamic in their OFDI to China; Chile is an outlier regarding its exceptionally high levels

of OFDI in general, including to China (see chapter 5 of this book). Until today, no LAC country has developed specific instruments to enhance OFDI in general or to China. An important development issue discussed in several chapters of this book refers to the topic of the implications of OFDI for developing countries, and specifically in LAC, characterized as net capital importers and acknowledging OFDI by industrial groups and according to their increasing global activities.

Fourth. Implications of case studies. The 15 detailed firm-level studies in the respective countries allow for an enormous richness of future analysis of the same company and others. Several topics stand out: a. All firms are large multinational corporations (MNCs) or *translatinas* with prior internationalization process before beginning OFDI processes in China, b. In all the examined cases, LAC's MNCs began their OFDI operations at least in the early 2000s, i.e. they account for two decades of experiences in China, c. In all examined cases, LAC's MNCs in China began their activities through trade and representation offices before starting with OFDI processes and larger investments in China either in production sites and/or offering services, d. All cases reflect substantial learning or adaptation processes through their OFDI processes in China, particularly in their initial stages; in some cases these learning processes were interrupted by the cancellation of their activities, such as in the case of Brazil's Embraer in 2016 (see chapter 2 by Celio Hiratuka), e. From an industrial organization and business perspective, these case studies are extremely rich in highlighting different development paths in spite of high entry-barriers and cultural and market differences with the respective company's origin; in most of the cases, for example, firms began their OFDI activities through joint ventures (Bagó, Catlin, Embraer, and ICC) or merger and acquisitions (M&A) (Bimbo and Suzano), with some exceptions through greenfield OFDI in China (such as Cedrus Investments, Tenaris, and WEG), f. In most of the cases the initial OFDI processes were pursued to take advantage of cheap materials and labor power and to benefit from China's growing domestic demand; with few exceptions all firms in

2023 do not only acknowledge an increasing autonomy of their Chinese subsidiaries (Bimbo, Herbalife, ICC, and Suzano), but their subsidiaries benefit so much from China's innovation capabilities that it is transferred to the rest of the respective global industrial groups. This is the case of Interceramic China (ICC), given China's substantial developments in design, production innovations and showroom facilities in floor tiles (see chapter 6 by Enrique Dussel Peters), g. This first learning phase or wave—that took up to a decade for some of the analyzed firms (Bimbo, WEG)—allowed these firms to further expand, mostly through additional M&A and joint ventures. h. Rather surprisingly, all LAC firms doing OFDI activities in China have implemented innovative and state-of-the-art global practices that allowed them to compete in China: from seamless tube (Tenaris, see chapter 1 by Leonardo E. Stanley) to the development of new products and distribution channels (Accenture, Bimbo, Camposol, Codelco, Herbalife and ICC), manufacturing of motors and electrical equipment (WEG) and human and animal health (Biogenesis Bagó), grinding balls to pulverize materials (Elecmetal), automotive components (Tenaris), private wealth and asset management (Cedrus Investment), specialty insurance, reinsurance and other B2B services (Catlin and Peru's Intercorp examined by Alan Fairlie in chapter 7), i. Rather surprisingly, most of LAC's OFDI in China was not carried out in China's largest cities (such as Beijing, Shanghai or Chongqing), but in smaller cities and provinces (such as Baotou, Changchun, Changzhou, Chengdu, Dalian, Foshan, Guangzhou, Hangzhou, Jiangsu, Jiangyin, Nanjing, Ningbo, Qingdao, Shenzhen, Suzhou, Wuxi, Xian, Yangling, Yuling, and Zibo, among many other) that allowed them to benefit from local and regional FDI-instruments and cheaper suppliers; Bimbo, Catlin, Codelco and Embraer are important exceptions of this performance, since they began their OFDI activities with plants and services in Beijing; Suzano is also highly concentrated in Shanghai, and Cedrus Investments in Hong Kong, Shanghai and Beijing. j. Considering the waves and learning processes of these LAC firms in China, several of them have not only been able to integrate into the



culture, the suppliers, the clients as well as local, regional and national customers and respective public sectors, but they also use this expertise as a basis for other Asian countries (such as Codelco's recent activities examined in chapter 5 by Dorotea López, Andrés Bórquez and Juan E. Serrano-Moreno and Bermuda's Accenture to provide technology services in China and other Asian markets).

Fifth. Increasingly higher entry-barriers for new LAC OFDI to China. Large LAC MNCs took advantage of "cheap China" since the 1990s, as discussed below. The overall environment for investing in China, however, has changed considerably since the early 21<sup>st</sup> century. On the one hand, China has become increasingly expensive compared to other Asian countries, also manifested in several cases where LAC firms in China have recently transferred parts and components to other regional suppliers. In addition, while the "cultural distance" remains (see the case of Suzano in chapter 2), the competition in China with Chinese and foreign firms has increased drastically. Finally, the increasing trade tensions between the US and China also generate higher costs and risks, as discussed in chapters 1 for Tenaris and 5 for Elecmetal. The implications of these experiences are profound, including the challenges for smaller firms, or even large firms in LAC with little internationalization experience and without the possibility of having OFDI in China without profits for longer periods, as well as for future LAC OFDI to China, such as highlighted for Central America in agroindustry (and particularly coffee) and services (particularly digital services) by Rafael Arias-Achio and Rafael Arias Ramírez in chapter 4.

Sixth. All firms have been affected by US-China confrontation and the erupting trade war since 2018. However, none have decided to leave China as a result, but rather to follow a "China+1" strategy, i.e. to continue and deepen its OFDI and capacities in China, and to expand OFDI and particular processes, used in some cases for the US-market, to other Asian countries. Such is the case of Chilean Elecmetal (reorienting production to Africa)

and Mexico's Italika (substituting motorcycle components from China to India, Thailand, and Vietnam).

The conclusions of the respective chapters are heterogeneous and depend on the respective experiences of the firms and OFDI-flows. At least two topics are relevant in this context. First, all countries in LAC, and LAC as a region, as well as China, should begin with a detailed statistical and structured analysis of LAC's OFDI to China. As discussed earlier, LAC's OFDI in general and to China will continue to increase as a result of specific MNCs strategies, mainly incentivated by China's domestic market and their learning processes in China. So far, however, business organizations and the public sectors in the respective countries have not begun with such an analysis and discussion, despite the increasing macroeconomic relevance and for particular firms.

Second, the topic of LAC's OFDI to China should also be integrated into LAC's regional relationship with China, especially in the LAC-China Business Summit and the CELAC (Community of Latin American and Caribbean States)-China Forum. So far, the issue has not been raised or discussed explicitly neither in regional public and business bilateral institutions, nor in LAC's institutions or Chinese institutions such as MOFCOM (Ministry of Commerce), the Foreign Ministry or the State Administration of Foreign Exchange (SAFE), among others. Overall, specific cooperation in the field of OFDI, preferential treatment, specific benefits, and support for new OFDI from LAC, among other issues, could be discussed in these institutions.

The chapters are an explicit invitation by Red ALC-China for Chinese, LAC and researchers from other countries to continue with this line of investigation, both for new countries and to deepen other aspects of the already included countries and case studies.

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