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CHINESE FOREIGN DIRECT INVESTMENTS IN LATIN AMERICA AND THEIR INFLUENCE ON CHINESE-BRAZILIAN ECONOMIC RELATIONS

JEL Classification: *F21, F40, F50, O54*

Keywords: *Foreign direct investments, China, Latin America, international economic relations*

Abstract: *For many decades Chinese foreign direct investments in Latin America were not a subject of academic research or political debate. However, thanks to China's fast economic growth, huge saving rate and national reserves, the country plays a more and more important role not only in global trade, being the world's biggest exporter, but also in international investment scene by increasing the number and volume of its overseas businesses. Chinese FDIs in Latin America, although not as controversial as those in Africa, have registered a steady growth and seem to be both a chance and a threat for Latin American states. The scale and structure of FDI still remain relatively poor but the situation in the last years, especially 2009-2010 shows a significant change. Huge amount of Chinese FDI*

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go to Brazil, which is also the recipient of the biggest Chinese single overseas business project (Porto do Aço). As far as Brazilian-Chinese bilateral economic relations are concerned, the complementarity of countries' economies gives hope of beneficial cooperation, but at the same time poses a threat on Brazil of being vulnerable to externalities and losing manufacturing advantage in exports. Moreover, Chinese presence in Latin America means not only counterbalance to the influence of the USA but also undermines Brazilian position in the region. Methodology: the author combines quantitative and qualitative data analysis. Data used for the purpose of the article come mainly from UNCTAD statistics on-line, statistics of Chinese Ministry of Commerce, CIA Factbook. Moreover, the author makes use of desk research and literature review.

CHIŃSKIE INWESTYCJE BEZPOŚREDNIE W AMERYCA ŁACIŃSKIEJ I ICH WPŁYW NA CHIŃSKO-BRAZYLIJSKIE STOSUNKI GOSPODARCZE

Klasyfikacja JEL: *F21, F40, F50, O54*

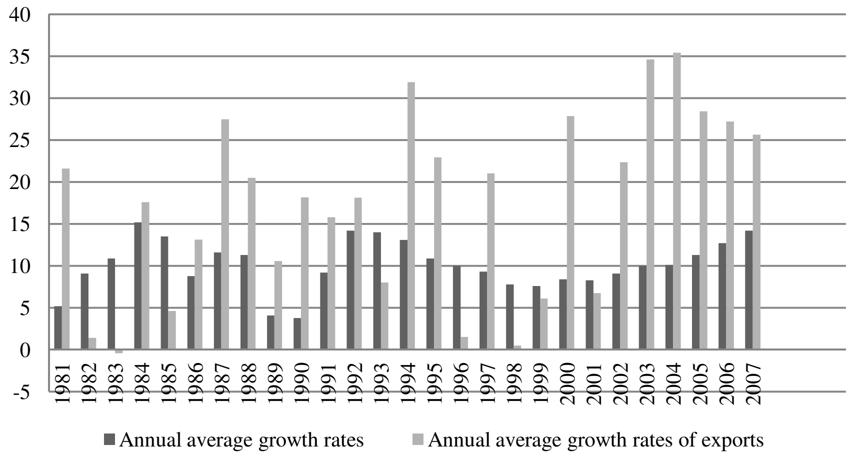
Słowa kluczowe: *Bezpośrednie inwestycje zagraniczne, Chiny, Ameryka Łacińska, międzynarodowe stosunki gospodarcze*

Abstrakt: *Przez wiele dekad chińskie inwestycje bezpośrednie w Ameryce Łacińskiej nie stanowiły przedmiotu poważniejszych badań naukowych czy politycznej debaty. Szybki rozwój gospodarczy Chin, ogromne oszczędności i rezerwy narodowe, a także rola kraju w światowym handlu sprawiły jednakże, iż Chiny stały się nie tylko największym globalnym eksporterem, ale zaczęły ponadto odgrywać coraz poważniejszą rolą na scenie międzynarodowych inwestycji, sukcesywnie zwiększając ilość swoich inicjatyw gospodarczych za granicą. Chińskie inwestycje w Ameryce Łacińskiej, jeden z przykładów tego trendu, nie tak kontrowersyjny bynajmniej jak obecność Chin w Afryce, stanowią zarówno szansę jak i zagrożenie dla krajów Ameryki Łacińskiej. Struktura i skala chińskich BIZ nadal pozostaje dość nieznaczna, ale ta sytuacja zmienia się szybko, szczególnie analizując lata 2009-2010. Ogromna część chińskich BIZ trafia do Brazylii, która jest jednocześnie odbiorcą największej indywidualnej chińskiej inwestycji zagranicznej, jaką jest projekt budowy Porto do Aço. Stosunki brazylijsko-chińskie w zakresie współpracy gospodarczej z jednej strony wydają się być bardzo obiecujące z uwagi na komplementarność obu gospodarek, z drugiej jednak strony stwarzają zagrożenie dla Brazylii jakim jest nadmierne uzależnienie się od czynników zewnętrznych oraz utrata przewagi w eksporcie produktów przetworzonych, które wypierane są przez* *produkty chińskie. Ponadto, chińska obecność w Ameryce Łacińskiej nie oznacza tylko stworzenie przeciwwagi dla Stanów Zjednoczonych, ale podważa również pozycję Brazylii w regionie. Metodologia: autor łączy ilościową i jakościową analizę danych pochodzących głównie z baz UNCTAD, Chińskiego Ministerstwa Handlu, CIA i Brazylijskiego Ministerstwa Gospodarki. Ponadto, autor w ramach przeglądu dostępnej literatury, podejmuje się analizy i oceny badań dotyczących powyższego tematu przeprowadzonych przez m.in. Asia Pacific Foundation of Canada oraz badań opublikowanych przez Uniwersytet w Sao Paulo.*

INTRODUCTION

Since 1980, the economic growth of China has been the subject of many studies and researches. There has already existed a vast literature discussing causes of such a growth, particularly wondering what kind of model China has implied in order to achieve such spectacular results. Is it similar to typical western market-orientated way of development, is it any kind of socialist experiment, or whether the new entity has been created incorporating the market economies' successful tools into a socialist frame?

Graph 1. The comparison of Chinese economic growth and its exports growth 1981-2007 (in %)



Source: UNCTAD statistics on-line (access: 8.01.2011).

The fact is that China has managed to enjoy its almost 10 percent per year growth for almost three decades. One of the reasons for this economic phenomenon may be the implementation of a competitive real exchange rate, which – regardless recent criticism, especially by Western economists – China has maintained. The combination of a strong strategy of fast development and the competitive exchange rate made China the world's biggest exporter in 2009. As shown in the graph 1, the growth of Chinese exports almost equals the country's economic growth. With constantly growing exports China has outran the traditional export giants – Germany and the USA.

Such trade dynamism was at first fueled by simple products, not demanding high technological solutions to be produced. However, the trend has changed and China is an exporter with a far more varied portfolio. In fact, in 2008 the share of high technology products in total Chinese export reached 30 percent, which does not differ from the export structure of the most developed countries like for instance the United States.

The main directions of Chinese export are the United States (20.03%), Hong Kong (12.03%), Japan (8.23%), South Korea (4.55%) and the European Union, of which Germany (4.27%) remains the main export destination.[1]

Apart from efforts made by China on busting its export, the country turns to foreign direct investment as well and although it still remains the biggest recipient of FDI, its own offshore investments are rapidly growing.

Chinese outward investments have started to be of some importance in the 90s. of the 20th century, when the country adopted a strategy of gaining access to natural resources for its fast growing industrial production. In this period Chinese investments went mostly to Canada, USA and Australia. However, since 2001 a vast dispersion of Chinese outward investments can be observed. Moreover, Chinese investments grew almost ten times in such a short period of time as 2004-2008, reaching USD 52.15 bln. The number is still much lower compared to developed countries, and far beyond the offshore investment level of USA and European Union.

This article focuses on Chinese foreign direct investments in Latin America, particularly in Brazil, which is the region's economic leader and together with China, Russia and India forms the so-called BRIC – the four-state group which is assumed to outshine all the contemporary global economic leaders by 2050 (*Dreaming with BRICS…* 2003).

[1] Data from 2009, CIA-The World Factbook, www.cia.gov/library/ publications/the-world-factbook (access: 06.01.2011).

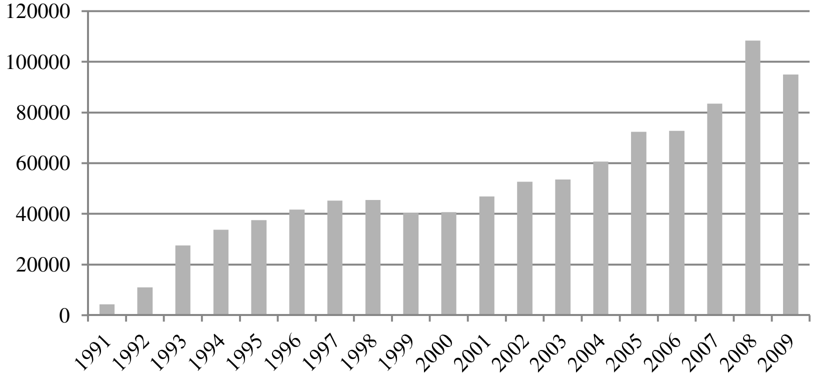
The author analyzes the dynamism, scale and structure of Chinese FDI in Latin America, focusing particularly on Brazil. Apart from that, he discusses how Chinese FDI might influence the region's economic development. Furthermore, the article tries to deal with the question how the economic position of Brazil in the region may be changed by Chinese investments and market penetration and how it might affect the Brazil-China bilateral economic relations.

The article is structured in the following way: first, the author analyzes the general trend in Chinese outward direct investments, showing their origins, main directions, structure and the governmental incentives for the potential domestic investors who are eager to expand their business overseas; second, the author tries to explain the reasons for Chinese outward investments on the basis on mainstream FDI theory; third, the status of Chinese FDI in Latin America is presented with particular focus on their structure, volume and type and at the end the Brazilian-Chinese relations are analyzed from the perspective of bilateral economic cooperation and investments. At the end, the author considers the consequences which Chinese FDI may have on the economic development of Latin America and Brazil.

CHINESE FOREIGN DIRECT INVESTMENTS

Chinese economy has been a huge recipient of foreign direct investments since the decision of its opening was made by the political leaders, especially since 1990s. Investments' inflows increased from USD 30 billion in 1990 to USD 70 bln in 2000 and reached USD 108 bln in 2008 (UNCTAD statistics on-line; access 06.01.2011), which mostly resulted from very successful economic reforms implemented in China. The structural analysis of the Chinese investments' inflow shows that approximately 94 percent was invested into the manufacturing sector – textile industry, electronic and telecommunication. Such vast investments made by foreign companies have influenced the structure of international trade, as since the year 2000 more than 50 percent of the gigantic Chinese export is generated by foreign firms.

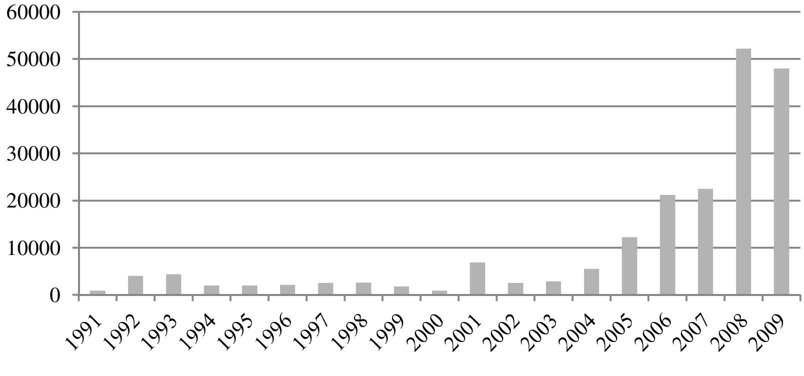
Graph 2. Chinese Inward FDI flows 1991-2009 (bln USD)



Source: UNCTAD Statistics 2010, author's adaptation.

At first only a benefiter of foreign investments, China has upgraded its production, found new markets for its products, got access to new technologies and improved internal organization of its firms. Making use of its huge potential, China has outshone all the developed countries in terms of fast and persistent growth.

Graph 3. Chinese outward FDI, 1992-2008 (mln USD)



Source: UNCTAD statistics on-line,access 08.01.2011

Currently being one of the economic leaders, China has started another phase in its fast development path. It has been not only a potential investments' beneficiary, though. Having huge savings and capital that can be invested somewhere else, China is becoming more and more eager to search investment opportunities for its own purposes overseas. One of its areas of interest is Latin America.

THEORETICAL BACKGROUND OF FOREIGN DIRECT INVESTMENTS. MAINSTREAM VIEWS

There are many theories concerning the reasons for which a company decides on production its products/services outside its homeland. According to Kindleberger (*American Business Abroad* 1969), this can be due to market imperfections such as monopolistic competition, which might give incentives for the firm to internationalize and search better profit opportunities abroad. Since the publication of Vernon's theory of product life cycle (*International Investment...* 1966, pp. 190-207), companies got a solid theoretical back-up as far as their overseas investments are concerned. According to the theory, which was a trial to explain the failures of the Heckscher-Ohlin model, in the early stage of a product's life all the components and labor associated with that product come from the country where it was invented. However, as soon as the product becomes adopted and spread into other markets, production gradually moves away from the place of origin (Hill, Charles 2007, p. 168). Moreover, the product can become an item that is imported by its original country of invention – everything depends on cost analysis, which generally encourages entrepreneurs to choose the location of labor for extensive production in less developed countries with low or relatively lower labor cost. Hymer (1976) separated the theory of foreign direct investments from the classical theories of trade and finance, making a distinction between direct and portfolio investment. In his analysis of the nature and causes of foreign investment, Hymer came up with the conclusion that interest rates encourage only portfolio investments, but not direct investments, and that the industrial distribution of the latter is not significantly different from one country to another, as could be expected if they resulted only from differences in profitability. Finally, Hymer stated that direct investments are capital movements associated to international operations of firms. Their goal is to keep control of production. This control allows either to suppress competition, or appropriate rents derived from advantages like skilled labor, cheap raw materials and access to capital markets or technology (Herbert Hymer 1979). Another FDI theorist, John H. Dunning, lists the reasons for which the company produces or is eager to produce for the global market. In internalization theory, which was based on transaction cost theory, Dunning says that transactions are made within an institution, if the transaction costs on the free market are higher than the internal costs. (Dunning 1998, pp. 269-295) To this basic statement many additional elements were added by Dunning constituting the theory of eclectic paradigm, which pays attention to three main non-structural reasons for the company to internalize. The factors were grouped according to the advantages, they bring: a) location, b) ownership, c) internalization (Twomey 2000, p. 8). In his works Dunning (1993) suggests that the greatest incentives for firms to invest abroad is the search for natural resources, especially if they are not available in the firms' country of origin, cheap labor force, search for new markets – for which also the size and potential matter – willingness to produce efficiently, eagerness to minimize risk, search for strategic assets and improvement of its international competitiveness (Dunning 1993).

Obviously, the FDI inflow to China can be explained by various arguments stated in mainstream economic theories – among which the access to abundant, qualified and cheap labor could be the most significant one from investor's point of view. Given the above, how can the outflow of Chinese investment be explained? Why does China invest overseas? Why does China invest in Latin America, why especially in Brazil?

Chinese initiative to internationalize originates from the program "Go Global", which has been adopted in 1999. It has had five main objectives: (1) to increase Chinese outward investments abroad, (2) to diversify production, (3) to better the level and quality of the projects/investments, (4) to improve/diversify the financial channels into the domestic market, (5) to promote the international standing and knowledge of brands of Chinese companies on European and American markets (*Asia Pacific Foundation of Canada*… 2009). One of the major aims and, at the same time, the crucial element of "Go Global" was the Chinese admission to the World Trade Organization, which was finally gained in 2001, after many years of negotiations.

According to the study "China Goes Global" (2009), the profile of Chinese external investment has still been very simple and of low value. Approximately two – thirds of investments have the better: a value lower than USD 5mln and only 6 percent of firms report investments higher than USD 100 mln (*Asia Pacific Foundation of Canada…* 2009). Moreover, it seems that the most common way to invest, applied by Chinese companies, is a form of mergers and acquisitions (M&A), which is far more popular than Greenfield investments. Besides, the majority of investments have been made by state owned enterprises, SOE (OECD 2008, Ch. 3).

Evidently, China has been continuously increasing its outward investments and, at the same time, its share in global foreign direct investment volume. However, they have still remained very timid comparing to FDI made by USA and some European Union countries. These figures should not be surprising, though. Already in FDI model elaborated by Dunning and Nerula (1996), which correlates the amount of state's FDI with its economic development, such results were expected (Dunning, Narula 1996, pp. 1-41). According to the authors, the higher the level of development of the country of origin of FDI, the higher its potential/real volume (Dunning, Narula 1996, pp. 1-41).

Recently, the series of institutional domestic reforms has given additional incentive to Chinese firms to invest abroad. Among the new laws some have a great impact of will to invest abroad. Particularly important seem to be: (1) the approval of cross-border mergers and acquisitions, (2) the establishment of equal corporal tax for foreign and domestic firms, (3) the official confirmation of the right to protect public goods as well as private property and (4) the revision of norms applied in case of outward foreign direct investment (OECD 2008, Ch.1). Beside its fast economic growth and strong position in the world trade, China has still much potential in internal market growth and that is what makes it such an important global player. According to the recent studies, still the majority of Chinese population, approximately 700 mln citizens, have lived in rural areas.

Taking into account the above factors, the question on the reasons for Chinese outward investments arises. Trying to understand the issue mentioned, the author analyzes the potential causes of the new trend in Chinese economy to invest abroad.

The first and very broadly discussed reason is the Chinese search for natural resources in order to secure its 8-10 percent of annual growth. In this context the prime area of China's interest is Africa, where many agreements are giving Chinese companies access to mineral resources, which have been negotiated in exchange of the promise of further openness in mutual trade and investment into infrastructure. However, the special interest in Africa seems to worry many western institutions, which accuse China of imperialistic aims and which are afraid of constant growth of China's influence in the region.

The second reason for Chinese companies to internationalize is the opportunity to become more competitive. This motivation has gained additional strength after China's accession to the World Trade Organization in 2001, when it had to gradually allow more and more foreign firms into its market and change the internal market regulations towards bigger liberalism and equality between domestic and foreign companies. For China, economic growth is strongly linked to internalization as for the Chinese companies it is not enough to run nationally, but they also need to offer the quality and technology demanded on the world market. Moreover, it is believed that this trend will even increase, since China needs to push forward effective management and intensive branding, which would change Chinese brand to a more positive one (*Asia Pacific Foundation of Canada…* 2009).

The third reason for Chinese foreign direct investment is to obtain modern technology and to transfer it into its industries. According to Benderson, that is the primary reason for Chinese mergers and acquisitions with foreign companies (Benderson 2008). To illustrate this trend, it suffices to give the example of Lenovo's acquisition of IBMs PC production units or purchase of R&D department of Phillips USA by the Huawei group, the fusion of French Thompson with TCL and the incorporation of the division of Dutch Philips Electronic by the China Electronic Corporation. The above described strategy has, however, some drawbacks and is already less and less accepted by global players and international community. The famous case of unsuccessful purchase of Opel by Beijing Automotive Industry Holding Company (BAIC) in 2009 can serve as a good example (Holland, Barbi 2010).

Another explanation of Chinese outward investments might be the trial of upgrading China's global position in the international finance area and of becoming the real counterbalance to the United States. Currently, China has more than USD 2.3 bln reserves invested in American public enterprises. (IMF on-line data for December 2009, access 06.01.2011). With such a great share of world reserves in dollars there is a justified fear of some modification of China's monetary policy or general development direction, which could seriously affect the situation on the world market. Particular criticism is leveled at Chinese trade policy based on US dollar parity, which keeps Chinese currency much undervalued creating even greater Chinese export advantage.

Finally, the last reason for Chinese FDI analyzed by the author is China's ambition of strengthening its global standing by the means of soft power (Accenture 2005). There are influential internal movements in China (Taoguang Yanghui 2003). That clearly prioritize international activity over domestic reforms and internal policy.

Table 1. Chinese outward FDI 2003-2005, main directions

Table 1a: Values of Chinese Outward FDI Stocks (US $ Million)			
Region	**2003**	**2004**	**2005**
Asia	26559.39	33409.53	40629.04
Africa	491.22	899.55	1595.25
Europe	531.52	746.66	1598.19
Latin America	4619.34	8268.37	11469.62
North America	548.49	909.21	1263.24
Oceania	427.26	543.94	650.28
Table 1b: Shares of Chinese Outward FDI Stocks (%)			
Region	**2003**	**2004**	**2005**
Asia	79.94	74.61	71.02
Africa	1.48	2.01	2.79
Europe	1.6	1.67	2.79
Latin America	13.9	18.47	20.05
North America	1.65	2.03	2.21
Oceania	1.42	1.21	1.14

Source: http://www.nber.org/books_in_progress/china07/cwt07/cheng.pdf.

Latin America as the potential location of Chinese investments does not arouse as many controversies as the Chinese engagement in Africa. Hardly anybody assumes that China might have neocolonial aspirations towards South America. It might stem from the common belief that the Chinese investments in Latin America are very scarce or/and on the fact that generally Latin American position in world's economy is undeniably higher than African standing in terms of economic development.

Latin America is a very interesting partner for China as far as natural resources search is concerned. The continent is rich in vast energy reserves (Venezuela, Brazil) and minerals (Cuba, Chile, Peru, Brazil) that for a long time might respond to China's fear of undersupply of domestic industry. Moreover, Latin America seems to have stabilized its economy after last century's crisis and even despite last year's economic downturn, the region managed to follow a path toward sustained economic growth, macroeconomic stability, and positive external balances. According to current predictions, the region is projected to grow by 4.5 percent in the year 2011, with some countries by as much as 7-8 percent (IMF, International Financial Statistics on line, www.imfstatistics.org/imf, access: 06.01.2011). This is partially due to the implementation of conservative fiscal and monetary policies, continued central bank independence, and strict financial regulations, but also thanks to trade with China, which played an important stabilizing role in Latin America and the Caribbean during the recent global financial crisis. As the world's exports fell in 2009, Chinese imports from the region grew. Latin American export growth boom, which is mainly composed of natural resources, can partially be explained by Chinese internal resource constraints as well as obstacles within the WTO accession process. The complementarities between China and LAC are evident: if China grows by 10 percent, the demand for LAC exports grows by 25 percent (Wilson Center, *China, Latin America...*). Furthermore, the situation on the world markets favored raw materials exporter who could enjoy relatively higher profits due to higher prices of commodities like minerals, raw materials and f. ex. soya, which are flag export products of Latin America. This advantage might, however, reverse soon, leaving the region vulnerable to a potential economic crisis. Besides, the benefits of the trade are not evenly distributed across the region; Chile, Peru, Brazil, Argentina, and Costa Rica constitute demonstrably bigger share of exports to China than other countries from the region (OECD on line statistic, access: 06.01.2011).

Some experts suggest that in order to stimulate sustainable and more equitably distributed growth, the Chinese-Latin American trade model must go beyond free trade agreements (Morreira 2009). In addition, the Chinese access to Latin American resources is obtained simply by purchase of certain amounts of goods, avoiding any form of investments, which would be much more beneficial for the region. Current level of Chinese foreign direct investment in Latin America and the Caribbean (LAC) is quite low, and mostly aimed at the tax havens, which brings us to the fundamental question as far as China-Latin American relations are concerned: How to improve trade quality and how to diversify direct investment beyond raw materials? There has still been a huge disparity between the trade between China and LAC and the amount of Chinese FDI in the region. To illustrate that fact, it is worth comparing the Chinese import from Latin America and its FDI in the region.

Table 2. The flow of China's FDI to Latin America 2003-2006 (mln USD)

Country	2003	2004	2005	2006
Argentina	1.00	1.12	0.35	6.22
Bahamas	-1.03	43.56	22.95	2.72
Brazil	6.67	6.43	15.09	10.09
Cayman Is.	806.61	1286.13	5162.75	7832.72
Chile	0.20	0.55	1.8	6.58
Cuba	1.43	…	1.58	30.37
Br. Virgin Is.	209.68	385.52	1226.08	538.11
Venezuela	6.22	4.66	7.4	18.36
TOTAL	1038.14	1762.73	6466.16	8468.74

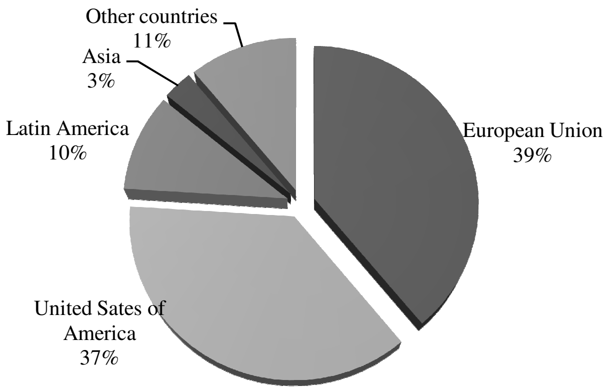
Source: MOFCOM (2006).

Recently, a steady growth in Chinese FDI inflow can be observed, but it is still on a relatively low level, lagging behind the investments from European Union (39%) or United States (37 %).

In 2008, total Chinese FDI to the region (excluding tax havens) was USD 48.9 million, poor result in comparison to Latin American's overall FDI of USD 122 billion. Between 2001 and 2009, China's cumulative FDI to Brazil was USD 172.7 million, a significantly smaller sum than Japan and Korea's FDI inflows of USD 9,344.63 million and USD 793.98 million, respectively.

Analyzing Chinese FDI in Latin America from structural perspective makes it visible that the areas attracting the greatest attention are mineral industry, and gas and petrol industry. Clearly it does confirm the Chinese natural resources securing strategy. In order to gain access to them, China has become a significant shareholder of Peru's iron, Cuban nickel and Chile's cobber industry. Such a method of investment seems to be the easiest one, the least risky and the cheapest. However, the acquisition is not always a perfect strategy as it was in the case of Chinalco's (Chinese Aluminum Corporation) purchase trial of an additional 15% share of Rio Tinto, of which it had already owned 8% and was stopped by Australian government on the grounds of national interest threat (Landim 2009). According to the survey carried out by Asia Pacific Foundation of Canada, the most popular mode of entering foreign markets by the Chinese is through establishing operational branches.

Graph 3. The FDI flow to Latin America (2003-2006), by country of origin

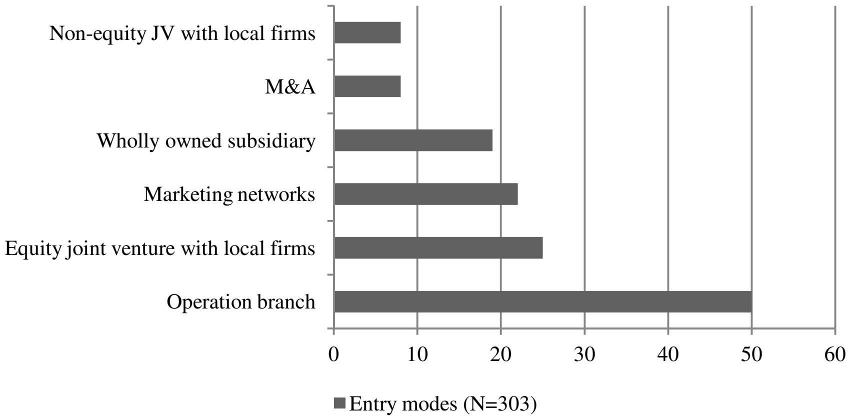


Source: Suaminen (2008).

Another form of Chinese investments in Latin American countries is through joint ventures. That had taken place in the case of Chery Mercosul which has owned a car factory in Uruguay since 2007 in cooperation with Argentinean Macri and aims at exporting vehicles to Argentina and Brazil and trucks to Mexico (Rozen 2008). Many observers notice this trend as the a new element to the traditional Chinese corporate activity that mainly focused on domestic production that preserved and created workplaces for Chinese and explain it as the approach of shifting only more complex manufacturing overseas. Furthermore, Chinese FDI to Latin America flows in form of marketing networks, wholly owned subsidiaries and non-equity joint ventures with local firms.

According to the vast research carried out by Asian Pacific Foundation of Canada, Chinese companies are more and more eager to invest abroad (*Asian Pacific Foundation of Canada...* 2009). The survey has shown that 27 percent of companies have already invested in a foreign country, especially within the frames of the 'Go Global' program. However, the volume of these investments is very low, with not more than 6 percent of investments above 100,000 USD. Additionally, the great majority of them are realized in Asia, particularly Hong Kong and some go to USA and Africa (Data published in September 2009). As for the form of investment, Chinese companies have declared joint ventures, and established their own manufacturing plants as the most favorite means of entering the new markets. Mergers and acquisitions seem to have at least currently lost their popularity. Moreover, approximately 40 percent of Chinese firms plan to expand their businesses overseas. The Accenture survey indicated that the volume of Chinese FDI will remain stable.

Graph 4. Chinese companies entry modes into foreign markets



Source: Asia Pacific Foundation of Canada (2009)

The major Chinese projects in Latin America are connected with natural resources search. In 2009 the Development Bank of China (CDB) invested 10 mln USD into an enterprise with Petrobras, which is supposed to export 150 mln barrels of oil per day from 2009 and 200 mln barrels between 2010-2019 to Unipec Asia, which is a subsidiary of Sinopec, the Chinese state oil company. The oil price in the transaction is to be regulated by the world market price of this commodity timid next years and will be mainly directed to energy sectors (Accenture 2005).

Another huge Chinese project in the region is the participation in Porto de Acu (Rio de Janeiro, Brazil), a building by Wuhan Iron & Steel Company, which involved approximately USD 3.5 mln. As far as telecommunication sector is concerned, ZTE – a Chinese technological enterprise has received USD 2 bln from the Chinese Development Bank in order to buy Brazilian phone and cell phone operators (Marghaes 2009).

Table 3: The main Chinese investments in Latin America, motivation criteria

Year	Investor	Quantity (m)	Sector	Country
Resource – seeking Investments				
2005	Minmetals	$500	Metals	Cuba
2005	Minmetals	$550	Metals	Chile
2005	CNPC and Sinopec	$1,400	Energy	Ecuador
2006	Sinopec	$420	Energy	Columbia
2007	Zijin Mining	$186	Metals	Peru
2007	Golden Dragon	$100	Metals	Mexico
2007	Chalco	$790	Metals	Peru
2007	Minmetals and Jianqxi Copper	$450	Metals	Peru
2008	Chinalco	$2,150	Metals	Peru
2008	Jinchuan Gr. And China-Africa	$214	Metals	Mexico
2009	Shougang Group	$1,000	Metals	Peru
2009	Shunde Rixin	$1,900	Metals	Chile
2010	East China Minerals	$1,200	Metals	Brazil
2010	State Grid	$1,050	Metals	Chile
2010	CNOOC	$3,100	Energy	Argentina
2010	CNPC	$900	Energy	Venezuela
2010	China Sxi-Texh	$255	Metals	Peru
2010	State Grid	$1,720	Power	Brazil
2010	Sinochem	$3,070	Energy	Brazil
2010	Chongching Co	$300	Real Estate	Brazil
Market – seeking Investments				
2009	Lenovo	$40	Manufactu-ring	Mexico
2009	State Construction Engineering	$100	Real Estate	Bahamas
2009	Wuhan Iron and Steel	$400	Metals	Brazil
2010	Chery Auto	$700	Transport	Brazil
2010	Sany Heavy Industry	$100	Manufactu-ring	Brazil

Table 3 continued

Year	Investor	Quantity (m)	Sector	Country
Efficiency-seeking Investments				
2007	Chery Auto	$100	Transport	Uruguay
2008	Sinotex	$92	Manufactu-ring	Mexico
2009	Hebei Zhongxin	$400	Transport	Mexico
2010	Foton Mexico	$250	Manufactu-ring	Mexico

Source:http://triplecrisis.com/wp-content/uploads/2010/09/TCBtableGallagher21Sept1.jpg.

CHINESE INVESTMENT IN BRAZIL

At first glance Brazil and China seem to be very complementary trade and investment partners. Having plenty of natural resources from soya through iron ore and oil , Brazil has far too low investment and savings rates which by reaching the level of only 15-17 percent of GDP is the lowest of the region's developing economies. China, on the other hand, has a huge saving rate of 45 per cent of its GDP, huge current account surplus and is in need of commodities which fuel its fast economic growth. This situation might bring noticeable benefits for both sides except for two significant factors, which clearly give China an advantage. The problems that Brazil might be faced with are: first, the staggering increase of China's importance in manufacturing, which was the domain of Brazilian economy, and second, the danger of too big vulnerability of Brazilian economy when it is based not on domestic but foreign investments.

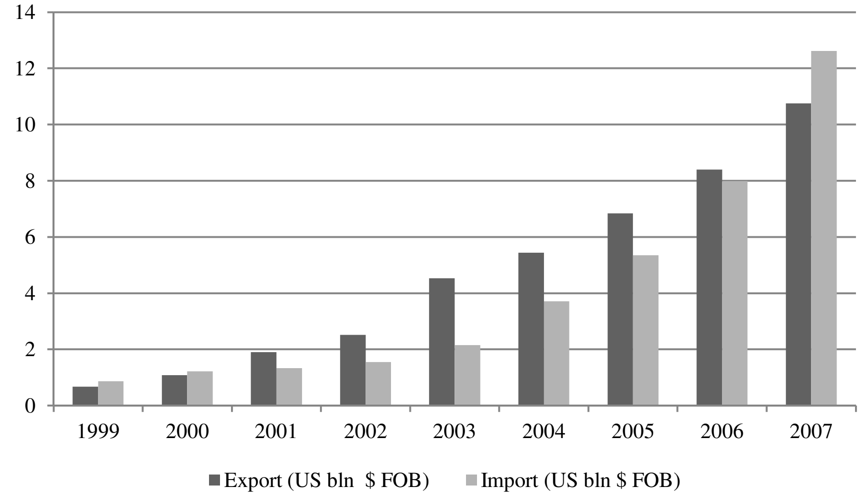
In 2009 China overtook the United States and is currently Brazil's biggest investor. In the first six months of 2010, FDI flows reached approximately 10 billion USD. This number is particularly impressive when we compare it with 83 million USD FDI in the same period last year. The increase in Chinese FDI to Brazil seems to be one of the most important elements of the countries bilateral relations.

Not until very recently Chinese FDIs in Latin America and particularly Brazil were absolutely insignificant although China became Brazil's largest trade partner in 2008. Brazilian exports to China are booming as the Asian partner bases its growth on resource-intensive industrialization, urbanization and demographic transition. The exports to China accounting for 7 per cent of total exports make it the prime Brazilian export market (data from

Brazilian Development Ministry, 2009; China is the biggest trade partner of Brazil when we count all EU countries separately, if EU is regarded as one economic unit, then China is the second biggest trade partner).

However, since 2007 despite very high commodity prices, Brazil has registered a deficit in trade with China.

Graph 5: Brazilian-Chinese trade 1999-2007 (USD bln)



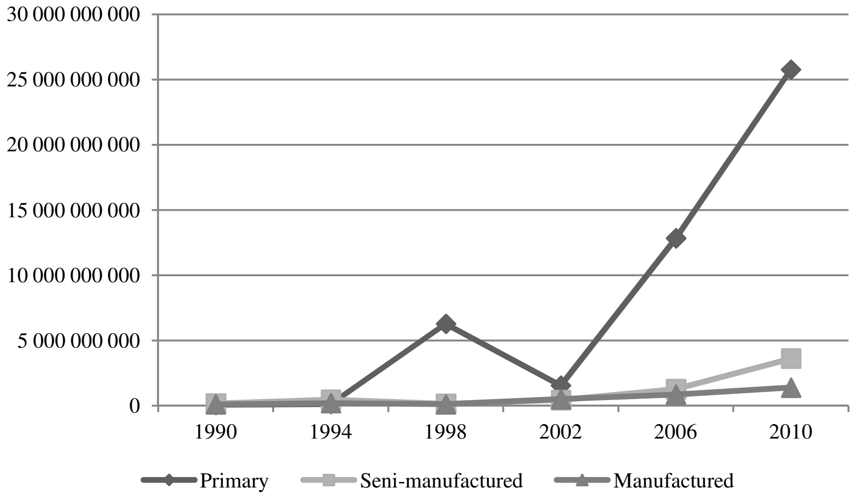
Source: Brazilian Ministry of Development on-line statistics (2010).

Moreover, Brazilian export to China is poorly diversified. The country relies mostly on its natural resources, which are characterized by low value added. This puts Brazil on a much worse position within the area of international trade and investments, not only when we compare it with developed countries but also when we refer to other BRIC members – China which specializes in increasingly competitive and of higher quality manufacturing or India focusing on outsourcing services.

The massive current growth of Chinese direct investment adds another perspective to the Brazilian path of development and it has raised the discussion on how they influence Brazilian economy.

The current situation resembles Brazilian experience with Japanese investment 40 years ago, which should encourage Latin American country to do much more to manage the Chinese investment tide. Only in one decade from 1964-1974, Brazilian-Japanese trade grew by almost 3000 percent. In exchange for providing Japan with basic commodities, Brazil gained access to cheap consumer and capital goods for import-substituting its industrialization. The primary trade matured later into FDI, and Brazil became the third-largest recipient of Japanese overseas investment in the mid 1970s (Gallagner, Porzecanski 2010).

Graph 6. Brazilian export based trade pattern



Source: Brazilian Ministry of Development (2010).

Historical comparisons show that China uses many of Japanese strategies while entering the Brazilian market – starting from diplomatic visits that lead to real economic agreements (the case of joint venture with CVRD- Vale do Rio Doce in aluminum, steel and pulp processing), through financial help by issuing loans to Brazilian enterprises in order to establish long-term cooperation (for example USD 10bln loan to Petrobras given by the China Development Bank) to maintain personal ties to Brazil's elite (Elezier Batista, the former president of Vale do Rio Doce, made deals with Japanese companies like Kawasaki and Nippon Steel in the 1970s, while his son Eike Batista – current president of the mining, gas, and logistics group EBX, cooperates with Wuhan Iron and Steel and other Chinese SOEs). Although the international context and Brazilian position in the world economy differs much from the situation described, it is worth mentioning that in the 1970s, Japanese investments were much welcomed in Brazil as fund source for its capital-scarce economy. The results were not as great as it was expected – FDIs, which were just a trail to offset rising oil and metals prices on the world market, dropped as soon the prices fell again in the 1980s. According to many specialists, Brazil runs the same risk now: the commodity super-cycle could end once Chinese demand decreases (Mance 2010). At the same time, the scenario of a progressing "Dutch disease" – commodity-driven currency appreciation that undermines manufacturing – is becoming one of the main Brazilian worries. The majority of Brazil's exports to China is simply commodities, while manufactured goods account for more than half of Brazil's exports to the US and Europe. The paradoxical situation occurs when the Brazilian export of cheap resources contributes to China's advantage in manufactured goods and undermines the Brazilian industry and its international and regional position. Ironic might seem the fact that Brazil is pursuing more anti-dumping suits against China just as China is focusing on establishing more FDI in Brazil. Resource-seeking investments might modernize Brazil's oil refining and steel conglomerates, but many of these projects increase social and environmental costs. In the Chinese-Brazilian cooperation the element of knowledge and technology transfer is on a low level as well, especially when compared with FDI coming from the United States or the European Union. The initial stage of most significant Chinese investments gives, however, some time for Brazilian policymakers to make sure they will generate value and contribute to sustainable growth. Challenges have not been sufficiently responded. Looking at the Brazilian representation in China, for instance, it strikes that Brazil has greater diplomatic presence in Paraguay than in China. Also Brazilian-Chinese trade chambers do not receive much financial help from the Government and although the establishment of a Beijing office for the Brazilian Export and Investment Promotion Agency (APEX) was proudly announced, it does not have any real power and finance to play an important role in Chinese-Brazilian economic relations in the way that would be most beneficial for Brazil. In fact, Brazilian local governments are engaging in bidding wars to attract FDI from China without any central coordination.

CONCLUSIONS

Chinese foreign direct investments until very recently have not been an issue in international economics. Currently, the country's staggering growth and huge reserves make it one of the greatest potential global investors. At first only the recipient of foreign investments, China has made use of the capital, knowledge and technology transferred through inward FDI channel and upgraded its economy. Reaching the status of world's biggest exporter, the Chinese turned to another economic activity that can not only secure the access to natural resources, but also increase their competitiveness, provide further technological development and even strengthen their global position by the means of soft power. Moreover, outward direct investments have full support of Chinese government which has gone beyond Go Global incentive program and additionally launched investment-encouraging policies. No wonder that Chinese performance on the international investment scene has been attentively observed.

There are several directions China has aimed its outward investments at. The main regions that seem to be of prime importance to Chinese investors are: Asia, Latin America and Africa. In contrast to China's investments in Africa, its FDI in Latin America have not aroused as many controversies, being considered as not significant enough and of lower impact on the regional and global markets. However, increasing amount of Chinese enterprises and initiatives in Latin America may change the common view. Currently, the majority of the Chinese projects concentrate around investments in natural resources, which is much more beneficial for China. Until now, Latin American countries have not gained much from such cooperation from technological point of view. Chinese FDI in the region do not upgrade partners' economies in a significant way. The Southern American Governments should take action in order to secure the sustainable growth of their states and prevent their future vulnerability to externalities. Some specialists suggest that with reference to China's massive labor market and cheap wages, Brazil and Mexico should capitalize on their low-wage areas in the northeast and south. LAC countries should increase their productivity, and in the case of Mexico and Central America, use their comparative advantage of proximity to the United States to focus on goods that are time sensitive and require "speed to market".

As far as Chinese-Brazilian economic relations are concerned, in light of growing Chinese economic presence in Latin America, it seems that until now, apart from some voices pointing at the danger of becoming dependent on externalities, Brazilian government has not adopted a clear attitude towards the problem. Furthermore, with the lack of any centralized policy, Brazilian local and regional governments fight over any possible bigger Chinese investments in their area, which can bring some capital and improve the situation on the local labor markets.

From a strategic perspective, China's interests seem to be purely commercial, unlike Russia's military and diplomatic partnership with Venezuela based on ideology. However, on Latin America's side, the cooperation might have indeed been initiated to serve as a "strategic counterweight" to the region dependence on the United States. If it is used wisely, it might diversify exports of Latin American countries and open new markets for them. Building a strategic relationship with China is nonetheless challenging and requires trust and policies that bring similar benefits for all parties. In addition, the nature of the Latin American-Chinese relationship differs a lot from the traditional cooperation between Latin America and Europe or United States, with which the region has shared much stronger cultural ties.

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