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Chinese ODI and M&A in Latin America: new features of a current trend

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Before 2010, Latin America was seen as a very remote region for most Chinese companies, simply the source of the many commodities that were exported to China. Trade and diplomatic ties were probably the only link between the two. However, after 2005, when Lenovo acquired the PC business from IBM, China began to take a new approach to the world. That approach reached Latin America in 2010, when Chinese companies began to see the region as an attractive destination for outward direct investment (ODI) and a place to carry out M&A.

The first major investments by Chinese companies in Latin America were performed in Argentina, Brazil and Peru, and almost 90 percent were in mining and oil & gas. Initial incursions by China in the region aimed to secure strategic resources, a circumstance that is still a major factor in performing acquisitions, such as the oil transactions in Venezuela. However, China has also diversified into other countries and industries. Chinese companies have invested more than $110bn in the region and, especially in the last few years, annual investment has been approximately $10bn.

Furthermore, the support of the Chinese government has been critical. Originally motivated by the need to secure strategic natural resources to support the development of infrastructure in China – development the country has been experiencing since the opening-up initiated by Deng Xiaoping in the 1980s – more recently there have been moves to internationalise Chinese companies and strengthen China's influence throughout the world. Such internalisation is being driven by policies such as the 'Go Out' policy launched in 1999, the 'One Belt, One Road'

(OBOR) concept outlined by President Xi Jinping in 2013, and 2014's 'International Production Capacity Cooperation'.

Additionally, the recently released second Sino-Latin American policy document in November 2016 – which contains the strategy of China toward Latin America – demonstrates the strong interest China has in the region. Last but not least, another critical factor that has encouraged Chinese companies to reinforce their presence in the region has been the withdrawal of the US since the election of Donald Trump. This leaves space for new players. All these policies have resulted in more Chinese ODI and M&A in Latin America.

Another interesting fact is the diversification of Chinese investments in Latin America in terms of industries. Between 2003 and 2012, more than 60 percent of Chinese ODI involved the extractive sector, with just 20 percent involving the service industries. Currently, investment is at 40 percent for both the extractive and service industries. These levels of investment are in line with China's mature and long-term approach to Latin America: more local knowledge and experience in different markets and industries, more sophisticated Chinese companies that are in position to compete with local and international players, and an increasing role for the service sector within the Chinese economy.

There are a number of leading Chinese companies that are entering the Latin American market and making their mark, including State Grid and SPIC in energy generation and transmission, ICBC, China Construction Bank and Bank of China in banking and finance, Huawei, ZTE and Oppo in telecommunications, MoBike and Didi in bike sharing and Alibaba in online retail.

As evidenced by the above list of companies, it is not only state-owned enterprises (SOEs) investments that are having an impact in Latin America, as was the fashion not too long ago when SOEs constituted the majority of Chinese companies that ventured oversees. Although, since 2015 Chinese private companies have surpassed SOEs in ODI, in Latin America SOEs still account for more than 80 percent of investment.

In addition, the number of countries in receipt of Chinese ODI has also increased in recent years. Brazil, Argentina and Peru have been the principal beneficiaries of Chinese investment, probably due to market size, direct support of the recipient government and cultural links, among other reasons. Nowadays, more countries have joined this group, such as Mexico, Bolivia and Chile.

2010 was also an important year for Chinese M&A in Latin America. At that time, Chinese companies began to regularly perform M&A deals in the region, with an average value of $6bn annually. Currently, in addition to Brazil, other countries throughout the continent are witnessing increased interest from Chinese buyers in a wide array of industries – from traditional natural resources to sectors with a higher component of know-how. In addition, the experience and competitiveness of Chinese buyers is increasing rapidly, and their flexibility and sophistication toward deals is changing accordingly. In this process, support and access to Chinese banks has played a critical role.

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