

Colombia and the Chinese Investment

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In 2009, when the international financial crisis hit bottom and foreign direct investment fell almost 40 per cent, China invested abroad the record figure of 43.300 million dollars, 6.5 per cent over the figure registered for 2008. For 2010, the outlook is encouraging around the world; it is expected that during this year Chinese investment abroad will exceed 10 percent, which reflects the significant opportunities that China offers Colombia and all those countries that are eager to take advantage of them.

In spite of the figures, Latin America has not been able to consolidate its position as an attractive destination for Chinese investment; the investment figure in 2008 was 3.1 billion dollars, a minimum amount when compared to other regions like Asian Southeast and Africa. However, the Chinese medium-term tendency as one of the main capital providers for the Latin American region is worth pointing out.

Traditionally, it has been perceived that Chinese investment is mostly received by those countries which have reduced barriers for capital inflows. They are also characterized by left-wing economic models. However, this is just one side of the coin; on the other side it presents a different and more encouraging situation: currently there is an important amount of investment projects by Chinese companies, and loans from Chinese banks to finance Latin American investment projects in countries like Mexico, Brazil, Colombia, and Chile benefitting diverse sectors like mining, hydrocarbon, automobiles, and technology, among others.

Accordingly, it is possible to think that the Chinese business priorities encompass other aspects that transcend political affinities to focus on world business issues, like the environment, access to qualified human resource, and economic and social stability of each country. However, although Latin America has, and will benefit from Chinese investment, there are many doubts as to the development of Asian investments in the region, since it is perceived that the sole interest of Chinese business is to be able to guarantee their access to natural resources, key to the sustainability of their economic development, without truly impacting the productive structure of the different economies.

Thus, a great challenge arises for Colombia: it will be possible to consolidate investment focused on reinforcing the industrial sector, as long as valuable proposals are structured for the Chinese entrepreneurs, in order to allow them to expand their opportunities. This would allow their investments to transcend their initial interest in natural resources to start positioning Colombia as a country that offers multiple business possibilities with a market of more than one billion consumers (taking advantage of the preferential agreements that Colombian products have access to), with tax and customs incentives designed to make their products more competitive, fostering political and economic stability to guarantee

transparency and equal rights for all investors, and above all, world recognized human resources.

China's role in the Colombian productive transformation

Currently, China is structuring the world's most important future multinationals for the next twenty years. Its management and technological level is allowing companies' expansion around different world regions, not only to export but also to locate manufacturing, investigation, and development centers in different spots of the globe.

On this issue, the Colombian Government through its Chinese Proexport office, is carrying out a work plan in different sectors like auto parts, electric power, textiles, software, petrochemical products, biofuels, and infrastructure. All this makes of Colombia a strong destination for the establishment of manufacturing, investigation, and development centers in our country.

As of 2006, the results of promoting Chinese investment in Colombia have already started to materialize: the second largest Chinese oil company, Sinopec, invested more than 400 million dollars and purchased the assets of the American company Omimex. In 2007, after grueling team work, a few Colombian entrepreneurs and the Chinese company Capital Airports Holding (manages China's biggest airports, including Beijing's, one of the most modern in the world), obtained the concession for the management of six airports of the country. In 2009, in spite of the financial situation, the most important Chinese petrochemical company, Sinochem, came to Colombia with an investment of over 300 million dollars, where headquarters of its Andean area operations will be located.

Besides these successful investment cases, there are many facts that have contributed to the never before witnessed momentum of the relation between China and Colombia: Last year's visit of Chinese Vice President, Xi Jinping in February. It created an impact on multiple levels: Colombia was granted the "Approved Tourism Destination" category, essential to make part of the tourism circuits chosen by the Chinese population.

During the regional meeting of the World Economic Forum, at Dalian in September, Colombia successfully opened the Latin American version of the Forum which will take place in Cartagena next April; this will become the best Colombian showcase to the world. Also, and in coordination with the Chinese Government, more than 300 businesspeople traveled to Bogota in November to attend the Third China-Latin America Business Summit (main promotional event for trade and investment

between China and the region), where high level members of the Chinese government participated, and had the opportunity to visit Colombia and take back with them the best of impressions not only about Colombians, but of the business opportunities found here.

The Proexport Commercial Office in China has high hopes for 2010, since in addition to Colombia's participation at Expo Shanghai, the consolidation of Chinese companies investment is expected to strengthen the Colombian productive structure, to impact industrial development and, consequently Colombian wellbeing.

China comes out to the world

Confucius used to say that individuals achieve wisdom through three paths: First, through reflection, the noblest; secondly, through imitation, the easiest, thirdly through experience, the most painful. This thought describes the path that Chinese companies have undertaken during their internationalization process that started, more or less, thirty years ago.

At the beginning of their insertion in the business world, Chinese companies chose to imitate products in order to learn and perfect their business model. During that process, they were also nurtured by an important experience that contributed to shape their knowledge, thus reaching an optimum level of competitiveness. Today, Chinese managers are focusing on reflection, as a means to give their companies true sustainable competitive advantages that guarantee long-term success.

This reflection is the result of an important transformation of the Asian country, thanks to which, its new management breed is more prepared to face not only world business challenges, but the challenges of an increasingly globalized and interdependent world.

During the insertion process of Chinese entrepreneurs into the Latin American business culture, they felt more comfortable when dealing directly with national governments, looking for the support of diplomatic relations between their government and other countries, with the purpose of reducing market entrance barriers and avoid confrontation, face to face, with other global companies, more experienced and knowledgeable in these markets.

Nowadays, Chinese businessmen have learned from their multiple experiences (some good, some bad) in other world regions like Africa and South Asia, where

they are making efforts with very good results by presenting good and more competitive proposals not only regarding prices, but also quality, service, innovation, and financing, setting aside their tendency to lean on the government, who has played the role of “protector” for many years.

Currently, Chinese investors are arriving to Colombia and Latin America through approaches with local businessmen, with the purpose of creating strategic alliances, societies, consortia, or provisional associations to take advantage of local knowledge, and act like locals. A clear example of this has been the arrival of Sinochem to Colombia, which purchased the assets in Colombia of the English company Emerald Energy and found in the company’s human resources what is probably their most valuable asset for future development.

Closing the gap

Latin America and China, two regions that have remained, if not ignorant, at least distant and alien to each other, have a long way to walk. Lack of knowledge and information, and cultural differences that prevail among businessmen are fundamental elements that impact the Chinese investment behavior in Latin America.

Beijing is a 26-hour plane-trip away from Bogota, and there are a dozen solutions for communications near at hand, but in order to take advantage of those resources, it is necessary to close the gap between the perceptions that businessmen have of both countries. A prejudice that usually is far from reality, but destroys the trust-building process between both parties. It also prevents the materialization of a good business initiative. Colombian businessmen have the chance to change stereotypes and substitute them with opinions based on facts and experience.

It is undeniable that as a result of the privileged conditions that the Chinese Government offered for years to attract foreign investors, now many Chinese businessmen expect similar treatment from governments that receive their investments, to let them become better positioned than national companies that operate in the same line. However, the concept is changing and Chinese businessmen are beginning to understand that a country that truly offers transparency guarantees to investors, and who doesn’t grant privileges only to a few, represents a better return on investment, since the country’s risk analysis will be easier to measure and predict.

Similar to many emerging economies, Colombia has understood that foreign direct investment is crucial for its economic growth. That is why, in recent years, the public sector has made efforts to create conditions and mechanisms that will attract investors and generate the required trust to enter our market.

Foreign investment provides not just revenue, but knowledge and technological transference, essential to move on towards the next development stage. The same happens in the opposite direction. The foreign investor needs knowledge, experience, and human resources to achieve a successful investment. Colombian businessmen fit the bill to become counterparts for many Chinese companies, who have included Colombia in their opportunities map.

