

# The Roles played by Three Categories of Actors in China's Engagement in Latin America to Develop Economic Ties with the Region

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**Abstract** This article tries to analyse the roles played by three categories of Chinese actors (the state, enterprises and quasi-government organizations) involved in China's engagement in Latin America to develop economic ties with the region. The first section focuses on the role of the state (the Chinese government) which has maintained a strong focus on the “top-down-design” in Sino-Latin American economic cooperation by issuing a set of policies and undertaking a number of practical measures. The second part of the paper analyses the role of Chinese enterprises including both state-owned and private ones by analysing two cases of Chinese enterprises which on the one hand, implement government policies and on the other sometimes act as pioneers. In the last section, through the case study on the China Council for the Promotion of International Trade (CCPIT) which is one of the few quasi-government organizations involved in China's foreign economic cooperation and also, without doubt, one of the most influential. Its role as platform for economic cooperation has been acknowledged by the “top” (Chinese government) and the “bottom” (enterprises) in China and by Chinese enterprises and their counterparts in Latin America. The paper shows that none of the Chinese actors can take the place of the other in the economic cooperation between China and Latin America; instead, the roles of the three different categories of Chinese actors are complementary.

**Keywords** Actor · China · Latin America · Quasi-Government Organization

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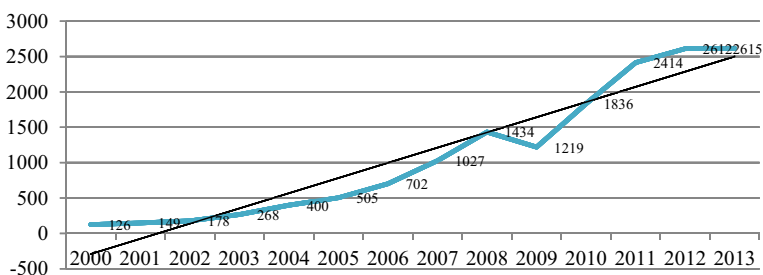
## Introduction

During the last two decades, China's entry into Latin America has drawn worldwide attention and the close economic ties between China and Latin America, in particular, have become a fervent topic of debate. It has been argued that "[t]here can be no question that China is playing an increasing role in Latin America, as it is elsewhere around the world" [1]. As the world's second largest economy and top exporter following three and a half decades with an annual growth rate of 10 %, China is considered a vital economic actor in the Latin American economy. Today, China is the second-largest trading partner and the third-largest investor for Latin America as a whole and has become the largest trading partner in the region.

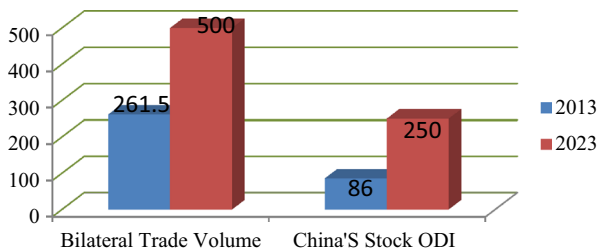
As Fig. 1 reveals, the bilateral trade volume in 2013 reached USD 261.6 billion, which was twenty times greater than that of 2000. Moreover, by the end of 2013, China's stock out-bound direct investment (ODI) in Latin America had exceeded USD 86 billion (see Fig. 2). It is beyond dispute that Latin America has also become the developing area of China's foreign trade and economic cooperation.

Looking into the future, China's economic relations with Latin America will become ever closer. This is not only because China has taken specific measures to elevate the cooperation level with the region, but also because both sides have set up a new platform of cooperation through the China-CELAC Forum. As Fig. 2 shows, China has pledged USD 250 billion in direct investment to Latin America by 2023 and has set a goal for bilateral trade to reach USD 500 billion in the coming decade.

In addition to China's position as the leading player in Latin America's economy, another question emerges: who are the individual actors on the Chinese side and what sort of role do they play in fostering China's engagement in the region? With regard to bilateral cooperation between China and Latin America, it was argued that the role played by China is the key to understanding the future development of the world economy [9]. At the same time, in order to gain a full understanding of the economic ties between China and Latin America, the roles played by the various actors from China and Latin America also have to be considered. This article takes a close look at the actors on the Chinese side, at their interests and how they work together. First of all, however, a degree of familiarity with some of the basic political and economic facts and issues concerning China has to be established. In China, the state has strong resource allocation capabilities, owns a development plan and can take full advantage of the socialist political system. At the same time, under the conditions of the socialist market



**Fig. 1** Sino-Latin America Bilateral Trade Volume, 2000–2013 (USD100 Million) Source: Ministry of Commerce of China, <http://www.mofcom.gov.cn>



**Fig. 2** Sino-LAC Bilateral Trade and China's Stock ODI in LAC in 10 Years (USD billion) Source: Foreign Ministry of the PRC, <http://www.fmprc.gov.cn/>

economy, the enterprises, particularly the largest state-owned companies and the largest private companies, have their own decision-making powers.<sup>1</sup> In addition, quasi-government organizations, such as the China Council for the Promotion of International Trade (CCPIT), occupy a unique position in China's foreign trade and economic cooperation. In fact, the three actors mentioned above, that is, the state, the quasi-government and the enterprises, also play key roles in Sino-Latin America economic relations. This paper will focus on these three categories of Chinese actors, in order to analyze the roles that they play at different levels and in different fields related to China's engagement in Latin America.

### The “Top-Down-Design” Focus of the Chinese Government

The Chinese government has always focused on the top design or top-down-design of bilateral economic ties and continues to expand this role to keep pace with the times. In 2008, the Chinese government's first ever policy paper on Latin America and the Caribbean was issued; in 2012, a draft of measures to boost bilateral trade and investment was initiated; in 2014, the “1+3+6” Framework for bilateral economic cooperation was promulgated; and, finally, in 2015, the *Development Plan on China and Latin America* [19] was announced by the two sides. Up to now, China's strategy towards Latin America has become more and more transparent, and the measures initiated allow ever more room for maneuver.

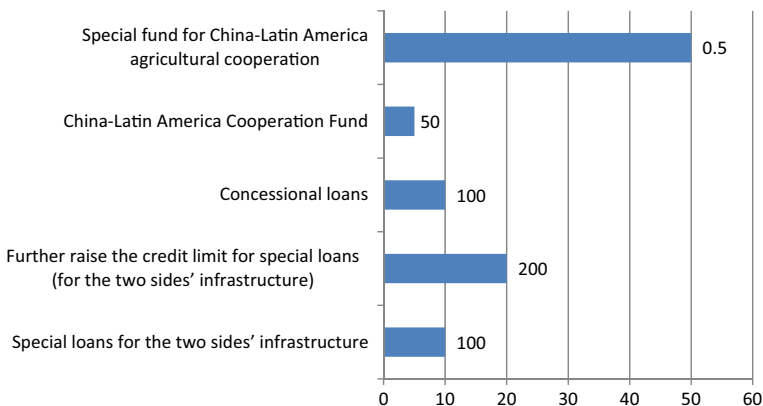
The Chinese government's 2008 policy paper on Latin America and the Caribbean aims to further clarify the goals of China's policy in the region, and to outline the guiding principles for future cooperation between the two sides, while at the same time sustaining the sound, steady and all-round growth of China's relations with the region, and strengthening China's comprehensive cooperation with the Latin American and Caribbean Regions. This policy paper marked the first occasion that the Chinese government called for comprehensive cooperation between two sides, making a clear

<sup>1</sup> It has been argued that the SOEs do not have any decision-making powers and only do what the state wants. In fact, from 1992 to 2002, China experienced the reform on modern enterprise system. In 1993, the “Decision of the Central Committee of Communist Party of China on the establishment of the socialist market economic system” was adopted by the 3rd Plenary Session of the 14th Central Committee of the CPC. The modern enterprise system features clearly established ownership, well defined power and responsibility, separation of enterprise from administration, and scientific management. Under the constraints of modern enterprise property rights structure, the government cannot directly control and manage state-owned enterprises (Gu and Xie 2002, 2–6).

proposal with regard to cooperation in the economic sphere, covering trade, investment, finance, agriculture, infrastructure construction, industry, resources and energy [4].

After issuing the policy paper and stating the guiding principles for the economic cooperation between the two sides, China began to work on the fine details of these principles in order to make them more specific, measurable and attainable. In 2012, China focused on cooperation in investment and finance, and proposed setting up a cooperation fund between the two sides. Chinese financial institutions would contribute a first tranche of USD 5 billion to the fund, while setting up another special loan of USD 10 billion to facilitate cooperation in infrastructure development, including railways, roads, ports, power plants, power grids and telecommunication facilities. In addition, the Chinese government decided to contribute USD 50 million to set up an additional special fund for agricultural cooperation and development [17].

However, the way in which policies and initiatives are implemented is of crucial importance. In 2014, the “1+3+6” cooperation framework was proposed by the Chinese government. “1” refers to “one plan” (yi ge guihua, 一个规划), that is, the China-CELAC (Latin American Countries and Caribbean States) Cooperation Plan (2015–2019); “3” refers to the “three engines” (san ge yinqing, 三个引擎) for promoting the comprehensive development of China-Latin America practical cooperation: trade, investment and finance; “6” refers to “six fields” (liu ge lingyu, 六个领域), with regard to boosting bilateral industrial connection with energy and resources, infrastructure construction, agriculture, manufacturing, scientific and technological innovation, and information technologies as cooperation priorities. At the same time, China has formally undertaken to supply the USD 10 billion special loan for bilateral infrastructure projects and to further raise the credit limit for special loans to USD 20 billion; China will also provide USD 10 billion of concessional loans for Latin American and Caribbean countries, and launch the China-Latin America Cooperation Fund with a comprehensive commitment to invest USD 5 billion and will officially implement USD 50 million from a special fund for China-Latin America agricultural cooperation, etc. [6]. In 2015, as one of three important outcome documents of the first Ministerial Meeting of the China-CELAC Forum, the bilateral *Five Year Cooperation Plan (2015–2019)* was announced [7]. Figure 3 shows the loans and funds that were officially implemented by the Chinese government in 2015.



**Fig. 3** Loans and Funds Officially Implemented by China in 2015 (USD 100 million) Source: *Foreign Ministry 2015*

The Chinese government is playing a key role in fostering bilateral economic relations through top-down-design. It is a measure of the effectiveness of the role played by the government that economic cooperation was elevated first from bilateral to multilateral, and then to all-round fields. In addition, the China-CELAC Forum has established a new platform, which is viewed as a new starting point for bilateral economic cooperation.

## The “Bottom-Up-Design” Role of the Enterprises

By the end of 2013, the stock of China's outward direct investment world-wide had exceeded USD 660.4 billion and the stock of China's non-financial direct investment reached USD 543.4 billion, of which the state owned enterprises accounted for 55.2 % and the rest came from the non-state owned companies. During the same period, Latin America attracted 13 % of China's outward direct investment and has now become one of the main destinations for China's investment [11].

The Chinese enterprises benefit from the top-down-design of the Chinese Government, because the state's help is conducive for them to “go-out”. The functions of the two Ministries of the Chinese Central Government in charge of outbound investment affairs are also important: one is the National Development and Reform Commission (NDRC), the other is the Ministry of Commerce of China (MOFCOM). These do not only provide the enterprises with information before the investment procedure<sup>2</sup> starts, but also offer financial support during the investment process<sup>3</sup> as well as insurance guarantees after the investment<sup>4</sup> process has been fully completed [10, 12, 13]. In fact, the state's help covers almost all the investment procedures of the enterprises.

While enjoying state support, Chinese enterprises, including state-owned and private companies, play a role in the “bottom-up-design”, i.e., on the one hand, they are implementers of government policies, and on the other, they sometimes function as pioneers. The largest Chinese companies, both state owned and private (for example, Huawei Technologies Co., Ltd.), are always pioneers in the sense that, due to their stronger capabilities, they entered into business in Latin America at a much earlier stage than other enterprises, so that the Chinese government can draw on the experience that they have accumulated and then transform this into state policy for the region.

Generally speaking, the largest Chinese state owned enterprises have advantages concerning capital, technology and human resources. At the same time, compared with the small and medium size enterprises, they are more strongly committed to exploring overseas markets. It is also easier for them to gain the support of the state. The biggest private enterprises have a more flexible operation mechanism than the state owned enterprises and have also adapted themselves more effectively to the international business environment. Due to these favorable conditions, they were able to enter into

<sup>2</sup> The Catalogue for the Guidance of Foreign Investment Industries published by the NDRC gives clear advice on Chinese enterprises in two specific catalogues: the Catalogue of Restricted Foreign Investment Industries and the Catalogue of Prohibited Foreign Investment Industries [10].

<sup>3</sup> The National Development and Reform Commission (NDRC) and China Development Bank (CDB) offered financial support for the major overseas projects of Chinese companies [12].

<sup>4</sup> The NDRC and the China Export & Credit Insurance Corporation (SINOSURE) set up a Risk Security Mechanism for the major overseas projects of Chinese companies [13].

business in Latin America earlier, even without the guidance of the government policy at that time.

As China's largest oil and gas producer and supplier, as well as one of the world's major oilfield service providers and a globally respected engineering construction contractor, China National Petroleum Corporation (CNPC) plays an exemplary role. With a presence in almost 70 countries all over the world as well as in some countries in Latin America and the Caribbean, CNPC has started to play an increasingly important role in global energy industry. CNPC's first entry point into Latin America was Peru in 1993, where the corporation, after winning an international tender, started up oil and gas operations in the region (China National Petroleum Corporation, CNPC 2014).<sup>5</sup>

In addition to the largest state-owned enterprises, some of the largest Chinese private enterprises, such as the Huawei Corporation, have been effectively and actively implementing the "going-out" strategy. Huawei is one of the Chinese private enterprises which were able to start up business activities at a very early stage, because it had developed a clear global strategy at the very beginning. Internationalization was therefore the natural outcome of the development of the enterprise. As one of the world's largest smartphone providers, and a major global force in telecommunications and networking, Huawei is making serious progress globally—and earned a place in 2014 year's Best Global Brands ranking [8]. Today, Huawei has 14 branches or representative offices in Latin America, covering 25 regional countries [14], and has become the main provider in the field of telecommunications services and solutions for countries in the region, such as Brazil, Argentina, Venezuela, Mexico and Colombia [5].

In recent years, small and medium size enterprises, in particular, micro and small size enterprises have experienced rapid development. According to statistics, the number of micro and small size enterprises in China had reached 11.7 million by the end of 2013, which amounted to 76.57 % of the total number of Chinese enterprises [18]. In the same period, nearly one fourth of the non-financial outward direct investment of China came from the small and medium size enterprises [2]. However, they still face challenges, such as lack of information, international channels, and inadequate risk resistance.

To date, the largest state owned enterprises are still the most important implementers and supporters of Chinese government's going-out policies, while the largest private enterprises tend to play a complementary role.

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<sup>5</sup> Main activities of the CNPC in Latin America, including Costa Rica, Columbia, Venezuela, Ecuador, and Peru include: in Oct. 1993, acquired a service contract for Block 7 of Peru's Talara Oilfield; in Jul. 1995, acquired a service contract for Block 6 of Peru's Talara Oilfield; in Jun. 1997, won tenders for the Intercampo Oilfield and Caracoles Oilfield in Venezuela; in Apr. 2001, signed a cooperation agreement on the Orimulsion project with PDVSA; in Nov. 2003, acquired a 45 % stake in Block 1AB/8 from PLUSPETROL; in Sept. 2005 purchased oil and gas assets of five blocks owned by Encana in Ecuador; in Aug. 2006, entered into a joint venture agreement with PDVSA to develop Zumano Oilfield; in Mar. 2007 signed an agreement with PDVSA to expand cooperation in the Orinoco Oil Belt; in Feb. 2008, established a joint venture with PDVSA to operate the MPE3 project; in Nov. 2008, entered into an agreement with RECOPE to establish a joint venture refinery, and in Dec. 2010, Signed a joint venture operation agreement with the Venezuelan Ministry of energy and Petroleum on Block Junin 4 in the Orinoco Oil Belt (China National Petroleum Corporation, n.d.)

## The “Platform” Role of the Quasi-government Organizations

In China, between the “top” (government) and the “bottom” (enterprises), there is another type of organization: the so-called “quasi-government” organizations. These organizations play a unique role in China-Latin America economic relations. As one of the few quasi-government organizations in China's foreign economic cooperation, the CCPIT is no doubt the most influential.<sup>6</sup>

In fact, it is precisely because CCPIT is a “quasi-government” organization<sup>7</sup> that it can cooperate with the state on a day-to day basis, while at the same time maintaining close contact with the enterprises. The CCPIT has therefore become not only a “bridge” between the government and the enterprises in China but also a “bridge” between Chinese enterprises and Latin American enterprises. The organization has established cooperation projects with its counterparts in Latin America and good relations with the economic and commercial counsellor's office of the Latin American countries to China. The CCPIT therefore has the capacity to function as a bridge between China and Latin America.

More specifically, the CCPIT plays a “platform role” through its functions of information consultation, business event organizing, exhibition, legal assistance etc. in China-Latin America economic cooperation. In addition, one of the routine jobs of the CCPIT typically embodies its platform role. In recent years, more and more Chinese entrepreneurs have been joining the delegations of Chinese top leaders during overseas visits and the CCPIT is responsible for organizing the delegations of entrepreneurs. Generally, when foreign leaders visit China, they bring with them a large delegation of entrepreneurs, and hold bilateral business affairs or economic fora in China. On the Chinese side, the CCPIT is responsible for organizing these activities.<sup>8</sup>

The “platform role” of the CCPIT is also based on one “summit” and one “council” and its two representative offices in Latin America. The “summit” refers to the “China-

<sup>6</sup> Established in May 1952, the CCPIT comprises enterprises and organizations representing the economic and trade sectors in China. It is the most important and the largest institution for the promotion of foreign trade in China. Its aims are to operate and promote foreign trade, to use foreign investment, to introduce advanced foreign technologies, to conduct activities of Sino-foreign economic and technological cooperation in various forms, to promote the development of economic and trade relations between China and other countries and regions around the world, and to promote the mutual understanding and friendship between China and peoples, and economic and trade circles of all nations around the world, in line with the law and government policies of the People's Republic of China (CCPITa, n.d. <http://www.ccpit.org/>).

<sup>7</sup> Since ‘quasi-government organization’ is a contested category, it is important to clarify the identity of the CCPIT. The CCPIT considers itself a “non-government foreign economic and trade organization of China”. However, a search for CCPIT on the website of the Bureau of Non-Profit Organizations of the Ministry of Civil Affairs of the PRC does not yield any result (MCA, [www.chinanpo.gov.cn](http://www.chinanpo.gov.cn/)). Generally, all the NGOs are registered with the MCA and can then be found in the MCA database. Furthermore, the leadership of the CCPIT all are public servants, see [http://www.ccpit.org/Contents/Channel\\_3549/2014/0813/409532/content\\_409532.htm](http://www.ccpit.org/Contents/Channel_3549/2014/0813/409532/content_409532.htm); <http://www.chinanpo.gov.cn/index.html>.

<sup>8</sup> For example, the CCPIT organized the China-Argentina Economic and Trade Cooperation Forum during the visit of the Argentine President, Cristina Fernandez de Kirchner, to China on February 4, 2015. President Fernandez and nearly 1000 entrepreneurs and representatives of enterprises from the two countries attended the forum [11]. Furthermore, companies such as the China International Exhibition Center Group Corporation (CIEC), the China International Economic and Technical Cooperation Consultants Inc. (ECOTECH), the China Global Business International Travel Service (CGBITS), which are affiliated to the CCPIT, can help to organize this business event.

Latin American Countries (LAC) Business Summit”,<sup>9</sup> which is hosted annually by China and the LAC in turn. Since 2007, four Latin American countries (Chile, Colombia, Peru, and Costa Rica) and China have hosted the first eight China-LAC Business Summits respectively. The 9th Summit will be held in Mexico in 2015.<sup>10</sup>

As the first promotion mechanism and platform of economic and trade cooperation between China and Latin America and the Caribbean, the China-LAC Business Summit does not only gather entrepreneurs both from China and Latin America to take part in round table meetings, but also sponsors exhibitions and one-on-one matching talks for them, in order to offer direct business opportunities to businessmen. When the summit was held in China, different cities were selected as the host city, so that more and more businessmen from Latin America became acquainted with these cities and their provinces, while domestic business opportunities were provided for Chinese enterprises. When the LAC were hosts, this applied to Latin American hosts as well. Figure 4 shows the numbers of participating entrepreneurs from the two sides for the last five summits; a new peak in numbers was reached in 2013, when 1300 entrepreneurs attended the summit. This figure showed a slight decrease in 2014 (Fig. 5).

“One council” refers to the China-Latin America Business Council, which was initiated by CCPIT, is a non-profit multi-lateral economic and trade mechanism aiming to promote cooperation between chambers and enterprises of Chinese and Latin American countries under the cooperation framework approved by the government. [...] Under the framework of The Sixth China-LAC Business Summit, The Council is to strengthen economic, trade and investment between China and Latin American countries through various ways, enhance exchanges between chambers of commerce and promote cooperation and business activities of bilateral industrial and commercial sectors in the field of trade, investment, technology transfer, service and industries” [3].

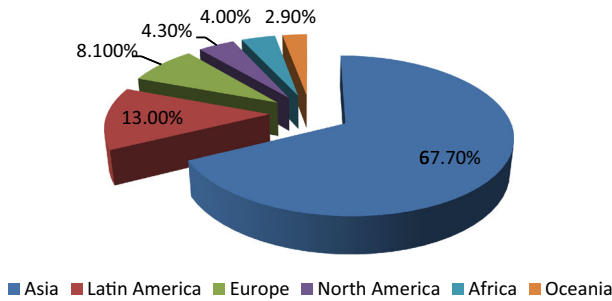
Although the China-LAC Business Summit and the China-LAC Business Council focus on overall economic relations between China and Latin America, the CCPIT also promotes the economic links with sub-regions and individual countries in Latin America through the China-Mexico Business Conference, the China-Cuba Business Council and China-Caribbean Business Conference etc. (CCPIT a, n.d.). Furthermore, the CCPIT has established two representative offices in Latin America, one in Mexico, the other in Costa Rica, and is now preparing to establish a third representative office in Brazil. This helps the CCPIT to collect local business information more efficiently and to serve Chinese investors in the destination country more directly.

Although the special identity, comprehensive organizational framework and effective cooperation results of the CCPIT during the last 50 years are evidence of the unique position it holds with regard to promoting China’s foreign trade and investment with other countries, the platform role of the CCPIT will probably need to be improved

<sup>9</sup> “The first China-LAC Business Summit was organized by the CCPIT in November, 2007 [... It] aims to focus on the key issues in the interests of China-LAC business circles, with the broader prospect of advancing the international economic & trade development trend [...] Under the umbrella of the Summit, there are also LAC National & Regional Exhibitions, Roundtable Meetings of China-LAC Trade Promotion Organizations and one-on-one business matchmaking meetings” [16].

<sup>10</sup> The Nine China-LAC Business Summits were held in Chile (2007), China (2008), Columbia (2009), China (2010), Peru (2011), China (2012), Costa Rica (2013) and China (2014) respectively. Source: The 8th China-LAC business summit 2014. (<http://2014.clasummit.net/ccpit/website/201404004/en/>)

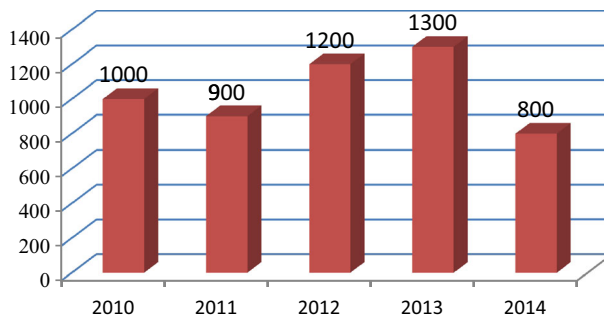




**Fig. 4** The distribution of China's outward direct investment in the world by the end of 2013 Source: *MOFCOM 2015*

and enhanced in the future. For example, only two representative offices of CCPIT's have set up in Latin America while there are 33 countries in the region. Can their function cover the whole region? Furthermore, many micro and small enterprises in China cannot access to CCPIT's service either because of information unavailable or inconvenience for them. Will CCPIT adopt more effective measures to facilitate the participation for them?

The above analysis shows that the functions and roles of the three kinds of actors, namely the state, the quasi-government and the enterprises of China, can be summarized as follows. The government focuses on policy making and mechanisms to guarantee and to guide China's investors. The quasi-government organizations provide more specific direction and services for enterprises by offering information and setting up a platform, accumulating feedback from enterprises and conveying this to the policy makers through the proper channels. Finally, the enterprises play a role not only as implementers but also as pioneers by exploring the Latin American market by themselves or participation in the activities held by quasi-government organizations with the help of the government and the quasi-government organizations. Figure 6 shows the functions and roles of the three kinds of actors. The roles of the three different categories of Chinese actors are complementary.



**Fig. 5** The Number of Participating Entrepreneurs from China and LAC Source: The 8th China-LAC Business Summit 2014s

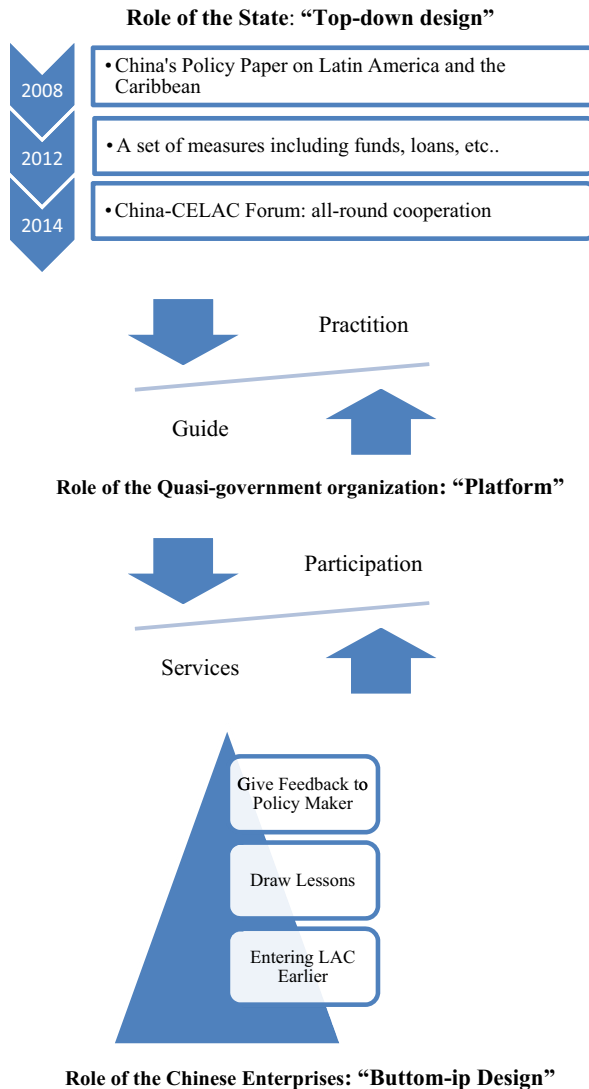


Fig. 6 The Relationships among the Roles of the “Three Categories”

### Conclusion

As a result of the increasingly close overall economic cooperation between China and Latin America, the Chinese government is now paying more attention to the “top-down-design” of bilateral economic relations. A clear and comprehensive strategy is being implemented, comprising policy papers, measures and plans, in order to guide the development of bilateral economic relations; favorable policies are also being promoted, including preferential loans. This top-down strategy has provided a stimulating environment for the further development of Chinese commercial enterprises in Latin America [15]. At the same time, Chinese enterprises, both state-owned and private, are implementers of government policies, which allows them to benefit from

government assistance, and they are also able to accumulate experience (in terms of both success and failure) as pioneers in their respective fields, which the government can draw on to improve its policies. This reflects their “bottom-up-design” role. In addition, it is necessary to have a platform between the government and the enterprises in China as well as between China and Latin America. As a quasi-government organization, the CCPIT can play this intermediary role. The small and medium size enterprises generally experience difficulty in obtaining the same levels of preferential treatment that the large enterprises obtain from the government; the costs associated with obtaining information from the CCPIT and becoming involved in the activities of the CCPIT are also, relatively speaking, much higher. However, the roles of the three kinds of actors, the state, the quasi-government and the Chinese enterprises, are not only complementary but have also been constantly improving as a result of China's engagement in Latin America to develop economic ties.

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