

## Chinese companies' outward internationalization to emerging countries: The case of Latin America\*

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**Abstract:** This paper aims to review and analyze the literature on the expansion of Chinese firms to Latin America. In order to achieve this objective, it first reviews the literature on the internationalization of Chinese MNCs, the theoretical frameworks discussed in the literature and the principal features of companies from China. Second, it describes the economic and political relations between the countries, specifically the threats and opportunities for Latin America and the trade and investment trends. The review shows that the majority of the current literature on Chinese MNCs has a focus on their expansion to developed countries, on the conceptual framework needed to understand this expansion, and on the competition for foreign investments from developed countries. As a result, the analysis makes evident that research gaps seem to exist in the following areas: (1) the relative value of Chinese companies' existing advantages, (2) the sustainability of these advantages once the lead, probably given by OEMs or JVs, had been exhausted, (3) research works based on quantitative and comparative data, (4) the motives for FDI, (5) the entry mode, configuration, control and strategy of Chinese companies investing in Latin America, and (6) the potential opportunities presented to European companies operating in Latin America.

**Key words:** Chinese MNCs; Latin America; Sino-Latin American relations

### 1. Introduction

The Chinese economy has become the world's fourth largest and is expected to take over the top position around 2050. This expansion has been fuelled by a wave of foreign resources flooding different sectors of the Chinese economy, mainly in the form of foreign direct investments (FDI). The combination of foreign resources with local assets has created one of the most successful stories of economic development in modern history as China has shown high growth rates over the last 15 years.

Although the Chinese domestic market is still far from mature, many Chinese companies have started to look for opportunities abroad. It has been suggested that this international expansion is aimed at acquiring resources from Western economies in the form of knowledge, products, technology or even strategic positions to secure the supply of raw materials. Probably within the latter, China and the most important Latin American countries (Argentina, Brazil, Chile, Peru and Venezuela) have been strengthening their economic and political ties by

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signing investment and trade agreements.

In this context, China has already made relatively large investments in Latin America and trade between them has exploded in recent years in both directions as the countries seem to have complementarities in their export baskets. Flows of trade and investment are exceeding US\$50 billion (ECLAC, 2008) a figure similar to the trade from the EU to Japan at the end of 1990s, which means that a new strong axis of trade and investments between emerging countries may be developing.

This paper will attempt to review and analyze the literature on the internationalization of companies from emerging economies. It will focus particularly on China within the context of trade and investments between China and Latin American countries. In order to achieve this aim, the paper is divided into three main sections. The first section will present a review of the literature on the internationalization of Chinese MNCs, the conceptual frameworks discussed in different works and the main characteristics of the international firms from China. The second section will focus on Sino-Latin American relations, describing the political links, analyzing trade and investments as well as the threats and opportunities. Finally, the third section will present a discussion about the main issues presented in the first and second sections.

## **2. The internationalization of Chinese MNCS**

Previous works have found that “the Chinese Communist Party retains full control of the country’s affairs and remains firmly committed to many socialism’s key tenets...State agencies provide most of the country’s still-limited financial services....Indeed, the state—and the party—are central players in nearly all aspects of China’s economy, guiding a development trajectory often labelled as capitalism with social characteristics” (Spar & Oi, 2006, p. 1). For example, “many of its MNEs (Multi National Enterprises) remain in state hands, even though corporatized...which means that these firms still align their operations, whether at home or abroad, with the five-year plans and national imperatives” (Buckley, Clegg, Cross, LIU, Voss & ZHENG, 2007). In addition, “China’s developing capitalism is not solidly based on law, respect for property rights and free markets” (Blazquez-Lidoy, Rodriguez & Santiso, 2006, p. 10).

It is in this context that China’s economy started an outward internationalization process (CAI, 1999; Tseng, 1994) “after the Chinese government initiated its open-door policy at the end of the 1970s” (CAI, 1999, p. 859). In this process it is possible to identify three main stages: A first mainly experimental stage up to the 1990s characterized by a strong supervision from the government; A second stage during the 1990s with a large increase in the number of Chinese subsidiaries abroad but with little strategic focus and with many of them reporting losses (Warner, Ng & XU, 2004; ZHANG & Van Den Bulcke, 1996; CAI, 1999; QUAN, 2001); The third stage has started recently with China’s accession to the WTO along with a number of leading Chinese firms going international “with a view to becoming global players in international markets” (Child & Rodrigues, 2005).

In this context, Child and Rodrigues (2005) have identified three routes that Chinese companies are taking towards their internationalization: “(1) the partnership route through original equipment manufacture (OEM) or joint venturing (JV), (2) the acquisition route, and (3) the organic expansion route” (Child & Rodrigues, 2005, p. 389). The first route, although regarded as inward internationalization, has been seen as a way to transfer knowledge from the international partner and eventually improve the Chinese firms’ competitiveness. The second route is supported by an international shopping spree of US\$2.85 billion in 2003, of around US\$5.55 billion in 2004, US\$12.2 billion in 2005, US\$21.1 billion in 2006, and US\$22.4 in 2007 (Business Week, 2004; Santiso,

2006; WTO, 2008). The third route is characterized by the “greenfield establishment of subsidiaries and facilities within targeted markets. It is initially aimed at securing differentiation advantages in terms, for example, of adjustment of local market needs and tastes” (Child and Rodrigues, 2005, p. 394).

### **2.1 Chinese MNCs: Some characteristics**

Different works have shown that Chinese firms operating overseas tend to lean on ethnic and other similar networks for business opportunities, relations with local authorities and management of labor (Yeung & Olds, 2000; Brown, 1995; Lecraw, 1993; Buckley, et al., 2007). In this context, Rauch and Trindade (2002, p. 129) found that “ethnic Chinese networks have a quantitatively important impact on bilateral trade through mechanisms of market information and matching and referral services, in addition to their effect through community enforcement of sanctions that deter opportunistic behavior”. Boisot and Child (1996) also said that Chinese managers use these networks as a way of reducing transaction costs and exploring new business opportunities.

Buckley, et al (2007) highlighted the apparent market imperfections where Chinese companies operate. These imperfections can be seen in: (1) some SOE (State-Owned Enterprises) having capital available at below-market rates, (2) subsidized or soft loans from banks influenced or owned by the government, (3) an inefficient internal capital market that may encourage cross-subsidies in conglomerates, and (4) cheap capital from the family to fund its company's international expansion. In this sense, CAI (1999) and Child and Rodrigues (2005) said that the influence of central and local governments seem to have directed many of the outward FDI processes with the aim of promoting exports and securing raw materials, although some state-owned companies also used their investments abroad to acquire technology and skills.

Nolan (2001, p. 187) argued that “the competitive capability of China's large firms after two decades of reform is still painfully weak in relation to the global giants” mainly in the areas of R&D, marketing ability, development of brands and the restrictions from the authorities. Nolan continued and suggested that this is probably the result of the government's protection of the domestic market, advantageous funding conditions, distribution channels protections and procurement from the government (for both state-owned and non-state enterprises).

Nevertheless, ZENG and Williamson (2003, pp. 3-4) claimed to have found a “new breed of Chinese companies that have already succeeded in capturing some foreign markets”. These firms can be grouped as follows: (1) national champions, companies using their domestic strengths to compete abroad, (2) dedicated exporters, enterprises aiming at acquiring market share in international markets to strengthen their economies of scale, (3) competitive networks, groups of companies that “have taken on world markets by bringing together small, specialized companies that operate in close proximity”, and (4) technology up-starts, firms exploiting technology developed by research institutes owned by the government.

Finally, Edwards (2007) added that China's foreign exchange reserves at more than US\$1,000 billion along with continuing “deregulation and integration to the global economy” will help Chinese companies to “gain new markets, technologies and control over resources”. In this context, Mallet found that “China Development Bank...has begun to deploy some of its capital abroad, particularly to help Chinese energy and mineral companies working in developing countries” (2006). However, Wong and Chan (2003) said that there is no clear pattern of sectorial concentration in the international expansion of companies from China, that only around one-third are profitable and that the remaining two-thirds are barely surviving and/or reporting losses (Wong & Chan, 2003, pp. 275-278).

### **2.2 The internationalization of Chinese MNCs: Conceptual frameworks**

The question seems to be “whether FDI from emerging economies and, specifically, from China requires a special theory nested within the general theory” (Buckley, et al., 2007). Most of the literature on the internationalization of companies from emerging countries is based on mainstream theory developed in Western economies from their multinational corporations adapted to the specific characteristics of developing countries, for example Lecraw (1993) and Wells (1983). However, in the case of China, it has been suggested that an extended theoretical framework may be applied due to its newly developed capitalist system, its culture, and its different market institutions (Child & Tse, 2001; Child & Rodrigues, 2005; Boisot & Child, 1996). After all, “China is different from other less developed countries in terms of market size as well as cultural connections and may not fall into a regular LDC category” (Makino, Chung-Ming & Rhy-Song, 2002, p. 412) and “is already a much more open economy than most emerging markets” (Blazquez-Lidoy, et al., 2006). Santiso (2005b, 2005a) also suggested that the Chinese internationalization has presented a particular “cognitive effect” as it has been very pragmatic and the result of balanced efforts between markets and government intervention.

In this context, Child and Rodrigues (2005, pp. 384-385) claimed that the specific characteristics of the Chinese outward internationalization process need to be analyzed on their own merits. The first point supporting their claim is that China's emergence as an industrial power falls within the late development thesis (also applied to other East Asian countries) as China's companies need to catch up in “terms of technology and know-how, as well as in the development of business environments supportive of international competitiveness”. Their argument in this area is based on the Chinese firms' need to use outward FDI to close the gap with “leading companies through acquiring appropriate assets and resources” rather than firms wishing to exploit their prior competitive advantages, the main assumption in mainstream theory (Buckley & Casson, 1976; Dunning, 1977).

Their second point concerns the Chinese government's role in its companies' internationalization process as many firms have received financial support and protection from the authorities to reduce their “late-coming disadvantage” and “acquire assets that enable them to compete in the world market”.

The third point is the counterpart of the second: The companies receiving support and aid as described “could be weakened by the way they remain beholden to administrative approval and bear a legacy of institutional dependence” which may suggest that their strategic options are limited from a “heavily institutionalized environment”.

The fourth point supporting their claim concerns the Chinese “distinctive cultural and institutional legacy” including, for example, their reliance on close personal relationships or their management styles, which may increase their psychic distance (Johanson & Wiedersheim-Paul, 1975). This liability of foreignness could eventually put the effectiveness of the strategy of acquiring resources abroad in jeopardy.

Child and Rodrigues' views are contrasted with previous findings from CAI (1999) who said that “the motives for Chinese outward FDI are generally similar to those for FDI from other developing and developed market economies”, even if the links with the authorities are visible as “economic considerations have... become the primary engine of Chinese outward FDI”. In this sense, the author listed the following motives for outward FDI: (1) “to seek, maintain or expand export markets”, (2) “to acquire a stable supply of resources”, (3) “to obtain foreign technology and management skills”, (4) “to raise capital, primarily in Hong Kong, for domestic use”, and (5) for “political considerations” (pp. 867-874). Wong and Chan (2003) added to this list (6) saturation in the home market, and (7) avoidance of non-tariff barriers. In addition, Wong and Chan (2003) and CAI (1999) agreed that “China lacks personnel who possess international management skills and who have sufficient knowledge about market conditions of host countries... and a good understanding of the intricacies of international business,

largely as a result of its long-time isolation from the world economy" (CAI, 1999, p. 874).

Finally, in one of the first works modelling Chinese outward direct investments (ODI), Buckley, et al (2007) found that, on the one hand, the determinants of these ODI are market size, natural resource endowments, institutional environment, policy liberalization/home country institutions and cultural proximity. On the other hand, they also found that "Chinese ODI is attracted, rather than deterred, by political risk", that China's capital market imperfections play an important role (especially in the measurement of risks), that state ownership can be considered as a firm-specific advantage and that these factors combined "may have equipped Chinese MNEs with the special ownership advantages needed to be competitive in other emerging economies". They concluded by arguing that "for the present, Chinese outward investors clearly present marked contrasts from the conventional model in key aspects"; In other words, these investments have "both a conventional and an idiosyncratic dimension" (Buckley, et al., 2007, pp. 513-514).

### **2.3 Sino-Latin American relations**

Santiso (2006) claims that "the expanding link between Asia and Latin America is symbolic of the economic shakeout going on worldwide...with Europe, Japan and the US retreating from their roles as omnipotent centres to leave space for a more balanced configuration". This "more balanced" situation can be seen in expected flows of trade and investment between China and Latin America in excess of US\$50 billion (a figure similar to the trade from the EU to Japan in the late 1990s) developing, thus, a new commercial "axis" between these emerging countries (Lapper, 2005).

These expectations are the result, among other things, of investment and trade agreements signed between China and Argentina, Brazil, Chile and Peru in 2004, with Venezuela in 2006, a Free Trade Agreement (FTA) between Chile and China signed in 2005 (operational from October 2006 (Bravo, 2006)), an FTA signed between Peru and China (La Tercera, 2007a), and China's membership of the Inter-American Development Bank (Lapper, 2007). In addition, China has committed investments of around US\$100,000 million in the region before 2015 (Sanchez Ancochea, 2006) with the aim of "controlling assets and exerting political influence" (Lapper, 2005).

Trade between China and Latin America "has increased more than fivefold since 1999, partly as a result of a big increase in Chinese demand for raw materials such as soya, iron ore and copper" (Lapper, 2007), and also because Latin America appears as one of the most complementary trade partners for China (Santiso, 2006). Besides the increasing trade, "in 2004, 50 percent of Chinese FDI went towards Latin America (more than the 30 per cent that went towards Asia)" (Blazquez-Lidoy, et al., 2006, p. 35), in 2005 Latin America was the second destination for outward Chinese investments with 16% of the total (after Asia with 60% (Santiso, 2006)), and in the first three months of 2006 the region received US\$930 million (35% of the total Chinese FDI for the period (Sanchez Ancochea, 2006)). However, China's participation represented only 1% of the total FDI received by Latin America in 2005 (ECLAC, 2006a).

### **2.4 Threats and opportunities for Latin America**

The relationship with China has created threats and opportunities for Latin America. Within the threats it is possible to mention that: (1) the high demand for commodities can delay the diversification from extraction-based industries to value-added goods in some countries, potentially damaging future development options (Santiso, 2006), (2) the Caribbean countries' share of the US textile market has been reduced mainly due to competition from China, although their proximity and preferential access are still relative advantages, (3) trade between Latin America and China in the last few years has been mainly an exchange of raw materials for manufactured goods; for example, in the last years around 80% of Latin American exports were raw materials and/or primary products

whereas around 90% of Chinese exports were manufactured goods (Sanchez Ancochea, 2006), (4) the trade balance has posted a deficit for Latin America since 2004 from a small surplus of US\$283 million in 1990, where Mexico and the Caribbean have suffered the highest impact (Sanchez Ancochea, 2006), (5) an increasing exposure to the Chinese and Asian economies, and (6) the potential competition for FDI from developed countries<sup>1</sup>.

On the other hand, potential opportunities for Latin America from the relationship with China worth mentioning are: (1) an important part of the region's real GDP growth in the last years has been attributed to China (Sanchez Ancochea, 2006), (2) China has been a great supporter of Brazil (and the Group of 20) in the WTO, improving its bargaining power against the US and the EU, (3) the increasing Chinese investments in the energy and infrastructure sectors have improved the host governments' bargaining power with other foreign investors, mainly Spanish companies, (4) the possibility of exploiting the region's comparative and competitive advantages in agriculture, opening new markets for products with restrictions (tariff barriers, non-tariff barriers, quotas, etc.) to enter the US and the EU, (5) the expected flow of tourists from China where Latin America has an international comparative advantage (100 million Chinese tourists are expected by 2020 (IADB, 2004)), (6) access to the enormous Chinese domestic market, (7) policy cooperation in areas such as privatisation, regional integration, public services regulation, non-performing loan portfolios in banking, etc. (IADB, 2004), and (8) the US\$100,000 million in investments committed by China in much needed infrastructure across the region (for example, "for most Latin American countries, transport costs are even greater barriers to US markets than import tariffs" (Blazquez-Lidoy, et al., 2006, p. 23)).

## **2.5 Investment and trade**

In terms of foreign investments, an early work on the impact of China on Latin America (IADB, 2004) using data up to 2002 (after the crises in Argentina and Brazil) hinted at hard competition for foreign investments from developed countries between the two regions. However, more recent studies have suggested that this competition has affected mainly Mexico and countries in the Caribbean (ECLAC, 2006a; Blazquez-Lidoy, et al., 2006). In this sense, Blazquez-Lidoy, et al (2006, p. 42) said that "the 1990s golden years of the FDI rush towards Latin America might be over, at least until the processes of privatization are not reopened, but at the same time Latin American countries are far from being left out of the map of FDI dynamics". Latin America and the Caribbean received around US\$50 billion in 2005 and 2006, the highest level since 2000 (ECLAC, 2006a), while China received around US\$60 billion in both 2004, 2005, and 2006 (Blazquez-Lidoy, et al., 2006, p. 33).

In terms of trade, "while South America shows trade surpluses (with China), Mexico and Central America maintain growing deficits" (ECLAC, 2006a, p. 40). For this reason, the analysis differs depending on the geographic area. On the one hand, "China has displaced Mexico as the United States' main trading partner" owing to the fact that Mexico and Central American countries have a similar export basket to that of China and, as a consequence, they face strong competition in the low and intermediate technology manufactures (ECLAC, 2006a, p. 43) and also in textiles and apparel.

On the other hand, South America is supplying China with "raw materials, food products, and energy products" to fuel its rapid growth. In fact, China has become a major trading partner for Brazil, Chile, Argentina and Peru; In addition, in the sub-region, China finds a favorable market for its exports as it has obtained the market economy status from many of its countries (p. 41). Table 1 presents Latin America and the Caribbean's

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<sup>1</sup> Although Chantasasawat, et al (2005) found that the Chinese impact on sixteen Latin American countries was low between 1985 and 2002, other works (Dussel Peters, 2005; Garcia-Herrero and Santabarbara, 2005) showed that from 1995 to 2001 competition for funds from China had a negative impact on Latin American countries, especially on Mexico and Colombia.

trade structure with China by category; In this figure, it is possible to see how the trade structure has changed over the last ten years between primary products and manufactures. It is also possible to identify the trade trends for the whole of Latin America, for the Mercosur and for other large South American countries.

Finally, the main threat to the Sino-Latin American relationship currently seems to come from the possibility of trade diversion due to the “reduction in tariffs and other non-tariff barriers being implemented under the ASEAN and China” and the “India-China trade agreement” (ECLAC, 2006b).

**Table 1 Latin America and the Caribbean's structure of merchandise trade with China, by category**

Exports from Latin America to China												
Total Latin America				Mercosur				Other S American countries				
Primary Products	%	Manufactures	%	Primary Products	%	Manufactures	%	Primary Products	%	Manufactures	%	
1995	568,370	23%	1,853,411	77%	348,150	22%	1,264,641	78%	216,949	31%	479,370	69%
1996	569,123	20%	2,339,183	80%	296,377	16%	1,540,808	84%	235,097	27%	632,250	73%
1997	855,119	26%	2,485,002	74%	464,786	22%	1,613,992	78%	370,019	34%	725,857	66%
1998	975,375	37%	1,686,896	63%	625,234	38%	1,037,494	62%	322,181	42%	448,628	58%
1999	985,048	46%	1,145,923	54%	603,275	48%	642,294	52%	368,647	54%	316,341	46%
2000	1,780,767	47%	1,993,374	53%	1,289,937	65%	688,242	35%	457,250	31%	1,013,822	69%
2001	2,599,779	50%	2,575,906	50%	2,046,477	65%	1,090,940	35%	539,889	33%	1,083,590	67%
2002	2,643,347	42%	3,590,273	58%	2,098,741	56%	1,625,831	44%	531,153	27%	1,431,564	73%
2003	4,381,709	42%	6,085,877	58%	3,557,985	50%	3,563,936	50%	799,141	29%	1,964,414	71%
2004	6,410,593	46%	7,373,034	53%	4,682,442	57%	3,541,854	43%	1,654,489	34%	3,230,328	66%
2005	9,812,128	53%	8,645,328	47%	6,774,530	67%	3,401,170	33%	2,858,608	43%	3,856,725	57%
2006	13,256,841	58%	9,483,191	42%	8,726,536	72%	3,343,927	28%	3,667,329	49%	3,791,148	51%

  

Imports from China to Latin America												
Total Latin America				Mercosur				Other S American countries				
Primary Products	%	Manufactures	%	Primary Products	%	Manufactures	%	Primary Products	%	Manufactures	%	
1995	199,014	8%	2,267,813	91%	112,325	11%	947,910	89%	33,672	4%	758,218	96%
1996	203,183	5%	3,504,569	94%	105,015	5%	1,888,828	94%	39,283	5%	807,672	95%
1997	256,168	5%	4,671,588	94%	134,506	6%	2,251,040	94%	46,116	4%	1,066,170	96%
1998	283,683	5%	5,230,959	94%	142,909	6%	2,235,832	94%	47,293	4%	1,247,108	96%
1999	223,456	4%	5,595,367	95%	87,888	4%	1,935,926	96%	63,829	5%	1,195,802	95%
2000	327,850	4%	7,942,359	95%	128,246	5%	2,645,445	95%	64,264	3%	1,846,245	97%
2001	384,046	4%	10,238,533	96%	175,766	6%	2,733,986	94%	49,716	2%	2,435,229	98%
2002	511,887	4%	11,243,492	95%	279,813	12%	2,034,586	88%	49,073	2%	2,577,520	98%
2003	582,264	3%	16,004,153	96%	387,009	12%	2,750,078	88%	58,605	2%	3,295,513	98%
2004	778,259	3%	25,134,704	96%	487,835	8%	5,621,378	92%	64,165	1%	5,019,721	99%
2005	611,929	2%	33,411,439	97%	291,224	4%	7,550,302	96%	83,240	1%	6,904,461	98%
2006	569,900	1%	49,925,673	98%	210,216	2%	12,725,867	98%	90,330	1%	8,859,689	98%

Data source: Authors' calculations with data from (ECLAC, 2008); Other South American countries: Bolivia, Chile, Colombia, Ecuador, Peru, Venezuela.

### 3. Discussion

The growing relationship between China and Latin American is a relatively new phenomenon and, therefore, the available relevant literature is scarce. This review of the literature has identified a number of research gaps and limitations in previous research and, as a result, suggestions for further studies are discussed below.

### **3.1 Competitive capability of Chinese MNCs**

Part of the debate on the conceptual framework for the study of Chinese MNCs seems to be about the existence of prior competitive advantages (Porter, 1980), firm-specific advantages (FSA) (Rugman, Collinson & Hodgetts, 2006), or ownership-specific advantages (Dunning, 1977) in China's firms and their ability to exploit them abroad (Buckley & Casson, 1976), the main assumption in mainstream theory. This debate is needed in the context of China's integration within the world economy and especially in the study of the competition that Chinese MNCs will bring to developed countries.

This has been the focus of many works, for example, Guthrie (2005) suggested that Chinese companies go international to acquire competitive advantages and complement their current strengths in the domestic market, like the low wages and the production improvements resulting from international joint ventures or partnerships, as well as government support. Boisot (2004, p. 6) also stated that "many Chinese firms will not be moving abroad to exploit a competitive advantage that was developed in the domestic market, but to avoid a number of competitive disadvantages incurred by operating exclusively in the domestic market".

In addition, Rugman and LI's (2007) study of three acquisitions by Chinese MNCs in the US, the UK and France added that they "mainly reflect China's country-specific advantages (CSAs) rather than FSAs" (Rugman & LI, 2007, p. 71). The authors also maintain that Chinese "MNEs are likely to develop by exploiting China's CSAs in cheap, unskilled, and skilled labor as it is highly unlikely that Chinese MNEs will go abroad in any significant numbers over the next five to ten years on the basis of FSAs" (Rugman & LI, 2007, p. 79).

It seems that these studies tend to question the value of some Chinese firms' existing internal strengths (FSAs) and their ability to use these strengths to internationalize their operations in developed economies. However, Wright, et al have suggested that this debate in the context of companies from less developed countries should take a different perspective as they argue that emerging markets are "a new context in which to understand the relative strengths and weaknesses of the different (conceptual) perspectives" used in conventional theory (Wright, et al., 2005, p. 2).

In this sense, Wright, et al (2005, p. 7) added that "domestic firms competing within emerging economies face a 'high velocity' environment of rapid political, economic, and institutional changes that are accompanied by relatively underdeveloped factor and product markets". This changing environment presents different challenges for firms operating in these countries which have been widely documented in the literature, see for example (Khanna & Palepu, 1997; PENG, 2003; Filatotchev, Wright, Hoskisson, Uhlenbruck & Tihanyi, 2003; Khanna & Palepu, 2000; Hoskisson, Eden, Lau & Wright, 2000; Guillen, 2000; Fornes, 2007; Fornes & Cardoza, 2008). Most of these works on emerging markets' firms suggest that MNCs from these countries develop a set of specific advantages needed to cope with a changing environment and the relatively low development of the markets. When crossing the border, these specific advantages can help companies to successfully exploit opportunities in other emerging markets, or to create a framework for developing the necessary resources to acquire and also manage assets in other countries.

For example, Wells (1981, 1983) found that companies from emerging countries successfully compete in other less developed countries because they can use their advantages developed in the home market to cope with the uncertainty of the local market (mainly poor information on the value of local assets and weak distribution



networks), and to deal with the weak legal framework protecting their technological knowledge. In addition, studies on asset-seeking FDI in LDCs from Asia's NIEs have shown that companies use this strategy to reinforce their price competitiveness, but also to strengthen their non-price competitiveness when investing in developed countries (Kumar, 1998; CHEN & CHEN, 1998).

In the case of Chinese companies in Latin America, the fact that they have displaced Mexico as the United States' main trading partner (ECLAC, 2006a) tends to suggest that firms from China possess some advantages that they are now using abroad, especially in the low and intermediate technology manufacturing sectors where these countries have competing export baskets. The figures in Table 1, especially the growth in manufactures exports from China, seem to confirm this advantage. Total exports from Latin America (LA) grew nine times from 1995 to 2006 with an increase in primary products exports of 23 times and in manufactures of only five times. Primary products (PP) exports from the Mercosur grew 25 times during the same period (manufactures only three times) and PP from other South American countries seventeen times (manufactures eight times). On the other hand, total imports from China in the same period increased 21 times, with manufactures being the most important part and PP only growing three times. Manufactures imports to the Mercosur increased thirteen times and twelve times to other South American countries (PP twice and three times respectively). Besides, part of the increase in primary products exports could be explained by a price effect as most of the commodities exported by Latin America, especially by the Mercosur, have experienced an important increase in their price (two, three or four times in many cases).

This apparent higher competitiveness in relation to Latin American companies can partly be explained by country-specific advantages, such as: (1) a higher rivalry in the domestic market (Porter, 1998), where China "is already a much more open economy than most emerging markets" (Blazquez-Lidoy, et al., 2006) and particularly more open than most Latin American countries (maybe with the exception of Chile), (2) access to state-supported research (Child & Rodrigues, 2005; ZENG & Williamson, 2003), (3) domestic cost advantages (Rugman & LI, 2007), (4) institutional factors (Buckley, et al., 2007), and/or (5) economies of scale from a large domestic economy and market (RUI & Yip, 2007; ZENG & Williamson, 2003).

Nevertheless, the question over the firm-specific advantages remains. The trade figures and the industries/products (low and intermediate technology manufactures), where companies from China are gaining market share, tend to suggest that the competitive capabilities of these firms are stronger than those of Latin American companies. Some of these advantages have probably been transferred to Chinese firms through original equipment manufacture agreements or joint ventures (Guthrie, 2005), and now China's enterprises are using this enhanced competitiveness to enter new markets in other emerging countries. Latin American companies have also taken part in arrangements similar to the OEMs or JVs (maquiladoras, for example); however, the figures in Table 1 suggest that firms from Latin America are losing out to Chinese competition. Therefore, it would be possible to say that China's MNCs already possess some competitive capabilities that, although not yet completely developed and consolidated to compete against companies in developed countries, have achieved a certain level that allows them to successfully compete in Latin American markets. Rugman and LI (2007, p. 79) put it in different words, "in general, China lacks firms with FSAs ... in comparison to Western MNEs in the world's top 500" but Latin America has fewer companies in this list. If this is eventually confirmed (when more data become available), it will have important implications for the conceptual frameworks used to analyze the internationalization of companies from China (discussed above).

This section has attempted to identify some research gaps that would be worth studying in the future. First,

too much emphasis has been devoted to China's outward internationalization to developed countries, but little attention has been given to this country's trade and investment relations with less developed countries and especially with Latin America which has received around 50% of the funds invested abroad by China (Blazquez-Lidoy, et al., 2006; Santiso, 2006; Sanchez Ancochea, 2006). Second, the methods followed by the majority of the studies on China's MNCs tend to be static, using case studies, and analyzing qualitative data; Comparative studies and other methods based on quantitative information are needed to continue the understanding of this phenomenon, especially the relative value of Chinese firms' FSAs. Finally, the need for longitudinal studies is evident in the many questions faced by the different research works on China's MNCs, especially those on the sustainability of their returns once the first wave of FSAs probably acquired from OEMs or JVs had been exhausted; Unfortunately, this kind of data is not easily available for periods before 2000 and also some sources are not completely reliable.

### **3.2 Market-seeking or resource-seeking FDI?**

The committed Chinese investments<sup>2</sup> in Latin America by the end of 2006 can be divided as follows (the percentage represents roughly the number of companies in each category):

- (1) State-owned companies investing relatively large amounts of money in extractive industries (46%);
- (2) Relatively large investments in infrastructure projects (27%);
- (3) Medium-sized companies investing relatively small amounts of money in natural resources (19%);
- (4) Large private companies aiming for a share of the domestic markets (7%).

This analysis suggests that only a few companies are investing in the development of the host market; i.e., the bulk of Chinese investments up to 2006 are not targeting the Latin American countries' domestic markets. Instead, it seems that they are investing the majority of the funds in extractive industries and infrastructure projects presumably to improve the transportation of raw materials to China. The former mainly by state-owned enterprises (SOE), and the latter presumably funded by state-owned banks. These government-led investments are in line with one of the characteristics (government participation and influence) of China's MNCs presented above, and can be explained by the Chinese economy's need of natural resources to fuel its growth.

However, the growing trade (Table 1) and investments (Blazquez-Lidoy, et al., 2006; Santiso, 2006; Sanchez Ancochea, 2006; Santiso, 2007) from China to Latin America tend to indicate that, in the medium term, it could be expected that Chinese MNCs will acquire strategic assets and capabilities extending their value chains to Latin America with, for example, the acquisition of local brands, distribution channels or retail services to market their products. In other words, Chinese investments in Latin America up to 2006 seem to be mainly resource-seeking FDI, but the current trade and investment trends between the countries give the impression that market-seeking FDI (Dunning, 1993) can be expected in the near future (Buckley, et al (2007) found that Chinese companies are already seeking markets in their investments in OECD countries). After all, the investments in infrastructure can not only be used to transport materials to China, but also to improve access to Latin American markets for Chinese products.

The previous analysis of Chinese FDI attempted to identify some research gaps that would be worth studying in the future. First, most of the studies on FDI including China and Latin America have focused on their competition for resources from developed countries (Blazquez-Lidoy, et al., 2006; Chantasasawat, Fung, Iizaka &

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<sup>2</sup> (Santiso, 2007), Brazil's External Affairs Ministry, Chile's Foreign Investments Committee, Argentina's Ministry of Economy and Production.

Siu, 2005; Dussel Peters, 2005; Garcia-Herrero & Santabarbara, 2005). However, little emphasis has been given to Chinese investments in Latin America, their motives, characteristics, industries, sectorial patterns, etc. In addition, Latin American investments in China seem to be starting; for example, companies such as Argentina's Arcor and Brazil's Embraer and Marcopolo have announced investments in China. Although the amounts involved are still small, this is also a potential area for future research.

Second, the entry mode of Chinese MNCs in emerging countries, especially in Latin America, has not been extensively explored. Exporting, contracting, and FDI are the generic strategies followed by most companies when going international (Buckley & Casson, 1998; Buckley & Ghauri, 1993; Root, 1994) and most of the investments made by Chinese SOEs are taking the form of JVs with other SOEs in Latin America; for example, with Brazil's Petrobras and CVRD, with Chile's Codelco and with Venezuela's PDVSA. This strategy, where it seems that China's firms are providing most of the funding (La Tercera, 2007b), may expose Chinese companies to the potential discretion of host governments and therefore may have negative (positive) implications for the relationship between the countries. The potential risks and/or gains of this strategy present a relatively complex situation that would be worth studying, as these investments in natural resources can create a potential overdependence on Latin American countries. In this context, Latin America's infamous political and economic instability could be an issue and, on the other hand, the early stage which Chinese companies are at in their internationalisation process offers limited options to offset, via investments in other regions, any negative consequences of changes in the business environment.

A third area not widely studied is "other" Chinese companies, i.e. not the SOE looking for natural resources and providing funds for JVs with SOEs from Latin America. Growing Chinese exports are most likely the result of the efforts made by small, medium and large companies in the manufactures sector successfully selling their products in Latin American markets. These companies are expected to take the next steps in their internationalization process in the short and mid-terms, going from exporting, to contracting and then FDI. In this context, the analysis of these firms from China becomes more relevant as: (1) they tend to rely on ethnic Chinese networks (Yeung & Olds, 2000; Brown, 1995; Lecraw, 1993; Rauch & Trindade, 2002; Buckley, et al., 2007) but they will be operating in a region where the presence of such networks is still low (South America may be one of the few places in the world where it is very difficult to find a Chinatown!), (2) Latin America presents an important psychic distance, (3) the trade and investments seem to be geographically dispersed in a large continent where communications are not easy, (4) Chinese companies tend to operate in a relatively more centralized fashion (CAI, 1999) which could eventually prevent them from making decisions locally and adapting smoothly to changes in the business environment, (5) one of the weaknesses identified by previous works is such firms' lack of experience in international business (CAI, 1999; Wong & CHAN, 2003). These points are especially relevant in the context of investments in Latin America as it has been documented that this region presents a challenging environment for business (Fornes, 2007) and that its changing nature has affected the performance of large foreign investors (Fornes & Cardoza, 2008).

### **3.3 China-Latin America: An opportunity for European companies?**

Foreign investments from European companies in China are relatively small (IADB, 2004); However, Europe is the largest foreign investor in South America. Around 120 European companies operate in Latin America with up to 50% of their annual sales coming from the region, a group dominated by less than ten Spanish firms that represent nearly 50% of the total €150 billion invested by Europeans in the region over the last 15 years (Fornes, 2008).

Europe has been a major foreign investor in Latin America since the beginning of the 20th century, with the UK being the largest European investor for most of the first 90 years. Spain started to become a relevant player "in 1991 when Telefónica won the bid for the privatisation of Entel in Argentina and reached a peak (in terms of the amount of investment) in 1999 when Repsol acquired YPF in Argentina for around €15 billion" (Fornes & Cardoza, 2009). After 1997, Latin America received around 60% of Spanish foreign investments (as an annual average), which positioned Latin America as the first destination for Spanish companies, and Spain as the second-largest international investor in the region after the United States (Fornes & Cardoza, 2009).

Telefónica seems to be leading Spanish firms again in the development of links with China. The company, which operates the largest telecommunication network in South America, signed a contract in 2004 with Huawei, the Chinese telecommunication equipment maker, to sell products through all Telefónica's subsidiaries in Latin America; in addition, Telefónica entered the capital of China Netcom Corporation, the second largest landline operator in China, and Telefónica president along with Telefónica International's president sit on the board of this company, one of the very few Europeans on the board of a Chinese company (Blazquez-Lidoy, et al., 2006; El Mundo, 2007). Telefónica is the largest MNC operating in Latin America (ECLAC, 2001) and its relations with these two Chinese companies are a good example of the opportunities for European companies, especially as there are many other firms from Europe operating in sectors that are likely to be impacted by the Chinese landing in Latin America.

The growing economic integration between Europe and Latin America and also between Latin America and China opens the door for future research. The acquisitions of Western companies by Chinese MNCs are receiving increasing attention (RUI & Yip, 2007), mainly due to their aim of buying knowledge and skills (Child & Rodrigues, 2005; CAI, 1999; Wong & CHAN, 2003; Nolan, 2001); However, little interest has been shown towards potential market-seeking acquisitions by Chinese firms. This can be explained by the huge potential of the Chinese domestic market. However, including market-seeking FDI by companies from China can be supported by arguing that, for example, an acquisition of a Spanish company would give the Chinese buyer a gateway to both the EU and to Latin America at the same time. The need to strengthen economies of scale along with an increasing international and domestic competition in the home Chinese market (ZENG & Williamson, 2003; RUI & Yip, 2007; CAI, 1999; Wong & CHAN, 2003) provides extra support for this idea. Within this context, it would first be worth studying the strategies (if any) that European companies (especially Spanish and Portuguese) are adopting: (1) to seize this opportunity through JVs, mergers, alliances, etc., or (2) to protect their capital against potential takeovers from Chinese firms (especially as it has been suggested that strategic aims seem to have prevailed over economic rationale in previous acquisitions (RUI & Yip, 2007; Warner, HONG & XU, 2004; MA & Andrews-Speed, 2006)).

Second, within the strategies to exploit this opportunity, it would be of interest to study how European companies are adapting their strategies to serve the expected wave of Chinese companies arriving in Latin America. European organizations have been relatively successful in their industries (financial services, energy, automotive, food, commerce, education, etc.) by commercializing in Latin America products and services previously developed mainly for the European market; However, it is expected that they will need to rethink their offer in order to cater for the needs of the enterprises coming from China. The strong cultural and social links between Europe and Latin America, especially with Spain, Portugal, Italy and France, have made the competition relatively easy for European companies in the host markets; nevertheless, the addition of Chinese culture to the equation gives extra complexity to already highly competitive markets. Psychic distance will work in both

directions in this process. A good example of a successful adaptation to Chinese needs is Fiat's Palio, a car developed some years ago specifically for the Mercosur which is now being manufactured and sold in China. Another interesting example is that of Spain's business schools, most of which have been receiving a constant flow of students from Latin America, with it now being reported that some schools are already operating in China.

#### **4. Summary and conclusions**

This paper has presented a review and analysis of the current literature on the expansion to Latin America of firms from China. As suggested at the beginning, this article is divided into three main sections: the first section set out a review of the literature on the internationalization of Chinese MNCs, the conceptual frameworks discussed in previous papers and the main characteristics of international firms from China. The second section described the relations between China and Latin America, the political links and also analyzed the patterns of trade and investment along with threats and opportunities. Finally, the third section presented a discussion of the main issues reviewed in the first and second parts.

By way of conclusion, this review shows that the vast majority of academic literature relates to the characteristics of Chinese MNCs and their expansion into developed countries, the conceptual framework needed to understand the international expansion of companies from China and also the competition for foreign investments from developed countries. On the other hand, the analysis above has attempted to make clear that major research gaps exist in several areas.

Firstly, the internationalization of Chinese companies to Latin America needs to receive more attention as both trade and investment between these countries are showing a clear upward trend. This relatively new phenomenon —companies from emerging markets going to other emerging markets—has been described as a different context where traditional international business concepts may be challenged (Wright, et al., 2005). In this framework, further studies are needed, in particular in regard to: (1) the relative value of Chinese companies' existing advantages (especially FSAs, as CSAs have been relatively well documented) mainly in comparison with those from Latin American companies, (2) the sustainability of these existing advantages once the lead given probably by OEMs or JVs had been exhausted, and (3) the use of research methods based on quantitative and comparative data in order to complement the qualitative works and case studies published recently.

Secondly, most of the emphasis in the academic literature on the emergence of China and its impact on Latin America has been placed on the competition for resources from developed countries. However, the investments between these countries have received little attention. In particular: (1) the motives for FDI, (2) the implications of the entry mode chosen by Chinese SOEs (JVs also with SOEs from the host country) for the relationships between the countries, and (3) the entry mode, configuration, control and strategy of the Chinese companies not included in (2) deserve further study.

Thirdly, the emergence of China as an economic power has brought opportunities for different actors in world markets; maybe an unexpected opportunity arising from this phenomenon is that presented to European investors in Latin America. This proposed area of research may end up in mere speculation as European companies may not seize this opportunity. However, the fact that the Chinese domestic market is becoming more competitive, that many companies need to strengthen their economies of scale and that they are now being successful with their exports to Latin America, tends to indicate that Latin American countries will be impacted by the expansion of Chinese firms to this region. In this context, the issues worth studying may be: (1) the strategies

(if any) that European MNCs are adopting to seize this opportunity and/or to defend their capital from possible takeover attempts, and (2) how companies from Europe rethink their offer to cater for the needs of companies from China, especially as their competitiveness until now has been based on products developed for the European markets, with few exceptions.

Finally, and more broadly, internationalization of companies from emerging countries going to other emerging markets presents interesting routes for developing the IB agenda. In this sense, Buckley (2002) suggested that one of the potential areas for IB research in the future is the identification of trends towards and away from globalization, to which PENG (2004) added that future studies need to have a focus on the factors affecting the success and failure of firms in international markets. From what this article has presented it is possible to argue that the internationalization of companies from China to other emerging markets, along with the growing trade and investment relations between China and Latin America, are trends towards globalization that affect international firms' performance in ways which have yet to be understood.

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