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Firm heterogeneity and location choice of Chinese firms in Latin America and the Caribbean: Corporate ownership, strategic motives and host country institutions ☆

Yue LIN *

CEAO, UAM, Spain
Modulo III-215B, Centro de Estudios de Asia Oriental, Ciudad Universitaria de Cantoblanco, Calle Francisco Tomás y Valiente, 1, 28049 Madrid, Spain

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ABSTRACT

China's ODI in Latin America and the Caribbean is entering into the second phase with diversification of economic actors and industries of investment. This paper extracts the approved projects by the Chinese Ministry of Commerce from its online database between 2003–2012, and fits a random effect negative binomial regression model. Our statistical estimates on the one hand confirm some of the previous findings on the disparity between Chinese public and private investors in their ODI motivations and perception of risks, on the other hand find that host country institutions are not purely ownership specific, but also contingent on industries and activities in which firms tend to invest. The direction of institutional effect is not consistent across sectors and firm types. The revealed complexity of China's ODI in Latin America and the Caribbean suggests a multi-level framework in further research, which treats Chinese transnational firms as endogenously heterogeneous beyond the dichotomous categorisation according to corporate ownership.

1. Introduction

Despite of geographical remoteness, the economic relationship between China and Latin America and the Caribbean (LAC) has entered into the second phase, from that led by commercial exchanges to a more profound connection bounded by the capital flows. China's outward direct investment (ODI) in the region has increased tenfold in less than ten years, reaching more than US$10 billion in 2010 and 2011. Even adjusted by its concentration in the Cayman Islands and British Virgin Islands, according to the estimation of ECLAC (2011), China was still the third largest investor in terms of ODI flows in the region, behind the United States and the Netherlands in 2010. However, the increasing visibility of Chinese firms in LAC received more doubts (if not critics) than applauses.

For most external observers, China's ODI in LAC is qualitatively specific because of the dominant presence of Chinese state-owned enterprises (SOE), and the high concentration in extractive industries.[1] China's ODI is thus presented as no more than an illustrating case of China's grand external strategy with its Southern partners, seeking to secure its resources sources (Peters, 2013). This escalates

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* Modulo III-215B, Centro de Estudios de Asia Oriental, Ciudad Universitaria de Cantoblanco, Calle Francisco Tomás y Valiente, 1, 28049 Madrid, Spain. Tel.: +34 91 497 66 95; fax: +34 91 497 52 78.
E-mail address: yue.lin@uam.es.
[1] 90% of China's ODI in 2010 were in extractive activities (ECLAC, 2011).

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the concerns about "deindustrialization" and "re-primarization" of regional economies, already triggered by bilateral commercial imbalances (Gallagher & Porzecanski, 2008; Jenkins & Barbosa, 2012; Jenkins, Peters, & Moreira, 2008; Mesquita Moreira, 2007). More critically, if strong and assertive home government speeds up the internationalization of Chinese SOEs, geopolitical motive at least complements economic rationale in explaining their expansion in LAC (Tulder, 2010). As a form of diplomacy, China's ODI in LAC is characterized by a relatively high concentration in countries plagued by limited civilian liberty and political instability. Therefore, China's ODI is parallel to that originating from industrialized countries, which have increasingly targeted service and manufacturing sectors and rewarded the countries with better local governance (Peters, 2013). More tolerant of risk and less demanding of the legal system, China's ODI implies greater political challenges in LAC, where efficient institution building is deemed to be essential for future development.

Nevertheless, the current political discourse on China's ODI in LAC tends to identify Chinese SOEs as representing China, and overlooks thousands of privately-owned enterprises (POE) also active in the region. By 2013, among 183 verified greenfield projects, 76 projects were carried by POEs with an estimated capital investment equivalent to US$10 billion, accounting for almost one third of total investment engaged.[2] Under such circumstance, any attempt to infer the existence of a consistent and coherent national strategy guiding China's ODI in LAC bears a special burden. It is required to answer whether the internationalization strategy of Chinese POEs when entering into LAC is configured in the same manner as their SOE counterparts by the political preference and national interests, and to what extent their ODI patterns are converged to a high-risk and aggressive one.

Given the importance of these questions, relevant empirical studies are surprisingly scant. Most of the previous works are designed to test Dunning's eclectic paradigm (Dunning, 1973; 1980) by using the aggregate value of China's ODI as the dependent variable (Buckley et al., 2007; Cheng & Ma, 2010; Cheung & Qian, 2009; Huang & Wang, 2011; Hurst, 2011; Kang & Jiang, 2012; Kolstad & Wiig, 2012; Sanfilippo, 2010). However, ODI data at the aggregate level, as acknowledged by Buckley, Cross, Tan, Xin, and Voss (2008), makes analytical techniques, such as regression analysis, an imperfect method working by inference about the strategic motives at firm level. Moreover, because of potential extreme values that characterize the capital-intensive extractive projects, aggregate ODI data suffer from the skewed data structure that would affect adversely the model fit and estimations (Ramasamy, Yeung, & Laforet, 2012). Finally, without sufficient disaggregation of data input, those studies are unable to distinguish the investment patterns between firms of distinct ownership structure.

Most recently, some researchers recourse to alternative data sources, such as survey results (Duanmu, 2012), financial reports of listed companies (Ramasamy et al., 2012), and commercial database (Amighini, Rabellotti, & Sanfilippo, 2013) to measure the ownership effects on location choices of Chinese firms investing abroad. This article contributes firstly to this still limited empirical stream by exploring a publicly accessible database maintained by China's Ministry of Commerce (MOFCOM), which keeps raw information about all approved ODI projects. To our best knowledge, it is the first empirical work of this kind concerning China's ODI in LAC. MOFCOM's data allow us not only to disaggregate China's ODI projects in the region by ownership of investors but also by internationalization strategic motives. The second contribution is to extend the current debate on ownership differentiation into a broader framework on firm heterogeneity. To do this, we take into account strategic motives of ODI captured by the industries and activities Chinese firms tend to invest. We introduce simple industry dummies into the standard model in order to evaluate more precisely how the interaction between corporate ownership and host country institutions could be moderated by strategic intents of globalization. We argue that corporate ownership and strategic intent of globalization are two related but different dimensions of firm heterogeneity. Even if ownership remains an important differentiator of Chinese firms, within each group of firms defined by their ownership structure, there are differences in the internationalization strategies at firm level that may alter the magnitude and direction of institutional effects interacted with investors' ownership structure. In other words, we believe that host country institutional effect on the location choice of Chinese firms is not solely ownership specific, but also contingent on firms' motivation of internalization. In order to understand better the complexity of investment behavior of Chinese firms, we suggest a multi-level analytical framework that integrates institution-based view, resource-based view and industry-based view.

The following part of the paper is organized in four sections. Section 2 reviews the theoretical arguments and presents our research hypotheses. Section 3 provides a detailed description of dataset and methodology, and Section 4 discusses the empirical findings, which lead to the concluding remarks presented in Section 5.

2. Theoretical arguments and hypothesis development

Extant literature well documents the unique characteristics of Chinese multinationals, seemingly undaunted by the risks that Western firms have associated with internationalization. Two strands of arguments are provided. First of all, Chinese firms are described as risk lovers because of the active role of home government. Strong and assertive home government could speed up the internationalization strategies of dominant national firms, especially when they are state-owned companies. Tulder (2010) thus introduces a mesoeconomic layer of analysis of BRIC[3] companies, focusing mainly on the relationship with the home country government, and suggests a renewal of Raymond Vernon's obsolescing bargain argument in the way that it is rather the BRIC governments instead of companies themselves that are prepared to bargain directly with host country governments. Geopolitical motives of the home governments were obvious behind ODI from China and Russia in the resources sector. In the extreme case, as Zweig and Jianhai (2005) have claimed, "Beijing's resource-based foreign policy has little room for morality". While the majority of

[2] www.fdimarkets.com, consulted June 9th of 2014.
[3] Created by Jim O'Neill in 2001, BRIC is a grouping acronym that refers to the countries of Brazil, Russia, India and China, which are all deemed to be at a similar stage of newly advanced economic development.