ABSTRACT

Purpose: This paper analyses the characteristics of Chinese MNCs in other emerging economies using evidence from Latin America vis-à-vis the features found in previous studies of Chinese companies operating in developed countries.

Design: It does this by studying the fit of theoretical frameworks recently developed for Chinese firms, the support from the government, and the strength of their capabilities in relation to those of local competitors. The analysis is based on case studies with data collected from a theoretical sample of Chinese companies operating in Latin America.

Findings: The results show that these companies seem to be following a pattern similar to that described by Mathews’ (2006) LLL, that the support from the government does not seem to play an important role in their internationalisation process, that they appear to have developed a set of capabilities strong enough to compete in the host market (in particular how to combine their strengths with those of local partners), and that they are engaged in a positive cycle of development that helps them to overcome some of the challenges and barriers of operating in Latin American emerging markets by complementing/leveraging their strengths with those of local firms.

Originality/value: The findings indicate that Chinese companies are following patterns in their internationalisation to Latin American emerging markets that seems to be a combination of conventional theories (including previous studies on emerging markets-based firms) with idiosyncratic elements.

Keywords: China – Latin America – FDI – emerging markets

Research paper
CHINESE OUTWARD INVESTMENTS TO EMERGING MARKETS. EVIDENCE FROM LATIN AMERICA

INTRODUCTION

How are Chinese Multinational Corporations (MNCs) expanding to other emerging markets (EM)? Are they following the same patterns seen in investments in developed economies? Have they developed capabilities strong enough to compete in emerging economies? Answering these questions is relevant as Latin America (LA) has been one of the main destinations for China’s Outward Foreign Direct Investment (ODI), receiving around 40% of these investments since 2004 and reaching a stock of more than US$70 billion in 2012 which has positioned the country as the third largest foreign investor in the region (Barcena & Rosales, 2010; Fornes & Butt Philip, 2012).

In this context, on the one hand several publications have argued that the pattern of internationalisation followed by Chinese firms can be framed within existing mainstream theories (see for example Chen, Li, and Shapiro (2012); Cui and Jiang (2009); Deng (2007, 2009); Narula and Nguyen (2011)). On the other hand, there are also several publications reporting that Chinese companies in their international expansion are following patterns different from those seen in Western firms (see for example Bhagat, McDevitt, and McDevitt (2010); Boisot and Child (1996); Boisot and Meyer (2008); Child and Rodrigues (2005); Deng (2011); Rui and Yip (2008)). The few works on China’s firms in Latin America seem to follow the latter argument. For example, most investments are favouring Foreign Direct Investments (FDI) over exports (Dyer, 2010; Fernández Jilberto & Hogenboom, 2010; Fornes & Butt-Philip, 2011; Gonzalez-Vicente, 2012) when due to the nature of these investments (mainly multiple sources of value and multiple sources of authority (Sundaram & Black, 1992)), mainstream theories would suggest the latter (Dunning, 1995; Dunning, 1998; Dunning, 2003). In any case, Deng (2011) found in a recently published review on Chinese MNCs that the understanding of China’s companies internationalisation is “far from complete and remains fragmented and disconnected” (p. 2).

Focusing on the key questions presented above, the paper analyses, first, if the emerging conceptual frameworks developed as a result of the internationalisation of Chinese firms (like those proposed by Boisot and Meyer (2008); Mathews (2006); Rugman and Li (2007); Rui and Yip (2007)) could be applicable to ODI to Latin American emerging markets; second, if the support from the Chinese government reported in previous works (as in Buckley, Clegg, Cross, Liu, Voss, and Zheng (2007); Child and Rodrigues (2005), among others) also applies to investment in emerging markets (in particular Latin America); third, if the capabilities of

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1 Latin America received 50% of Chinese ODI in 2004 (more than the 30 per cent that went towards Asia) (Blazquez-Lidoy, Rodriguez, & Santiso, 2006, p. 35), 53% in 2005, 40% in 2006 (MOFCOM, 2007), and the same trend continued in 2008, 2009, 2010, and 2011 (Barcena & Rosales, 2010; Fornes & Butt Philip, 2012; MOFCOM, 2008, 2010) Although initially regarded mainly as resource-seeking FDI (IADB, 2004) (where most of the subsequent trade would go towards China as, for example, in the case of investments in Africa (Shoham & Rosenboim, 2009)), the trade flow from China to Latin America has grown around 20 times since 1996 (compared to 14 in the other direction) posting a trade surplus for China of around US$30 billion in 2010 from a deficit of US$283 million in 1990 (ECLAC, 2010, 2011; Sanchez Ancochea, 2006). These figures suggest that several private Chinese MNCs are also pursuing market-seeking FDI (Dyer, 2010; Fornes & Butt-Philip, 2011) complementing thus the resource-seeking FDI from state-owned enterprises (SOEs) (Armony & Strauss, 2012; Blazquez-Lidoy et al., 2006; Fernández Jilberto & Hogenboom, 2010; Gonzalez-Vicente, 2012; La Tercera, 2007a, 2007b; Phillips, 2010; Sanchez Ancochea, 2006; Santiso, 2006; Santiso, 2007).
Chinese MNCs (as studied by Ge and Ding (2008); Gonzalez-Vicente (2012); Rugman and Li (2007); Williamson and Yin (2009), among others) are strong enough to successfully compete in emerging markets against local companies (as argued by Fornes and Butt-Philip (2011)).

Overall this article makes three contributions. The analysis of the three points listed above enriches the current debate on the need to develop a theory of Chinese management versus the need to develop a Chinese theory of management (Barney & Zhang, 2009; Child & Rodrigues, 2005; Deng, 2011; Mathews, 2006), this being the main contribution of the article. The paper also contributes by adding evidence on companies different from the ones widely known and studied (like Lenovo Group, Nanjing Automobile, Huawei Technology (Child & Rodrigues, 2005; Rui & Yip, 2007), Haier (Child & Rodrigues, 2005; Palepu, Khanna, & Vargas, 2003), Galanz (Ge & Ding, 2008), Thomson, Shanghai Motors (Rugman & Li, 2007), etc). A third contribution is the study of the characteristics of Chinese companies in environments different from the ones also generally studied like the USA, the EU, or Japan. The latter is of particular importance as it has claimed that those companies that succeed in emerging markets will be in a better position to compete in the global economy (Williamson & Yin, 2009).

The paper is structured as follows. A review of the literature containing the main conceptual framework comes after this section. The Methodology and Sample section then describes the sample used and the research method followed for the analysis of data. Third, the Theoretical Insights section presents the development of the Research Propositions. Fourth is a Discussion section analysing the results vis-à-vis current literature. The paper concludes with a Summary and Conclusions.

**REVIEW OF THE LITERATURE**

**Theoretical frameworks**

After China joined the WTO in 2001, and especially when the first evidence of the internationalisation of its companies appeared, a debate began in the literature on the fit of the Chinese case with existing theories. 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 [less developed country] category” (Makino, Chung-Ming, & Rhy-Song, 2002, p. 412), also it is “a much more open economy than most emerging markets” (Blazquez-Lidoy et al., 2006).

Within this debate, Deng (2011) found that the mainstream Resource-Based View (RBV) (Penrose, 1959) is increasingly being used to understand China’s firms resources and capabilities. But it is this focus on the RBV which at the same time heightens the specific characteristics of Chinese firms (Deng, 2011). In fact, the works based on this framework agree that most of the ownership advantages of Chinese firms are home country specific and network-based (see for example Boisot and Meyer (2008); Rugman and Li (2007); Zhou (2007)), advantages/capabilities that in general are different from the firm-specific ones found in incumbent MNCs (Buckley & Casson, 1976; Dunning, 2003).

It is in this context where Child and Rodrigues (2005) proposed the need for a theoretical extension for Chinese companies based on four main differences with the context where mainstream theories have been developed (the companies’ need to catch-up, the active role of the Chinese government, a possible institutional dependence, and the Chinese culture with its subsequent relatively higher psychic distance). Others, like Rui and Yip (2008), have argued that Chinese ODI may have a Strategic Intent to achieve specific goals “to offset their competitive weaknesses and leveraging their unit ownership advantages, while making use of
institutional incentives and minimizing institutional constraints” (p. 214) In a similar line, Boisot and Meyer (2008) said that Chinese firms are going abroad looking for more efficient institutions and as a result developed the concept of Institutional Arbitrage, the “exploitation of the differences between different institutional arrangements operating in different jurisdictions” (p. 356) Buckley, et al. (2007) added 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” (pp 513-514).

Also, Mathews (2006) proposed Linkage–Leverage–Learning (LLL), an extension of the OLI paradigm (Dunning, 1977), based on the idea that the “internationalization from the Asia Pacific region needs to be reconceived as a ‘pull’ process as well as involving a push”, and that the internationalisation of these firms is based on a search for new resources to strengthen their competitive position rather than on “the possession of overwhelming domestic assets which can be exploited abroad” (Mathews, 2006, Pp. 16-17).

In any case, the relevant question in the context of this research is which one can be applied to the case of Latin America? The context in LA and China is different from that of mainstream theories. Also, it seems unlikely that Chinese firms would be pursuing institutional arbitrage in a region that is infamous for its institutional frailty (Del Sol & Kogan, 2007; Fornes, 2009; Guillen, 2005; Khanna & Palepu, 2000). Similarly, it is also unlikely that they would have a strategic intent for their investments in LA to become global leaders (unless they are using these markets as a stepping stone, still unlikely). Nevertheless, due to its characteristics, Mathews’ LLL seems to be the most suitable for ODI to Latin America.

Support from the government

On the other hand, one of the main reported differences in the internationalisation of Chinese MNCs with their Western counterparts has been the support from the Chinese government. Child and Rodrigues (2005) said that many firms have received financial support and protection from the authorities to reduce their late-coming disadvantage. This support was also visible in the case studies analysed by Rui and Yip (2007) and Rugman and Li (2007). Shoham and Rosenboim (2009) found that the Chinese government is supporting resource-seeking ODI in Africa as well. Zeng and Williamson (2003) also reported that some companies have access to state-supported research. Buckley et al. (2007) added that the government supports some SOEs by having capital available at below-market rates and in subsidised or soft loans from banks influenced or owned by the government. Fornes and Butt-Philip (2011) argued that the support from the government could also be seen outside China in the signing of treaties and trade and investment agreements with emerging countries with the aim of improving access to their products (in recent years China had signed agreements with 32 countries or groups of countries in Africa, Asia, Latin America, and the southern Pacific (ECLAC, 2011)).

However, recent empirical studies have started to question the role and format of this support from the government. For example, Ge and Ding (2008, p.680) reported that, “as a private enterprise, Galanz still finds it difficult to obtain loans from state-owned banks”. Also, studies on Chinese SMEs (Cardoza & Fornes, 2011; Fornes & Cardoza, 2010) found that the support from the state in the form of funding seems to be instrumental only in the first stages (local and regional) of Chinese SMEs’ international expansion and that ownership by the state does not seem to play a role in their internationalisation process.
After this analysis of what it seems contradictory findings, it becomes evident the need to understand the role of the government in the expansion of Chinese firms to LA. The evidence from the first studies in developed economies showed that the government has been pivotal in the internationalisation of its companies; however, studies in recent years (including FDI to emerging economies) have shown that the importance of the government in the process seems to be fading. In the context of this research, a key question is the implications of this support (whether strong or weak) in the strategies of China’s firms in Latin America.

Chinese firms’ capabilities

Finally, a debate has been developing on the strengths of Chinese firms’ capabilities in relation to their international competitors. A decade ago Nolan (2001) 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” (p. 187) mainly in the areas of R&D, marketing ability, development of brands and the restrictions from the authorities. Zeng and Williamson (2003, p. 3) responded to this by pointing out that there is a “new breed of Chinese companies that have already succeeded in capturing some foreign markets” based on domestic strengths, export-orientation, competitive networks, and exploitation of technology from government-owned research institutes. Boisot (2004) and Guthrie (2005) added that Chinese companies need to go abroad to acquire competitive advantages and complement their current strengths in the domestic market, and to avoid the disadvantage of operating exclusively in a domestic market. In addition, Rugman and Li’s (2007, p. 71) study of three acquisitions by Chinese MNCs added that they “mainly reflect China’s country-specific advantages (CSAs) rather than FSAs”.

However, recent works (like Bhagat et al. (2010); Boisot and Meyer (2008); Cardoza and Fornes (2011); Deng (2011); Fornes and Butt Philip (2012); Ge and Ding (2008); Shoham and Rosenboim (2009); Williamson and Yin (2009); Yamakawa, Peng, and Deeds (2008); etc.) have started to identify some strong capabilities of Chinese international firms, although most of them still linked somehow to the domestic environment in which they operate. This may be the result of firms garnering “international experience and improving stock of ownership advantages (both transaction – and asset-type)” which has allowed them “to move towards market-seeking FDI in developed countries” and eventually “become indistinguishable from conventional or mature MNEs” (Narula & Nguyen, 2011, p. 23).

In the context of this research, the question seems to be about the strengths of Chinese firms’ capabilities in relation to those of their counterparts in Latin American emerging markets. It has been suggested that “although not yet completely developed and consolidated to compete against companies in developed countries, [Chinese firms] have achieved a certain level that allows them to successfully compete in Latin American markets” (Fornes & Butt-Philip, 2011). This is relevant in the context of this work as “the capabilities to succeed in emerging markets will be decisive in the next round of global competition” (Williamson & Yin, 2009, p. 78).

METHODOLOGY AND SAMPLE

The research is based on case studies (Yin, 1994). This methodology was chosen to get a better understanding of the characteristics of Chinese international firms operating in developing contexts and their fit with existing theories (Creswell, 2003; Eisenhardt, 1989; Eisenhardt & Graebner, 2007), the main objectives of this study; this methodology is also better suited to examining subjective features (like vision and reasons to go abroad, reasons to choose an entry mode, perceived strengths and weaknesses, perception of international experience, etc) (Creswell, 2003).
The theoretical sampling (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Pettigrew, 1990) was built with two SOEs, two private companies, two public companies (no visible state stake, listed in Hong Kong), and a chamber of commerce. To be in the sample, Chinese companies should have invested in Latin America before 2008 and have an income of at least 5% of total sales from the region (being around 5% the weight of Latin America in the world economy); around 55 companies fulfil these requirements (Barcena & Rosales, 2010; Dyer & Lapper, 2007; Fornes & Butt Philip, 2012; Santiso, 2007). More details of the companies in the sample can be seen in Table 1. The Chamber of Commerce (ChC) gathers a large group of companies operating in both China and the most important countries in South America and was included to have an outsider’s view of the internationalisation process. Although a relatively small sample, it was design to offer the option of analytical generalisation (Eisenhardt, 1989).

As can be seen in Table 1, two companies are owned by the state, two are public (listed in Hong Kong), and the remaining two are private. All of these firms have total sales of over US$100 million and the share of sales coming from LA goes from 5% to 20%. They started selling abroad around 14 years ago on average and in LA around ten years ago on average. Their first investment in LA was around nine years ago on average.

The data was collected through in-depth interviews, similar to several previous studies on Chinese MNCs (Ge & Ding, 2008; Rui & Yip, 2008), based on the ideas and gaps identified in the review of the literature. Collected data was coded following Glaser and Strauss (1967) and then matched with what has been found in other relevant works and also with data from the ChC. Finally, the findings were analysed through triangulation among the case studies, previous works, and secondary data. These processes aimed at providing internal validity.

The interviews were conducted with the CEO (or deputy) of the subsidiary of the Chinese company and with the President of the “Group of Countries” – China Chamber of Commerce (name of the “group of countries” not shown to keep the anonymity of the interviewee). All the interviews were conducted in LA by the main researchers; this avoided any bias in the gathering of data. Secondary data was also collected from other reputable sources like official websites, annual reports, newspaper articles, databases from international organisations, etc. The definition of internationalisation used in this work is that proposed by Mathews (2006, p. 16): “the process of the firm’s becoming integrated in international economic activities”.

The combination of the elements in the methodology, theoretical sampling, case studies, in-depth interviews based on gaps identified in the literature, coding of data, triangulation, and pattern matching, where included to strengthen the reliability, internal, construct, and external validity to support the findings of the analysis (Gibbert, Ruigrok, & Wick, 2008).

THEORETICAL INSIGHTS AND RESEARCH PROPOSITIONS

Theoretical frameworks

As stated above, the analysis of the data started with the assumption that Chinese MNCs are following the Linkage–Leverage–Learning (LLL) framework in their international expansion to LA. Mathews (2006) based the LLL framework on the idea that traditional theories (in particular internationalisation, strategic impulse to internationalisation, and sources of international advantage) do not necessarily apply as Asia Pacific companies have distinctive characteristics compared to the incumbents, namely: (i) accelerated internationalisation, (ii)
organisational innovation, and (iii) strategic innovation. And in this context “the considerations that apply to international expansion in the pursuit of resources (and customers) not otherwise available, are quite different from those that apply to expansion which is designed to exploit existing resources” (p. 18)².

The last column on the right of Table 1 shows that all the companies in the sample chose a Joint Venture as their first entry mode. All the companies said that this provides them with local knowledge (Co6 started with a JV and then bought the local partner’s share) and therefore reduces the risks. The President of the ChC added that this entry mode “guarantees the exploitation of the market”. Companies also said that initially they were invited by the local partner (except Co1) to develop the venture in LA (“the local partner acts as a pull for business”, Co2; “the investment abroad was a pull from the local partner”, Co4) as most of these companies were not familiar with operating in a market that different from China’s (“most Chinese managers do not have exposure to Western-style markets”, Co4). The six companies in the sample replicated the same model in the countries where they are now present in LA. This strategy created a network of JVs in the region.

In addition, interviewees were asked to rank the five most relevant reasons to invest in LA from a list of fourteen options (including “others”). Figure 1 shows the list of options (taken from the literature on internationalisation). All the companies ranked “potential of the market” first; ChC concurred. In second of third positions came “better access to customers” and “possibility to adapt products to the local market”; “Diversification of sources of income”, “development of infrastructure in the host country”, and “saturated domestic market” were mentioned by at least one company in fourth or fifth place. Their growth plans were very ambitious; they expected to increase their sales in LA by around 30% per year (Co3 100% per year) in the next three years; they said that this is the performance seen in at least the last two years. They anticipated this growth to be organic within the current JVs. Some comments from Co1 exemplify the current situation and prospects: “LA is a perfect consumer for Chinese merchandise”, “there is not enough transport for the products waiting to be shipped [from China to LA]”, and “it is not what China wants to sell, it is what LA can actually buy!”

At the time of the interviews, most of the investments in LA were warehouses and distribution facilities. Two companies were building manufacturing facilities in Uruguay, Co3 to adapt its products and Co4 to assemble parts shipped from China, as this country is “the most stable in the Mercosur (Co3)” and also “it provides free access to the big markets in the Mercosur (Co4)”.

The analysis of these responses and comments seems to confirm the initial assumption, that the companies in the sample are following the pattern described in Mathews’ (2006) LLL; in

² Linkage (the first L) refers to companies (latecomers or newcomers) that go abroad to acquire advantages externally, and as a consequence of this process they find opportunities to grow in the global market rather than in the domestic one. This strategy presents higher risks, so companies attempt to minimise them by engaging in Joint Ventures (JV) in the host market to complement their own resources and strengths. In traditional theories, “partnerships and joint ventures are seen by the incumbent, generally speaking, as sources of leakage of proprietary assets and knowledge” (Mathews, 2006, p. 19). Leverage refers to the ability of these networks to leverage and complement their resources to overcome the barriers erected by the incumbents to delay the entry of competitors. This creates a “worldwide web of interfirm connections” (Mathews, 2006, p. 19). Learning comes as a result of applying repeatedly the linkage and leverage processes which “may result in the firm learning to perform such operations more effectively (organizational learning)” (Mathews, 2006, p. 20).
particular, a rapid internationalisation looking abroad for opportunities to grow pulled by a local partner (rather than a push to exploit domestic assets) through JVs which created a network of interconnected firms. Therefore:

*Proposition 1: Chinese MNCs go to Latin American markets following the pattern described by LLL.*

**Support from the government**

When asked about the support from the Chinese government, Co5 replied “how many companies are currently going abroad? It is impossible to support all of them”. Also Co6 replied “there are so many people and companies leaving China that it would be impossible to help all of them”. These comments summarise the feeling (and probably the reality) of all the interviewees: China’s government does not seem to provide support for their ventures in LA. In fact, ChC said that “most Chinese firms avoid the Chinese embassies in LA as they are mainly political and of little help for business”.

ChC, Co2, and Co6 said that the closest support they have heard of is the possibility of funding Chinese exports (especially heavy goods and machinery for construction and infrastructure development) by the China Development Bank (CDB). Co2 added that “we have been trying to get these credits for a long time but without success” (it seems that the Bank only accepts collateral from the host government, even in private deals, to minimise the risk). These three companies also said that the CDB is analysing private projects to fund in LA, but that they know only a very few small projects that have been approved.

Of particular interest in this section are the two SOEs in the sample. Co1 said that “the expansion to LA is part of the Company’s global strategy with no relation to the Chinese government’s foreign policy and therefore no extra resources to us”. Co4 said that “the support from the government is mainly for natural resources, not for industrial companies like ours; although there is something from provinces [i.e., not central government]”. And Co6, although a public company, said that “the government chose it (along with two other firms) to go abroad and due to this it provided support in the home country by protecting the domestic industry”. As these replies were counterintuitive (especially in the SOEs) the interviewer insisted and tried to go deeper, but the answers continued to be negative.

Interviewees were also asked about the trade and investment agreements signed by China and the host countries. The general feeling was that they did not have any influence in their decision to trade and invest in LA. For example, Co4 said that “these agreements have had an impact in Venezuela, but little effect in the rest of LA”, and Co5 that “they simply do not work!”

The analysis of the responses seems to provide evidence that the companies in the sample are not depending on support from the Chinese government. Only Co4 hinted at some support from the provincial government (where the parent is located) that does not seem to be relevant in the Latin American venture, and Co6 support in the form of protection in the domestic market. Therefore:

*Proposition 2: support from the Chinese government is not as relevant in the internationalisation of Chinese firms to Latin America as it has been to developed economies.*

**Chinese firms’ capabilities**

Interviewees were asked to rank what they considered their five strongest capabilities for LA markets from a list of 13 options (plus “others”). Figure 2 shows the list of options (taken from the literature on internationalisation). All the answers showed “price” first, and four of
them (ChC, Co3, Co5, and Co6) ranked “product” in second position. In third to fifth positions came “access to distribution”, “long-term vision”, “management skills”, “access to distribution”, “access to local government (through the local partner)”, “quality”, and “internal R&D”.

On the other hand, they were also asked to rank what they considered their five weakest capabilities for the LA markets from a list of 13 options (plus “others”). The list was the same as Figure 2. “International experience (lack of)” and “(high) psychic distance” came top or second in all the answers (including ChC). Other responses included “language”, “(low) management skills”, “(low recognition of Chinese) brands”, “difficulties to negotiate contracts (not in the list of 13 options)”, “understanding of the local legal system (not in the list of 13 options)”, and “low image of Chinese products (not in the list of 13 options)”.

The key to understanding the balance between weaknesses and strengths was provided by Co2 who said that “the Chinese do not know their strengths in the market, the local partner pulls”. This tends to suggest that the weaknesses listed above may be overcome by the experience and knowledge of the local partner who guides the JV to where the market opportunities are. Co6 added that “they are reducing these problems by hiring local people; currently the ratio is 50/50 but in the future only directors will come from China”, and Co3 also said that by “hiring managers in LA they avoid the problem of growing salaries of qualified professionals in China”.

Interviewees were also asked about the use or development of ethnic networks (guanxi) as a way to minimise some of these weaknesses as identified in previous research works; in particular, business opportunities, relations with authorities, and management of labour in the host market (Barney & Zhang, 2009; Brown, 1995; Chen & Chen, 2004; Lecraw, 1993; Rauch & Trindade, 2002; Yeung & Olds, 2000). The answers from the seven interviewees were negative; they said not to rely on these kinds of networks. However, all the interviewees agreed that the development of local networks (authorities, suppliers, competitors, etc) is key for the success of the venture and that this network is usually provided by the local partner. ChC, Co1, and Co2, added that the Chinese currently in LA do not have the knowledge and capabilities to work in big business.

The analysis of the responses and comments seems to provide evidence that the companies in the sample have a set of strong capabilities (mainly price, products, and access to distribution). These companies have also found a way to overcome their competitive weaknesses via JVs with local partners who identify the market opportunities, act as a pull for the parent firm in China, and minimise the psychic distance. The ability of complementing resources through JVs can also be counted as a competitive capability (within Mathews’ (2006) Leverage). This combination of strengths (products, prices, access to distribution, and ability to manage JVs) seems to be a powerful source of competitive advantage for Chinese firms in Latin American markets. This can be seen in the strong past performance of the companies (mentioned above) along with their ambitious objectives for the next three years. It can also be seen in the high rate of growth of the trade flows from China to LA. Therefore:

Proposition 3: Chinese MNCs have developed a set of capabilities that are strong enough to compete successfully in Latin American emerging markets.
The combination of the findings presented so far are also related to other questions posed by previous works on Chinese international firms and the three propositions presented above. In particular, Child & Rodrigues (2005) were concerned about: (i) adaptations to the local management and environment, and there seems to be evidence hinting at this in the relation with local partners, (ii) modifications to their administrative heritage, and there seems to be evidence of this in the reliance on local teams, and (iii) the potential ability to blend their strengths with those in the host market, and there is evidence of this in what was described as Mathews’ Leverage (2006). In addition, and similar to what was found in the case studies analysed by Child & Rodrigues (2005), companies in the sample do not seem to rely on ethnically-based social networks as has been the case in earlier works (Cai, 1999; Chen & Chen, 2004; Deng, 2004; Rauch & Trindade, 2002), and also seem to be overcoming the liability of foreignness suggested in earlier works (Cai, 1999; Deng, 2004). Finally, the chosen entry mode (JV) shows a different pattern than that found in other case studies (Child & Rodrigues, 2005; Rugman & Li, 2007; Rui & Yip, 2007). An analysis of these points, comparing studies published some years ago with the data collected for this research, seems to suggest that Chinese companies are developing relatively rapidly a set of capabilities that help them to overcome barriers and challenges usually encountered by MNCs when operating overseas and in particular in Latin American emerging markets (like liability of foreignness, reduction of transaction costs, agency problems, etc.). Therefore:

Proposition 3a: Chinese MNCs take a second stage in their development in the host market that helps them overcome some of the challenges and barriers of operating in Latin American emerging markets, they seem to be doing this by complementing/leveraging their strengths with those of local firms.

DISCUSSION

Contributions

In response to recent calls to enrich the debate on the need to develop a theory of Chinese management versus the need to develop a Chinese theory of management (Barney & Zhang, 2009; Boisot & Meyer, 2008; Child & Rodrigues, 2005; Deng, 2011; Mathews, 2006) as well as to identify trends towards and away from globalisation (Buckley, 2002), this article makes the following theoretical and empirical contributions.

Theoretically, the findings show (similarly to previous studies on Chinese ODI to developed economies like (Bhagat et al., 2010; Boisot & Child, 1996; Boisot & Meyer, 2008; Buckley et al., 2007; Child & Rodrigues, 2005; Deng, 2011; Rugman & Li, 2007; Rui & Yip, 2008)), that China’s companies in their international expansion to Latin American emerging markets are following patterns that differ from what mainstream theories have observed in Western firms. In particular, the results of the analysis suggest that the companies in the sample follow the pattern described in the LLL framework (Mathews, 2006). This can be seen in companies being pulled to go abroad by partners with whom they are engaged in JVs, acquiring capabilities (like knowledge of international business, local networks, and management skills) in the host market, finding opportunities to grow beyond China’s borders, and replicating successfully the same model in different countries.

For the other recently proposed models for the international expansion of Chinese companies, there is little evidence of Institutional Arbitrage (Boisot & Meyer, 2008) in the responses from the interviewees; probably the only one was the comment from Co3 who said that they are “hiring managers in LA to avoid the problem of growing salaries of qualified

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3 LLL is not necessarily conflictive with mainstream theories; in particular OLI. Long-term oriented and sustainable Chinese firms still need relevant capabilities to absorb the new resources.
professionals in China”, but still this seems to be far from having an intention to go abroad to operate in a different institutional environment. There may be, however, some elements of Strategic Intent (in particular “entering new markets, expanding capabilities, building bases of resources and experiences, realizing a firm’s strategic transformation, and ultimately becoming a global leader” (Rui & Yip, 2008, p. 215)) in the comments from interviewees. For example, two of the companies (Co4 and Co6) stated that they are in LA to conquer “first peripheral markets and then the centre as the periphery is easier to access and helps to get experience and volume” (Co6). Nevertheless, the corporate entrepreneurship and acquisition elements do not seem to be present in any of these companies as they were pulled by an international partner and entered the markets via JVs.

Also theoretically, the evidence showing that companies in the sample seem to have developed a set of capabilities that are strong enough to compete successfully in Latin America complements what previous studies have found in emerging economies’ firms. Most of these works suggest that MNCs from emerging economies 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 (Filatotchev, Wright, Hoskisson, Uhlenbruck, & Tihanyi, 2003; Fornes & Cardoza, 2009; Guillen, 2000; Hoskisson, Eden, Lau, & Wright, 2000; Khanna & Palepu, 1997; Khanna & Palepu, 2000; Meyer, Estrin, Kumar Bhamik, & Peng, 2009; Narula & Nguyen, 2011; Peng, 2003; Williamson, Ramamurti, Fleury, & Leme Fleury, 2013; Wright, Filatotchev, Hoskisson, & Peng, 2005).

In the context of this research, companies in the sample have complemented their strengths with those of local firms via JVs. They have not only overcome their weaknesses, but also leveraged their strengths. In this case, the strengths in “price” and “product” may be linked to what Williamson and Yin (2009, Pp. 80-87) described as “cost innovation capabilities” and “combinative capabilities”, and the ability to deal with the uncertainty of operating in an unknown context and rapidly getting on with a new partner could be categorised as “dynamic capabilities”.

Empirically, the findings of this article join those from recent empirical works (Cardoza & Fornes, 2011; Ge & Ding, 2008; Gonzalez-Vicente, 2012; Williamson & Yin, 2009) providing evidence that the support from the government does not seem to be present in the internationalisation process of the companies focus of the study at least in the format reported in previous studies (see for example Buckley et al. (2007); Child and Rodrigues (2005); Deng (2011); Rugman and Li (2007); Rui and Yip (2008); Shoham and Rosenboim (2009)). The also empirical study of Gonzalez-Vicente (2012, p. 56) on Chinese mining companies in LA shares some of these findings, the support from China’s government is not different from what American companies get in investments in US allied countries or from “the ways international organisations underwrite business environments that are beneficial to the Anglo-American” model of corporate governance.

This may suggest that: (i) the Government supports (or has supported) only a group of tier 1, national champions, or chosen companies and/or industries in their internationalisation process, (ii) the Government supports (or has supported) the internationalisation of companies only to politically or economically strategic markets (like the US and the EU to acquire capabilities, or Africa for natural resources, for example), (iii) the Government supported the first wave of companies going abroad but as the number of firms grows this support tends to be less tangible, and/or (iv) there is a new breed of competitive networks or
alliances based on the combination of complementary capabilities (Williamson & Yin, 2009; Zeng & Williamson, 2003) where the support of the government has not been a key element in their internationalisation process. In any of the cases, this finding questions the role of the government and its impact (if any) in the mid- to long term, and as a consequence in the development of theories behind the internationalisation of Chinese companies. Also, these companies provide evidence that alliances based on the combination of the partners’ strengths (Williamson & Yin, 2009) are being developed in other emerging markets (Latin America in this case) where they are gaining market share at the expense of local competitors.

Also, a contribution comes from the combination of factors presented in this section. It suggests that the companies in the sample (with more than ten years of international experience, sales and investments in both developed and developing markets, internationalisation without explicit support from the government, etc.) seem to share some of the characteristics of previous studies on emerging markets-based firms. Early works in this area, such as (Wells, 1981, 1983), found that companies from emerging countries successfully compete in other less developed countries based on their advantages developed in the home market. Also, later studies on asset-seeking FDI in LDCs from Asia’s newly industrialised economies showed that companies go to other emerging markets to reinforce their price competitiveness, but also to strengthen their non-price competitiveness when investing in developed countries (Chen & Chen, 1998; Kumar, 1998).

All in all, the analysis of the data presented in this paper contributes to extend the understanding of emerging markets-based companies expanding to other emerging markets; China to Latin America in this case. Similar to what recent literature has shown, the increasing international experience has allowed the companies in the sample to improve their transaction and asset-type ownership advantages that has led them to successfully compete in the host market (Narula & Nguyen, 2011; Williamson et al., 2013). In the particular case of Chinese companies going to Latin America the analysed data have shown that, based on Mathews’ LLL (2006), firms start their international venture at an earlier stage than their Western counterparts (Boisot & Meyer, 2008) being pulled by a partner in the host country with whom they engage in JVs (Cardoza & Fornes, 2011) mainly to get better access to the market and thus reducing transaction costs, agency problems, and liability of foreignness. This process continues in a second stage in which Chinese companies increase their competitive capabilities based on those of the local partner (and also probably on their own cost innovation, combinative, and dynamic capabilities). The findings have also shown that the Chinese government does not play a relevant role in this process. An illustration of this process can be seen in Figure 3.

Limitations

A limitation of this work is that the theoretical model was developed based on qualitative data from a small number of companies operating in a wide and diverse region. Caution should be taken to generalise the conclusions outside the context of this research. In addition, although there were different cases in a sample carefully selected, it is not possible to disregard a selection or survivor bias, or other idiosyncratic problems. Finally, although Latin America is one of the most important emerging markets, it may turn out to be a special case in the internationalisation of Chinese MNCs.
Having said this, measures were taken to strengthen the reliability, internal, construct, and external validity of the research. Following a well-established body of literature on case study and qualitative research (Creswell, 2003; Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Gibbert et al., 2008; Glaser & Strauss, 1967; Pettigrew, 1990; Yin, 1994), the findings of this article resulted from an in-depth analysis of case studies with data collected from a carefully selected theoretical sample with data analysed following recognised methods like coding, triangulation, and pattern matching (similar to Kotabe, Parente, and Murray (2007). This combination was designed to minimise possible concerns in these areas, and as a consequence to strengthen the research design and therefore the conclusions of the paper.

Also, measures were taken to minimise possible concerns related to the composition of the sample. The companies were selected for theoretical, not statistical, reasons (Glaser & Strauss, 1967) with the aim to replicate or extend emergent theories (Eisenhardt, 1989; Pettigrew, 1990), this being one of the main objectives of the research. Second, the three groups of companies (SOE, public, private) were considered to analyse polar types (Pettigrew, 1990) within the population. Third, the inclusion in the sample of the Chamber of Commerce offered an outsider’s view of the phenomena under study, allowed validation of the data from the companies, and in particular gave the opportunity to triangulate the conclusions. In this sense, the sample was designed to offer the possibility of analytical generalisation as defined by Eisenhardt (1989). In any case, future research may aim to improve this by collecting data from larger samples and, more importantly, by analysing time series.

Future research directions

This research leaves some areas awaiting further research. Considering the increasing importance of China in the world’s economy and especially the growth of the China-Latin America axis of trade and investments (Armony & Strauss, 2012; Barcena & Rosales, 2010; Fornes & Butt Philip, 2012), the analysis of these questions will broaden and deepen the understanding of emerging markets-based companies and as a consequence push the research agenda on China’s companies. The areas are:

- the possible effects/impact (if any) in the long term of the combination between push and pull to reach emerging markets (Ge & Ding, 2008; Mathews, 2006; Williamson & Yin, 2009), especially in comparison with the push-only from the company found in Western firms (Dunning, 2001, 2003);
- the sources/drivers/engines of internal capabilities/competitive advantages that lead Chinese MNCs to successfully compete in emerging economies;
- the strategies pursued by Chinese firms to deal with the psychic distance (Johanson & Vahlne, 1977; Johanson & Vahlne, 2009) encountered in other emerging economies, in particular in the management of JVs; and
- the learning process experienced by Chinese MNCs in their operations in emerging economies (and its potential relation with Mathew’s (2006) LLL).

SUMMARY AND CONCLUSIONS

How are Chinese Multinational Corporations (MNCs) expanding to other emerging markets (EM)? Are they following the same patterns seen in investments in developed economies? Have they developed capabilities strong enough to compete in emerging economies? This article answers these questions by studying Chinese companies with operations in Latin American emerging markets, the analysis of the data shows that (i) these firms are following a pattern similar to that described by Mathews’ LLL, (ii) the government does not play a
significant role in the international expansion of China’s firms to Latin America, (iii) the capabilities of China’s MNCs are strong enough to compete successfully in Latin America, and (iv) Chinese companies in Latin America take a second stage in their development that helps them overcome some of the challenges and barriers of operating abroad (they seem to be doing this by complementing/leveraging their strengths with those of local firms).

These findings indicate that Chinese companies are following a pattern in their internationalisation to Latin American emerging markets that seems to be a combination of conventional theories with idiosyncratic frameworks. The conventional elements can be seen in the strong internal advantages (mainly in the form of price and products) that are exploiting successfully in the host market along with the private nature of the effort to go abroad (i.e. without support from the government). The idiosyncratic elements can be seen in the need to complement and/or leverage their strengths with local partners and in the chosen entry mode through joint ventures.

These findings highlight the need to continue the study of the development of companies from emerging markets as the vast majority of academic literature relates to the characteristics of Chinese MNCs and their expansion into developed countries. As the case of Latin America shows, Chinese firms are currently pursuing market-seeking FDI and it is highly likely that they are also searching for markets in other areas of the developing world.

Finally, and more broadly, internationalisation of companies from emerging countries going to other emerging markets presents interesting routes for developing the research agenda. In this sense, Buckley (2002) suggested that one of the potential areas for research in the future is the identification of trends towards and away from globalisation, 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. Given the research presented here, it is possible to argue that the internationalisation of companies from China to other emerging markets is a trend towards globalisation that affects international firms’ performance in ways which have yet to be understood.
<table>
<thead>
<tr>
<th>Industry</th>
<th>SOE/Private</th>
<th>Total sales higher than us$100M</th>
<th>First sales abroad/first sales in LA</th>
<th>% of sales from LA</th>
<th>First investment in LA</th>
<th>Number of countries in LA</th>
<th>Origin of subsidiary’s CEO</th>
<th>Entry mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co1</td>
<td>Logistics</td>
<td>SOE</td>
<td>Yes</td>
<td>1999/2002</td>
<td>5%</td>
<td>2005</td>
<td>n/a</td>
<td>Chinese</td>
</tr>
<tr>
<td>Co2</td>
<td>Services</td>
<td>Private</td>
<td>Yes</td>
<td>1995/2002</td>
<td>6%</td>
<td>2002</td>
<td>3</td>
<td>Chinese</td>
</tr>
<tr>
<td>Co3</td>
<td>Beauty</td>
<td>Private</td>
<td>Yes</td>
<td>2005/2005</td>
<td>20%</td>
<td>2005</td>
<td>8</td>
<td>Brazilian</td>
</tr>
<tr>
<td>Co4</td>
<td>Automotive</td>
<td>SOE</td>
<td>Yes</td>
<td>2001/2007</td>
<td>5%</td>
<td>2008</td>
<td>3</td>
<td>Argentinian</td>
</tr>
<tr>
<td>Co5</td>
<td>Medicine</td>
<td>HK listed</td>
<td>Yes</td>
<td>1997/2002</td>
<td>9%</td>
<td>2002</td>
<td>6</td>
<td>Chinese raised in LA</td>
</tr>
<tr>
<td>Co6</td>
<td>Telecommunications</td>
<td>HK listed</td>
<td>Yes</td>
<td>1995/2002</td>
<td>8%</td>
<td>2002</td>
<td>14</td>
<td>Chinese</td>
</tr>
</tbody>
</table>

Notes:

HK: Hong Kong

Medicine: Chinese Traditional Medicine

Beauty: silicone implants manufacturer

n/a: not available
**FIGURE 1: REASONS TO DECIDE ON LONG-TERM INVESTMENT IN LATIN AMERICA (translated into English for reporting purposes)**

<table>
<thead>
<tr>
<th>Reason</th>
<th>1 = most important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential of the market</td>
<td>□</td>
</tr>
<tr>
<td>Better access to customers</td>
<td>□</td>
</tr>
<tr>
<td>Tariff and non-tariff barriers jump</td>
<td>□</td>
</tr>
<tr>
<td>Diversification of sources of income</td>
<td>□</td>
</tr>
<tr>
<td>Possibility to adapt products to the local market</td>
<td>□</td>
</tr>
<tr>
<td>Incentives in host country</td>
<td>□</td>
</tr>
<tr>
<td>Low cost assets, labour, etc</td>
<td>□</td>
</tr>
<tr>
<td>Saturated domestic markets</td>
<td>□</td>
</tr>
<tr>
<td>Closeness to raw material</td>
<td>□</td>
</tr>
<tr>
<td>Development of infrastructure in the host country</td>
<td>□</td>
</tr>
<tr>
<td>Exchange risk reduction in the company’s cash flow</td>
<td>□</td>
</tr>
<tr>
<td>Proprietary assets acquisition</td>
<td>□</td>
</tr>
<tr>
<td>Access to knowledge and technologies not available in home country</td>
<td>□</td>
</tr>
<tr>
<td>Other (specify)</td>
<td>□</td>
</tr>
</tbody>
</table>

**FIGURE 2: CAPABILITIES NEEDED IN THE LA MARKET (translated into English for reporting purposes)**

<table>
<thead>
<tr>
<th>Capability</th>
<th>1 = most important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>□</td>
</tr>
<tr>
<td>Price</td>
<td>□</td>
</tr>
<tr>
<td>Psychic distance</td>
<td>□</td>
</tr>
<tr>
<td>International experience</td>
<td>□</td>
</tr>
<tr>
<td>Quality</td>
<td>□</td>
</tr>
<tr>
<td>Access to distribution</td>
<td>□</td>
</tr>
<tr>
<td>Language</td>
<td>□</td>
</tr>
<tr>
<td>Brands</td>
<td>□</td>
</tr>
<tr>
<td>Management skills</td>
<td>□</td>
</tr>
<tr>
<td>Access to local government</td>
<td>□</td>
</tr>
<tr>
<td>Support from the Chinese gov.</td>
<td>□</td>
</tr>
<tr>
<td>Long-term vision</td>
<td>□</td>
</tr>
<tr>
<td>Internal R&amp;D</td>
<td>□</td>
</tr>
<tr>
<td>Others (specify)</td>
<td>□</td>
</tr>
</tbody>
</table>
FIGURE 3: STAGES IN THE INTERNATIONAL EXPANSION OF CHINESE MNCs TO LATIN AMERICAN EMERGING MARKETS

International expansion to Latin America
Proposition 1

Pull from international partner. LLL

Engagement in JVs in host market LLL - Linkage

Work together with local partner LLL – Learning and Leverage

Development of competitive capabilities (to compete in LA) Proposition 3

Second stage of development (to compete in LA) Proposition 3a

Support from the government. Not as relevant for LA Proposition 2

Need to strengthen competitive capabilities. LLL

Preparatory stage

First stage

Second stage

Note: the solid arrows and matrices indicate elements, topics, and relations shown in this study. The dashed arrows and matrices represent areas found in previous works but not found in this study.
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ECLAC. (2011). Interactive Graphic System of International Trade Data (SIGCI) - International Trade and Integration Division based on SITC Rev. 2. Santiago de Chile: ECLAC.


