Chapter 89
Foreign Direct Investment from China and Latin America:
Can Culture Be Deterring This Kind of Investment?

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ABSTRACT

Historically, Chinese corporations have been relatively unknown in Latin America. Total foreign direct investment (FDI) in Latin America was 18.1% of the world total in 2012 (UNCTAD, 2013). However, Chinese FDI in Latin America has averaged about US$10 billion per year since 2010, only a small part of Latin America's total FDI inflows (ECLAC, 2013). Yet the presence and economic leverage of Chinese corporations has become very substantial in several industries in the region, particularly the oil and mining industries. Trade between China and Latin America has also grown dramatically since 1999 (Luo, et al., 2010). Despite the growing economic connectivity between Latin America and China, the motivation, strategy and procedures behind China's FDI in the region have not yet been fully understood.

1. INTRODUCTION

Historically, Chinese corporations have been relatively unknown in Latin America. Total foreign direct investment (FDI) in Latin America was 18.1% of the world total in 2012 (UNCTAD, 2013). However, Chinese FDI in Latin America has averaged about US$10 billion per year since 2010, only a small part of Latin America's total FDI inflows (ECLAC, 2013). Yet the presence and economic leverage of Chinese corporations has become very substantial in several industries in the region, particularly the oil and mining industries. Trade between China and Latin America has also grown dramatically since 1999 (Luo, et al., 2010).

Despite the growing economic connectivity between Latin America and China, the motivation, strategy and procedures behind China's FDI

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in the region have not yet been fully understood. Moreover, compared to other regions such as Asia, Latin America is receiving only a small amount of investment from China. Chinese companies still need to gain a better understanding of the business environment and opportunities in Latin America (Kotschwar, et al., 2012). There is also the possibility that cultural differences could be a barrier for Chinese companies wishing to make entry into Latin America. Similarly, the host government's friendliness or unfriendliness towards the Chinese government could also influence FDI inflows from China. The purpose of this chapter will therefore be to understand both the motives and challenges of Chinese investment in Latin America.

2. CHINA AND ITS ROLE AS SOURCE OF FOREIGN DIRECT INVESTMENT

Recently, the motives and allocation of outward foreign direct investment (OFDI) from emerging economies has been deemed as one of the most intriguing questions in the international business (IB) research agenda (Mathews, 2006). This is derived from (a) the dramatic increase of OFDI from developing countries, which accounted to 16% of global FDI in 2008 (UNCTAD, 2009); and (b) how multinational enterprises (MNEs) from developing countries seem to have defied the basic theories of internationalization of firms (Ramasamy, et al., 2012). Therefore, the question of how firms without evident ownership advantages are able to succeed in the global arena still remains unanswered in the IB discipline.

While researchers have only begun to analyze OFDI from developing countries, no emerging economy has been more scrutinized than China (Ramasamy, et al., 2012). The reasons for such interest are twofold. Firstly, China has been one of the most popular destinations of FDI in the world. Secondly, as of 2008, China is considered the 13th largest source of FDI in the world, and third amongst developing countries (UNCTAD, 2009). Nevertheless, despite of the growing importance of China's OFDI in the world, Chinese FDI to Latin America has been modest. According to the Economic Commission for Latin America and the Caribbean (ECLAC), Chinese FDI to Latin America has averaged US$10 billion per year since 2010 (ECLAC, 2013). Furthermore, ECLAC claims that the reason for the lack of Chinese investment in Latin America is because Chinese firms are still learning to do business in the region (ECLAC, 2013).

3. THE EXPANSION OF CHINESE OFDI

The People's Republic of China began its "open door" policies in the late 1970s and early 1980s in order to get the country more involved with the global economy (Buckley, et al., 2007). At first, only state-owned corporations were given permission to invest in other countries (Buckley, et al., 2007). Initially such investment was very strictly regulated and had a ceiling set at US$10 million (Luo, 2007). In the late 1980s to early 1990s the Chinese government allowed more state-owned corporations to invest abroad, and in a six year period from 1986-1991, US$1.2 billion of investment was approved (Buckley, et al., 2007). The Chinese government continued relaxing restrictions on outward investment by launching the "go global" initiative in 2000 (Luo, 2007). Following the loosening of restrictions in OFDI, China joined the WTO in 2001. However, private Chinese firms were not allowed to invest abroad until 2003 (Buckley, et. al., 2007).

From 2003 onwards, the Chinese government has actively encouraged companies to go global (Luo, et al., 2010). This encouragement is in the form of economic support to firms investing abroad such as discounted bank loans, credit funds, and single corporate tax to avoid double taxation (Luo, et al., 2010). Another measure taken by the Chinese government is the simplification of the approval

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