

Implications for scientific research and economic practice

5.1. Discussion of the main study results

A characteristic feature of the problems of international management is that it is a tangle of organizational, social and political issues. For this reason, this area is highly appreciated by the representatives of many sciences, starting from economics through sociology, psychology and history [Oblój and Wąsowska 2014]. The emphasis is put, in particular, on transnational corporation whose functioning is more and more familiar to us. On the other hand, complex consequences of TNCs activities resulting from their economic strength, as well as the volatility of the environment (including the institutional environment) generate new questions, the answers to which are sought by researchers the world over. Depending on the analyzed group of economies that are the source of TNCs, the answers to the questions why and how companies decide to internationalize their business, what determines the success of the process and what far-reaching consequences it has for the entire process of management of the company, will probably be different.

The nineties mark the beginning of increased activity of enterprises in developing economies, which are generally characterized by less developed institutional environment, and often limited resources and skills. For this reason, some researchers dealing with international business believed that the internationalization of those companies has different nature in the context of theories, which were created based on the experiences of corporations from developed countries. These doubts gave rise to Mathew's LLL framework that was characterized in Chapter 1. However, some of researchers suggest that the international activity of this group of TNCs can be described using already created theories but certain specific conditions for these companies must be accounted for.

Oblój and Wąsowska [2014, pp. 42–43] point out to four characteristics of developing countries, which directly affect the nature of the internationalization of companies which have their roots in developing economies. Firstly, these countries are economically underdeveloped, both in terms of GDP per capita, as well as e.g. in education and health care. This results in the need to keep low costs, which become a natural gateway to internationalization for these companies. Secondly, these countries are characterized by less stable institutions, especially the legal and political bodies, resulting in higher transaction costs incurred by the companies. On the other hand, the ability to function in complex institutional conditions may allow (as in the case of China) a faster adaptation to the unpredictable environment of the (developing) host country, making it a major competitive advantage (often a decisive factor for market success). Infrastructure is the third important aspect. Its lower level of development is generally regarded as a weakness in developing countries, but – as with the institutional environment – in certain cases it may be an advantage. Operating in difficult conditions may imply technological innovation, which in turn contribute to the development of products in line with expectations of markets with a similar level of infrastructure development. UNCTAD [2006] indicates the specific benefits achieved through specialization as part of the value chain. The fourth feature of the developing countries relates to access to investment capital. Although in most of these markets, access to venture capital is provided but (as in the case of the PRC) private capital can be partially replaced by the state which not only provides funding for investments, but also directs the appropriate resources to R&D and science.

Taking into account the above factors, it can be concluded that companies from developing countries are excellent „research laboratory” to test hypotheses and existing TNCs theories. However, the previously conducted empirical studies presented in the literature did not include a detailed analysis of the determinants of trends, the level and sectoral structure of Chinese foreign direct investment in Latin America. Hence, the attempt to answer the question posed in the book, which factors and to what extent condition the size and nature of the investment activity of the PRC, appears to be important both from a cognitive and practical point of view.

5.1.1. The main conclusions concerning push and pull factors

Research objectives required carrying out both qualitative and quantitative studies, which were designed to allow the adoption or rejection of hypotheses assumed in this study. The results of the study allowed for a better understanding

of the mechanisms of Chinese enterprises operating in the international arena. This book includes the division of factors determining the level, structure and geographical direction of FDI into: push factors (from the perspective of a home country home) and pull factors (from the perspective of the country of origin), what appeared to be a proper approach.

Literature analysis and questionnaire study, extended with experts' interviews, enabled putting forward a number of conclusions regarding the push factors, which are presented in the following paragraphs:

1. Investment policy, implemented after 1992, has enabled the creation of the institutions that have a direct or indirect impact on the level, structure and destinations of Chinese foreign direct investment in Latin America.
2. Chinese central government has a wide range of impact instruments in relation to both state and private enterprises undertaking foreign direct investment.
3. The expansion of Chinese companies in Latin America is largely financed from funds collected in Sovereign Wealth Funds, administered by the institutions subordinate to the State Council.
4. The sectoral structure of Chinese FDI in Latin America reflects the items listed in the catalogues of supported investments that are the resultant of economic policy pursued by Chinese government.
5. The level of diplomatic relations between China and the host country affects the intensity of FDI undertaken in this economy.
6. The main factor hampering the development of FDI of Chinese TNCs is a complicated process of authorization of investment.

The study enabled prioritizing of the tools of influence used by the state administration in the context of companies undertaking FDI, which eventually were divided into: support tools (including subsidies, loans, tax exemptions and the tools to limit investment risk), recommending tools (catalogues of supported and prohibited investments and information system about host countries) and monitoring tools (the scope of which includes activities related to the authorization of FDI and post-investment control system). Summing up the conclusions on push factors, it should be noted that the model of behavior of Chinese investors in the markets of Latin America has a strong relationship with the ownership structure of companies making FDI, China's foreign currency reserves, political and economic system of the PRC and, above all, the policy of foreign direct investment. Addressing directly to the first main hypothesis (H1): **level and sectoral structure of Chinese foreign direct investment in Latin America results**

from Chinese policy of foreign direct investment implemented after 1992, it should be stated that, based on the author's empirical research, it has been verified positively.

The second part of the empirical research was related to factors associated with the host country (pull factors). The econometric study included calculations of Pearson linear correlation coefficients and linear regression analysis. The results of empirical research allow to formulate some final conclusions:

1. There is a strong positive relationship between the size of the economy of the host country (measured by total GDP and GDP per capita) and the inflow of Chinese foreign direct investment.
2. Suggestion that countries characterized by high competitiveness should expect higher Chinese FDI inflow has not been confirmed.
3. It has been proven that the favorable investment climate in the host country is positive for the presence of Chinese TNCs in this market.
4. It has been shown that a high proportion of natural resources in the structure of GDP and a high share of natural resources in total exports of the host country is positively associated with the inflow of Chinese FDI.
5. The high share of the population of Chinese origin in the total population of the host country is positively associated with the inflow of Chinese foreign direct investment.

In summary, analyzing the above findings from econometric studies, we can conclude that Chinese FDI are attracted by the culturally close countries with a strong economy based on the exploitation of natural resources, and economies which investment climate is conducive to the development of entrepreneurship. An interesting finding is also that political and economic risk is of little importance in the context of the dynamics of investment flows. Referring directly to the second main hypothesis (H2): **there are market and non-market factors in the countries of Latin America, which affect the value and structure of China's foreign direct investment,** it should be stated that on the basis of the empirical research it has also been verified positively.

The analysis of spectrum of industries Chinese investors were interested in showed that their motivations include both *resource seeking, market seeking, efficiency seeking and asset seeking* projects. However, the overwhelming advantage (in terms of value of invested capital) of metallurgical and power sectors over others suggests that Chinese corporations are interested mainly in raw materials to ensure the economy continued, dynamic growth. Taking into account the criterion of the value of Chinese investment transactions, it also

appears that the state-owned enterprises account for the majority of the capital involved in Latin America.

Although, no reliable enough data on the effectiveness of Chinese FDI in Latin America were obtained, on the basis of data from other regions of the world, it can be concluded that maximizing profit is not the main priority for Chinese investors. It should also be noted that this region, in contrast to the countries of the Middle East, Australia and North America, seems to be open to the Chinese capital, as evidenced by the lack of strict regulations regarding FDI inflows and low interest of unrealized FDI.

5.1.2. Chinese FDI in the context of selected theoretical approaches

Since the early nineties, the companies from developing countries have been playing an increasingly important role in the international arena. As already explained, competitive advantages of these companies differ significantly from the advantages of TNCs from developed countries. Existing theories of FDI and internationalization were primarily based on the experience of strong and mature economies. Therefore, a direct “translation” of existing concepts into Chinese conditions may, due to the whole series of specific characteristics of this economy, be seen as bold, not to say naive.

Government support and the dominance of SOEs are most often mentioned features of Chinese foreign expansion [Luo et al. 2010], which evidence (at least partially) the realization of political objectives of the PRC [Child and Rodrigues 2005]. Research carried out as a part of this book showed that Chinese investments are attracted by the institutionally underdeveloped countries, which is not entirely consistent with the current knowledge on the internationalization of enterprises [Ramasamy et al. 2012]. Although some researchers believe that, in general, the pattern of international expansion of Chinese enterprises does not differ from that previously known [Duanmu and Guney 2009], in most cases, it is noted that the institutional perspective allows us to understand the real motives of Chinese FDI and the cause of the concentration of capital in some countries, bypassing others. It is believed that Chinese companies are set strictly in specific formal and informal institutions, which are the driving force behind their development [Child and Rodrigues 2005]. Regardless of whether we analyze investments undertaken by public or private companies, linking them with the political objectives and activities of the government seems to be a right approach (though it is much more obvious in the case of SOEs). Government support can significantly reduce the investment risk, and thus help Chinese TNCs to enter the host

economies in which the corporations from developed countries had not enough time to “feel at home”. However, the protectionism on the part of the state may restrict the implementation of the ambitious plans of the success-hungry Chinese investors. All level corruption is also an obstacle, which implies an increase in transaction costs. *Guanxi*, which refers to building relationships and doing favors in personal and business contacts also plays an important role in the expansion of Chinese companies. Ubiquitous relational network of interpersonal relations is cherished in a brisk and yet subtle way. *Guanxi* contains the implicit liabilities, provides an understanding in conducting long-term conversations – also at the level of business [Sidorowicz 2014].

The role of institutional conditions in the expansion of Chinese enterprises is huge at every stage of the investment. The empirical research focused on various aspects of institutions, both from the point of view of the country of origin and host markets. The results were somewhat surprising, therefore, the need to adapt existing theories or create a new theoretical framework is suggested. According to the Eclectic Paradigm of Dunning (OLI), taking investment by the company requires its possession of the three characteristics: ownership specific advantages, internalization specific advantages and location specific advantages. Ownership specific advantages are the company’s resources enabling foreign expansion and increasing the its competitiveness. Location specific advantages refer to factors related to the host country of FDI, while the internalization specific advantages depend on the possibilities of using core competencies of TNCs on the international market. An alternative concept for explaining the investment expansion of companies in developing countries was presented by Mathews [2006]. LLL framework assumes that companies from emerging economies are less prepared to compete in foreign markets, due to the fact that they have worse marketing resources and have less advanced technology than competing companies from developed countries. Some delay in the process of internationalization also results in the fact that these companies have to compete in foreign markets with both local businesses and TNCs from developed countries already rooted in these markets. Therefore, some companies do not base their investment activity on possessed resources (as in the case of most TNCs from the so-called Triad – the United States, European Union, Japan), but rather use foreign investment in order to obtain new skills and resources that could not be obtained otherwise. Linkage in this context means the ability to identify and eliminate certain gaps existing in the enterprise. Chinese companies on the domestic market are known for their strong commitment to the search for new opportunities and performance. Therefore, their foreign expansion can be seen as an extension of

some of these efforts. Leverage means the possibility of using the competence of companies, through which it is possible, in cooperation with foreign entities, to achieve advantage on a given market [Peng 2012]. Learning, in turn, is perhaps the most remarkable among the reasons/processes distinguished by Mathews. According to him, the companies as opposed to the “traditional” TNCs, which transfer knowledge “how to do something”, are themselves ready to take on new skills or technology from local businesses.

Therefore, both models represent two different approaches: eclectic paradigm is more focused on the inside of the company, while LLL model focuses on the aspects of external operations. OLI model treats the company as the basic unit of analysis, not taking into account the impact of external factors. On the other hand, LLL model suggests that FDI are undertaken in order to absorb the knowledge and experience (which is not confirmed in the sectoral structure of Chinese FDI in Latin America). LLL model takes into account the long process of expansion of companies, while the OLI model is more static. These differences stem from the fact that both models have been derived from observations of different entities. OLI model is based on the analysis of the activities of US-based TNCs, which emphasize the use of their own advantages in technology and experience of management in international markets, while LLL model is based on empirical research of companies belonging to the so-called Asian Tigers, which were actively engaged in the global value chains, taking over new competencies in foreign markets.

The literature presents an ongoing discussion about the usefulness of LLL and OLI models to explain the expansion of Chinese enterprises in developing countries. Mathews’s concept seems to be of little adequacy to Chinese FDI in the LatAm region due to the limited share of FDI projects aimed to acquire e.g. knowledge, competencies and technologies. Chinese FDI in Latin America are not related to the gap existing in enterprises (linkage), and above all they are connected with the policy of the PRC authorities. Leverage, and therefore the reason of cooperation with local entities is truly present, and the cooperation is to a greater extent determined by the desire to find the easy access to raw materials than by the ambitions associated with learning and technological progress. Therefore, it is difficult to talk also about the third process – learning, since investment include industries in which Chinese companies already have a lot of experience. To sum up, in the case of Chinese foreign investment in Latin America – given sectoral distribution of FDI and the dominant position of Chinese SOEs, the usefulness of LLL model seems to be limited.

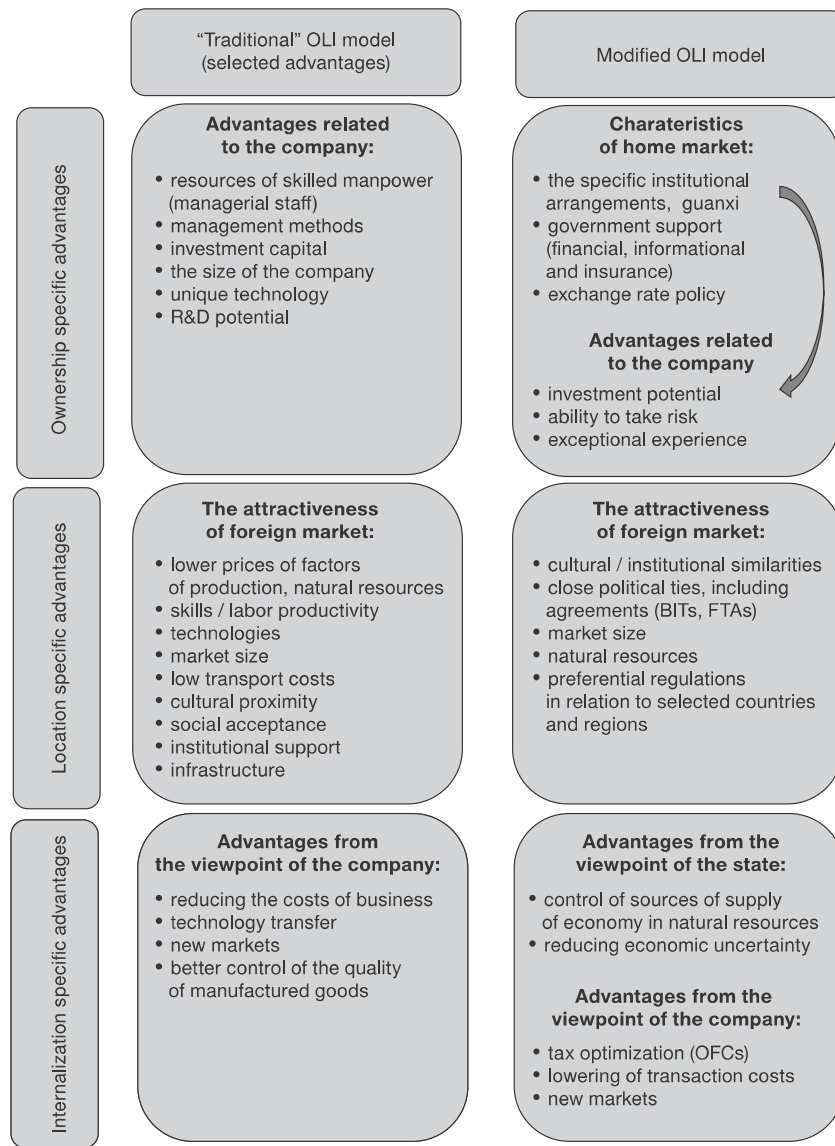
Based on the results of empirical research included in this paper, OLI model seems to be more appropriate to illustrate Chinese FDI in Latin America, but it requires some modification and adoption of new guidelines, particularly in the context of the significance of institutional conditions. OLI model modified by the author (Figure 6), was created on the basis of the empirical research and can (to some extent) explain why Chinese corporations undertake investment activities in emerging markets. Besides, it enables to compare the nature of the expansion of Chinese enterprises with the traditional model of FDI implemented by TNCs from developed countries.

The modified model shows that the ownership advantages of enterprises are closely linked with the administrative mechanisms of the PRC. This kind of advantages has already been mentioned by some authors [Dunning and Lundan 2008; Yuefang, Liefner and Wang 2013]. Financial aid and exchange rate policies appropriately carried out by the government help the company enter the foreign market and achieve success in culturally close markets. It should be added in this context, that this kind of advantage primarily includes SOEs, although private companies also benefit from the assistance of authorities in many areas.

Location specific advantages are based on the results of econometric studies in this paper. Several criteria identified markets in which the sectors are explored to ensure stable economic development of China. These advantages result from preferential regulation for certain countries and sectors, which were the subject of analysis in the previous chapter. The economic agreements (bilateral investment treaties, free trade agreements), political ties and institutional gap (the lower, the greater the expected value of FDI) are also very important in this context.

The specific internalization advantages cover both the benefits from the point of view of the state, relating to the control of sources of supply of economy with natural resources, and thereby reducing the economic uncertainty, and the benefits strictly from the point of view of companies undertaking FDI which are enhanced by favorable government policy (allowing to cut transaction costs). Investment in Latin America allow for the optimization of the investment using tax havens (Cayman Islands, British Virgin Islands) and the acquisition of new markets for market-seeking projects. Although Chinese investors have used in their expansion various forms of investment, the preference is given to M&As.

Figure 6. Modified OLI model



Source: own elaboration.

However, the above framework is fairly static in nature because, firstly, it does not indicate direct interaction occurring between model elements, and secondly, this model ignores knowledge and experience of companies acquired in the internationalization process. Nevertheless, the modified OLI model provides a summary of the factors inducing Chinese companies to undertake FDI in Latin America in 2005–2012. Based on the advantages obtained in the home country, Chinese TNCs have a chance for getting into the global value chains on permanent basis, gaining in the course of time competences in management and (as to be expected in the future) modern technologies in selected sectors. This kind of perspective for Chinese enterprises is also possible in the Latin American markets.

The motivations of Chinese TNCs evolve along with the gradual transition of the PRC into a market economy. Chinese enterprises currently gain experience at international level, and they are likely to become more competitive. It should be assumed that the list of advantages of Chinese TNCs (in all areas) will get longer in the course of time. Existing theories are partly able to explain the expansion of China, in particular in developed countries (e.g. the investment of Huawei and ZTE), but in the case of Latin America, where most Chinese FDI is made by state-owned enterprises in a few selected sectors, the existing models turn out to be less useful. At the current stage of development of the China's investment expansion, the government still plays a significant role in determining the direction of FDI. This trend will continue in the coming years, which may result in the construction of new theoretical frameworks or further adaptation of the existing theories.

Both the formal institutions (direct political influence, complicated bureaucratic system, still extremely important role of state-owned enterprises), and informal institutions (ideology, *guanxi*, approach to business), greatly affect the motivation of Chinese investment and shaping of strategies for international expansion. It is expected that if the institutions undergo gradual evolution, they will remain of key importance.

5.2. Business practice and policy implications

5.2.1. Expansion model of Chinese enterprises in developing countries

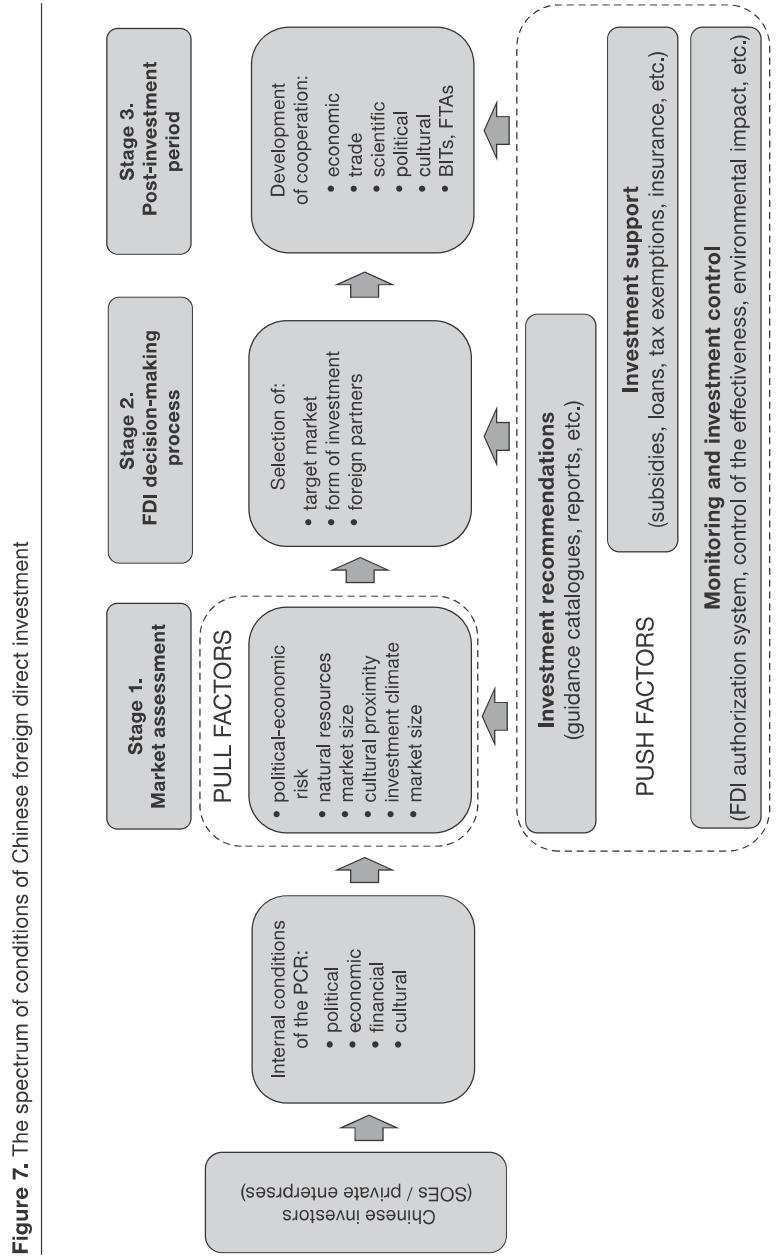
Chinese TNCs present three relatively unique features: (1) previously unappreciated role played by the governments of the home countries, which results in specific institutional conditions, (2) a rapidly developing *Go global* policy, despite

the absence of significant technological resources and managerial competences, and (3) choice of acquisitions as the main way of gaining foreign markets [Peng 2012]. Full synthesis of conditions of investment expansion of Chinese enterprises in Latin America is a complex and multifaceted process. Empirical studies, carried out within this book, have allowed for the derivation of some generalizations regarding the conditions of Chinese FDI in developing economies. The synthesis shown in Figure 6 shows the key aspects of the interactions of push and pull factors of Chinese investment expansion.

According to Figure 7, Chinese companies operate in specific internal conditions, categorized in the previous chapter as: financial, economic, political and cultural. The specific political circumstances must be understood as a political system, which includes an element of a strong control of economic activity on the part of state administration. In such circumstances, it is difficult to take action beyond the borders sketched by numerous restrictive regulations, which also applies to investment activities. Specific financial conditions are associated with huge foreign reserves held by China, which allow undertaking FDI characterized by higher risk.

Specific economic conditions are the result of China's Five-Year Plans, which are shaped by the Communist Party of China. The process of implementing the subsequent plans makes all central SOEs implement the objectives contained therein. *The 12th Five-Year Plan on National Economic and Social Development, 2011–2015* was the basic document to provide the existing legal solutions in the area of Chinese outward FDI. The latest, China's 13th Five-Year Plan (2016–2020) is not radically different from the previous one, and it is strictly referring to the political and economic priorities set at the third plenum of 2012.

Therefore, it will be a tool for the implementation of long-term national goals and ambitions of China, such as achieving a higher level of economic development, or doubling GDP per capita from 2000 by the end of 2020 [NPC 2016]. China aims to get slower but more sustainable economic growth, with medium-high annual rate of growth driven by consumption. The specific cultural circumstances must be understood as approach to business on the part of Chinese investors and the importance of cultural differences in mutual relations. Cultural proximity can be considered as an informal element of the investment environment, contributing to building the image of Chinese TNCs in foreign markets.



Source: own elaboration.

The recommendations of the government regarding the sectors and markets where Chinese companies should focus their attention (“investment recommendations” – push factors) are an important element in the investment policy of the PRC in deciding what investment will be carried out. These recommendations are issued primarily through investment catalogues and the five-year plans. Despite the modifications introduced every few years, a list of preferred and prohibited investment projects is fairly static in nature, but more and more attention is directed towards environmental and social issues. Catalogues allow for the current coordination of the implemented strategy of FDI with the general economic policy of the PRC. In addition, these documents shape the basis for granting the credit support to strengthen the competitive position of Chinese enterprises in foreign markets, particularly in the energy sector, mining and other branches of the economy, which are strategic from the point of view of economic development of the PRC. The guidelines also provide guidance on the procedures and obstacles (economic and institutional), which an investor may encounter in the host country.

Potential host markets are assessed on the basis of carefully selected criteria. The present study identified and confirmed the importance of five pull factors: cultural proximity, investment climate, political and economic risks, market size and natural resources (Stage 1. – Market assessment). It should be noted that the above list does not exhaust all the elements taken into consideration when evaluating the host market, as the choice of the individual evaluation criteria depends on the industry, the investment value and the type of the investment project.

The second stage (FDI decision-making process) is characterized by the increasing importance of properly prepared institutions supporting investment (“investment support” – push factors). The Chinese government has a very wide range of tools to help undertake FDI, e.g.: loans, subsidies, insurance systems and exchange rate policy. Investment assistance is primarily provided by state-owned banks: EX-IM Bank and the China Development Bank, target investment funds, and China Export & Credit Insurance Corporation (SINOSURE) offering insurance services for enterprises undertaking FDI. Undoubtedly, these institutions and their alternative forms of investment financing contribute to the implementation of not only large-scale projects, but also investment on a smaller scale in many economies in the world.

With a guarantee of support from the government, the company may, based on previously adopted criteria, select target market, as well as a form of investment and foreign partners, to establish a potential cooperation in a given market (Stage 2. FDI decision-making process). In the case of Latin America, the

majority of undertaken investment undertaken depended on the cooperation with local companies. Mergers and acquisitions were the preferred type of FDI. It is also worth considering the importance of cultural minorities, acting as a kind of liaison between the company and the host market. This is a particularly important element in the context of FDI in culturally distant countries.

Each of stages: market assessment, FDI decision-making proces, post-investment period are accompanied by a noticeable state administration strong of operations of enterprises (“monitoring and investment control” – push factors). Even before the evaluation of the host market, the innvestors are required to obtain the approval of the appropriate institution to undertake the investment. The complexity of the authorization process of the investment is dependent on its expected value. The evaluation criteria of undertaken FDI include areas such as: the potential effectiveness of investment, employment level and environmental impact. The latter is of particular interest among Chinese institutions shaping investment policy after 2005, as evidenced by a number of regulations imposing strict environmental standards for enterprises. It is also worth noting that monitoring includes not only SOEs, but also private enterprises, in particular those which had been granted aid in the form of subsidies or loans. Although the system of investment management underwent a complete transformation since the early nineties (and it is now largely regulated), it should be noted that the host markets still expect more complex transparency in FDI system functioning in China.

The long-term effect of FDI (Stage 3. – Post-investment period) may bring increased trade and cooperation in other areas. This study showed that the sectoral composition of imports from Latin America to China is similar to the structure of FDI made in these markets by Chinese companies. Cooperation in other areas is mainly related to the investment expansion of state-owned enterprises, where the public authorities are more involved. The effect of mutual visits and signed treaties and agreements so far was the intensification of relations not only on the political and economic, but also on cultural and scientific level.

This model, built on the example of the investment expansion of Chinese enterprises in Latin America, probably corresponds to the model of China’s expansion into other developing economies. A similar scheme of investors’ functioning in foreign markets was observed in the case of expansion of Japanese companies in the seventies of the last century. Although the capital of “the Land of Cherry Blossom” did not arouse so much controversy and concern among observers around the world as Chinese FDI at present, in both cases, the FDI were part of a broader economic strategy of the country. Chinese institutional

“machine”, strong dominance of state-owned enterprises in many industries, and significant government support make us witness a phenomenon that cannot be underestimated.

It is possible that the presented model of expansion of Chinese enterprises is a transitory phenomenon. If production costs in China continue to grow at such a rapid pace as in recent years, it may turn out, that industries not requiring high-tech (e.g. clothing or toys) will be transferred to the countries with lower costs. Anyway, the beginnings of this trend can already be seen [Gazeta Prawna 2016], also in the context of a growing number of examples where enterprises decided to transfer earlier delocalized modules of the value chains to the home or geographically closer countries [Młody 2015, 2016].

It is difficult to predict what the consequences of further liberalization of China’s investment policy will be. This study confirmed that Chinese SOEs are able to make investments through government support. However, the assistance is dependent on the level of achievement of the strategic goals of the Chinese economy [Dunning and Lundan 2008]. With this in mind, it can be assumed that Chinese companies, in the near future, will not invest in the areas in which they are efficient in the domestic market. On the other hand, if the procedures for approving investment and access to capital from SWFs are simplified, we may see expansion in the sectors, which today are of a marginal role in the overall flow of Chinese FDI.

5.2.2. Challenges and opportunities for cooperation between China and LatAm countries

As for the current Chinese economic expansion in the world, the authorities in Beijing always tried to emphasize the mutual benefits of cooperation and the principle of non-interference in the internal affairs of the country. Chinese policymakers who took hundreds of diplomatic visits in the last two decades in almost every corner of the world, unlike Western politicians, did not to set any political conditions to cooperate (with the exception of request for breaking diplomatic relations with Taiwan) [Star 2014]. The primary objective was and still is to ensure the security of the state in terms of energy, food and raw materials. Therefore, there are frequent cases of cooperation with dictators ruling regime in undemocratic, but generally rich in raw materials economies. A gradual economic dependence of host countries is a characteristic feature of the expansion of China. Loans granted to governments (primarily in Africa and Latin America), cause an increase in their dependence on the Middle Kingdom. Countries that are

beneficiaries of China's financial assistance, generally ignore negative social and environmental consequences of Chinese expansion, as China is far less burdened with obstacles source of funds than the World Bank and IMF.

General prospects for Chinese FDI

In the next few years it is expected that Chinese investors (in particular private) will direct their capital to a wider spectrum of industries. This is the natural result of economic growth and rising production costs, which will force Chinese authorities to support the economy with sectors of higher added value. More investment will be directed to countries with advanced manufacturing to take over technologies, brands, human capital. Such steps, at the macroeconomic level, will enable China to become a more competitive economy. Moreover, this trend is associated with the growing needs of Chinese consumers for modern services (especially health care in the context of demographic changes). Chinese investors will also strive to expand their portfolio of their activities in foreign markets. It is associated not only with the intention of risk diversification, but also with the desire to achieve stable profits. Certain changes should also be expected in the case of the importance level of the various types of investors [KPMG 2016]. Private companies are becoming more active in foreign markets, particularly in those sectors where SOEs do not have sufficient experience and the legitimacy granted by the authorities.

The development of the investment expansion of Chinese enterprises will depend on the development of bilateral political and economic relations between the PRC and the potential host countries. The entry into force of the FTAs with South Korea and Australia (2015) provide a significant boost to the development of trade relations. A lot will depend also on the development of *The Belt and Road* (B&R) initiative issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, with the State Council authorization. This action plan covers about 60 countries (Asian, European, African). According to the State Council, this initiative „*aims to promote the connectivity of Asian, European and African continents and their adjacent seas, establish and strengthen partnerships among the countries along the Belt and Road, set up all-dimensional, multitiered and composite connectivity networks, and realize diversified, independent, balanced and sustainable development in these countries*” [State Council 2015]. Investment and trade cooperation are among the most important areas of B&R. Attention will be drawn to increasing the level of FDI and the introduction of trade

facilitation (at the same time gradual removing of existing barriers to investment and trade) in order to create a more favorable business environment for enterprises. However, the implementation of the B&R initiative is not likely to result in the decreasing importance of North America, which will still belong to the key economic partners of the PRC.

Increasing role of China as a global investor will depend on a number of factors. The previous chapter showed recent introduction of a number of regulations aimed at simplifying the procedures for approving foreign investment. Projects related to especially important sectors (in terms of economic interests of the PRC) are and will remain in the nearest future under the „care” of NDRC. On the other hand, diversification of investment will require such regulations that allow enterprises (in particular private) to enter into new areas. The investment policy of China should be more balanced, focused on boosting productivity. Rising labor costs will force increased expansion of TNCs related to labor-intensive sectors. Implementation of expensive FDI projects can obtain support from the Sovereign Wealth Funds – China has huge foreign reserves, estimated at more than 3 trillion USD. These resources may have a positive impact on strengthening investment position of the PRC [Garcia-Herrero et al. 2015]. Deepening reform of SOEs, which (at least in some areas) should have greater flexibility in operations abroad, will also be an important issue. Some of the smaller state-owned enterprises (or their less economically-effective subsidiaries) will probably be taken over by private capital, in whole or in part.

Another issue is to improve the settlement of international trade and capital transactions, which is one of the most important elements of Chinese policy of liberalization of FDI flows. So far, the Chinese authorities’ goal was not only to bring RMB to full convertibility, but above all to make it in the near future one of the major world currencies. From 1 October 2016, Chinese yuan (renminbi – RMB) became officially 5th reserve currency and entered the so-called. currency basket next to the USD, euro, yen and pound [IMF 2016b]. Thus, yuan has become a component of the international settlement currency – SDR (Special Drawing Rights). Prestige associated with obtaining the status of the renminbi of global reserve currency was one of the main arguments used by Chinese liberals trying to convince the more conservative members of the Communist Party of China to liberalize the financial market of the Middle Kingdom. Consent of IMF to include yuan in the prestigious group of global reserve currencies is an expression of appreciation for China’s economic development and an incentive to continue introducing market reforms. However, it should be remembered that renminbi is still not fully convertible.

One of the recent initiatives of the Chinese government – *Guiding Opinions of the State Council on Promoting International Cooperation in Industrial Capacity and Equipment Manufacturing* is to adjust the productivity of Chinese industry to global demand. This is likely to be manifested by intensified investment cooperation with other emerging economies in traditional sectors [Mizuho Research Institute 2015]⁷³. Definitely a wider range of economic objectives has been outlined within the previously mentioned China's 13th Five-Year Plan. Broadly defined areas of activity of the PRC in the next five years include, among others, development of innovation and high-tech sectors, continued urbanization and investment in infrastructure, strengthening of environmental protection in the context of green growth, the development of culture, education and health services, further development of international cooperation in trade and investment, and at the same time, the progressive internationalization of renminbi [PWC 2015; Xinhua.net 2015]. In the context of outward FDI, Chinese authorities will put emphasis on increasing production capacity and investment in areas of high added value and further integration into international supply and value chains.

Future of economic linkages between Latin America and China

The four emerging economies – China, India, Russia and Brazil (BRIC countries) are among the 10 top members of International Monetary Fund [IMF 2016a]⁷⁴. In recent years, China is holding an outstanding position in this group, as its economic ties with almost all economies in the world are constantly deepened. For Brazil and all of Latin America, China has become a major export market for most of goods⁷⁵. It can be assumed that the mutual trade and investment flows will continue to grow despite the fact that Chinese economy is in the process of transformation, which will result in a reduction in the share of primary sector (largely based on raw materials). The loans granted by the Chinese government to individual countries of LatAm region, which indirectly affect the development of relations in other areas, is another aspect that cannot be missed. Like the other

⁷³ The main tasks include, among others, international cooperation in the production of steel and non-ferrous metals, mutual delivery of construction materials to meet the demands of local markets, improvement of international cooperation in light industry and promotion of the development of the shipbuilding industry.

⁷⁴ Having joined the group consisting of the United States, Japan and the four largest economies of the European Union (Germany, United Kingdom, France and Italy).

⁷⁵ Between 2000 and 2014, there was a 22-fold increase in mutual trade [ECLAC 2016b].

host markets, Latin America had some difficulty in understanding and acceptance of high activity of Chinese SOEs – both in terms of trade and investment. The future cooperation will depend on the institutional strengthening of Latin America and outlining the clear agenda of cooperation in the long term.

China's involvement has enabled countries in the region to catch up in many areas, including the infrastructure and energy. Recent years' projects such as the Nicaragua Canal⁷⁶ and the Brazil-Peru interoceanic railway⁷⁷, are the best evidences of the level of these relations. There are many planes where growth of Sino-Latin American business cooperation and other joint initiatives can be built. The huge foreign exchange reserves of China may provide financial support for infrastructure, energy and transport in the countries of Latin America. The degree of use of the opportunities offered by closer relationship will depend on the policies pursued by the governments of both China and Latin American countries. However, it is expected that the importance of Chinese TNCs in the region will continue to grow, as the Chinese state-owned enterprises have (so far) one advantage, particularly important for the host countries – financial stability. Consequently, Asian investors are perceived as a reliable, alternative source of capital. On the other hand, the issue of building mutual trust and understanding initiatives still requires further development.

In the coming years, the reforms in the PRC are likely to bring about the increase the value of Chinese FDI in Latin America. Overcapacity in many sectors, rising labor costs and the determination of the Chinese authorities to seek a safe, and at the same time profitable possibility of investment, should encourage Chinese companies to invest (in line with the official guidelines). Latin America has an extremely attractive investment opportunities for Chinese TNCs. In addition to natural resources (which will still need a speeding Chinese economy)

⁷⁶ The project to build the Nicaragua Canal was announced in 2013 and since then it raises a lot of controversy. By 2016, public consultation and archaeological research were carried out. Current investments have already exceeded the value of 500 million USD. The project faces a number of protests, which include mainly issues of the environmental effects of the investment [Ray et al. 2016]. According to the official website of the main investor – HKND, project will essentially be divided into 6 parts, which will include the construction of: a canal (including locks), 2 ports, a free trade zone, holiday resorts, an international airport and the necessary road infrastructure [HKND Group 2016]. Project costs are estimated at several tens of billion USD, and its completion was originally planned for 2020, though this term is likely to be prolonged.

⁷⁷ Chinese authorities believe that this investment will reduce the costs of transportation of agricultural and mineral products imported from Latin American countries. The construction costs are estimated at approx. 10 billion USD [IBT 2015].

more and more attention is paid to the growing markets in the LatAm region (as a result of the development of the middle class). It will be challenge for Latin America to create a portfolio of investment projects, which would welcome Chinese investors.

Diversification of FDI projects will contribute to strengthening the integration – not only between China and the region, but also between countries of Latin America. Regional value chains based on local suppliers can provide a basis for future stable economic development of LatAm region. It is necessary, however, to provide specific legal requirements focused on building innovation (based on education), competitiveness and the necessary infrastructure. Building mutual relationships will also require the increase of the activity (including investment) of Latin American companies in the Chinese market [CELAC 2015].

The China-CELAC Cooperation Plan for the years 2015–2019 was adopted at the China-CELAC Forum in 2015 in Beijing. The plan consists of thirteen areas of cooperation (eight of which are of economic nature), including: investment, trade, infrastructure, transport, energy and natural resources, agriculture, industry, science and technology, education, tourism and environmental protection. Therefore, the range of potential cooperation is extremely wide and varied. If at least some of the proposed initiatives are implemented, this will exacerbate the dependence of economies. Nevertheless, the challenge is to move the assumptions into real projects that will allow for balanced development and integration of the various sub-regions. The increased activity of institutions regulating the business environment and trans-Latin corporations (which should include cooperation with Chinese investors) is also a desirable thing. However, it will be a difficult task due to the fear of Latin American companies against loss of competitiveness and obstacles on the political level in some countries. The clarification of initiatives outlined in the China-CELAC Cooperation Plan takes place during a series of government and business meetings⁷⁸, which, on the one hand are to give impetus to cooperation on the axis LatAm region – China, and on the other hand, their aim is to strengthen internal cooperation in the region. The main purpose of the meetings is to identify sources of funding for projects, the choice of partners and clarifying the specific objectives of economic initiatives.

⁷⁸ E.g. Agriculture Ministers' Forum; the China-LAC Think Tanks Forum; the China-LAC Business Summit; the China-LAC Industrial Development and Cooperation Forum; the China-LAC Scientific and Technological Innovation Forum; the China-LAC Infrastructure Forum; the China-LAC Energy and Mineral Resources Forum [ECLAC 2016b].

The future cooperation between China and Latin America should be based on mutual long-term benefits. While (so far) the exploitation of natural resources seems to be inevitable and has obvious economic benefits for both sides, it is difficult to expect that FDI in this sector will allow Latin America to enter the path of rapid growth. If Chinese companies are going to continue to invest in the oil and gas sectors, the Chinese authorities should ensure the possibility of making investment in the same sectors in the PRC. Regional institutions such as ECLAC and the Inter-American Development Bank (IDB) should monitor the situation and focus on the implementation of trade and investment agreements. Financial assistance in the form of loans should not simultaneously be directed to the current consumption, but primarily to all areas related to education, R&D and infrastructure development. If Latin American society will not experience a significant progress in the standard of living in the near future, the social and political pressure against the growth of China's influence in the region could lead to the erosion of relations built in recent years [Peters 2015].

5.3. Concluding remarks and directions for future research

After 1990, a series of studies was carried out to analyze the process of internationalization of Chinese TNCs. Given the fact that these companies are relatively new on the global market, there are many areas requiring further research. Their results, like this work, are to extend the knowledge on the determinants of the expansion of Chinese companies and to understand Chinese economic system, having an increasing impact on the surrounding reality.

The empirical part regarding expansion of Chinese enterprises in Latin America, presented in this study, can be a starting point for further detailed studies and theoretical considerations. Requiring future verification hypothesis that institutional dysfunctions of the host country are the factor attracting Chinese investment may lie at the root, of the so-called, resource curse. According to this concept, inefficient and often corrupt administration at government level exacerbated the effect of the harmful influence of natural resources on economic development [Mehlum et al. 2006]. Chinese investment can thus even deepen socio-economic problems of Latin American economic partners. The involvement of Chinese TNCs in Latin America may also have a positive face. The consequence of the investment includes e.g. a definite increase in the value of bilateral trade between China and, among others, Argentina, Brazil, Chile or Mexico. The fact that in 2005–2012 the trade mainly involved low-processed

products does not mean that long-term projects will not include the implementation of market-seeking or strategic asset-seeking projects, which will allow for diversification of trade.

It seems that this is the right time for Latin America to take advantage of Chinese involvement. If the region as a whole is to become a major economic and trade partner of China, the countries must join efforts and agree regional, common order of priorities. This will require a shift away from unilateral benefits for multilateral political and economic interests. It seems that the main challenge for the cooperation on the axis of LatAm-China are the internal problems of the region. It is necessary to implement an active policy of manufacturing development based on knowledge and innovation, which will imply an increase in productivity, improvement of infrastructure, logistics and quality of human resources. Each of these areas shows the space to build a program of cooperation with China [CELAC 2015].

The investment expansion of China, despite high growth rates in recent years, is still in the early stages of development, taking into account the economic potential of the PRC and the cumulative value of FDI. The challenge for Chinese investors is not how to enter the foreign market, but rather how to effectively manage the investment [Wang 2015], in particular, in the more demanding markets. The acquired experience and resources should be a kind of springboard through which Chinese companies will compete in foreign markets on an equal footing with TNCs from developed countries. The competitive position will depend on the dynamics and direction of institutional change in China, but also on the degree of understanding and adapting to the institutional conditions in the host countries. In this context, future studies should pay more attention to the importance of informal institutions for the expansion of Chinese enterprises.

The use of offshore financial centers is an issue which will raise concerns among observers and cause difficulties among researchers at the same time. Their role in Chinese FDI was quite clearly characterized in the earlier parts of the book. If the access to transparent statistical data on Chinese outward FDI is still hindered, it will be difficult to fully characterize the picture of the global expansion of Chinese TNCs and determine its further prospects. The increase of FDI will also depend on whether the Chinese capital will continue to arouse so many concerns and objections. The investments from mainly state-owned enterprises are now causing a series of misunderstandings, suspicions and political responses in some host countries. Such behaviors concern particularly sensitive sectors, which touch issues related to the protection of technology, the environment and even national security. But perhaps we will see a similar scenario as in

the case of Japan, – initially unwanted FDI proved to be salvation for Western countries immersed in the oil crisis of the seventies.

The foreign policy of the PRC will play an important role in the coming years. The current strategy based on non-interference in the internal affairs of countries receiving FDI seems to bring positive effects. A. Gwiazda [2013] compares the global economic expansion of the PRC and the desire to regain superpower status to speeding, although more slowly in the last few years, train, which for the time being smoothly passes subsequent stations. The terminal station remains something unknown on that specific road (of development). The two scenarios are considered: either China will seek economic dominance in the world (which does not seem to be a distant prospect), or purpose of the Chinese authorities is the political leadership in the modern world. The current Chinese model of development proved to be surprisingly effective. On the other hand, it is difficult to assume that China will continue to maintain a system, which is dominated by the state sector and many other areas that are arbitrarily adjustable.