

Introduction

Steady and dynamic economic growth of China observed since the late seventies made the country become a key player in the global economic system. Increasing globalization has led hermetic China's economy to be more open to the world, so that to ensure in the long run safety in three critical areas: food, raw materials and financial capital. These priorities are the foundation of 5-year plans postulated by the Communist Party of China. Their implementation is based on a strong interventionism of state. For the time being, this approach allowed the Chinese economy to avoid periods of rapid growth and economic breakdowns. However, future development of China is increasingly dependent on many external factors, hence the Chinese government is making effort to expand the area of influence in the world. One of the manifestations of this strategy takes the form of growing involvement of Chinese companies on all continents. The activity of Chinese corporations in foreign markets is manifested not only in the intensified trade but also in investment activities. However, most of the existing FDI context research concerned TNCs investments from developed countries entering developing economies. The studies involving the investment expansion in the People's Republic of China pointed out, among other things, low costs, attractive tax rates and almost unlimited manpower. Few researchers drew attention to the transformation of the Chinese government's approach to the investment of domestic enterprises outside the PRC. Only since the end of the nineties have the studies been emphasizing the fact that, after years of strong capital inflows, Chinese companies themselves have entered the path of global expansion.

The explanation of the investment expansion of Chinese enterprises within traditional theories of FDI seems to be a complicated task for at least a couple of reasons. Firstly, the companies created in developing countries began to enter foreign markets later than TNCs from developed countries, which in principle put them in an unfavorable competitive position. On the other hand, increasing

globalization and the associated influx of investments have allowed developing economies to catch up in many areas (e.g. production technologies, management, know-how), and the modern communication tools significantly accelerated access to information and international financial markets. In addition, factors such as steady and strong GDP growth and a high level of exports, which translate into the high level of savings, have allowed Chinese companies to build a platform for international expansion. Secondly, the particularly distinctive aspect of Chinese corporations involves the role of the government, which provides public and private companies with specific investment priorities. According to them, the primary objective of the current expansion was to get the assets of the key-role for the further development of the economy (including brands and technologies in highly developed economies and natural resources in developing countries).

A significant research gap in the literature as well as new trends observed in the global economy suggest that understanding the determinants of the expansion of Chinese enterprises is a necessary task – both from the scientific and practical point of view. Chinese FDI in Latin America was analyzed to illustrate the research problem in this book. This choice was not accidental. First, Latin American economies are quite diverse in terms of economic development, economic and political structure and economic systems providing a wide scope for interesting comparisons and references. Second, according to the official statistics of the Chinese Ministry of Commerce, the majority of FDI in the context of the whole of Latin America is directed towards tax havens (Cayman Islands, British Virgin Islands), which is not, however, reflected in official data of individual host countries. Significant discrepancies in published data also confirm that the research on the investment flows between China and Latin American countries are all the more necessary.

Previously released by recognized institutions studies at the regional or global level, such as the Organization for Economic Cooperation and Development (OECD), World Bank, Inter-American Development Bank (IDB) and the Economic Commission for Latin America and the Caribbean (ECLAC) focused mainly on figures concerning Chinese FDI in Latin America. On the other hand, based on the method of case study or econometric analysis results of empirical research of scientists (both from universities in Latin America, and other countries that are beneficiaries of Chinese investments) did not yield unequivocal results. However, an important conclusion of the majority of the above mentioned studies is that Chinese TNCs should be treated differently than corporations from developed countries because of their origin and the specific conditions for the functioning of companies in the PRC. Bearing this in mind, the primary intention

of empirical studies, carried out as part of this book, was to increase knowledge about the process of internationalization of Chinese enterprises in developing countries on the example of Latin American economies through the analysis of key factors influencing the level and structure of Chinese FDI. The results of the analysis of the existing scientific achievements regarding the expansion of Chinese enterprises in the Latin American countries indicate significant differences between Chinese companies and corporations from developed countries (mainly from the US and Western Europe) operating on these markets. In connection with the above, the primary goal involves the identification and prioritization of the factors determining the level and structure of China's foreign direct investment in Latin America in the years 1992–2012.

The following research tasks were determined to accomplish the main objective:

- an overview of the basic concepts of internationalization of enterprises in the form of foreign direct investment, with particular emphasis on the factors determining the adoption and selection of the direction of FDI (Chapter 1);
- analysis and evaluation of political and economic relations between the People's Republic of China and Latin America in the years 1992–2012 (Chapter 2);
- presentation of the investment dynamics of Chinese enterprises in cross-section of economies and industries in 2005–2012 in Latin America (Chapter 3);
- diagnosis of changes in economic, foreign and investment policy of China in 2005–2012 (Chapters 2 and 4);
- analysis and evaluation of existing empirical studies on the expansion of Chinese enterprises (Chapter 4);
- empirical verification of factors determining the direction, level and structure of Chinese FDI in Latin America (Chapter 4);
- discussion of the results with an emphasis on their implications for economic policy and business practice (Chapter 5).

Fernandez-Arias [1996] and Gottschalk [2001], among others, presented a two-factor classification of the factors affecting the value, structure and trends of foreign direct investment: the *pull* factors and the *push* factors, which was adopted in this book as the leading classification. *Push* factors are independent of the host countries and they include, *inter alia*, political and economic conditions in the home country of FDI. This group of factors can lead to intensification or can inhibit the activities of investing companies. On the other hand, the *pull* factors include mainly institutional, social, natural and economic conditions affecting directly or indirectly the investment attractiveness of the host country.

Some researchers are of the opinion that the expansion of Chinese enterprises is associated largely with their foreign reserves and the experience gained in cooperation with the present for many years on the Chinese market corporations from Western countries [Child and Rodriguez in 2005; Hong and Sun 2006]. However, other experts are of the view that it is primarily the Chinese government to hold a strong impact on the investments made outside the PRC, and intensified changes in investment policy after 1990 led to the growth of significance of Chinese enterprises in the international arena [Buckley et al. 2007; Meyer et al. 2009]. Therefore, it can be assumed that introduced regulations, the functioning of government and economic system of the PRC constitute an important group of factors affecting the Chinese FDI in Latin America.

A good deal of publications pay significant attention to factors affecting the location of Chinese investment in host countries [e.g. Duanmu 2012; Ramasay 2012; Kang and Jiang 2012; Kolstad and Wiig 2011]. The results of empirical studies of some authors suggest that Chinese corporations deciding on FDI are concerned about the quality of the investment climate, the country's competitiveness and the level of economic development of the economies receiving FDI. On the other hand, other researchers show that the natural resources and cultural closeness of the host countries are the incentives that are sufficient for attracting Chinese capital. Therefore, there is a consensus that there are certain stimuli that affect the economic attractiveness in the eyes of Chinese enterprises but a large ambiguity of the results of research in that area is also observed.

On the basis of analysis of the literature and the author's own considerations, the following hypotheses were formulated and verified: (H1) **level and sectoral structure of Chinese foreign direct investment in Latin America results from Chinese policy of foreign direct investment implemented after 1992**, and (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**. In addition, the author formulated detailed hypotheses, referring to the second hypothesis, which, due to a strong connection with the research problem, allow to maintain the logical consistency of the book and broaden the scope of research to reasonable limits.

H2a: Chinese foreign direct investments are positively related to the market size of the host country.

H2b: The low competitiveness of the host country does not negatively affect the growth of China's foreign direct investment.

H2c: Favorable investment climate has a positive effect on the level of investment in the host country.

H2d: Chinese companies are directing investment to countries which economy is based on the exploitation of natural resources.

H2e: Chinese companies are directing investment to culturally close countries.

In summary, the hypothesis 1 refers to factors associated with the country of origin (*push* factors) and more specifically, it refers to the broadly defined investment policy built and implemented after 1992 by the Chinese administration. The second main hypothesis and the related specific hypotheses concern Chinese investment location factors from the point of view of the host countries (*pull factors*).

Implementation of the main objective required defining the scope of time and space of the analysis. The total research period covered the years: 1992–2012. Quantitative research concerned the period 2005–2012, while qualitative research related to the years 1992–2012. This relatively short period of quantitative research was pragmatically motivated – The Heritage Foundation – the primary source of statistical data on Chinese FDI in Latin America had been collecting and providing information only since 2005. Besides, investment flows of Chinese enterprises towards the Latin American economies (according to the Chinese Ministry of Commerce) were of no significant value before 2005. The time range of qualitative research was in turn associated with the nineties and the entry into force of groundbreaking regulations concerning investment policy of the PRC.

The spatial scope of the analysis was intended to include all economies of Latin America and China, but due to the limited availability of data, it was finally decided to focus on the analysis of 27 countries of Latin America. This restriction by no means hindered credible empirical research, the results of which enabled the verification of the assumed hypotheses.

The scientific problem as well as the defined objective and hypotheses determined the choice of sources and research methods. The book includes both secondary and primary data sources. Analyzed secondary sources stemmed from Polish-, English- and Chinese-language thematic publications and periodicals. In addition, a number of normative acts, both in the form of originals and reliable translations were involved. The most important sources of statistical data included reports and materials provided by institutions on the national level (*State Administration of Foreign Exchange, Ministry of Commerce of the People's Republic of China, China National Bureau of Statistics*), on the international level (*World Bank, Economic Commission for Latin America and the Caribbean, United Nations Commodity Trade Statistics Database, Organization for Economic Cooperation and Development, Inter-American Development Bank, International Monetary Fund, United Nations Conference on Trade and*

Development) and independent think tanks, such as: *the Heritage Foundation* or *Euromoney Institutional Investor Company*. Individual institutions provided data of quite significant differences which forced the author to carry out thorough verification of their reliability.

The book also uses primary sources of information. The questionnaire-based study among experts and scientists who deal with practical and / or scientific issues of Chinese foreign direct investment was carried out to obtain these sources. In addition, the materials collected through questionnaire were supplemented with the interviews conducted with selected experts to clarify the previously obtained results.

This book has both theoretical and empirical character. Theoretical considerations, based on a critical analysis of Polish and foreign literature, were related to the concept of foreign direct investment, the political and economic analysis between the PRC and the countries of Latin America, the investment policy of the PRC, as well as some studies on the expansion of the investment of Chinese enterprises and FDI in Latin America. Extensive literature studies constituted an important stage of the research, allowing for the systematization of knowledge in the study area, formulating concepts and definitions, as well as a partial verification of hypotheses, whereas, collected, verified and processed statistical data were used to conduct Pearson correlation analysis and regression analysis using IBM software SPSS Statistics (*Statistical Package for the Social Sciences*). The results allowed putting forward the conclusions about the conditions of Chinese FDI in Latin America which were of key significance for reaching the objective of the book. The primary goal of previously specified questionnaire study was to verify the level of influence of the Chinese administration in respect of undertakings making investments in Latin America. In conclusion, research hypothesis verification was performed using both qualitative and quantitative analysis, based on secondary and primary sources. Other research methods included: cause-and-effect analysis, comparative analysis and interpretation.

The book consists of five chapters, each of which is devoted to the problem of separate research issue. The first part of the book has a theoretical character, second and third chapters are analytical, while the fourth chapter primarily consists of results and interpretation of empirical research. The chapters collectively allow for verification of the main hypotheses and for the formulation of conclusions and recommendations contained in the fifth chapter.

After a brief introduction, the aim of which is to present the context of the Chinese expansion, the research objectives, hypotheses and the scope of

empirical research, the attention was focused on the essential issues related to the essence of foreign direct investment. The chapter also deals with definitional ambiguity in the literature referring to the following terms: internationalization, foreign direct investment and transnational corporation. Then, the chapter presents the types of foreign direct investment and their specific characteristics that affect foreign market entry mode, as well as an overview of literature predominant theoretical approaches explaining FDI, indicating their mutual relationships, as well as their advantages and limitations. The later part characterized systematization of the factors affecting the direction, value and structure of foreign direct investment with the division into internal and external determinants of FDI. The chapter ends with segmentation into *push* factors (related to the home country) and *pull* factors (determined by the conditions of the host countries).

The primary purpose of the second chapter was to present the genesis and diagnosis of political and economic relations between the People's Republic of China and the LatAm region. The characterization of both economies enabled identification of similarities and differences between them. The next section discussed the historical outline of the political and economic relationship, as well as the structure of trade between China and the Latin American economies. The last part of the second chapter of the book included the analysis and diagnosis of a new dimensions in bilateral relations, e.g. the PRC credit expansion in Latin America. Discussed aspects allowed to determine the prospects for cooperation between these economies.

The genesis of bilateral political and economic relations presented in the second chapter was the base for the third part of the book, which shows the level and structure of Chinese FDI in the Latin American economies. The chapter includes the explanation of the importance of state-owned enterprises in the PRC investment expansion, referring to their specific characteristics. Then, an attempt was made to define the forms of cooperation and assess the level of effectiveness of these investments. The significance of offshore centers, whose role was also characterized, was a key element in that context. The chapter concludes with a brief assessment of the expansion of Chinese companies in Latin America in 2005–2012.

The fourth part of the book deals primarily with the empirical verification of the factors affecting the value, structure and direction of Chinese foreign direct investment in Latin America. The section on factors associated with the country of origin (*push* factors) presents the analysis of the available literature and legal acts, to characterize the investment policy of the PRC and its impact on the expansion of Chinese investors. This part was supplemented with the results of

the survey research and the conclusions from interviews with selected experts. In turn, the analysis of factors associated with the host country was based on the results of econometric studies. The quantitative and qualitative results have been discussed, summarized and interpreted in the fifth chapter, which also indicates the implications from the study for the IB theory, business practice and international economic policy.