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Chinese Investments in Latin America: An Analysis of Host Country Determinants

Abstract

Despite cultural differences and political instability, Latin America is already the second main destination of China's outward foreign direct investment (OFDI), only behind Asia. Although natural resource-seeking has been the traditional motivation for Chinese firms doing business in Latin America, market-seeking is also becoming an increasingly important driver. The aim of this study is to investigate the influence of host country factors on the location decisions of Chinese multinational enterprises (MNEs) in Latin America. We analyzed a sample of 106 investments carried out by 52 Chinese MNEs in 10 Latin American countries between 2005 and 2017. Our findings indicate that cultural distance negatively influences location choice by Chinese MNEs, while political risk has no influence. Moreover, market-seeking motivations and good diplomatic relations between China and the host country also matter.

Keywords: China; Foreign Direct Investment; FDI; Latin America; Host country factors

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1. Introduction

Outward foreign direct investment (OFDI) carried out by Chinese multinational enterprises (MNEs) has grown exponentially in recent years. Whereas in 2005 China's OFDI flow was US$ 12.3 billion, in 2017 it reached US$ 124.6 billion, placing China as the third largest investor in the world, just behind the US and Japan (United Nations Conference on Trade and Development 2018).

Past research paid less attention to emerging markets as destinations of China's OFDI. Although recent studies explored how the Chinese government supports China's OFDI in Latin American extractive industries (Shapiro, Vecino, and Li 2018), what are the myths and realities of energy cooperation between China and Latin America (Vasquez 2018), or the socioeconomic determinants that affect the attractiveness of Latin America for Chinese firms (Zhang 2019), research focusing on Latin America is still scarce (Fornes and Butt-Philip 2011). Therefore, further studies are needed in order to deepen our knowledge of the factors influencing location decisions of Chinese MNEs in Latin American countries from a more general viewpoint, not only focused on the metal, oil, and gas industries that represent the traditional targets of China's OFDI in Latin America.

Investment flows between emerging economies deserve further research efforts since they are an interesting empirical setting for testing the applicability of traditional theoretical frameworks mainly derived from the behavior of developed-country MNEs (Wright et al. 2005). One of the challenges for the conventional wisdom derives from the potential competitive advantages of emerging-market MNEs when entering other emerging economies with less developed institutions that may be similar to those of their home country (Cuervo-Cazurra and Genc 2008).

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Hence, the aim of our study is to contribute to a better understanding of the decision-making process of emerging-market MNEs doing business in other emerging economies. More precisely, drawing on an institutional perspective, we analyze the influence of two host country factors—cultural distance and political risk—on location decisions by Chinese MNEs in Latin America. In doing so, we aim to contribute to the literature on emerging-market MNEs in several ways. Firstly, we investigate whether the behavior of Chinese MNEs is consistent with the traditional view derived from the observation of developed-country MNEs in the past or they behave in a less conventional way. Secondly, we provide new empirical evidence on an under-researched topic, namely, location decisions made by emerging-market MNEs in other emerging economies.

The remainder of the article is organized as follows. The following section provides an overview of China's OFDI in Latin America. Next, we establish the theoretical background for hypotheses development. In the subsequent section, the sample used in the empirical analysis as well as the methodology applied is described. Finally, after a discussion of the results, some concluding remarks are provided.

2. General context of Chinese OFDI in Latin America

Latin America is a key trade partner for China, in particular as a supplier of energy—such as oil and gas—and raw materials—like iron ore, copper and other metals. However, it is becoming an increasingly important potential market for Chinese exports as well (Zhang 2019). This region is already the second destination of China's OFDI, only surpassed by Asia. As reported in Figure 1, Latin American countries accumulate 15 percent of China's total OFDI stock so far (National Bureau of Statistics of China 2018).

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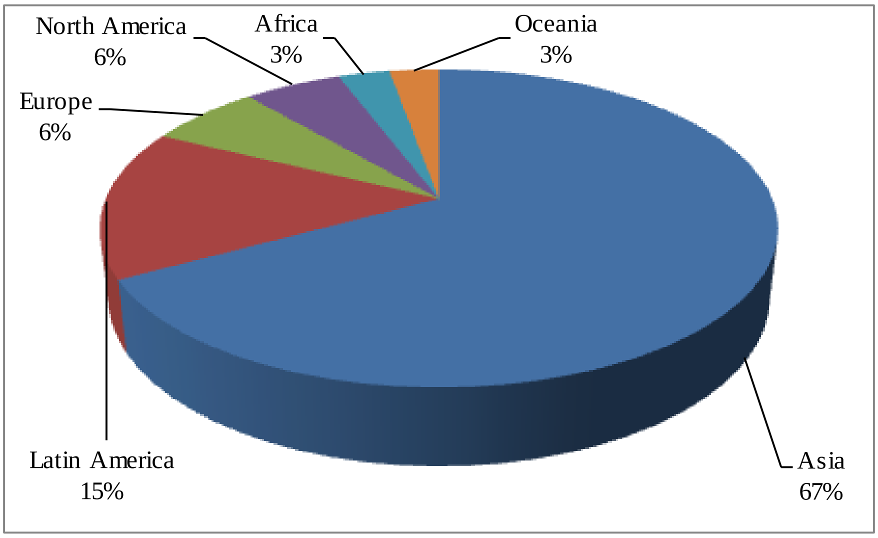
Figure 1. China's OFDI stock by region up to 2016



Source: National Bureau of Statistics of China (2018)

According to data from the Academic Network of Latin America and the Caribbean on China (Red ALC-China 2018), three countries accounted for 72.6% of Chinese OFDI stock in Latin America from 2000 to 2017: Brazil (44%), Peru (17.7%) and Argentina (10.9%). As for destination activities, raw materials accounted for the largest OFDI stock (57.9%), followed by service and domestic market activities (33.2%), manufacturing (8.6%) and purchase of technology (0.3%). It is worth highlighting that the share of Chinese OFDI in raw and materials industries has dropped significantly in recent years, while OFDI directed toward service and domestic markets has grown. Thus, natural resource-seeking is no longer the only motivation for Chinese firms doing business in Latin America, as market-seeking OFDI is gaining great momentum.

Chinese MNEs have made significant investments in Latin America, mainly through the acquisition of local companies. Table 1 reports the largest acquisitions carried out by Chinese MNEs in Latin America so far, ranked by transaction value.

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Table 1. Largest acquisitions by Chinese companies in Latin America (up to 2017)

Year	Acquiring firm	Target firm	Industry	Host country	Percent (%)	Value (US$ billion)
2017	State Grid	CPFL Energia	Electricity	Brazil	95	7.9
2010	Sinopec	Repsol YPF Brasil (subsidiary of Spain-based Repsol)	Oil	Brazil	40	7.1
2014	China Minmetals (along with Suzhou Guoxin International Investment and CITIC Metal)	Las Bambas Copper Deposit (owned by Switzerland-based Glencore)	Copper	Peru	100	5.9
2011	Sinopec	Petrogal (subsidiary of Portugal-based Galp Energia)	Oil	Brazil	30	4.8
2016	China Three Gorges	Hydroelectric Utilities Jupia and Ilha Solteira	Hydropow er	Brazil	100	3.7
2010	CNOOC	Bridas Corporation	Oil and gas	Argentina	50	3.1
2010	Sinochem	Peregrino oilfield (owned by Norway-based Statoil)	Oil	Brazil	40	3.1
2013	CNPC	Petrobras Energia Peru (subsidiary of Brazil-based Petrobras)	Oil and gas	Peru	100	2.6
2010	Sinopec	Occidental Petroleum Argentina (subsidiary of US-based Occidental Petroleum)	Oil and gas	Argentina	100	2.5

Source: American Enterprise Institute (AEI)-The Heritage Foundation (2018) and Red ALC-China (2018)

As shown in Table 1, the acquisition of a 95 percent stake of CPFL Energia in Brazil by State Grid in 2017 was the largest one, with US$ 7.9 billion (by means of two partial acquisitions). The second largest acquisition was the takeover of a 40 percent stake of Repsol YPF Brazil—a subsidiary of Spain-based Repsol—by Sinopec in 2010 (US$ 7.1 billion), followed by the takeover of Las Bambas Copper Deposit in Peru by a group of Chinese investors led by China Minmetals (US$ 5.9 billion), and the partial acquisition of Petrogal in Brazil by Sinopec (US$

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4.8 billion). It is worth mentioning that in three of these largest deals, the target units were subsidiaries of non-Latin American companies: the Spanish Repsol, the Swiss Glencore and the Portuguese Galp Energia, respectively.

Although the largest Chinese acquisitions in Latin America have been carried out by firms belonging to energy and metal industries, there are also some outstanding examples in service and commercial activities, such as telecommunications (*Huawei and ZTE*), automobile and electronic components (*BYD*), airlines (*HNA*), ride-hailing (*Didi Chuxing*) or banking (*ICBC and China Construction Bank*).

3. Theory and hypotheses

Institutional theory deals with the 'rules of the game', particularly, the social, political, and economic factors that influence firms' behavior (North 1990). Institutional factors may be informal—derived from cultural issues—and formal—such as regulations and rules (Peng et al. 2009). Institutional differences between countries play a key role in explaining decision-making process in international business (Estrin, Baghdasaryan, and Meyer 2009).

The 'rules of the game' are underdeveloped in emerging economies and are usually more specific to the local context (Buckley et al. 2016). Accordingly, there is an increasing recognition among researchers that formal and informal institutions significantly shape the strategy of firms in emerging economies and have a strong impact on emerging-market MNEs' decision-making process (Cui and Jiang 2010; Peng, Wang, and Jiang 2008). As a result, the institutional theory has been extensively used by scholars dealing with the distinctive strategic behavior of emerging-market MNEs (Quer, Claver, and Rienda 2015; Xu and Meyer 2013). In particular, it is considered a valid theoretical framework for explaining strategic choices by emerging-market MNEs doing business in other emerging economies (Wright et al. 2005).

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Cultural distance and political risk are the two most usual institutional factors considered by prior studies when analyzing location decisions abroad. We argue that the idiosyncratic characteristics of emerging economies when they are simultaneously home and host countries may alter the impact of both formal an informal institutions when choosing foreign locations. Therefore, next we propose several hypotheses with regard to the influence of these two factors on location choice by Chinese MNEs in Latin America.

3.1 Cultural distance

Informal institutional factors have to do with differences in culture between the home and the host country (Schwens, Eiche, and Kabst 2011). Culture represents the informal institutions of a country as an underpinning of its formal institutional environment (Peng, Wang, and Jiang 2008). It involves social values and norms that may impose constraints on firm's behavior (Scott 1995). Cultural distance between the home and the host country deals with how people interpret behavior and potential differences regarding these perceptions strongly affect the transfer of working methods between countries (Hofstede, Hofstede, and Minkov 2010).

Cultural distance creates barriers for doing business abroad like misinterpretation and miscommunication (Blomkvist and Drogendijk 2013), increased difficulties to obtain social legitimacy in the host country (Cui and Jiang 2010), and higher costs to manage the acquisition of a local target, in particular, when transferring managerial practices (Drogendijk and Slangen 2006; Kogut and Singh 1988). For these reasons, cultural distance is considered a factor that has a strong impact on location choice by MNEs (Kang and Jiang 2012). Past empirical research supports this view, reporting that cultural distance between the home and the host country is negatively associated with target country selection (Bhardwaj, Dietz, and Beamish 2007; Holburn and Zelner 2010; Ojala and Tyrväinen 2007). A recent meta-analysis of the literature

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carried out by Beugelsdijk et al. (2018) concludes that cultural distance matters for several stages of firm's internationalization process, including the decision on whether to invest or not in a particular host country.

In the case of Chinese companies, most previous studies found that the higher the cultural distance, the lower the propensity of Chinese companies to carry out and investment in that country (Blomkvist and Drogendijk 2013; Buckley et al. 2007, 2016; Malhotra, Zhu, and Locander 2010). Consequently, we may expect that Chinese MNEs will be more reluctant to establish in those Latin American countries with a greater cultural distance from China. Thus, we propose:

Hypothesis 1: Cultural distance between China and the host country negatively affects location choice by Chinese MNEs in Latin America.

3.2 Political risk

The level of development of host country formal institutions also affects entry decisions. A situation of increased external uncertainty in a foreign destination is perceived as risky and will most probably influence firm's entry strategy (Chen et al. 2017). The lower the quality of formal institutions, the harder it will be for the firm to establish in that country due to factors such as higher political uncertainty, administrative and organizational costs, difficult relationships with local institutions, and information asymmetries (Pinto et al. 2017). Political risk is one of the most researched formal institutional factors in prior studies on foreign market location choice. Political risk deals with the actions of a country's government and the changes in the political and social situation that can negatively affect the stability of the local environment (Simon 1984).

Past research reported mixed results with regard to the influence of political risk on location decisions by Chinese MNEs. Hence, whereas some scholars found that political risk has a conventional negative effect on Chinese OFDI (Duanmu and Guney 2009; Li, Li, and Shapiro 2012; Lu et al. 2014), others observed a less conventional influence, either reporting that political risk does not deter Chinese MNEs (Duanmu 2012, 2014; Malhotra, Zhu, and Locander 2010) or even that Chinese MNEs tend to carry out investments in high-risk locations (Buckley et al. 2007, 2016; Han, Chu, and Li 2014; Kang and Jiang 2012; Kolstad and Wiig 2012; Ramasamy, Yeung, and Laforet 2012).

Several arguments provide a justification for these less conventional findings. First, China's OFDI has been mainly driven by state-owned enterprises (SOEs) that receive extensive support from the Chinese government and may not behave as pure profit-maximizers since they usually pursue policy goals (Buckley et al. 2007). Second, China maintains good diplomatic relations with some countries that have a high political risk, which can facilitate OFDI in these risky destinations (Zhang, Jiang, and Zhou 2014).

These conditions apply in the case of Chinese MNEs in Latin America. As stated above, China's OFDI in the region has traditionally been driven by a natural resource-seeking motivation. Besides, Chinese SOEs have been key players, since they are the tool used by the Chinese government to access the natural resources that China needs for its economic growth. For this reason, the Chinese government has played a direct role in strengthening economic and political ties with Latin America, signing several bilateral investment and trade agreements (Fornes and Butt-Philip 2011). In addition, many Latin American countries have recognized China as a market economy (Economic Commission for Latin America and the Caribbean 2007). Moreover, from 2007 to 2016, the Chinese government, mainly through China's policy banks, loaned nearly US$ 140 billion to Latin American governments and SOEs providing them with capital to exploit local energy reserves (Vasquez 2018). These government loans reinforce bilateral diplomatic relationships, also facilitating Chinese firms' access to local natural resources and reducing disputes with host governments in destinations where government-related political risk is higher for MNEs from other countries (Shapiro, Vecino, and Li 2018).

Firm-specific advantages also matter (Rugman 2009). Prior studies argue that emerging-market MNEs, unlike the enterprises of developed countries, are able to successfully operate in adverse market conditions as those of host countries with high political risk (Guillén and García-Canal 2012; Ramamurti 2009). As a result, we propose:

Hypothesis 2: Host country political risk does not affect location choice by Chinese MNEs in Latin America.

4. Methods

4.1. Sample and data

We created a dataset of Chinese OFDIs in Latin America from various sources of secondary data. Our main data source was the China Global Investment Tracker, a database of China's OFDI compiled by the American Enterprise Institute and the Heritage Foundation (AEI-The Heritage Foundation 2018). Furthermore, in order to check the reliability of our data we used information from China's media—like China Daily and Global Times—and the corporate website of each Chinese investor.

We identified 106 OFDIs carried out by 52 Chinese MNEs in 10 Latin American countries between 2005 and 2017. We aim to analyze the firm's decision on whether to invest or not in a focal host country in a given year. Therefore, our initial dataset included 1,060 observations (106 OFDIs multiplied by 10 host countries), that is, recording whether each OFDI was carried

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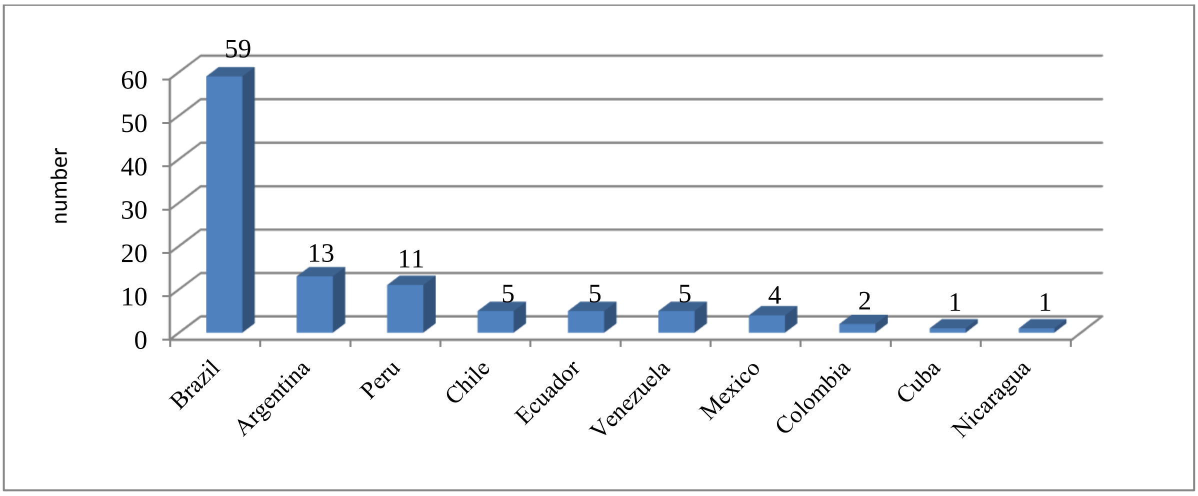
out in a specific host country or not. After removing duplicated observations—firms that entered more than one country in a given year or a focal country several times during the same year—our final sample for analysis included 920 observations.

With regard to establishment modes, acquisitions represent a 62.3% of the observations, whereas greenfield investments—including joint ventures—account for the remaining 37.7%. As reported in Figure 2, Brazil leads the ranking of top destinations (59 investments), followed by Argentina (13) and Peru (11), these four countries accounting for 78.3 percent of the investments.

Figure 2. Chinese investments in Latin America by country (2005-2017)



Source: Authors' sample

Figure 3 shows the number of investments by year. Although the distribution is uneven, it is worth mentioning that the larger amount of investments (90) concentrated in the last few years, between 2010 and 2017, representing 84.9 percent of the whole sample.

As for individual companies, China Three Gorges (8 investments), CNPC (7), State Grid (6), China Minmetals, and Sinopec (5 investments each) are those with the largest number of investments (Table 2). These top five investors are responsible for 29.2 percent of the investments covered by the sample.

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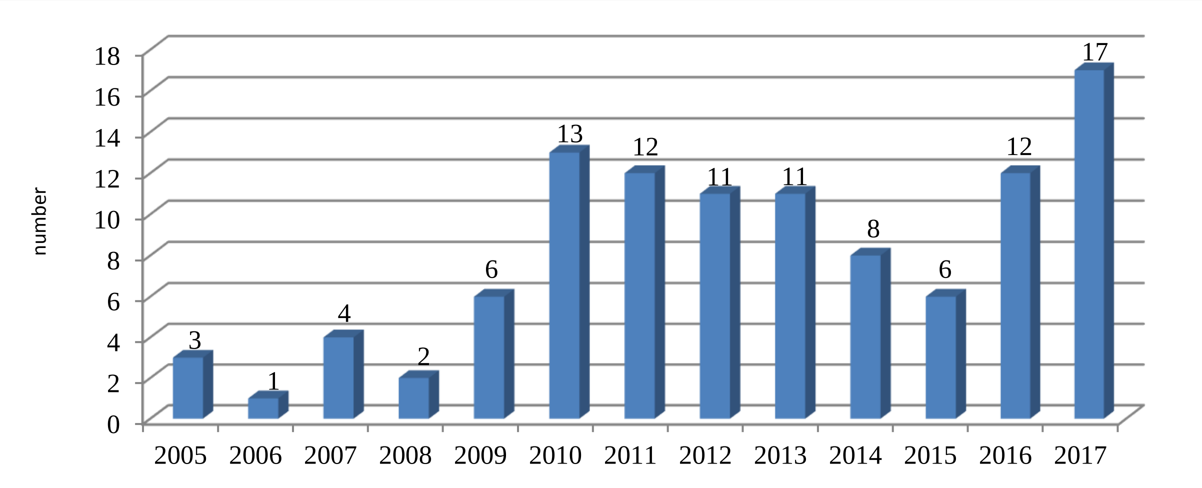
Figure 3. Chinese investments in Latin America by year (2005-2017)



Source: Authors' sample

Table 2. Top Chinese investors in Latin America (2005-2017)

Company	Industry	Number of investments	Countries
China Three Gorges	Hydropower	8	Brazil (7) Peru (1)
CNPC	Oil and gas	7	Ecuador (3) Venezuela (2) Brazil (1) Peru (1)
State Grid	Electricity	6	Brazil (6)
China Minmetals	Copper and iron	5	Peru (3) Chile (1) Cuba (1)
Sinopec	Oil and gas	5	Brazil (2) Argentina (1) Colombia (1) Venezuela (1)
ICBC	Banking	4	Argentina (2) Brazil (2)
Chery Automobile	Automotive	3	Argentina (1) Brazil (1) Venezuela (1)
China Construction Bank	Banking	3	Brazil (3)
China Railway Construction	Copper and steel	3	Ecuador (2) Venezuela (1)
CNOOC	Oil and gas	3	Argentina (3)
JAC Motors	Automotive	3	Brazil (2) Mexico (1)

Source: Authors' sample

4.2. Variables and measures

The dependent variable in our analysis is the *location decision* by each Chinese firm in a Latin American country. This is a dummy variable which takes the value of one if firm *i* invests in country *j* in year *t*, and zero otherwise (Duanmu 2012; Quer, Claver, and Rienda 2018; Yuan and Pangarkar 2010).

We consider two explanatory variables. First, *cultural distance* between China and each host country, which was measured using the index developed by Kogut and Singh (1988). In doing so, we based on the six cultural dimensions of the Hofstede's model (Hofstede, Hofstede, and Minkov 2010). This measure has been employed by prior studies on Chinese OFDI (Quer, Claver, and Rienda 2018; Xu, Hu, and Fan 2011). The second explanatory variable is the *political risk* of each host country, measured by means of the International Country Risk Guide developed by the Political Risk Services Group (Buckley et al. 2007, 2016; Duanmu 2012; Duanmu and Guney 2009; Han, Chu, and Li 2014).

In addition, we include several control variables that, according to prior research, may also affect location decisions by Chinese MNEs in Latin America. Thus, we control for the potential host country drivers of each OFDI decision. In doing so, we consider the above-mentioned two most important motivations of China's investments in Latin America. First, as a proxy of natural resource-seeking, we include host country *natural resource endowment*, proxied by the percentage of ore and metal exports to total merchandise exports by each Latin American country, with a logarithmic transformation (Buckley et al. 2007, 2016; Quer, Rienda, and Andreu 2019; Zhang, Jiang, and Zhou 2014). Second, as a proxy of market-seeking motivation, we consider two variables: *market size*, measured by the log of Gross Domestic Product (GDP) of each host country (Buckley et al. 2007; Duanmu and Guney 2009) and *market growth*, using

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the GDP growth rate (Buckley et al. 2016; Zhang, Jiang, and Zhou 2014). For measuring all these host country drivers, we based on the World Development Indicators of the World Bank with one-year lag.

Moreover, as pointed out before, China maintains friendly diplomatic relations with most Latin American countries that mitigate host country political risk for Chinese firms, in particular when accessing local natural resources. Therefore, by collecting data from the Ministry of Foreign Affairs of the People's Republic of China website, we include two additional dummy variables to control for potential good bilateral diplomatic ties: *market economy status recognition*, coded as one if the focal Latin American country has recognized China as a market economy, and as zero otherwise; and *comprehensive strategic partnership*, taking the value one if such an agreement between China and the host country had been signed before the focal location choice, and zero otherwise.

5. Results and discussion

To test the hypotheses, we used a conditional logistic regression. Prior to running the regression, we checked potential multicollinearity by analyzing the variance inflation factor (VIF) for all variables. As reported in Table 3, all VIFs are well below 10, the cut-off point recommended by Kutner et al. (2005). Thus, we ruled out the existence of serious multicollinearity problems in our analysis.

Table 4 shows the results of the conditional logistic regression for location decision. Model 1 includes only control variables, while Model 2 adds the effects of the explanatory variables. Both models are highly statistically significant ($p < 0.001$).

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Table 3. Descriptive statistics and correlations

Variables	Mean	SD	VIF	1	2	3	4	5	6	7	8
1. Location decision	0.110	0.309	N.A.	1							
2. Cultural distance	3.333	0.652	1.982	-0.426	1						
3. Political risk	63.500	7.427	1.776	-0.146	0.430	1					
4. Natural resource endowment	1.239	0.635	1.873	0.061	-0.348	0.209	1				
5. Market size	11.276	0.630	1.756	0.298	-0.542	-0.233	0.436	1			
6. Market growth	2.953	3.601	1.241	-0.082	0.014	-0.087	-0.039	-0.217	1		
7. Market economy status recognition	0.500	0.500	1.711	0.254	-0.507	-0.189	0.442	0.448	-0.122	1	
8. Comprehensive strategic partnership	0.380	0.485	1.613	0.123	-0.308	-0.279	0.314	0.346	-0.306	0.466	1

Correlations above /0.082/ are significant with $p < 0.05$
Correlations above /0.087/ are significant with $p < 0.01$

Source: Authors' sample based on SPSS Statistics

Table 4. Results of conditional logistic regression

	Model 1	Model 2
Explanatory variables		
Cultural distance		-1.026*** (0.234)
Political risk		0.031 (0.024)
Control variables		
Natural resource endowment	-0.118 (0.273)	-0.398 (0.328)
Market size	1.650*** (0.248)	0.582* (0.318)
Market growth	0.004 (0.031)	-0.014 (0.035)
Market economy status recognition	1.345*** (0.318)	0.819** (0.380)
Comprehensive strategic partnership	0.054 (0.267)	0.126 (0.293)
Chi-square	100.512***	182.072***
No. of observations	920	920

Dependent variable: (1) firm *i* invests in country *j* in year *t*; (0) otherwise
Standard errors in parentheses
* $p < 0.10$; ** $p < 0.05$; *** $p < 0.001$

Source: Authors' sample based on SPSS Statistics

Hypothesis 1 predicted that cultural distance between China and the host country had a negative effect on the likelihood of entering that destination. This hypothesis is supported, since the regression coefficient of cultural distance is negative and statistically significant ($\beta = -1.026$, $p < 0.001$). As a consequence, we can conclude that Chinese companies tend to invest less in those Latin American countries where there is a greater cultural distance from China.

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This finding is in line with that of many prior studies that, focusing on MNEs from other locations, reported that cultural distance was negatively associated with target country selection because of the inherent obstacles (Bhardwaj, Dietz, and Beamish 2007; Holburn and Zelner 2010; Ojala and Tyrväinen 2007). Accordingly, we can infer that informal institutional differences lead Chinese MNEs to behave in a conventional manner when entering Latin America, since a less familiar informal institutional environment dissuades them from choosing that specific location. As we pointed out above, past studies addressing Chinese MNEs' location choice in other destinations reached a similar result (Blomkvist and Drogendijk 2013; Buckley et al. 2007, 2016; Malhotra, Zhu, and Locander 2010).

The second hypothesis has also been supported, since we did not obtain statistical significance for the effect of political risk on location decisions ($\beta = 0.031$, $p > 0.10$). As we argued earlier, the conventional wisdom suggests a negative influence of this formal institutional factor on entry decisions because of the higher uncertainty and increased administrative and organizational costs (Chen et al. 2017; Pinto et al. 2017; Simon 1984). Therefore, our finding suggests that a high political risk in a Latin American country does not deter Chinese MNEs from choosing that location. Consequently, with regard to political risk as a formal institutional factor that discourages OFDI, we can conclude that Chinese MNEs show a less conventional behavior. Although there are past studies on Chinese MNEs reporting a conventional negative influence of political risk, others obtained a non-significant effect as in our case (Duanmu 2012, 2014; Malhotra, Zhu, and Locander 2010). As stated before, the idiosyncrasy of Chinese firms in terms of state ownership as well as the existence of friendly bilateral diplomatic relations between China and several host countries that are perceived as riskier by other MNEs, may explain why Chinese firms are less risk-averse.

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We obtained empirical support for this potential explanation for such an unconventional behavior when analyzing the results of the control variables included in the analysis. Thus, Table 4 reports a positive and statistically significant influence of market economy status recognition on location choice ($\beta = 1.345$, $p < 0.001$). Hence, the fact that the focal Latin American country has recognized China as a market economy is an indicator of a good bilateral diplomatic relation that may act as a risk-reduction device. In addition, OFDI drivers also matter, since we obtained that a larger host market size attracts Chinese MNEs ($\beta = 1.650$, $p < 0.001$). Conversely, the influence of natural resource endowment did not turn out to be statistically significant. As discussed earlier, natural resource-seeking is no longer the only motivation of Chinese firms for doing business in Latin America, as market-seeking is becoming an increasingly important driver.

6. Conclusions

In spite of cultural differences and political instability, Latin America is a top destination of China' OFDI, particularly, in recent years. In this study we have investigated the extent to which the two most researched host country institutional factors influencing location decisions abroad—namely, cultural distance and political risk—matter for explaining location choice by Chinese MNEs in Latin America. Our findings indicate that whereas cultural distance has a conventional negative influence, political risk does not deter Chinese MNEs.

In our opinion, this study makes several contributions. First, from a theoretical viewpoint, it contributes to the academic debate on the validity of extant theories—derived from the behavior of developed-country MNEs in the past—to explain international decisions made by emerging-market MNEs as latecomers. Second, from an empirical standpoint, it provides new insights on location choice by emerging-market MNEs in other emerging markets, which has received less

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attention in the literature. In particular, studies focusing on Latin America as destination of China's OFDI are still scant (Fornes and Butt-Philip 2011; Shapiro, Vecino, and Li 2018; Vasquez 2018; Zhang 2019).

As stated above, because of potential similarities in terms of weak institutional environments, OFDI flows between emerging economies are a pertinent empirical setting for analyzing the applicability of conventional theoretical frameworks. A recent literature review by Alon et al. (2018) reveals that testing traditional theories and location choice—the key motivations of our study—are two of the most important streams of Chinese MNEs research. Regarding cultural distance, another recent literature review by López-Duarte, Vidal-Suárez, and González Díaz (2016) reports that prior empirical studies show a clear Western bias, leading them to claim for more research focusing on emerging economies.

Our study also has implications from a managerial perspective. Chinese MNEs are increasingly becoming key players in most industries worldwide, from energy to automotive, engineering, and telecommunications. Managers of incumbent MNEs need to discern whether their emerging-market counterparts follow a conventional behavioral pattern or they behave in a truly distinctive way. Our study provides new insights on how cultural distance and political risk affect their strategic decision making when choosing location in other emerging economies.

Despite these contributions, our study has several limitations that suggest avenues for future research. First, we have used secondary data. For this reason, we have not been able to analyze the perceptions of managers of Chinese companies. Future research could use surveys to capture managerial perceptions on to what extent cultural distance and political risk discourage them from choosing a location in Latin America as well as what factors contribute to mitigate the perceived risks.

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Second, given that we focused on a single region as location of Chinese OFDI, the generalizability of our findings may be limited by the idiosyncrasy of Latin American countries and their relationships with China. Hence, future studies are needed in order to discern whether the behavioral patterns of Chinese MNEs in other locations remain similar or not to those reported by our study. In addition, the analysis of the specific factors that lead Chinese companies to show a less conventional behavior when faced with host country institutional factors needs further research efforts. Our results regarding the market economy status recognition of China suggest that bilateral diplomatic relations matter. Thus, the role played by other signs of friendly relations such as the existence of bilateral investment treaties or frequent government official visits deserves additional analysis. The latter factors are particularly important, since Latin America is now holding a relevant place in China's foreign policy agenda. Moreover, the Chinese government considers Latin America as the natural extension of the Belt and Road Initiative—the ambitious project led by China whose aim is to establish a solid integration between Asia, Africa and Europe going beyond commercial cooperation.

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