清华经管学院
Tsinghua SEM
Center for China-Latin America Management Studies
Center for China-Latin America Management Studies
School of Economics and Management
386 Weilun Building, Tsinghua University, Beijing 100084, China
http://www.tsccla.sem.tsinghua.edu.cn/

JOHNSON
Cornell University
Emerging Markets Institute
Emerging Markets Institute
S. C. Johnson Graduate School of Management
248 Sage Hall, Ithaca, NY 14853
www.johnson.cornell.edu/EMI.aspx
https://www.johnson.cornell.edu/Faculty-And-Research/Profile/id/lc683

Emerging Multinationals from China and Latin America, a Comparative Analysis[1]

Taotao Chen[2], Lourdes Casanova[3], Chen[4], Run Xu[5]

"Paper presented at the 6th Copenhagen Conference on: 'Emerging Multinationals': Outward Investment from Emerging Economies, Copenhagen, Denmark, 11-12 October 2018"

Correponding Author: Lourdes Casanova

Lc683@cornell.edu

[1] The authors would like to thank Anne Miroux, Former Director of Science and Technology at UNCTAD and faculty fellow at EMI at Cornell University, colleagues at the M&O department at Johnson and Eudes Lopes, PhD student at Anthropology Department at Cornell University for their invaluable comments and insights. This paper is based on a report for CAF, the Latin American Development Bank whose support is gratefully acknowledged.

[2] Professor of Finance, Director of Center for China-Latin America Management Studies. School of Economics and Management, 386 Weilun Building, Tsinghua University, Beijing 100084, China. Email: chentt@sem.tsinghua.edu.cn.

[3] Senior Lecturer of Management, Director Emerging Markets Institute. S. C. Johnson Graduate School of Management, 370 Sage Hall, Cornell University, Ithaca, NY 14853. Email: lc683@cornell.edu.

[4] Assistant Professor, School of Economics, Sichuan University, Chengdu 610065, Sichuan, China. Email: chench.10@sem.tsinghua.edu.cn

[5] Ph.D. Candidate, School of Economics and Management, Tsinghua University, Beijing 100084, China. Email: xur.15@ sem.tsinghua.edu.cn.

清华经管学院
Tsinghua SEM
Center for China-Latin America Management Studies

JOHNSON
Cornell University
Emerging Markets Institute

Center for China-Latin America Management Studies
School of Economics and Management
386 Weilun Building, Tsinghua University, Beijing 100084, China
http://www.tsccla.sem.tsinghua.edu.cn/

Emerging Markets Institute
S. C. Johnson Graduate School of Management
248 Sage Hall, Ithaca, NY 14853
www.johnson.cornell.edu/EMI.aspx
https://www.johnson.cornell.edu/Faculty-And-Research/Profile/id/lc683

1. Introduction

Since 2004, Outward Foreign Direct Investment (OFDI) has observed an extraordinary rise in emerging economies. Among these, Latin America and China surged as protagonists—both cause and effect of the proliferation of Emerging Multinationals (eMNCs), whose investments now account for over a majority of total OFDI from emerging markets. This phenomenon has caught the interest of experts worldwide as OFDI grows in relevance in favor of international competitiveness.

Today, Latin America and China show outstanding OFDI performance (albeit with distinctive characteristics). A comparative analysis of this indicator provides a telling window into the challenges and opportunities that characterize emerging makets, where the literature has yet to unpack how OFDI capabilities surfaced and what role eMNCs play in their growth.

This report contextualizes this relationship over time. In what follows, we discuss what is behind the convergence, where we observe divergence, and why the stakes are particularly high now.

2. OFDI Development Phases of Latin American and China

Despite common characteristics, we observe distinctive trends in OFDI from Latin American and China. In this section, we elaborate on these differences through an analysis of OFDI development phases.

2.1. Latin America's OFDI Phases: from import substitution to attracting FDI

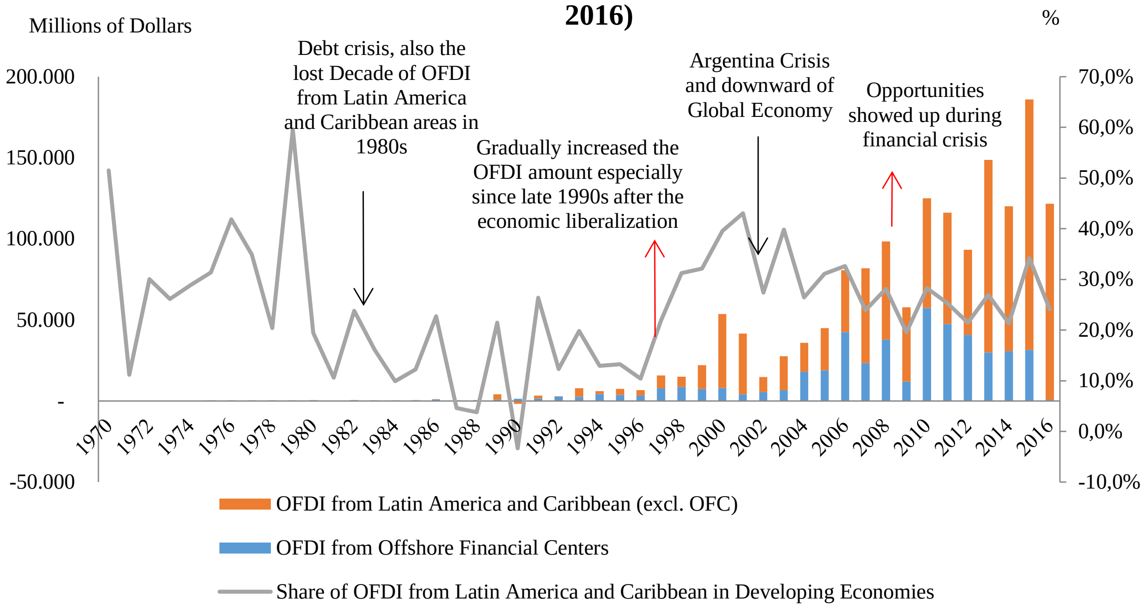
The amount of OFDI flows from Latin American countries and China, which were comparable in 2013 (US$ 101 billion and US$ 114 billion respectively), has increasingly diverged since 2014, when China (US$ 116 billion) surpassed Latin America (US$ 92 billion) in OFDI flows. This is a dramatic development as in the 1970s, Latin America's share of OFDI vis-à-vis that of emerging economies oscillated between 40% and 50%.

Yet, this did not last long in the wake of to the so-called 'Lost Decade' when several Latin American countries reneged on their debt. Following the debt crisis, Latin America changed its development strategy from Import Substitution to Export Orientation and, with the encouragement of the World Bank and the IMF, launched economic reforms inspired by the 'so-called' Washington consensus, which included economic liberalization and the privatization of public services such as telecommunication, electricity, water, among others. The region's OFDI has since decreased significantly in favor of FDI.

Latin American OFDI was only revived in the mid-1990s. However, this growth trend did not last long. As shown in Figure 8, after increases in 1999 and 2000, Latin American OFDI (excluding the financial centers) decreased shortly thereafter due to a series of economic crises, including the sharp depreciation of the Brazilian Real (in January 1999) and Argentinian Peso (after December 2001). The burst of the Internet bubble in 2001 also stymied OFDI in Latin America.

During Latin America's so-called "golden decade," following the boom in commodity prices starting in 2003, Latin American OFDI surged. The 2008 Global Financial Crisis only hastened this trend as Latin American companies began purchasing subsidiaries of MNCs from advanced economies leaving the region.

Figure 8. FDI Outflows from Latin America and Caribbean (1970 - 2016)

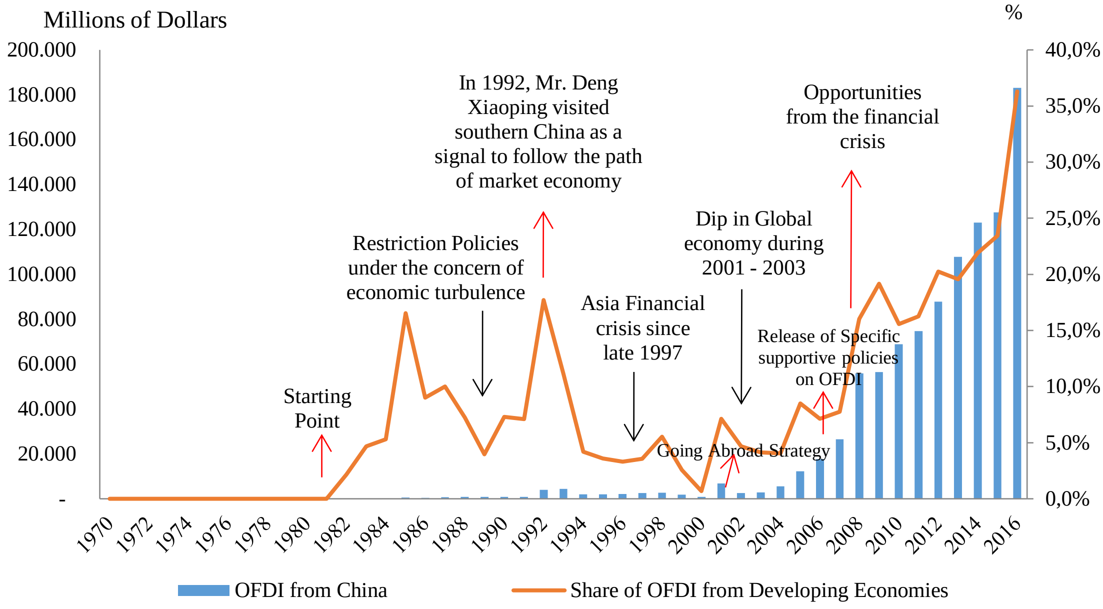


Source: Authors based on data from UNCTADstat with website accessed by http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx July 28th, 2017

2.2. China's OFDI Phases: 'Go Global'

While China is now one of the main sources of OFDI in the world, its history of overseas investment is relatively recent. As shown in Figure 9, its OFDI only took off in the wake of economic reforms in 1979, when the Chinese government allowed Chinese companies to go abroad for the first time. Nevertheless, OFDI during the 1980s was still restricted to some industries, requiring approval from the central government.

Figure 9. FDI Outflows from China (1970 - 2016)



Source: Authors based on data from UNCTADstat with website accessed by http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx accessed by July 28th, 2017.

Following the "south tour speech" from Mr. Deng Xiaoping in 1992, the right of independent companies to manage their business was approved, which reinforced the confidence of Chinese companies to invest abroad. As a result, China's OFDI surged in 1992 and 1993. However, there was still little public support for foreign investments. The Asian crisis in 1997 was a blow to China's OFDI, which in fact declined in 1999.

It was only at the turn of the century that Chinese companies started to invest more aggressively abroad. In 2000, the Chinese government stressed the importance of the "going abroad" strategy, with the aim to improving the competitiveness of Chinese MNCs in the global market. Following China's accession to the World Trade Organization (WTO) in 2001, its OFDI surged, with a brief retraction in 2002. The real take off point was after 2004, due to a combination of opening trade barriers and supportive government policies. In 2006, a detailed policy statement outlined the "going abroad" strategy, which has since included further services and guidelines provided by the central and local governments (see Emerging Markets Report 2016).

China's OFDI almost doubled in 2008 after the Global Financial Crisis, which produced significant investment opportunities in developed countries. In 2009, the Chinese government released "Regulations on Administration of OFDI" to facilitate OFDI activities and to promote Chinese EMNCs to cooperate and compete in foreign markets. This strategy was successful as OFDI from China reached its highest growth in 2010. Meanwhile, Chinese companies grew and their size empowered them to take greater risks abroad.

3. Capabilities of Latin American and Chinese MNCs

We turn now to how investment both in the country and outside the country bolsters the capabilities of Latin American and Chinese companies.

3.1. Capability Sources of Latin American companies

3.1.1. Natural Resource based National Champions

Latin America is rich in natural resources and, as stated before, its investments are mainly concentrated in natural resource or natural resource-based industries. Nationalism long prevailed in the region to protect resources, which were previously (as it was the case of Mexican oil before the revolution) mainly controlled by foreign firms. While some of these local natural resource companies were privatized in the 1990s, monopolistic power enabled these companies to withstand foreign competition as economies in the region opened up and liberalized.

The largest three companies by revenues in the region are the oil giants PDVSA[6] (Venezuela), Pemex (Mexico), and Petrobras (Brazil), which are all either fully (e.g., Pemex) or partially state-owned (e.g., PDVSA and Petrobras). PDVSA owns the gas stations of CITGO in the United States while Petrobras started internationalization in

[6] PDVSA and Petrobras current crisis are beyond the scope of this research which will focus on their building up of their internal capabilites.

the early 80s seeking new sources of oil. Despite having privatized significant segments of its economy, Chile never privatized Codelco, the largest copper company in the world. Meanwhile, Vale, the iron ore Brazilian mining company, is private, but highly influenced by the government in light of its golden share and large shareholdings via the Brazilian National Development Bank (BNDES) as well as the public pension funds of Petrobras and Banco do Brasil. These national champions' ability to attract the best talent in the country and to have ample resources (particularly in times of commodity boom) empower them to expand abroad.

3.1.2. Capabilities Accumulated from the Import-Substitution

The first wave of OFDI started in Latin America during the 1960s and 1970s when the import substitution industrialization strategy prevailed in Latin American countries. Supported by high tariffs and other protectionist policies, local firms (national champions) developed rapidly in large economies such as Brazil and Argentina. These firms started to invest in their natural markets of neighboring countries during the 1970s, and this became the starting point of Latin American OFDI.[7] Success at home enabled these firms to thrive. The Brazilian furniture sector is a case in point. The industry is composed mainly of small and medium size manufacturers which fuel innovation through close contact with consumers. At the same time, the Brazilian government barred giants like Ikea from entering the country, thereby protecting the local sector. In turn, local furniture firms have grown at an average rate of 6.9% per year since 2009. The Brazilian Trade and Investment Agency (Apex) foments expansion into Europe and beyond through initiatives such as the *Raiz Project*, which seeks to accelerate the internationalization of Brazilian furniture designers.

[7] Chudnovsky D, López A. "A third wave of FDI from emerging countries: Latin American EMNCs in the 1990s.", in *Multinational Corporations*, Vol. 9, No. 2, 2000, p.46.

3.1.3. Competitive Strength during Economic Liberalization and Privatization

A second phase of Latin America OFDI took place in the 1990s, but for different reasons than in the 1970s. During the economic liberalization and privatization reforms of the 1990s, MNCs from developed countries flooded into Latin American countries, which brought fierce competition to almost every industry. As a result, several domestic companies were either taken over or crowed out by entering foreign companies. Others invested abroad as a strategy to counteract domestic competition.

Nemak (Mexico) and SABO (Brazil) are examples of domestic companies that strengthened during this time. By leveraging a quasi-monopolistic power in the domestic market, SABO greatly enhanced its capabilities and improved its competitiveness in major international markets. Meanwhile, Nemak, which had previously benefited from import substitution policies, ultimately competed with international suppliers (post- liberalization).

3.1.4. Capabilities Accumulation during the internationalization Process

Latin American companies such as the Mexican CEMEX and Grupo Bimbo have thrived by building on their internationalization process of learning through acquisitions, which brought new capabilities back home, and (in turn) further expansion.

3.1.5. Capabilities from Trade and Custom Agreements: NAFTA and Mercosur

Trade and custom agreements can provide stable agreements for businesses to thrive, such as The NAFTA[8] trade agreement signed by the United States, Canada and Mexico in 1994. At first, the Mexican business sector viewed NAFTA as a threat and American

[8] As the article is being delivered in August 2018, President Trump has questioned this trade agreement. As a consequence of this tenser situation between Mexico and the United States, the number of Mexican companies making acquisition in the United States has gone down.

companies took advantage of the cheap labor cost of Mexico as a way to become more efficient and competitive. With time, Mexican firms learned to operate in the new environment and took advantage of the opportunities afforded by NAFTA. Mexican firms such as Gruma, the manufacturer of ‘tortillas’, FEMSA, the Coca-Cola bottler, and América Móvil, the telecom giant are notable examples. Today, the United States is the favorite destination for Mexican companies, with a total of twenty-five firms present in the country. For instance, América Móvil, owner of Tracfone, the virtual operator in the United States, obtains 14.4% of its total sales from its Northern neighbor.

During this period, Mercosul, the customs and union bloc of Argentina, Brazil, Paraguay, Uruguay and Venezuela, was also established. While it has not been as successful as NAFTA, summits and the business gatherings have provided the opportunity for the business community to glean knowledge from each other.

4.2 Capability Sources of Chinese Companies

4.2.1 Capabilities Originated from Low-cost and Big Market Advantages in Manufacturing

In the early stage of opening up, China attracted a large amount of efficiency seeking investments, which brought in capital and skills for labor-intensive manufacturing. Throughout this period, the Chinese market grew in many ways. Some products/services for the population with low purchasing power were captured by newly established domestic companies, which were initially ignored by western MNCs, which mainly focused on high-end customer segments. By learning and imitating foreign MNCs on the one hand, and taking advantage of the scale of the large domestic Chinese market on the other, local companies (e.g., white goods Haier and TCL) were able to expand quickly.

When the low-end market became increasingly attractive to foreign MNCs, domestic companies possessed the strengths to compete more successfully, even internationally. In the early twenty-first century, Chinese companies encountered trade barriers in Europe and the United States. They thus internationalized in emerging markets first to overcome trade barriers as the focus shifted to innovation, high-tech expertise, and Research and Development (R&D) capabilities.

4.2.2 Capability Accumulation of State Owned Enterprises (SOEs) in Strategic Industries

When the People's Republic of China was established in 1949, SOEs were the mainstay of the economy. After economic liberalization and several rounds of reforms, SOEs remained dominant in strategic sectors, such as natural resources, infrastructure and banking. Today, four of the five largest companies in the world in infrastructure and engineering are Chinese (CSCEC, CREC, CRCC and CCCC) and they execute construction projects all over the world.

4.2.3 Specific Advantages Gained from Domestic Challenges

According to Harvard professor Michael Porter's model on national competitiveness (Michael P, 1990), complex domestic conditions often push the generation of solutions internationally. The OFDI capability building process of the Chinese natural resource sector is a case in point. China possesses a wide variety of natural resources which are unevenly distributed and vary in quality. This is especially true for base metals like iron, copper, nickel and aluminum, which are required for industrialization and urban constructions. Facing high demand from rapid economic development, Chinese natural resource based companies were pressed to innovate to leverage local resources. In many cases, specialized engineering technologies were created to overcome bottlenecks. Later, these specialized capabilities became crucial advantages for certain Chinese companies in carrying out overseas investments.

For example: Typical features of coal mines in China were low ash, high heat and semi-hard coking coal. The coal seam of the mine was thick and could be spontaneously combusted, which complicated extraction. But facing high demand in the growth years, these mines were exploited. Yan Mining, a state-owned company, devised a specialized technology to tackle the problem. By 2004, Yan Mining oversaw its first overseas investment in Australia, acquiring a troubled mine with similar problems, which was transformed by way of its proprietary technology.

4.2.4 Capabilities from Government Support

The Chinese government has played an important role supporting the internationalization of domestic companies. From the early stage of opening up, when the Chinese government gave its companies permission to invest abroad for the first time, to the release of the ‘going global’ strategy more recently, government policies and agencies have been strongly promoting OFDI. These stable and consistent OFDI policies endowed Chinese companies with ample incentives to internationalize.

5 Case Study on Mining Industry

We turn to a more in-depth qualitative analysis of case studies exemplify the distinctive OFDI pathways. The mining industry is examined since it is one in which Latin America and China have both invested heavily.

5.1 The Brazilian Mining Industry

5.1.1 The Evolution of Brazil's Mining Industry since the early 20th Century

First Phase: The Establishment of the Modern Mining Industry (early-20th Century - 1945)

In 1929, the American Depression had a devastating effect on the Brazilian economy which mainly depended on exports of primary products to developed countries. The depression led to a sharp decrease of demand for primary goods from Brazil and an imbalance of international trade. Since the mining industry in Brazil was controlled by companies from the UK or US, the Great Depression led to a reduction of output and even divestment which triggered significant unemployment and social turmoil.

Against this backdrop, in 1930, President Getulio Vargas, a representative of the emerging industrial and political parties, came to power and heralded the new era of the Brazilian Republic, which marked the beginning of the industrialization of Brazil and the prevalence of nationalism. Brazil gradually transformed its development strategy from exports of natural resources to import substitution.

Soon after the Great Depression, Brazil encountered its first opportunity for mining industry development. During the WWII, the US and UK demanded high quantities of iron from Brazil for weapon and equipment manufacturing. The Brazilian government took advantage of this opportunity to sign an agreement with the US and the UK to nationalize a British iron ore and railway company, which would later be funded by the US Washington Bank. In turn, Brazil would provide iron ore for both countries during war time. These nationalized assets then became the start of the Brazilian modern mining industry and Vale, the largest Brazilian mining company.

Second Phase: The Nationalization of the Brazilian Mining Industry (1945-1995)

Since the end of WWII, the post-war development of Japan and Europe led the international mining industry into its golden era. The War had awakened nationalism in formerly colonized countries, which led to growing calls for nationalization the world over. The peak of nationalization in Brazil occurred from the 1950s to 1970s, especially in the mining industry, for which FDI was forbidden.

Due to nationalistic policies, the Brazilian industry and its domestic companies benefited from post-war opportunities and accumulated capital for later stage development. Meanwhile, import substitution policies fueled investment in manufacturing and infrastructure, which drove the demand of minerals and provided related equipment supports.

VALE was emerging rapidly under the protection of the Brazilian government, as well as from the rising demand of mining products during post-War reconstruction. Throughout this period, the government guaranteed VALE's monopoly power over iron ore in Brazil. The most typical case was the exploitation of Carajas mine. VALE took control of this world class iron ore mine step by step, though it was first discovered by an America steel company, which also sought to operate in it. Ultimately, Japan became the largest customer of VALE, which in turn promoted capital accumulation.

Third Phase: Acceleration of Development Post-Privatization (1995-Present)

The debt crisis in 1982 had devastating effects on the Brazilian economy. From the 1990s onwards, most Latin American countries were pressed to implement Washington Consensus policies. In response, Brazil initiated the privatization of its mining industry (among others) in 1995, while seeking to attract FDI and to introduce competition into this industry. Before privatization, the production from VALE represented 80% of iron ore production in the country but much less since.

The privatization of VALE took place in three phases. First, most foreign companies were kept out of the bidding process, ensuring that a strong Brazilian participation was retained. Two consortia bid for 42 percent of the company. Ultimately, the Valepar consortia finally won the bidding at a cost of US$ 3.1 billion. Second, in 2000, VALE gained access to the international financial markets through its listing on the new Madrid-based stock market Latibex and the New York Stock Exchange. Third, the Brazilian government sold its remaining stake through a global equity offering, but still kept several golden shares to retain its control through various public pension funds and considerable influence over decision-making in the company (ECLAC, 2016).

After privatization, foreign investors were permitted to invest in the Brazilian mining industry, which brought in new technologies and competition as well as increased efficiency.

5.1.2 Competitive Advantages of Brazilian Mining eMNCs

The development of a country's mineral industry is bound to provide opportunities and threats to the growth of the mining enterprises. Driven by resource endowment, improved infrastructure by foreign companies, global capital and enormous internal and external demand, the Brazilian mining sector—and VALE by extension—developed robustly since the 1950s.

Since privatization, the Brazilian industrial environment improved with the arrival of foreign enterprises which brought not only new technologies and equipment, but also competition into the sector. Meanwhile, privatization further contributed to the development of the economy and the increase in demand for resources in the home market.

It is clear that VALE's development dovetailed the development of the Brazilian mining industry. Since the 1990s, VALE gained the technical and management promotion in the joint venture process. In particular, as a resource-based enterprise, VALE benefited from visionary leaders who were aware of the risk in undiversified resource (only iron ore initially) and of being at only one end of the industrial chain. They led the enterprise abroad and implemented a resource-diversification and integration strategy.

5.2 Chinese Mining Industry

5.2.1 The Evolution Chinese Mining Industry

Plan Economy Stage (1949 - 1978)

The establishment of People's Republic of China spawned the era of the "planned economy." Since the mining industry was in shambles after the Chinese civil war—which was exacerbated by the blockade by western countries—China could only depend on aid from the Soviet Union and other eastern European countries, which became the foundation of China's modern mining industry.

MINMETAL became the only SOE with the right to import and export metals. This monopoly status gave MINMETAL the opportunity to learn about international business ahead of other Chinese companies and also enabled it to accumulate capital, expand within the domestic market and build up external networks.

Early Stage of "Opening-Up" (1978 - 1990s)

After 1978, when China began its "Opening-Up" reforms, the relationship between China and Western countries improved, which accelerated the development of Chinese companies. Against this backdrop, China broke down the monopoly of SOEs in the mining industry and attracted important mining projects from United States, Japan and Australia. These investments stimulated competition in the mining industry in China, which increased production and improved technology, equipment and management skills.

MINMETAL faced fierce competition with several merged companies which also obtained trade authority. In this context, MINMETAL attempted diversification reforms, like hotel, insurance, and tourism. These business reforms failed, since MINMETAL had no experience other than mineral business and its efficiency of management was quite low among SOEs.

The Integration Stage of Mining Industry (late 1990s - 2008)

The unregulated development of the mining industry contributed to the Chinese mining industry's low industry concentration and misuse of resources. In the late 1990s, the Chinese government became aware of this problem and started supporting the concentration of the mining industry. Combined with SOE reforms, the Chinese government prioritized several industries like mining and telecommunication and encouraged big SOEs to lead, while in other industries like automobile, electronics, textile, and retail, the government encouraged more competition and SOEs to withdraw. Hence, the Chinese mining industry built up several big mining companies through domestic M&A, an action that promoted vertical integration.

As infrastructure development increased demand for mineral products, China became the center of world manufacturing with large amounts of imports and exports, which spurred demand for different kinds of minerals. In light of the gap between demand and limited supply, the Chinese mining industry encouraged OFDI.

Under the lead of President Miao, MINMETAL determined that after losing its monopolistic status on international trade, a middleman role was no longer the only path forward. Due to its years of trading experience, MINMETAL concluded that mineral trade without resources was no longer sufficient. Hence, MINMETAL set up *Nonferrous Metal Corporation* for mining, processing and sales business worldwide, which empowered MINMETAL to move up the value chain. Along with the Chinese mining industry's integration, as one of the main mining SOEs in China, MINMETAL purchased several domestic mining companies and reinforced its status in the sector, which emboldened MINMETAL to increase its asset scale and to complete the building up of its production chain domestically.

The Global Financial Crisis as an opportunity: Acceleration of OFDI (2008-Present)

The international financial crisis offered the Chinese mining industry a unique opportunity. After 2008, the Chinese economy was more stable than others but still had strong domestic demand for mineral resources. In this context, some multinational mining companies were in need of selling assets for liquidity and thus offered Chinese mining companies the opportunity to invest abroad.

By accumulating capabilities from domestic development and international experience, the OFDI of the Chinese mining industry accelerated. This has not only expanded their asset scale, but also their international management skills and operational experience.

Before 2008, MINMETAL sought to acquire OZ twice. The first time was in early 2008 when their market value approached US$ 5 billion. However, the market value of OZ rose quickly after the company's merger and reached a price which was beyond MINMETAL's capital financial resources at that point. Before the financial crisis, when the market value decreased from US$ 10 billion to US$ 7 billion, MINMETAL tried again but feared the high risk environment. After October 2008, when metal prices dropped sharply and OZ faced a debt crisis suddenly and the market price fell to US$ 1.8 billion, OZ approached MINMETAL seeking a way out. Based on their years of trade experience and mineral prices volatility, MINMETAL determined that metal prices would not go down indefinitely and made the decision to acquire OZ for US$ 1.38 billion in June 2009.

5.2.2 Competitive Advantages of Chinese mining eMNCs

China's low-cost advantage attracted a large number of global manufacturing industry companies, which generated huge demand in upstream inputs like natural resources.

The emergence of such a huge demand strongly motivated China's large mining companies to obtain oil, gas and mining products in international markets, including countries with rich resources.

In 2008, the financial crisis caused sharp drops in international mineral prices and some international mining companies began to seek external financing or even to sell assets. After early capacity development, MINMETAL seized the opportunity through several major international M&As. As a result, it began to rank among the largest international mining enterprises.

China's rapid economic growth, urbanization and the rapid development of industrialization fueled demand for mineral products, just as transportation, electricity and other infrastructure conditions improved. These factors further promoted the competitiveness of China's mining industry (See Figure 13). Throughout this process, a number of typical SOEs such as MINMETAL not only accumulated further capital, but also technical and management capabilities. Ultimately, these companies were among the biggest beneficiaries of China’s domestic industrial environment improvement as well as its industrial integration process.

MINMETAL’s growth has been synchronized with the development of its country's mining industry and continues to benefit from the process of national mining development. In the face of huge and rapidly growing domestic demand, MINMETAL hedged against the risk of overly relying on international trade without the control of upstream resources. Thus, MINMETAL began to invest overseas to obtain resources.

5.3 Comparison and Lessons from VALE and MINMETAL

OFDI opportunities and capacity building of mining enterprises in Brazil and China is a systematic process: a confluence of global industrial development, mining, industry with strong government policy guidance, active foreign companies’ participation and hard corporate efforts. Any single factor cannot explain how to build the capabilities for the internationalization of mining companies from Latin American countries and China alone.

The development of both the global industry and the enterprises in Brazil and China are deeply intertwined with historical trends. As shown in the case of Brazil, which is rich in mineral resources and opened early, the development of domestic mining caught up with the most propitious opportunities of the international mining industry development. Its key enterprises were also established early, and thus benefited from many of these opportunities. China, however, lacked mineral resources and its economic development occurred relatively late. Thus, both the Chinese mining industry and enterprises missed the early opportunities. Only when significant demand appeared domestically did the local industry seized the opportunity to develop.

The mining industry developed in both countries under open policies. The four key elements (demand, supporting industries, corporate strategy and competition) of home industry conditions, as well as local and foreign firms, interact with each other to enhance the capability of the industry and firms. In this sense, both local governments and foreign companies have played important roles in facilitating improvements.

It is worth mentioning that foreign companies' participation has been key to the development of the mining industry in Brazil and China but the government role in both countries should also be emphasized. In Brazil, during the early stages of mining, the opening policy led foreign capital in and laid the foundation of the mining industry. Under the era of nationalization, the Brazilian government took back mines and established large stated-owned mining enterprises. At that stage, the Brazilian government actively guided Foreign Direct Investment, which supported industrial conditions for the development of mining industry. In the subsequent privatization stage, however, the Brazilian government blocked out several foreign investors to protect domestic bidding groups. In China's case, the government was more directly involved.

When it came to the opening up reforms, the Chinese government advanced deregulation and joint ventures with local companies, but it actively carried out a policy clarifying the status of large SOEs and how they enhanced industrial concentration.

From the perspective of enterprise development, we find that in emerging countries, the strong support of the government is necessary to develop enterprises in such a highly globalized industry. Indeed, the further growth of enterprises and real competitiveness require that enterprises face domestic and international competition. And yet, it can be seen from these cases that the initial establishment of the VALE and MINMETAL was dependent on the power of the government and enterprise development; the two companies are under the protection and support of the government, accumulating capital from a domestic monopolistic position. Finally, these two companies have cultivated their international competitiveness in international investment and cross-border M&A experience.

6. Conclusions

China and Latin American countries have been surging as the main investors among emerging countries in recent decades. However, they have different emerging phases and internationalization paths.

The starting point and initial foundation of OFDI for Latin America countries and China are different. Latin American countries started its OFDI in the 1960s combined with decades of import substitution development strategy which enabled their domestic companies to accumulate capabilities. Comparatively, the starting point of Chinese OFDI can be traced back to the Chinese “Opening Up” and the country’s new diplomatic relationship with western countries since the 1980s.

OFDI trends in Latin America and China are similar but show different volatility. Latin American OFDI not only encountered radical liberalization and privatization, but also several regional economic crises, which together explain their highly volatile characteristics. However, China's OFDI followed certain guidance from government in critical phases, which in the long run provided stability and continuity. In recent years, the financial crisis in Europe and America offered both China mainly and also Latin American countries the opportunity to invest abroad rapidly.

Ihe OFDI industry distribution and underlying motivations are distinctive across Latin American countries and China. Latin American countries invest heavily in primary sectors and natural resource-based industries. Latin American countries are exploiting their capabilities accumulated from the abundance of natural resources and their appreciation. They are also concentrated mainly in natural resource-based manufacturing industry and services, which were developed under highly competitive domestic market conditions and matured in international competitive ones. China has also invested significantly in the primary sector, while having leveraged it to support the country's role as the center for global manufacturing. As to other industries, China has nurtured several manufacture-related industries and companies with OFDI sites worldwide.

While Latin American OFDI started earlier than China's, it has gone through a tough development process with inconsistency in government policies and intense competition with foreign companies. As a result, only a few Latin American private companies have become successful international players. In contrast, Chinese eMNCs, even as latecomers, grew slowly but steadily and accelerated after the global financial crisis. OFDI capabilities of many EMNCs from both Latin America and China emerge out of the location advantages of their home countries. Natural resource abundance is an obvious advantage in Latin American countries, just as low labor costs and a large domestic market are the main advantages in China.

Some important EMNCs from both Latin America and China develop their OFDI capabilities through a certain process. As latecomers, they were founded with strong support from the government and held dominant position in their home countries, but they continued thereafter to build their international competitiveness through increased competition both at home and internationally. Vale in Brazil is a typical example for Latin America, just as MINMETAL is for China.

Most eMNCs from both Latin America and mainly from China develop their initial capabilities at home with the development of their own industries, but they have benefited from improved overall industry conditions and the accompanying positive spillovers from interaction with foreign companies. Both the Chinese and Latin American governments played a crucial role in the whole dynamic process of OFDI capability developments for multinational companies. Their clear national development goals and relevant policies strengthened industry conditions, as well as support for the development of national firms.

In short, from the qualitative analysis of the case studies, we found that the opportunities and the source of OFDI capabilities are formed with a complex, dynamic and systematic process which includes global trends and characteristics of the industry. Moreover, the sequential interaction of a confluence of factors from different levels among local firms and foreign investors results in unique opportunities, as well as constraints for the capability building of multinational firms. Not a single source or opportunity can shape OFDI capability across Latin America and China.

References

Bai, C. E., Lu, J., & Tao, Z. (2006). “The multitask theory of state enterprise reform: empirical evidence from China.” The American Economic Review,96(2), 353-357.

Bridge G. (2004). “Mapping the bonanza: geographies of mining investment in an era of neoliberal reform.” The Professional Geographer, 56(3): 406-421.

Brown K. (2012). “A History of Mining in Latin America: From the Colonial Era to the Present.” UNM Press.

Buckley, P. J., Clegg, L. J., Cross, A. R., Liu, X., Voss, H., & Zheng, P. (2007). "The determinants of Chinese outward foreign direct investment." Journal of international business studies, 38(4), 499-518.

Casanova, L. (2009). “Global Latinas: Latin America's Emerging Multinationals.” Palgrave Macmillan.

Casanova, L., & Fraser, M. (2009). “From Multilatinas to Global Latinas. The Latin American Multinationals.” Inter-American Development Bank.

Chen, T., & Pérez Ludeña, M. (2014). “Chinese foreign direct investment in Latin America and the Caribbean.” United Nation, ECLAC.

Chen T., Chen C., Casanova L., & Chen X. (2014). “Location Advantages and Competitive Environment in Latin Area.” Tsinghua University Press. (in Chinese).

Chen T., Chen C., & Gu L. (2014). “Business Environment in Mexico and the opportunities for Chinese companies.” International Economic Cooperation, (9), 4-12. (in Chinese).

Chen T., & Chen C. (2013). “Business Environment and Opportunities for Chinese Companies investing in Chile.” International Economic Cooperation, (9), 35-42. (in Chinese).

Chen T., & Pérez Ludeña M. (2013). “Chinese foreign direct investment in Latin America and the Caribbean.” ECLAC - Production Development Series No.195.

Chudnovsky, D., & López, A. (2000). “A third wave of FDI from emerging countries: Latin American EMNCs in the 1990s.” Multinational Corporations,9(2), 31-74.

Cuervo-Cazurra, A. (2008). “The multinationalization of emerging country MNEs: The case of multilatinas.” Journal of international Management, 14(2), 138-154.

Cuervo-Cazurra, A. (2016). "Multilatinas as sources of new research insights: The learning and escape drivers of international expansion." Journal of Business Research, 69(6), 1963-1972.

Daniels J D., Krug J A., & Trevino L. (2007). “Foreign direct investment from Latin America and the Caribbean.” Multinational Corporations, 16(1): 27.

Del Sol, P., & Kogan, J. (2007). “Regional competitive advantage based on pioneering economic reforms: The case of Chilean FDI.” Journal of International Business Studies, 38(6), 901-927.

Dunning J. H., Kim C., and Park D. (2008). “Old wine in new bottles: a comparison of emerging-market EMNCs today and developed-country EMNCs thirty years ago”, in The Rise of Multinational Corporations from Emerging Markets: Threat or Opportunity? Sauvant K. (ed.), Edward Elgar: Northampton, MA.

Dunning J H, Van Hoesel R, & Narula R. (1998) “Third World Multinationals Revisited: New Developments and Theoretical Implications.” in J.H. Dunning (ed.) “Globalization, Trade and Foreign Direct Investment.” Elsevier: Amsterdam and Oxford, 255–285.

ECLAC (2013), “Foreign Direct Investment in Latin America and Caribbean.”

ECLAC (2014), “Foreign Direct Investment in Latin America and Caribbean.”

Fleury A., Chen T., Fleury M T, et al. (2014). “The Role of Government on FDI Spillover: Comparing China's and Brazil's Automobile Industries.” AIB Conference, Vancouver.

Fleury A., & Fleury M T. (2011). “Brazilian multinationals: Competences for internationalization.” Cambridge University Press.

Lall, S., Chen, E., Katz, J., Kosacoff, B., & Villela, A. (1983). “The new multinationals: The spread of third world enterprises.” Chichester: Wiley.

Lecraw, D. (1977). "Direct investment by firms from less developed countries." Oxford Economic Papers, 29(3), 442-457.

Luo, Y., & Tung, R. L. (2007). "International expansion of emerging market enterprises: A springboard perspective." Journal of international business studies, 38(4), 481-498.

Luo, Y., & Wang, S. L. (2012). "Foreign direct investment strategies by emerging country multinationals: A diagnostic model for home country effects." Global Strategy Journal, 2(3), 244-261.

Machado I F., & Figueirôa S F M. (2001). “500 years of mining in Brazil: a brief review.” Resources

Policy, 27(1): 9-24.

Mallampally, P., & Sauvant, K. P. (1999). “Foreign Direct Investment in Emerging Countries”. Finance & Development. March 1999, Volume 36 (1), http://www.imf.org/external/pubs/ft/fandd/1999/03/mallampa.htm

Mathews, J. A. (2006). "Dragon multinationals: New players in 21st century globalization." Asia Pacific journal of management, 23(1), 5-27.

Michael P. (1990). The Competitive Advantage of Nations.

Morck R., Yeung B., & Zhao M. (2008) “Perspectives on China's outward foreign direct investment.” Journal of International Business Studies, 39(3): 337-350.

Narula, R., & Dunning, J. H. (2000). "Industrial development, globalization and multinational enterprises: new realities for emerging countries." Oxford development studies, 28(2), 141-167.

Narula, R., & Dunning, J. H. (2010). "Multinational enterprises, development and globalization: some clarifications and a research agenda." Oxford Development Studies, 38(3), 263-287.

OECD (2002). “Foreign Direct Investment in Development”. Retrieved from https://www.oecd.org/investment/investmentfordevelopment/1959815.pdf

Stal, E., & Cuervo-Cazurra, A. (2011). “The investment development path and FDI from emerging countries: The role of pro-market reforms and institutional voids.” Latin American Business Review, 12(3), 209-231.

Ministry of Commerce of the People’s Republic of China, National Bureau of Statistics of China, & State Administration of Foreign Exchange (2014). “Statistical Bulletin of China’s Outward Foreign Direct Investment.”

Ramamurti, R. (2009a). "Why study emerging-market multinationals." Emerging multinationals in emerging markets, 3-22.

Ramamurti, R. (2009b). “What have we learned about emerging market MNEs?” in Emerging multinationals in emerging markets, no. December, R. Ramamurti and J. Singh, Eds. Cambridge University Press, Cambridge, U.K., 2009b, pp. 399–426.

Thomas, D. E. (2006). “International diversification and firm performance in Mexican firms: a curvilinear relationship?” Journal of Business Research,59(4), 501-507.

UNCTAD (2006). “World investment report.” Retrieved from. www.unctad.org

UNCTAD (2015). “World investment report.” Retrieved from. www.unctad.org

Wells, L. T. (1983). "Third world multinationals: The rise of foreign investments from emerging countries." MIT Press Books, 1.

Williamson, P. J., & Zeng, M. (2009). "Chinese multinationals: Emerging through new global gateways." Emerging multinationals in emerging markets, 81-109.