

Chinese Economic Statecraft and U.S. Hegemony in Latin America: An Empirical Analysis, 2003–2014

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ABSTRACT

If one interprets China's sizable rise in Latin America as an unprecedented phenomenon, it follows that the concurrent story of declining U.S. influence in the region is an event hastily acknowledged at best and ignored at worst. In this article, we ask whether Chinese economic statecraft in Latin America is related to the declining U.S. hegemonic influence in the region and explore how. To do so we analyze foreign direct investments, bank loans, and international trade from 2003 to 2014, when China became a major player in the region. We use data from 21 Latin American countries, and find that an inversely proportional relationship exists between the investments made by Chinese state-owned enterprises (SOEs), bank loans, manufacturing exports, and the U.S. hegemonic influence exerted in the region. In other words, Beijing has filled the void left by a diminished U.S. presence in the latter's own backyard.

The “grand strategy” debate about the implications of China's rise is divided into two camps. On the one hand, hegemonic stability (Gilpin 1983) and power transition (Organski 1958) theories, together with offensive realism (Mearsheimer 2001), agree that as the Chinese economy continues to grow, geopolitical competition will increase between Beijing and Washington, reaching beyond Asia.¹ On the other hand, balance of power theorists, power diffusion adherents, and defensive realist scholars (Schweller and Pu 2011; Mastanduno 2009) believe that a stable bipolar or multipolar world is possible if China decides to respect “the rules of the

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game” while “[avoiding] challenge[s to] other powers in their hemispheres” (Odgaard 2013). Most nonrealist scholars who avoid problematizing geopolitical competition share the latter argument.²

Latin America is a critical region for analyzing this power transition (Paz 2012). Due to Washington’s overwhelming superiority in the military and economic realms, the region has been considered the backbone of U.S. hemispheric hegemony ever since World War II (Mearsheimer 2001). However, Latin America’s political and economic alignment with the United States—which reached unprecedented levels in the aftermath of the Cold War—has been fundamentally revised in the twenty-first century, partly due to China. While the 9/11 attacks drew U.S. attention to the Middle East and Central Asia, downgrading the foreign policy priority of Latin America (Hakim 2006), the region experienced a leftist turn among its leaders, many of whom became emboldened by the Chinese-led commodity boom while vociferously opposing traditional rules of hemispheric governance (Castañeda 2006; Ferchen 2011; Malamud and Schenoni 2015).

Our work asks whether Chinese economic expansion into Latin America was mediated by political considerations regarding U.S. influence. Specifically, we inquire whether U.S. linkages (see Levitsky and Way 2010) with specific countries affected trade flows, FDI inflows, and bank loans coming from China. Previous research has analyzed whether the Chinese development model proposes an alternative to the Washington Consensus (Ferchen 2013) and to what extent trade relations between China and Latin America have led to foreign policy convergence between the two (Flores-Macías and Kreps 2013).³ However, no study has yet explored whether a tradeoff exists between Chinese-Latin American economic bonds, on the one hand, and linkages to the United States, on the other. Evidence of such a relationship would be of utmost interest to those concerned with the possibility of geoeconomic competition between China and the United States in the Western Hemisphere.

We find that there is an inversely proportional relationship between the investments made by Chinese state-owned enterprises (SOEs), bank loans, and manufacturing exports, and U.S. influence in the region. We support our hypotheses by using control groups. These groups show that the pattern does not apply to investments made by Chinese private enterprises, Western bank loans, or Chinese commodity imports. These results help us to disentangle whether China is strategically engaging these countries—an external push—or whether specific countries in Latin America disenfranchised by the United States are searching for Beijing—an internal pull. Our findings give credence to the idea that it is Beijing that is filling the vacuum left by diminishing links between the United States and countries in its sphere of influence.

This article begins by reviewing the tenets and predictions of hegemonic stability theory (HST), specifically in regard to trade and finance. It derives three specific causal mechanisms—contestation, accommodation, and diversification—that may underpin the correlation between the growing Chinese presence in Latin America and the shrinking of U.S. hegemony in the region. Then it tests the hypotheses

using a sample of 21 Latin American countries from 2003 to 2014. Before detailing the baseline mode, it explain how we created our index of U.S. hegemonic influence by using principal components analysis. Finally, we contextualize our results and discuss the policy implications derived from the study's findings.

UNVEILING THE CAUSAL PATH

It is indisputable that Chinese-Latin American relations reached an unprecedented level at the onset of the twenty-first century (Bingwen et al. 2011). By 2014, China was already the region's second-largest trade partner (Trademap 2015) and second-largest investor, behind only the European Union (ECLAC 2015). Furthermore, several Latin American countries established strategic partnerships with Beijing via bilateral cooperation agreements.

The China-driven commodity boom became a long-term boon (see Ferchen 2011) as relations went far beyond trade to include financial and political components. Beijing is now involved in the most ambitious projects of infrastructure in the region. It is building three nuclear plants and improving the rail service in Argentina.⁴ It is also developing a transcontinental rail line between Brazil and Peru.⁵ One of the largest oil refineries in the region, in Ecuador, has Chinese funding.⁶ So does the Toromocho project administered by the Chinalco mining company in Peru.⁷ There is also a project to create a transoceanic canal in Nicaragua.⁸ A LAC-China Infrastructure Fund has been created in partnership with the Interamerican Development Bank (IDB).⁹

If one takes Robert Keohane's definition of hegemony as "control over capital, markets, and raw materials" (1984, 139), there can be little doubt that these developments undermine U.S. economic hegemony in Latin America, in both the trade and financial realms. The main question is whether these dynamics reflect an underlying political competition between China and the United States, as HST would predict, or are just the consequence of independent economic developments.

Regarding trade, HST argues that waning hegemonies intensify competition for the control of natural resources, which materializes in new trade alliances (Krasner 1976; Gilpin 1983). Recent research on Chinese trade relations with Latin America has led to three conclusions. First, trade has expanded rapidly since 2002. Second, growth in demand has turned China into a prominent destination for the region's exports. Third, such trade involves a limited set of natural resources and is tied to an increase in Chinese exports of manufactures (Ferchen 2011). Although it is not yet clear whether this trade is politically driven, the pattern conforms to HST's expectations.

In the financial realm, HST has specific expectations related to bank credits and foreign direct investment (FDI). In contexts of hegemonic competition, "the motivation for direct investment [and loans] ... is primarily the acquisition of markets and managerial control ... [creating] economic and political relations that are permanent and significant" (Gilpin 1976, 184). In line with HST, Chinese FDI strategy has been

described as focusing on securing natural resources, gaining preferential access to available output, and extending control over extractive industries (García-Herrero and Santabárbara 2007; Ng and Tuan 2001; Kotschwar 2014). However, the international political economy of Chinese FDI and bank loans remains to be explored.

The missing piece of the puzzle is politics, and in particular, how Washington and Beijing interact in specific geographies. HST implies that in hegemonic transitions, patterns of trade and finance will be determined by the competition between the hegemon and the challenger in a given system. This would be the case if Chinese trade, outward FDI, and bank loans behaved not according to a commercial logic but in response to political considerations about the influence of the United States in specific Latin American countries. Consequently, we ask if China has occupied the vacuum left behind by the declining U.S. hegemony or, alternatively, if the patterns of trade and investment followed a merely economic logic. As we see it, if the Chinese economic rise in Latin America has been conditioned by the U.S. hegemonic posturing in its backyard, this would provide further support for HST. The following is the first hypothesis that we are set to test:

H1. Chinese penetration into Latin American countries has been stronger in areas where the United States has exerted less hegemonic influence, ceteris paribus.

Three stories could explain such a relationship: Chinese contestation, Chinese accommodation, and Latin American diversification.

It could be that China is actively contesting the U.S. hegemony by enacting some form of economic statecraft; that is, “the use of economic means in the service of both economic and foreign policy ends” (Baldwin 1985; Drezner 1999). This strategy could be based on the understanding that “friends that share at least some of its values and principles in international politics would help China to promote its vision of global order” (Strüver 2014, 3), and those friends are to be extracted from U.S. claws by intensifying economic bonds. Alleviating the region’s dependence on Washington could therefore be a way of forging alliances with Latin American states that could prove useful in the multilateral realm (see Layne 2008; Roett and Paz 2008; Paz 2012).

As previous research has suggested (Flores-Macías and Kreps 2013), these changes in foreign policy could be attained by the empowerment of pro-Chinese domestic constituencies that could result from increasing trade and investment (Kirschner 2008). China’s activity in purposively making friends abroad is no longer taboo. Beijing has recognized several countries as “strategic partners,” paying state visits and signing cooperation agreements in areas such as science, investment, and finance (Domínguez 2006). The question is whether these types of political relations are random or are intended to loosen these countries’ ties with the United States.

Alternatively, it could be that China is accommodating itself rather passively to the changing strategic environment in Latin America. From this vantage point, Beijing could be blending its economic and political goals by expanding intentionally at the peripheries of U.S. areas of influence, trying not to disturb Washington.

Recently, some authors have started to pay attention to the political underpinnings of Chinese investments, highlighting the special influence that government agencies hold over the decisionmaking of Chinese multinational enterprises (MNEs) (Luo et al. 2010; Sauvart and Chen 2014; Nolan 2014). In a patent example of accommodation, the Chinese Ministry of Commerce (MOFCOM) asked Chinese embassies and consulates in host countries to review investments and determine if they were on the MOFCOM “blacklist” or if the proposed investment would affect the interests of a third country (Sauvart and Chen 2014, 147). It is on the basis of this literature that we believe that a country’s relations with the United States may have deterred specific Chinese investment in Latin America. Unlike the contestation mechanism, accommodation does not necessarily involve any change in the foreign policy of Latin American countries, but still, it pictures Beijing as a political agent, discretely moving where the U.S. hegemony is weaker, trying not to wake up the hemispheric giant.

Furthermore, we could envision a third mechanism by virtue of which countries marginalized by the United States could pursue diversification and turn to China as an alternative trading partner. This argument gives agency to Latin American countries and accounts for the ideological affinities between China and leftist governments in the recent past. In fact, these governments also opposed the Free Trade Area of the Americas (FTAA) and have been at odds with Washington in several respects. Mazzuca (2013) has suggested that a “rentier-populist coalition”—amalgamating the government and state bureaucrats with the unemployed and informal workers—blossomed in these countries. This coalition had specific incentives to abandon the ties with Western investors and institutions and turn to China as a new partner. In a nutshell, Mazzuca’s argument is that commodity exports to China provided an enormous source of taxable income that these governments could appropriate. This rent would then be used to pay the costs of abandoning the rigid rules of the Washington Consensus and build a political coalition based on public expenditure.

In principle, all three mechanisms—contestation, accommodation, and diversification—could explain the relationship denoted in H1. However, the third mechanism provides distinct observational implications, as it gives agency to Latin American countries and neglects any involvement of the Chinese government in the process. Furthermore, it suggests that U.S. influence should be negatively correlated with commodity exports to China, a sector that is overwhelmingly determined by prices and in which the state has a very limited role. To test for the importance of the Chinese government in this story, we include a second hypothesis:

H2. The relation stated in H1 is true for entities closely related to the Chinese government—SOEs FDI, Chinese bank loans, and manufacturing exports—but does not hold for commodity exports to China.

Therefore, H2 is set to test whether filling the vacuum left by the U.S. (H1)—a primarily political dynamic—is driven by actors influential to Beijing’s decision-

making process (see Jakobson and Knox 2010, 24) or Latin American countries that benefit from the commodity boom and intend diversification. In other words, if H2 is right, then the Chinese state has some degree of agency in the process either by pursuing accommodation or contestation.

Although we have discussed these three mechanisms in detail, we are aware of the limitations that a cross-national time-series design entails for testing particular causal processes. No doubt the three causal mechanisms we lay out in this section deserve to be further explored, and case studies would be especially suitable to unearth their nuances.

RESEARCH DESIGN AND DATA GATHERING

To test our hypotheses, we constructed a dataset for 21 Latin American countries from 2003 to 2014.¹⁰ We empirically measured our dependent variable, Chinese economic penetration, with three different strategies: Chinese FDI, Chinese bank loans, and Chinese manufacturing exports to Latin America. These three dependent variables were measured in per capita terms so that we could observe the real impact in each country independent of its size. In order to test our hypotheses and isolate the political determinants from the economic ones, we used controls for each dependent variable.

We divided Chinese FDI into investments made by SOEs and privately owned enterprises (POEs), expecting that the political bias would be clearer among SOEs. Assuming that loans from Chinese banks actually do reflect a geoeconomic strategy, given the strong state intervention in the decisionmaking process (Yazar 2015; Collins and Gottwald 2014), we compared them to loans granted by the International Bank for Reconstruction and Development (IBRD) and credits from the International Development Association (IDA). Then, building on the discussion of revealed comparative advantages, we tested if Chinese manufacturing exports were conditioned by proximity to the United States, and we compared them to Chinese commodity imports. Table 1 contains the description and sources for the three dimensions of our dependent variable.

As discussed above, each of the causal mechanisms behind our hypothesis has specific empirical implications regarding the dimensions in table 1. If we found that Latin American countries were equally receptive to Chinese SOE and POE FDI independent of the level of U.S. influence in the host country, that Chinese loans were not sensitive to U.S. influence, and that Chinese exports of manufactured goods were sensitive to U.S. hegemony, we could argue that the degree of penetration by Beijing was mainly determined by the will of host countries to deepen relations with China. This would be a situation in which H1 would hold in the trade dimension, but H2 would be rejected, in line with the diversification argument.

On the other hand, if we observed that SOEs were more reactive to the U.S. influence index than POEs, that Chinese loans were sensitive to U.S. influence, and that Chinese exports to Latin America, but not Latin American exports to China,

Table 1. Dependent Variable Measures and Their Controls

Name	Description	Sector	Source
FDI_{SOEs}	Outward Chinese FDI made state-owned enterprises per capita (US dollars)	Investments	China Global Investment Tracker (Heritage Foundation)
FDI_{POEs}	Outward Chinese FDI made by privately owned enterprises per capita (US dollars)	Investments	China Global Investment Tracker (Heritage Foundation)
$LOANS_{CHINA}$	Annual Chinese bank loans per capita (US dollars)	Credit	China-Latin America Finance Database (Inter-American Dialogue)
$LOANS_{WEST}$	Annual International Bank for Reconstruction and Development (IBRD) loans and International Development Association (IDA) credits per capita (US dollars)	Credit	World Bank
X_{MANUF}	Chinese manufacturing exports per capita (US dollars)	Trade	International Trade Center Trade Map
M_{COMM}	Chinese commodity imports per capita (US dollars)	Trade	International Trade Center Trade Map

Source: Elaborated by the authors.

were sensitive to U.S. influence, we would have evidence of the Chinese government following a strategy of filling the void left by the United States. Although we would still be unable to say whether Beijing is pursuing a strategy of contestation or accommodation, we could assert with more certainty that it is Chinese economic statecraft that is driving these political patterns of interaction.

To further reinforce our argument that Chinese economic engagement in Latin America is not purely commercially but also politically driven, and to differentiate between a strategy of contestation and accommodation, we explored the effects that having diplomatic relations with Taiwan (to observe the effect of the One China Policy) and establishing strategic partnerships with China have on Beijing's economic penetration.¹¹ Our findings suggest that these political considerations were far from being mere "cheap talk," and significantly influenced Chinese economic statecraft through a proactive, contestatory engagement.

Data on Chinese FDI were retrieved from the Chinese Global Investment Tracker maintained by the Heritage Foundation (Scissors 2011). This is the only publicly available Chinese investment database that allows other scholars to replicate the information. One of the database's advantages is that it includes information on both failed and successful Chinese investments, which makes the information more reliable.¹² This tool

excludes tax havens, such as Hong Kong, the British Virgin Islands, and the Cayman Islands, and considers only final destinations, rather than transit points of Outward Foreign Direct Investment (OFDI).¹³ Perhaps the main advantage, however, that explains our source choice over alternative tools is that investments can be easily sorted by firm, which allowed us to filter by SOEs and POEs. This was a complex and time-consuming process, but one that provided a new contribution to a literature that tests only aggregated values of FDI in the region.¹⁴

A second means of studying Chinese economic penetration in Latin America came via the increasing importance of Beijing's bank loans in the region. Since 2005, China has provided more than \$100 billion in loan commitments to Latin America. Its banks, particularly the China Development Bank and the China Export-Import Bank, became important sources of financing for a significant set of countries; namely, Argentina, Ecuador, and Venezuela. Chinese investment allowed these countries to minimize penalization in global capital markets and Western international financial institutions, such as the International Monetary Fund and the World Bank (Gallagher et al. 2012, 5).

While literature on the political drivers of Chinese bank loans is lacking, there is empirical evidence to suggest a positive relationship between traditional Western lending institutions, such as the IMF and the World Bank, and the receiving countries' alignment with the United States (Dreher et al. 2009; Kilby 2009). Taken together with our hypothesis, these sources suggest that Chinese loans followed a similar political trajectory, acting as counterweights to Western institutions in the region. That is, it was easier for Chinese banks to lend money to leftist countries that stood outside the good graces of Western agencies and in need of fresh money to finance infrastructure projects. We retrieved loan data from 2005 to 2014 on Chinese bank activity in Latin America from a database recently created by the Inter-American Dialogue. Our information spans 76 loans to 14 different countries.

The vast literature on Latin American trade with China acknowledges the fear among domestic industrialists about Chinese manufacturing exports to the region's countries, and we indeed looked at those exports in our study (Armony and Strauss 2012; Jenkins et al. 2008; Mesquita Moreira 2007). During the period studied, Chinese manufactures were subject to numerous antidumping investigations. Industrial chambers and political parties expressed their concerns over a damaged national industry, and Chinese manufacturing imports became an issue for political deliberation (Urduñez and Masiero 2015).

On the other hand, Latin American countries found China to be an active buyer of raw materials and natural resources, which made Beijing not only a major trading partner for the region, but in some cases even the main customer. Media and public opinion began addressing this phenomenon, and China became a major topic when Latin American leaders spoke about economic growth in the region. Due to the opposition of Latin American domestic lobbies and the fear of an "invasion" of Chinese products, Chinese exports to Latin America were more subject to political deliberation than the flow in the other direction, China's buying of Latin American commodities. To measure the importance of China as a trade partner, we

used data from the UN Comtrade (United Nations n.d.) and Trade Map (ITC n.d.) to calculate the per capita quantity of Chinese manufacturing exports and commodity imports.

Measuring U.S. Hegemonic Influence

The U.S. influence in Latin America has been studied mostly through a historiographical approach that has put little emphasis on measurement (Blasier 1985, 211–306; Connell-Smith 1976; Schoultz 1987). Some recent exceptions include Finkel et al. 2007, Levitsky and Way 2010, and Mainwaring and Pérez-Liñán 2014, although these works focus on regime transitions and only tangentially discuss U.S. influence per se. To contribute to this gap in the literature, we measured U.S. hegemonic influence through political and economic engagement indicators in the host countries, which we then used to create an index of U.S. hegemonic influence in Latin America. The index covers the years 2003 to 2014, defined by data availability.

A major problem facing researchers who build indexes is to determine an appropriate aggregation strategy to combine multidimensional variables into a composite document. Using five proxies recurrent in the literature, we created a composite index using dynamic principal components analysis (PCA). PCA is a useful technique for transforming a large number of variables into principal components that account for much of the variance among the set of original variables.

The variance maximization of the chosen indicators was obtained by performing an eigenvalue decomposition of the correlation matrix for the chosen indicators. Because PCA is sensitive to scale differences in the variables, we first standardized the data. We followed Kaiser's rule and retained only factors with eigenvalues larger than unity. We examined a scree plot of the eigenvalues to determine the number of factors explaining a variation larger than 1. We also ran a Kaiser-Meyer-Olkin measure of sampling adequacy to determine the appropriateness of conducting a PCA, which was successful. The resulting scores were rescaled to score between 0 and 1, where 1 was the highest observed proximity value to the United States in the period.

We measured economic proximity to the United States through U.S.-bound exports as a share of total exports (*XUS*) and incoming U.S. FDI relative to the host country's GDP (*INVEST*). For *XUS*, we took trade flow data from Trademap and population data from the World Bank. Data on U.S. FDI in Latin America were obtained from the U.S. Department of Commerce Bureau of Economic Analysis, which offers information on U.S. OFDI sortable by country and industry from 1982 to 2014. It has been shown that trade and investments boost political relations (Keshk et al. 2004). The United States has FTA agreements with 11 countries in the region and Bilateral Investment Treaties (BITs) with 9 countries, and is one of the top three investors and trade partners for most of the region's nations.

To measure a nation's political proximity to the United States, we used U.S. economic aid per capita (*ECO Aid*), its military aid per capita (*MIL Aid*), and the level of convergence in the United Nations General Assembly on important votes (*UNGA*). The data for *ECO Aid* and *MIL Aid* were gathered from the *U.S. Overseas*

Table 2. Proxies for U.S. Influence over Time

	<i>ECO Aid</i>	<i>INVEST</i>	<i>MIL Aid</i>	<i>UNGA</i>	<i>XUS</i>
2003	5.46	6.4%	0.65	45%	34%
2014	5.24	0.23%	0.39	26%	23%

Source: Elaborated by the authors.

Loans and Grants report, informally known as the Greenbook, which contains U.S. government foreign assistance data since 1945. The Greenbook classifies foreign assistance on either “economic” or “military” grounds and organizes the data by the recipient country and geographic region. We believe that the United States has used economic and military aid as a foreign policy tool, of which Plan Colombia is probably the most visible example. The specialized literature on the political determinants of aid is vast and well enough developed to show that the political alliances between the donor and the receiver are sizable factors in the distribution of aid (Alesina and Dollar 2000).

For data on *UNGA*, we used data from the U.S. Department of State’s Bureau of International Organization Affairs. This source distinguishes between overall votes and important votes; we consider the latter, which are more politically driven. If the United States records a yes vote on an issue while another country votes no, that country is identified as having cast an opposing vote to the United States, and vice versa. For countries’ annual totals, *UN Opposite Vote* = (number of opposite votes + abstentions + absences) / total votes, where total votes = (number of opposite votes + number of identical votes + abstentions + absences). Recent empirical evidence on Latin American countries’ alignment with the United States in the UN General Assembly shows that voting patterns reflect political alignments (Mouron and Urdinez 2014; Amorim and Malamud 2015). Table 2 offers mean values for all five indicators at the beginning of our period of study and at the end of it, showing that during this period all five indicators decreased.

The advantages of working with a composite index are numerous. First, it allows for a single variable, condensing several variables of interest that are all proxies for a broader concept. Second, the PCA technique does not subjectively weigh the components, but instead works with the common correlation among them. Third, the index contains a replicability factor that can be used by other researchers in hypotheses in and outside the field. Figure 1 plots a chromatic map of the composite index.¹⁵

According to our index, Mexico and Colombia are the two countries most influenced by the United States, while Cuba is the least influenced.¹⁶

Figure 1. Chromatic Map of U.S. Hegemonic Influence In Latin America



Note: Equal intervals map elaborated using GeoDa. Shapefile elaborated using ArcGIS. Excludes countries that were not in the study sample.

Regression Model

We were careful to display each model with controls for variables previously tested in the literature to limit omitted variable bias (see table C in the appendix for a full description). Our models include a lagged dependent variable and a panel-specific AR1 autocorrelation structure.¹⁷

Our main challenge comes in the presentation of n and t . We followed Beck and Katz, who argue that many of the datasets used in political science are characterized by both a t and an n , and thus the generalized least squares (GLS) estimates derived from this set cannot be trusted (Beck and Katz 1995; [Wilson and Butler 2007](#)). The authors' recommendation consists of three essential steps: pool the data from different countries into one dataset and apply ordinary least squares (OLS); adjust for autocorrelation by either adding a lagged dependent variable to the model or transforming the data based on an estimate of autocorrelation of the error terms, assumed to be common across panels; and calculate panel-corrected standard errors (PCSEs). Our estimates are based on these suggestions.

To test our hypothesis we compare model 1 to model 2, 3 to 4, and 5 to 6. The baseline models of the study are defined as follows:

$$FDI_{(SOEs)it} = \beta_0 + \beta_1 FDI_{(SOEs)it-1} + \beta_2 U.S.influence_{it} + \sum_{c=1}^{c=15} \beta_c controls_{it} + \varepsilon_{it} \quad (1)$$

Where the controls for (1) are: *TAIWAN*, *STRATEGIC PARTNERSHIP*, *COMMODITYBOOM*, *AGRIBUSINESS*, *BIT*, *EDUCATION*, *EXCHRATE*, *GAS*, *GDP*, *GDP PC*, *M_{COMM}*, *INVFREEDOM*, *LEGALSTR*, *MINERAL*, *OIL*, *OPENFDI*, and *PROPERTY*.

$$FDI_{(POEs)it} = \beta_0 + \beta_1 FDI_{(POEs)it-1} + \beta_2 U.S.influence_{it} + \sum_{c=1}^{c=18} \beta_c controls_{it} + \varepsilon_{it} \quad (2)$$

Where the controls for (2) are the same as for (1).

Second,

$$LOANS_{CHINA it} = \beta_0 + \beta_1 LOANS_{CHINA it-1} + \beta_2 U.S.influence_{it} + \sum_{c=1}^{c=14} \beta_c controls_{it} + \varepsilon_{it} \quad (3)$$

Where the controls for (3) are: *TAIWAN*, *STRATEGIC PARTNERSHIP*, *COMMODITYBOOM*, *AGRIBUSINESS*, *DEBTSERV*, *DEBTSTOCK*, *ENERGYMATRIX*, *FINFREEDOM*, *GAS*, *GDP*, *GDP PC*, *INFLATION*, *INTEREST*, *M2*, *MINERAL* and *OIL*.

$$LOANS_{WEST it} = \beta_0 + \beta_1 LOANS_{WEST it-1} + \beta_2 U.S.influence_{it} + \sum_{c=1}^{c=14} \beta_c controls_{it} + \varepsilon_{it} \quad (4)$$

Where the controls for (4) are the same as for (3). Finally,

$$X_{MANUF it} = \beta_0 + \beta_1 X_{MANUF it-1} + \beta_2 U.S.influence_{it} + \sum_{c=1}^{c=11} \beta_c controls_{it} + \varepsilon_{it} \quad (5)$$

Where the controls for (5) are: *TAIWAN*, *STRATEGIC PARTNERSHIP*, *COMMODITYBOOM*, *EXCHRATE*, *FTA*, *GDP PC*, *INDUEMP*, *INFLATION*,

TRADEOPEN, *MANUFTAX*, *TAXWEIGHT*, *TERMSTRADE*, and *TRADEFREEDOM*.

$$M_{COMM\ i,t} = \beta_0 + \beta_1 M_{COMM\ i,t-1} + \beta_2 U.S.influence_{i,t} + \sum_{c=1}^{c=11} \beta_c controls_{i,t} + \varepsilon_{i,t} \quad (6)$$

Where the controls for (6) are: *TAIWAN*, *STRATEGIC PARTNERSHIP*, *COMMODITYBOOM*, *AGRIBUSINESS*, *EXCHRATE*, *FTA*, *GAS*, *GDP PC*, *INDUEMP*, *MINERAL*, *OIL*, *TRADEOPEN*, *TERMSTRADE*, and *TRADEFREEDOM*.

EMPIRICAL FINDINGS

Our results are presented in table 3. In line with H1, the U.S. influence index was negatively related to increasing Chinese investment, trade, and credit penetration during the period of study. On the other hand, our control groups show they were not affected by it, which gives robustness to our findings. In line with H2, by analyzing *US INFLUENCE*, *TAIWAN*, and *STRATEGIC PARTNERSHIP*, we observe that entities closely related to the Chinese government targeted countries with strategic partnerships and low *US INFLUENCE* and avoided countries with diplomatic relations with Taiwan and high *US INFLUENCE*. The interpretation of these findings tells us that China applied either an accommodation or a contestation strategy.

In order to visualize the expected values of the dependent variables in each model, we employed statistical simulations to convert the raw output of statistical procedures into results that are simpler to understand, independent of one's statistical training ([King et al. 2000](#)).

The Effect on State-Owned Enterprises

The main finding of model 1 confirms our hypothesis for SOEs. Holding all variables constant, increasing the influence index by one unit translates into a decrease in SOE Chinese FDI of US\$81 per capita. This effect is considerably large. In standardized beta coefficients, it represents a decrease of 0.72 standard deviations from the dependent variable.

Figure 2 illustrates the expected effect on investments as the U.S. influence index increases at a 95 percent confidence interval. Keeping all other variables constant, when U.S. influence is low, yearly investments are expected to reach as much as US\$60 per capita a year. The expected investments remain positive as the index increases even though the confidence interval narrows.

Together with *US INFLUENCE*, we have highlighted *TAIWAN*, since we believe the latter's effect to be complementary to the former as it reflects the One China Policy, which is politically driven; and also *STRATEGIC PARTNERSHIP*,

Table 3. Regression Models

	Model 1: Investments		Model 2: Loans		Model 3: Trade	
	FDI _{SOEs}	FDI _{POEs}	LOANS _{CHINA}	LOANS _{WEST}	X _{MANUF}	M _{COMM}
<i>Lagged DV</i>	-0.187 (0.157)	-0.181 (0.0923)	0.169 (0.168)	0.000933 (0.0993)	1.205*** (0.0377)	0.885*** (0.136)
<i>U.S. INFLUENCE</i>	-80.84** (25.95)	-4.815* (2.175)	-63.38*** (18.10)	-37.94 (25.92)	(4.335)	(12.73)
<i>TAIWAN</i>	-15.47* (6.384)	-2.102* (0.872)	-20.78*** (6.055)	1.681 (7.529)	2.964 (2.064)	-0.216 (5.339)
<i>STRATEGIC PARTNERSHIP</i>	52.97*** (15.45)	-5.147* (2.228)	14.92 (8.091)	-13.75 (7.974)	-8.508*** (1.918)	19.48 (16.57)
<i>COMMODITYBOOM</i>	-0.106* (0.0520)	-0.0124** (0.00390)	0.195*** (0.0184)	0.0420 (0.0857)	0.164*** (0.0135)	0.0231 (0.0592)
<i>AGRIBUSINESS</i>	0.00002* (0.000009)	-0.00006 (-0.12)	0.000019*** (0.000005)	0.000021* (0.000009)	—	0.000013* (0.00005)
<i>BIT</i>	36.88* (18.12)	5.3 -2.13	—	—	—	—
<i>CORRU</i>	-0.468 (0.391)	-1.25	—	—	—	—
<i>DEBTSERV</i>	—	—	0.477* (0.227)	-0.153 (0.262)	—	—
<i>DEBTSTOCK</i>	—	—	0.302* (0.126)	-0.420 (0.246)	—	—
<i>EDUCATION</i>	1.777 (2.987)	0.914*** (0.238)	—	—	—	—
<i>ENERGYMATRIX</i>	—	—	0.0874 (0.0625)	-0.0415 (0.0724)	—	—
<i>EXCHRATE</i>	—	—	—	—	-0.00156*** (0.000309)	-0.000478 (0.00191)

Table 3. Regression Models (*continued*)

	Model 1: Investments		Model 2: Loans		Model 3: Trade	
	FDI _{SOEs}	FDI _{POEs}	LOANS _{CHINA}	LOANS _{WEST}	X _{MANUF}	M _{COMM}
<i>FINFREEDOM</i>	—	—	0.170 (0.204)	-0.428** (0.143)	—	—
<i>FTA</i>	—	—	—	—	7.706*** (1.412)	1.874 (7.807)
<i>GAS</i>	-0.690* (0.317)	-0.307** (0.0991)	-1.812* (0.753)	-0.861 (0.896)	—	0.0494 (0.430)
<i>GDP</i>	-0.0621** (0.0200)	0.00299 (0.00226)	0.00325 (0.00778)	-0.00104 (0.0125)	—	—
<i>GDP PC</i>	0.00406 (0.00346)	0.000376 (0.000398)	-0.00104 (0.000726)	0.00388 (0.00256)	0.00323*** (0.000918)	0.00256*** (0.000394)
<i>MCOMM</i>	-0.0768 (0.0633)	0.0605*** (0.0180)	—	—	—	—
<i>INDUEMP</i>	—	—	—	—	-0.692** (0.215)	-0.250 (0.333)
<i>INFLATION</i>	—	—	1.574* (0.718)	-1.199 (0.640)	-0.0320 (0.0695)	—
<i>INVFREEDOM</i>	-0.147 (0.217)	-0.0137 (0.0266)	—	—	—	—
<i>INTEREST</i>	—	—	-0.878 (0.525)	-0.115 (0.478)	—	—
<i>LEGALSTR</i>	4.135*** (1.102)	-0.398 (0.290)	—	—	—	—
<i>M2</i>	—	—	0.177 (0.0992)	-0.231 (0.161)	—	—
<i>MINERAL</i>	0.0545 (0.848)	-0.629* (0.252)	-0.789* (0.388)	-0.568 (0.830)	—	4.092* (1.766)

Table 3. Regression Models (*continued*)

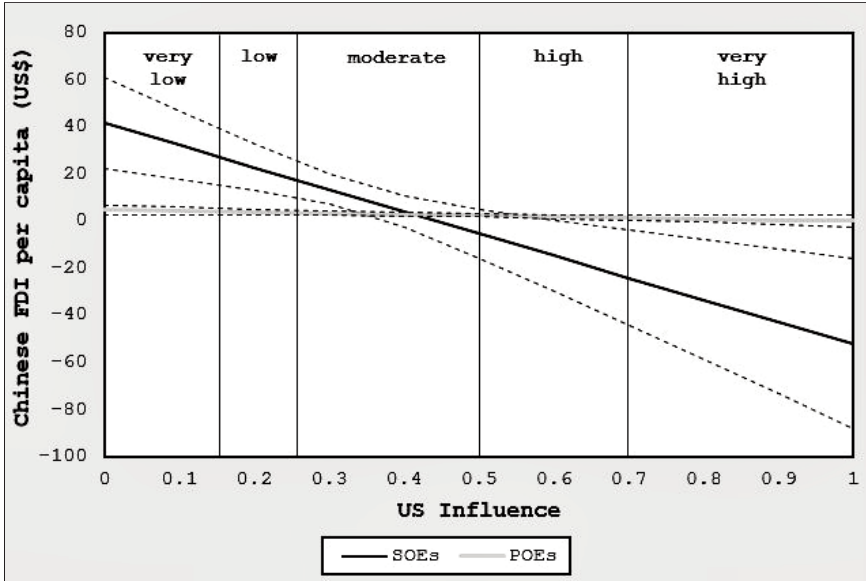
	Model 1: Investments		Model 2: Loans		Model 3: Trade	
	FDI _{SOEs}	FDI _{POEs}	LOANS _{CHINA}	LOANS _{WEST}	X _{MANUF}	M _{COMM}
<i>OIL</i>	-2.048 (1.105)	0.109 (0.0809)	0.147 (1.091)	-0.103 (0.320)	—	-1.186* (0.565)
<i>OPENFDI</i>	0.206 (22.77)	11.66*** (2.329)	—	—	—	—
<i>PROPERTY</i>	-0.654 (0.339)	-0.0963** (0.0334)	—	—	—	—
<i>TRADEOPEN</i>	—	—	—	—	0.151*** (0.0417)	-0.106 (0.0671)
<i>MANUFTAX</i>	1.720 (1.633)	-0.253 (0.174)	—	—	-0.000012* (0.000005)	—
<i>TERMSTRADE</i>	—	—	—	—	0.00009 (0.000051)	0.00047 (0.0004)
<i>TRADEFREEDOM</i>	—	—	—	—	-0.406*** (0.0812)	0.279 (0.249)
Constant	59.44* (23.60)	2.526 (2.420)	-26.83 (19.53)	59.57 (38.00)	2.630 (9.930)	-10.30 (14.54)
N	156	156	138	120	143	143
Adjusted R ²	0.42	0.21	0.37	0.75	0.94	0.93

*p<0.05, **p<0.01, ***p<0.001

Notes: The table contains coefficients and standard errors. Statistical significance is highlighted in bold text.

For a robustness check we used the System Arellano-Bond (AB) dynamic data method of moments (GMM) estimator (Blundell and Bond 1998), which allows for consistent coefficient estimation based on the lagged dependent variable. The basic idea of this figure is to calculate the dynamic equation's first difference in order to eliminate individual-specific heterogeneity, which is the source of autocorrelation within the lagged dependent variable.

Figure 2. Expected Investment by SOEs and POEs



showing that this status is not merely “cheap talk.” During the period studied, Chinese SOEs invested on average US\$15 less per person in countries that maintain diplomatic ties with Taiwan, and \$53 more in countries with strategic partnerships, *ceteris paribus*. This is not a minor detail, considering that this indicator also denotes a political determinant behind the investments.

We controlled for three motives that induce companies to engage in foreign markets: natural resource seeking, market seeking, and efficiency seeking (Dunning 1999). Natural resource-seeking FDI is justified because these resources—for example, minerals, raw materials, and agricultural products—tend to be location-specific. Resource endowments (*GAS, OIL, MINERAL, and AGRIBUSINESS*) and the existing trade relations for these goods (*MCOMM*) are the main reasons behind these types of FDI. Investment-friendly government policy (*BIT, CORRU, INVFREEDOM, PROPERTY, LEGALSTR* and *OPENFDI*) and market size (*GDP*) are the main reasons behind market-seeking FDI.

Within the statistically significant controls, *AGRIBUSINESS* is positively related to SOE FDI. The coefficient’s size is small but still statistically significant. Chinese firms have faced several obstacles to investment in Latin American agricultural sectors. Some of the region’s domestic legislation has limited Chinese investment in land acquisition.¹⁸ Despite these obstacles, however, China has continued to invest in land, mainly with infrastructure projects to improve the transportation of commodities. *COMMODITY BOOM* has been introduced in the model to control for the effect described by Ferchen (2011), and the findings show that SOE FDI was higher during periods in which commodity prices were actually low.

Part of the literature on Chinese investments predicts that the larger the domestic market (captured by GDP and GDP per capita) and better the business environment (*CORRU* and *LEGAL*), the larger the amount of investment (Cheung and Qian 2009). Other authors, however, have found that Chinese investments are positively related to political and economic risk (Buckley et al. 2007; Kolstad and Wiig 2012). This study follows Cheung and Qian (2009), since *LEGALSTR* denotes that SOEs have been sensitive to expropriation and bribery risks and also have been boosted by BITs. In the absence of an international investment oversight vehicle, BITs constitute the most important mechanism for the protection and regulation of OFDI, and China has signed more BITs than any other country in the world except Germany (Wang and French 2014). When analyzing host country determinants of Chinese OFDI between 2003 and 2008, [Amighini et al. \(2013\)](#) test the BIT variable and report a positive effect. We found it to be significant only for SOEs.

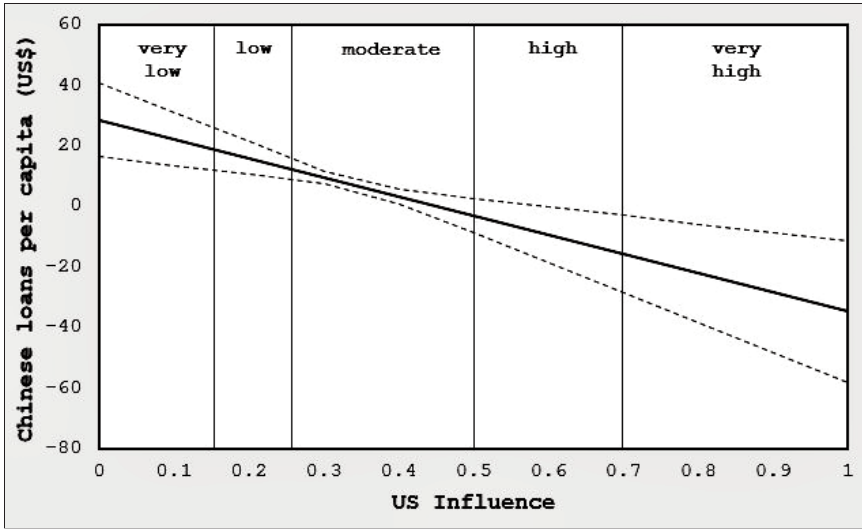
GAS is also negatively related to the dependent variable. Bolivia and Trinidad and Tobago are the two countries with the largest gas expenditures, and they have not received high levels of investment from SOEs. While most Chinese energy investments have gone to oil (of the US\$20.8 billion invested, over 50 percent has gone to Brazil, followed by Venezuela and Argentina), only \$3.4 billion has been invested in gas. Again, Brazil received 50 percent of those investments.

Model 2 treats POEs as a control group for SOE investments and gives robustness to our findings, since POEs were subject to U.S. influence in Latin America in an almost null way (see figure 2). Even when POEs were negatively affected by the One China Policy, investing less in countries that maintain formal relations with Taiwan, POEs paid more attention to countries with no strategic partnerships with China.

Our controls also highlight differences between POEs and SOEs. POEs are positively associated with GDP-measured market size and negatively related to GDP per capita of each country. This means that POEs are targeting large markets, but not necessarily the richest ones. They are also positively explained by Chinese commodity imports per capita, itself an FDI control related to two-way feedback in trade and investment between two countries.

In contrast to SOE FDI, *EDUCATION* is positively associated with POE FDI, a sign that Chinese FDI is seeking competitive markets with a skilled labor force. This is a pattern found in investment coming from telecommunications companies and private banking. Furthermore, *OPENFDI* is statistically significant, showing that private companies' behavior is highly sensitive to the domestic policies of the host countries.

Figure 3. Expected Loan Activity by Chinese Banks



The Effect on Chinese Bank Loans

Model 3 gives support to our hypothesis; namely, that Chinese bank loans were negatively related to U.S. influence within host countries. An increase of one unit in the index translates to a decrease of US\$63 per capita in loans. Such a change is high. In standardized beta coefficients, this decrease accounts for 0.4 standard deviations from the dependent variable. Figure 3 illustrates the U.S. influence index’s anticipated effect on loans as the index increases at a 95 percent confidence interval.

Keeping all other variables constant, when the U.S. influence was low, loans were expected to be \$15 to \$35 larger per capita per year. The U.S. influence index’s expected effect on loans remains positive as the index increases, even though the confidence interval narrows, which we can observe with SOE investment. Above the threshold of 0.5 in the index, investments no longer maintain this positive relationship, as the lower bound crosses the threshold of zero loans.

The control set is different from the tools used to test FDI. As suggested by Gallagher et al., Chinese loans are probably an alternative source of capital for countries unable to obtain loans from Western agencies (2012, 5). Thus, we set *DEBTSERV* and *DEBTSTOCK* as the controls. Furthermore, we controlled for variables commonly referenced in the literature, such as *M2*, *INTEREST*, and *FINFREEDOM*.

As in Chinese FDI, the One China Policy has a negative effect on loans, as countries diplomatically friendly with Taiwan are expected to lose US\$21 per capita more per loan, *ceteris paribus*. However, Chinese banks seem to have lent indiscriminately to countries independently of whether they had strategic partnership status. Furthermore, lending from the IMF and the World Bank has comparatively lower

inflation rates and greater financial freedom (*FINFREEDOM*) (Easterly 2005). Chinese loans seem to exhibit higher tolerance of these variables. The coefficients indicate that loans are directed to countries with significant natural resources, such as energy matrices operating on sufficient quantities of oil and gas, as well as countries with agribusiness resources. Furthermore, the commodity boom enhanced loans by Chinese banks.

According to the Inter-American Dialogue database, a large share of Chinese loans was directed to infrastructure projects, such as ports or railroads, specifically to improve the movement of grains, or for oil-related projects. Finally, loans are subjected to the foreign debt holdings of host countries. When we look at IDB loans, they are—as expected—immune to both U.S. influence and the One China Policy.

The Effect on Chinese Exports

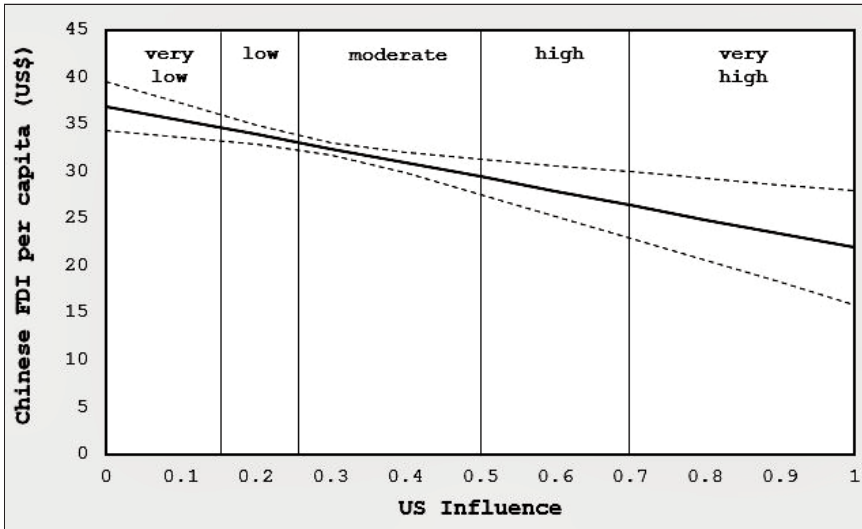
Our fifth model confirms our hypothesis (H2) once again. Manufacturing exports per capita are negatively affected by U.S. influence. Keeping all other variables constant, a one-unit increase in the index translates into an export loss of US\$15 per capita. Translated into standard deviations, this increase represents a change of 0.06. This finding is in line with the results of Flores-Macías and Kreps (2013), who argue that the effects of bilateral trade on vote convergence on human rights issues at the UNGA was larger for Africa compared to Latin America, probably because “Latin America has historically resided in the U.S. sphere of influence, hindering realignment toward China” (368).

When compared with the U.S. influence held on FDI and Chinese loans, Washington’s effect on trade is considerably smaller. Figure 4 visualizes this effect. Between countries with weak and strong U.S. influence there is a difference of approximately US\$10 per capita. Here, too, Chinese manufactured exports were indifferent to the One China Policy, but strategic partnerships affect them negatively. The negative relation between strategic partnerships and Chinese manufacturing exports could indicate Beijing’s interest in negotiating these agreements with markets that were relatively close to their manufactured goods. Alternatively, the strategic partnerships may have served as an opportunity for Latin American countries to negotiate some protection for their own manufacturers.

In addition to common indicators for market size and economic performance, we include an openness to trade proxy (*TRADEOPEN*) because we wish to control for bilateral memoranda that establish that any Chinese export increase is contingent on less stringent protectionism toward Beijing’s products in domestic markets. We further control for the existence of active FTAs between China and the host country, which is statistically significant and has a substantive effect on exports.

We included a control for the importance of industry in the economy (*INDUEMP*), which is negatively associated with the level of Chinese exports. This suggests a potential competition between Chinese products and Latin America’s domestic ones, *ceteris paribus*. We also controlled for macroeconomic variables affecting bilateral trade, such as exchange rates and terms of trade. The former are

Figure 4. Expected Chinese Exports



negatively associated with exports, which is consistent with our expectations, since currency devaluations make imports more expensive. Terms of trade are positively associated with increased exports. This is consistent with the expected, since favorable trade terms increase the purchase capacity of a country. Indeed, we also controlled a country’s tax structure, which can act as a deterrent for imports. Two variables controlled for this structure, *MANUFTAX* and *TAXWEIGHT*. Although *TAXWEIGHT* resulted in no effect, *MANUFTAX* is positively related to Chinese manufacturing exports, which is intuitive. Countries that tax their local industries at a greater rate have a smaller risk that cost will negatively affect Chinese manufactured goods.

As a control group, we used Latin American countries’ commodity exports to China. While this variable captures an important portion of bilateral trade relations between Latin America and China, it avoids the larger question of Chinese penetration into Latin America in favor of the region’s access to the Chinese market. Although it captures the economic incentives for the trading relationship, we were able to isolate the political motivator of Chinese exports. Latin American commodity exports are not subject to U.S. influence or to the One China Policy. In sum, this information gives credence to the argument that China has been buying commodities from a purely economic standpoint.

Regarding the controls, both *AGRIBUSINESS* and *MINERAL* reflect positive coefficients, while *OIL* shows a negative coefficient, signaling that Latin American soybeans, meat, iron ore, and copper have been the main products of Chinese interest. While it is true that the region’s open countries were more receptive to Chinese manufacturing, they were not the ones driving the commodity boom to China.

CONCLUSIONS

The empirical evidence presented in this study indicates that Beijing's penetration into Latin American countries has been negatively related to U.S. influence when the Chinese government was involved in the decisionmaking process. These results suggest that China strengthened its ties with those countries where the U.S. influence was weak. In other words, Beijing filled the void left by a declining U.S. presence in Washington's own backyard. To a considerable extent, these results seem to fall in line with the expectations of HST, a theory that has gloomy predictions when it comes to the U.S.-China influence transition.

The mechanisms behind this broad trend deserve to be studied in depth, and we provide a first conceptual and theoretical framework to do so. On the Latin American side, one could argue that governments pursuing diversification are the true agents behind this new pattern of interaction with Beijing, but if that is the case, it is still curious that only Chinese state-influenced actors—as opposed to other Chinese private actors—are responding to this demand. Furthermore, the observational implications of the diversification mechanism indicate that commodity trade with China should be negatively related to U.S. influence, which is not the case.

Two particular explanations appear to pass our statistical tests. First, it could be that China is challenging the United States and affecting the foreign policy of Latin America by employing economic statecraft to empower pro-Chinese domestic constituencies, an argument that is already out in the literature. Second, it could be that China is simply accommodating its behavior to the changing strategic environment in Latin America, avoiding engaging those countries in which the United States has a vested interest. The empirical evidence from analyzing U.S. hegemonic influence, the One China Policy response, and the effect of strategic partnerships suggest that China is putting forth a contesting policy by actively engaging with pro-Chinese domestic constituencies.

Further research should focus on case studies to disentangle the microfoundations that underlie these mechanisms. Much should be elaborated on the relevant actors and processes taking place in China, Latin America, and the United States. Due to its large-*N* design, this study could do little to flesh out particular causal processes. However, it has unveiled the existence of a clear tradeoff for Latin America between being under the wing of the American eagle and attracting the attention of the Chinese dragon, offering the first empirical examination of this matter and outlining broad empirical trends.

NOTES

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1. For a particular focus on China, see Tammen and Kugler 2006; Lim 2015. For a critique of the power transition theory, see Chan 2007. For Mearsheimer's particular focus on China, see Mearsheimer 2010.

2. For an English School understanding, see Buzan and Cox 2013. For a Liberal Institutional insight, see Ikenberry 2009.

3. Ferchen (2013) discusses whether China represents an alternative to the Washington Consensus through a "Beijing Consensus" or "China Model." Although we do not intend to compare the effects of Chinese trade on local development models, our results suggest that more state-led Chinese FDI and bank loans imply a political tradeoff between Washington and Beijing. However, this does not mean that the United States and China are antithetical. The Chinese alternative, as we will further explore in the econometric models, implies a mix of market-oriented and politically oriented forces that affect trade, investments, and credit differently, depending on Washington's influence.

4. The nuclear plants were agreed on during the 2016 Nuclear Security Summit in Washington, for the amount of \$15 billion. The improvement of 3,000 kilometers of Belgrano Cargas railway, which runs through 14 provinces and connects with Chile, Bolivia, and Paraguay, totals \$1.2 billion. The latter was one of the most celebrated achievements during Cristina Fernández de Kirchner's mandate.

5. In November 2014 a first tripartite memorandum among Peru, Brazil, and China was signed and estimated that the cost of the work would be \$10 billion and that its construction would require six years of intense work.

6. The construction of the Pacific Refinery in Ecuador, estimated to cost \$10.5 billion, is funded primarily by SOE Sinomach.

7. The project as a whole employs more than 15,000 Peruvians and pays royalties—important rents in the national government. In total, Chinalco has invested some \$7 billion: \$2 billion between 2008 and 2011 and \$4.8 billion more in 2013. With these major investments Peru has become the third-largest copper producer, behind Chile and China, and Toromocho is the world's second-largest copper project.

8. Among all the mentioned projects, this is the most obscure and least economically viable. However, Taiwan is worried that the project could cost its diplomatic relations with the Latin American country.

9. Approved in 2012 and in force since July 2015, for the sum of \$2 billion. As noted in the agreement, one of the three pillars of the project is the intention to attract foreign companies, especially Chinese ones, and interests in developing mining, energy, and agriculture projects.

10. The countries included in the sample were determined by data availability.

11. The One China Policy orders that countries seeking diplomatic relations with the People's Republic of China (PRC) must break official relations with the Republic of China (Taiwan), and vice versa.

12. By successful, we mean investments that were announced and completed. Failed investments were announced but not completed and were common in the years studied, so special care has to be taken with them.

13. This exclusion has a significant impact on the results because more than 70 percent of China's OFDI reported by MOFCOM is received by tax havens.

14. Although we determined Scissors's database to be more suitable than those of MOFCOM and Thomson Reuters (which is not publicly accessible), it is also important to mention that this source has a disadvantage in that it is built using news reports and not official information directly from Chinese companies. Media reports are known to be problematic, but that issue is carefully controlled for in the Heritage China Global Investment Tracker, since for a project to be registered as successful in the database, it has to show strong signs of progress.

15. For a summary of the components of the index, see table A in the online supplementary material.

16. See table B in the online supplementary material. The displayed values are the averages for the period of study and include the minimum and maximum values observed during the period.

17. We made sure our models did not suffer from multicollinearity, testing it through correlation matrices and also through VIF. The replication files offer these tests.

18. For a good example of such failed investment, one should look at soy production in Patagonia, Argentina in 2010. See Laurence 2011.

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SUPPORTING INFORMATION

Additional supporting materials may be found with the online version of this article at the publisher's website:

1. Online appendix

For replication data, see the authors' file on the Harvard Dataverse website: <https://dataverse.harvard.edu/dataverse/laps>