Chapter 14

Setting the Scene for the Development of Differentiation Strategies in Emerging Markets: The Case of Chinese MNCs in Latin America

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ABSTRACT

This chapter analyses the differentiation strategies of Chinese Multinational Corporations (MNCs) in Latin American (LA) emerging economies. This requires an institutional theory approach (i.e., how the institutional environment in the domestic market shapes the strategies pursued in the host country). The premise is that there is a positive relationship between the home institutional environment and the policies followed in foreign investments. It does this through a qualitative analysis of data collected in in-depth interviews from a theoretical sample of six Chinese MNCs operating in LA. The analysis focuses on three main areas, the informal institutions, the domestic institutional environment as a barrier and/or facilitator, and the strategies in different institutional frameworks. The results show that China’s firms in LA are at an early stage in their international marketing and expansion strategies. These companies are leveraging their price competitiveness (based mainly on low cost manufacture at home) on the differentiation and/or market strengths of local partners with whom they have developed networks of Joint Ventures (JVs) in the region. This is also the consequence of a short international experience that has resulted in weak cross-cultural awareness. In addition, at this stage these companies are mainly looking to have better access to the customers in the host market and as such are creating ad-hoc structures in each of the countries where they operate without a clear differentiation strategy. These findings are similar to those in previous works on Chinese MNCs in developed economies.

DOI: 10.4018/978-1-4666-6224-7.ch014
INTRODUCTION

Emerging Markets (EM) play an important role in today’s economic environment and are extending their importance by growing their share in the flows of trade and investment in the world economy. To put this into context, in 2005 merchandise trade developed economies accounted for 67% of world trade, while developing countries accounted for 30%. Six years later in 2011, the world trade share of developed countries decreased to 58% and grew in developing countries to 38%, which means an annual percentage change of 24% (WTO, 2012b). The trend for foreign investments is similar: FDI flows to developing and transition economies grew from a 10% share in 1990 to 38% in 2011 (UNCTAD, 2013), showing that in some years FDI to developing countries will be higher than FDI to developed countries (Fornes & Butt Philip, 2012; Hoskisson, Eden, Lau, & Wright, 2000).

In addition, in recent years emerging markets have become exporters of investments. This can be seen in the outward foreign direct investment (FDI) from countries which were barely present in world markets 15 years ago such as Mexico (US$9 billion), Chile (US$12 billion), or even China (US$65 billion). China leads in this process. The country is not only the world’s second largest economy or the largest emerging country; in 2011, China became the ninth largest foreign investor (second with US$147 billion if China and Hong Kong are considered together) with a positive trend to be in the top position in the next 5-10 years (UNCTAD, 2011). Chinese companies are crossing the border and investing in resource-seeking (mainly state-owned enterprises) and market-seeking (mainly private and public firms) ventures overseas, the latter being the area with the highest rate of increase also with a positive trend for the future.

In this context, one of the main changes the EMs bring to the world stage is the growing relationship between China and Latin America (LA). LA received 50% of Chinese ODI in 2004 (more than the 30 per cent which went towards Asia) (Blazquez-Lidoy, Rodriguez, & Santiso, 2006), 53% in 2005, 40% in 2006 (MOFCOM, 2007), and a similar trend continued in 2008, 2009, 2010, and 2011 (Barcena & Rosales, 2010; Fornes & Butt Philip, 2012; MOFCOM, 2008, 2010) Although initially regarded mainly as resource-seeking FDI (IADB, 2004) (where most of the subsequent trade would go towards China as, for example, in the case of investments in Africa (Shoham & Rosenboim, 2009)), the trade flow from China to LA has grown more than 20 times since 1996 (compared to more than 15 in the other direction) posting a small surplus for China in 2011 from a deficit of US$283 million in 1990 (ECLAC, 2010, 2011). These figures show that several private Chinese MNCs are pursuing market-seeking FDI complementing thus the resource-seeking FDI from state-owned enterprises (SOEs) (Armony & Strauss, 2012; Fernández Jilberto & Hogenboom, 2010; Fornes, 2012; Gonzalez-Vicente, 2012).

The purpose of this chapter is to understand the differentiation strategies that Chinese market-seeking investments are pursuing in LA markets. It does this by taking an institutional theory approach (North, 1990) (i.e., how the institutional environment in the domestic market shapes the strategies pursued in the host country). The premise is that there is a positive relationship between the home institutional environment and the policies followed in foreign investments. The analysis focuses on three main areas: the informal institutions, the institutional environment as a barrier and/or facilitator, and the strategies in different institutional frameworks. The results show there is a positive relation, although in some areas the findings were different from what was expected.

This chapter is structured as follows. The next section presents a review of the extant literature with focus on institutional theory and its application in management and marketing in emerging markets, especially China. The chapter continues with a description of the sample and methodol-