ABSTRACT

If one interprets China’s sizable rise in Latin America as an unprecedented phenomenon, it follows that the concurrent story of declining American 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 was related to the declining U.S. hegemonic influence in the region and explore how. To do so we analyse (a) foreign direct investments (b) bank loans and (c) 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 filled the void left by a diminished American presence in the latter’s own “backyard”.

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LAPS-ChinaUShegemony

INTRODUCTION

The ‘grand strategy’ debate regarding the implications of China’s rise is divided into two camps. On one hand, hegemonic stability (Gilpin, 1983) and power transition (Organski, 1958)\(^1\) theories, together with offensive realism (Mearsheimer, 2001)\(^2\), agree that as the Chinese economy continues to grow, geopolitical competition will increase between Beijing and Washington reaching beyond Asia. On the other hand, balance of power theorists, power diffusion adherents, and defensive realist scholars (Schweller & Pu, 2011; Mastanduno, 2009) believe that a stable bi- or multi-polar world is possible if China decides to respect “the rules of the game” whilst “[avoiding] challenge[s to] other powers in their hemispheres” (Odgaard, 2013). Most non-realist scholars who avoid problematizing geopolitical competition share the latter argument\(^3\).

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 American hemispheric hegemony ever since World War II (Mearsheimer, 2001). However, Latin America’s political and economic alignment with the U.S. –which had reached unprecedented levels in the aftermath of the Cold War – would be fundamentally revised in the 21\(^{st}\) 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 amongst 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 & 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 analysed 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). However, no one has yet explored whether a trade-off exists between Chinese-Latin American economic bonds, on the one hand, and linkages to the U.S., on the other. Evidence of such relation would be of utmost interest for those concerned with the possibility of geo-economic competition between China and the U.S. in the Western Hemisphere.

We find that there is an inversely proportional relationship between the investments made by Chinese 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 specific countries in Latin America disenfranchised by the U.S. are searching for Beijing – an internal pull. Our findings give credence to the idea that it is Beijing who is filling the “vacuum” left by diminishing links between the U.S. and countries in its sphere of influence.

Our paper is structured as follows: we first review the tenets and predictions of hegemonic stability theory (HST), specifically in regards to trade and finance, and derive three specific causal mechanisms – contestation, accommodation and diversification – that may underpin the correlation between the growing Chinese presence in Latin America and the shrink of American hegemony in the same region. Then, we test our hypotheses using a sample of 21 Latin American countries from 2003 to 2014. Before
detailing our baseline mode, we explain how we created our index of American hegemonic influence by using principal components analysis. Finally, we contextualize our results and discuss the policy implications derived from the study’s findings.

**LITERATURE REVIEW AND HYPOTHESIS DEFINITION**

It is indisputable that Chinese-Latin American relations reached an unprecedented level at the onset of the 21st century (Bingwen et al., 2011). By 2014, China was already the region’s second largest trade partner (Trademap, 2015) and second largest investor, only behind 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: (a) three nuclear plants and the improvement of trains in Argentina\(^5\); (b) a transcontinental train between Brazil and Peru\(^6\); (c) one of the largest oil refineries in the region in Ecuador\(^7\); (d) the Toromocho project administered by the Chinalco mining in Peru\(^8\); (e) a project to create a transoceanic canal in Nicaragua\(^9\), and (f) a LAC-China Infrastructure Fund in partnership with the Interamerican Development Bank (IDB)\(^10\).

If one takes Robert Keohane’s definition of hegemony as, “control over capital, markets, and raw materials” (Keohane, 1984: 139), there can be little doubt that these developments undermine U.S. economic hegemony in Latin America, both in the trade and financial realms. The main question is whether these dynamics reflect an underlying political competition between China and the U.S., as HST would expect, or they 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, 1981). Recent research on Chinese trade relations with Latin America has led to three stylized conclusions. First, trade has expanded rapidly after 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 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 & Santabárbara, 2007; Ng & Tuan, 2001; Kotschwar, 2014). However, the international political economy of Chinese FDI and bank loans remains still to be explored.

The missing piece of the puzzle is politics, and in particular, how Washington and Beijing interact in specific geographies. HST implicates 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 flows and bank loans behaved not according to a commercial logic but responding to political considerations regarding the influence of the U.S. in specific Latin American countries. Consequently, we ask if China has occupied the vacuum left behind by the declining American hegemony or, alternatively, the patterns of trade and investment
followed a mere economic logic. As we see it, if the Chinese economic rise in Latin America has been conditioned by the U.S.’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 was stronger in areas where the U.S. exerted less hegemonic influence, ceteris paribus.**

Three stories could explain such relation: a) Chinese *contestation*, b) Chinese *accommodation* and c) Latin American *diversification*.

It could be the case that China is actively *contesting* the U.S. hegemony by enacting some form of economic statecraft – i.e. “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 taken from the American claws by intensifying economic bonds. Alleviating the region’s dependence *vis-à-vis* Washington can therefore be a way of forging alliances with Latin American states that can prove useful allies in the multilateral realm (see Layne, 2008; Roett & Paz, 2008; Paz, 2012). As previous research has suggested (Flores-Macias and Kreps 2013), these changes in foreign policy could be attained by the empowerment of pro-Chinese domestic constituencies that results from increasing trade and investment (Kirshner, 2008). That China is 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, investments and finance (Domínguez, 2006). The question is if these types of political relations are random or are intended to loosen these countries’ ties with the U.S.
Alternatively, it could be the case that China is *accommodating* 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 purposely at the peripheries of U.S.’s areas of influence, trying not to disturb Washington. Recently, some authors started to pay attention to the political underpinnings of Chinese investments, highlighting the special influence governmental agencies hold over the decision-making of Chinese multinational enterprises (MNEs) (Luo et al., 2010; Sauvant & 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 in the MOFCOM “blacklist” or if the proposed investment would affect the interests of a third country (Sauvant & Chen 2014: 147). It is based on this literature that we believe that a country’s relation with the U.S. 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, discreetly moving where the American hegemony is weaker, trying not to wake up the hemispheric giant.

Finally, we could envision a third mechanism by virtue of which countries marginalized by the U.S. can 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, his 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 relation 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 where 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 the filling of 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 & Knox 2010: 24) or Latin American countries benefited by the commodity boom and intending *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**

*Research Data*

To test our hypotheses, we constructed a dataset for 21 Latin American countries from 2003 to 2014. We empirically measured our dependent variable, Chinese economic penetration, with three different strategies: (a) Chinese FDI; (b) Chinese bank loans; and (c) Chinese manufacturing exports to Latin America. These three dependent variables are measured in per capita terms so that we can 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 use 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 due in fact reflect a geo-economic strategy given the strong state intervention in the decision-making process (Yazar, 2015; Collins & Gottwald, 2014), we compare them to loans granted by the International Bank for Reconstruction and Development (IBRD) and credits from the International Development Association (IDA). Finally, building on the discussion on revealed comparative advantages, we test if Chinese manufacturing exports were conditioned by proximity to the U.S. and we compare them to Chinese commodity imports. Table 1 contains the description and sources for the three dimensions of our dependent variable.

[Table 1]

As discussed above, each of the causal mechanism behind our hypothesis has specific empirical implications regarding the dimensions in Table 1. If we found that
Latin American countries were (a) equally receptive to Chinese SOE and POE FDI independent of the level of American influence in the host-country (b) Chinese loans were not sensitive to American influence and that (c) Chinese exports were influenced by the American Influence Index as much as the exports to China, 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 where H1 holds in the trade dimension, but H2 is rejected, in line with the *diversification* argument.

On the other hand, if we observed that (a) SOEs were more reactive to the American Influence index than POEs, (b) Chinese loans were sensitive to U.S. influence and (c) Chinese exports to Latin America, but not Latin American exports to China, were sensitive to American influence, we would have evidence of the Chinese government following a strategy of filling the “void” left by the U.S. 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 what is driving these political patterns of interaction.

To further reinforce our argument that Chinese economic engagement in Latin America is not commercially but politically driven, and to differentiate between a strategy of *contestation* or *accommodation*, we explore the effects that having diplomatic relations with Taiwan (to observe the effect of the One China Policy\(^\text{12}\)), and establishing Strategic Partnerships with China have on Beijing’s economic penetration. 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 was 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.\textsuperscript{13}
This tool excludes tax havens, such as Hong Kong, the British Virgin Islands, and the
Cayman Islands, and only considers final destinations rather than transit points of
OFDI\textsuperscript{14}. Perhaps the main advantage, however, that explains our source choice over
alternative tools is that investments can be easily sorted by firms, which allowed us to
filter by SOEs and POEs. This was a complex and time-demanding process, but one that
provides a new contribution to a literature that tests only aggregated values of FDI in the
region\textsuperscript{15}.

A second means of Chinese economic penetration in Latin America came via the
increasing importance of Beijing’s bank loans in the region. Since 2005, China provided
more than $100 billion in loan commitments to the region. 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 skirt their penalization in
global capital markets and Western international financial institutions, such as the IMF
and World Bank (Gallagher et al., 2012: 5).

While the literature is lacking about the political drivers of Chinese bank loans,
there is empirical evidence to suggest a positive relationship between traditional Western
lending institutions such as the IMF and the World Bank and the receiver’s alignment
with the U.S. (Dreher et al., 2009; Kilby, 2009). Taken together with our hypothesis, we
believe 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 outside of 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\textsuperscript{16}. Our information spans 76 loans to 14 different countries.

The vast literature on Latin American trade with China acknowledges the fear from domestic industrialists about Chinese manufacturing exports to the region’s countries, and we indeed look at Chinese manufacturing exports to the region in our study (Armony & Strauss, 2012; Jenkins et al., 2008; Mesquita Moreira, 2007). During this period 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 (Urdinez & 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 buyer. Media and public opinion began addressing this phenomenon, and China became a major topic when speaking 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, namely, China’s buying of Latin American commodities. To measure the importance of China as a trade partner, we used data from the UN Comtrade\textsuperscript{17} and Trade Map\textsuperscript{18} to calculate the per capita quantity of Chinese manufacturing exports and commodity imports. Now that we have defined our dependent variable, we will advance our discussion to incorporate our main independent variable in the next section.

\textit{Measuring American Hegemonic Influence}
U.S.’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 Perez-Liñán (2014), although these works focus on regime transitions and only tangentially discuss American 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 American Hegemonic Influence in Latin America. The index covers the years from 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 index. Using five proxies recurrent in the literature, we created a composite index using a 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 (Havre & Williams, 2010).

The variance maximization of the chosen indicators is 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 one. 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 U.S. in the period.
We measured economic proximity to the U.S. through (a) American-bound exports as a share of total exports (XUS) and (b) incoming American FDI relative to the host’s country GDP (INVEST). For XUS, we took trade flow data from Trademap and population data from the World Bank. Data on American FDI in Latin America was obtained from the U.S. Department of Commerce Bureau of Economic Analysis, which offers information on American OFDI sortable by country and industry from 1982 to 2014. It has been showed that trade and investments boost political relations (Keshk et al, 2004). The U.S. has FTA agreements with 11 countries in the region, 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 America, we used (a) the U.S.’s economic aid per capita (ECOAID), (b) its military aid per capita (MILAID), and (c) level of convergence in the United Nations General Assembly on important votes (UNGA). The data for ECOAID and MILAID were gathered from the "U.S. Overseas Loans and Grants Report”, informally known as the Greenbook, which contains United States 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 the U.S. 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-developed enough to show that the political alliances between the donor and the receiver are sizable factors in the distribution of aid (Alesina & Dollar, 2000).

For data on UNGA, we used data from the U.S. Department of State’s Bureau of International Organizations Affairs. This source distinguishes between overall votes and important votes; we consider the latter, which are more politically driven. If the U.S.
records a “yes” vote on an issue while another country votes “no,” that country is identified as having cast an opposing vote to the U.S, and vice versa. For countries’ annual totals, $UN\, \text{Opposite Vote} = (\text{number of opposite votes} + \text{abstentions} + \text{absences}) / \text{total votes}$, where total votes = (number of opposite votes + number of identical votes + abstentions + absences). Recent empirical evidence on Latin American countries’ alignment with the U.S. in the United Nations General Assembly shows that voting patterns reflect political alignments (Mouron & Urdinez, 2014; Neto & 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.

[Table 2]

The advantages of working with a composite index are numerous. First, it allows for a single variable that condenses several variables of interest that are all proxies for a broader concept. Second, the PCA technique does not subjectively weigh the components, but rather works with the common correlation among them. Finally, the index contains a replicability factor that can be used by other researchers in hypotheses within and outside the field. Figure 1 plots a chromatic map of the composite index.$^{20}$

[Figure 1]

According to our index, Mexico and Colombia are the two countries most influenced by the U.S., while Cuba the least.$^{21}$

**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).$^{22}$ Our models include a lagged dependent variable and a panel-specific AR1 autocorrelation structure$^{23}$. 

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Our main challenge comes in the presentation of \( n \) and \( t \). We followed Beck and Katz, which argued that many of the data sets used in political science are characterized by both a \( t \) and \( n \), and thus the generalized least squares (GLS) estimates derived from this set cannot be trusted (Beck & Katz, 1995; Wilson & Butler, 2007). The authors’ recommendation consists of three essential steps: (a) pool the data from different countries into one dataset and apply ordinary least squares (OLS); (b) 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 (c) calculate panel-corrected standard errors (PCSEs). Our estimates are based on these suggestions.

In order to test our hypothesis we compare model (1) to (2), (3) to (4) and (5) to (6). The baseline models of our paper are defined as follows:

\[
FDI_{(SOEs),i,t} = \beta_0 + \beta_1 FDI_{(SOEs),i,t-1} + \beta_2 U.S.\ influence_{i,t} \\
+ \sum_{c=1}^{15} \beta_c \ control_{i,t} + \epsilon_{i,t} \quad (1)
\]

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

\[
FDI_{(POEs),i,t} = \beta_0 + \beta_1 FDI_{(POEs),i,t-1} + \beta_2 U.S.\ influence_{i,t} \\
+ \sum_{c=1}^{18} \beta_c \ control_{i,t} + \epsilon_{i,t} \quad (2)
\]

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

Secondly,

\[
LOANS_{CHINA,i,t} = \beta_0 + \beta_1 LOANS_{CHINA,i,t-1} + \beta_2 U.S.\ influence_{i,t} \\
+ \sum_{c=1}^{14} \beta_c \ control_{i,t} + \epsilon_{i,t} \quad (3)
\]

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.

\[ \text{LOANS}_{\text{WEST} \ i,t} = \beta_0 + \beta_1 \text{LOANS}_{\text{WEST} \ i,t-1} + \beta_2 \ U.S. \text{influence} \ i,t + \sum_{c=1}^{14} \beta_c \text{controls}_{i,t} + \epsilon_{i,t} \]  (4)

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

\[ X_{\text{MANUF} \ i,t} = \beta_0 + \beta_1 X_{\text{MANUF} \ i,t-1} + \beta_2 \ U.S. \text{influence} \ i,t + \sum_{c=1}^{11} \beta_c \text{controls}_{i,t} + \epsilon_{i,t} \]  (5)

Where the controls for (5) are: TAIWAN, STRATEGIC PARTNERSHIP, COMMODITYBOOM, EXCHRATE, FTA, GDP PC, INDUEMP, INFLATION, TRADEOPEN, MANUFTAX, TAXWEIGHT, TERMSTRADE and TRADEFREEDOM.

\[ M_{\text{COMM} \ i,t} = \beta_0 + \beta_1 M_{\text{COMM} \ i,t-1} + \beta_2 \ U.S. \text{influence} \ i,t + \sum_{c=1}^{11} \beta_c \text{controls}_{i,t} + \epsilon_{i,t} \]  (5)

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**

**Main Results**

Our results are presented in Table 3. In line with H1, the American 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 give robustness to our findings. In line with H2, by analysing 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.
[Table 3]

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 $81 USD 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 American influence index increases at 95% confidence interval. Keeping all other variables constant, when American influence is low, yearly investments are expected to reach as much as $60 USD per capita a year. The expected investments remain positive as the index increases despite the fact that the confidence interval narrows.

[Figure 2]

Together with US INFLUENCE, we have highlighted TAIWAN, since we believe the latter’s effect to be complimentary to the former as it reflects the One China Policy, which is politically driven, and also STRATEGIC PARTNERSHIP showing that these status is not merely ‘cheap talk’. During the period studied, Chinese SOEs invested on average $15 USD 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 for why companies engage in foreign markets: natural resource seeking, market seeking, and efficiency seeking (Dunning, 1999). Natural resource seeking FDI is justified by the fact that these resources—e.g. 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, INVFREE, 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. 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 SOEs FDI were higher during periods in which commodity prices were actually going 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 & Qian, 2009). Other authors, however, have found that Chinese investments are positively related to political and economic risk (Buckley et al., 2007; Kolstad & Wiig, 2012). This paper is in
line with Cheung & Qian (2009), since LEGALSTR denote 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, save for Germany (Wang & 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 largest gas expenditures and have not received high levels of investment from SOEs. While most of Chinese energy investments have gone to oil (of the $20.8 billion USD invested, over 50% has gone to Brazil, followed by Venezuela, and Argentina), only $3.4 billion USD has been invested in gas. Again, Brazil received 50% of those investments, followed by Argentina and Venezuela.

Model 2 treats POEs as a control group for SOE investments and gives robustness to our findings since they were subject to American 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 to GDP-measured market size, and are negatively related to GDP per capita of each country. This means that POEs are targeting large, but not necessarily the richest markets. They are also positively explained by Chinese commodity imports per capita, itself an FDI control related to two-way feedbacks between trade and investment between two countries.
In contrast to SOE FDI, *EDUCATION* is positively associated with POE FDI, a sign of Chinese FDI 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’ behaviour is highly sensitive to the domestic policies of the host countries.

**The Effect on Chinese Bank Loans**

Model 3 gives support to our hypothesis, namely that Chinese bank loans were negatively related to American influence within host countries. An increase of one unit in the index translates to a decrease of $63 USD 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 American influence index’s anticipated effect on loans as the index increases at a 95% confidence interval.

Keeping all other variables constant, when the U.S.’s influence is low, loans were expected to be $15 to $35 USD larger per capita a year. The American influence index’s expected effect on loans remains positive as the index increases despite the fact that the confidence interval narrows, which we can observe with SOE investment. When one increases above 0.5 in the index, investments no longer maintain this positive relationship as the lower bound crosses the threshold of zero loans.

[Figure 3]

The control set is different from the tools used to test FDI. As suggested by Gallagher et al., Chinese loans are likely an alternative source of capital for countries unable to obtain loans from Western agencies (Gallagher, 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 $21 USD per capita more per loan, ceteris paribus. However, Chinese bank seem to have lended indistinctly to countries independently of them having or not Strategic Partnership status. Furthermore, lending from the International Monetary Fund (IMF) and the World Bank (WB) has comparatively lower inflation rates and greater financial freedom (FINFREEDOM) (Easterly, 2005). Chinese loans seem to exhibit higher tolerance to 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.

Per the Inter-American Dialogue database, a large share of Chinese loans was directed to infrastructure projects such as ports or railroads to specifically 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 IRDB loans, they are—as expected—immune to both US 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 American influence. Keeping all other variables constant, one unit increase in the index translates into an export loss of $15 USD per capita. Translated into standard deviations this increase represents a change of 0.06. This finding is in line with the results of Flores-Macias and Kreps (2013) who argue that the effects of bilateral trade on vote convergence in human rights issues at the UNGA was larger for Africa vis-à-vis Latin America, probably because “Latin America has
historically resided in the U.S.’ sphere of influence, hindering realignment toward China” (p.368).

When compared with the American 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 American influence there is a difference of approximately $10 USD 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 the interest of Beijing 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.

[Figure 4]

In addition to common indicators for market size and economic performance, we also include an openness to trade proxy (\textit{TRADEOPEN}) because we wish to control for bilateral memorandums that establish that any Chinese export increase is contingent on less-stringent protectionism towards 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 (\textit{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, \textit{ceteris paribus}. We also controlled for macroeconomic variables affecting bilateral trade, such as exchange rates and terms of trade. The former is 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. While it is true that TAXWEIGHT resulted in no effect, MANUFTAX is positively related to Chinese manufacturing exports, which is intuitive. Countries which tax their local industries at a greater rate have a smaller risk of cost negatively affecting 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. While 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 the U.S.’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 pure economic standpoint.

Regarding the controls, both AGRIBUSINESS and MINERAL reflect positive coefficients, while OIL shows a negative coefficient, giving a signal 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 presented empirical evidence indicates that Beijing’s penetration into Latin American countries has been negatively related with American influence when the Chinese government was involved in the decision-making process. These results suggest that China strengthened its ties with those countries where the United States’ influence was weak. In other words, Beijing filled the “void” left by a declining American presence in Washington’s own “backyard”. To a considerable extent, these results seem to be in line with the expectations of HST, a theory that has gloomy predictions when it comes to the U.S.-China 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 why 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 with American influence, which is not the case.

Two particular stories appear to pass our statistical tests. First, it could be that China is *contesting* the U.S. and affecting the foreign policy of Latin American 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* to the changing strategic environment in Latin America, avoiding to engaging those countries where the U.S. has a vested interest. The empirical evidence suggests by analysing US hegemonic influence, One China Policy response and the effect of Strategic Partnerships 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 U.S. Due to its large-n design, this paper could do little to flesh out particular causal processes. However, it has unveiled the existence of a clear trade-off in 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.

REFERENCES


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Note: Elaborated by the authors.
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Note: The table contains coefficients and standard errors. Statistical significance is highlighted in bold text. Significance values:* p<0.05, ** p<0.01, *** p<0.001.25
FIGURE 2: EXPECTED INVESTMENT BY SOEs & POEs

FIGURE 3: EXPECTED LOAN ACTIVITY BY CHINESE BANKS
**Notes**

1 For a particular focus on China see Tammen & Kugler (2006) and Lim (2015). For a critique of this theory see Chan (2007).

2 For a particular focus on China see Mearsheimer (2010).

3 For an English School understanding see Buzan & Cox (2013). For a Liberal Institutionalist insight see Ikenberry (2009).

4 Ferchen (2013) discusses if 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 trade-off between Washington and Beijing. However, this does not mean that the U.S. and China are antithetical. The Chinese alternative, as we will further explore in the econometric models, implies a mix of market-oriented and political-oriented forces that affect differently trade, investments and credit depending on Washington’s influence.

5 The nuclear plants were agreed upon on during the 2016 Nuclear Security Summit in Washington DC, for the amount of 15 billion dollars. 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 dollars. The latter was one of the most celebrated achievements during Cristina Fernandez de Kirchner’s mandate.

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

7 The construction of the Pacific Refinery in Ecuador, estimated to cost 10.5 billion dollars, is funded primarily SOE Sinomach.

8 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 dollars: two billion dollars between 2008 and 2011 and 4.8 billion more in 2013 million investment that Peru has consolidated as the third largest copper producer, behind Chile and China; Toromocho and in particular the second world's largest copper project.

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

10 Approved in 2012 and in force since July 2015, for the sum of two billion dollars. As noted in the agreement, one of the three pillars of the project is intended to attract foreign companies, especially Chinese ones, and interest in develop mining, energy and agriculture projects.

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

12 As a policy, this means 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.

13 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.

14 This exclusion has a significant impact on the results because more than seventy per cent of China’s OFDI reported by MOFCOM is received by tax havens.

15 While we determined Scissor’s database to be more suitable MOFCOM and Thomson Reuters (which is not publicly accessible), it is also important to mention that
this source has as a main disadvantage in that it is built using news reports and not from official information directly from Chinese companies. It is true that media reports are known to be problematic, however, 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 have strong signs of progress.

16 Inter-American Dialogue: http://thedialogue.org/map_list
17 UN Comtrade: http://comtrade.un.org/db/
18 Trade Map: http://www.trademap.org/
20 For a summary of the components of the index see table A in the online supplementary material accessible at: [LINK]
21 See Table B in the online supplementary material accessible at: [LINK] The displayed values are the averages for the period of study and include the minimum and maximum values observed during the period.
22 Online supplementary material accessible at: [LINK]
23 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.
24 For a good example of such failed investment, one should look at soy production in Patagonia, Argentina in 2010.
25 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.