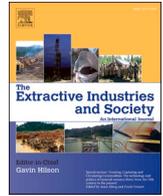




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Digging deeper: Unpacking the subnational political drivers of Chinese extractive investment in Latin America

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ABSTRACT

There is a long scholarly tradition that argues that political variables figure prominently in international corporations' decisions to invest abroad. Most of this literature has focused on the *national* political determinants of investment allocation. Yet, in some sectors, the bulk of this investment is *local*. Chief among these sectors are extractive industries where assets are endowed to different local jurisdictions. How do political factors shape extractive foreign direct investment (EFDI) in local jurisdictions? We focus on Latin America, a region of the world that is rich in natural resources, and that has recently attracted a sizable amount of Chinese investment. Drawing on a novel dataset on subnational Chinese EFDI in Argentina, Brazil, and Mexico (2002–2018), and using a logistic model with time series cross-national data we find that multilevel partisan alignment is a strong determinant of Chinese EFDI. In highly decentralized countries, Chinese EFDI is primarily targeted to subnational districts ruled by governors who are politically aligned with presidents. We illustrate the logics of this allocation with two case studies. Our findings make a valuable contribution to three growing fields of study: the subnational determinants of foreign investments, multilevel governance, and the political factors driving Chinese investments in developing countries.

1. Introduction

Over the past two decades, the People's Republic of China has recognized the crucial role Latin America plays in supplying essential raw materials, including various metals and hydrocarbons. Latin America holds a significant portion of the world's reserves of key mineral commodities, such as 45% of copper, 44% of silver, 21% of iron ore, 20% of crude oil, and 18% of gold (Casanova et al., 2015; Fornillo and Lampis, 2023).

In pursuit of these resources, Chinese corporations have undertaken a myriad of initiatives to invest in extractive industries in the region. These include, but are not limited to, probing the pre-salt strata in Brazil, engaging in lithium extraction in Argentina, Bolivia, and Chile, conducting gold mining operations in Guyana, major copper mines in Peru, and extracting niobium within Brazil. Chinese presence in Latin America is prominent: China is responsible for purchasing more than 90% of copper exports from Peru and Chile, which are recognized as the foremost global producers of this metal. Likewise, China stands as the principal buyer of iron from Brazil. China also invest heavily in the

extractive sector (Freitas Da Rocha and Bielschowsky, 2018).

According to the China Global Investment Tracker, since the initiation of the "Going Out" policy in 2000, Latin America has received 10% of China's global investments, with 72% of these directed towards the energy and mining sectors, amounting to a total of 172 billion dollars (Scissors, 2023). Chinese corporations have adopted a highly pragmatic approach when it comes to investing, driven primarily by its commercial objectives to maximize profits within the extractive sector (Gonzalez-Vicente, 2012; Urdinez et al., 2014).

Extensive research has been conducted on the determinants of Chinese foreign direct investment (FDI) in resource extraction at the national level, including analyses on how Chinese investments align with the macro policies of the People's Republic of China, such as the Belt and Road Initiative. These studies find that political factors, such as political regime type, play a central role in shaping the cross-national allocation of Western FDI. Findings, however, are mixed. Some studies show that political regimes matter, with democratic countries attracting more FDI than non-democracies (Jensen, 2008; Wisniewski and Pathan, 2014). Yet others have demonstrated that autocratic countries also attract FDI

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because they expropriate less than democracies, have lower enforcement of labor standards, and benefit long-term investments such as those in extractive industries (Blanton and Blanton, 2012; Li, 2009; Moon, 2015).

Despite their enormous contributions, these works have only analyzed FDI at the national level. In this article we argue that this predominantly national level focus has obscured the study of FDI allocation within countries. This is particularly problematic given that in some economic sectors, such as the extractive industrial complex, mineral resources are endowed to local jurisdictions (Veltmeyer, 2022). Thus, the bulk of investment is *subnational*, i.e., it takes place in state/provinces and municipalities (Urdinez, 2023). Current explanations of FDI allocation simply omit this territorial aspect, and consequently offer an incomplete understanding of FDI's determinants and outcomes (Uribe-Sierra et al., 2023). In this article we shift the lenses of analysis by moving from the national to the subnational level. In so doing, we study FDI at the level where it actually operates, but more importantly, we zoom into a key yet overlooked aspect of FDI allocation: the multilevel dynamics that results from the strategic, political interaction among three relevant players in this sector: subnational, national, and international governments.

In this article we are interested in the political factors that shape the allocation of Chinese extractive foreign direct investment (EFDI) in Latin American subnational jurisdictions (Arsel et al., 2016). Specifically, we seek to uncover the multilevel political interactions that determine the arrival of EFDI in selected states and provinces within countries. Our explanation highlights the importance of coalitions between governors and presidents (and executive branch officials) and centers on a key mediating factor: partisanship. In a nutshell, the study finds that Chinese EFDI is primarily targeted to subnational districts ruled by governors who are aligned with presidents' political party.

To test our argument, we create a new dataset that identifies and systematizes the allocation of Chinese EFDI in Latin America. Specifically, we study Chinese EFDI in subnational jurisdictions over the span of 16 years (i.e., 2002–2018) in the three largest federations of Latin America: Argentina, Brazil, and Mexico. To our knowledge, this is the first dataset of its kind that geo-references Chinese EFDI in states and provinces in Latin American countries. We rely on a cross-sectional times series analysis to test our explanation and on two case studies to flesh out causal mechanisms. Our mixed method empirical analysis offers strong support for our multilevel explanation of partisanship and Chinese EFDI allocation.

The article is organized as follows. In the following section we present our hypotheses about EFDI subnational allocation. The subsequent section offers a descriptive analysis of Chinese EFDI in Argentina, Brazil, and Mexico, our case selection, and the dataset. We then turn to the empirical analysis by reviewing first the dependent, independent and control variables, followed by an explanation of our model, a presentation of the statistical analysis, and a discussion of the results. The next section turns to two cases studies to further unpack the causal mechanism at work. A conclusion summarizes the findings, contributions, and future research directions.

2. A multilevel perspective on EFDI allocation

Inspired by the cross-national literature on the political determinants of FDI, an emerging research agenda on subnational FDI contends that political variables figure prominently in the allocation of FDI within countries (Garriga, 2022). Left-wing partisan ideology of subnational incumbent parties, for instance, plays an important role in determining FDI across subnational jurisdictions, with investors preferring to direct monies to states ruled by left-wing governors because they are more likely to invest in human capital (Garriga, 2022; Pinto, 2013). In a similar vein, research on Africa that has focused on the subnational level has demonstrated that Chinese companies have a significant ability to negotiate with local politicians, and that this leverage determines

whether local communities will reject or consent to these companies operating in the communities where they get established (Dreher et al., 2019; Lee, 2018). Despite the growing attention to the subnational determinants of Chinese FDI, there is still a gap in our understanding of the effects of *multilevel* political dynamics on Extractive Foreign Direct Investment (EFDI), particularly regarding the crucial role that national governments play in allocating these investments. Acting as intermediaries, national executives facilitate Chinese investments to favor their political allies.

One notable characteristic of studies examining the subnational determinants of FDI and EFDI is their exclusive emphasis on local (political) variables as the sole factors accounting for the subnational distribution of this investment. This analytical approach, known as a “uni-level research strategy”, builds on the notion that subnational jurisdictions are self-contained entities in which variables located at higher scales of government (for example at the national level of government) or at the international level, have no causal effect on the subnational outcome of interest (Giraudy, 2015; Giraudy et al., 2019). We contend, that in highly decentralized countries, this analytical approach can be incomplete to explain the territorial distribution of FDI.

Instead, we use an alternative strategy, which assumes that variables at different levels of government (i.e., national, and international) have a causal effect on subnational outcomes. Unlike the uni-level research approach our research strategy sets subnational phenomena or outcomes in a multilevel framework: subnational processes of interest are routinely shaped by interventions of international actors, national governments, national institutions, such as political parties, territorial regimes, or fiscal arrangements. This approach, we claim, is better equipped to explain the political determinants that account for the allocation of subnational FDI. In so doing, our analysis reveals that previously unobserved variables, such as partisan alignment across levels of government, are critically important to understanding how FDI is directed to subnational jurisdictions. Equally relevant, our study shows that multilevel governance is crucial to explaining how FDI is allocated within countries.

2.1. Partisan alignment across levels of government

Before presenting our argument, a note about FDI in federal countries is in order. Even though FDI ultimately lands in a subnational jurisdiction, the process of attracting and initiating projects funded by FDI is always mediated by the president and officials of the national executive branch. Presidents serve as pivotal intermediaries, facilitating interactions between foreign investors and subnational executives, thereby wielding significant influence over the trajectory of subnational FDI. For example, governors typically rely on the political and legal endorsement of the national executive branch to solicit and commence foreign-funded initiatives. Instances abound where presidents have impeded or postponed FDI entry into specific provinces or states under questionable pretexts. Conversely, presidents can effectively steer FDI towards designated locales of their political or economic interest. Through targeted presentations of particular districts to foreign investors and by extending invitations to allied governors for international fairs and international visits, presidents can successfully direct FDI to areas they consider strategically important.

In this article we contend that presidents, who are key brokers in determining FDI's territorial distribution, have *political* motivations to promote or hinder the allocation of subnational FDI in specific local jurisdictions. Our argument rests on two key assumptions posed in different bodies of literature. The first one is that presidents seek to maximize their or their parties', as well as their subnational partisan allies' chances of winning elections (Mayhew, 2004; Samuels, 2003). In federal countries, the electoral fates and performance of national executives influence the electoral chances of subnational politicians belonging to her political party (Campbell, 1986; Carsey and Wright, 1998). The more positive a voter assesses the president and her policies

(in national and subnational jurisdictions), the greater the likelihood that this voter will support subnational candidates affiliated with the president's party (Gélineau and Remmer, 2006). It is thus in the interest of presidents to implement policies that will maximize their or their party's popularity at the subnational level (Niedzwiecki, 2018).

The second assumption posits that governors aligned with the president's party can provide presidents with significant gains beyond just electoral support. In federal countries, presidents typically rely on governors to secure legislative backing in the national Congress, to maintain political stability, and at times, to address security threats in strategically important districts for national security and governability (Giraudy, 2010). Governors who are aligned with the president's party can effectively meet many of these needs. They can deliver crucial votes in Congress, implement presidential directives to quell unrest and ensure security, and even provide symbolic support to enhance the president's performance.¹

Building on these assumptions we pose a multilevel governance argument wherein both presidents and governors wield influence over each other, engaging in reciprocal exchanges for mutual benefits. *Partisan alignment* is a key element for the success of these exchanges, lining up actors' preferences to maximize political gains, enhancing predictable exchanges, and reducing the likelihood of defection.

This multilevel argument applied to the analysis of FDI reads as follows. In highly decentralized countries, presidents view the allocation of FDI as a crucial tool to bolster their electoral prospects and those of their partisan allies. Major FDI projects such as the establishment of new automobile factories, the development of oil fields, or the opening of large-scale mines generate employment opportunities, economic spillover effects, and social advancements for residents of states and provinces (Arsel et al., 2016). These highly visible and popular initiatives are often attributed to the politicians who support them. Thus, presidents endorsing FDI in specific states or provinces can significantly enhance the political and electoral fortunes of their party allies. Governors and presidents will try to convey a message of stability and predictability to Chinese investors seeking business opportunities. Consequently, it is anticipated that FDI will be directed towards states or provinces ruled by governors belonging to the president's party. Conversely, opposition governors are less likely to receive FDI allocation, as foreign capital presence could bolster their electoral prospects. For their part, allied governors are more likely to offer political, electoral, and legislative support, social peace, and even kickbacks in return for the allocation of FDI in their districts. Conversely, it is to expect that opposition governors will be less likely offer these favors to presidents belonging to an alternate party.

We apply this argument to the study of FDI in the extractive sector. As noted, we focus on Chinese EFDI in Latin America's highly decentralized countries. Before turning to test our argument, we offer a thorough description of our case selection criteria and data in the next section.

¹ Similarly, there are good reasons to believe that Chinese extractive companies may prefer to invest in districts where multilevel party alignment exists, as it may be seen as a buffer for risk. Camba (2022) suggests that Chinese firms assess risk based on their perception of leadership strength in host countries. This approach is informed by their experience with diverse power structures in the Global South and a preference for political stability and policy predictability. Camba's research indicates that Chinese firms generally favor leaders they perceive as strong, viewing this as a reassurance against uncertainty. This perspective is particularly relevant in Latin America and the Caribbean (LAC), where, unlike other regions, Chinese companies are relatively new players and lack the support of an experienced Chinese diaspora in extractive activities (Camba, 2019). Consequently, local leaders in LAC may leverage alignment to signal control over local political uncertainty and ensure lower risks to Chinese investments.

3. Cases and data

3.1. Case selection

Why focus on Argentina, Brazil, and Mexico? In this article we seek to explain the distribution of Chinese EFDI. Our multilevel explanation thus encompasses actors in three levels of government: an international investor, a national government, and the final recipient, which is located at the local (subnational) level. Because of their segmented territorial regime, federal countries are particularly well suited for the study of multilevel interactions in general, and our multilevel argument in particular. Most of the premises advanced in this study assume that actors operating within each jurisdiction (international-national-subnational) are autonomous from each other. This autonomy exists, by default, in federal countries.

Argentina, Brazil, and Mexico are not only federal countries but they are also among the primary beneficiaries of Chinese EFDI in Latin America. Specifically, from 2002 to 2018, Argentina and Brazil ranked as the 1st and 3rd highest recipients of Chinese FDI in Latin America, respectively, with Mexico in the 7th position. Together, these three accounted for 52% of China's investment in the region, amounting to over 86 billion US dollars (Scissors, 2023).

3.2. A subnational dataset of Chinese EFDI

Public data on Chinese investments does not offer a breakdown at the subnational level. To explore our hypothesis regarding the political determinants of investment allocation at the subnational level, we put together a new database identifying Chinese EFDI projects by province or state within each of the countries under study. To achieve this, we created database comprising of more than 5200 newspapers' articles about Chinese investments in Latin America and the Caribbean. This database was used to identify the location of the projects, to see whether local politicians supported the investment or not, and if there were any social conflicts associated with the investment project. We cross-referenced this information with existing databases such as CGIT, fDI-Markets, and Mergr, making corrections on a project-by-project basis. We then georeferenced each investment manually. For projects with ambiguous or multiple locations, we conducted detailed investigations and consulted national think tanks and economic chambers that track Chinese investment in these countries (CEBC in Brazil, the Argentine Chinese Chamber in Argentina, and CECHIMEX in Mexico). The next step was to identify extractive projects. We coded extractive projects using the following criteria: the project must aim to exploit, utilize, or process hydrocarbon or mineral resources extracted within the country. With the assistance of research assistants, we manually reviewed all extractive projects in Argentina, Brazil, and Mexico. The resulting dataset on Chinese EFDI spans 17 years and comprises 86 states and provinces.

4. Empirical analysis: Variables

4.1. Dependent variable

Our dependent variable (DV) is coded as "the existence of an active Chinese EFDI project" operating in subnational units in Argentina (provinces), Brazil, and Mexico (states) in a certain year. Due to some projects being extremely large in terms of capital investment, which could introduce biases into the analysis, we have chosen a conservative approach for our dependent variable, making it dichotomous. In years when a province or state has an active Chinese EFDI project, the variable is assigned a value of 1; otherwise, it is set to 0. Only 10% of the observations are assigned a value of 1 (see Fig. 1).

The total number of Chinese extractive projects at the subnational level is 43 (see Table A in appendix for the complete list). Brazil has the highest number of active projects, 21, while Argentina and Mexico have

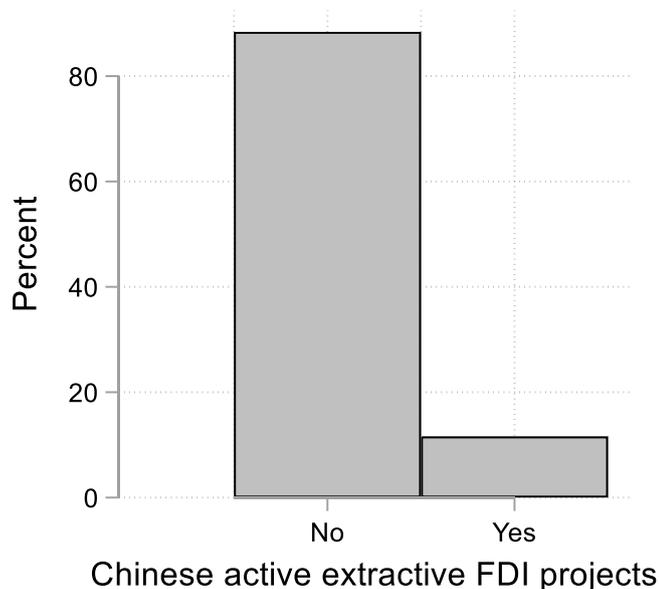


Fig. 1. Histogram of Chinese EFDI by Province/State.

12 and 10, respectively (although the Argentine projects are larger in terms of capital invested). Overall, we observed that projects related to hydrocarbon extraction and exploration are significantly larger in terms of the capital invested compared to mining projects (see Table 1). Regarding ownership, 37 out of the 43 projects were carried out by Chinese state-controlled companies, and only 6 by private companies.

It is worth noting that there are substantial differences among the three countries regarding Chinese EFDI. The three states with the most extractive projects in the sample are Rio de Janeiro with 7, Minas Gerais with 6, and São Paulo with 4, all in Brazil. In Argentina, the maximum is two projects per province, as seen in Salta, Tierra del Fuego, and Buenos Aires. In Mexico, Chihuahua, San Luis Potosí, and Tamaulipas also have two projects each.

Among the Chinese investors, China National Offshore Oil Corporation (CNOOC) and Sinopec have the highest number of projects, with 5 and 4 each, respectively. However, these two companies invested 47% of the total capital because the projects on pre-salt exploration in Brazil in which they were involved demanded extensive sums of capital. In total, we identified 32 different investing companies, indicating a significant diversification among Chinese EFDI actors in Latin America (See Table B in Appendix).

4.2. Independent variables and controls

The main independent variable (IV), "subnational alignment with federal government," seeks to test the political drivers of EFDI allocation, as derived from our hypothesis. This variable is coded as a dummy variable: '1' when the governor's party is aligned with the party of the president. Conversely, it is coded as '0' when governors are in an opposition party to that of the president (see Fig. 2). Latin American party system is complex, and often government coalitions include many parties, even of different ideologies. We have relied on the extensive

Table 1 Chinese EFDI projects and investment stock by country of destination between 2002 and 2018.

	Total # of extractive projects from Chinese companies	Stock of EFDI - projects from Chinese companies (million US\$)
Argentina	12	9986
Brazil	21	30,723
Mexico	10	2322
Total	43	43,031

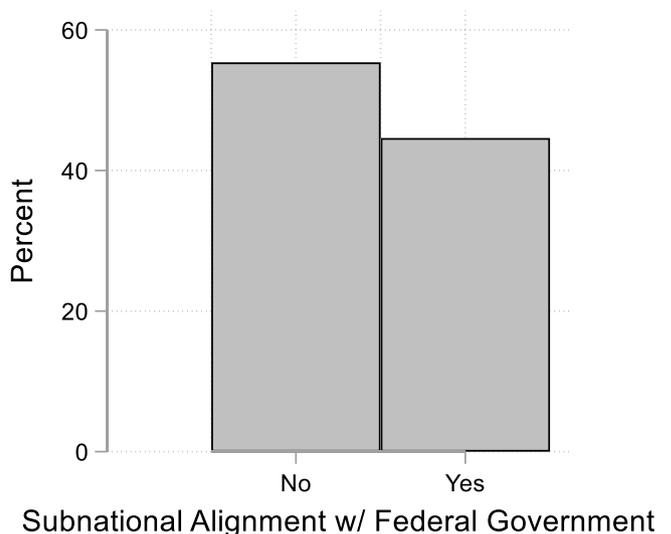


Fig. 2. Years with Alignment Between National and Subnational Governments in Our Sample.

literature on this topic, and on pre-existing databases to code as accurately as possible the alignment of the 86 provinces we are analyzing (see Table 3).

There is variation among the 86 subnational units we are analyzing in terms of the number of years for which the independent variable is "1". On average, 40% of the time between 2002 and 2018 was characterized by alignment, however, as Fig. 3 illustrates, there are provinces for which the entire sample period is under partisan alignment and others where the alignment is never observed.

Table 2 outlines the control variables that we incorporate into our econometric model. We aim to account for political variables specific to the province, such as the Number of Effective Parties Competing in Subnational Legislative Elections (ENPL), which serves as a proxy for electoral competitiveness. A higher ENPL signifies enhanced subnational political competitiveness, thereby indicating higher degrees of subnational democracy. Drawing upon the extant literature, we posit that political conflict exhibits greater salience in more democratically

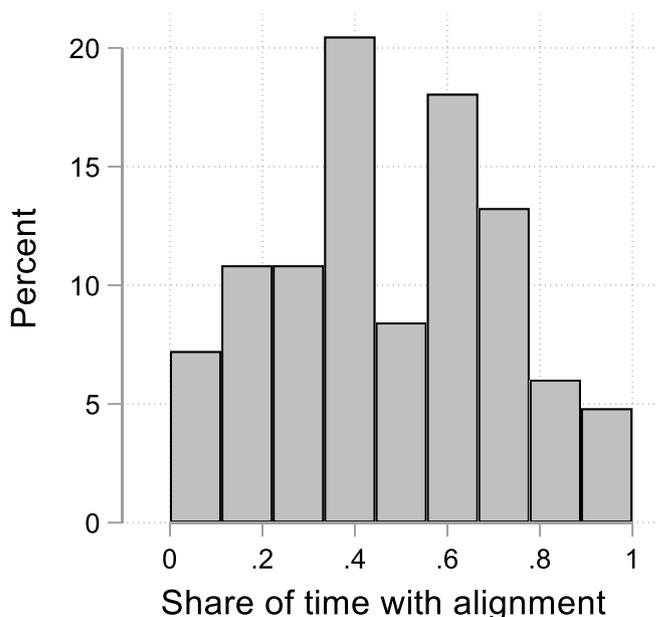


Fig. 3. Fraction of Years Between 2002 and 2018 with Partisan Alignment Between Province and Federal Government.

Table 2
Description of Variables and Data Sources.

Name	Description	Source
<i>Dependent variable</i>		
Chinese extractive FDI project	1 = Occurrence of investment projects led by Chinese MNEs in the extractive sector between 2003 and 2018	Own elaboration based on fDiMarkets, Mergr and CGIT
<i>Independent variables</i>		
Partisan alignment	Dummy variable, coded as 1 if governor fully aligned with president; coded as 0 if governors opposed to the president	(Niedzwiecki, 2018); (Cherny et al., 2015).
Subnational ENPL	Number of effective parties competing in subnational legislative elections	Argentina/Mexico: (Giraudy, 2015); Brazil: (Calvo and Ventura, 2021).
Subnational HDI	Degree of development measured along 3 dimensions (education, health and standard of living)	Global Data Lab (https://globaldatalab.org/shdi/shdi/)
Subnational resource endowment	Percentage Contribution of the Province to the Country's Mineral and Hydrocarbon Exports	Own elaboration
State size	Area of the province in million ha.	Own elaboration (retrieved from national statistic departments)

robust subnational units. In these contexts, civil society organizations and social movements possess an amplified capacity to flourish and mobilize. Conversely, in subnational units characterized by more authoritarian governance structures, the likelihood of overt political conflict is diminished. This variable helps us understand the political landscape at the subnational level and how a diverse party competition might influence policy and investment decisions.

Additionally, we control for factors that influence investment allocation, such as the "Degree of Development" of the province, which encompasses various socioeconomic indicators including income levels, education, and infrastructure quality, providing insight into the province's economic environment and its potential to attract and sustain investments.

We also control for subnational resource endowment. This control assesses the abundance and accessibility of minerals and hydrocarbons, expressed as the share that the province contributes to the national exports. This variable is crucial for understanding the potential for extractive industries and the appeal of these areas to investors, particularly in sectors like mining and energy. Lastly, the size of the province in million hectares is considered as it can impact the market potential, logistical considerations, and overall attractiveness of the province for investment.

Table C in the appendix provides descriptive statistics for our dependent variable, independent variable, and control variables.

5. Models and results

Our model estimates the probability that partisan alignment influences the likelihood of Chinese EFDI occurrence. To this end, we have defined the following logistic model with time series cross-sectional data:

$$\text{Logit}(\text{Pr}(\text{Chinese EFDI}_{i,t} = 1)) = \beta_0 + \beta_1 \text{Partisan alignment}_{i,t} + \beta_{2..5} \text{Controls}_{i,t} + \gamma_c + \delta_i$$

Where γ accounts for country fixed effects and δ for state fixed effects. We have defined two versions of our baseline model. The first one (1) without controls, and a second one (2) with controls. Both models include fixed effects by country and state. The results in both models are very similar, showing a positive effect of partisan alignment on the occurrence of Chinese EFDI (Table 3). Fig. 4 shows the effect as predicted probabilities, where we see that alignment is associated with an

Table 3
Determinants of Chinese EFDI.

	(1)	(2)
DV=Active Chinese extractive projects		
Partisan alignment	0.509* (2.40)	0.482* (2.26)
ENPL		0.309* (2.07)
Subnational HDI		2.000 (1.22)
State size		0.0000250 (0.52)
Subnational resource endowment		1.533 (0.20)
Constant	-2.186** (-2.88)	-5.197** (-2.91)
Country Fixed Effects	Yes	Yes
State Fixed Effects	Yes	Yes
N	1045	1045
Pseudo R ²	0.17	0.18

Note: Standard errors in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

increase in the base probability of 15% by an additional 5.7 percentage points.

When expressed as odds ratios, partisan alignment between subnational and national governments carries a substantial impact on the likelihood of attracting Chinese EFDI. In this context, an odds ratio of 1.62 for partisan alignment implies that the odds of receiving Chinese investment in a region that is politically aligned with the national government are approximately 62% higher than in a region that is not aligned.

This significant effect highlights the importance of political factors in

investment decisions, suggesting that Chinese investors may favor regions where the political environment is more stable and predictable, and where policies are likely to be more consistent with those of the national government. This alignment potentially reduces the risk and uncertainty associated with investment decisions, making politically aligned regions more attractive for Chinese EFDI.

We have tested models where the Partisan Alignment variable is lagged by one and two years, assuming that the political effect may be delayed in the Chinese company's decision to invest. These decisions are

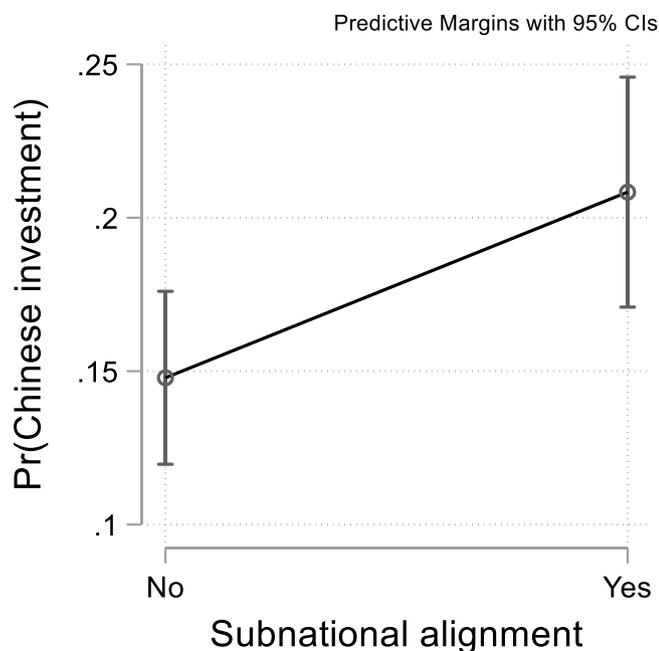


Fig. 4. Predicted probability by alignment to the Fed. Government.

slow, and it is reasonable to imagine that the effect is not seen immediately. The results indeed show that the effect is greater when measured with a one-year lag, although we do not see an effect at two years (Table D in the Appendix).

6. Case studies

From our theoretical priors we assume that presidents have electoral, political, and economic motivations to promote or hinder the allocation of subnational FDI in specific local jurisdictions. Electorally speaking, presidents seek to maximize their or their parties', as well as their subnational partisan allies' chances of winning elections. Likewise, presidents have much to gain politically from a targeted allocation of EFDI. Governors aligned with the president's party can secure legislative backing in the national Congress, they can maintain political stability, provide symbolic support to enhance the president's performance, and even at times, they can deliver economic gains, through shady economic arrangements. In sum, there are different reasons and incentives for why presidents direct EFDI to partisan allies in subnational jurisdictions. In what follows we illustrate how these mechanisms played out in the allocation of Chinese EFDI in two subnational units: Chubut (Argentina) and Pará (Brazil). These two cases are selected to show that when there is multilevel partisan alignment, Chinese EFDI is allocated to co-partisans, and when there is not, Chinese investment does not follow suit.

6.1. Chubut, Argentina

The province of Chubut, situated in the Argentine Patagonian region, is home to abundant oil reserves and other mineral resources. Between 2003 and 2011, the province was ruled by Peronist Governor Mario Das Neves, who served in office for two consecutive terms. During this time, Chubut witnessed a substantial influx of Chinese EFDI. The arrival of these resources to the province coincided with the two national Kirchners administrations, first in the hands of Peronist president Néstor Kirchner (2003–2008), and subsequently under the leadership Cristina Fernández de Kirchner (2008–2015). The Kirchners regarded the distribution of Chinese EFDI as pivotal to strengthen their electoral prospects and those of their partisan allies in Chubut. In exchange, both presidents sought political backing from Governor Das Neves. As part of

this arrangement, presidents received electoral, legal, political support, along with kickbacks for key national ministers involved in brokering deals with Chinese firms. Governor Das Neves, for his part, benefited from revenues and royalties, as well as popularity which in turn secured his consecutive reelection.

Chinese EFDI in Chubut first began in 2007, when the CNOOC began its participation in the provincial oil fields. In April 2007, Governor Das Neves announced an initial investment of US\$200 million in the province. This first round of investment took shape as a merger between an Argentine oil company, Pan American Energy (PAE), and CNOOC. A second influx of capital occurred in March 2010 when PAE secured an investment of US\$3.1 billion from CNOOC. This strategic move allowed CNOOC to acquire a 50% stake of PAE (El Patagónico., 2011).

The influx of Chinese investment in Chubut benefited the province and its ruling party by providing tax revenues and creating new jobs. Additionally, it contributed to securing Das Neves's reelection. The Kirchners equally benefited from the Chinese EFDI arrival in the province, not only because a copartisan was reelected, but also because this investment was instrumental in achieving an important national goal: energy self-sufficiency (La Política Online, 2010; Ramírez-Cendrero and Wirth, 2024). CNOOC's investment in Chubut became a milestone for advancing the national government's narrative on energy sovereignty and energy self-sufficiency.

A related benefit for the Kirchners was the suspension of a legal dispute. In return for its operation in Chubut, PAE committed to waiving a lawsuit before the International Centre for Settlement of Investment Disputes that had been initiated against the national government for alleged economic discrimination (Ambito Financiero, 2007).

Other shady benefits also accrued to the Kirchner administration. CNOOC's investment in Chubut facilitated kickbacks and political favors between the provincial and national governments. According to the Argentine judiciary, officials from the Kirchner administration, such as Minister of Public Works Julio De Vido, along with Governor Das Neves, were implicated in alleged bribery schemes to secure EFDI in Chubut. It appears that a portion of the profits from these agreements was diverted to fund political favors. The revelation of illicit fund usage to support electoral activities in Argentina uncovered a nexus between political corruption and irregular financing (Figueroa, 2021).

In sum, in line with the theoretical priors of our theory, the promotion and allocation of Chinese EFDI to the co-partisan Peronist-ruled province of Chubut rendered important political, electoral, legal, and economic benefits to the national government.

6.2. Pará, Brazil

In 2007, during the first administration of President Luiz Inácio "Lula" da Silva (2003–2011), Brazil's giant and top mining company, Vale, initiated a joint venture with Baosteel, a global iron and steel Chinese company. Chief among the projects of this joint venture was the construction of a steel plant that comprised a total of USD 5.5.² This ambitious project promised to inject 5 million tons of steel slabs per year into the Brazilian steel market. The initiative sought to position Brazil on the global steel map and leverage Brazilian ore for steel production, highlighting the country's strategic move to enhance its industrial and economic infrastructure (Reuters., 2007). The project became what, Austin Strange would call, a national flagship project: Lula saw in Baosteel the opportunity to convey the message that Brazil was reclaiming its lost steel industry, something that held personal value for him as a former metallurgical union leader (Strange, 2024).

Mostly due to environmental concerns and opposition from environmental groups, the project could not take hold in the state of Maranhão, where the most favorable mining conditions for the venture

² Vale would invest 40% of the capital, while Baosteel and other Chinese partners would own up to 60%.

existed. The president of the Brazil-China Chamber, Charles Tang, blamed the "environmental bureaucracy in the country" for the delay in negotiations (BBC Brasil, 2014).

The Lula administration eventually allocated the steel project to the northeastern state of Pará, a state that was ruled by a copartisan Governor, Ana Julia Carepa (2007–2011), from the Workers' Party (PT). A key reason for Lula to direct the project to Pará was Governor Carepa's promise to facilitate the passing of environmental regulation via the creation of an Ecological-Economic Zoning (EEZ). EEZs are instrumental for reducing social conflicts because they are entrusted with the creation of clear rules for land use. In effect, by dividing the state into sectors and regularizing 32% of the territory for productive activities, the EEZ in Pará was expected to minimize land disputes and provides legal security for businesses (Máximo, 2010; Senado de Brasil, 2007). In a government event in August 2008 with the Chief of Staff, Dilma Rousseff, governor Carepa promised to "spare no effort" to accelerate the environmental licensing process, in an attempt to anticipate the start of the plant's operation by one year (Carvalho, 2008).

The arrival of China's Baosteel represented a transformative opportunity for Pará and the local PT administration. An initial production capacity of five million tons of steel slabs annually, allowed for the creation of an estimated number of 3000 local jobs, which in turn led to regional economic growth and social development (Reuters., 2007). The expectation was that this investment project would further strengthen the state's capacity to attract additional investments and to promote additional human and technical development. Lastly, the project functioned as a political platform, strategically positioning the region in disputes over resource capitalization in the Senate.³ Representatives of Pará demanded that the PT, and Lula in particular, encouraged steel companies interested in investing in Brazil to set up in Pará to reduce the state's underdevelopment compared to the richer states in the south of the country.⁴

Eventually, Vale, the Brazilian partner of Baosteel, decided to suspend the project due to concerns about its economic sustainability. Instead, Vale chose to enter into a future contract to sell iron to Baosteel for steel production in China. Despite the project's suspension, the negotiations revealed how partisan alignment within the PT helped streamline environmental regulations to facilitate the project's approval.

7. Conclusions

In summary, our investigation firmly establishes that the interplay between various levels of political alignment plays a pivotal role in directing Chinese EFDI within Latin America. The clear inclination of Chinese investors towards regions where local governance aligns with the political orientation of the national leadership sheds light on a strategic approach aimed at reducing investment uncertainties and enhancing operational stability.

This work enriches the existing dialogue on FDI determinants by delving into the subnational aspects, thereby offering a fresh lens through which to view these complex investment decisions. It emphasizes the importance of factoring in the political dynamics at both the national and subnational tiers, which is particularly vital in extractive

³ See interventions by Senators Flexa Ribeiro and Gerson Camata at: https://www.senado.leg.br/publicacoes/anais/pdf/Anais_Republica/2008/2008%20Livro%2044.pdf

⁴ [We encourage]"the future installation of a large industrial enterprise, which has always been a priority for the Ceará delegation. The whole of Brazil knows that the Northeast needs ventures like this, needs to generate jobs and income, and that all infrastructure works that generate such conditions should only be installed in the south of the country". (Arruda 2007). See interventions by Senator Inácio Arruda at: <https://www25.senado.leg.br/web/atividade/pronunciamentos/-/p/pronunciamento/371108>

sectors where the local governance structures significantly influence investment flows.

The insights derived from this study bear important ramifications for decision-makers and stakeholders in recipient nations, providing them with a deeper understanding of the factors influencing Chinese EFDI patterns. At times when Latin America receives investments in lithium and other critical minerals, these findings open a pathway for further research (Fornillo and Lampis, 2023). Our finding could be instrumental in formulating policies that not only attract foreign investment but also ensure that such investments are in harmony with the broader developmental and societal objectives.

Looking ahead, there is a valuable opportunity for further research to examine the impact of political alignment on local development trajectories, as well as its effects on the socio-economic and environmental fabric of the recipient areas (Duque, Pérez, and Del Prado, 2022). Broadening the research framework to encompass additional regions and industries would also enrich our comprehension of the intricate interplay between political considerations and global foreign direct investment trends.

Data availability statement

All data generated and analyzed during the current study, including replication files, are available at <https://dataverse.harvard.edu/dataverse/furdinez>

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CRediT authorship contribution statement

Agustina Giraudy: Writing – review & editing, Writing – original draft, Supervision, Methodology, Investigation, Formal analysis, Data curation. **Francisco Urdinez:** Writing – review & editing, Writing – original draft, Visualization, Methodology, Investigation, Data curation. **Andrea Freites:** Writing – review & editing, Writing – original draft, Investigation.

Declaration of competing interest

The authors declare no conflicts of interest.

Supplementary materials

Supplementary material associated with this article can be found, in the online version, at [doi:10.1016/j.exis.2024.101555](https://doi.org/10.1016/j.exis.2024.101555).

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