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THE EFFECTS OF CROSS-BORDER MERGER & ACQUISITION AND GREENFIELD PROJECTS ON DOMESTIC INVESTMENT IN LATIN AMERICA

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Abstract

This research examines the extent to which outward foreign direct investment (OFDI) from Latin America through greenfield and cross-border merger & acquisition (CBMA) crowds in or crowds out domestic investment (DI). The available literature of relevance on FDI and some recent empirical studies from developing countries suggest that the effects of OFDI on DI is beneficial to home economy. We expand this theoretical framework by disaggregating OFDI into greenfield and CBMA; and providing empirical and theoretical support to defend the idea that the effects of OFDI on DI are by no means always favorable, but unfavorable depending on the entry mode in foreign markets. Applying panel data analysis and using a data set containing seven countries from Latin America over the 2003–2016 period, the research finds that CBMA crowds out DI and there is no statistically significant effect of greenfield on DI.

Keywords: foreign direct investment, internationalization, merger and acquisition, greenfield, entry mode

1. INTRODUCTION

The literature has devoted much attention to examine how inflow foreign direct investment (IFDI) contributes to economic development (Borensztein, De Gregorio, & Lee, 1998). These studies have focused on the impact of FDI by multinational enterprises (MNEs) from developed countries in host countries at earlier stages of the development process (Knoerich, 2017). However, this scenario has changed – with the increasingly important role played by multinational enterprises (MNEs) from developing countries – reasons being liberalization of FDI regimes, international competition, technological and logistical advancements, and public policies toward outward foreign direct investment (OFDI) (Sauvant, Maschek, & Mcallister, 2009). An increasing OFDI share now comes from MNEs based in developing countries (Cuervo-Cazurra, 2008). Hence, such a narrow focus on host economy development caused by IFDI needs to be revisited (Knoerich, 2017), for instance, focusing on home country development through OFDI, since OFDI may contribute in many ways directly or indirectly to home economy development.

The main questions in the literature were no longer related to FDI economic benefit of host countries or its determinants, but to economic benefit from home countries' perspective and what are the domestic consequences of the internationalization process, which is in the interest of developing countries for their economic development. The traditional theories on internationalization assert that MNEs go abroad to take advantage of ownership-advantages, but that is not the case of MNEs from developing countries literature (Dunning, 2001; Hymer, 1976; Kindleberger, 1969). MNEs from developed countries typically enjoy technological superiority and strong management capabilities and better technologies and management practices – compared to firms from developing countries (Zhang, Li, Li, & Zhou, 2010). Moreover, scholars now argue whether MNEs from developing countries deviate from the underlying theories (Cui & Jiang, 2012, p. 266), since they require aggressive asset-strategy to rapidly catch-up their latecomers disadvantages (Child & Rodrigues, 2005; Luo & Tung, 2007; Mathews, 2006).

One major controversial issue on the internationalization of MNEs is whether OFDI crowds in or crowds out domestic activities (Borensztein et al., 1998; Feldstein, 1994). One of the main arguments in this debate is that OFDI replaces domestic activities and consequently domestic investment (DI), especially when firms shift some proportion of their production abroad (Ameer, Xu, & Alotaish, 2017). Theoretically, OFDI could affect positively, neutrally or negatively domestic activities (Dunning & Lundan, 2008). Empirical studies have provided mixed results (Al-sadiq, 2013; Ameer et al., 2017; You & Solomon, 2015). Some argues that OFDI supports economic development (De Propris & Driffield, 2005; Driffield & Love, 2003, 2005; Gondim, Ogasavara, & Masiero, 2018; Knoerich, 2017). Others have defended the negative spillover (Aitken & Harrison, 1999; Al-sadiq, 2013; Haddad & Harrison, 1993). The positive benefit depends on various factors such as the level of development of a country, its policies and MNE's mode of entry or their management practices (UNCTAD, 2006, p. 169). Moreover, it also depends on the ability of MNEs to absorb and exploit the external knowledge (Cohen & Levinthal, 1989).

Basically, there are two FDI modes of entry in a foreign market that are different in nature: cross-border mergers & acquisitions (CBMAs) and greenfield projects (Wang & Wong, 2009). Essentially, both CBMA and greenfield projects involve foreign purchases of asset in foreign markets and are forms to expand internationally (Gopalan, Ouyang, & Rajan, 2017; Luo & Tung, 2007; Wang & Wong, 2009). Nevertheless, the differences may be related to costs,

horizon of return, ownership structure or government support. Thus, it is important to recognize that the macroeconomic implications of CBMA are quite distinct from greenfield investments (Gopalan, Ouyang, & Rajan, 2018).

The literature on internationalization of developing countries has privileged firms originated in Asian countries (e.g. Gopalan et al., 2018) and there is lack of empirical studies on the mode of entry decisions by MNEs from Latin America (Dias, Rocha, & Silva, 2014) and its impact on home economy (Knoerich, 2017). The lack of theoretical studies in this issue is understandable, since only when firms reach an advanced level of development, firms will have the international competitiveness necessary to undertake investments abroad (Dunning & Narula, 1996). Fortanier (2007) has argued that the studies investigating FDI have conceptualized FDI as homogenous flows of capital and have largely ignored the heterogeneous nature of FDI in terms of entry mode, the nature of the production techniques, and the country of origin. In fact, Gondim et al. (2018) argue that OFDI crowds in DI, but they have ignored the distinctive features of investment flows such CBMA and greenfield.

Because there are still gaps in the literature that connect CBMA and greenfield with effects on home economy, we investigate this association. We defend the idea that CBMA is a way to force MNEs from developing countries to quickly find assets, resources, knowledge or capabilities that are not found in their home countries and speed up their internationalization process (Child & Rodrigues, 2005; Luo & Tung, 2007; Mathews, 2006). However, the internationalization process may have a negative impact on home economy because of their weak conditions and low level of absorptive capacity to absorb and exploit external knowledge. In short, developing economies could not overcome their latecomer disadvantage only through asset-strategies acquisitions and benefit domestic market.

2. LITERATURE REVIEW

2.1.FDI motives

MNEs from developing countries tend to have weaker ownership advantages and firm-specific capabilities (Knoerich, 2017; Lall, Chen, Katz, Kosacoff, & Villela, 1983; Wells, 1983). The advantages and internationalization of MNEs in developing countries differ from those in developed country ones (Dunning, 2000). These findings have major implications for developing countries, in particular, regarding opportunities such investment offers for sourcing desired assets and advantages abroad (Knoerich, 2012). Furthermore, such an expansion strategy can be controversial for developing countries because the decision to invest scarce resources abroad inevitably reduces the likelihood of concurrent investments at home (Lipsey, 2000). Earlier studies on multinationals from developing countries have investigated their low costs advantages and indicated that they were at a disadvantage in areas such technology and marketing (Cuervo-Cazurra, & Dau, 2008; Lall et al., 1983; Wells, 1983).

FDI is an instrument that allows business firms to transfer capital, technology, and organizational skill from one country to another (Hymer, 1976). Thus, MNEs, operating in diverse national settings and product settings could develop a rich knowledge structure and strong technological capabilities (Francis, Hasan, Sun, & Waisman, 2014). Dunning (2000) added four motive categories for FDI: (i) resource-seeking; (ii) market-seeking; (iii) efficiency-seeking and (iv) strategic-asset-seeking. In order to understand the mechanisms or the link between OFDI and DI, one must address the underlying motivations for investment in foreign market (Hejazi & Pauly, 2003). Hence, firms create proprietary assets that confer an identifiable

advantage. It is particularly beneficial to the investing firm if it manages to combine the acquired assets with those that it already owns in such a way as to create additional value added. Firms may even undertake strategic-seeking FDI from a position of disadvantage vis-à-vis firms in the host economy, helping them to overcome these disadvantages (Knoerich, 2012; Wesson, 1999).

Studies suggest that developing countries engage into aggressive asset-strategies to rapidly catch-up their latecomers disadvantages (Child & Rodrigues, 2005; Luo & Tung, 2007; Mathews, 2006). Strategic-asset-seeking involves augmenting areas of perceived competitive disadvantage through the acquisition of a variety of intangible and other assets, such as brand names, technologies or managerial competency (Anderson, Sutherland, & Severe, 2015). The authors justify that a key bone of contention regards the question of whether asset augmenting strategies, as opposed to exploitation strategies, are common in developing countries' MNEs. Thus, MNEs from developing countries overcome their latecomer disadvantage through aggressive, proactive and risk-taking acquisitions (Kedia, Gaffney, & Clampit, 2012, p. 159), which is in contrast to conventional theory that argues that a firm's entering foreign markets occurs in stages (i.e. exports, sales through subsidiaries and manufacturing) (Brennan & Garvey, 2009) or in terms of ownership-advantages (Dunning, 2000; Hymer, 1976; Kindleberger, 1969; Vernon, 1992).

Theoretical focus on the pursuit of assets and advantages is more suitable than the asset exploitation-narrative for analyzing the contribution of OFDI to economic development in the developing countries from which the investments originate (Knoerich, 2017). The author asserts that this is because it enables the examination of how the assets or advantages pursued – such as markets, technologies, resources, networks, factories, linkages or other kinds of tangibles or intangibles – support the development of the home economy, either by means of direct transfer and utilization back in the home economy, or through more indirect channels. Moreover, the OFDI strategies are often thought to be different to those found in developed market MNEs, which are considered to rely more upon exploiting existing ownership advantages (Anderson & Sutherland, 2015).

In respect to aggressive strategic-asset-seeking, it seems that MNEs from Latin America do not present the same behavior than other MNEs from developing countries such as from Asia. Latin America has shown a preference of greenfield over CBMA entry mode. Further, Latin American countries took more time to internationalize, reflecting the additional challenges and the need for sophisticated advantages for establishing FDI (Cuervo-Cazurra, 2008). Hence, all this suggest that the benefit of FDI operations abroad from MNEs from Latin America may have different impact from other countries such as Asian ones.

2.2. FDI trends

Most of the empirical and theoretical literature has not distinguished between the two types of FDI (Ameer et al., 2017), but both are quantitatively and economic important (Nocke & Yeaple, 2007). In particular, for developing countries, where international investment is indispensable for sustainable development (WIR, 2018). The majority of OFDI from developing countries is created through CBMA, which is a fast way of international expansion driven by diversification strategies (Deng & Yang, 2015). This acquisition internationalization strategy is true especially for Asian countries. In 2003, CBMA represents only 8% of the deals, while in 2017 this percentage has increased to 51% of the total CBMA transactions. For Latin America there is a

significant difference compared to Asia figures, in relation to political structure or macroeconomic environment. The predominant strategy is still greenfield (81%), but CBMA is slowing increasing its share (see Table 1). These differences mean that Latin American firms are less aggressive than Asia, they target medium and long term investments and operations with accumulation of capital.

Table 1. CBMA and greenfield historical evolution (US$ in millions)

	Latin America			Asia		
	CBMA	Greenfield	Total	CBMA	Greenfield	Total
2003	1.776 (16%)	9.645 (84%)	11.421 (100%)	9.149 (8%)	105.794 (92%)	114.942 (100%)
2017	1.058 (19%)	4.383 (81%)	5.441 (100%)	193.789 (51%)	186.027 (49%)	379.816 (100%)

Source: UNCTAD, own elaboration

MNEs from India, Malaysia and China are at the forefront of CBMA among developing countries (AT Kearney, 2018). Chinese MNEs have shown a greater interest in acquiring capacities, technologies and access to markets in advanced economies through the acquisition of strategic assets capable of delivering results in the short term (UNCTAD, 2018a). Another feature of China's internationalization strategy is related to the geographical location of investments, with Chinese greenfield investments mostly concentrated in Asia (UNCTAD, 2018a). Latin American firms invest less of its GDP in R&D (research and development) than any region except South Asia, and very few Latin American firms rank among the global leaders in R&D spending (BCG, 2018).

2.3. CBMA and greenfield

Greenfield occurs when an investor builds and operates productive unit in a foreign market, that is, it is essentially accumulation of capital, while CBMA occurs when an investor gains control over existing foreign assets what is essentially a transfer of ownership (Calderón, Loayza, & Servén, 2004). CBMA can be classified into two operation forms: merger occurs when two entities merge and acquisition when one entity buy another one. Therefore, the two forms of FDI are different in nature (Wang & Wong, 2009). In short, greenfield project is classified as a way of internal growth and CBMA as a way of external growth. Moreover, these forms are subject to various types of risks and difficulties, which can entail different source of costs and entry strategies (UNCTAD, 2006).

Andersson and Svensson (1994) provide an analysis on the characteristics of firms that choose to undertake greenfield versus CBMA finding that those firms with better organizational capacity prefer to engage in CBMA, while those possessing higher technological skills will instead take the greenfield route. Nagano (2013) argues that a MNE will prefer greenfield entry mode rather than CBMA when the host country adequately enforces intellectual property rights laws also when the MNE already has regional networks in the host country. Greenfield investment attaches importance to make good use of the capacity of the enterprises' internal organization and resources, then in order to establish the new production capacity and obtain

the scale, purchasing land, machinery and means of production from the market (Wang & Wong, 2009). In general, MNEs assume risks and invest in long run projects abroad in order to repatriate positive outcomes such technology, knowledge, management resources or profits.

For developing countries, the distinction between greenfield and CBMAs is particularly important, since the economic dependence of FDI has remarkably increased over the last years. FDI either by means of CBMA or greenfield is considered as a conduit of transferring physical capital and intangible assets, such as technology, skills and human capital development (Zhuang & Griffith, 2013). OFDI can help firms achieve various strategic objectives, such as expanding market access, enhancing efficiency and acquiring natural resources and strategic assets. However, a positive contribution of an OFDI project to a firm's competitiveness is not a sufficient condition for the project to be of net benefit to the economy at large (UNCTAD, 2006). In all economies, whether developed or developing ones, the interaction of CBMA or greenfield with host-country enterprises and other economic agents is one of the key determinants of the economic impact (UNCTAD, 2006).

2.4. MNEs from developing countries

MNEs from developing countries originate from an unfavorable environment, that is, no significant country-specific or firm-specific ownership advantages as predicted by traditional theories (i.e., Dunning, 2000; Hymer, 1976; Kindleberger, 1969; Vernon, 1992). MNEs from developing countries do not have ownership-advantage and have weak innovation systems, undeveloped supporting institutions, and poor protection of intellectual property rights (Khanna & Palepu, 1997). MNEs could have different levels of absorptive capacity that is its ability to identify, assimilate, transform, and apply external knowledge (Cohen & Levinthal, 1989; Lichtenthaler, 2016).

Unlike established MNEs, most of the sources of advantage at home, such as low operating costs, distribution systems, brands, customer relationships, government relationships, etc., are not particularly mobile (Gammeltoft, Barnard, & Madhok, 2010). Even though under these circumstances, MNEs from developing countries enter foreign markets. However, their competitive advantage abroad, in particular in the advanced economies, tends to be based on price competition, which is not so easily sustainable, rather than on technology or brand (Gammeltoft et al., 2010). The trajectories followed by MNEs from developing countries are often different from MNEs from developed countries and the differences have theoretical consequences (Gammeltoft et al., 2010). Recent studies on internationalization of developing MNEs have exposure the weakness of this view on internationalization (Buckley et al., 2009; Child & Rodrigues, 2005; De Propris & Driffield, 2005; Driffield & Love, 2003; Gammeltoft et al., 2010; Makino, Lau, & Yeh, 2002).

MNEs from developing countries suffer from comparative newness compared to more established MNEs from developed countries, which are already present in many markets. Their lack of international experience, lack of reputation, and the like put them at a disadvantage relative to the latter, and can further increase the liability of foreignness generally suffered by foreign firms (Zaheer & Mosakowski, 1997). Moreover, the strategic needs and absorptive capacity of the developing countries' MNEs are different than those of the developed economies ones (Cohen & Levinthal, 1990).

Stoian (2013) mentions that the patterns of OFDI from Russia challenge the propositions of the Uppsala School and the investment development path (IDP) and indicate the need to extend the

eclectic paradigm to include home country institutions (Kalotay, 2008; Kalotay & Sulstarova, 2010). Moreover, Buckley, Cleg, Cross, Liu, and Voss Zheng (2009) argue that in order to explain Chinese OFDI, three special explanations (capital market imperfection, special ownership advantages and institutional factors) need to be nested within the general theory of the multinational firm. Cuervo-Cazurra & Rui (2017) find barriers of absorptive capacity such low level of management or institutions qualities may influence internationalization process from MNEs from developing countries. Eren & Zhuang (2015) investigating FDI find that availability of absorptive capacity plays an important role in stimulating their growth effects.

Multinationals from developing countries are also prepared to make high risk investments to markets typified by large psychic distances (i.e. developed markets) (Anderson & Sutherland, 2015). Such strategies, it is believed, are distinct from incremental process models of internationalization, in so far as they consider the accelerated pace of internationalization as a central component (Luo & Tung, 2007). These ideas are considered somehow radical in the international business area, since it challenges the widely accepted theoretical framework that assumes firms in possession with ownership-advantages before entering new markets. It is also assumed that MNEs from developing countries are able to successfully tap the intangible assets of their acquired targets (Anderson & Sutherland, 2015).

3. HYPOTHESIS

Gondim et al. (2018) examining developing countries have showed that OFDI positively impact the rate of domestic investment from the largest economy in Latin America. Their findings are in line with other recent studies (i.e., Knoerich, 2017). This result helps to better understand the macroeconomic association between OFDI and DI, but Gondim et al. (2018) use FDI aggregate data, which clearly does not incorporate FDI strategic specifies or theoretical conditions for each of OFDI operation. For example, greenfield project is classified as a way of internal growth and CBMA as a way of external growth. Greenfield investment attaches importance to make good use of the capacity of the enterprises' internal organization and resources, then in order to establish the new production capacity and obtain the scale, purchasing land, machinery and means of production from the market (Wang & Wong, 2009). In addition, CBMA is more affected by strategic, geographic and cultural aspects also it is more sensitive to short-term variations in the environment and refers to ownership transfer (Luo & Tung, 2007; Wang & Wong, 2009). These forms of OFDI are subject to various types of risks and difficulties suggesting that depending on the country the economic results might be different.

Additionally, countries have idiosyncratic characteristics in their national institutional environment, which is composed of various types of institutions such as policy, regulation, value system, and education systems (Kostova, 1999), so developing countries have weak institutions, which impacts differently they way they take advantage of internationalization strategies or the benefit to home country. For example, MNEs from developing countries must adapt their strategies to local and more advantaged environment. The institutional distance, which measures numerous aspects of institutional environments between the home and host countries (Kostova, 1999) is the main driving factor behind the cost of doing business abroad. For developing countries implying additional costs. In this case, greenfield investment might present a negative association with macroeconomic variables because there is no government support or strong institutions to back up long-term projects. Home environment is unstable and MNEs might focus on short term projects such CBMA instead long term project such greenfield. Thus, we propose our hypotheses:

Hypothesis 1. *Outward foreign direct investment through cross-border merger & acquisition impacts positively domestic investment in Latin America.*

Hypothesis 2. *Outward foreign direct investment through greenfield impacts positively domestic investment in Latin America.*

4. METHODOLOGY

4.1. Data and variables

This research uses the most extended aggregate annual data collected from the World Bank and United Nation databases. These sources collect data directly from central banks, statistical offices, national authorities and other international organizations. These data constitute the main source for reported data on FDI flows (UNCTAD, 2018b).

Initially, we use a cross-country data over the period 2003-2016 for all Latin American countries. However, there are problems of lack of transparency and data availability in the databases (specially from developing countries) that need to be considered in the final database selection. Hence, we did not include countries with more than half of missing observations in at least one time series because incomplete data could mislead the panel data results. It is worth pointing out that tax-haven, non-democratic and Caribbean countries were not included in the analysis for the purpose of the research. Therefore, the final selected countries are Argentina, Brazil, Chile, Colombia, Mexico, Panama and Peru.

The dependent variable is DI, being gross fixed capital formation (GFCF) a proxy for DI. We follow previous literature in this choice (i.e., Agosin & Machado, 2005; Al-sadiq, 2013; Feldstein, 1994; Gondim et al., 2018; Herzer & Schrooten, 2008; You & Solomon, 2015). GFCF allows measuring to what degree the allocation of resources to projects abroad leads to a fall or rise in DI. It is perhaps the most common benchmark of the impact of OFDI on DI (UNCTAD, 2006, p. 180). It refers to the net increase in physical assets (investment minus disposals) by the business sector, government and households. In addition, GFCF is one of the main components of final expenditures to calculating GDP, which is a measure of a country development. In relation to FDI, it can be used to finance fixed-capital formation (Gondim et al., 2018). The independent variables are CBMA and greenfield projects that are the two components of FDI (in USD by country of investor). We analyze the empirical relationship between CBMA and greenfield with DI by applying panel data regression with fixed effect and random effect. We used EViews 9.0 for the estimation procedures, which is a powerful econometric software for time-series analysis.

4.2. Diagnostic tests:

Before stepping into panel data analysis some diagnostic tests are necessary to be conducted in order to ensure the accuracy and reliability of the estimations. As a first diagnostic test, we verify for the order of integration of the time series. In the literature, there are two groups of panel unit root processes. The first one assumes a common unit cross-section: Levin, Lin and

Chu (LLC) (Levin, Lin, & Chu, 2002) and Breitung test (Breitung, 2001) are the most popular. The second group assumes that parameters freely move across cross-section that is called an individual unit root process: Im, Pesaran and Shin (IPS) (Im, Pesaran, & Shin, 2003), Fisher-ADF and Fisher-PP test. From the results, we found that DI(2), CBMA(1) and GREEN(1), so the time-series become stationary after *d* differences.

In a bi-variate framework, the first variable is said to cause the second variable in the Granger sense if the forecast for the second variable improves when lagged values for the first variable are taken into account (Granger, 1969). However, this method cannot be used in panel data analysis. Recent theoretical developments have been made, so we employ the Dumitrescu and Hurlin (2012) panel data causality procedure. The introduction of a panel data dimension permits the use of both cross-sectional and time-series information to test any causality relationships between two variables (Hoffmann, Lee, Ramasamy, & Yeung, 2005). The only statistically significant relation is that the CBMA Granger causes DI, so it is a unidirectional relationship, which is in accordance with the theory. In the other cases, there is no Granger-causality in any direction.

4.3. Estimations

The results of estimations are presented in Table 2. F-tests for both fixed and random models are significant at a 1% level of significance. The only insignificant coefficient is Greenfield for fixed model.

Table 2. Estimation results

	Random Model			**Fixed Model**		
	Coefficient	t-Statistic	Prob.	Coefficient	t-Statistic	Prob.
C	63130225	5.994496	0.0000***	1.21E+08	11.17653	0.0000***
GREEN	26804.10	7.334222	0.0000***	913.9301	0.204528	0.8385
CBMA	343.9541	0.153271	0.8786	-7140.999	-2.993713	0.0037***
R-squared	0.263809			0.775478		
Adjusted R-squared	0.245631			0.751529		
Durbin-Watson stat	0.584226			0.394774		
Prob. (F-statistic)	0.000004***			0.000000***		

*Note: ***, ** and * denote significance at the 1 %, 5 % and 10 % level.*

According to Tiwari and Mutascu (2011), there may be an association between countries' unobservable individual effects and OFDI. If there is no association between countries' unobservable individual effects and OFDI, the most appropriate way of carrying out the analysis is using a panel model of random effects. On the contrary, if there is a correlation between countries' individual effects and OFDI, the most appropriate way of carrying out the analysis is to use a panel model of fixed effects. Therefore, we need to perform a test in order to choose between random and fixed effect models. Hausman test (Hausman, 1978) was performed to decide between fixed and random effects, using unlagged regression panel with random effect model. This tests the null hypothesis of non-existence of correlation between unobservable individual effects with other regressors, against the alternative hypothesis of correlation existence. Thus, if the null hypothesis is accepted, then we concluded that correlation is not

relevant so a random effects is the most correct method, on the contrary, the fixed effect model is the most appropriate model (Wooldridge, 2015).

4.4. Estimations for Asian countries

In order to compare our results, we also perform panel data analysis to Asian countries (China, Singapore, Thailand, Malaysia, India, Philippines and Indonesia) for the period between 2003 to 2016. We have tested for all diagnostic tests as for Latin American regressions to make sure that we do not have any data problem. Also, the most appropriate model is the fixed one. The estimation results are shown in the following table.

Table 3 Estimation results.

	Random Model			**Fixed Model**		
	Coefficient	t-Statistic	Prob.	Coefficient	t-Statistic	Prob.
C	53536718	0.447292	0.6557***	82442264	1.476338	0.0051***
GREEN	35249.61	2.984431	0.0036***	15358.70	2.869066	0.0051***
CBMA	15725.80	6.060624	0.0000***	31986.24	5.427951	0.0000***
R-squared	0.663110			0.893865		
Adjusted R-squared	0.663110			0.884325		
Durbin-Watson stat	0.978012			1.011069		
Prob. (F-statistic)	0.000000***			0.000000***		

*Note: ***, ** and * denote significance at the 1 %, 5 % and 10 % level.*

Table 2 provides estimation results from panel data analysis for Latin American countries during the period 2006-2013. We have conducted several sets of tests for robustness checks to assure our findings accuracy. The only significant coefficient is CBMA and it indicates that the macro association is negative, that is, CBMA crowds out DI. Hence, we rejected Hypothesis 1, which was based on the literature indicating that the effects of CBMA on DI would be positive. Moreover, we cannot reject Hypothesis 2, since the coefficient is insignificant. Table 3 shows the same estimation for Asian countries for the purpose of comparison with other developing markets. The Asian results point to the opposite direction of Latin America estimation's results because both coefficients are positive and significant.

5. DISCUSSION OF THE FINDINGS

We have argued that firms from Latin America do not have strong institutions that could back-up their strategies. Strong institutions can provide stability and business stimulation for firms to increase their management skills or innovation capacity, but developing countries do not have supportive government (Carlos Zalaf Caseiro & Masiero, 2014; Lall et al., 1983; Wells, 1983). These facts heighten the feeble appropriability regime negative impact on the absorptive capacity of MNEs from developing countries (Cuervo-Cazurra & Rui, 2017).

Second, we provide distinguishing characteristics of CBMA and greenfield operations to show that one cannot consider an aggregate view of OFDI when investigating its association with DI because the investment characteristics are different in terms of strategy, risks and returns

(Gopalan et al., 2017; Luo & Tung, 2007; Wang & Wong, 2009). In particular, we expand Gondim et al. (2018)'s work showing that Latin America firms do not implement aggressive acquisition strategies to enter foreign markets as Asian firms do (see Table 1). It is often argued that MNEs from developing countries use acquisitions to psychically distant developed markets to acquire strategic assets (Child & Rodrigues, 2005; Luo & Tung, 2007; Mathews, 2006) and the impact on home economy is positive (Knoerich, 2017). However, this is none of the case in Latin America. As discussed earlier, the reasons could be due to political conditions, lack of government support, weak institutions or low level of firms' capabilities to operate abroad. For this reason, it is important in analyzing the effect of two components of OFDI on DI separately. CBMA presents a feature of a risky and short-term strategy also it refers to ownership transfer, on the contrary, greenfield is more oriented to long-term strategy (Luo & Tung, 2007; Wang & Wong, 2009). Our findings show crowding-out effect of CBMA on DI and no significant association between greenfield and DI. Moreover, our causality test indicates unidirectional causality running from CBMA to DI. This means that internationalization through CBMA does not bring positive benefit to home economy.

We also compare our results to Asian countries and the results are opposite (see Table 3). CBMA and greenfield are significant for Asia and the coefficients are positives, indicating a beneficial effect of internationalization process on home economy. Thus, Asian countries may overcome the ownership disadvantage by engaging in OFDI operations. However, Latin American firms do not overcome their disadvantages by only acquiring assets from foreign markets. It must be accompanied by certain conditions to improve their capacities to absorb knowledge from OFDI.

6. CONCLUSION

OFDI from developing countries has received increasing attention in the literature. Further, it is an important issue for governments around the world as one of the cornerstones for their economic development. We examine the effects of OFDI through CBMA and greenfield on DI for seven Latin American countries (Argentina, Brazil, Chile, Colombia, Mexico, Panama and Peru) for the period between 2003 and 2016. Recent studies on this matter have shown a positive association between OFDI and DI, but these studies examine the association of OFDI with DI considering homogenous flow. Moreover, these studies consider aggressive asset-strategy countries that search for catching-up their latecomers' disadvantages by quickly expanding their operations to global market.

The main conclusion of this research is that positive impacts of OFDI on DI as expected by the literature is not assured when analyzing Latin Americas because the benefit depends on entry mode, which incorporates different risks and strategies that interferes in the firm ability to absorb external knowledge. Further, institutions interfere in MNEs projects. In short, we have identified that CBMA has negative effect on DI in Latin America and no statistically effect of greenfield on DI for Latin America. On the contrary, CBMA and greenfield have positive effect on DI in Asia. This may indicate that Latin American countries take more time to internationalize, reflecting the additional challenges and the need for sophisticated advantages for establishing FDI (Cuervo-Cazurra, 2008). In short, Latin American countries could not overcome their latecomer disadvantage only through asset-strategies acquisitions and benefit domestic market.

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