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OLD WINE IN NEW BOTTLES: A COMPARISON OF EMERGING MARKET TNCs TODAY AND DEVELOPED COUNTRY TNCs THIRTY YEARS AGO

John H. Dunning, Changsu Kim and Donghyun Park

Old Wine in New Bottles: a Comparison of Emerging Market TNCs Today and Developed Country TNCs Thirty Years Ago[1]

John H. Dunning[a], Changsu Kim[b] and Donghyun Park[c]

[a] University of Reading and Rutgers University; [b] Ewha Womans University;
[c] Nanyang Technological University, Singapore

Introduction

Traditionally, the vast majority of transnational corporations (TNCs) that operate across borders have originated from developed countries such as the United States (US), Japan and members of the European Union (EU). Large and well-established TNCs such as Coca Cola, Toyota or Siemens are almost invariably from such countries. In the context of TNCs, we tend to associate the role of emerging markets[2] primarily as the destination of TNCs from developed countries, for example, US software companies setting up research facilities in India, Japanese manufacturers establishing production facilities in China, or British banks acquiring financial institutions in Brazil. Until quite recently, this widespread perception of developed countries as homes of TNCs, and emerging markets as hosts of TNCs, had been firmly rooted in empirical reality (Dunning 1993). While, as will be described elsewhere in this chapter, there were TNCs from emerging markets in the past, they were nowhere near as active or visible as they are today.

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[1]The volume in which this paper is contained is due to be published by Edward Elgar Publishing under the title *The Rise of Transnational Corporations from Emerging Markets: Threat or Opportunity*? (ed. Karl P. Sauvant).

[2] The *World Investment Report* defines "developing and transition economies" as comprising all developing countries plus countries in South-East Europe and the Commonwealth of Independent States (CIS). Occasionally, the term "South" or "Third World" is also used to denote these economies. In this chapter, the term "emerging markets" is more narrowly defined and refers to the major sources of FDI from the "South," including Argentina, Brazil, Chile, China, Columbia, Hong Kong (China), India, the Republic of Korea, Malaysia, Mexico, Nigeria, Russia, Singapore, South Africa, Turkey, Taiwan Province of China, Venezuela, which accounted for 90% of FDI from emerging markets in 2004.

In line with their growing relative significance in the global economy, many emerging markets are now becoming important outward foreign direct investors (UNCTAD 2006). At a broader level, the growth of TNCs from emerging markets reflects their rapid economic development and growth (Dunning and Narula 1996). The four newly industrialized economies of Hong Kong (China), the Republic of Korea, Singapore and Taiwan Province of China now have *per capita* income levels approaching those of developed countries. In other words, some emerging markets have become rich enough to export capital to the rest of the world. However, the growth of TNCs from emerging markets is by no means limited to the most successful or to the most industrialized developing countries. Asian countries other than the newly industrialized economies, including China and India, major Latin American economies such as Brazil and Mexico, as well as South Africa have all spawned their own TNCs. It is possible to interpret the growth of such cross-border activity as evidence of the growing ability and willingness of emerging-market firms to make investments outside of their home countries (Bartlett and Ghoshal 2000). Indeed some of these firms, such as the Republic of Korea's Samsung and Hyundai, India's Tata and Malaysia's Sime Darby, have become truly global players with operations all over the world (UNCTAD 2006).

Given that most TNCs have come from developed countries in the past but that an increasing number of emerging market firms are investing outside of their national boundaries, it is both interesting and worthwhile to examine the differences between the two groups of firms. Indeed, the central objective of this chapter is to compare and contrast the contemporary emerging-market TNCs with the traditional developed-country TNCs. We shall set out some similarities and differences in the industrial and geographical patterns of outward FDI from the two groups of countries and shall suggest that these similarities and differences may be due both to factors that are exogenous to both groups—especially the current wave of economic globalization—and to those endogenous to them, such as government policies toward outward FDI. We hope that our comparative study will help provide the reader with a better understanding of outward FDI and TNCs from emerging markets, which is an issue of growing global significance.

A. Quantitative Significance of Emerging-Market FDI and TNCs

In 1980, the average GDP per capita of emerging markets that are new players in the global economy amounted to about $1,400, or just 14% of the level of developed countries. This figure had risen only marginally to 15% by 2004 (World Bank 2006). However, some emerging markets, most notably in East Asia, have experienced spectacular sustained economic growth that has transformed them from being typical poor Third World countries into dynamic industrialized economies on the brink of first world prosperity. The newly industrialized economies of Hong Kong (China), the Republic of Korea, Singapore and Taiwan Province of China have been the front-runners of this East Asian miracle, followed by Indonesia, Malaysia and Thailand. In fact, Hong Kong (China) and Singapore had higher GDP per capita than Italy or Australia in 2004, while the Republic of Korea and Taiwan Province of China had a GDP per capita equal to that of Israel and Spain. All four newly industrialized economies are now classified by international organizations as high-income economies. More recently, China, India and Viet Nam have begun to experience rapid economic growth on a sustained basis. Yet despite the impressive economic performance of many East Asian economies, the overall performance of emerging markets since 1980 has been mixed.[3]

[3] FDI by TNCs from developing countries has changed in both significance and pattern for the past decades. The early increase of FDI from developing countries in the 1970s and 1980s were from all parts of the developing world, including Africa, Asia and Latin America. From the mid-1980s onward, however, Asia began to take the lead (Dunning, Hoesel and Narula 1998).

The most successful emerging markets have benefited enormously from globalization (Mathews 2006). Integration into the global economy has not been confined to those countries but has extended to virtually all emerging markets (Hoskisson, Eden, Lau and Wright 2000). The overall performance of the emerging economies in terms of exports and investments has been impressive indeed. In 1980, the major emerging markets of Asia and Latin America accounted for 10% of the world's exports. Their share rose to 15% by 1990, to 21% by 1995 and to 24% by 2003. China has now become the fourth largest exporter in the world, after Germany, the US and Japan.[4] Hong Kong (China) and the Republic of Korea are among the top 12 largest world exporters as well. However, as table 1 below somewhat surprisingly shows, the share of emerging markets in the global stock of inward and outward FDI has not changed much since 1980. A likely explanation for this is the massive volume of cross-border mergers and acquisitions (M&As) within the Triad—the US, Japan and EU—in the 1990s. One important indicator that has clearly changed is the ratio between outward and inward FDI stock of emerging markets.

[Insert Table 1 here]

As we can see in table 2, in 2003, around 80% of the stock of the new players' outward FDI was in services such as trade, finance and business activities, compared to 62% in 1990. The corresponding shares for developed-country TNCs were 44% in 1990 and 67% in 2003. As is the case of their developed-country counterparts, the share of primary and secondary sectors in developing-country TNCs' outward FDI is declining. The increase in the share of services in outward FDI of emerging markets mirrors the increase in the share of services in their gross domestic products (GDP). Furthermore, service-oriented economies, such as Hong Kong (China) and Singapore, invest abroad primarily in services—especially offshore centers and financial

[4] In 2003, the value of exports was $748 billion, $724 billion, $472 billion, and $438 billion for Germany, the US, Japan and China, respectively (World Bank 2006).

services—and thus help to raise the share of services in outward FDI of emerging markets as a whole.

[Insert Table 2 here]

Let us now look at the share of inward FDI accounted for by different emerging markets. In 2002/4, Latin America and Asia account for almost all of emerging markets' inward FDI. Given the growing interest of foreign TNCs in Asia in general and China in particular, one might have expected Asia's share of emerging markets' inward FDI to rise at the expense of Latin America; this, however, has not been the case. In 1980, Latin America and Asia accounted respectively for 17% and 83% of emerging markets' inward FDI. The corresponding ratios for 2004 were 28% and 64%. Taking a closer look at Asian economies' inward FDI, by 2004, Hong Kong (China) had accumulated the fourth largest stock of inward FDI, after the US, the United Kingdom (UK) and France. China was the third largest recipient of FDI inflows in 2003 to 2005, after the US and the UK. During this period, the Chinese-speaking economies of China, Hong Kong (China), Singapore and Taiwan Province of China jointly accounted for 45% of FDI inflows into emerging markets and a seventh of global FDI inflows.

Table 3 shows the share of outward FDI accounted for by different emerging markets. In 1980, Latin American countries accounted for nearly four fifths of the total outward FDI by emerging markets. By 2004, their share had fallen to 28%. The corresponding share of Asian emerging markets, and especially that of the Chinese-speaking countries, rose dramatically from 11% to 69%. The growth rate of Asia's outward FDI has been most impressive. Table 3 shows that Hong Kong (China) leads the way with a $40 billion stock of outward FDI in 2004, a sum exceeded only by the France, Germany, the UK and the US. Brazil, China, The Republic of Korea, Singapore and Taiwan Province of China are the other main sources of outward FDI from emerging markets. Along with Hong Kong (China), they accounted for 70% of the stock of outward FDI from emerging markets in 2004 and 7% of the global stock of outward FDI. The corresponding figures for 1990 were 66% and 5%.[5]

[Insert Table 3 here]

Central and Eastern European countries are the other new actors on the world economic stage. However, as recently as 1980, there were virtually no FDI inflows into those economies. The Czech Republic, Hungary and Poland started to open their borders to foreign TNCs around 1990. By 1995, the Central and Eastern European countries accounted for 1% of global inward FDI stock. They continued to experience rapid growth of inward FDI, in part due to extensive privatization of state-owned assets; by 2004, their share had risen to 3%. Today, the Czech Republic, Hungary, Poland and Russia each exceed Argentina, India, the Republic of Korea and Taiwan Province of China, as FDI destinations. However, as might be expected, their outward FDI is lagging behind. Even in 2004, the combined share of Central and Eastern European countries was only 1% of the global stock of outward FDI (UNCTAD 2005). If we exclude FDI outflows from Russia, which have mainly taken the form of flight capital, investment in oil and mineral exploration and strategic asset augmenting investment in neighboring ex-socialist countries,[6] their combined share was only 0.2%. Nevertheless, the Czech Republic, Hungary, Poland and Slovenia are now beginning to invest in neighboring countries.

B. An Explanatory Framework of the New Players' FDI

The most generally accepted scholarly explanation for the emergence of new players on the global investment scene is the investment development path, a concept that was first put forward by one of the authors of this chapter in 1979 (Dunning 1981). This

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[5] These same six economies accounted for 79% of FDI outflows from developing countries between 2002 and 2004, and 6% of global FDI outflows.

[6] Five of the top ten TNCs from Central and Eastern Europe were Russian, including a $7.2 billion stake in petroleum and natural gas by JSC (UNCTAD 2005).

suggests that as countries' per capita income rise, they initially draw in increasing amounts of FDI, and subsequently become outward investors. Eventually, as demonstrated in the case of most industrialized countries, outward FDI either exceeds inward FDI, or the two types of FDI fluctuate around a rough balance. This trajectory of the investment development path essentially reflects the changing competitive advantages of firms from particular countries vis-à-vis their foreign competitors, and the changing attractiveness of countries with respect to costs, market opportunities and natural or created resource endowments. The principle of comparative dynamic advantage suggests a continuing restructuring of economic activity as countries move upwards along their investment development path. Both inward and outward investment have a role to play in easing this process. Figure 1 below depicts a freehand drawing of the relationship between per capita GNP and net outward FDI, which is the difference between gross outward investment and gross inward investment. Figure 1 shows two different investment development paths – a traditional investment development path and a more contemporary investment development path that reflects the influence of globalization.

[Insert Figure 1 here]

In figure 2 below, we plot the ratio of actual outward FDI to inward FDI (O/I) on the vertical axis and per capita GNP on the horizontal axis for selected developed countries and emerging markets for the year 2004. As might be expected, figure 2 shows virtually all the new players as having an outward to inward FDI ratio of less than one, with the notable exception of Taiwan Province of China. Perhaps more significantly, figure 2 also shows that there is a positive relationship between per capita GNP and the outward-to-inward FDI ratio. So the general proposition of the investment development path remains valid, even though other research has shown that the outward-to-inward FDI ratio also depends on other country-specific factors, such as the quality of a country's institutions, its economic structure, its openness to international trade and capital flows, and its government policy toward FDI.[7]

[Insert Figure 2 here]

The home economies of emerging-market TNCs differ widely in terms of size, income level, economic structure, natural resources, technological capabilities, trade openness, government policies and other characteristics (Hoskisson et al. 2000). For example, the economies range from small ones such as Hong Kong (China) and Singapore to very large ones such as China, India, Brazil and Russia. Some home economies such as the Republic of Korea, China and India have modest endowments of natural resources, whereas others such as Brazil, Russia and Malaysia have abundant endowments of natural resources. East Asian economies are relatively more dependent on manufacturing and exports than other emerging markets. It is therefore not surprising that each emerging market has its own particular FDI objectives, which are shown in table 4 below. For example, Singapore's FDI is associated with market access and low labor costs, the Republic of Korea's FDI with escaping high labor costs and militant labor unions at home, China's FDI with the search for markets and natural resources, India's FDI with new market access and escape from home-country government restrictions, Brazil's FDI with substantial investment in the financial and business sectors, Mexico's FDI with access to markets and knowledge, and Russia's FDI with the energy and mining industries and privatization programs in transition economies.

[Insert Table 4 here]

While each emerging-market economy and firm has its own particular motives

[7] From a government perspective, outward and inward FDI can be used as a wider policy to upgrade national competitiveness. Certain countries might be in a favorable position to exploit/gain new assets via outward FDI, while others might best advance their competitive/comparative advantage by encouraging inward FDI from a different group of countries. The application of the investment development path to understanding the growth of outward FDI of developing countries is set out in UNCTAD (2006).

for outward FDI, there are also a number of broader considerations that motivate all emerging-market economies and firms to venture abroad. Broadly speaking, there are two groups of reasons as to why any firm would engage in FDI: the first is to exploit their existing assets or competitive capabilities, and the second is to augment these assets and capabilities. Whereas asset-exploiting FDI is associated with an investing firm's making use of its existing ownership advantages, asset-augmenting FDI is associated with an investing firm acquiring important ownership (O) advantages that it currently lacks (Wesson 1993; Kuemmerle 1999). There are three more specific motives underlying the asset-exploiting type of FDI: to access natural resources, to exploit existing markets or seek out new markets, and more effectively to coordinate and integrate existing cross-border operations.

An interesting issue in connection with FDI motives is its geographical distribution. Do TNCs from emerging markets invest primarily in other emerging markets or in developed countries? Do they largely stay close to home or venture farther a field to distant countries? Tables 5 and 6 below summarize the most salient features of the geography of the new wave of FDI.

[Insert Tables 5 and Figure 3 here]

While TNCs from Asia tend to be more geographically diversified and more active outside of their home regions, those from Latin America and Central and Eastern Europe tend to be more concentrated in their home markets or adjacent markets – notably, North America for Latin American TNCs, Asia for Asian TNCs and Western Europe for Central and Eastern European TNCs. The first wave of outward FDI from both Asia and Latin America in the 1970s was directed to other parts of the same region. The second wave in the 1980s was attracted more to developed countries. During the third wave over the past ten years, an increasing share of new FDI has returned to the home region, due mainly to the economic vigor of both regions, especially that of China and the rest of East Asia. However, there are signs of a fourth wave now emerging with a focus on seeking out new technologies, brand names and organizational competences (Moon and Roehl 2001)—*viz.* asset augmenting FDI—and this is directed primarily towards the developed economies. In 2004 and in the first half of 2005, some 85% of the $18 billion of cross-border M&As valued at over $300 million undertaken by TNCs from emerging markets involved targets in developed economies, and all were in manufacturing or service sectors.[8]

[Insert Table 6 here]

Table 6 summarizes the suggested relationship between the investment development path, types of FDI and the ownership, locational and internalization (OLI) advantages of investing firms. This depicts the framework as we see it as of 2006—and it paves the way for the analysis of the following section.

C. A Comparison of Today's Emerging-Market TNCs and Yesterday's Developed-Country TNCs

We now turn to the main contribution of this chapter, which is to compare the attributes of emerging-market TNCs today with those of developed-country TNCs 30 years ago. In this connection, the current wave of globalization, which started around 1980, provides a natural dividing line between the present and the past. "Economic globalization" refers to the progressive removal of barriers to cross-border flows of goods, services, capital and labor, or, equivalently, the progressive integration of national economies into a single global economy. Of course, globalization is an evolutionary process and, in the broader sense, has been moving forward ever since the end of the Second World War (Wolf 2004). However, there has been an unmistakable acceleration in the momentum of globalization processes since around

[8] They included a $7.8 billion purchase of the Canadian company John Labatt by the Brazilian company Ambex, a $1.7 billion acquisition of IBM's PC business by the Chinese company Lenovo, and a $4.2 billion investment in the Canadian oil group Petrokazakhstan by the Chinese energy group CNPO (UNCTAD 2006).

1980. This has reflected the introduction and/or convergence of a number of different phenomena. For one, China's historic decision to move away from a centrally planned economic system to a more market-oriented system in the late 1970s heralded the reincorporation of a substantial part of the world population into the global economic arena. The impressive performance of another Asian giant, India, especially since the economic reforms of the early 1990s, has further reinforced this trend. The great majority of developing countries have turned away from protectionism and toward trade liberalization when it became clear that the import substitution strategy of previous years had been ineffective in delivering economic growth. Globalization received a further boost from the demise of central planning in the USSR and Central and Eastern Europe. The upshot of the current wave of globalization is the phenomenal growth of cross-border flows of goods and services, capital and labor. National economies today interact with each other to a much greater degree than in 1980.

[Insert Table 7 here]

First, we will briefly look at the history of FDI for two time periods (pre- and post-globalization), of two groups (developing and developed economies). In the pre-globalization period, the great majority of FDI from developed economies was either market seeking or efficiency seeking; it was particularly of an intra-Triad kind. During that period, there was only a very limited amount of FDI from developing economies. The post-globalization era was most noticeable for the growth of FDI from developing countries and the emergence of emerging market TNCs. Initially, the majority of developing-country FDI was of the market- and resource-seeking kind. However, since 2000, there has been a noticeable growth of asset augmenting FDI, especially by Asian firms.

We believe that a comparison of post-globalization emerging-market TNCs and pre-globalization developed-country TNCs is a useful exercise because it helps us identify the exogenous and endogenous differences between the two groups of firms. By far the most important exogenous difference between post-globalization emerging-market TNCs and pre-globalization developed-country TNCs is that of globalization itself. The current wave of globalization has integrated global markets to a much greater extent than before. The combination of liberalizing government policies and fast-paced technological progress in transportation and communications has sharply diluted the significance of national boundaries in the global economy.

Let us focus, first, on the massive flows of capital across borders taking place during the current wave of globalization. Such flows comprise financial assets such as bonds, equities and bank loans as well as real assets such as production facilities, real estate and infrastructure. Relative to trade liberalization that began in the immediate postwar years within the multilateral framework of GATT, the liberalization of international capital flows is a much more recent phenomenon. In fact, even among the major developed countries, the movement of portfolio investment across borders did not become fully liberalized until the late 1970s. Prior to the current wave of globalization, government policy in both developed countries and emerging markets had restricted the international movement of capital flows, although the degree of restriction was higher in the latter. Such government restrictions applied to inflows of both financial assets and FDI.

Historically, economic nationalism and, more particularly, the notion that unique and valuable productive assets should not be in the hands of foreigners, has been the underlying rationale for many government restrictions on FDI inflows. However, during the current wave of globalization, there was a sea change in the attitudes of governments from both developed countries and emerging markets toward

FDI. The change is all the more pronounced in emerging markets due to their past hostility toward FDI. Virtually all countries now compete fiercely with each other in order to attract foreign firms to their midst (UNCTAD 2005). The perceived benefits of FDI, in the form of employment creation, access to new technologies, management capabilities, institutions, and markets, and ultimately economic growth, are now widely perceived to outweigh any costs associated with the abrogation of national sovereignty or cultural identity. The backlash in emerging markets against foreign capital in the aftermath of the Asian crisis was limited to short-term inflows. In fact, the crisis highlighted the superiority of long-term inflows such as FDI, which are perceived to be less volatile and hence less destabilizing to economic growth. A further impetus for the pro-FDI policy shift in emerging markets was the success of pioneering economies such as Singapore and Hong Kong (China), which had embraced FDI before it became fashionable to do so.[9]

Having examined the exogenous factors, we now turn to consider the endogenous factors, which include home government policies toward FDI, intra-regional FDI, endowments of natural and created assets, institutions, geography and country size, GDP and per capita GDP, and the ownership, location and internalization (OLI) advantage components of firms. We shall focus on two observations about the endogenous differences between emerging-market TNCs and developed-country TNCs. First, home governments from emerging markets tend to exert more influence on the investment decisions of their firms than do their developed-country counterparts. Although the influence of such governments over their own TNCs is especially evident in the case of state-owned TNCs, private sector emerging-market TNCs are also more constrained by national economic policies, and the content and quality of domestic institutions than are those from developed

[9] There are signs, however, of a new backlash to FDI, which *inter alia* is associated with a move by some countries towards protectionism and toward more left wing governments (Sauvant 2006).

countries. To a much greater extent than in developed countries, the governments of emerging markets view outward FDI—whether or not it is undertaken by state-owned companies or the private sector—as an important vehicle for advancing strategic national objectives and upgrading the competitiveness of their economies. Historically, many developing countries have moved from active support for an import-substituting industrialization policy toward a greater involvement in establishing export-generating industries. In fact, an active, export-oriented outward-looking policy during the past decades has helped enhance the global reach of emerging-market TNCs (UNCTAD 2006).

Second, it is possible to view any differences in the motivation for FDI from emerging-market firms and developed-country firms in terms of their comparative ownership, location and internalization (OLI) advantages. Sustainable ownership (O) specific advantages primarily consist of the possession of intangible assets such as globally well-known brands, and those arising from the common governance of cross-border value-added operations. Internalization (I) specific advantages arise from a firm's managerial, organizational and institutional capabilities to efficiently exploit its ownership specific assets. Location (L) specific advantages refer to the benefits of locating in a particular foreign country that are conducive to a firm creating or utilizing ownership advantages.

Prior to 1980, the overwhelming majority of outward FDI came from developed countries, and outward FDI from emerging markets was confined to just a handful of countries. It was only after the start of globalization that firms from emerging markets became a visible and integral part of the global TNC landscape. The traditional developed-country TNCs, in general, expand abroad in order to exploit ownership specific advantages which they have developed in their large internal home markets (Vernon 1966; Buckley and Casson 1976; Rugman 1981). At the same time, the relative lack of firm specific ownership advantages among emerging-market firms suggests the relative importance of country specific ownership advantages in determining the scope and pattern of their FDI. This is not to deny that emerging-market firms may have their own unique competitive advantages (Lall 1983; Wells 1983; Tolentino 1993). For example, they may be more knowledgeable about the resources, capabilities and consumer needs in other emerging markets due to their own domestic experiences. They may also be in a better position to offer the kinds of technologies and management skills that the smaller and least developed countries need. However, in general, these firm specific advantages are much less determinative of outward FDI by emerging economies today than they were for developed countries half a century or more ago. What they have, as one of main drivers of home-based TNC activity by countries like China illustrates, is a number of country specific advantages, such as a plentiful supply of liquid assets (UNCTAD 2006).

We shall make one final observation in connection with the interplay between exogenous and endogenous factors. Globalization has enabled firms from emerging countries to venture abroad at a much earlier stage of corporate evolution than their developed-country predecessors (Mathews 2006). In other words, in the current wave of globalization, emerging-market firms are investing overseas well before they have become large and well-established players in their own industries. The liberalization and deregulation of FDI inflows has reduced the cost of outward FDI relative to that of domestic investment. The lowering of corporate income tax rates and other fiscal incentives represent further reductions in the cost of investing abroad. Therefore, it is hardly surprising that firms in the post-globalization period face stronger institutional and other inducements to invest abroad than firms in the pre-globalization period.

At the same time, the growing integration of national markets into a single regional or global market signifies intense competitive pressures in both domestic and foreign markets. Inefficient firms that cannot compete in the global marketplace can no longer shelter behind protectionist barriers (Bartlett and Ghoshal 2000); indeed their very existence may be threatened by the onslaught of cross border competition. Under these circumstances, a firm with limited assets faces a much stronger inducement to strategically access the assets—particularly created assets such as brands, distribution networks and R&D facilities—in foreign countries in order to protect or enhance its global competitiveness. In other words, the intense competitive pressures unleashed by the current wave of globalization are inducing firms to engage in strategic asset-augmenting FDI. Examples include several M&As, including Lenovo's purchase of IBM's PC business and Tata's acquisition of the steel giant Corus. Again, differing circumstances encourage post-globalization emerging-market firms to undertake strategic asset-augmenting at a much earlier stage of their corporate development than pre-globalization developed-country firms (Zeng and Williamson 2003; Sim and Pandian 2003).

Conclusion

The current wave of economic globalization has been characterized by an explosive growth in cross-border flows of goods, services, capital and labor. Although globalization is an on-going evolutionary process that started at the end of the Second World War, the period since around 1980 has witnessed the integration of large parts of the world, in particular China and India, into the global economy. Emerging markets have traditionally been destinations of FDI rather than sources of FDI. In the post-1980 period, however, TNCs from these former countries have become an increasingly significant part of the global FDI landscape.

Globalization is partly a result of the growing integration of emerging markets into the world economy. At the same time, the emergence of TNCs from emerging markets is partly a result of globalization. To some extent, today's FDI from emerging markets resembles yesterday's FDI from developed countries. This is particularly the case for most natural resource and market seeking FDI. However, as summarized in table 8, there are motivational and behavioral differences between the emerging-market TNCs today and the developed-country TNCs of yesterday. Perhaps the most noticeable of these is the much earlier outward direct investment thrust by developing country firms from such countries as China and India than would have been predicted by the investment development path. Other differences include the form of entry, its management approach and the timeframe. This, in turn, reflects the perceived need of these countries and their firms to augment their ownership specific advantages; in so doing, this helps them to become global players. Such a driving force was generally absent from first world TNCs in the 1960s and 1970s.

[Insert table 8]

Table 8 also identifies other differences between contemporary emerging market TNCs and their developed country counterparts 40 years ago. These include (1) the form of foreign entry – emerging market TNCs tend to opt for more collaborative and network related modes to those earlier preferred by developed country TNCs; (2) the managerial approach – from the start of their foreign involvement, the organizational strategy of emerging market TNCs has been mainly region or geo-centric; (3) the role of home government – most emerging market TNCs have the active, and often financial, backing from their governments, unlike that provided by developed country governments in the 1960s; (4) the destinations of FDI which, until quite recently, had been primarily intra-regional; and (5) the theoretical approach – in the case of emerging market TNCs this has veered toward evolutionary and institutional models, away from (extensions of) neoclassical models originally used to explain developed country FDI,

At the same time, as already noted in this chapter, we would accept that global events, technological events and learning experiences over the past 40 years have compelled established and new TNCs from industrialized countries to review their global strategies, some of which (e.g. their mode of entry, organizational structures and the geography of their operations) are becoming quite similar to those adopted by emerging market TNCs.

But perhaps most important of all, unlike yesterday's developed country TNCs, today's emerging market TNCs rarely have the firm specific ownership advantages (notably organizational and management skills) to ensure success in their outward FDI. What they do appear to have is a variety of home country specific advantages that they are able to internalize and use outside their national boundaries. The most obvious example is access by Chinese firms to ample financial assets. Only time will tell whether the current truncation of the investment development path will pay off for emerging market TNCs. Much of their future will depend on how successful they are in bridging firm and country specific institutional distance, particularly with respect to issues such as environmental and corporate social responsibility (Dunning 2006).[10] However, given that many of these challenges can be met over the next decade or more, we would foresee that the industrial and geographical patterns of emerging country TNCs will come to resemble those of their developed country predecessors.

[10] UNCTAD (2006) also explores these issues and suggests that the (current) differences between today's emerging market TNCs and yesterday's developed country TNCs may have more to do with the former's ideological, cultural and social distinctiveness rather than economic or technical characteristics.

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Table 1 Inward and Outward FDI Stock in Developed and Developing Countries, 1980-2004
(Billions of US dollars)

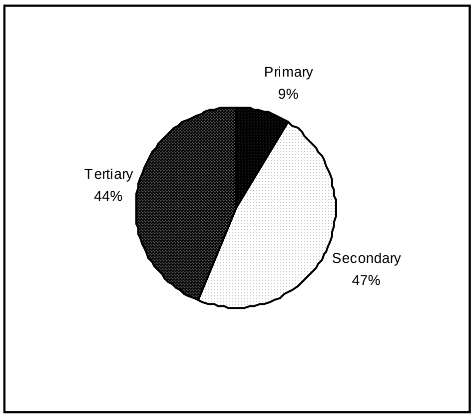
	1980		1990		1995		2004	
Region		%[11]		%		%		%
Developed countries								
Inward FDI	391	56	1404	79	2036	69	6470	74
Outward FDI	499	89	1638	92	2583	89	8610	89
Outward/Inward	1.28	1.59	1.17	1.16	1.27	1.29	1.33	1.20
Developing countries								
Inward FDI	302	44	364	21	917	31	2226	26
Outward FDI	60	11	147	8	309	11	1036	11
Outward/Inward	0.20	0.25	0.40	0.38	0.34	0.35	0.47	0.42

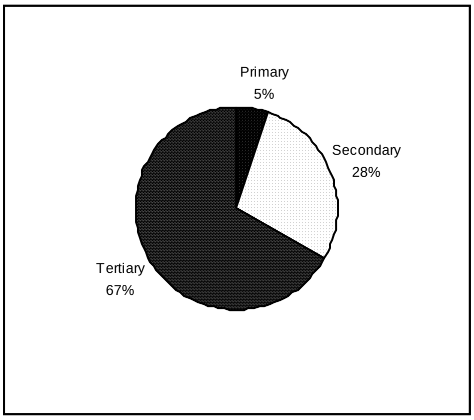
Source: the authors' calculations, based on data in UNCTAD (2004, 2005).

[11] Of developed plus developing countries.

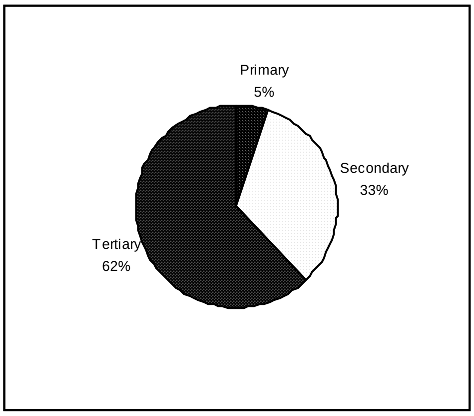
Table 2 Sectoral Distribution of the Outward FDI Stock of Traditional and New FDI Players, 1990-2003 (%)

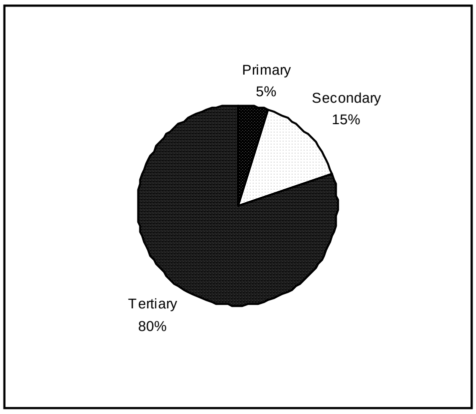
Developed countries





Developing countries





1990 **2003**

Source: UNCTAD, *World Investment Report* 2005.

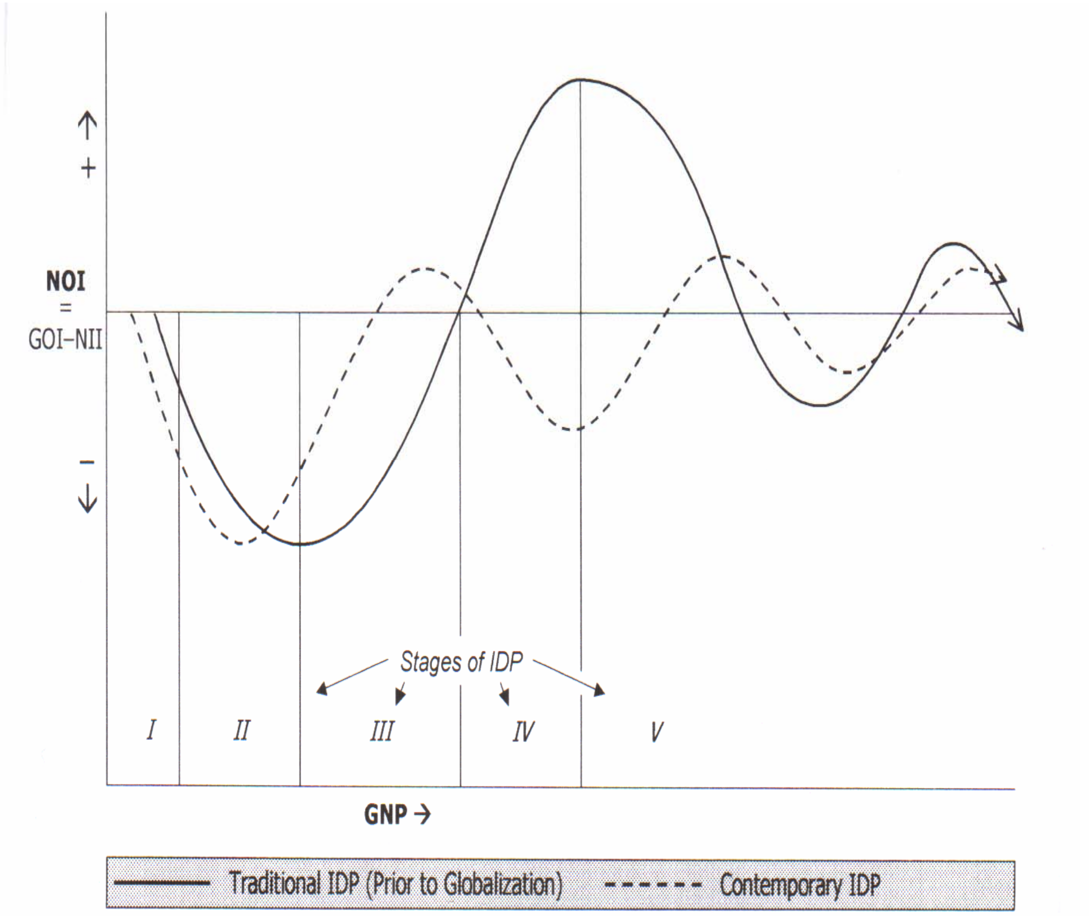
Table 3 Origin of Outward FDI Stock of Developing Economies
(Millions of US dollars)

Region		1980	%	1995	%	2004	%
Asia		6,440	10.7	189,064	61.2	717,997	69.3
	China	nsa	-	15,802	5.1	38,825	3.7
	Hong Kong (China)	148	0.2	78,833	25.5	405,589	39.2
	India	4	neg	264	0.1	6,592	0.6
	Republic of Korea	127	0.2	10,231	3.3	39,319	3.8
	Malaysia	197	0.3	11,042	3.6	13,796	1.3
	Singapore	3,718	0.2	35,050	11.4	100,910	9.7
	Taiwan Province of China	97	0.2	25,144	8.1	91,237	8.8
	Thailand	13	neg	2,274	0.7	3,393	0.3
Latin America		46,915	77.9	86,263	28.0	271,690	26.2
	Argentina	5,997	10.0	10,696	3.5	21,819	2.1
	Brazil	38,545	64.0	44,474	14.4	64.363	6.2
	Chile	42	0.1	2,425	0.8	14,447	1.4
	Columbia	137	0.2	1,027	0.3	4,284	0.4
	Mexico	31	0.1	2,572	0.8	15,885	1.5
Other		6,884	11.4	33,297	10.8	45,989	4.5
Of which	South Africa	5,722	9.4	23,305	7.6	28,790	2.8
Total		60,239	100.0	308,624	100.0	1,035,676	100.0

Source: Dunning, Van Hoesel and Narula (1998); UNCTAD (2004, 2005).

... nsa = not separately available; neg = negligible

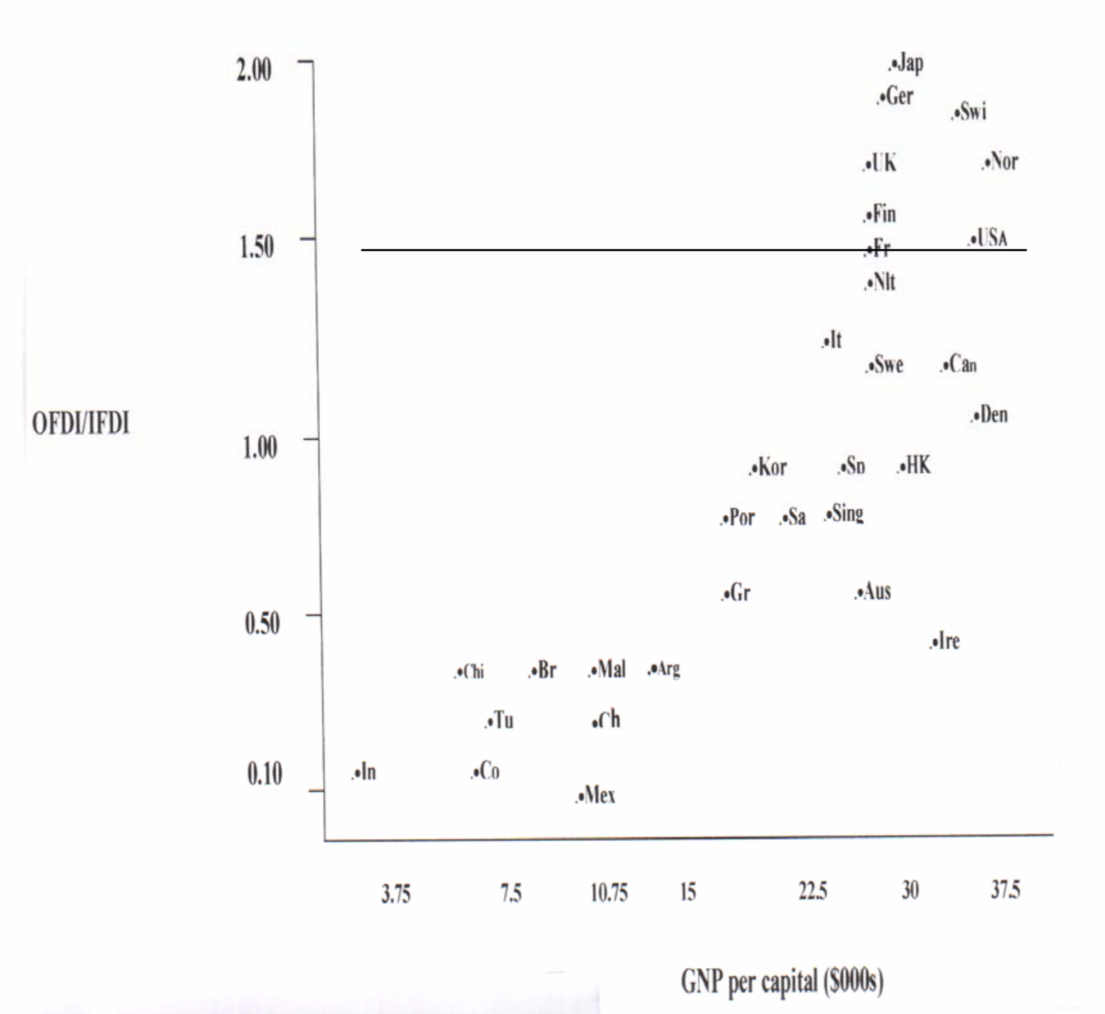
Figure 1 The Investment Development Path[12]



Source: the authors.

[12] Not drawn to scale; for illustrative purposes only.

Figure 2 The Relationship between Stock of Outward and Inward FDI (2004) and GNP per Capita of Selected Developing and Developed Economies (2003)



Source: the authors' calculation from data in UNCTAD (2005).

Table 4 Selected Country-Specific Motives of EM TNCs for Outward FDI

Country	Characteristics
Brazil	Largely regional, e.g. Latin America; but recent expansion into Canada; substantial petroleum and financial investments, some of the later to tax haven countries.
China	Largely market and natural resource seeking, but recently knowledge related activities and in brands. Considerable state support – directly or indirectly.
Hong Kong (China)	Mainly in Mainland China, but some in other poorer Asian and African countries, motivated both by cost reduction and market seeking in both manufacturing and service sectors.
India	Initially to penetrate new markets and escaping government restrictions, but recently more on accessing and acquiring technology/brand names.
Republic of Korea	Escaping high cost and difficult labor markets at home, as well as saturated product market. Increasing asset seeking FDI in Europe and US.
Malaysia	Importance of offshore banking, transport and a range of diversified activities. Some asset augmenting FDI in Europe and the US..
Mexico	Largely within North and South America. Market access and knowledge seeking in an attempt to become major global players, e.g., Cemex.
Russia	Largely energy and mining investments. Avoidance of domestic regulatory constraints.
Singapore	Market access dominates, but low cost labor seeking also a factor. For some more technology intensive activities, following the client is important. Exploiting its own advantages as a regional service center.
South Africa	Both mining and market seeking FDI. Becoming important center for regional headquarters of TNCs in sub-Saharan Africa.
Thailand	Initially opportunistic and ill-planned, and now increasingly regional market access seeking.

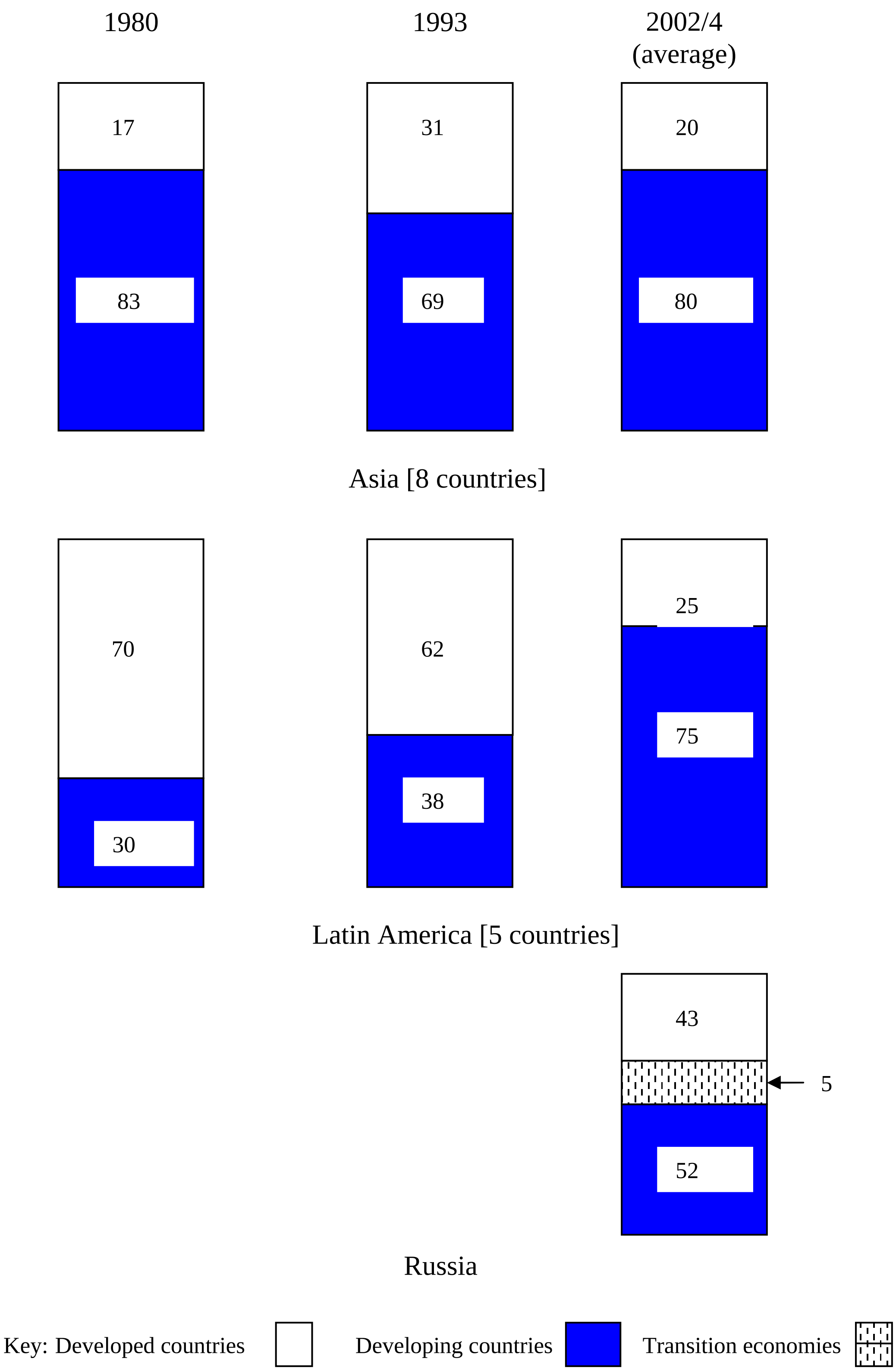
Source: the authors' evaluation from various country studies in 2005-2006. See also UNCTAD (2006).

Table 5 The Geography of Outward FDI of the New Players

1. Asian TNCs more globalized than those of Latin America or those of Central and Eastern Europe.
2. First wave of outward FDI (1970s) mainly to developing countries; second wave (1980s) more to developed countries; third wave (1990s) back to own regions; fourth wave (2002 onward), increasingly (via M&As), to developed countries.
3. Up to 2001, mostly greenfield FDI; now M&As playing a more important role.
4. In 2004, only five developing economies (China, Hong Kong (China), the Republic of Korea, Malaysia and Singapore) TNCs are listed in the top 100 non-financial TNCs identified by UNCTAD. However, at least 80 such TNCs, of which 61 were from Asia, had foreign assets of $1 billion or more in 2004. Ten of the top 100 developing country TNCs recorded 50 or more foreign affiliates (UNCTAD 2006).

Source: the authors' views. See also UNCTAD (2006).

Figure 3 Regional Destinations of New Players' Outward FDI Stock, 1980-2002/4 (%)



Source: UNCTAD (2005, 2006); the authors' calculations are from country data.

Table 6 The Investment Development Path

Investment Development Path	FDI position	FDI types	Ownership, location, internalization advantages
Stage I (GNP pc: < $2000) **Stage II** (GNP pc: $2000-$3500) **Stage III** (GNP pc: $3500-$8000) **Stage IV** (GNP pc: < $8000) **Stage V**	o Modest IDI & limited ODI o ODI beginning in lower technology sectors o Intra-industry FDI increases o FDI in higher technology sectors & ODI rising faster than IDI o Balanced NOI	o Asset exploiting - natural resource seeking - market seeking - efficiency seeking o Asset augmenting - created asset & competence seeking	o Ownership: initially, mainly country specific; later becoming more firm specific o Location: access & use of local resources, capabilities, institutions & markets o Internalization: utilization of ownership & location through internalization
Comment	o In early 2000s, ODI appears to be occurring in stage II	o In early 2000s, evidence of asset augmenting FDI occurring in stage II	o In early 2000s, locational advantages are tending to be more of an institutional kind

Source: adapted from Dunning, Kim and Lin (2001).

pc = per capita; GNP = gross national product; IDI = inward direct investment; ODI = outward direct investment; NOI = net outward investment.

Table 7 Features of Outward FDI for Developed and Developing Countries, 1960-2006

Country group	1960-1980 (Pre-globalization period)	1980-2006 (Post-globalization period)
Developed countries	• Growth of market/efficiency seeking FDI of intra-Triad kind • Rise of Japanese FDI • Mainly greenfield FDI but some Anglo-US M&As • More joint ventures and contractual agreements • Ownership advantages, both country & firm specific • Mainly privately owned TNCs	• Large expansion of all kinds of FDI, both horizontal and vertical • Opening up of new FDI destinations, especially in Asia • Intra-Triad M&A boom: 1990-2000 & 2004-2006, particularly of asset augmenting FDI • Increasing firm specific ownership advantages arising from global/regional activities • Almost exclusively privately owned TNCs
Developing countries	• Limited amount of market/resource seeking by Latin American/Indian TNCs, mainly in adjacent regions • Mainly country specific ownership advantages • Some state-owned TNCs	• Growth of Asian FDI & the beginning of emerging market • Initially, market/resource seeking kind • Lately, since 2000, some asset augmenting FDI by Asian, especially Chinese & Indian firms • Ownership advantages, primarily country-specific, except in case of large & more globalized TNCs • Some state-owned TNCs, e.g. in natural resource sectors

Source: the authors' views.

Table 8 Comparing Developed Country TNCs (1960s) with Emerging Market TNCs (2000s)

Criterion	Developed country TNCs 40 years ago	Emerging market TNCs today
1. Motivation	FDI to exploit ownership advantages	Growing significance of asset augmentation
2. Resources	Firm specific ownership advantages	Country ownership specific advantages
3. Managerial approach	Ethnocentric/polycentric	Geocentric/regiocentric
4. Theoretical approach	Neo-classical perspective	Evolutionary/institutional perspective
5. Form of entry	Mainly greenfield	Increasingly strategic alliances & networking
6. Type of FDI	First, resources/market-seeking, then, asset-augmenting/rationalizing	Simultaneously, all kinds
7. Time frame	Gradual internationalization	Accelerated internationalization
8. Destination	Intra-triad	Largely "regional"
9. Role of home government	Moderate	Orchestrating a catch-up strategy

Source: the authors' views.