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Foreign Direct Investment from Developing Countries:  
A Systematic Review

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## Abstract

The privileges of integration with the global economy have led developing countries to embark on a path of liberalisation and globalisation. This resulted in rapid growth of inward and outward foreign direct investment from developing countries. In the last two decades there is an increasing trend of outward FDI from developing countries to both developed and developing countries. This dissertation focuses on exploring the literature on outward FDI from developing countries, and internationalisation process of developing country multinationals which are considered to be carriers to investment across international borders. The study has examined the two main strands of literature on outward FDI from developing countries – determinants of outward FDI and internationalisation process.

Findings of the systematic review show that there is a dearth of studies in this area of research. Except a number of studies on China and countries of East and South East Asia, there is very limited evidence on outward FDI from developing countries. There is a set of studies on Africa that examine South-South investment flows. Studies on other major developing countries are either non-existent or lack in comprehensiveness. Some studies resulted in contradictory findings about the determinants of outward FDI. This raises the question of sensitivity of variables across geographical locations and time periods, which has not been researched before. Studies on outward FDI also do not make a clear distinction between South-South and South-North FDI flows. Other aspects like sovereign wealth funds and commodity price boom have been ignored in the literature. It is important to investigate outward FDI flows from the major developing economies because of its sheer scope to contribute to academic literature, its policy implications, and also because of its potential to bring development to some of the most impoverished parts of the world.

Key terms:

Outward foreign direct investment, developing country, south-south FDI, south-north FDI, developing country multinational enterprise, internationalisation.

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## Abbreviations

BRIC	Brazil, Russia, India, China
DCMNE	Developing Country Multinational Enterprise
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
GDP	Gross Domestic Product
GNI	Gross National Income
IDP	Investment Development Path
IMF	International Monetary Fund
JV	Joint Venture
LDC	Less Developed Country
LLL	Linkage-Leverage-Learning
M&A	Mergers and Acquisitions
MNE	Multinational Enterprise
NIE	Newly Industrialised Economy
OECD	Organisation for Economic Cooperation and Development
OFDI	Outward Foreign Direct Investment
OLI	Ownership-Location-Internalisation
SSA	Sub-Saharan Africa
SWF	Sovereign Wealth Fund
TRIM	Trade Related Investment Measures
TWMNE	Third World Multinational Enterprise
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Centre on Transnational Corporations
WTO	World Trade Organisation

## Chapter 1

### Foreign Direct Investment from Developing Countries: Introduction

The first chapter of this dissertation provides an introduction to the subject and establishes the need for research on this topic. It highlights the significance of outward investment from developing countries and makes a classification of FDI on the basis of geographical direction of FDI flows. The main objectives of the study are to explore the literature on the evidence available on determinants of outward FDI from developing countries, and the process of internationalisation. The chapter concludes by providing definitions of important terms that are used in this study.

# Chapter 1

## Foreign Direct Investment from Developing Countries:

### Introduction

#### **1.1 Introduction**

The free flow of capital between international borders is favoured by economists mainly because it helps capital to reap the highest rate of return. Capital flows between nations are also encouraged since they offer several other advantages (Feldstein, 2000). First, diversification of the investment portfolio across different markets helps owners of capital to reduce the risk they face. Second, integration of the financial systems of different nations helps in the spread of best practices in accounting standards and corporate governance. Third, the mobility of capital between international markets limits the capacity of governments to pursue or encourage bad policies. Capital movements take place between countries in various ways, the main ones being: foreign direct investment (FDI), foreign portfolio investment (FPI) and loans. FDI involves a long term relationship, lasting interest and control of the direct investment enterprise in the host country. It can be classified into three components: equity capital, intra-firm loans and reinvested earnings. FPI is different from FDI in that it does not include the aspects of direct control and lasting interest. Loans are mainly in the form of bank loans from international financial institutions.

In the last two decades there has been great interest in the forces of liberalisation, privatisation and globalisation. There was an increase in international trade and international production through FDI and multinational enterprises (MNEs) that act as carriers of investment across international borders. In 1989 the global flows of FDI was \$196 billion and it increased to \$1833 billion at the end of 2007. FDI flows to the developing countries also witnessed a sharp rise during this period, increasing from \$30 billion in 1989 to \$500 billion in 2007 (UNCTAD, 2008). Many developing countries liberalised their economies for investment during this period which has led to this rapid flow of FDI into them. The rapid increase in flow of FDI to developing economies has raised several issues at the national and international level. During the period before liberalisation in developing economies, FDI and MNEs were

treated with suspicion and were considered to exploit the developing and under-developed countries of its resources. Policies were formulated to monitor and control the activities of multinationals and inflow of FDI. In the words of Caves (1982), “MNEs have encountered hostility and resentment in all countries that host substantial foreign investment, but nowhere more than in less developed countries (LDCs), where they get blamed for the national economy’s manifest shortcomings, not to mention that historical sins of colonial domination. Economic analysis has played no great part in resolving disputes between critics and defenders of the MNEs role in development process. There is little consensus on what institutions and policies most effectively promote the goal of economic development.”

However, once developing countries realised the potential for growth that comes along with FDI, there has been a change in attitude towards MNEs and FDI. “FDI is now the most important form of external capital flow to emerging economies” (UNCTAD, 2006). Countries have become more receptive to FDI and policies were framed to attract more investment and also to protect the interests of the investors. Adding to this policy position of various national governments was the role played by the World Trade Organisation (WTO). Discussions at the international level have resulted in rules that complement the existing set of bilateral and multilateral agreements on investment. Trade Related Investment Measures (TRIMs) are a set of rules that were formulated at the WTO that encourage investment in foreign markets and also protection of the interests of investors. Another reason for the change in attitude towards FDI was the Asian financial crisis of the late 1990s which showed that FDI was more stable in crisis periods than other forms of capital inflows (Lall, 2002). The pace of technological advancements and increasing cost of innovation also prompted a change in attitude towards FDI in developing countries in order to keep up with the pace of development. All these changes coincided with the liberalisation in trade and investment in developing markets and reduction of government intervention in economic activity.

The change in attitude towards MNEs and FDI accompanied by the liberalisation of markets in the developing world in turn led to the emergence of southern transnationals or developing country multinational enterprises (DCMNEs), which are MNEs from the developing countries. Although most of the investment by these companies are concentrated in other developing countries (South-South), they have started investing in the industrialised developed countries (South-North) as well.

It is interesting to note that majority of the South-North FDI outflows originate from the same countries that receive much of the FDI inflows to developing world such as China, India, Brazil, Mexico, etc. For example, in 2007, Tata Steel, an Indian company acquired Corus Steel based in the UK for \$12 billion while China's Citic Bank invested \$1 billion for a 6 percent share in Bear Stearns of the US. This general warming of attitude towards outward FDI in developing economies have led to considerable debate in the fields of management, international trade and international macroeconomics, and as a result researchers, governments and policy makers are seeking a better understanding of the motives and drivers of outward FDI from developing countries, and its impacts and implications. The direction of global foreign direct investment flows can be depicted as shown in Figure 1.1.

**Figure 1.1: Global foreign direct investment flows**

<b>FDI from</b> <b>FDI to</b>	<b>Developed economies</b>	<b>Developing economies</b>
<b>Developed economies</b>	North – North	South – North
<b>Developing economies</b>	North – South	South – South

Source: Compiled by the author.

The purpose of this research is to identify the extent, characteristics and motives of outward FDI flows from developing economies, and the process through which DCMNEs internationalise. This study is expected to provide a better understanding of the firm level and country level factors that determine the flow of FDI from developing economies to other developing and developed economies. It is seen as a means to enhance personal learning in the field of foreign direct investment and the outcome of the research is expected to contribute to the existing international business literature. It can be useful for researchers interested in the field of FDI and developing economies, and for policymakers aiming to formulate strategies to attract more FDI.

## **1.2 The need to study FDI from developing countries**

Foreign direct investment has been a prominent area of research since the liberalisation and privatisation wave that swept across the developing world in the last two decades. The structure of the global financial system has undergone a sea change due to the integration resulting from globalisation. This has made it easier for multinational companies, governments and individuals to invest in any part of the world. Due to this, FDI flows to and from developing countries have grown at a faster rate than most other international transactions. Eminent scholars and economists have created many important and thought provoking research in this area. Voluminous literature has been published on foreign direct and portfolio investments to developing economies, but literature on the flow of investment in the opposite direction, i.e. from developing economies is less explored and is still in its infancy. The increasing importance of FDI in terms of the mix of capital flows to developing countries is not a recent phenomenon but can be seen in the data at least since 1990 – prior to which the mix of total inflows of capital to developing countries was considerably different (Agenor and Monteil, 1999). In the period leading up to the debt crisis in 1982, capital flows into emerging markets were dominated by syndicated bank loans to large public buyers while the resurgence in capital flows following the debt crisis actually saw the emergence of a different class of lenders, and portfolio and equity flows acquired a new prominence. But the outward flow of FDI from developing economies is a relatively new phenomenon and in turn raises several questions:

- What has led to this new phenomenon of outward FDI from developing countries?
- How does investor perceptions and local environment in terms of resource endowment, institutions, political risk and instability/crisis affect the flow of FDI?
- How does FDI affect growth dynamics and does it depend on various initial conditions of the economy receiving the inward investment?
- Are there any spillover benefits from foreign investment and foreign owned companies onto domestic investment and domestically owned companies? How does the variation of entry modes affect spillovers?
- Is there any evidence to support the view that foreign investment has an impact on knowledge accumulation in a developing country and that it affects

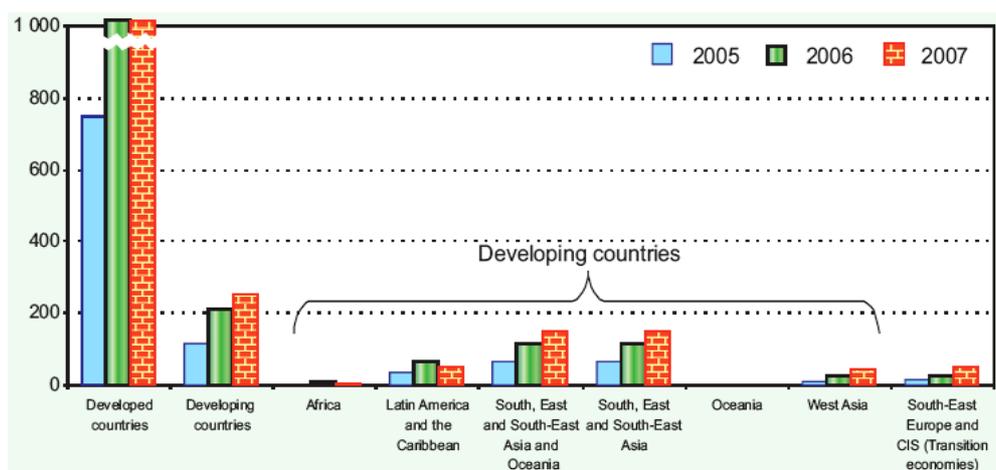
the long run rate of growth? Does FDI have a different effect on knowledge accumulation in the long run compared to domestic investment?

- Is there any reverse causation from GDP growth onto FDI?

My study of FDI from developing economies is motivated by some of the reasons mentioned above. In the current economic scenario, the sub-prime mortgage crisis that started in the United States in 2007 has had less effect on developing economies compared to the advanced economies such as the US and UK (IMF, 2008; UNCTAD, 2008). This has brought to forefront the importance of developing countries and emerging markets and the role they can play as target markets for goods produced in industrialised countries, as manufacturing bases and as sourcing destinations. The emergence of sovereign wealth funds as a means of direct investment (Truman, 2007) and commodity price boom (Humphreys, 2005) are recent phenomena that influenced the outflow of FDI from developing economies.

Multinational companies from emerging markets have started to invest in other developing as well as developed economies and this has led to a rise in FDI outflow (South-South and South-North) from developing economies, as shown in Figure 2. The outflow of FDI from developing countries increased from \$8.9 billion in 1989 to \$253 billion in 2007 (UNCTAD, 2008).

**Figure 1.2: FDI outflows by region, 2005 – 2007, (billions of dollars)**



Source: World Investment Report, UNCTAD, 2008.

It can be seen that much of the FDI outflows from the developing countries originate from South, East and South East Asia, with Latin America also contributing

a significant portion to the outflows. These regions are also the recipients of majority of FDI inflow into developing countries.

Literature on global investment flows has been focussed on FDI originating from developed countries (North-South) while research on FDI flows between developing countries (South-South) is still an evolving field. Due to this some factors that drive investment between developed and developing economies have been ignored, which can lead to omitted variable bias in the empirical specification (Blonigen, 2005). FDI flows from developing countries to developed countries (South-North) is an area that has not been explored in the literature and offers scope for research. It is no better time to study FDI from developing countries when governments are seeking to promote investment and DCMNEs are taking giant strides of expansion and are looking for efficient means to finance investment in a period of economic downturn.

### **1.3 Review objectives**

The scoping study and protocol enabled to condense the large amount of literature and make the systematic review more robust. Therefore it is important to understand the objectives of the review and design a protocol that helps to meet the desired outcomes. The main objectives of the review are:

- What evidence is available in the literature on the determinants, investment strategies and modes of investment of South-South and South-North FDI flows?
- What evidence is available in the literature on the internationalisation process of firms from developing countries?

### **1.4 Definitions of important terms**

Various distinct definitions are used in the international business literature for terms like FDI, MNEs and developing economies.

The United Nations defines FDI as an “investment involving a long term relationship and reflecting a lasting interest of a resident entity in one economy (direct investor) in an entity resident in an economy other than that of the investor. The direct investor’s purpose is to exert a significant degree of influence on the management of the enterprise resident in the other economy” (UNCTC, 1992).

“FDI is a particular form of investment by firms outside their national boundaries. The investment is made outside the home country of the investing company. Unlike portfolio investment, FDI consists of a ‘package’ of assets, capabilities and intermediate products, such as capital, technology, management skills, access to markets and entrepreneurship. The distinction between direct and indirect or portfolio investment is that in the former, resources are transferred internally within the firm rather than externally and financially between two independent parties” (Dunning, 1993).

“FDI is an investment involving a long term relationship and reflects a lasting interest and control implying that the investing entity may exert a significant degree of influence on the management of the enterprise resident in another economy. It may be undertaken by individuals as well as business entities” (UNCTAD, 1995).

“The FDI portion of any investment is the ownership by a foreign person or business, of ten percent or more of the voting equity of a firm located in a country” (US Department of Commerce, 1991). “It includes investment in new plants, and the purchase and development of real property” (US Department of Commerce, ITA 1981).

A simple definition of multinational enterprise as proposed by the UN is “an entity controlling foreign assets” (UNCTC, 1992).

Dunning (1993) defines multinational enterprise as “an enterprise that engages in foreign direct investment and owns or controls value adding activities in more than one country.”

Global companies refer to “enterprises that engage in value adding activities in all of the major regions in the world and possess an integrated strategy towards these activities” (Dunning, 1993).

Third world multinational enterprise (TWMNE) or developing country multinational enterprise (DCMNE) is “any firm from the third world (non-OECD and non-socialist nations of Africa, Asia and Latin America), that owns and controls production or service facilities, even with a minority equity share holding, and contributes some other element besides financial capital, in one or more countries other than its base country” (Kumar and Mcleod (1981), Wells (1983) and Lall (1984)).

“An affiliate is a value adding unit, either partially or wholly owned by a multinational enterprise. It includes subsidiaries, branches, joint ventures, and any other legal form implying at least partial control over the entity” (Rosenzweig, 1994).

Internationalisation refers to “the process extension of the domestic value added chain of economic activity. The focus is more on the strategic management of resources and competencies owned or acquired by individual companies to achieve their goals related to value added activities outside their national boundaries” (Dunning, 1993).

The World Bank classifies all low- and middle- income countries as developing economies. In the latest classification, economies were segregated using 2008 Gross National Income per capita. In 2008, economies with per capita GNI below US\$11,905 are classified as developing.

## Chapter 2

### Theoretical background

This chapter reviews different theories that form the backbone of research on foreign direct investment and multinational enterprises. Theoretical framework ranges from the traditional neoclassical trade theories to the modern eclectic paradigm and Uppsala model. The study will use this framework to account for the theoretical and empirical research done in this field.

## Chapter 2

### Theoretical background

Economists have tried to explain the existence of FDI for a long time, which is a complex field, involving several areas of economics, international business and international trade. Increased globalisation has led to extensive research being conducted in this area and theoretical and empirical models have been developed as two components of the same story. Early empirical studies lacked strong theoretical foundation since the theory of MNEs did not exist in that period. Trade theory formed the initial foundations of the theory of FDI or capital movement. Descriptive analysis was the dominant type of research until the 1960s, but econometric approaches in the study of FDI began to emerge in the late 1960s and early 1970s. In this section I aim to review the various theoretical models that have formed the foundation of studies on FDI and MNE.

#### **2.1 Neoclassical trade theory**

The first attempt to explain FDI had its roots in the Heckscher-Ohlin model of the neoclassical trade theory. Heckscher (1919) and Ohlin (1933) focused on the relationships between factor endowments of countries and their trade patterns, as well as the impact of free trade on the distribution of income in a country. The Heckscher-Ohlin model is based on a  $2 \times 2 \times 2$  general equilibrium framework, with two countries, two factors of production and two commodities. The two countries are home and foreign and factors of production are usually capital and labour. The model assumed that there exists a perfectly competitive market for goods and factors, constant returns to scale, no specialisation and zero transport costs. The main economic acumen behind this model is the fact that countries differ in their factor endowments and commodities differ in their factor intensities, which leads to price differentials in the international market. Thus, the Heckscher-Ohlin model states that “countries export those commodities that require, for their production, relatively intensive use of those productive factors found locally in relative abundance.” Therefore, a country that is relatively capital abundant, will either export the capital

intensive product to foreign markets or in the absence of trade, move capital to a foreign market where return on capital is higher.

The MacDougall-Kemp model is another theory that is rooted in the neoclassical perspective, and is based on the works by MacDougall (1960), Kemp (1964) and Hobson (1914). This model assumes the existence of full employment, perfect competition and constant returns to scale, but takes into account only a single good and two factors of production. In this model also, capital was expected to move to the country where the returns are higher. This view was endorsed by Aliber (1970) but claimed that the differences in return on capital was due to differences in factor endowments and currency risks.

## **2.2 Theories of FDI assuming imperfect markets**

### **2.2.1 Industrial organisation approach**

An important criticism of the neoclassical trade theory was that it assumed perfect competition and due to this it had limited potential to explain the flow of FDI. Kindleberger (1969) and Hymer (1976) were the first to criticise this drawback of neoclassical trade theory and argued that market imperfections were needed for FDI to flourish. Hymer formulated research on internationalisation by recasting FDI in micro analytic terms. His path breaking conceptualisation of the multinational corporation (MNC) says that for firms to own and control value adding activities they must possess some kind of innovatory, cost, financial or marketing advantages – specific to their ownership – which is sufficient to outweigh the disadvantages they face in competing with indigenous firms in the country of production. This industrial organisation approach is grounded on the idea that market imperfections provide competitive advantages to firms vis-à-vis its competitors.

The concept of monopolistic advantage was used by both the authors to explain the behaviour of MNEs. They argued that an essential condition for firms to engage in FDI was the possession of ownership advantages such as technology, product differentiation, patents or managerial expertise that will assist the firm in offsetting the disadvantage they face in a foreign market in the form of uncertainty, higher risk, government regulations and differences in socio-cultural aspects. Caves (1971) emphasised on product differentiation as an ownership advantage for MNEs, since imperfections in the market pushed MNEs to differentiate their products. He

says that FDI was more preferable than exporting or licensing if firms used their knowledge to differentiate products rather than enhancing managerial skills. The industrial organisation approach has been used in economics literature to explain FDI behaviour. For example, Graham and Krugman (1989) used this approach to examine FDI flows to the US in the post 1975 period when there was a decline in US managerial and technological superiority. A main criticism of this approach is that it fails to explain the motive behind FDI to capitalise on the firm specific ownership advantages when cheaper forms of doing international business such as exporting are available which would allow them to be equally successful in competitive markets.

Georgopoulous et al (2008) used industrial organisation approach to ascertain the motives for foreign acquisitions in Greece and found that the market share and firm size of the companies that were acquired was the main motive behind the acquisition. Larimo (2003) and Harzing (2002) are two other studies that used the industrial organisation approach to explain the motives for FDI. Most of the studies have been focused on the economies in the developed countries of North America and Europe and therefore there is a lack of studies using this approach in emerging markets.

### **2.2.2 Theory of oligopolistic reaction**

Multinationals are active in oligopolistic markets and engaged in FDI since they pursue a 'follow-the-leader' strategy (Knickerbocker, 1973) or as a counteraction to foreign firms investing in their home markets. Therefore this model is known as the theory of oligopolistic reaction. The investment behaviour of 187 US firms were analysed by Knickerbocker and evidence was found for 'follow-the-leader' strategy. Although the oligopolistic reaction behaviour of firms was found to be statistically sound, Knickerbocker suggests that there are certain analytical uncertainties that render his findings inconclusive. But his data does demonstrate the behaviour of companies in many industrial sectors to act and react to each others investments in order to maintain their market position. Graham (1978) found evidence for the counteractive behaviour of multinationals by analysing the response of European multinationals to investment from the US in Europe.

Park et al. (2006) examined the determinants of Korean FDI and found that the influence of oligopolistic reaction is decreasing in Korean multinationals after the Asian financial crisis and does not determine FDI. Instead, international experience of

the firms, market size and political risk were found to influence FDI decisions. The investment behaviour of tyre industries were studied by Ito and Rose (2002) and the main findings of the study was that host country characteristics and foreign experience were the main determinants of FDI and oligopolistic reaction was not a trait among the tire companies. It is interesting to note that recent studies found the non existence of oligopolistic reaction among MNEs whereas it was an important driver of FDI in the 1970s. Investment by multinationals from emerging economies is a recent phenomenon and therefore there are not many important studies that followed the oligopolistic reaction approach.

### **2.2.3 Internalisation / Transaction costs theory**

An extension of the market imperfections approach was formulated by Buckley and Casson (1976), based on the internalisation concept of Coase (1937), where they focused on the advantages of internalisation in the presence of market failure. Coase analysed the different types of transactions taking place between firms and compared the efficiency of each. Due to the presence of market failures, the market approach was found to be inefficient and therefore internalising transactions made the firms better off. Buckley and Casson applied the same concept to the MNEs. Internalisation calls for possession of direct control through vertical integration, in activities that would otherwise be inefficient in market transactions. According to them, it is internalisation across international borders that explain the existence and nature of international production. Buckley and Casson assert that markets for intermediate goods are highly imperfect and high risk and uncertainty lead to increased transaction costs. The decision of a firm to internalise its transactions were assumed to depend on region specific factors like culture and distance, industry specific factors such as economies of scale, product differentiation and technology, and nation specific factors such as political and legal systems.

The appropriability problem arising out of the public good nature of technology was another reason for internalisation as pointed by Magee (1977). Internalisation can also be the result of know-how or goodwill resulting in horizontal integration, and lack of competence in foreign markets resulting in vertical integration, as theorised by Hennart (1982). In both cases, transaction costs can be avoided by eliminating the price system and replacing it with MNE hierarchy. Hennart considered FDI to be a response to natural market imperfections like

imperfect information rather than a response to structural market imperfections like market power. Contradictory to this was Teece's (1981, 1985) description of internalisation where vertical FDI was a response to market failure and horizontal FDI to that of both market failure and market power. Casson (1987) was of the opinion that distortion of market prices (through taxes and tariffs, controls and regulations and asymmetric information) due to market imperfections can provide an incentive for internalisation by firms.

Minimising transaction costs were found to be the main motive for Spanish FDI (Galan and Gonzalez-Benito, 2001) in a study conducted on 103 Spanish firms that engaged in FDI. Scope for expansion in a foreign market and its expected growth rates were also important factors influencing FDI decisions in Spanish companies. Internalisation was also found to be an important motive behind the direct ownership of outsourcing business in India by foreign firms (Majumdar and Dutta, 2009) since it helps to gain a competitive advantage over rival firms. Reiner et al (2008) and Chen (2008) are other important studies of FDI based on the transaction cost perspective.

### **2.3 Eclectic paradigm**

Dunning (1977, 1979) amalgamated the concepts of internalisation and trade theory to propound the eclectic paradigm, explaining reasons for the international operations of firms and the mode of entry into a foreign market. Dunning identified three types of advantages firms possess: ownership, location and internalisation (OLI) advantages. Ownership advantages are those aspects of the production process that give a competitive advantage for multinationals over its rival firms, and can be patents, advanced technology, managerial and organisational skills, or ownership of a particular raw material. Location advantages are mainly features of the market in which a firm operates and may include favourable tax laws, lower transportation costs, lower risk, cultural similarities, protected markets and cheap labour. The public good nature of firms' ownership advantages force them to internalise which has the advantages of reduction in transaction costs and low possibility of technology imitation.

Dunning (1988) asserted that OLI advantages differ between different country groups, whether they are developed, developing or under-developed, between industry sectors such as high competition or monopoly, high or low technology, mature or

innovatory, and between firm types like imitator or innovator, small or large and leader or follower. The OLI framework permitted various factors to be the determinants of FDI, depending on ownership, location and internalisation advantages or on markets, firms or industries or on the mode of entry into a market. Dunning (1980) also suggests that the type of FDI determines whether it is sequential or initial FDI. Resource seeking and market seeking FDI are considered to be initial investment while efficiency seeking and strategic asset seeking FDI are sequential investment.

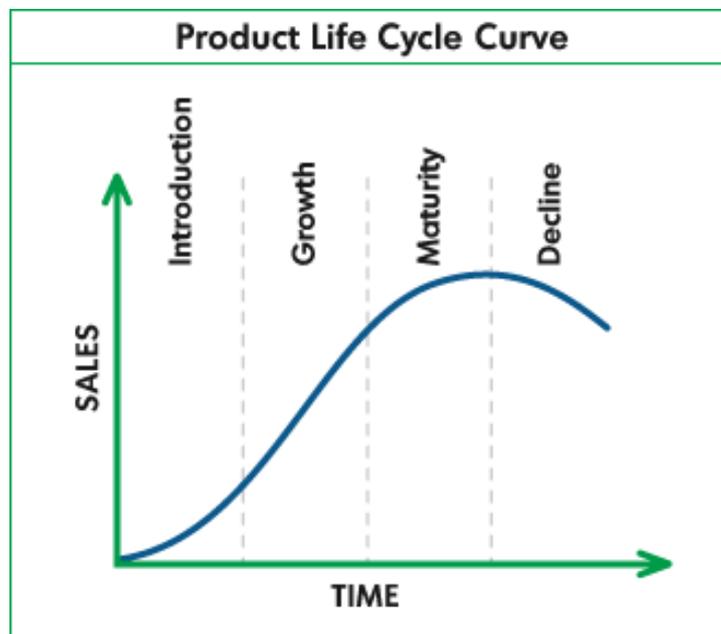
Empirical analysis of Japanese FDI in British electronic industry by Cleeve (2008) found that FDI flows should involve both ownership and location advantages and firm specific resources and external economies in the foreign market were found to be the main determinants of FDI. Recent studies by Lau et al (2005), Takii (2009), Bevan and Estrin (2000), Vita and Kyaw (2008) and Ang (2008) are important studies that used the OLI paradigm to determine the motives for inflow of FDI into developing and emerging markets. Various studies have been conducted on emerging markets based on the OLI approach, but most of them pertain to the emerging markets in South and South East Asia and Latin America. Therefore it provides scope for research on the geographical regions such as East Europe and Africa that were not given enough importance in spite of the fact that they are also developing regions in the world that are witnessing an increase in foreign investment.

## **2.4 Product life cycle hypothesis**

The international product life cycle theory (Vernon, 1966) states that the location of production of certain kinds of products shifts as they go through their life cycles, which consist of four stages: introduction, growth, maturity and decline. Companies develop new products mainly because there is an observed need and market for them. Once a company has created a new product, it can manufacture it anywhere in the world. In practice, however, the early production stage called the introductory stage generally occurs in a domestic location and production process is more labour intensive. The introduction stage is marked by innovation in response to observed need, exporting by the innovative country and evolving product characteristics. As sales of the product grow competitors enter the market. During the second stage, growth stage, production starts in some foreign countries due to demand and this reduces transport costs. Increase in sales provides incentive for companies to

develop process technology, but this is offset by product variations by competitors. Growth stage is characterised by increase in exports, more competition, increased capital intensity and some foreign production. In the maturity stage there is a decline in exports from the innovating country and the product becomes more standardised in many markets. This makes cost an important aspect of production and therefore producers shift production to developing or emerging economies where they can employ less expensive labour. In the stage of decline, there is a concentration of production in developing countries and the innovating country becomes a net importer. The product life cycle theory is depicted graphically in Figure 4.

**Figure 2.1: Product life cycle model**



Source: [www.provenmodels.com](http://www.provenmodels.com)

The product cycle hypothesis shows that FDI is the result of fierce competition and standardisation of the product, and therefore the innovating firm decides to shift production facilities to lower cost developing markets. This model encompasses exporting and production in foreign locations in a single specification of foreign market entry. However, the main drawbacks of this theory are that the applicability of the model is weak for short life products (McKiernan, 1992) and also in the case of companies that have already established operations in foreign markets (Vernon, 1979). The applicability of this model to modern day multinationals and emerging

markets is questionable since firms do not necessarily pass through the different stages while investing in a foreign market.

## 2.5 Internationalisation process

The explanatory capability of product life cycle theory was questioned by a group of researchers at the Uppsala University in Sweden, where they emphasised on the limited knowledge of the investor firm as the most important determinant of FDI. A few theories propounded mainly by Johanson, Wiedersheim-Paul, Cavusgil and Vahlne, called the Uppsala model or the internationalisation process, explains FDI on the basis of the experience gained by the firm in foreign markets. Similar to the product cycle model, the internationalisation process also takes place in stages, starting with exporting (Cavusgil, 1984; Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1990) followed by exporting through an independent agent, setting up a subsidiary for sales and finally, full production in the foreign market. Each stage in this model involves more participation in the international markets and progress is made in the different stages through knowledge accumulation gained through past experience and thereby adopting new modes of entry into a foreign market. A graphical representation of the Uppsala model is shown in Figure 5.

**Figure 2.2: Internationalisation model**



Source: [www.provenmodels.com](http://www.provenmodels.com)

There is a second strand of Uppsala model which says that the location of investment is determined by an aspect called ‘psychic distance’. It is defined as the “cost of acquiring and internalising relevant information about business conditions in other countries, the perception of risk and uncertainty involved in foreign operations, and the resources required to gain access to foreign networks” (Johanson and Vahlne, 1977). The model asserts that the cost of overcoming this psychic distance reduces over time as firms gain more experience and knowledge about the foreign markets. Thus, firms are expected to shift production first to neighbouring markets because of its familiarity and progress to markets that are further away in the later stages.

Hosseini (2008) developed a behavioural economics model based on the concept of psychic distance to analyse the motives behind firms’ entry into foreign markets and related it to the mode of entry into a market. A main criticism of the model is that it poses a unitary progression in which each stage is a “necessary precursor of succeeding stages” (Van de Ven, 1992). The model does not take into consideration the differences between type of firms, industries or product types. Forsgren (1989) says that this model holds good only in the initial stages of international operations and cease to be valid when the company has activities in many foreign locations. Although this model still exerts considerable influence in the research on FDI, the investment behaviour of modern day multinationals cannot be explained completely by this model, since they need not progress through the different stages while operating abroad.

## **2.6 Investment Development Path**

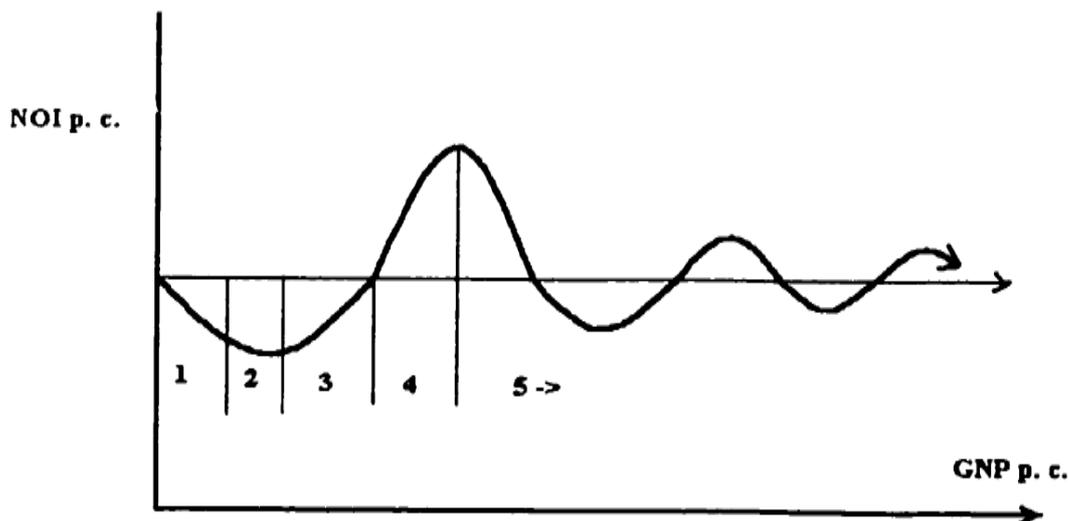
Dunning and Narula (1992) proposed that as countries develop, their international direct investment position passes through different stages. The direction and speed of investment flow depends on the indigenous resource endowments of the country, including cultural factors. It also depends on the trading position of the country, mainly their interaction and integration with the global economy. Market size, economic and political system, form and extent of government intervention, management strategies of home and foreign firms in the domestic market, and nature of the targeted foreign market influences the investment position of a country.

According to investment development path (IDP) theory, a country is expected to pass through the following stages:

1. Countries with a very low level of income attract very little or no investment because their resources endowments or domestic market does not offer opportunities for growth and profits.
2. As the country develops and domestic demand and income increase, its resource capability improves mainly through infrastructure development and education and training. Thus, inward investment becomes a viable choice to enter the market.
3. Government in the particular country formulate policies that promote participation in the international market aimed at specialising trade and production. This creates an economic structure conducive for wealth creation and a strategy to achieve self sufficiency will lead to an insignificant outward investment from the country.
4. In this stage the country becomes a net outward investor.
5. The growth of intra-industry rationalised investment results in a concentration of both inward and outward investment flows from the country.

The pattern of internationalisation process is presented in the following figure.

**Figure 2.3: Investment development path**



Source: Dunning & Narula (1992)

A summary of the main theories that form the background of research on FDI is given in Table 2.1 below.

**Table 2.1: Summary of theoretical background**

<b>Author &amp; date</b>	<b>Theory</b>	<b>Main tenets</b>
Heckscher (1919), Ohlin (1933)	Neoclassical trade theory	Relationship between factor endowments of countries and their trade patterns. In the absence of trade capital moves to a location where return is higher.
Kindleberger (1969), Hymer (1976)	Industrial organisation approach	Market imperfections are needed for FDI. Conceptualisation of the MNE. Market imperfections provide competitive advantages to firms vis-à-vis its competitors.
Knickerbocker (1973)	Theory of oligopolistic reaction	Follow-the-leader strategy. FDI is a counteraction to foreign firms investing in a firm's domestic market.
Buckley & Casson (1976)	Internalisation theory	Advantages of internalisation in the presence of market failure. Possession of direct control through vertical integration.
Dunning (1977, 1979)	Eclectic / OLI paradigm	Ownership, location and internalisation advantages required for FDI to take place.
Vernon (1966)	Product life cycle	Location of production of certain kinds of products shifts as they go through their life cycles, which consist of four stages – introduction, growth, maturity and decline.
Cavusgil (1984), Johanson & Wiedersheim-Paul (1975), Johanson & Vahlne (1990)	Internationalisation process	FDI is a result of experience gained in foreign markets. Internationalisation process takes place in stages – no regular export activities, export via independent representatives, establishment of sales subsidiary, and production or manufacturing in a foreign location.
Dunning & Narula (1992)	Investment development path	FDI is influenced by indigenous resource endowments of a country. As a country develops, it's outward investment position moves through five different stages.

## Chapter 3

### Methodology

This chapter gives an introduction to the systematic review process and stages involved. It presents the databases used, the search strategy using keywords, and selection criteria for abstracts and full papers. This chapter also illustrates the quality appraisal criterion for selection of studies for systematic review.

# Chapter 3

## Methodology

The main aim of review protocol is to design a comprehensive methodology to conduct a systematic review of the literature based on the rationale described in the scoping study. The systematic review process is for “exploration, discovery and development” (Tranfield, et al., 2003) of the literature pertaining to my research area and to synthesise the important contributions in the field. This requires exploring the literature in three main domains namely: outward FDI, DCMNEs and internationalisation process. The purpose of the review protocol is to provide a clear and transparent rationale for selecting literature from these three domains for the systematic review.

### 3.1 Introduction

“A systematic review is an overview of primary studies that used explicit and reproducible methods” (Greenhalgh, 1997). It is “a review of the evidence on a clearly formulated question that uses systematic and explicit methods to identify, select and critically appraise relevant primary research, and to extract and analyse data from the studies that are included in the review. Statistical methods (meta analysis) may or may not be used” (NHS CRD, 2001). Systematic reviews differ from traditional literature reviews in that they ensure transparency and are reproducible, adhering to explicit inclusion and exclusion criteria for selecting relevant studies and following strict quality appraisal criteria. Table 1 shows the various steps involved in a systematic review.

**Table 3.1: Stages in a systematic review**

<b>Stage 1: Planning the review</b>
<ul style="list-style-type: none"><li>• Phase 0 - Identification of the need for a review</li></ul>
<ul style="list-style-type: none"><li>• Phase 1 - Preparation of a proposal for a systematic review</li></ul>
<ul style="list-style-type: none"><li>• Phase 2 - Development of a review protocol</li></ul>
<b>Stage 2: Conducting the review</b>

<ul style="list-style-type: none"> <li>Phase 3 - Identification of research</li> </ul>
<ul style="list-style-type: none"> <li>Phase 4 - Selection of studies</li> </ul>
<ul style="list-style-type: none"> <li>Phase 5 - Study quality assessment</li> </ul>
<ul style="list-style-type: none"> <li>Phase 6 - Data extraction and monitoring progress</li> </ul>
<ul style="list-style-type: none"> <li>Phase 7 - Data synthesis</li> </ul>
<b>Stage 3: Reporting and dissemination</b>
<ul style="list-style-type: none"> <li>Phase 8 - The report and recommendations</li> </ul>
<ul style="list-style-type: none"> <li>Phase 9 - Getting evidence into practice</li> </ul>

The main objectives of this systematic review are:

- What evidence is available in the literature on the determinants, investment strategies and modes of investment of South-South and South-North FDI flows?
- What evidence is available in the literature on the internationalisation process of firms from developing countries?

### 3.2 Consultation panel

The main purpose of the consultation panel is to provide guidance and expert advice during the systematic review process and on the area of research. The review panel consists of the supervisor, academic expert in the field of research, experts in systematic review, information specialists and practitioners in the research area. The consultation panel has been formed after informing my supervisor and as to date the members of the panel are:

**Table 3.2: The Consultation Panel**

Person	Title / Organisation	Role
<b>Prof. Sunil Poshakwale</b>	Professor of Finance, Cranfield School of Management	Supervisor
<b>Dr. Catarina Figueira</b>	Senior Lecturer in Applied Economics, Cranfield School of Management	Advisor & Member of Panel
<b>Dr. Vineet Agarwal</b>	Lecturer in Finance,	Internal Advisor

	Cranfield School of Management	
<b>Dr. Ilhan Ozturk</b>	Faculty of Economics and Administrative Sciences, Cag University	External Advisor
<b>Dr. Kajal Mukhopadhyay</b>	Manager, Advanced Analytics, MAA, New York	Practitioner & External Advisor
<b>Dr. Gaurav Ganguly</b>	Economist, Atradius, Amsterdam.	Practitioner & External Advisor
<b>Ms. Heather Woodfield</b>	Social Sciences Information Specialist, Cranfield University	Literature Search Advisor

### 3.3 Search strategy

A robust search strategy is an important prerequisite to obtain authentic and effective results while reviewing an area of interest. A logical search strategy will help to identify and uncover relevant and important literature from the various databases.

#### 3.3.1 Keyword search

Keywords play an important role in the systematic research and the effectiveness of the literature search depends on the accuracy of keywords. Keywords are assumed to capture the literature pertaining to the area under study and the various databases can identify these studies based on the keywords. The keywords that I will use are given in Table 3.3. These keywords were identified through an extensive search of the literature and also discussions with supervisor and colleagues. Wildcards such as “ \* ” have been used to capture different forms of a keyword.

**Table 3.3: Keywords**

Area	Keywords
Outward FDI	south-north or south-south or outward FDI or outward investment or outward foreign direct investment or OFDI
Developing country multinational enterprises (DCMNEs)	third world multinational enterprise* or TWMNE* or developing country multinational enterprise* or DCMNE*
Internationalisation process	international venturing or international expansion or internationalisation or globalisation

Search strings will be used to identify studies related to the various themes that come under the study. I have chosen the strings after conducting pilot searches which ensured that they identify relevant studies in the field of research. The search strings were grouped into two categories based on the review objectives. The two categories are 1) **Determinants of OFDI from developing countries**, and 2) **Internationalisation process**. The various search strings are given in Table 3.4.

**Table 3.4: Search Strings**

<b>Determinants of OFDI from developing countries</b>		
<b>Theme</b>	<b>Search String</b>	<b>Rationale</b>
General – outward FDI from developing countries	south-north or south-south or outward FDI or outward investment or outward foreign direct investment or OFDI	To identify all the studies on outward FDI from developing countries and to make sure that I have not missed any relevant studies.
Inward FDI	inward FDI or inward investment or inward foreign direct investment AND developed econom* or developed countr* or developed market* or developing econom* or developing countr* or developing market*	To identify all the studies that deal with inward FDI in developed and developing countries.
DCMNE activity in developed and developing countries	third world multinational enterprise* or TWMNE or developing country multinational enterprise* or DCMNE AND developed econom* or developed countr* or developed market* or developing econom* or developing countr* or developing market*	To identify all the studies on DCMNE activities in developed and developing countries.
Determinants of outward FDI from developing countries	Determinant* OR Driver* OR Motive* OR Push factor* OR Pull Factor* AND south-north or south-south or outward FDI or outward investment or outward foreign direct investment or OFDI	To identify the studies on determinants of outward FDI from developing countries
<b>Internationalisation process</b>		
<b>Theme</b>	<b>Search String</b>	<b>Rationale</b>
Process of DCMNEs'	international venturing or international expansion or	To identify all the studies related to international

internationalisation	internationalisation or globalisation AND third world multinational enterprise* or TWMNE or developing country multinational enterprise* or DCMNE	expansion of DCMNEs.
Modes of internationalisation	joint venture* or greenfield or greenfield investment* or JV or M&A or merger* or acquisition* AND south-north or south-south or outward FDI or outward investment or outward foreign direct investment or OFDI	To identify all the studies on various modes of investment related to outward FDI from developing countries

### 3.3.2 Resources

#### i. Databases

The databases that will be used to locate studies using the various search strings are presented in the following table.

**Table 3.5: Databases**

Database	Description / Rationale
ABI / Inform	A comprehensive and scholarly means to explore business and social science research topics. Collection of nearly 1800 business periodicals with in-depth coverage.
EBSCO	World's largest full text business database provides full text for nearly 7800 scholarly journals. About 350 top journals dating back as far as 1922 are covered in this database.
Social Sciences Citation Index (ISI)	Provides journal papers with citation reports and acts as a single route access to all Thomson Reuters's products.
Swetswise	A database for articles in economics. This will capture more of the economics literature that deals with FDI.
Science Direct	More than 1700 journals from Elsevier Science, covers three million articles and over 59 million abstracts from various fields.
Scopus	15000 peer reviewed journals from more than 4000 publishers.
Wiley Inter Science	Online content service providing full text of more than 300 leading journals.

## ii. Other sources

In addition to the databases mentioned above, I will search for studies in my field of research in other sources. Although FDI has established itself as a well researched area, because of the changing economic conditions, a lot of work is still being done and new debates are emerging. In order to cover the current debates and empirical evidence, I will conduct a review of working papers and conference proceedings that is expected to provide a clear understanding of the new directions in which research is being done. Other sources include –

- **Social Science Research Network:** SSRN provides a database of working papers which contains details about the on going research work.
- **Working Papers** from reputed international organisations like IMF, World Bank and OECD
- **Conference Proceedings:** Papers from conferences relating to FDI will be reviewed since it provides information on the current work being done in this field.

## 3.4 Cross referencing

Another important way of identifying relevant studies is through cross referencing. The studies that have been selected for review after the selection and quality appraisal criteria might provide important references that were not identified in the literature search using search strings. The papers identified through this way will also be subject to the selection and quality appraisal criteria in order to be selected for review.

## 3.5 Selection Criteria

Large amount of academic papers will be produced by the literature search using search strings. The next step will be to include the relevant studies and exclude the rest. First stage of this process will select relevant papers based on their abstracts. Articles selected through abstract analysis will then be analysed in detail to determine whether they should be selected for review.

### 3.5.1 Abstracts

The selection criteria for abstracts are given in the following table.

**Table 3.6: Selection criteria for abstracts**

Criteria	Components	Rationale
Topic	Outward FDI from developing countries.	The focus of my systematic review is outward FDI from developing economies and therefore papers relating to outward FDI from developing economies, emerging markets and transition economies will be included. Papers dealing with foreign portfolio investment (FPI) will be excluded.
Time period	All	Papers that deal with outward FDI in pre- and post-liberalisation period in developing countries will be included. This will give a picture of the motives of investment in both periods.
Geographical region	Emerging Markets, Developing Economies, Transition Economies.	Papers that illustrate outward FDI from all the emerging markets and developing economies in all continents and transition economies of East Europe will be included.
Industry	All industries and sectors	Studies on outward FDI in any commercial industry and sector will be included since it ensures comprehensiveness and helps to identify any industry that has been excluded in previous research.
Journal Type	Academic Journals, Working Papers and Conference Proceedings.	Academic journals will be the main source of papers for review. Working papers and conference proceedings also form an important component since it provides an idea about the on going research in the field. Trade publications, newspapers and magazines will be excluded from the review. Papers published from any part of the world that is available will be included, provided the language is English.
Approach	Theoretical and Empirical	The review will consider both theoretical and empirical papers.

### 3.5.2 Full papers

The papers that are selected through abstract analysis will go through another selection criterion for evaluation of the full text in order to determine whether it

should be included in the systematic review. The criteria for evaluating full papers are as follows:

**Theoretical papers must contain:**

- An understandable discussion of the relevant theoretical background and linkage to the model developed in the paper.
- A clear explanation of the various assumptions used for constructing the models.
- Clear definitions and rationale for different variables, proxies and equations used in the model.
- Definite and unambiguous argument supporting the theorems and important results.
- Limitations of the model.
- Illustration of empirical evidence substantiating the model developed in the paper.

**Empirical papers must contain:**

- Clear description of linkage between the empirical work and its theoretical backing.
- Clear explanation of the data sources, sample size, period of study, geographical region, industry, etc and its validity to generate conclusions.
- Rationale and explanation of the variables, proxies and econometric equations used in the study.
- Rationale for the methodology used along with a description of its pros and cons.
- Clear statement of the paper's contribution to existing literature in the field and whether the study validates existing beliefs or unveils new paradigms about the issue.
- Potential areas for further research.

### **3.6 Quality appraisal**

Quality evaluation of the papers that are selected through abstract analysis and full paper analysis is the next step. Papers that meet the pre-determined quality

appraisal criteria will be included in the review. I have formulated the quality appraisal criteria after evaluating various appraisal criteria that have been used in earlier systematic reviews. Table 8 presents the quality appraisal criteria for the selected full papers. A paper will be selected if it scores 2 or more in all the categories.

Elements	Level			
	1- Low	2 – Medium	3 - High	Not applicable
<b>Theoretical background</b>	Poor awareness of existing theories and current theoretical developments.	Basic review of theoretical background; summary of empirical studies.	Excellent review of theoretical background; clear link of theory with the research area and hypothesis, if any; excellent summary of prior empirical studies.	NA
<b>Methodological robustness</b>	Weak methodology used or there is no explanation of the methodology used.	Justifiable research design; acceptable methodology to develop the paper's central theme.	Clear link of methodology used to the research question and theoretical foundation.	NA
<b>Data analysis</b>	Poor data sources, no clear explanation of the sample used.	Justifiable data sample; results are relevant for understanding the aim of the paper.	Excellent data sources and adequate data sample; use of highly relevant statistical or econometric tools.	NA
<b>Generalisability</b>	Only the sample studied	Countries or industries of similar characteristics.	High level of generalisability; any country or any industry or any product.	NA
<b>Contribution to knowledge</b>	Does not make any important contribution; contribution not mentioned in the paper.	Builds upon existing theory.	Contributes further to developing existing knowledge; develops the technique through which the research area was explained.	NA
<b>Limitations and potential for future research</b>	Limitations not stated although it lacks theoretical backing, methodological rigour and have used poor data.	Limitations stated but do not explain its relevance to understand the results of the study; future research areas not stated.	Limitations of the study explicitly stated and clearly understood; provides areas for further research that can enhance understanding.	NA

**Table 3.7: Quality appraisal tool**

### 3.7 Data extraction

Data extraction form that was used to extract relevant information from the papers selected for review is given in Table 9 below.

**Table 3.8: Data extraction form**

<b><u>Citation Information</u></b>	
Author	
Title	
Journal Title & Date	
Volume, Issue & Page Number	
Database	
Key Words	
<b><u>Study Background</u></b>	
Empirical or Theoretical	
Quantitative or Qualitative	
Model Employed	
Sample Size	
Data Frequency	
Data Description	
<b><u>Context</u></b>	
Type of Investment	FDI
Type of Economy	Emerging, Developing, Transition
<b><u>Quality Assessment</u></b>	
Theoretical Background	
Methodological Robustness	
Data Analysis	
Generalisability	
Contribution to Knowledge	
Limitations and Potential for future research	
<b><u>Thematic Information</u></b>	
Abstract	
Key Findings	
Potential Research Areas	

### **3.8 Data synthesis**

Data extracted through the extraction form will be tabulated and synthesised. This is expected to produce a systematic and coherent analysis of data so as to obtain a meaningful summary of the papers selected for the review. I will organise the analysis process on the basis of the two review questions for this systematic review of literature on outward FDI from developing countries. This will help me to get a clear picture of the theoretical background and empirical evidence, thereby identifying research gaps in the field that can form potential research questions.

## Chapter 4

### Findings from the Systematic Review

The search and selection of studies, and data extraction and synthesis are explained in this chapter. It provides a description of the studies selected for review on the basis of various categories and is illustrated in tabular and graphical format. Data extraction and synthesis are done in two sections – determinants of outward FDI and internationalisation process, based on the review objectives.

# Chapter 4

## Findings from the Systematic Review

### 4.1 Search and selection of studies

The search strings (Table 3.4) developed in the review protocol was used to search studies in various databases (Table 3.5). All the important databases relevant for economics, finance and international business were searched for studies. Duplication was avoided by excluding a study that was obtained from any other database. The search results and the process through which studies were shortlisted and articles for final review selected are shown in Table 4.1. The final list of papers to be reviewed was selected through a rigorous process that included different selection and quality appraisal criteria. The initial results from database searches were scrutinised on the basis of title of the study. Strict selection criteria were applied for studies selected through screening of their titles, which is shown in section 3.5. A detailed screening of the abstracts helped to identify studies that corresponded to the objectives of this systematic review.

The search process for relevant studies resulted in many interesting observations. Although the search strings generated a large number of studies, a detailed examination of them found that a large number of studies did not address the issues on FDI that I am interested in. It is clearly evident from the result of the database search that there is a large amount of literature on FDI flows into developing countries or emerging markets or transition economies, but literature on the outward FDI from these country groups is still scant. All the databases searched yielded large number of studies for the 'General' search string, but the number of relevant studies in the context of outward FDI were very low due to a large number of literature fields having similar key terms 'south' and 'north', such as geography, climate change, political science and international relations. Only the studies pertaining to outward FDI from developing world were selected.

Twenty nine papers were selected after abstract and full paper analysis process. These papers were subjected to the quality appraisal criteria mentioned in Table 3.7. This resulted in twenty three papers that match the issue under investigation in this review and that correspond to the various selection criteria

employed for selection of studies. The systematic review process yielded another set of relevant studies in the form of cross references, which were then subjected to quality appraisal and the result was a total of six additional papers which were included in the systematic review. A total of twenty nine papers were included in the systematic review. The process through which papers were selected for review, and results of database search are shown in Table 4.1.

Particulars	General				Inward FDI				DCMNEs				Determinants				Internationalisation of DCMNEs				Modes of investment				TOTAL				
	Full Results	Academic only	Selected from title	Selected from Abstract	Full Results	Academic only	Selected from title	Selected from Abstract	Full Results	Academic only	Selected from title	Selected from Abstract	Full Results	Academic only	Selected from title	Selected from Abstract	Full Results	Academic only	Selected from title	Selected from Abstract	Full Results	Academic only	Selected from title	Selected from Abstract	Full Results	Academic only	Selected from title	Selected from Abstract	
ABI/INFORM Global	1289	736	22	2	75	17	3	2	35	24	4	2	65	42	4	3	14	11	10	6	32	4	1	0	1510	834	44	15	
EBSCO	110	32	12	2	34	19	2	1	3	2	0	0	86	33	1	1	5	5	1	1	23	7	5	3	261	98	21	8	
ISI	224	101	11	3	57	18	4	1	27	15	7	4	42	38	10	7	14	11	5	4	228	88	1	1	592	271	38	20	
Swetswise	10	6	0	0	5	5	0	0	0	0	0	0	1	1	0	0	0	0	0	0	0	0	0	0	0	16	12	0	0
Science Direct	216	82	11	2	94	27	2	2	89	27	3	1	72	49	1	1	31	17	1	0	31	9	0	0	533	211	18	6	
Scopus	124	112	13	1	6	3	1	1	3	3	1	1	13	11	2	1	4	4	0	0	5	4	1	0	155	137	18	4	
Wiley Inter-Science Journals	251	89	3	0	37	30	2	0	157	92	2	0	13	9	3	1	23	14	0	0	0	0	0	0	481	234	10	1	
Papers from database	2				2				5				10				9				1				29				
Papers selected after quality appraisal	1				2				4				8				7				1				23				
From cross referencing (after quality appraisal)	0				0				1				3				1				1				6				
<b>Total No. of Papers to be Reviewed</b>	<b>1</b>				<b>2</b>				<b>5</b>				<b>11</b>				<b>8</b>				<b>2</b>				<b>29</b>				

**Table 4.1: Summary of search and selection process**

## 4.2 Description of papers selected for systematic review

The studies selected for review can be grouped on the basis of research category, publication type and geographical area covered under the study. Table 4.2 gives a description of the studies classified on the basis of research category. Most of the studies are empirical in nature. Some studies develop a theoretical model and deploy an empirical specification to test the theoretical model using secondary data. Only two theoretical papers have been selected for the review.

**Table 4.2: Distribution of studies by research category**

Theme/Research Category	Empirical		Theoretical		Total	
	Papers	%	Papers	%	Papers	%
Determinants of OFDI	18	94.7%	1	5.3%	<b>19</b>	100%
Internationalisation process	9	90%	1	10%	<b>10</b>	100%
<b>Total</b>	<b>27</b>	<b>93.1%</b>	<b>2</b>	<b>6.9%</b>	<b>29</b>	<b>100%</b>

Table 4.3 shows the distribution of studies on the basis of publication type. Almost ninety percent of the studies are published papers while a few key published papers have been selected for review to make sure that the current developments in international business literature relating to outward FDI have not been excluded. All the working papers are on determinants of OFDI.

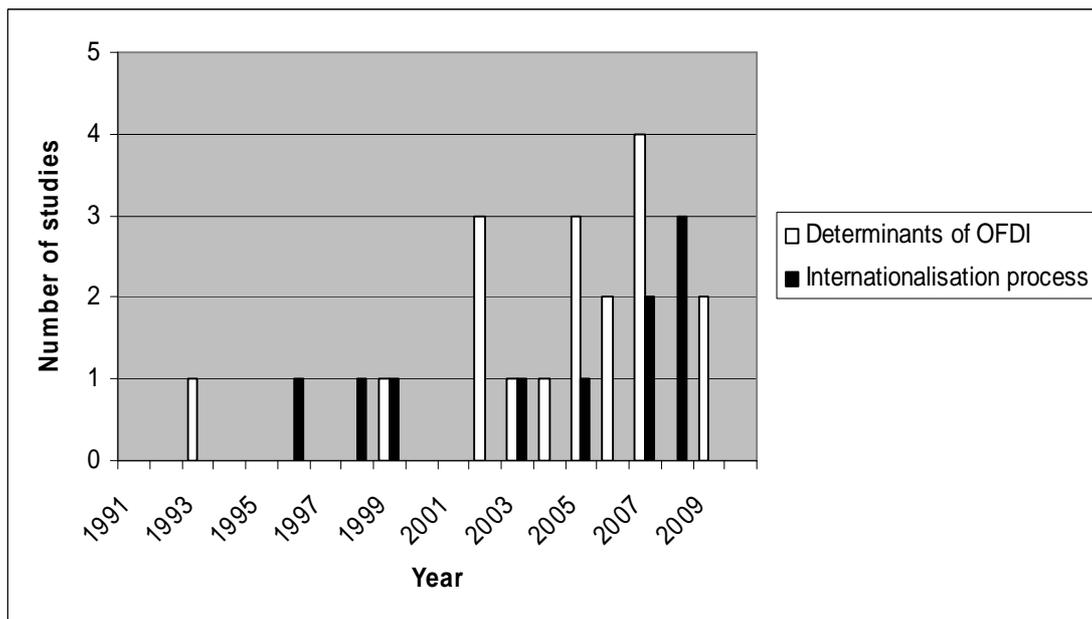
**Table 4.3: Distribution of studies by publication type**

Theme/Research Category	Published papers		Working papers		Total	
	Papers	%	Papers	%	Papers	%
Determinants of OFDI	16	84.2%	3	15.8%	<b>19</b>	100%
Internationalisation process	10	100%	0	0%	<b>10</b>	100%
<b>Total</b>	<b>26</b>	<b>89.7%</b>	<b>3</b>	<b>10.3%</b>	<b>29</b>	<b>100%</b>

Figure 4.1 gives the distribution of studies over time. It is interesting to note that the topic of outward FDI from developing world started to gain importance as a research issue in the 2000s. Although most developing countries liberalised their markets in the early 1990s, very few studies have been conducted on the issue of outward FDI during the 1990s. More studies have been conducted on determinants of

outward FDI than the internationalisation process which can be mainly due to either the non-availability of data on internationalisation process or policy implications of the push and pull factors. Internationalisation process is an aspect of the MNE and started gaining importance in literature only recently due to the ongoing theoretical debate on formulating a separate theory of internationalisation for developing country firms.

**Figure 4.1: Distribution of studies by time**



The distribution of studies based on the geographical location investigated is shown in Figure 4.2. It is clearly visible that most number of studies has been conducted on China. Countries such as Malaysia, Singapore and Hong Kong have been grouped under newly industrialised economies (NIEs) adhering to the classification followed by the United Nations (UNCTAD, 2006). NIEs have the most number of studies conducted on determinants of outward FDI. This concurs with the fact that booming economies of Hong Kong and Singapore have been a prominent source of outward FDI and recipient of inward FDI. An equal number of studies on determinants of OFDI have been conducted on China. Africa has also the same number of studies as China mainly due to its importance as a region in the ‘south’ rich in natural resources and studies featuring FDI flows to Africa from China have been conducted. A study each gives evidence on determinants of OFDI from India,

Indonesia and South Korea. On internationalisation process, most number of studies selected for review has been conducted on China and the argument of the need for a separate theory of internationalisation for developing country firms feature in all of them. Other than China, studies on internationalisation process have been conducted only for South Korea and NIEs. It is important to note that no important studies have been published on Middle East and Latin America, in spite of the presence of prominent emerging markets like Brazil, Mexico and Argentina, and regions rich in oil wealth. The transition economies of east Europe and erstwhile Soviet Union have also been excluded in FDI literature.

**Figure 4.2: Distribution of studies by country/country group/region**

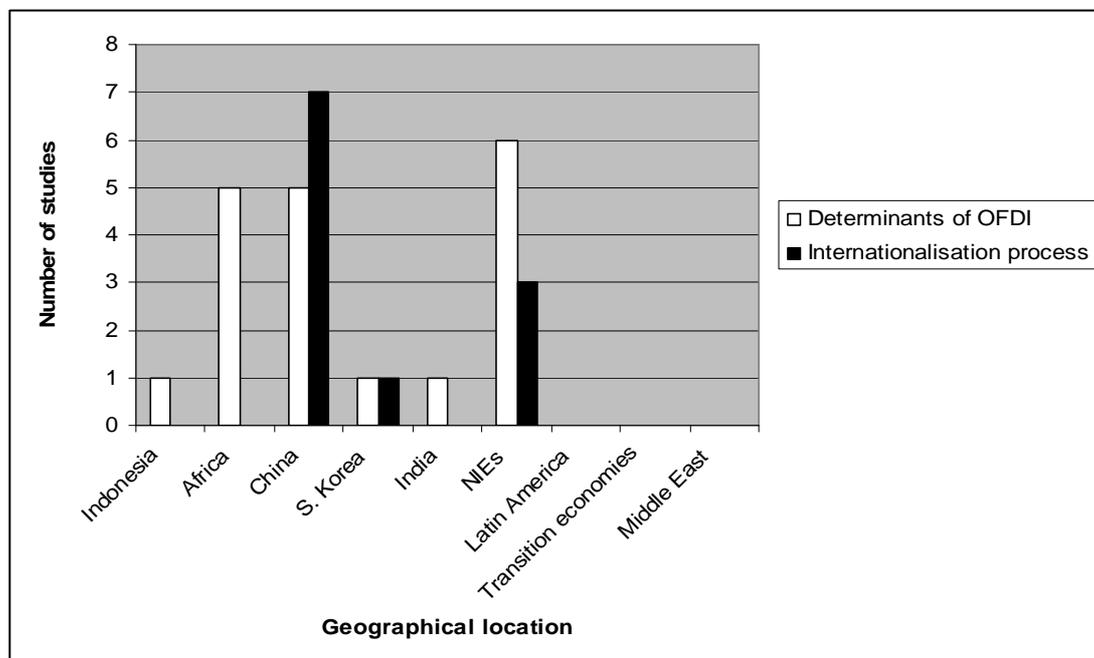
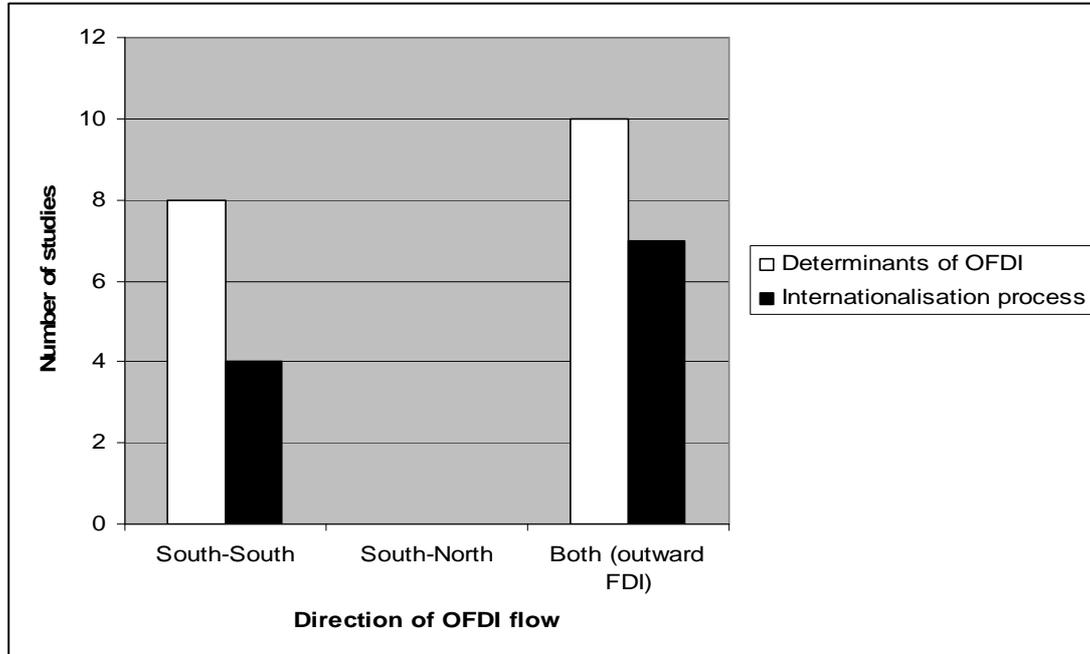


Figure 4.3 shows the distribution of studies based on the direction of OFDI flows from developing countries. Nearly 60% of the studies focus on the determinants of outward FDI and do not make a clear distinction between the determinants of investment flows to South and North. All the remaining studies focus on the determinants of FDI flows between developing countries (South-South). There are no studies that empirically test the determinants of South-North FDI flows.

The distribution of studies by journals and working papers are shown in Table 4.5. A large number of studies are selected from reputed journals such as Journal of International Business Studies, Asia Pacific Journal of Management and Journal of

World Business. These three journals account for almost 45% of the studies selected for review. Working papers are selected from reputed organisations IMF and OECD, and a reliable source, SSRN.

**Figure 4.3: Distribution of studies by direction of OFDI flows.**



There is a body of literature that deals with determinants of FDI from most developing regions except Latin America and transition economies. Sixty five percent of studies selected for review are on determinants of OFDI which vouches for the importance given to the same in literature. More than 80% of the studies selected for review have been published in the 2000s which shows that the phenomenon of outward FDI from developing countries is generating interest among academicians and practitioners in recent times. Most number of papers selected from a single year is in 2007, which clearly shows the rising interest in this field of research.

**Table 4.4: Distribution of studies by journals and working papers**

Journals	Determinants of OFDI	Internationalisation process	Total
Applied Economics	1	0	1
Asia Pacific Journal of Management	1	2	3
Copenhagen Journal of Asian Studies	1	0	1
Economics Letters	1	0	1
International Business Review	1	0	1
International Journal of Emerging Markets	0	1	1

Journal of Business Research	0	1	<b>1</b>
Journal of International Business Studies	5	2	<b>7</b>
Journal of World Trade	1	0	<b>1</b>
Journal of Chinese Eco. & Bus. Studies	1	0	<b>1</b>
Journal of World Business	1	2	<b>3</b>
Management International Review	0	1	<b>1</b>
Management & Organisation Review	0	1	<b>1</b>
Oxford Development Studies	1	0	<b>1</b>
The World Economy	1	0	<b>1</b>
World Development	1	0	<b>1</b>
<b>Working Papers</b>			
IMF	1	0	<b>1</b>
OECD Development Centre	1	0	<b>1</b>
SSRN	1	0	<b>1</b>
<b>Total</b>	<b>19</b>	<b>10</b>	<b>29</b>

A number of interesting observations can be drawn from the descriptive analysis of studies selected for review. First, apart from China and NIEs, there is almost no empirical evidence on OFDI from important developing regions of the world such as Latin America and transition economies. Second, one of the most important developing countries, India, has not been given due importance in literature in spite of its improving outward investment position and high growth rates achieved. Similarly, no studies have been done on countries like Brazil and Russia, which along with China and India form the BRIC group. Third, studies on internationalisation process of MNEs from most developing regions are scant in spite of increased activity by these firms both in developed and developing parts of the world. Fourth, although there are a number of studies on outward FDI, they do not make a clear distinction between the motives of investment in South-South and South-North direction. There is a separate set of studies on South-South flows, but there are no studies on South-North flows of FDI.

### **4.3 Data extraction and synthesis**

Voluminous literature has been published on foreign direct and portfolio investment outflow from developed economies, its determinants and effects. Eminent scholars and economists have created many important and thought provoking research in this area. But the literature on FDI outflow from developing economies is still an

evolving field, except the large amount of published work pertaining to Chinese investment abroad.

This section will examine the selected studies in detail and is organised under two groups namely, determinants of outward FDI and internationalisation process, based on the review questions.

#### **4.3.1 Determinants of outward FDI from developing countries**

Developing countries or emerging markets have started investing in other developing and developed countries and this has received much attention in academic literature. There is a strand of literature that deals with the reasons as to why investment flows out of the developing world or the prime motives behind outward investment by developing countries. Determinants of FDI are often classified into push and pull factors. Push factors are those factors that drive investment out of an economy into foreign markets whereas pull factors are those that make a market attractive for investment or pulls investment into the economy. Dunning (1977, 1993) has classified the main motivations or investment strategies into foreign market seeking FDI, efficiency (cost reduction) seeking FDI and resource seeking FDI (includes a sub group known as strategic asset seeking FDI).

China has gained a prominent position in the global economy as an important investor in developed and developing countries. Its importance is evident in the literature from the large number of studies on China compared to other economies. **Buckley et al (2007)** investigated the determinants of Chinese outward FDI using official Chinese outward direct investment data from 1984 to 2001. Their main motivation was to test the applicability of mainstream theory that explains outward FDI from an industrialised country to the Chinese context or whether special explanations were needed for China. They formulated eleven hypotheses on the basis of different variables and their ability to influence outward investment from China and used a log-linear model for empirical analysis. The dependant variable used was total amount of FDI outflows that included reinvested earnings and intra-company loans. Data was drawn for 49 countries that are hosts of Chinese investment of which 22 are members of the OECD and 27 are not. Market size of the host country, natural resource endowments and liberalisation of policies were found to influence Chinese outward FDI positively. Cultural proximity was another significant variable that influenced the outflow of Chinese FDI. The authors suggest that Chinese FDI is still

at an early stage and more familiar cultures in investment recipient countries will increase Chinese inward FDI. An interesting finding of the study was that Chinese FDI was attracted by political risk. The authors conclude that Chinese multinationals are distinctive in that many of them are state owned and align their objectives to the five year plans and national obligations.

In another study of Chinese OFDI, **Yiu et al (2007)** contributed to the literature on FDI by providing an extension to the internationalisation theory by encompassing institutional factors and firms' strategic actions in response to the conditions in emerging economies. Using a questionnaire survey on firms located in Beijing, Shanghai and Guangdong, the study finds that networks in the home country of the firm facilitate in international expansion. It also indicates that institutional networks help firms in a country like China to overcome the transitions in the institutional setup. The ties with different entities in the economy provide firms' with information regarding regulation and policies, outward FDI opportunities and such other critical information. The study also finds that Chinese MNEs that are R&D intensive are moving towards internationalisation faster than other firms. Corporate entrepreneurship was found to mediate the effect of technological advancements and network ties on international expansion. The main weakness of the study is that the authors did not measure the different investment motives and also did not make a differentiation of the various investment destinations of Chinese FDI. Management capabilities were measured with regard to human resources only and therefore studies in the future can expand on this and include other related dimensions also. A measure of the management qualities pertaining to emerging markets can be developed in future studies that can be used as a proxy for management capabilities.

**Biggeri and Sanfilippo (2009)** conducted a study of the South-South FDI flows by examining the flows between China and Africa. The analysis took into account the main channels of interaction in the commercial and political sphere, namely, outward FDI, trade and international aid. The study utilised panel data for 43 African countries during the period 1998 to 2005. Economic cooperation, natural resources, and openness of the host economy were found to be significant variables influencing the flow of FDI from China to Africa. Political instability has a negative relation with outward FDI from China. It was also found that oil exporting countries were attracting more Chinese FDI compared to other African countries. In the context of international cooperation, it was found that Chinese aid is located in countries

where there is a concentration of international aid from OECD countries. The authors suggest that a more comprehensive study of Chinese FDI to Africa is needed due to the partial character of data, mainly because this study did not consider FDI in the financial sector. Also, there has to be a better understanding of the motives behind Chinese aid in developing countries, particularly Africa.

**Liu et al (2005)** examined OFDI from China and suggested three theoretical modifications to the existing theoretical foundations. They emphasised the need to incorporate new variables that are specific to developing and emerging economies, the necessity for refinements to the international development path theory and the need to encompass interdependence and co-movement among variables. In this paper the authors have tried to address the question whether the significant increase in outflow of FDI from Chinese economy is a unique phenomenon or whether it requires refinement of the existing theories of FDI. The authors have demonstrated that it is possible to explain Chinese FDI without recourse to the uniqueness of the Chinese institutions, but the original IDP theory was insufficient to incorporate the Chinese case. Therefore new variables incorporating features of Chinese economy should be included in the model to explain the surge in OFDI flows from China. The results of the empirical testing suggest that an increase in GDP per capita and human capital stock was found to result in an increase in Chinese OFDI. Exports as well as inward FDI to China were found not to influence OFDI. The main implication of the study is that the augmented IDP hypothesis makes policy making directed at OFDI unnecessary because OFDI seems to automatically follow economic growth. The study also points out that practitioners should be cautious about the surge in Chinese OFDI although only 21.5% of Chinese FDI is in the manufacturing sector.

**Child and Rodrigues (2005)** examine the patterns and motives for international expansion by Chinese market seeking firms. Case studies of the prominent market seeking firms from mainland China indicate that they are seeking technology and brand in order to achieve a competitive position in the global market. The prominent theories on international business assert that firms engage in OFDI to exploit competitive advantages. However, Chinese firms engage in international operations in order to address their competitive disadvantages. Chinese MNEs does inward internationalisation through original equipment manufacturing and joint ventures with foreign firms and outward internationalisation through acquisition of foreign entities and also organic expansion. The main drivers for internationalisation

of market seeking Chinese firms have strong backing from the government for globalisation especially by providing financial means and also tolerating domestic strategies such as mergers that help to build corporate strength. Access to state sponsored scientific and technical research and development and also the willingness of foreign firms to share or sell superior technology, brands and know-how also determine the internationalisation moves of Chinese MNEs. The authors also argue that the Chinese case has a number of distinct features that require expansion of the existing internationalisation theories. These features are mainly concerned with the late comer perspective and catch up strategies, liability of foreignness, relation of entrepreneurs and institutions and the institutional role played by the Chinese government. In addition to providing scope for theoretical expansion, this study has policy implications also since it offers lessons on internationalisation for other developing countries.

A number of studies have been conducted on OFDI from East and South East Asian countries and Newly Industrialised Economies (NIEs) such as Singapore, Taiwan, Hong Kong and South Korea. In a study of South Korean investment flows, **Kim and Rhe (2009)** examined the trends and determinants of its outward FDI. Empirical investigation of the factors that determine FDI using data for the period 1994-2005 reveal that the outward FDI from South Korea is mainly market seeking and strategic asset seeking. Market size is the most important determinant of South Korean outward FDI, but GDP per capita was not significant. Population of the host country was also found to be a significant determinant. Assets in developing countries and inflation in developed countries have a positive relation with outward FDI. It was also found that firms engage in acquisition of assets in foreign markets. The main limitations of the study are that the authors did not consider cultural issues which are a crucial factor for OFDI from developing economies and especially East Asian countries. The authors also propose that OFDI can be examined at the firm level to get a better understanding of the motives for outward investment for Korean firms.

**Gao (2005)** examined FDI outflows from developing Asia and compared it with the OFDI from OECD countries. The author finds that compared to the FDI outflow from OECD countries, outflows from Asian developing countries exhibited certain distinctive features. They were found to be less sensitive to income levels in the host country and there was more rapid attenuation with distance. The study used data for the period 1994 – 1997 for 24 OECD and developing countries in East and

South East Asia and the empirical specification used the gravity model. The study shows that OFDI from developing countries in Asia were directed towards other developing countries mainly in Asia where income levels were low and geographic distance is less. **Blomqvist (2002)** in a study of OFDI from Singapore attempted to examine the main determinants of FDI outflow. Contrary to findings of many other studies, market size of the host country was found to be insignificant and not important for Singaporean firms. Same was the case with ownership advantages which may imply that firms from Singapore were interested in the location advantages of the host country. Protectionist trade policy in the host country was a significant variable in the empirical testing but the negative sign of the coefficient implies that import substituting policies of the host country does not attract FDI from firms in Singapore. It can be concluded that multinationals from Singapore aim more at the global markets than the protected local markets. Institutional conditions and labour costs were found to be important determinants of OFDI from Singapore.

**Makino et al (2002)** investigated the location choice decisions of firms from newly industrialised economies using data for 328 Taiwanese firms and find that the motivations of the firm have a significant influence on the choice of their investment location. But this investment decision was moderated by the capabilities of investing firm. NIE firms chose to invest in developed countries when their primary motivation was strategic asset seeking or market seeking whereas the location choice was in favour of less developed countries when their motive was labour seeking. This suggests that the motivation to invest in a particular country was guided by country specific factors. The results also suggest that the decision to undertake investment in a particular country was significantly influenced by the capabilities that the firm possessed. Technology based advantages and previous experience in strategic asset seeking investments guided the firm to invest in developed countries. In terms of labour seeking FDI, firms from NIEs chose to invest in less developed economies irrespective of whether they have the capability of labour intensive production. This can be due to the fact that firms investing in low cost labour locations do not necessarily require the firm specific skills in labour intensive production because resources like labour are easily available to any firm operating in those markets.

In another study on Taiwan, **Filatotchev et al (2007)** investigated the impact of corporate governance related factors and role of local networks in the internationalisation strategies of firms from NIEs in the context of Taiwan. The

authors extend research on FDI by postulating that investing firms from an emerging market are exposed to risks and information asymmetries. The results suggest that ownership structure of the investing firm exerts an influence on the FDI decisions and entry mode. In firms with majority ownership by foreign financial institutions there is a strategy of high commitment FDI and these conclusions are consistent with the theories of international diversification. In companies where there is a high level of ownership by family and domestic investors, there tends to be low levels of FDI commitment and this is also consistent with the findings of previous studies. The study also points to the fact that location specific factors such as ethnic and cultural aspects have an influence on the mode of entry. Moreover, factors that influence location choice may have an impact on mode of entry and vice versa. Firms from NIEs are more likely to invest in wholly owned subsidiaries in order to gain from the extensive networks. These findings have great relevance to research on MNEs from other emerging economies in South East Asia where companies are in the initial stages of internationalisation and markets are characterised by the immaturity of security markets and developing institutional environment.

**Zin (1999)** studied the rising trend of Malaysian outward FDI and explored the business strategies followed by the multinational firms based in Malaysia. The results of the study reveal that most Malaysian firms undertake FDI in order to expand their business in markets with high growth. Market growth, availability of natural resources, import restrictions in the host country, incentives from investment hosting governments and greater return on investment are the main factors that drive FDI from Malaysia. However, proximity in terms of distance and culture, and familiarity of the foreign market were not significant factors that influenced the outflow of FDI. Also, rising labour costs and concerns about competition in the home market were also not found to be significant determinants of Malaysian OFDI. With respect to the production strategy followed by Malaysian firms, they are undergoing the different stages of value chain, first from standalone affiliates and moving on to the complex integration strategies. Decentralised decision making is the main management strategy adopted by MNEs in Malaysia with the exception of certain major financial decisions. Smaller companies intend to expand their business in familiar markets and in areas where they have expertise whereas the conglomerates venture into different sectors and locations. The study lays down certain lessons for Malaysian firms wanting to engage in foreign operations. In order to avoid the risk in entering a new market, firms

can engage in strategic alliances to gain access to technology and vital information. Firms with bargaining power can engage in full ownership of the foreign entity or at least management control. Moreover, companies venturing into a foreign market for the first time may want to be cautious and should gain a thorough knowledge of the foreign market. A firm should also not rush into operation but instead establish a trading operation first. The results indicate that smaller Malaysian firms do not have the bargaining power to take advantage of innovation in production process and superior technology that can be acquired through strategic alliances with firms in foreign markets. Also, since innovation, and research and development are expensive for most Malaysian firms, the progress into a foreign market should be gradual in the lines of internationalisation theory.

**Lecraw (1993)** studied the motivations for outward FDI from Indonesia using data for twenty four industries for a period covering 1986-1990. The results suggest that by acquiring companies abroad, Indonesian firms were able to gain access to advantages that they needed to compete in a foreign market. These Indonesian firms also became export intensive, low cost producers of high quality products which is shown as an example of technology transfer through investment. Both types of Indonesian multinationals, export enhancing and operations extending, tended to 'jump' stages of internationalisation and had less involvement in the host country prior to investment. Operations extending multinationals tend to invest in other developing countries while export enhancing multinationals invest in high income countries. International orientation, training and managerial expertise was found to influence the behaviour of firms in the sample. Firms with more experience in international operations tended to engage in outward investment than other firms. Export enhancing multinationals engaged in outward FDI mainly to gain access to technology, distribution channels and management while operations extending multinationals had already developed advantages that helped them to operate abroad, and they used this mainly for import substitution.

**Aykut and Goldstein (2006)** examined the motivations for South-South FDI flows and find factors that influence the outflow of FDI from developing countries. Increase in openness to capital and trade and integration into the international production networks are cited as important factors that determine the OFDI from developing countries. The OLI framework has been developed predominantly for FDI flows from developed countries, mainly Anglo-American. But the emergence of rapid

outflows of FDI from developing countries requires the development of a new paradigm called the linkage, leverage and learning (LLL) paradigm. Multinationals from developing economies engage in FDI mainly for seeking resources, efficiency and markets. The resource intensive growth taking place in economies like China has led to a surge in demand for natural resources and this led to increased investment in extractive industries. Firms from developing countries also seek to reduce their cost of production thereby to achieve economies of scale and this has led to companies shifting production facilities to low cost countries. Countries with growing markets and a high GDP per capita were also found to be attractive destinations for OFDI from developing countries.

There are a few important studies on FDI into Africa which give a clear picture of South-South investment flows, its determinants and patterns.

**Akinkugbe (2005)** developed a theoretical framework for FDI flows to Africa using two-part econometric approach, to answer the two central questions in the context of Africa as to why investors do not find many African countries attractive for investment and what factors explain the volatile nature of FDI flows to recipient countries. The econometric model developed is based on two interdependent decisions. The first is the foreign investors' decision to invest in a country that was previously neglected in terms of inward investment. The country selection process is conceptualised where the investors identify different prospective recipient countries which are then evaluated on the basis of various country characteristics and socio-economic indicators. The probability of a country getting selected for investment depends on its attributes relative to the attributes of the whole sample of countries. The second decision was on how much to invest in the selected countries. Because this decision is assumed to be related to the first one, the amount to be invested in a country should be non-zero. Therefore a cut off level was fixed at a FDI/GDP ratio of 0.01. The model also indicates that once the decision to invest in a country has been taken in the first step, the decision making problem on how much to invest in a country also changes in the second step. The model was empirically tested using data from 53 African countries for the period 1970-2000. The results for first step of the analysis showed that a combination of the level of infrastructure development, orientation to international trade, high per capita GDP and high rate of return on investment are significant decision variables in deciding whether or not to invest in a country. The second step of the analysis found that the same set of significant

variables in the first step was found to influence the decision as to how much should be invested in a country. But some other variables such as political risk, level of inflation, taxes on income, financial sector development, profits and capital gains and availability of resources such as petroleum were found to be significant in the second stage analysis.

While the previous study provided a theoretical model of FDI flows to Africa, **Asiedu (2002)** analysed the determinants of FDI to sub-Saharan Africa (SSA) and examined why SSA nations have been unsuccessful in attracting FDI flows in spite of the fact that many of the countries had policy reforms in place to promote inward FDI. The results indicated that SSA on average received less FDI inflow compared to non-SSA countries mainly due to its geographical location. There is a negative effect in the inflow of FDI if a country is in Africa. Higher return on capital promotes FDI to non-SSA nations whereas it has no significant impact on the FDI inflows to Africa. Openness to trade was found to be a significant factor determining FDI in Africa but the marginal benefit from an increase in the openness is less for African countries compared to non-African countries. SSA countries received less FDI than non-SSA countries due to the fact that openness is important globally and countries in Africa are less open compared to non-SSA countries. Development of infrastructure promotes FDI to non-African countries but has no significant impact on the volume of FDI inflows to Africa. In a second study of African FDI, **Asiedu (2006)** examined the determinants of FDI to Africa using data for 22 countries and employing panel data analysis. The results of the empirical analysis suggest that market growth, infrastructure facilities, low levels of inflation, natural resource endowments, efficient investment framework and good legal system promotes inward FDI to Africa. The results have many policy implications in that FDI in Africa is not entirely guided by exogenous variables, and small economies can attract more FDI by improving their institutional and policy framework. International developmental organisations like the World Bank and IMF can play an important role to attract more FDI by promoting good institutional environment in African countries. The results also point towards the importance of economic cooperation in enhancing FDI flow to Africa. Regionalism can expand the market size through integration of many markets from smaller African countries. This is advantageous for countries in the African region that are small in terms of income and population. The study also shows that an increase in FDI does not necessarily result in higher economic growth.

**Naude and Krugell (2007)** used a cross country econometric approach to investigate the determinants of FDI flows to Africa and claims a three fold contribution to literature on FDI flows. They identify that the estimation procedures employed in other models maybe flawed and therefore develop a dynamic generalised method of moments (GMM) model to ascertain the factors behind investment flows to Africa. The model identifies a set of robust determinants of FDI such as inflation rate, government consumption, political stability and levels of education. Contradictory to the study by Asiedu (2002), this study finds that geography does not influence FDI flows to the African continent. Market seeking or re-exporting motives also does not stand valid in the model, whereas policy variables show significance in different empirical specifications. Institutional environment in the form of political instability was found to be an important determinant of FDI flows to Africa. The data period for this study, 1970 – 1990, is insufficient to explain the recent surge in FDI to Africa mainly due to commodity price boom.

**Rogoff and Reinhart (2003)** examined the role of monetary policy and exchange rate policy in explaining FDI flows to Africa. The study finds that investment climate in African countries can be adversely affected by incidence of events such as war or a civil unrest. This further deters the inflow of FDI because of currency crashes and high inflationary pressures associated with catastrophic events. Moreover, high parallel market premia which was used in the analysis as a proxy for distortions, corruption and inconsistent policies affect investment flows into Africa negatively. Although frequent currency crashes are not a feature in Africa according to the authors, the level of distortions as shown by the extremely high parallel market premia is a unique phenomenon in the context of Africa. Therefore benefits could be gained by adopting a uniform exchange rate policy throughout the African region.

It was surprising to find that a major emerging market like India was less represented in the academic literature on FDI outflows. In spite of the surge in inflow and outflow of FDI and being a member of the BRIC group of countries, literature is insubstantial with respect to India. **Pradhan (2004)** conducted a firm level analysis of Indian manufacturing sector to examine the factors that determine OFDI and postulated that OFDI behaviour of Indian manufacturing firms depends on firm specific characteristics such as age, firm size, technology, managerial skill, and productivity, sector specific characteristics such as industrial market structure and home country policy environment. A tobit model was used to test the various

hypotheses and the model separated OFDI behaviour of Indian firms into two decisions: whether to invest in a foreign location or not, and how much to invest if the decision is to invest. The results show that Indian manufacturing firms with longer production experience are more likely to engage in OFDI. Firm size was also found to be a significant variable in the OFDI decision of the firms. In knowledge intensive industries, firms' technological capabilities were an important determinant of OFDI. However, import of foreign technology was found to be insignificant. Quality of management and previous export experience were also found to be significant variables and influence the OFDI decision positively. This study excluded the service sector oriented FDI which has become developed country focussed in the period after 1990s when there was significant outflow of Indian FDI in the service sector to many industrialised countries.

A summary table of the studies on determinants of outward FDI from developing countries is given below in Table 4.5.

**Table 4.5: Summary of studies on determinants of OFDI**

<b>Auth- or/s</b>	<b>Loc- ation</b>	<b>Data period</b>	<b>Investme- nt strategy</b>	<b>Push/pull factors</b>	<b>Mode of entry / Ownership structure</b>
Lecraw (1993)	Indonesi a	1986- 1990	Export enhancing, operations extending.	NA	Majority or full ownership in the foreign subsidiary.
Akinku gbe (2005)	Africa	Theore tical  1970- 2000	NA	A combination of the level of infrastructure development, orientation to international trade, high per capita GDP and high rate of return on investment are significant decision variables in deciding whether or not to invest in a country. Other variables such as political risk, level of inflation, taxes on income, financial sector development, profits and capital gains and availability of resources such as petroleum were found to be significant.	NA
Buckle y et al (2007)	China	1984- 2001	Market seeking, asset	Market size of the host country, natural resource endowments and	NA

			seeking.	liberalisation of policies were found to influence Chinese outward FDI positively. An interesting finding of the study was that Chinese FDI was attracted by political risk.	
Yiu et al (2007)	China	NA	NA	Linkages with domestic institutions in the home country, firms' technological prowess in terms of R&D and corporate entrepreneurship structure exerts influence on international venturing by Chinese firms.	NA
Kim & Rhe (2009)	South Korea	1994-2005	Market seeking, strategic asset seeking.	Market size is the most important determinant of South Korean outward FDI, but GDP per capita was not significant. Population of the host country was also found to be a significant determinant. Assets in developing countries and inflation in developed countries have a positive relation with outward FDI.	Acquisition
Biggeri & Sanfilippo (2009)	China	1998-2005	Resource seeking.	Economic cooperation, natural resources, and openness of the host economy were found to be significant variables influencing the flow of FDI from China to Africa. Political instability has a negative relation with outward FDI from China. It was also found that oil exporting countries were attracting more Chinese FDI compared to other African countries.	NA
Liu et al (2005)	China	1979-2002	Market seeking	An increase in GDP per capita and human capital stock was found to result in an increase in Chinese OFDI. Exports as well as inward FDI to China were found not to influence OFDI.	NA
Pradhan (2004)	India	1990-2001	NA	Firm age and firm size were found to be important determinants of outward FDI from Indian manufacturing firms. In knowledge intensive industries, firms' technological capabilities	NA

				were an important determinant of OFDI. However, import of foreign technology was found to be insignificant. Quality of management and previous export experience were also found to be significant variables and influence the OFDI decision positively.	
Gao (2005)	East and South East Asia	1994-1997	NA	FDI from East and South East Asia exhibits many distinct features compared to the FDI outflow from OECD countries. They are less sensitive to income levels in the host country and there is a more rapid attenuation with distance.	NA
Aykut & Goldstein (2006)	Developing countries	1995-2005	Resource seeking, efficiency seeking, market seeking	NA	NA
Blomqvist (2002)	Singapore	1990-1999	NA	Market size and ownership advantages were found to be insignificant variables. This can imply that location advantages are more important for firms from Singapore. Protectionist trade policy in host countries is a significant factor but import substituting policies does not seem to be attractive for Singaporean firms. Institutional conditions and labour costs were found to be important determinants of OFDI from Singapore.	NA
Asiedu (2002)	Africa	1988-1997	NA	Higher return on capital promotes FDI to non-SSA countries but not to SSA countries. Openness to trade is an important factor that drives FDI to Africa while infrastructure development has no significant impact on FDI flows to SSA countries.	NA
Asiedu (2006)	Africa	1984-2000	NA	Market size, infrastructure facilities, natural resources, low levels of inflation, and legal system promotes FDI in	NA

				Africa.	
Naude & Krugell (2007)	Africa	1970-1990	NA	Institutional environment in the form of political stability or low levels of political risk is a major determinant of FDI to Africa.	NA
Rogoff & Reinhart (2003)	Africa	1970-2001	NA	Probability of war affects the investment climate adversely. This results in currency crashes and inflation which further deters the inflow of investment.	NA
Makino et al (2002)	Taiwan	NA	Technology seeking, labour seeking, market seeking	NA	NA
Zin (1999)	Malaysia	NA	Market seeking	Market growth, availability of natural resources, import restrictions in the host country, incentives from investment hosting governments and greater return on investment are the main factors that drive FDI from Malaysia.	Standalone affiliates, mergers
Child & Rodrigues (2005)	China	Theoretical	Market seeking	Strong government support for internationalisation, access to government supported scientific and technical research and development and the willingness of foreign companies to share or sell technology or brands to Chinese firms are the main drivers of OFDI by market seeking firms.	Joint venture, acquisition
Filatov et al (2007)	Taiwan	NA	NA	Corporate governance and local networks influence the choice of location and entry mode choice of firms from NIEs.	Wholly owned subsidiary

The studies on determinants of FDI show that countries and firms differ in the determinants of FDI. Various macroeconomic and socio-political variables have been empirically tested in the studies. Firm level studies have utilised variables that capture aspects of the firm that are prospective determinants of FDI from developing countries. All the studies show that determinants of FDI vary depending on the

geographical location, firm type and industry. It is also interesting to note that some variables that are considered to be detrimental for investment were found to be significant factors for investment flows from certain countries. Political risk or instability is an impediment for investment according to many studies on FDI but Buckley et al (2001) find that in the case of Chinese investment flows to Africa, political risk was not a disadvantageous factor. This is mainly due to the urgency shown by Chinese government backed enterprises to acquire natural resources from resource rich regions in Africa.

Studies on investment flows to Africa reveal contradictory results. While Asiedu (2002) finds that infrastructure development has no significant impact on FDI flows to sub-Saharan African countries, in her later work (Asiedu, 2006) she finds that infrastructure facilities promote FDI in Africa. Institutional environment in the form of political stability is a major determinant of FDI in Africa according to Naude and Krugell (2007), while the opposite has been proved for Chinese firms investing in Africa (Buckley et al, 2001). This highlights the fact that motives for investment differ between investors and geographic locations. It should also be noted with great importance that while studies on Africa have cited the importance of natural resources as a major determinant of FDI to that region, all the studies fail to investigate the effect of commodity price boom that led to a surge in FDI into extractive industries, majority of the investment coming from China due to its resource intensive growth (UNCTAD, 2007).

Market seeking motive has been found to be the most common investment objective of DCMNEs. Firms from developing countries invest in other developed and developing countries because of its market size and GDP growth rates. Contrary to this was the finding of Blomqvist (2002) that market size was an insignificant determinant of outward FDI from Singapore. Asset seeking, resource seeking, technology seeking and efficiency seeking investment strategies are also adopted by outward investors from developing countries. It should be noted that some studies do not clearly segregate investment strategies. Pradhan (2004) studied Indian outward FDI but failed to identify the investment strategies adopted by Indian manufacturing firms. Studies on South-South FDI flows to Africa also do not identify investment strategies but it is assumed that the main strategy is natural resource seeking.

Questions about availability of data can be raised mainly because of the use of proxies in many studies. Data on macroeconomic variables are readily available from

reputed sources, but data that capture the effect of socio-political and institutional framework in a country such as political stability or corruption is scant and authors have resorted to the use of proxies to empirically test the effect of these aspects on FDI flows. Except a few studies by Kim and Rhe (2009), Child and Rodrigues (2005), Zin (1999) and Filatotchev et al (2007), no studies investigate the mode of entry into a foreign market or ownership structure of the investment. Multinationals from developing countries, especially in Asia were found to acquire firms in foreign locations rather than forming a subsidiary or joint venture or mergers.

The lack of studies on investment flows from regions like the Middle East led to the omission of a very important and emerging feature of foreign investment, called sovereign wealth funds. “Sovereign wealth funds (SWFs) are special purpose investment funds or arrangements owned by the general government. SWFs hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies that include investing in foreign financial assets” (Willson, 2008). This aspect has not been explored in studies on China and South East Asia also.

Although Pradhan (2004) investigated the FDI flows from Indian manufacturing sector, the study did not consider any macroeconomic factors in the empirical investigation. The author himself points that majority of Indian outward investment in the 1990s originated from the service sector and was directed towards developed countries, with majority ownership in most cases. Pradhan used data till 2001 but the amount of outward investment from Indian economy has magnified significantly since then with major acquisitions of foreign owned firms like Corus, Land Rover and Jaguar to name a few, undertaken by Indian conglomerates.

Many studies have investigated the determinants of outward FDI from developing countries, both macroeconomic and firm level factors. But no study has been conducted on the sensitivity of these factors across different geographic regions or economies.

In a nutshell, literature on determinants of OFDI from developing countries is still an evolving field with great policy implications. Published research has focused on certain geographic locations and some other prominent regions have been ignored. Since flow of FDI is a growing phenomenon, changes in the data has to be captured by new studies that can incorporate the changing trends and patterns of South-South and South-North FDI, accommodate effects of phenomena such as commodity price

boom and sub-prime mortgage crisis, and also combine special cases like sovereign wealth funds.

#### **4.3.2 Internationalisation process**

Multinationals tend to pass through different stages in their life cycle before embarking on investing in foreign markets. This journey through different stages is captured in the mainstream theoretical models like internationalisation theory (Cavusgil, 1984; Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1990) and product life cycle model (Vernon, 1966). Studies have been conducted to ascertain the internationalisation process of developed country MNEs but literature on the stages of internationalisation of DCMNEs are still in its infancy. Also, there are debates on the non-applicability of internationalisation theory and product life cycle theory to MNEs from emerging markets.

Similar to the literature on determinants of OFDI, Chinese internationalisation patterns have been researched in depth and form an important part of the literature on OFDI process of developing country firms. **Deng (2009)** applied institutional theory to examine how Chinese firms undertake strategic asset seeking internationalisation in the form of mergers and acquisitions (M&A). It becomes clear from the study that in order to understand the internationalisation motives of firms from China, a better understanding of the institutional environment is required. The study also emphasises the importance of home country institutional constraints and experience of firms affecting M&A decisions. Since strategic assets are not easily available in the home country, acquisition of foreign firms in possession of those assets might act as an escape route to the institutional constraints at home. The surge in inflow of FDI into Chinese economy stimulated Chinese firms to engage in cross border M&A in order to acquire the strategic assets that inward FDI does not bring in. The study provides evidence for previous research in internationalisation that claims Chinese firms internationalise to enhance firms competencies rather than asset exploitation.

Forming international joint ventures by firms from developed countries is a widely adopted means by multinationals from developing countries to enhance their innovative capabilities. **Li and Zhou (2008)** examine the advantages and disadvantages of such an approach in the context of Chinese economy using data for 474 companies and employing a panel data model. The authors find clear evidence that engaging in an international joint venture has an inverted U-shape effect on

innovations in the indigenous firms in China. They also find evidence for the moderating effect of a technology gap in that the inverted U-shape effect of a joint venture is more prevalent in industries with a low technology gap compared to those industries with a high technology gap. The results suggest that international joint ventures may have both positive and negative impacts on the capability to innovate of the Chinese indigenous firms. This deviates from the findings of previous studies that emphasised only on the positive impacts of international joint ventures. The findings on the moderating effect of a technology gap suggest that absorptive capacity is a crucial factor in analysing the impact of FDI on firms in host countries. Indigenous firms in China find difficulty in assimilating knowledge from international joint ventures when the absorptive capacity is low. Opposite to this, high absorptive capacity leads to greater learning in the indigenous firms. The results of the study also suggest that the disadvantages of engaging in an international joint venture may be more pronounced in the case of high absorptive capacity, since it implies a higher opportunity cost on relying on foreign MNEs.

**Young et al (1996)** has attempted to develop literature on international business based on the themes of inward and outward internationalisation, corporate development and technology transfer in emerging economies by considering a number of state owned enterprises from China. The case study of five major state owned enterprises revealed many interesting results about the internationalisation patterns of firms from developing economies. Initial outward internationalisation in the export stage was found to precede inward internalisation since outward internationalisation provided much needed foreign exchange for importing advanced technology. Imports of equipment and technology are constituents of Chinese inward internationalisation. The improvement in technological capabilities of Chinese firms in turn led to more outward internationalisation. The internationalisation process of Chinese enterprises was then guided by firm objectives and motivations. The psychic distance model of internationalisation theory was followed by market seeking firms that invested in neighbouring countries or culturally and ethnically similar countries, whereas efficiency seeking investment were mainly directed towards developed countries especially in North America and Europe. The study also revealed evidences of leapfrogging by Chinese state owned enterprises. The technological capability and resource endowments of these state owned enterprises accompanied by their ambition to and support of Chinese government led to leapfrogging the stages of

internationalisation in order to become major players in the global market. This study shows that third world MNEs may internationalise at an earlier stage of their operation and if they are state owned they may choose the acquisition mode to enter a foreign market.

**Morck et al (2008)** studied the patterns and strategies of Chinese outward investment and conclude that Chinese FDI stock and flow is still small relative to its GDP and in comparison to many other developing countries. They also assert that Chinese outward FDI is directed mostly towards neighbouring Asian countries and resource rich regions in Africa and is mainly in the form of acquisitions. From an economy wide perspective, the study shows that Chinese FDI is not a matter of surprise because of its high savings rate, but there are instances that should be dealt with caution. Leading Chinese investors are state owned enterprises and are state promoted monopolies in the natural resource or infrastructure sector. Their distinct ownership patterns lead to hoarding the retained earnings instead of paying dividends to shareholders. The study also shows that standard economic reasons behind FDI take unexpected turns in the case of Chinese outward FDI. Internalisation theory suggests that Chinese enterprises with great experience in tackling bureaucratic complexities will find it easier to operate in an environment with similar institutional framework. In certain industries outward FDI from China makes economic sense in that the enterprise possessing manufacturing capabilities earn the lead role as the focus of the operation shifts from innovation to manufacturing, cost reduction and quality control. Economical justification of Chinese outward FDI is also possible in terms of ownership structure as Chinese firms give great importance to direct control due to their distrust of markets and sense of national pride. This will continue as long as Chinese MNEs accept below market share valuation in exchange for greater control of the enterprise.

Internationalisation process of firms from East and South East Asia has been researched and provide an outlook on the stages of growth and subsequent outflow of FDI from firms in these regions. **Eramilli et al (1999)** explains the behaviour of Korean multinationals by using a popular international business theory, the internationalisation theory in the Asian context. The study investigated if the sequence of market choice by multinationals from Korea is influenced by the concept of psychic distance as propounded in the internationalisation theory. The study also tests the predominant notion that Korean multinationals used low control modes in the

initial stages of international operations and preferred high control modes at later stages of internationalisation. Results show that there is a systematic sequence in which firms from Korea internationalise and choose markets for investment. The construction of this sequence depends mainly on the economic potential of the host country and uncertainty. The study points out that uncertain conditions dominate economic conditions in the initial stages of entry into a foreign market by Korean companies. First time entrants into a foreign market followed a sequence that was dictated by the physical distance between Korea and the foreign country. The results on entry mode choice also reveal interesting facts about Korean multinational entry in foreign markets. Entry mode choice is not clearly explained by factors such as population or GNP or ownership restrictions in the foreign market. But physical distance is a significant factor determining entry mode. South Korean firms are more likely to engage in majority ownership investment rather than minority ownership as the physical distance between the two countries increases. Greater experience in the international market also leads Korean multinationals to seek for majority ownership in the foreign venture. The preferred entry mode is minority joint ventures in the earlier stages of international operation but the focus shifts to majority joint ventures as firms grow in operations and experience.

**Zutshi and Gibbons (1998)** used a contextual perspective to explain the internationalisation process of two government linked Singaporean companies, Sembawang Corporation and Singapore Technologies Holdings. The study explains the evolution of these two companies and reviews the internationalisation strategy adopted by them. The study shows that traditional internationalisation theory propounded by the Uppsala model does not explain the rapid internationalisation by the companies under study. However, a punctuated equilibrium model best explains the internationalisation behaviour of these companies. Internationalisation of government linked companies in Singapore is found to be a result of the government's call for expansion in that region. Considering the relationships between government and the board membership of companies in Singapore, the process of internationalisation is highly legitimised and is also part of the strategic recipe of government in Singapore. The growth of these government linked companies is cited as an example to how governments in East Asia intervene to create competitive advantages and sustain them. The open economy of Singapore led to the dominance of foreign firms and the government had to reprioritise its investment strategy and

focus on the development of its government linked companies. It should be mentioned here that the authors have not developed an investment history of the companies under study in order to enhance the validity of the study. More empirical work is required on the historical evolution of companies from Asian region to enhance generalisability and universality of the findings.

**Lau (2003)** examined the internationalisation process of firms in the Hong Kong garment industry using two theoretical perspectives, namely, location centered economic development theories and firm centered theories of FDI. Findings of the study suggest that internationalisation process of firms in Hong Kong are different from those in the industrialised countries and is not clearly explained by the mainstream internationalisation theories. Whereas market expansion was the prime motive for international expansion by advanced economy MNEs, firms from Hong Kong expand to international markets as a result of relocation in their production facilities to low cost locations. The firms in the garment industry in Hong Kong does not follow the Uppsala model of internationalisation mainly because they engage in exporting from inception itself. These firms are also different from the born global firms since they do not possess firm specific advantages on technology. This study shows that the internationalisation process of these firms have shifted as the economy developed. The marketing and managerial expertise gives them a competitive advantage when they start operation in an LDC. The study also showed that the rate of learning internationalisation skills depends on the sector and region of operation. The time lag from inception to international expansion shortens as the region and sector develops. The study also points to the important feature of Asian firms that without government intervention firms in NICs do not have the capability to take risks and break away from the traditional patterns of internationalisation.

**Sim and Pandian (2007)** provide an exploratory study of internationalisation strategies and characteristics of Malaysian and Taiwanese MNEs. The case study analysis made a comparative evaluation of internationalisation of firms from these two Asian countries that are at different stages of development. The internationalisation strategies of Taiwanese and Malaysian firms were based on location based advantages and cost based competencies glued together by a network based on ethnicity. It was found that Taiwanese MNEs are more developed than their Malaysian counterparts and is at a different stage in their development, based on the IDP theory. Taiwanese firms had more developed and wide production networks and

own brand manufacturing than Malaysian firms. Taiwanese MNEs are expanding beyond their competitive advantages due to advancements in their technology, innovation and brand value. Firms from Taiwan were moving to markets outside their traditional focus, and entering advanced economies in North America and Europe in order to gain access to advanced technology and growing markets. Compared to Taiwanese firms, Malaysian firms had a lower level of internationalisation and were in the earlier stages and were therefore less active and competitive in the global market. Therefore as the firms grew, attention was to be paid to learning and accumulating expertise and know-how particularly from the developed economies. The study also cemented the key role played by governments in the internationalisation strategies of firms in Asia. Institutional, social and ethnic framework were important factors that influenced the outward investment strategies and are still a distinguishing feature of Asian MNEs.

**Cuervo-Cazurra and Genc (2008)** examined the advantages and disadvantages of DCMNEs in comparison with developed country MNEs. Empirical analysis shows three main findings. First, DCMNEs are more prominent among foreign firms operating in a less developed country (LDC). DCMNEs have a disadvantage in that they come from countries where institutional quality is poor and is much smaller compared to developed country MNEs, but this turns to be an advantage while operating in LDCs and they can have a relatively large operation. Therefore a disadvantage of having poor institutions in the home country can become an advantage when the DCMNE starts operation in another country with poor institutions. Second, the presence of DCMNEs among foreign firms in an LDC depends on the governance conditions prevailing in the host country. These governance indicators are mainly smooth and efficient functioning of the markets in the host country. To be more specific, DCMNEs are more prominent in markets characterised by worse regulatory quality and high levels of corruption. But they are also present in markets with a rule of law and high per capita income. DCMNEs prefer to have protection of the rule of law and property rights, but they are dextrous in managing the difficulties in LDCs such as corruption and poor regulation. Third, contrary to findings of many studies, DCMNEs invest in LDCs not only with a resource seeking motive but to sell to their clients in those markets.

**Bonaglia et al (2007)** conducted a case study analysis of three emerging market MNEs in the white goods sector. The firms were Haier (China), Mabe

(Mexico) and Arcelik (Turkey). The paper presents the experience of these three latecomer firms in the global market that have already established themselves as major players in the white goods sector. The authors have tried to establish that these firms internationalised in ways that do not replicate the internationalisation of earlier MNEs from developing countries. The success of these emerging market MNEs in the global market depends on their ability to treat competition in the global market as an opportunity for capability building, move into more profitable markets and industries, and follow strategies that convert the latecomer status of emerging market MNEs into a competitive advantage. Firms from emerging markets pursue internationalisation as a means to catch up with the established players in the market, by leveraging off the latecomer status and also through strategic partnerships with market leading firms. The analysis has identified certain important differences from the pattern of internationalisation described in the OLI framework which is widely accepted as the standard process of internationalisation. As the world economy becomes more interconnected and competitive, firms at the periphery are pressurised to internationalise in order to enhance their competitive advantages. In this respect, globalisation is not only driven by giant multinationals but also by smaller firms from developing countries. If MNEs from developing countries want to grow in size and profits, the cases indicate that they will need to compete for the role of lead suppliers of market leaders, operate internationally, and also relocate plants near to where the lead assemblers operate. Research and development, and original design capability can enhance their competitiveness and enable emerging market MNEs to play a greater role in the global market.

A summary of the studies on internationalisation process is given in Table 4.6.

**Table 4.6: Summary of studies on internationalisation process**

<b>Author/s</b>	<b>Location</b>	<b>Data period</b>	<b>Investment strategy</b>	<b>Rationale, process and impacts</b>	<b>Mode of entry / Ownership structure</b>
Erramilli et al (1999)	South Korea	1973-1990	NA	Physical distance, and experience in the international markets were found to influence the internationalisation decisions and mode of entry of South Korean multinationals.	Joint venture, wholly owned subsidiary.
Deng	China	NA	Strategic	Home country institutional	Mergers and

(2009)			asset seeking	constraints and search for competitive advantages are the main rationale for Chinese investment abroad.	acquisitions
Li & Zhou (2008)	China	1998-2002	NA	Engaging in international joint ventures has an inverted U-shape impact on the innovative capabilities of Chinese indigenous firms.	Joint venture
Young et al (1996)	China	NA	NA	Internationalisation process is considered to be a competitive catch up process for firms from developing economies and especially China in the context of this research.	Acquisition
Cuervo - Cazzurra & Genc (2008)	LDCs	1999-2001	NA	Developing country MNEs in spite of their competitive disadvantages seem to perform well in locations such as LDCs compared to MNEs from developed countries. A home country with poor institutions can become an advantage for developing country MNEs when operating in a country with poor institutional environment.	NA
Bonaglia et al (2007)	NA	NA	NA	The success of emerging market MNEs in the global market depends on their ability to treat competition in the global market as an opportunity for capability building, move into more profitable markets and industries, and follow strategies that convert the latecomer status of emerging market MNEs into a competitive advantage.	NA
Zutshi & Gibbons (1998)	Singapore	NA	NA	Internationalisation of government linked companies in Singapore is the result of government's call for international expansion in the region. Governments in South East Asia play an important role in developing and sustaining competitive advantages as shown by the two Singaporean cases.	NA
Lau	Hong	NA	NA	Emergence of multinationals	NA

(2003)	Kong			from Hong Kong was a result of relocation of production to cheaper locations and not due to market seeking motives.	
Sim & Pandian (2007)	Malaysia, Taiwan	NA	Technology seeking, market seeking	The internationalisation strategies of Taiwanese and Malaysian firms were based on location based advantages and cost based competencies glued together by a network based on ethnicity.	NA
Morck et al (2008)	China	NA	NA	Chinese MNEs are expected to perform well in countries with similar institutional environments. Also, Chinese enterprises give great importance to control of the firms because of their distrust of markets and national pride.	Acquisitions

Research on internationalisation process of multinationals from developing countries is still an evolving field as shown by the very limited number of studies and the prevalence of theoretical debates dominating literature in this field. Literature on internationalisation process of DCMNEs is monopolised by studies on firms from East and South East Asia. Studies on Chinese firms take prime position in the literature. Internationalisation is seen as a catch-up process by Chinese firms according to Young et al (1996) and is a means to achieve competitive advantages to reap gains in the global competitive environment. Home country institutional framework plays a critical role in the internationalisation of DCMNEs as shown by Cuervo-Cazzura and Genc (2008). In fact, similarity of the institutional set up in home and host countries act in favour of DCMNEs. The studies show that importance is given to the institutional environment in domestic and foreign markets over the firm level factors that drive a firm to internationalise.

It is important to note the role played by governments in Asian economies and the influence they exert on domestic firms to internationalise in order to acquire strategic assets in foreign markets that can aid their development. Zutshi and Gibbons (1998) investigated this aspect of internationalisation and find evidence of government backing for firms registered in Singapore. An uncharted territory in the internationalisation literature is the process of global expansion of Indian multinationals. Being one of the fastest growing economies and largest markets in the world and in spite of Indian firms featuring prominently in the media about their

international acquisitions, it is extraordinary that no research has been conducted on this issue.

National pride was found to be the single most important factor determining choice of full ownership by Chinese firms (Morck et al, 2008). Ethnic ties with the host market and cultural proximity also determined the choice of mode of entry by South East Asian firms (Sim and Pandian, 2007).

A theoretical debate on whether DCMNEs need a separate internationalisation theory is also prevalent in the literature. This arises mainly from the different stages through which a firm passes before it commences foreign operations as postulated by the internationalisation model of Uppsala school. Since present day DCMNEs do not necessarily pass through all these stages or some DCMNEs venture into international markets in the early days of their inception or because some DCMNEs are 'born global firms', questions are raised on the applicability of mainstream internationalisation theory to the new breed of multinationals from emerging markets.

It can be concluded that research on internationalisation process of DCMNEs is still in its infancy and is occupied in clarifying the theoretical debate on the need for a separate theory of internationalisation for DCMNEs. Research on certain prominent developing markets is scant and requires attention because of the growing economic and political importance of these regions and increased international activities of their multinationals.

## Chapter 5

### Review Summary and Implications

This chapter presents a summary of the study and discussion of the findings. It also identifies the research directions that follow from the discussion. The chapter ends by providing an account of main limitations of the study, and learning experiences.

# Chapter 5

## Review Summary and Implications

### 5.1 Summary

In simple terms, FDI is a unit of currency crossing an international border but in reality it is a combination of wealth creating assets with significant impact on home and host economies. FDI is important to host economies due to its growth implications. It brings in valuable foreign exchange and tilts the balance of payments position of a country favourably in addition to providing the much essential fillip to its development process. It is also important to the investing firm or home country due to its capability to gain access to growing markets and resources, advanced technology and competitive advantages that provide a competitive edge in the global market. The role played by multinationals as carriers of investment is crucial and state sponsored enterprises engaging in international operation is often a prime feature of investment from many countries. The emergence of DCMNEs from developing regions has provided a new direction to research in international business literature. This evolving field has great implications for the growth and development of many under developed and poverty stricken regions of the world, especially Africa. But studies have shown that the benefits of investment have not trickled down to grass root level in many LDCs.

Internationalisation process of firms from developing countries seems to deviate from the assertions of mainstream internationalisation theories. Therefore theoretical debates on the need for a separate theory of internationalisation for DCMNEs are commonplace in the literature. Since present day DCMNEs do not necessarily pass through all stages of internationalisation or some DCMNEs venture into international markets in the early days of their inception or because some DCMNEs are 'born global firms', questions are raised on the applicability of mainstream internationalisation theory to the new breed of multinationals from developing countries.

One of the prime reasons to obtain a better understanding of the determinants and impacts of outward FDI is to devise adequate policies that will boost the development process. This requires a clear link between theory, evidence and policy

making. Internationalisation process is also of utmost importance to governments and policymakers because of clear evidence of state support in international expansion of multinationals, especially firms from China and South East Asia. The aim of this systematic review was to explore in detail the two main literature domains of FDI from developing countries - determinants of outward FDI and internationalisation process of DCMNEs.

Results of the review show that there is no significant volume of empirical literature explaining the phenomena of outward FDI or internationalisation of DCMNEs. This is in spite of the large volume of investment flowing out of developing countries mainly after liberalisation in many countries in the 1990s. The descriptive statistics of the selected studies show that there is a dearth of studies in the 1990s and this field of research gained importance in the 2000s. There is a large amount of literature on the determinants of inward FDI to developing countries and emerging markets, but literature on the determinants of outward FDI from these countries is scarce and the findings are often contradictory (Asiedu, 2002 and 2006, Buckley et al, 2007) which in turn raise several questions. Studies have not considered certain aspects like mode of entry into a country, ownership structure, and investment strategy while exploring the determinants of outward FDI.

The strand of literature on internationalisation process of DCMNEs find that multinationals from developing world do not necessarily follow the traditional mainstream internationalisation theories. Since present day DCMNEs do not necessarily pass through all the stages of internationalisation or some DCMNEs venture into international markets in the early days of their inception or because some DCMNEs are 'born global firms', questions are raised on the applicability of mainstream internationalisation theory to the new breed of multinationals from emerging markets. This highlights the need for a separate theory of internationalisation for developing country firms as proposed by the studies.

Questions about availability of data can be raised mainly because of the use of proxies in many studies. Data on macroeconomic variables are readily available from reputed sources, but data that capture the effect of socio-political and institutional framework in a country, such as political stability or corruption is scant and authors have resorted to the use of proxies to empirically test the effect of these aspects on FDI flows.

## 5.2 Discussion

In spite of increasing importance given in the media to emerging market multinationals and their investments across the globe, less number of studies on South-North and South-South FDI imply that there is great scope to research the phenomenon of outward FDI from developing countries. Interest is also generated in this field due to its great policy implications, and the high potential of investment to bring development to many poverty stricken parts of the globe. It is worth mentioning at this juncture that developing countries are home to more than 75% of world population (US Census Bureau, 2009). Although research in this field was dormant in the 1990s, it has gained importance in the present decade. There are some observations made from the literature that call for the attention of researchers.

First, there are a significant number of studies on outward FDI and internationalisation process from China, NIEs and countries of South East Asia. Africa has also been investigated well in the studies pertaining to South-South FDI. Due importance has not been given in OFDI literature to some major developing countries and regions like Russia, India, Latin America and Middle East. Considering the growing economic and geo-political importance of these regions, research has to be devoted to investigate OFDI from them.

Second, although Pradhan (2004) investigated OFDI flows from Indian manufacturing sector, the study did not consider any macroeconomic factors in the empirical investigation. The author himself points that majority of Indian outward investment in the 1990s originated from the service sector and was directed towards developed countries, with majority ownership in most cases. Pradhan used data till 2001 but the amount of outward investment from Indian economy has magnified significantly since then.

Third, in the studies that have investigated outward FDI from developing economies, no clear distinction has been made between South-South and South-North FDI. Although another set of studies have investigated South-South FDI, South-North FDI has not been explored in the literature. This provides great scope for research on FDI flows from developing to developed regions of the world.

Fourth, studies have resulted in contradictory findings on the determinants of FDI. Political risk or instability is an impediment for investment according to many studies on FDI but Buckley et al (2001) find that in the case of Chinese investment

flows to Africa, political risk was not a disadvantageous factor. While Asiedu (2002) finds that infrastructure development has no significant impact on FDI flows to sub-Saharan African countries, in her later work (Asiedu, 2006) she finds that infrastructure facilities promote FDI in Africa. These results indicate towards the varying sensitivity of different determinants of OFDI across geographical locations and time periods.

Fifth, studies on Africa have cited the importance of natural resources as a major determinant of FDI to that region, but all the studies fail to investigate the effect of commodity price boom that led to a surge in FDI into Africa. Similarly, evidence on sovereign wealth funds is almost non-existent in the literature in spite of its importance as a growing means of investment mainly from the Middle East, China and South East Asia.

### **5.3 Research directions**

My research plan is a result of the discussion in the previous section.

- First, the lack of empirical studies on developing country OFDI flows outside of China and certain East and South East Asian countries has motivated me to examine this phenomenon in other developing countries. On India there is only one study that deals with OFDI flows (Pradhan, 2004). This firm level study used data only for the period till 2001 but OFDI from India has grown significantly after that period. This study considered only OFDI from manufacturing sector while the author himself points out that majority of Indian outward investment in the 1990s originated from the service sector and was directed towards developed countries. A study that incorporates various macroeconomic variables provides scope for research in the Indian context. The scope can be extended by including countries such as Brazil, Mexico, Russia, South Africa, etc which are important emerging economies not covered in the literature.
- Second, since studies (Buckley et al, 2007, Asiedu, 2002 and 2006) have found contradictory results on the significance of variables that determine OFDI flows, it will be interesting to investigate how sensitive the different variables are across different geographic locations and time periods in the

context of OFDI flows from the countries mentioned in previous point. No study has investigated the variations in sensitivity of factors before.

- Third, as mentioned in the previous section, studies on outward FDI from developing countries do not make a clear distinction between South-South and South-North investment. It will be interesting to distinguish the determinants of South-South and South-North FDI flows or see whether it is the same set of factors that drive investment from developing countries to developed as well as other developing regions of the world.

The earlier discussion also emphasised on the importance of sovereign wealth funds that have already emerged as an important means of investment from many developing countries. Dearth of studies on SWFs prompts research on the same that could provide insights on its characteristics, investment types and motives of SWFs. The same is applicable to the phenomenon of commodity price boom and its effect on FDI flows to Africa which has not been researched in FDI literature. The mode of entry choice and internationalisation process of firms from countries not explored in literature can be considered for further research depending on availability of data.

#### **5.4 Limitations of the study**

This systematic review of literature has a number of limitations.

- Although the quality appraisal criterion was formulated after reviewing previously used quality appraisal criteria, the scrutiny of studies using the same is purely a subjective process. Therefore bias of the researcher might have come into play while selecting studies for the review.
- During the literature search using databases, some keywords that are used to explain the direction of global FDI flows like ‘South’ and ‘North’ captured studies from other fields such as geography, climate change, political science and international relations. This resulted in considerable time being spent on screening the titles and abstracts which would otherwise have consumed less time.
- Literature search using key words and search strings might have led to the omission of studies that have not been found from the databases.

- This review gave more importance for contribution to theory rather than prestige. Journal rankings were not a criterion for selection of studies. Therefore a formal accreditation to the subjective quality appraisal criteria could not be provided. But, in spite of this, 65% of published studies selected after quality appraisal are from 3 or 4 star ranked journals.

## **5.5 Learning experience**

The systematic review process is a good research exercise and resulted in few learning points for the author.

- The whole process was a case of ‘learning as you extract’, i.e. an important issue to be tackled in the initial stages of the review was to understand the optimal amount of information to be entered in the data extraction form. It was an ability achieved out of experience after reviewing a number of studies, but the method can be used in future projects.
- Defining the objectives of the review at an earlier stage helped significantly to shortlist the studies for review which in turn improved efficiency and provided enough time to analyse the studies.
- Systematic review process has provided a framework for analysing studies in the future. It has provided a means to evaluate studies and justify the selection of studies for PhD thesis. The descriptive analysis of the selected studies provides a valid justification for prospective research questions.

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