Developing country multinationals: South-South investment comes of age

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1. Introduction

Foreign Direct Investment (FDI) has been one of the main vectors of globalization in the past and has possibly grown in importance over the past decade (Jones, 2005; OECD, 2005). The multinational corporations (MNCs) from industrialized countries, where most FDI originates, have provided a massive infusion of capital, technology, marketing connections, and managerial expertise that, under certain conditions, have played a major role in the economic transformation and growth that many less developed and newly industrialized countries from around the world have experienced over the past two decades.[1] In the process, some enterprises from emerging economies, including both transition, and developing economies, have amassed sufficient capital, knowledge and know-how to invest abroad on their own and claim the status of emerging multinationals (EMNCs). The number of Fortune 500 companies headquartered outside the Triad (the North Atlantic and Japan) and Oceania has risen from 26 in 1988 to 61 in 2005, and Samsung (Republic of Korea) has become one of the top 20 most valuable brand names in the world.[2] It seems likely that this trend will continue in the years ahead. Another indicator is the ratio of foreign assets held by the largest EMNC to those of the world's largest MNC, which has risen from 5.7 per cent in 1999 to 6.9 per cent in 2003 (UNCTAD, 2001 and 2005).[3] In April 2006, the Russian Gazprom surpassed Microsoft to become the world's third most valuable company. And China Mobile's market capitalization surpassed that of the United Kingdom telecom company Vodafone.

Developing-country MNCs first appeared as a focus of interest about 25 years ago, with the advent of some overseas expansion by companies from a few countries (Lecraw, 1977; Lall, 1983; Wells, 1983).[4] The earliest major developing-world sources of FDI in this period were a small group of economies, including Argentina, Brazil, Hong Kong (China), India, Republic of Korea, Singapore, and Taiwan (Province of China).[5] It is only since the late 1980s that an increasing number of developing countries and transition economies, including Chile, China, Egypt, Malaysia, Mexico, Russian Federation, South Africa, Thailand, and Turkey, have become significant sources of FDI. Since 2003, the growth rate of outward FDI (OFDI)

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from emerging markets has outpaced the growth from industrialized countries (UNCTAD, 2005). While OFDI from the BRIC countries – Brazil, Russian Federation, India and China – has received more attention (Sauvant, 2005), other developing countries are also home to new important global businesses. Cemex, a Mexican cement giant, has used acquisitions to become the largest cement producer in the United States; Argentina's Tenaris (although it is owned by an Italian family and is also listed in New York) is the world's largest producer of seamless tubes thanks to its technological edge. CP Group in Thailand is said to be the largest single investor in China. Recent mega-deals that have received considerable attention include the purchase of Wind of Italy by Orascom of Egypt – Europe's largest ever leveraged buyout – and of P&O (United Kingdom) by DP World of Dubai. MNCs from new FDI source countries as "exotic" as Lebanon, Peru, or Uganda are now emerging. Sri Lankan firms, for example, are now very important players in the export-oriented clothing industry in many countries (in particular Bangladesh, India, and Madagascar).

Inasmuch as EMNCs have become a permanent, sizeable and growing feature of the world economy, they can no longer be regarded as exceptions or anomalies. This paper provides an introduction to some of the key issues regarding EMNCs,[6] including:

- Their size, nature, motives, and patterns of internationalization;
- The challenges that they encounter in their quest abroad (e.g., difficulties in creating a sustained competitive edge over well-established incumbents and in managing complex operations that require both foreign adaptation and cross-border integration); and
- Their contribution to the global economy, not least through investment in other developing countries, as a burgeoning instance of south-south cooperation, in particular supporting regional integration and responding to the incentives created by regional agreements.

Section 2 examines the investment patterns and characteristics of EMNCs in general and in selected industries; section 3 develops a simple conceptual framework for the analysis of motivations and strategies by EMNCs; section 4 examines how the impact of FDI by EMNCs on host economies might differ from that of OECD-based MNCs and addresses key policy issues arising at the national and international levels;[7] and the conclusions try to separate those questions for which there is are preliminary answers from those where a lot of research is still necessary.

2. Patterns and characteristics

With increased globalization of operations and complex business networks, it is harder than ever to assign nationalities to multinational companies, or to define and monitor their international operations. For FDI indicators at the aggregate level, differences in the way data are collected, defined and reported explain some of the oddities in global data compilations – in particular, while inward and outward FDI should in principle balance globally, the data rarely do. In 2004, global FDI outflows were reported at US$730 billion, whereas the inflows were US$648 billion. At the bilateral level, outflows reported by investing economies seldom resemble the data provided by recipient countries. The inconsistency in data is further exacerbated by the activities of off-shore financial centres – for instance, according to official data the biggest "investing country" in India is Mauritius.

All such limitations are magnified in the case of FDI outflows from developing and transition economies, and for a number of reasons, OFDI statistics for non-OECD countries tend to be patchy and relatively unreliable. Some of those countries that have invested abroad do not identify FDI outflows (Iran for instance), while some major emerging economies (such as Malaysia and Mexico) just started reporting FDI outflows in recent years. Moreover, for several countries, official data on FDI outflows are considerably smaller than the actual flows. Official statistics do not usually include financing and reinvested components of OFDI or capital that is raised abroad (Aykut and Ratha, 2004). Also, they generally only reflect large investments while excluding small and medium size transactions. In addition, countries with capital controls, currency controls or high taxes on investment income provide a substantial incentive for underreporting by investors. On the other hand, liberalization of currency controls may have resulted in less attention to accounting for international financial flows. This problem is exacerbated by lax accounting standards, weak tax administration, and limited administrative capacity in agencies responsible for data collection, resulting in private flows being grouped into residual categories (rather than classified as FDI, bond flows, bank lending, or portfolio equity flows).

Several country case studies based on company level data highlight the underreporting of outward FDI flows. Del Sol (2005) shows that Chilean investment abroad during the 1990s was almost twice the official data; Pradhan (2005) finds the same result for India. And some portion of the estimated US$245 billion capital flight from the Russian Federation during the 1992–2002 period is believed to be unrecorded FDI flows (Vahtra and Liuhto, 2004). Wong and Chan (2003) document the substantial underreporting of FDI flows from China: the reported numbers reflect only investments with official approval (which is required for initial investments only), and China's State Administration and Foreign Exchange estimates that unauthorized capital outflows from China between 1997 and 1999 totalled US$53 billion. Similarly, the outward FDI stock of Turkey is estimated as US$15 billion in 2004, three times the official numbers (Erdilek, 2005).

2.1 How reliable are definitions and statistics?

Is there any prima facie reason to assume a fundamental dissimilarity in the nature of MNCs depending on the characteristics of the home country (developed vs. developing and transition countries)? The debate in economics and business studies is largely inconclusive (Goldstein, 2006c) and yet most discussions on EMNCs centre on this issue. Some see ownership as a central issue and oppose the rise in FDI from non-OECD countries, while others consider South-South investment as a blessing. We will return to this below.

At any rate, definitions count and many EMNCs are indefinable beasts. For many very large EMNCs it is not obvious how to assign nationality. Possibly the best-known example is Mittal Steel, a fortiori following its attempt to take over Franco-Luxemburgeois-Spanish Arcelor and create the world's largest steel-maker. The company is 88 per cent-controlled by an Indian citizen who lives in London. Lakshmi Mittal and his two children sit on the board of directors alongside another Indian, a Mauritian of Indian descent, and four North Americans. The team overseeing the many major acquisitions, including those in Romania, Czech Republic, Poland, and South Africa, mostly comprises Indian engineers, led by Mittal Steel's Chief Operating Officer.[8] The story of South African MNCs is also quite complex. SABMiller, for instance, is British-registered, with dual listing in London and Johannesburg; its management is overwhelmingly of South African nationality, although it is unclear where the managers reside;[9] its major shareholder (Altria) is American and the second-largest (the Santo Domingo family) is Colombian.

Other cases that are difficult to classify include:

- Subsidiaries of OECD-based MNCs in developing countries that in turn invest in other developing countries;
- Emerging-country companies that are controlled by OECD investors – for instance, the largest shareholder in Zentiva, which controls more than 50 per cent of the Czech generic drug market and also has a dominant position in Romania and Slovakia, is Warburg Pincus; and
- EMNCs which buy fixed assets from OECD-based MNCs, and which receive in turn large stakes in the latter (Lenovo/IBM, TCL/Alcatel, BenQ/Siemens).

2.2 What are the trends?

It is important to bear in mind these caveats, and the fact that year-on-year variance is very large, when examining the available aggregate statistics. OFDI stock from developing and transition economies has increased rapidly in recent years, from US$147 billion in 1990 to over US$1 trillion in 2004 (see figure 1). The increase in OFDI flows is equally impressive – from an average of slightly more than US$53 billion per year in 1992-98 to more than US$85 billion in 1999-2004, with a peak of US$147 billion in 2000. Global FDI flows, however, rose much faster over this period, and as a result, the share of developing and transition countries has diminished from 14.7 per cent in 1992-98 to 9.9 per cent in 1999-2004, the 2004 share being the highest since 1997. This trend does not diminish the importance of EMNCs, as much as it underlines the fact that the 1990s have seen even stronger international economic integration, led by mergers and acquisitions (M&As), among OECD economies.

Developing and transition economies together accounted for 13 per cent of the world's OFDI stock in 2005, compared with 7 per cent in 1990. OFDI flows as a percentage of gross fixed capital formation (GFCF) are considerably higher than the world average for such economies as Hong Kong (China), Taiwan (Province of China), the Russian Federation, and Singapore.

Among developing economies, those in Asia remain by far the largest FDI sources. The original East Asian Tigers accounted for almost 59 per cent of total emerging-economy OFDI in 1992-98 and 52 per cent in 1999-04. Adding China, the five largest emerging OFDI source economies, all in Asia, accounted for more than two-thirds of the total in 2004. Hong Kong (China) firms allocated 53.2 per cent of their total 2001-03 investment to foreign markets; Singapore channelled 23.3 per cent; and Taiwan (Province of China) 6.4 per cent. For the two latter economies, a large chunk of FDI outflows went to China. Again, the quality of the data on outward FDI flows as percentage of GFCF is debatable – this indicator also reaches suspiciously high levels for countries such as Albania, Gambia, and Laos.

Extreme care is important with data for China, as FDI enjoys favourable treatment compared to domestic investment, resulting in an incentive to label investments as foreign.[10] A significant part of the investments pouring in from Taiwan, Hong Kong, and Singapore is round-trip flows from China's mainland. Despite the distorting effect of round-tripping on Chinese FDI statistics, the abuse of measures intended to attract foreign investment, and the negative consequences for tax revenues, Cross et al. (2004) argue that this round-tripping has brought certain benefits – a sort of second-best practice that has promoted access to international capital markets and has catalyzed the internationalization of Chinese enterprises. As Athukorala (2006, Table 2.3) shows, another, perhaps even more important, problem with Chinese FDI data arises from "over-reporting" of inward FDI, a phenomenon that seems to affect flows from other developing Asian countries more than from OECD countries.

The Russian Federation is another major source of emerging-economy OFDI, with a heavy concentration in the natural resources and transportation sectors of other countries of the former Soviet Union. Gazprom's acquisition of Sibneft has increased the share of State-owned companies in Russian outward FDI. There are also a handful of major regional groups (Lukoil and Yukos Russia) that are emerging with ambitions of becoming regionally dominant oil and gas groups. Russian metal-makers have also become important MNCs. Flat steel producer Severstal aims to become one of the world's six biggest producers and has already completed major acquisitions in two G7 countries (Rouge in the United States, Lucchini in Italy). RusAl is the second largest aluminium company in the world, supplying 10 per cent of world aluminium with production capacities built in former Soviet Union countries as well as Guinea. In the Russian case, the Cypriot offshore sector has developed into a landing place for Russian capital, to the extent that Cyprus is currently the biggest direct investor in Russia. The investment flow from (or via) Cyprus to other Eastern European countries is also relatively big, and a significant share of these "Cypriot" investments is considered to be of Russian origin.

Companies headquartered in other transition economies in Central and Eastern Europe have only recently become outward investors, and their foreign presence is now gaining momentum in Western Europe as well as a result of the May 2004 EU enlargement, although from a very low basis. The privatization of various previously State-owned companies (INA in Croatia, Beopetrol in Serbia and Montenegro) is also opening opportunities for the emergence of regional oil companies such as Hungary's MOL.

Latin American investors such as Argentinean companies, which began cross-border production in the early part of the twentieth century and were still dominating the geography of Southern FDI in the 1970s, now account for a much smaller share (11.7 per cent in 1992-98, falling to 10.6 per cent in 1999-2004). Chile, with the smallest population among the six largest Latin American investors, has consistently ranked among the top 3 FDI sources. While FDI is still small and concentrated in financial centres, Latin American MNCs have a presence abroad in activities such as beverages, petrochemicals, petroleum, mining, steel, cement, pulp and paper, textiles and agribusiness, with little or no presence in technology- or marketing-intensive products like automobiles, electronics, telecommunication equipments and chemicals.

There are two types of *multilatinas*: those that expand regionally (what Rugman (2005) calls "regional multinationals"), and those that expand globally. Intra-regional FDI has increased significantly since the early 2000s. Reasons for this include:

- The retreat of some global MNCs from Latin America since the early 2000s, giving Latin American firms an opportunity to expand their activities in the region;
- Access to oil and gas reserves (Petrobras in Argentina, Bolivia and Venezuela); and
- State policies of regional energy integration (PDVSA in Argentina, Brazil, Cuba, etc.).

The trends in South African data reflect the decision of many of the country's traditional industrial groups and mining houses to transfer their primary listing from Johannesburg to London, as well as the reverse takeover of De Beers by Anglo-American. To further strengthen South African investment abroad, the Government adopted policies to encourage its MNCs to expand into other African countries after apartheid, and in 2004, foreign exchange restrictions were eased on South African companies' outward FDI. More than half of South Africa's FDI outflows are estimated to have gone to other countries in Africa, including other SADC members and elsewhere. South Africa is actively supporting the Maputo Development Corridor public-private partnership, with Nigeria, Mauritius, and the Democratic Republic of Congo as other significant FDI recipients. Many South African firms (ESKOM, MTN, Vodacom, SABMiller and Anglo Gold) have a strong presence both in other African countries and outside Africa, though some of them have moved their headquarters outside South Africa. Another fast-rising African MNC is the Orascom Group from Egypt (Goldstein and Perrin, 2006).

Finally, some oil exporting Gulf States (e.g. Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates) are contributing to South-South OFDI flows at both the intra- and the inter-regional levels, in particular towards Africa and the Indian sub-continent. This "oil money" also provides FDI to developed countries, including the United States, targeting, for instance, hotels and automotive firms.

2.3 The geography of EMNCs' investments

Despite the differences in their institutional characteristics, many EMNCs share a tendency to invest regionally and in other developing countries before taking on the rest of the world (table 2). They tend to invest close to their home country and in countries where they have a certain familiarity through trade, or ethnic and cultural ties. Increasing openness to private investment and trade – in particular through privatization of state-owned firms – has provided increased opportunities for investment in developing and transition countries and played an important role in the recent surge of FDI between those countries. For example, Russian investments abroad have primarily been in the countries of the former Soviet Union; Turkey has also been actively investing regionally, particularly in West and Central Asia, and companies from India and China have been particularly active in other Asian countries. EMNCs from Chile, Brazil, and Argentina have expanded their operations mainly in other developing countries in the region, and South African investments in other developing countries are almost completely in the southern part of Africa.

Despite the advantages of intra-regional investments, there are some preliminary indications that developing-country multinationals are increasingly venturing beyond their immediate region. For example, in 2004 about half of China's outward FDI went to natural resources projects in Latin America; Malaysia has emerged as a significant new source of FDI in South Africa (Padayachee and Valodia, 1999); and Brazil has considerable investments in Angola and Nigeria (Goldstein, 2003).

2.4 In which industries?

The data considered so far have been largely aggregate FDI flows. Data on FDI flows by industry and source country distribution are even more problematic, as for most countries only simple tabulations based on investment approval records are available. It is well known that there are large differences between approved and realized FDI. Moreover, whether data relating to FDI projects get recorded in official approval data depends on the nature of the FDI regulatory regime. For instance in Thailand there is no requirement for foreign investors to go through any government screening process to invest in the country. As a result, official approval records grossly understate FDI in Thailand.

With these caveats, anecdotal evidence indicates that FDI flows between emerging economies are highly concentrated in the services and extractive sectors, as emerging-country firms have been successfully participating in large privatization and M&A deals in those sectors. Data on cross-border M&A deals completed in developing and transition countries in 2004 reveal that in value terms EMNCs accounted for 47 per cent of regional activity in Africa, 13 per cent in Latin America, 24 per cent in Asia and Oceania, and 25 per cent in South East Europe and the CIS (UNCTAD 2005, Annex table A.II.1). In developing and transition countries, investors from those countries accounted, in value terms, for 27 per cent of activity in energy and 18 per cent in water, versus 59 per cent in transport and 51 per cent in telecom (PPIAF 2005).

Liberalization of the services sector has been an important factor in the recent surge of FDI flows among developing and transition economies. First, privatization of state-owned assets in the infrastructure sector has provided great opportunities for emerging-country companies to acquire important assets domestically and expand regionally. Second, compared to other sectors, the services sector often requires greater proximity between producers and consumers and also favours cultural and ethnic familiarity, which may generate synergies for developing county firms.

In the case of telecommunications, companies from emerging economies have emerged as significant investors (Table 3). This has been particularly so since 2001, as local and regional operators and investors have begun to fill the gap left by the retreat of some of the traditional international operators from infrastructure projects in the developing world (PPIAF 2005). Intra-regional FDI in 1990-2003 has been as high as 49 per cent of total South-South FDI in telecommunications in sub-Saharan Africa and 48 per cent in North Africa and the Middle East (Guislain and Zhen-Wei Qiang, 2006).

Given the low fixed-line penetration and large population, Africa and the Middle East have become the world's fastest-growing telecommunications markets. In sub-Saharan Africa, Vodacom (a joint venture between Telkom (South Africa) and Vodafone (United Kindgom) and MTN (South Africa) jointly have more than 17 million subscribers outside of South Africa (March 2006). If Orascom (Egypt) is one of the Arab world's largest MNCs, in the same sector and region other operators are also raising their investment profile – UAE's Etisalat (in Saudi Arabia, West Africa, and Pakistan), Kuwait's Mobile Telecommunications Company (in the Gulf and Africa), Qatar Telecom (in Oman), and Dubai Tecom Investments (in Malta and Tunisia).

In Latin America, América Movil has been transformed in just over two years, from 2003 to 2005, from a Mexican company with some presence in Central America to the largest telecommunications company in Latin America. It took advantage of the liquidation of emerging markets' assets of United States operators such as AT&T, Bell South, and MCI to reach more than 100 million subscribers in March 2006, compared with 74 million for Telefónica Móviles, its Spanish-owned competitor. Russia's number two mobile service provider VimpelCom controls Kazakhstan's second-largest operator, KarTel, as well as the second- and fourth-largest operators in Uzbekistan, Unitel and Buztel, and Ukraine's fourth-largest operator, Ukrainian Radio Systems (URS). In addition, Altimo (formerly Alfa Group), a Russian holding company and the majority owner of VimpelCom, controls 40 per cent of the second-largest mobile service provider of Ukraine, KyivStar, and the only mobile operator in Turkmenistan, Bashar Communications Technology. In late 2005, Altimo announced its readiness to pay as much as US$3 billion for one of the largest Turkish mobile operators (Vahtra, 2006).

In the oil and gas sector, companies from emerging economies, mostly state-owned, have become active cross-border investors. With their exclusive access to domestic resources, national oil companies are leading players in the market and have expanded their operations globally, both in upstream activities (exploration and production) to diversify their portfolio, and downstream (refining and distribution) to reach consumers directly (Table 4). For example, Venezuela's PDVSA took over CITGO (United States) in 1989 and has long had investments in refineries in Germany, Belgium, United Kingdom and Sweden to process its heavy crude. More recently PDVSA has been expanding in Brazil, Argentina, Chile, and Paraguay. Using their strong technical competencies in deep-water exploration, Brazilian Petrobras and Malaysian Petronas have invested in more than twenty developing countries in exploration and production projects. High-growth economies with limited domestic petroleum resources, such as China and India, have been notably successful in acquiring oil and gas-related assets or licenses in other developing countries.

3. Motivations and strategies

The growth in South-North and South-South FDI flows reflects the general rise in capital flows to emerging economies, as well as the increasing size and sophistication of emerging-economy firms. As a result of the increasing globalization of economic activities, companies are faced with growing competition in sales and in access to resources and strategic assets. South-South FDI has been driven mainly by developing countries' increasing openness to capital and trade, and by their increasing participation in international production networks. Still, the question remains, do companies from emerging economies behave like OECD-based MNCs when they expand their operations abroad and hence become EMNCs?

3.1 From OLI to LLL?

While the conceptual and theoretical frameworks developed in the international business literature to account for outward FDI and the sustainability of MNCs are well established, the nature of the strategies that EMNCs have pursued, and their specificity compared to those developed earlier by OECD MNCs, remains a relatively neglected topic (Bonaglia et al., 2006). The OLI (ownership/location/internalization) theory is squarely based on the experiences of large, predominantly Anglo-American, successful international firms that could easily find the resources and the capabilities to expand internationally if they wished to do so.[11] On the other hand, when EMNCs decide to invest overseas, they rarely have at hand resources such as proprietary technology, financial capital, brands, and experienced management. They have to internationalize, in new conditions created by globalization, in order to capture the resources needed. Moreover, for them the option of waiting does not seem to exist anymore as protection at home is eroded by market liberalization, time-to-market is reduced, and production runs must increase continuously to control costs. The path of expansion is slow and incremental, with frequent loops of experimental learning. In sum, EMNCs internationalize in order to build advantages – a reversal of the traditional strategy.

Utilizing a perspective that focuses on firms' resources in an international setting, Bonaglia et al. (2006) consider internationalization as a strategy of increasing integration within the global economy. The nature of the competence creation process has changed. The emergence of international production networks has favoured a closer integration of the process of capability accumulation, so that the internationalization strategy becomes heavily intertwined with technological and product diversification strategies (Cantwell and Piscitello, 1999). Analyzing how EMNCs have mastered this process can therefore also offer interesting insights into the broader debate on the relationship between corporate diversification and internationalization.

One interesting facet of the internationalization of EMNCs is the way that they use and leverage various kinds of strategic and organizational innovations in order to establish a presence in industrial sectors already heavily populated with world-class competitors. In doing so, they benefit from a narrow window of opportunity available to them as latecomers. Firstly, they all internationalize very early in their corporate life – Acer (Taiwan, province of China) for instance has evolved rapidly as a worldwide cluster of independent corporate entities (Mathews, 2002). Secondly, EMNCs have been able to achieve this accelerated internationalization not through technological innovation, but through organizational innovations adapted to the emergent global economy. South African retail banks, for instance, are extending so-called mzansi accounts, aimed at domestic low-income users, to their operations in other African countries, while Illovo Sugar, also of South Africa, has enjoyed success in part due to out-grower schemes which incorporate low- and middle-income farmers and collectives (Goldstein and Pritchard, 2006). Third, EMNCs built linkages with existing MNCs in innovative ways that enabled them to exploit their latecomer and peripheral statuses to advantage – Embraer, for instance, went from being a supplier to global aircraft manufacturers to a true multinational with production facilities on four continents (Goldstein, 2002). Mathews (2006) defines this as the new LLL (linkage, leverage and learning) paradigm. A closely related question is, of course, the sustainability of this process.

If the "ownership" assets of EMNCs do not arise solely from their home country and region, but derive as well from their position in the global and regional value chain (which differs by industry), a classification of EMNC strategies must emphasize value-chain analysis and highlight differences between South-South and South-North typologies. Each cell in Table 5 provides an example. BOE Technology of China, for instance, which makes computer monitors, acquired Hynix in Korea to manufacture small-sized flat displays for use in mobile phones and other portable devices in order to improve the efficiency of its core business by exploiting economies of scale and scope. Tata Steel of India, on the other hand, took over NatSteel of Singapore to export its own billets as raw material for the acquired affiliate. Similarly, by taking over OGMA in Portugal, Embraer gained a presence in the European MRO (maintenance, repair and operation) market.

3.2 EMNCs' institutional characteristics

EMNCs' strategies are strongly influenced by the business environment of the countries or regions where they are based and do most of their business; by the industrial and development policies of those countries and regions; and by the position of these countries/regions in the international division of labour, including the degree and type of relationship with incumbent MNCs, all of which factors are interrelated. In particular, the fact that the corporate governance structure may differ from the public company model of widespread ownership that is increasingly prevalent in OECD countries (Morck, 2005) may have political-economy consequences, especially when an EMNC is (or is perceived to be) state-owned. A schematic synthesis of the close connections between patterns of national and regional development and the internationalization of companies is presented in Table 6. This point is not novel – the need to incorporate "the peculiar institutional characteristics of Japanese corporations, together with Japanese government policies and practices which crucially affect the foreign corporations of these corporations" was identified in early studies of Japanese MNCs (Mason and Encarnation 1995, p. xix). In fact, most charges made against EMNCs in recent months echo those common in the United States and, to a lesser extent, Europe, in the late 1980s (Goldstein, 2006b).

In the case of Latin American MNCs, the increasing competition due to liberalization in the 1990s has acted as a selection mechanism. Relatively few large companies survived, but those that did are far "leaner and meaner" and therefore able to compete on global markets. The car industry, and in particular manufacturing of parts and components, provides a fine illustration. Most Brazilian and Mexican companies that had grown under import-substitution industrialization since the 1950s have been either taken over by OECD-based competitors, or gone bankrupt. Survivors, however, have proven to be reliable suppliers to American and European assemblers, to the point of being asked to follow their customers and invest overseas. Sao Paulo's Sabó Retentores is a global supplier of oil rings, rubber hoses, and gaskets to Volkswagen and factories in Argentina, Austria, Hungary and the United States – and plans to move into China at the urging of its largest individual customer.

Another example of the relationship between trade policies and OFDI is provided by import restrictions imposed by developed countries on clothing. This was already a key factor behind EMNCs expansion in that industry in the 1980s (Wells, 1994). In recent years, Chinese firms in clothing, footwear and other light manufacturing industries have begun to invest heavily in neighbouring low-wage countries because of threats of import restrictions in the European Union and the United States.

The regional arrangements that have proliferated around the world since the mid-1990s (World Bank, 2005b) have also encouraged intra-regional trade and investments. Some of these arrangements, such as the Southern African Development Community (SADC), the Association of Southeast Asian Nations (ASEAN), MERCOSUR, and the Andean Community offer various incentives for outward investment within the region, including lower tax and tariff rates and easier profit repatriation.[12] Some members of the groups also have bilateral investment agreements and double-taxation treaties. In addition, as in many developed countries, some developing-country governments have provided fiscal and other incentives for outward investment, particularly in the context of South–South FDI flows. For example, China provides loans on preferential terms and tax rebates for investments that facilitate trade. If the investment is in an aid-receiving country, firms can receive preferential loans under Chinese aid programs or projects. Malaysia supports special deals for FDI outflows to countries such as India, the Philippines, Tanzania, and Vietnam (Mirza, 2000). The Thai government actively promotes Thai firms' involvement in infrastructure projects in Mekong countries (UNCTAD, 2005). In Brazil, the national development bank, BNDES, created a special credit line in 2002 to support outward FDI, which is granted on condition that within six years the beneficiary increase exports by an amount equal to the credit. This instrument was first used by Friboi in 2005 to buy Swift in Argentina. One of the measures of the new Brazilian *Política Industrial Tecnológica e de Comércio Exterior* launched in March 2004 is the creation of 38 multi-dimensional external trade units within the Banco do Brasil to support the internationalization of national firms. In November 2005, PIBAC (*Programa de Incentivo aos Investimentos Brasileiros na América Central e no Caribe*) was launched to stimulate Brazilian investment in Central America and benefit from CAFTA-RD, the free trade agreement between SICA (*Sistema de Integración Centro-Americano*) and the United States.

The "North" is also increasingly becoming an important destination for EMNC investments as they try to expand their markets. EMNCs usually enter these developed markets by acquiring companies with well-established market presence and brand name. For example, with very few internationally recognized brand names of their own, Chinese firms such as Lenovo and TCL have acquired well-known Western brand names such as Thompson, RCA, and IBM. Haier's attempt to buy Maytag was not only for its brand name, but also for its distribution channels. Compared to other Southern MNCs, Chinese MNCs seem to have made more attempts to acquire well-known brand names. This strategy was not followed by Japanese and Korean budding MNCs that developed their own brand names in the second half of the last century. A small but increasing number of EMNC investments, mainly from Asia, are being made in developed-country enterprises with R&D assets in order to tap into new technology in a wide range of sectors. There is also some indication that strong economic and cultural ties play a role when these companies invest in developed countries. Almost all FDI outflows from Latin America to high-income OECD countries went to the United States and Spain. Major investment destinations for East Asian investors are the Republic of Korea and Australia. The United Kingdom receives 40 per cent of African – mainly South African – investments in high-income OECD countries.

4. Implications for South-South cooperation

Developing countries see South-South cooperation as "an imperative to complement North-South cooperation in order to contribute to the achievement of the internationally agreed development goals, including the Millennium Development Goals" (G-77, 2004). In fact investment, and more generally private sector involvement, is increasingly seen as an area where South-South cooperation can contribute to overcome the most pressing development challenges. As has been discussed above, “in addition to growing political commitment, the new vibrancy in South-South cooperation is reflected in the trends towards increasing flows of South-South trade and investment, as well as collaboration in the monetary and energy sectors” (UN, 2005).

The emergence of Southern multinationals may have important implications for economic development. Firstly, South–South FDI represents an opportunity for low-income countries needing investment capital. Except in the extractive sector, most Northern multinationals are unlikely to invest in small markets as their location decisions are mainly driven by market size (Levy-Yeyati et al., 2002). Southern multinationals, on the other hand, tend to invest in neighbouring developing countries with a similar or lower level of development than their home country. Hence, South–South FDI flows, however small, are significant for many poor countries, particularly those that are close to major Southern investors. In many poor countries, South-South flows account for more than half of total FDI (UNCTAD, 2006). For example, India (in hotels and manufacturing) and China (in manufacturing) account for more than half of FDI in Nepal. Indian firms figure prominently among foreign firms in Sri Lankan manufacturing. Most FDI in Mongolia comes from China and the Russian Federation. In the banking sector, cross-border investment by developing-country investors is more significant in low-income countries (27 per cent of foreign bank assets and 47 per cent of the number of foreign banks) than in middle-income countries (3 per cent of foreign assets and 20 per cent of foreign banks) (World Bank, 2006). Hence, South-South FDI represents an opportunity for low-income countries, and its development impact is particularly important for poverty reduction efforts.

Secondly, in recent years, South-South FDI has played an important role in offsetting the significant decline in FDI flows to developing countries from the North. The enlargement and diversification of the pool of countries’ sources of FDI may reduce fluctuations, contributing to the economic development of recipient countries. In fact, following the Argentinean default in 2001, while North-South FDI slumped, several Argentinean assets were bought by Brazilian investors. In May 2002, AmBev, a leading beer and beverage producer, unveiled plans to purchase a one-third share of Argentina’s top beer-maker, Quilmes, a deal valued at US$700m. That was the first major foreign investment since the default. That same year, Petrobras, the Brazilian oil company, bought a controlling stake in Perez Companc for some US$1.1 billion.

Third, to the extent that EMNCs have greater familiarity with technology and business practices suitable for developing-country markets, they may enjoy some advantages over industrial-country firms when investing in developing countries.[13] They may for example be able to use more appropriate production processes and use locally available inputs. Moreover, to the extent that a country's absorption capacity is greater with a smaller technological gap between a foreign firm and domestic firms (Durham, 2004), the fact that this gap is smaller in the case of South-South FDI may also be an advantage.

Early work seemed to support the expectation that EMNCs have a more benign impact on host economies than OECD MNCs because they have a better appreciation of local conditions, are culturally closer, and use "intermediate", small-scale technologies" that directly substitute labour for capital. In the most rigorous such study, Lecraw (1977) controlled for industry composition and found that in Thailand foreign investors from other less developed countries (LDC) use more labour-intensive technology than either Thai firms or OECD investors (Table 7). He concluded that, "on balance, LDC firms offered significant benefits to the Thai economy without many of the costs associated with other FDI" (p. 456). In their study of Sri Lankan manufacturing, Athukorala and Jayasuriya (1988) caution against simple comparisons and argue that firm attributes other than nationality can affect capital intensity. Differences between developed countries' MNCs and Third World MNCs were found to be marked in the textiles and wearing apparel industries "where the range of technological possibilities is wide enough to enable significantly different techniques of production to be utilized" (p. 420), but not in the chemical and metal product industries.

Unfortunately, empirical research has not caught up with the policy debate and only some tentative inferences can be made. The only study on the differential impact of nationality on technology transfer and technology compares South African and OECD companies in Tanzania (Kabelwa, 2004). The results show that South-South FDI does indeed have a higher potential. Also on the positive side, the Republic of Korea's Hyundai Motors set up its largest overseas assembly factory in the Indian state of Tamil Nadu, where it also operates an aluminium foundry and a transmission line. Major suppliers from the Republic of Korea also invested in the Ulsan automobile cluster, often through joint ventures with Indian partners. Hyundai now has 85 per cent domestic content, higher than any other foreign-owned car-makers in India (Park, 2004). However, a comparison of different foreign investors in Shandong province in China finds that Korean firms developed many fewer backward linkages with local firms than subsidiaries of United States and Hong Kong (China) firms (Park and Lee, 2003). A similar study that examines whether the nationality of foreign investors affects the degree of vertical spillovers from FDI in the case of Romania found that inflows from distant source countries that are not part of the regional preferential trade agreement are more likely to be associated with positive vertical spillovers (Javorcik et al., 2004). A survey study of investments in Sub-Saharan Africa also found that developing country firms are relatively less integrated in terms of local sourcing (UNIDO, 2006). Distance, agreements and the duration of the investment, among other factors, affect the share of intermediate inputs sourced by multinationals from a host country, which is likely to increase with the distance between the host and the source economy. Given the regional tendencies in South-South FDI flows (often supported by trade agreements) and that such investments are relatively recent, South-South FDI may in some cases have less positive vertical linkages than North-South flows. Although more difficult to substantiate empirically, there is evidence that in services EMNCs have more familiarity with consumer demands and capabilities in project execution than competitors from developed countries. In Uganda, for instance, MTN (the South African telecommunications company) could tap into its in-house expertise to launch services packages more adequate than those offered by its competitor from Britain, which had the advantage of incumbency (Goldstein, 2003). América Movil was similarly successful in fine-tuning its marketing strategy across Latin America and elbowing out competitors from the United States and Europe. The South African retail banking sector has equally been an innovator in extending mzansi accounts, aimed at low-income users in South Africa, to other African countries (Goldstein and Pritchard, 2006). In a similar fashion, Illovo Sugar has enjoyed significant success in part due to its use of outgrower schemes which incorporate low- and middle-income farmers and collectives.

Managing economic and political risks is another area where EMNCs have developed a relative advantage. Egypt's Orascom is the only foreign telecom company operating in Iraq (Goldstein and Perrin, 2006). A related hypothesis is that developing-country firms may be more willing to assume the risks of post-conflict and other politically difficult situations (World Bank, 2006). For example, Chinese companies (not all of them state-owned) are the only foreigners that have invested in Sierra Leone since the end of the civil war (Hilsum, 2006).

FDI flows from other developing countries may pose risks as well as benefits. The operational and financial challenges facing developing-country multinationals, coupled sometimes with deterioration in host-country economic conditions, have contributed to several examples of unsuccessful South–South investment followed by disinvestments. In addition, increased South-South integration could also lead to increased vulnerability of developing countries to an economic crisis. The rise of cross-border flows between developing countries will likely make it easier for shocks to be transmitted between developing countries. This increases the risk of a contagious financial crisis.

South–South FDI is not always more beneficial than North–South FDI. Over the years, the transparency of Northern multinationals' foreign operations, as well as the environmental and labour standards observed in those operations, have improved thanks to corporate social responsibility (CSR) initiatives. Such initiatives are less common among Southern companies, which may have low environmental and labour standards (Save the Children

2005). That said, compliance with corporate governance standards in developing countries is increasing, although significant regional and sectoral variations remain (OECD, 2005). In addition, state ownership is much more prominent among MNCs from developing countries, indicating that considerable amounts of South-South FDI may be driven not only by economic but also by political and strategic factors, which may hinder the stability of these FDI flows in the long term.

South-South investment may also generate benefits to the investing developing economy (as it does for high-income countries). The vast literature on Northern MNCs is inconclusive on the issue and – with very few exceptions – the impact of outward FDI on the source developing countries has not yet been assessed. The impact will depend on a range of factors, including the sectors and particular operations of the EMNCs, whether outward FDI is complementary or a substitute to domestic production, and the absorptive capacity of the recipient countries for new technologies and know-how from abroad. When outward FDI is complementary, as when Southern firms increase their profits by expanding and diversifying their markets, the home economy gains from increased economic activity and employment related to FDI projects, as well as tax revenues. If in the future OFDI becomes a substitute for domestic investment, the impact would not be clear. Survey reports on Southern multinationals, on the other hand, indicate that direct presence in foreign markets has enabled many firms to increase their competitiveness and to respond better to consumer demand. For Chinese firms, foreign operations have tended to be more profitable than domestic operations (Yao and He, 2005). Geographic risk diversification and market access can be crucial for some Southern firms with volatile home markets. In a recent survey, diversification was cited most frequently as one of the benefits that developing country investors expect from outward investments (UNCTAD, 2006).

5. Conclusions

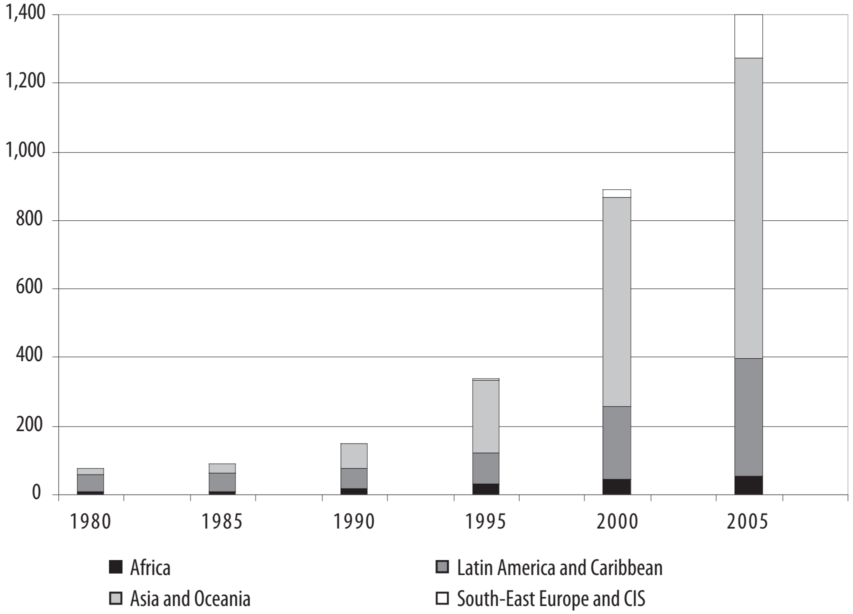
As trade in the world economy returns to the high levels prevailing in the early 1900s, companies intensify their cross-border investment activities in different forms and with different purposes. The number of actors that take part in this game is rapidly increasing, with more and more firms going global, or at least regional, at an earlier age. The nature of MNCs is also changing, with an increasing number of countries in developing and transition economies hosting such firms. Existing theories can address this evolution, but the inter-relationships are complex and industry- and corporate-level analyses are essential.

Is there anything inherently new in these trends? Certainly the bases on which EMNCs grow are different, as the traditional OLI advantages give way to LLL. Internationalizing firms from the periphery are pursuing strategies that enable them to catch up with established players, leveraging their latecomer advantages. These include: being able to access strategic assets, new technologies and markets; deploying low-cost engineers in innovative ways; mastering all aspects of manufacturing processes; and others. This pattern of internationalization is very different from the pattern that drove earlier MNC experience, which mostly involved export expansion and trade promotion. To the extent that developing-country firms benefit from better connections to international markets, increased productive capacities, and improved access to natural resources and strategic assets, the debate on adjustment costs, especially social costs in the case of off-shoring of labour-intensive activities, will occupy a central position in source countries. In developing policy options relating to OFDI, due consideration should be given to maximizing the benefits in relation to the costs.

Another contentious issue concerns the behaviour of EMNCs, their willingness to adopt corporate social responsibility (CSR) standards, and ultimately the developmental impact of South-South investment. Different questions are intertwined here: is foreign ownership an issue? Does nationality count? And if so, how? According to one perspective, EMNCs are "more of the same" and in due course, they will converge towards the norms of OECD MNCs. Others question this optimism and argue that insofar as EMNCs are less risk-averse, they are more likely to enter "conflict zones", and their presence may reduce the influence of bilateral and multilateral donors and jeopardize their efforts at improving governance. While it is probably far too early to reach any definitive conclusion – and research on such issues should receive a high priority in academic and policy circles – it is certainly not too early to engage in open and frank policy dialogue with all stakeholders.

The expansion of South–South FDI over the past decade has generated preliminary assessments, largely based on case studies, of the pros and cons of South–South FDI. As more data become available in the years to come, it should be possible to provide a more robust analysis of South–South flows. Greater efforts to collect data are essential to progress. Further empirical research could focus on: (i) the characteristics of Southern multinationals (How do emerging economy enterprises select foreign locations? What types of FDI diversification and product diversification strategies do they follow, and why? Can cross-border merger and acquisition strategies undertaken by developed country multinationals be generalized to emerging market multinationals? In what ways do they compete and collaborate with host country businesses?); and (ii) the extent of spillovers from South–South FDI and how these differ from spillovers from North–South FDI.

Figure 1. OFDI stock by developing and transition regions, 1980–2005
(billions of US dollars)



Source: UNCTAD (2006), World Investment Report.

Table 1.
OFDI* from emerging regions and selected economies, 1990-2004 (billions of dollars)

Region/economy	OFDI stock 1990	OFDI stock 2003	OFDI stock 2004	Change in OFDI Stock (i.e. flow in 2003-2004)	OFDI flow as % of GFCF** 2002-2004	Selected MNCs
World	**1,785**	**8,731**	**9,732**	**1,001**	**8.9**	
Developing economies and territories	**147**	**927**	**1,036**	**109**	**2.9**	
Africa	**20**	**43**	**46**	**3**	**1.2**	
South Africa	15	27	29	2	1.5	TMN, AngloGold Ashanti, Illovo Sugar, Mondi, Steinhoff
Latin America and the Caribbean	**59**	**261**	**272**	**11**	**3.2**	
Argentina	6	22	22	0	0.0	Techint (Tenaris and Tertium)
Brazil	41	55	64	9	3.7	Odebrecht, Gerdau, Embraer
Cayman & Virgin Islands (UK)	2	118	116	-2	0.0	
Chile	..	14	14	0	6.5	
Mexico	1	14	16	2	1.3	Cemex, Telmex, America Movil, FEMSA, Grupo Alfa
Asia and Oceania	**68**	**623**	**718**	**95**	**2.9**	
West Asia	**8**	**15**	**15**	**0**	**-0.7**	
Turkey	1	6	7	1	1.2	Koç Holdings, Sabanci Holdings, Enka
South, East and South-East Asia	**61**	**608**	**703**	**95**	**3.4**	
China	4	37	39	2	0.2	Sinopec, CNOOC, Haier,
Hong Kong (China)	12	340	406	66	57.0	Hutchison Whampoa, Li & Fung
Republic of Korea	2	35	39	4	2.0	Samsung Electronics, LG Electronics, Hyundai, POSCO
Taiwan Province of China	30	84	91	7	10.9	Acer, BenQ, Farmosa
South Asia	**..**	**6**	**8**	**2**	**0.9**	
India	..	5	7	2	1.0	Tata, Infosys, Bharat Forges, Ranbaxy, Mahindra & Mahindra, Cipla, ACE Laboratories

continued

Region/economy	OFDI stock 1990	OFDI stock 2003	OFDI stock 2004	Change in OFDI Stock (i.e. flow in 2003-2004)	OFDI flow as % of GFCF** 2002-2004	Selected MNCs
South-East Asia	**11**	**107**	**120**	**14**	**5.9**	
Malaysia	3	12	14	2	7.7	Petronas, Malayan Banking, Telekom Malaysia, Hong Leong
Singapore	8	90	101	11	25.4	Singapore Airlines, Neptune Orient Lines, SingTel, Keppel Corp., Capital Land, Pacific Int. Lines, Sembcorp Industries, DBS Group
South-East Europe and the Commonwealth of Independent States	**0.2**	**77**	**86**	**10**	**5.9**	
Russian Federation	..	72	82	10	9.1	Lukoil, Novoship, Norilsk Nickel, Alfa, RusAl, Gazprom
Developing economies as percentage of world	**7.3**	**10.6**	**10.6**	**10.8**	**..**	

Source: UNCTAD, FDI/TNCs database.
*Obs. : * Outward foreign direct investment ; ** Gross fixed capital formation.*

Table 2.
Selected EMNCs: the geography of business (end-2005 data, % shares)

	Own country	Region	"North"	Rest of "South"
Industrial commodities				
Cemex [a]	27.70	15.68	40.73	15.89
Gerdau [b]	65.10	9.00	25.90	0
Sappi [b]	45.65	0	53.71	0.64
Severstal [b]	75.39	0	24.61	0
Services				
Orascom [c f]	14.18	25.51	31.74	28.58
SingTel [c]	2.08	89.82	8.10	0
Other manufacturing				
Embraer [b]	85.90		12.91	1.19
Samsung [d]	42.41	20.53	30.73	6.33
Natural resources				
CVRD [e]	22.84	6.75	43.40	27.01

Source: Authors' calculation based on companies' reports.

Obs.: a = production ; b = employees ; c = subscribers ; d = capital ; e = sales ; f = March 2006, including Wind.

Table 3.
Selected telecom providers in emerging economies (March 2006)

Carrier	Country	Subscribers (millions)	Foreign countries
China Telecom	China	200	None
América Movil	Mexico	100	Argentina, Brazil, Colombia, Ecuador, Guatemala, Nicaragua
SingTel	Singapore	85	Australia, Bangladesh, India, Indonesia, Philippines, Thailand
Vimpel	Russia	48	Kazakhstan, Tajikistan, Ukraine, Uzbekistan
Orascom	Egypt	35	Algeria, Bangladesh, Iraq, Pakistan, Tunisia, Zimbabwe
Vodacom	South Africa	25	Congo DR, Lesotho, Mozambique, Tanzania
MTN	South Africa	24	Botswana, Cameron, Congo, Ivory Coast, Rwanda, Swaziland, Uganda, Zambia
Hutchinson Telecom	Hong Kong	21	Ghana, India, Indonesia, Israel, Macau, Sri Lanka, Thailand, Vietnam
MTC	Kuwait	21	Bahrain, Burkina Faso, Chad, Congo, Congo DR, Gabon, Iraq, Kenya, Jordan, Lebanon, Madagascar, Malawi, Niger, Nigeria, Sierra Leone, Sudan, Tanzania, Uganda, Zambia

Source: Goldstein and Perrin (2006).

Table 4.
Selected southern multinationals in the oil and gas sector

Corporation (Home Country)	Ownership	2004 Assets (US$ billion)	Selected countries of operation
NPC (China)	State	110.6	Sudan, Venezuela, Kazakhstan, Myanmar, Ecuador, Mauritania, Canada
PEMEX (Mexico)	State	84.1	Argentina
Petro China (China)	State	58.8	Sudan, Venezuela, Nigeria
Petronas (Malaysia)	State	53.5	Sudan, Turkmenistan, Chad, Iran, Myanmar, Cambodia, China, Iran, South Africa, Myanmar
Lukoil (Russia)	Private	29.8	Iraq, Romania, Ukraine, Bulgaria, Canada, Uzbekistan, Egypt, Morocco, Tunisia, Columbia
Petrobras (Brazil)	State (56%)	19.4	Argentina, Mexico, Nigeria, Tanzania, Libya, Venezuela
PDVSA (Venezuela)	State	13.4	Brazil, Argentina, Chile, Paraguay, USA, Germany, Belgium
Indian Oil Corp.	State	10.9	Ivory Coast, Iran, Libya, Sudan, Russia, Vietnam
Saudi Aramco (Saudi Arabia)	State		China, US, Japan, Canada

Source: World Bank (2006).

Table 5.
A typology of EMNCs' deals

	South-South		South-North	
	Horizontal	Vertical	Horizontal	Vertical
Resource-seeking	Hon Hai		Amica Wronki – Gram	PDVSA – Citgo
Efficiency-seeking	BOE Technology – Hynix	Tata Steel	SingPower – SPI PowerNet	
Market-seeking	LAN – Argentina and Ecuador	E-valueserve	San Miguel – Berri	Embraer – OGMA

Table 6.
Patterns of national and regional development and the internationalization of companies

Region	Development policies since the 1980s	Characteristics of major MNCs	Competitive advantages
Latin America and the Caribbean	Washington consensus	Private firms, mostly focused on core business (Gerdau – steel; Tenaris – tubes; Embraer – aircraft)	Know-how to play the post-privatization regulatory game and have become leaner and meaner as suppliers to Western MNCs
East Asian Tigers	Export-oriented with strong state	Conglomerates (chaebols, Temasek) and contract manufacturers	Innovation capabilities
ASEAN	FDI-driven	Conglomerates (CP Group)	Management of mainland China's insertion into global value chains, Guanxi networks
China	FDI-driven with strong state	Public-private firms, mostly focused on core business (Lenovo – PCs; Haier – appliances; Huawei – telecom equipment)	Leverage of huge domestic market
South Asia	Gradual opening backed by diaspora linkages	Private conglomerates (Tata) and ICT firms (Infosys, Wipro)	Low psychic distance with the US and Commonwealth, engineering skills
South Africa	Post-apartheid reconciliation	Unbundled and London-listed conglomerates (Anglo-American, Rembrandt) and state-owned enterprises (Eskom, Transnet)	Regional players in services, strong in project execution capabilities that can be deployed in resource-based economies; global players in mining
New Europe	EU convergence	Privatized firms, Turkish conglomerates (Koç, Sabanci)	Regional players in telecoms, electricity and gas, retail
Russian Federation and the CIS	Big bang and crony capitalism	State-owned enterprises (Gazprom) and privatized firms still dependent on Kremlin support (Severstal)	Regional players in telecoms; global players in metals and natural resources

Table 7.
Multinational firms' nationality, factor proportions and spillovers

Paper	Country and years	Sample	Methodology	Results
Lecraw (1977)	Thailand, unspecified	88, ad hoc survey	Controlled for other firm attributes	EMNCs are more labour intensive
Wells and Warren (1979)	Indonesia		Compared average factor intensity	EMNCs are more labour intensive
Busjeet (1980)	EPZs in Mauritius and the Philippines	36, interviews	No matching sample	EMNCs are more labour intensive, and scaled technology provides less scope for idle capacity
Athukorala and Jayasuriya (1988)	Sri Lanka, 1981	101, from manufacturing survey	Controlled for firm size and age, export orientation, wage rate	Links between nationality and capital intensity are industry-specific
Kabelwa (2004)	Tanzania	128, from IPA files		South African companies have significant potential in terms of technology transfer and spillovers

Notes

1 As OECD membership widened to include emerging economies such as Mexico, Republic of Korea, the Czech Republic, Hungary and Poland, the traditional OECD versus non-OECD dichotomy, which held until the early 1990s, has now lost relevance for our purposes. Turkey has been an OECD country since 1964 even though its income level was substantially lower than the OECD average. The definition of developed countries used in this study follows the UN-DESA country classification and includes all members of the OECD Development Assistance Committee. The Republic of Korea and Singapore are not considered developed countries, even though they are now net contributors to the World Bank Group (in other words, they are not eligible for loans anymore). The term "emerging" is used in this paper to include both developing countries and economies in transition.

2 According to the annual Business Week-Interbrand survey, Samsung was ranked 42nd in 2001 and 20th in 2006.

3 Excluding Hutchinson Whampoa for which the 1999 foreign assets data is not available.

4 Note, however, the pioneering experience of Argentine investors in neighbouring countries as early as in 1910 (Kosacoff , 2001). Uruguay also appeared relatively high in the ranking of foreign investors in its two much larger neighbours, Argentina and Brazil (Jacob, 2003). There were also about 100 pre-World War II Chinese MNCs (Mira Wilkins, Professor, Economics Department, Florida International University, personal communication, 16 June 2006).

5 We draw extensively on Goldstein (2006a) and World Bank (2006).

6 Some of the main issues that are not covered in this note include, what are the preferred foreign market modes and strategies by firms from emerging markets? What are the determinants in the choice of these respective modes and strategies? How do EMNCs integrate their foreign expansion with home country operations? How do they coordinate multiple businesses in multiple countries? Can cultural fit explain for the choice of partners/targets in host countries? How does their international experience come into play in various international expansion strategies or activities? What type of hiring policy do they adopt to staff global operations? How is the top management team selected, composed, motivated and evaluated? Likewise, we don't analyze the implications for OECD countries (governments, firms, and civil society) both in the OECD countries themselves – as EMNCs become important sources of FDI, employers, and providers of goods and services (Goldstein 2006b) – and in non-OECD ones – as competitors as well as important actors in the development of the private sector in hitherto unexplored markets.

7 Mira Wilkins drew our attention to the interesting similarity with the history of Simon Patiño, a Bolivian entrepreneur who worked through companies registered in advanced countries, building a tin empire in the intra-war years.

8 As of August 2005, the only non-South African national in the executive committee (and the only woman) was the corporate affairs director, a Briton.

9 In the early years of the twentieth century, Russian interests set up and registered in London a company to make direct investments in Tsarist Russia (Gurushina, 1998). By virtue of its British nature, the Russian Tobacco Company could avoid some regulations in the Commercial Code that discouraged the creation of monopolies in the Russian Empire.

10 Xiao (2004) argues that around 40 per cent of China's FDI inflows are likely to be spurious, a much higher estimation than previous authors had suggested. Over time this share seems to have declined (see Huang, 2003).

11 Dunning (1981; 1986) examined the advantages that international firms drew from extending their operations abroad in terms of three characteristics or sources. There was the potential advantage derived from extending their proprietary assets, such as brands or proprietary technologies, bringing greater fire power to bear on their domestic competitors in foreign markets (the "ownership" advantage). There was the potential advantage of being able to integrate activities across regions of the world with very different factor costs and resource costs (the "location" advantage). Finally there were the potential advantages derived from building economies of scale and scope through internalizing activities spread across borders that would otherwise be dispersed between numerous firms (the "internalization" advantage).

12 Other regional arrangements include the South Asian Association for Regional Cooperation and the Arab South–South Preferential Trade and Investment Agreement, among others.

13 At the same time, "bureaucratic constraints on outward investment, other financial constraints, and a paucity of institutional support and business services" may hamper their competitiveness (World Bank, 2006). Moreover, the overall policy environment in the host economy may not be conducive and supportive and a vibrant entrepreneurial class may not exist.

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