We are IntechOpen, the world’s leading publisher of Open Access books
Built by scientists, for scientists

5,400 Open access books available
132,000 International authors and editors
160M Downloads

154 Countries delivered to
TOP 1% Our authors are among the most cited scientists
12.2% Contributors from top 500 universities

WEB OF SCIENCE™
Selection of our books indexed in the Book Citation Index in Web of Science™ Core Collection (BKCI)

Interested in publishing with us?
Contact book.department@intechopen.com

Numbers displayed above are based on latest data collected. For more information visit www.intechopen.com
Globalization and FDI from Developing Countries: Proposition of a Framework

Mohamed Amal

International Business and Economics at the Regional University of Blumenau/SC
Brazil

1. Introduction

In the last decade, and beginning of the 21st century, one of the most notorious features of the new trends toward globalization has been the increased participation of developing economies in the world economy. This relative importance is not only related to their position in the world trade, but also, in terms of the surge of new competitive companies operating worldwide, in different forms; sale subsidiaries, production subsidiaries, with Greenfield FDI and acquiring high competitive firms in developed and developing countries. This process of internationalization has been qualified as the genesis of Multinational Companies from developing countries, or from emerging countries (EMNCs). Even though, the growth of such global activities is mostly observed in large countries, with high level of economic growth and higher participation in the world trade (BRICs countries), MNCs have also emerged in other developing countries around the world, in Asia, Latin America, and also in Africa.

On the last two decades, the Foreign Direct Investment outflows (OFDI) from such economies grew at a higher year average than those from developed economies, and their outward stock reached more than 15% of the world FDI outward stock, compared with a performance of less than 10% in the 1990s. Several studies have pointed out that this growing performance should continue on the coming years. Cheaper access to capital, successful business model and sizeable assets will lead Multinational Companies from developing countries (EMNCs) to challenge even more some traditional firms from developed economies (Santiso, 2007). Recent financial performance enhanced the FDI stocks level of EMNCs and turned them less dependent upon banking loans to finance their foreign investments projects (UNCTAD, 2008), and the stocks and assets depreciation of firms in developed countries due to the global crisis may have contributed significantly to increase the participation of EMNCs in the world FDI stock through new acquisitions (ECLAC, 2009).

Several studies have been discussing patterns and determinants of EMNCs international FDI performance. It is argued that they do not hold the same property structure as those from well developed countries (Filatotchev et al, 2007), which means that factors related to the country of origin might influence significantly the international competitiveness of firms. Cuervo-Cazurra (2007) classified the MNCs from developing countries as those that seek on developing ownership advantages abroad and those that aim on exploring abroad...
the advantages acquired in their domestic market. Those firms that desire to develop new capabilities abroad should choose to establish a foreign subsidiary on developed economies, if they seek access to higher technology, or on developing economies, if they aim on obtaining access to a country’s abundant resources. Other authors have focused more on how EMNCs overcome the liability of foreignness (Zaheer, 1995; Luo and Tung, 2007).

In this context, in which OFDI from developing countries is increasing rapidly, some few questions become relevant. First, in which extend the theoretical models in International Business explain the genesis and patterns of EMNCs? And, what are the determinants of OFDI from developing countries? What is the role of the home country, and in which extend, factors related to the host country explain patterns and strategies of EMNCs?

The aim of this chapter is to address the determinants of OFDI from developing economies and to show how the institutional perspective contribute to the understanding of the dynamic and strategies of EMNCs.

In order to address these questions, we have structures the chapter in six sections. In section one, we introduced the topic. Section 2 describes the evolution and patterns of world outward FDI and the role of developing countries. In section 3, we provide an overview of the theoretical backgrounds of FDI. In section 4, we show how EMNCs have been addressed in the literature of international business. In section 5, we will present a general framework of EMNCs, and section 6 will conclude the chapter.

2. Evolution and patterns of FDI: the role of developing economies

In this section, we will describe the evolution and patterns of OFDI from developing countries. First, we will show some indicators of the internationalization of production, and then we discuss, in particular, the case of FDI from developing countries.

In a historical perspective, the expansion of FDI can be observed in the early 1980s, particularly flows from developed to other developed countries. Between 1990 and 1995, FDI flows expanded at an average rate of 16.8%, while the export of goods and services registered a growth rate of 8%, and world GDP growth only 6% (Unctad, 2010). It was a trend toward a growing role of MNCs compared with the after Second World War, where the export has been the driver of economic activities, growing on a higher rate than the world output. This process of increased world FDI outflows covered all the period of the 1990s, until 2008, the year as the global financial crisis brook up worldwide, affecting all the developed countries, and partly emerging economies.

The period from 1990 to 2008 represented a long cycle of world FDI outflows, which has contributed to a significant expansion of the total assets and exports of foreign affiliates of MNCs. Furthermore, in the beginning of the 1990s, the world outward stock of FDI was US$ 2,087 billion, and reached in 2009 the amount of US$ 18,982 billion, growing more than 900% in nominal values. As a consequence of this fast growing performance of MNCs activities abroad, the ratio between outward stock of FDI and world GDP rose sharply, from 9% in 1990 to 35% in 2009, sitting up a tendency toward deep interdependencies among economies, and where the MNCs are the main agents of changes and growth in the world economy. However, the global financial crisis has significantly affected the foreign activities of MNCs abroad. The outflows of FDI decreased in 2008 and 2009, and have been more sensitive to the crisis effects than world GDP and world trade of goods and services, which have registered negative performances, in 2009, of 9.5% and 21.4% respectively, while the FDI outflows decreased at 42.9%.
What are the reasons for the upsurge of FDI in the early 1990s, and what explains the long cycle of worldwide expansion of MNCs activities abroad during all the period from 1990 until 2008?
A variety of factors have contributed to the fast acceleration of the activities of MNCs abroad and the long cycle of their expansion.
Some of the factors are related to the own changing driven by the globalization process. Others are, more specifically, related to the specific actions of the states to promote FDI inflows and the consequent changing in the different FDI policies in developing and transition economies.
On the other hand, besides the globalization has been a phenomenon of growing performance of MNCs from developed countries, since middle 1990s, the data of world FDI outflows showed also a growth of the activities of firms from developing countries abroad, which have changed significantly the regional distribution of world FDI, and the surge of new countries in Asia and Latin America as the source countries of FDI. This phenomenon was called as the genesis of emerging MNCs, to differentiate them from the traditional model of internationalization of firms from developed countries, and represents one of the major characteristics of the new phase of globalization.

What are the main countries of origin of FDI from developing countries? How relevant are their participation in the world FDI outflows and stocks? And what are the main strategies of MNCs from developing countries? And, finally, what are the determinants of outward FDI from developing countries? We will address all these questions in the following sections.

### 2.1 Growth and patterns of Outward FDI from developing countries

The growing internationalization of firms from developing countries can be described as a major characteristic in the current world economic scenario. On the last two decades, the Foreign Direct Investment outflows (OFDI) from such economies grew at a higher year average than those from developed economies, and their outward stock reached more than 15% of the world FDI outward stock, compared with a performance of less than 10% in the 1990s, according to Unctad (2010). In terms of their participation in the world outflows of FDI, developing economies have registered a significant performance in the last 15 years. From a participation of 14% in 1995, MNCs from developing economies reached a performance of 21% in 2009, which represents a value amount of US$ 229.2 billion, as can be shown in the table 1 below.

<table>
<thead>
<tr>
<th>Year</th>
<th>World (US$ Billion)</th>
<th>Developed economies (DE) (US$ Billion)</th>
<th>Developing economies (DgE) (US$ Billion)</th>
<th>Share of DE in world FDI (%)</th>
<th>Share of DgE in world FDI (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>355.3</td>
<td>305.8</td>
<td>49</td>
<td>86</td>
<td>14</td>
</tr>
<tr>
<td>1996</td>
<td>391.6</td>
<td>332.9</td>
<td>57.6</td>
<td>85</td>
<td>15</td>
</tr>
<tr>
<td>1997</td>
<td>466</td>
<td>396.9</td>
<td>65.7</td>
<td>85</td>
<td>14</td>
</tr>
<tr>
<td>1998</td>
<td>711.9</td>
<td>672</td>
<td>37.7</td>
<td>94</td>
<td>5</td>
</tr>
<tr>
<td>1999</td>
<td>1005.8</td>
<td>945.7</td>
<td>58</td>
<td>94</td>
<td>6</td>
</tr>
<tr>
<td>2000</td>
<td>1149.9</td>
<td>1046.3</td>
<td>99.5</td>
<td>91</td>
<td>9</td>
</tr>
<tr>
<td>2007</td>
<td>2267.5</td>
<td>1923.9</td>
<td>292.1</td>
<td>85</td>
<td>13</td>
</tr>
<tr>
<td>2008</td>
<td>1928.8</td>
<td>1571.9</td>
<td>296.3</td>
<td>81</td>
<td>15</td>
</tr>
<tr>
<td>2009</td>
<td>1100.9</td>
<td>820.7</td>
<td>229.2</td>
<td>75</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: UNCTAD, 2011: www.unctad.org Database on FDI.

Table 1. OFDI distributions by developed and developing countries, in US$ Billion, and % participation
Most part of the FDI stock from developing countries, over 70%, is originated from Asia, especially from China and some few emerging Asian Countries. Latin America is in the second position, with 24% of the total FDI stocks from developing countries, being Brazil, Mexico, Chile the main origin countries. Africa’s outward FDI stock represent 4% from the developing countries total, and South Africa alone is the major FDI source within the continent, as can be shown in the table below 2

<table>
<thead>
<tr>
<th>Region</th>
<th>1990</th>
<th>2000</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>2086018</td>
<td>7967460</td>
<td>18982118</td>
</tr>
<tr>
<td><strong>Developed Economies</strong></td>
<td>1941646</td>
<td>7083493</td>
<td>16010825</td>
</tr>
<tr>
<td>Share of DE in Total stock</td>
<td>93%</td>
<td>89%</td>
<td>84%</td>
</tr>
<tr>
<td><strong>Developing Economies</strong></td>
<td>145172</td>
<td>862628</td>
<td>2691484</td>
</tr>
<tr>
<td>Share of DgE in Total stock</td>
<td>7%</td>
<td>11%</td>
<td>14%</td>
</tr>
<tr>
<td>Africa</td>
<td>19826</td>
<td>44147</td>
<td>102165</td>
</tr>
<tr>
<td>Share of Africa among DgE</td>
<td>14%</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Latin America and The Caribbean</td>
<td>57643</td>
<td>204430</td>
<td>643281</td>
</tr>
<tr>
<td>Share of Latin America</td>
<td>40%</td>
<td>24%</td>
<td>24%</td>
</tr>
<tr>
<td>Asia and Oceania</td>
<td>67703</td>
<td>614051</td>
<td>1946038</td>
</tr>
<tr>
<td>Share of Asia and Oceania</td>
<td>47%</td>
<td>71%</td>
<td>72%</td>
</tr>
<tr>
<td><strong>South East Europe and the CIS</strong></td>
<td>21340</td>
<td>279808</td>
<td></td>
</tr>
<tr>
<td>Share of East Europe</td>
<td>0%</td>
<td>1%</td>
<td></td>
</tr>
</tbody>
</table>

Source: UNCTAD, 2011: www.unctad.org Database on FDI.

Table 2. FDI outward stock, by region and economy, (In US$ Million)

In terms of the countries of origin, FDI outflows from developing countries are highly concentrated. The ten largest countries of origin of FDI are responsible for over 70% of the total amount of OFDI from all developing countries, being seven of the ten are from Asia, as can be seen in the tale 3 below. Hong Kong and China are in the first two positions, Brazil on the 5th position, and South Africa and Mexico are at the end of the list of ten. The increase role of MNCs from developing countries is particularly due to the high growth of the internationalization of firms from Asia, mostly from China and India, but also from Russia, and some few Latin American countries, Brazil and Mexico. Thus, the shift in the dynamic of the world OFDI is also reflected in the changes in the MNCs landscape (Unctad, 2010). When in 1992, only 8% of MNCs were headquartered in developing countries, in 2008 they were 28% of a total of 82,000 MNCs worldwide (Unctad, 2010). The shift in the pattern of international production is not only reflected in the growing number of MNCs from developing countries, but also in their participation in the foreign assets and sales of the top 5,000 MNCs worldwide. According to the Unctad (2010), MNCs from developing economies accounted in 2008 for nearly 10% of the foreign sales, and 8% of foreign assets of the top MNCs in the world. One of the indicators to measure the degree of internationalization and importance of international transactions in the global activities of a firm is from UNCTAD developed index, called Transnationality Index (TNI), which is calculated considering the
average of three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment of a firm (Unctad, 2010, p.18).

<table>
<thead>
<tr>
<th>Variables</th>
<th>1990</th>
<th>2000</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Developing Economies (DgE)</td>
<td>145172</td>
<td>862628</td>
<td>2691484</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>11920</td>
<td>388380</td>
<td>834089</td>
</tr>
<tr>
<td>China</td>
<td>4455</td>
<td>27768</td>
<td>229600</td>
</tr>
<tr>
<td>Singapore</td>
<td>7808</td>
<td>56755</td>
<td>213110</td>
</tr>
<tr>
<td>Taiwan</td>
<td>30356</td>
<td>66655</td>
<td>181008</td>
</tr>
<tr>
<td>Brazil</td>
<td>41044</td>
<td>51946</td>
<td>157667</td>
</tr>
<tr>
<td>Korea, Republic of</td>
<td>2301</td>
<td>26833</td>
<td>115620</td>
</tr>
<tr>
<td>India</td>
<td>124</td>
<td>1733</td>
<td>77207</td>
</tr>
<tr>
<td>Malaysia</td>
<td>753</td>
<td>15878</td>
<td>75618</td>
</tr>
<tr>
<td>South Africa</td>
<td>15004</td>
<td>32325</td>
<td>64309</td>
</tr>
<tr>
<td>Mexico</td>
<td>2672</td>
<td>8273</td>
<td>53458</td>
</tr>
<tr>
<td>Total top Tem</td>
<td>116437</td>
<td>676546</td>
<td>2001686</td>
</tr>
<tr>
<td>Share of Top Tem</td>
<td>80%</td>
<td>78%</td>
<td>74%</td>
</tr>
</tbody>
</table>

Source: UNCTAD, 2011: www.unctad.org Database on FDI.

Table 3. Top Ten countries of origin of OFDI, in Millions of US$

<table>
<thead>
<tr>
<th>Variables</th>
<th>100 largest TNCs worldwide</th>
<th>100 largest TNCs from Developing and Transition Economies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td>Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td>6116</td>
<td>6172</td>
</tr>
<tr>
<td>Total</td>
<td>10702</td>
<td>10760</td>
</tr>
<tr>
<td>Foreign as % of total</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td>4936</td>
<td>5173</td>
</tr>
<tr>
<td>Total</td>
<td>8078</td>
<td>8354</td>
</tr>
<tr>
<td>Foreign as % of total</td>
<td>61</td>
<td>62</td>
</tr>
</tbody>
</table>


Table 4. Foreign activities of MNCs by developed and developing economies, in US$ Millions, and %
Although the data show a real increase of the international transactions of EMNCs, their TNI is still lower than the index of MNCs from developed countries, as can be observed in the table below. Comparing the foreign sales, foreign assets, and foreign employment in the total of the 100 largest MNCs in developed and developing countries, EMNCs have a lower TNI, and have been more sensitive to the effects of the global crisis, reducing their international transactions between 2007 and 2008, in the meanwhile MNCs from developed countries have registered a positive variation, and, therefore, increased their foreign assets, foreign employment and foreign sales of their subsidiaries worldwide (see tables 4 and 5).

On the other hand, considering the period before the global crisis, EMNCs have improved the TNI, increasing their international transaction and their share in the total assets and sales.

<table>
<thead>
<tr>
<th>Variables</th>
<th>100 largest TNCs from Developing and Transition Economies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td>471</td>
</tr>
<tr>
<td>Total</td>
<td>1441</td>
</tr>
<tr>
<td>Foreign as % of total</td>
<td>33</td>
</tr>
<tr>
<td><strong>Sales</strong></td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td>477</td>
</tr>
<tr>
<td>Total</td>
<td>1102</td>
</tr>
<tr>
<td>Foreign as % of total</td>
<td>43</td>
</tr>
<tr>
<td><strong>Employment</strong></td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td>1920</td>
</tr>
<tr>
<td>Total</td>
<td>4884</td>
</tr>
<tr>
<td>Foreign as % of total</td>
<td>39</td>
</tr>
</tbody>
</table>

Source: Unctad, World Investment Report, different years.

Table 5. Snapshot of the world’s largest TNCs from developing economies, (Billions of dollars, thousands of employees and per cent)

However, in the total average, the TNI of MNCs from developed economies lies by 63.4, while by developing countries the index is around 50, according to Unctad (2010), suggesting a still limited and geographically oriented global expansion of EMNCs. However, there are differences among developing countries. In Latin America, the TNI is 42.5, and in South Asia is 57.8, showing a higher engagement of Asian MNCs in the global economy in comparison with other home region (Unctad, 2010).

### 3. Economic approach of MNC

Since the beginning of the literature about MNCs, a strong economic focus was adopted to explain how firms place their assets abroad. Hymer (1960) considers onerous to operate in
foreign market, so the firm should own competitive advantages to be exploited over market imperfections. On the other hand, Vernon (1966) believes that foreign markets are an opportunity to extend a product’s life cycle by reproducing abroad the same methods applied in the home market, implying on minimal marginal costs and enhancing a product’s profitability. Williamson (1975) focused his analysis on comparing the costs of trading a product with foreign markets and producing this same product abroad in order to evaluate which modality would imply on lower costs, being, this way, more attractive to the firm. Buckley and Casson (1976) determined that the company would perform FDI according to two kinds of advantages: ownership advantages and localization advantages. This concept was later developed by Dunning (1988) on his Eclectic Paradigm, culminating on the Investment Development Path - IDP (Dunning & Narula, 1996).

The Eclectic Paradigm, also known as the OLI Theory, is the result of an attempt made by John Dunning to integrate in one single model the several different scopes contained in the International Business literature in order to explain the why, where and how of the international expansion of firms. For two decades the model remained the dominant analytical basis of most of empirical studies about determinants of FDI. The principal hypothesis on which the eclectic paradigm of international production is predicated is that the level and structure of a firm’s foreign value-adding activities will depend on four conditions being satisfied: these are (Dunning & Lundan, 2008, p.99-100):

1. The extent to which it posses unique and sustainable ownership-specific (O) advantages vis-à-vis firms of other nationalities, in the servicing of particular markets or groups of markets. The ownership advantages are inherent to the company and crucial to the internationalization, because they are a matter of differentiation among firms, they are related to the intangible assets and the position conquered by the firm, such as innovation capacity, qualified labor and financial status that allows it to compete in foreign markets.

2. Assuming that condition (1) is satisfied, the extent to which the enterprises perceives it to be in its interest to add to its O advantages rather than to sell them, or their right of use, to independent foreign firms. These advantages are called market internalisation (I) advantages. The internalization advantages come from the benefits of the firm to use its own assets to produce abroad its products instead of allowing others to produce or distribute them, which might contribute to reducing exchange costs, information property, uncertainty diminish, and more control over supply, markets, contracts and business. In other words, internalization advantages are the outcome between the mix of ownership and location advantages.

3. Assuming that conditions (1) and (2) are satisfied, the extent to which the global interests of the enterprises are served by creating, accessing or utilising, its O advantages in a foreign location. The location advantages are host-market specific aspects that turn such location positive for the firm to settle a production plant in it, especially regarding transportation, access to labor force, cultural barriers and market potential.

4. Given the configuration of the ownership, location and internalisation (OLI) advantages facing a particular firm, the extent to which a firm believes that foreign production is consistent with the long term objectives of its stakeholders and institutions underpinning its managerial and organizational strategy.

Based on the four sets of advantages, Dunning (2000) also suggested, based on the motivation of MNCs, four different types of FDI projects: the market-seeking projects, the performance seeking projects, the resource-seeking projects and the asset-seeking projects.
Later on, a complementary model to the Eclectic Paradigm was developed, which is the IDP model, relating the development level of an economy to the propensity of local firms to do business abroad, being the assumptions from the IDP model closely related to the basic concepts from the Eclectic Paradigm, given that this relationship between the development level and the firms’ propensity to internationalize themselves will be based on extent of ownership advantages held by these firms, the location advantages offered by their home markets and the presence of transaction advantages arising from the commercial benefits of intra-company transactions.

The IDP model determines that there are five different development levels among countries, where they let being only a FDI destination to perform FDI as they progress to these levels. Stage 1 is related to countries with limited location advantages to attract FDI, so the role of governmental measures is important to turn the economy attractive to foreign investors. Markets on Stage 2 have a larger extent of location advantages, which turn them a attractive destination of FDI. The stage three describes the development of this process and shows that the enlargement of the activities of foreign firms in the host country will contribute, through spillover effects and technology transfer, to create and increments the ownership advantages by local firms, turning them more prone to perform FDI, especially on less-developed markets. On Stage 4, firms from the home market stop being predominantly FDI receivers to be investors, and when they achieve the final level, Stage 5, their strategies will be more influenced according to their own resources and capabilities and less by governmental measures.

In this perspective, foreign MNCs have a determinant role on the IDP model, given that these firms, by owning advanced resources, generate benefit through spillover effects in the host market, such as training local professionals and developing already-existing technology in developing countries (Blomstrom & Kokko, 1996). This process contributed largely to stimulate the creation and expansion of MNC from developing countries.

4. EMNCs in the international business literature

Due to the growing importance of developing countries MNCs (DMNCs) in the current world economy, their role in the International Business Literature has grown in importance in the same pace. The studies on EMNCs (MNCs from emerging economies) can be classified in three main perspectives. A FDI perspective, which is more focused on suggesting theoretical and empirical models to understand the strategies of EMNCs and the determinants of the Outward FDI from developing economies. The second perspective is the institutional perspective, which focused on how institutions from home and host countries of FDI affect the international expansion of firms. The third perspective is more related to studies that have addressed differences and similarities of the internationalization processes of MNCs from countries with different level of development (Developed and developing economies). While the first perspective is, in large part, based on the economic theory of FDI, and specifically, the contributions of Hymer (1960), Bukley and Casson (1976), and Dunning (1988, 2000). The second perspective introduced insights and concepts of the neo-institutionalism to explain the phenomena of MNCs. The third perspective, including some contributions of the behavioral approaches (Uppsala), focused more on how EMNCs create ownership advantages, and how they overcome the liability of foreignness.
The FDI perspective:

It is believed that developing countries MNCs share some common characteristics, such as the easy access to natural resources (BCG, 2009) and the comparative advantages related to the factor endowment resources in their home countries, that allow them to be internationally competitive due to their low prices (Pangarkar and Lim, 2003; Enderwick, 2009). That said, most of these firms offer commodities and low value products and they end up developing their R&D activities abroad on developed markets (Li, 2003; Rugman and Oh, 2008). Cuervo-Cazurra (2007) argues that the access to technology is the main reason for firms to perform FDI in developed countries. As matter of fact, the relationship between the EMNCs’ competitiveness and the home market characteristics are so significant that Kalotay and Sulstarova (2010) suggest that a “H” should be added to the OLI Theory for “home market”. Gammeltoft, et al (2010) also highlight the extent in which the home market characteristics affect the competences from developing countries MNCs, stating that institutions also play a vital role, but there are evidences that these firms are moving on and acquiring competences of their own, making them achieve a higher level of competitiveness and climbing on the IDP Model stages (Goldstein and Pusterla, 2010). Fleury and Fleury (2009) also state that many MNCs from developing countries build up their ownership advantages in the home market, but they need to invest on their sales and marketing staff to sale their products abroad and also to reevaluate their R&D competences to gain more added value.

In order to understand the patterns and strategies of EMNCs, Fan, Nyland and Zhu (2008) set four different kinds of strategy based on the interaction between the firm’s international integration and the foreign market’s local responsiveness. MNCs with high international integration will choose a global strategy, in the case of low local responsiveness, or a transnational strategy, in the case of high local responsiveness. But in the case of low international integration, the firm will choose an international strategy, in the case of low local responsiveness, or a multi-domestic strategy, in the case of high local responsiveness. The domestic market is relevant even for global-orientated MNCs (Banalieva and Santoro, 2009).

There are also several studies dealing with the role of the home market in the FDI performance of EMNCs. More specifically, to address how macroeconomic and institutional factors of the home market of the EMNCs determine their outward FDI. Factors like GDP, exchange rate, trade and inflation, with the aim to estimate the effects of the market size, trade openness, macroeconomic stability, and the quality of institutional governance.

There is no real alignment among the scholars about the role of the GDP on the OFDI. (Bae and Hwang, 1997; Thomas and Grosse, 2001; Frenkel et al., 2004; Kyrkilis and Pantelidis, 2003, 2005). Results of empirical studies have shown opposite effects. Some authors tested the effect of the GDP per capita variable, since it may be a better indicator of a country’s real development level and it is also a proxy of demand structures, in the sense that a market with higher per capita income will have a preference for more advanced products (Kyrkilis and Pantelidis, 2003, 2005; Faria and Mauro, 2009). On the other hand, the interest rate has revealed to present a negative relation to the outward FDI (Bae and Hwang, 1997; Thomas and Grosse, 2001; Kyrkilis and Pantelidis, 2003, 2005).

The relationship between FDI and both trade and exchange rate is also uncertain. The outward FDI may replace trade on the case of market-seeking projects, but cases of
efficiency-seeking or resource-seeking projects may create an intra-firm trade (Swenson, 2004; Seo and Suh, 2006). As for the exchange rate effect, it also depends on the FDI’s nature. A high exchange rate (devaluated currency) may be positive for firms willing to maximize their profits in the home market, a feature from market-seeking projects, while a low exchange rate (evaluated currency) will reduce production costs, which is common in the cases of performance-seeking projects (Chen et al., 2006; Xing and Wan, 2006).

Just recently there were some studies trying to combine non-traditional variables with the traditional ones. Amal et al. (2009) unveiled that, besides the GDP, the inflation and inward FDI stocks, education and globalization levels were also positive for the outward FDI, while the exchange rate and the economic freedom were negative. The economic freedom was also negative to the outward FDI for Kapuria-Foreman (2008), leading the author to argue that this variable need to be disaggregated to function properly, being its most relevant index the property rights. Chitoor et al. (2008) cite that economic freedom acts indirectly towards the outward FDI by improving the inward FDI levels, which will promote the competitiveness from local firms. Faria and Mauro (2009) argue that the GDP per capita, the financial development, the human capital, the economic openness and the governance indicators are positive and relevant for the countries’ foreign capital structures, while the natural resources were significant but presenting a negative correlation with the OFDI. Some other empirical evidences from structural changes boosting the outward FDI from developing countries are the governmental regulations to promote outward FDI in China (Rasiah et al., 2010) and the reforms in the Brazilian industry during the 1990s, related to a wider economic openness and the privatization of firms and services (Arbix, 2010) have been also tested and have presented significant effects.

The institutional perspective:

The FDI theory has traditionally seen the macroeconomic variables as the country of origin elements responsible for the international performance of MNCs. After some studies unveiled the imperfect markets functioning, the economists’ perception of other elements affecting the FDI grew (Amal et al., 2009). The institutions role is related to their ability to improve the markets’ structure efficiency by reducing transaction and information costs and also the uncertainty and instability levels (Mudambi & Navarra, 2002; North, 1990). Bevan et al. (2004) understand that both informal institutions and government arrangements should affect corporate strategies.

Given the institutions importance on improving markets efficiency, Peng et al. (2008) see them as vital on improving the competitiveness of firms from developing countries, since their institutions differ significantly from those from developed economies. The authors describe institutions as structures responsible for the social behavior interaction, managing transactions on politics (such as corruption and transparency), law (such as economic freedom and regulatory regime) and social (such as ethical rules and business climate). McMillan (2007) also consider that institutions play a more important role on developing economies, since the developing markets poor function may be a sign of poor institutions, restricting local firms, since institutions are relevant over strategies implementation and competitive advantage development by local firms.

But, in the other hand, there are authors like Witt and Lewin (2007) that pointed out the possibility of a negative institutional scenario also having positive impact over the FDI, since companies may feel encouraged to operate across borders to run away from some home market restrictions. The BCG (2009) believes that the experience of developing
business on negative institutional scenarios has implied on significant competitive advantages for MNCs from developing economies, such as creative, innovative and flexible processes that helped them to take fast and efficient decisions. Luo et al (2010) called such behavior as institutional escapism, and affirm that both of the situations approached by the literature co-exist and boost the international engagement of MNCs from developing countries, but their effects are different among firms and industries. Whereas firms do seek foreign markets to obtain access to technology and knowledge which are not available at their home market, public policies are also important to neutralize intrinsic competitive disadvantages from DMNCs (Luo et al., 2010).

The managerial perspective:

The literature on International Business (IB) showed that foreign firms face different barriers that exist because of different levels of geographic distance, psychological, cultural and institutional relationship between the country of origin and host countries of their investments (Zaheer, 1995; Nachum, 2003), the barriers are often called "Liability of foreignness (LOF). According to Madhok (2010), LOF occurs for several reasons:

- Foreign companies have disadvantages related to the low level of knowledge about host markets of their investments;
- Secondly, companies must adapt their ownership advantages to different cultural and institutional environments, which should generate different costs and barriers that domestic firms do not have; and
- Finally, foreign companies need to establish legitimacy and be accepted into the host country.

On the other hand, the following features regarding the internationalization patterns between developed and emerging economies have been pointed out in the literature:

- EMNCs are based in countries with low average income per capita, and presenting weak institutional infrastructure;
- EMNCs present limited ownership advantages, such as technology, brand when developing international operations.
- They are late comers (Ramamurti and Singh, 2009), following apparently different paths in terms of countries of destination of their investments. They use to invest in other emerging countries, but also in developed countries (Sirkín et al, 2008), acquiring other companies as part of their internationalization strategy (UNCTAD, 2006; Gubbi, et al, 2010).

Cuervo-Cazurra (2007) classified the MNCs from emerging countries as those that seek to develop ownership advantages abroad and those that aim on exploring abroad the advantages acquired in their domestic market. Those firms that desire to develop new capabilities abroad should choose to establish a foreign subsidiary on developed economies, if they seek access to higher technology, or on developing economies, if they aim on obtaining access to a country’s abundant resources.

To overcome the liability of foreignness, measured as the cost of doing business abroad (Zaheer, 1995) and their disadvantage as latecomers, EMNCs may opt for an audacious international strategy to quickly establish their reputation among foreign customers, such as the acquisition of strategic assets and already established brands (Luo and Tung, 2007; Bonaglia, Goldsten and Matthews, 2007). That means that the investments of EMNCs will act as a springboard to address firm-specific disadvantages via international acquisitions of new assets. Heavy investments on R&D and networking are also assets of major importance.
for a successful internationalization process by a latecomer MNC (Yu, Lau and Bruton, 2007).

Several studies about MNCs from developed countries have discussed different issues, most of them related to the determinants and patterns of their strategies, and also the relationship between the degree of internationalization and their performance. On the other hand, an evolution in the internationalization of MNCs from developed countries points out the tendency of conducting R&D activities abroad, while the traditional view considers that firms would only reproduce abroad their methods developed on their home markets (Pearce, 1992). Currently, researchers understand that MNCs seek for complementary assets abroad to enlarge their ownership advantages (Serapio and Dalton, 1999; Hayashi and Serapio, 2006), which means that EMNCs are not the only ones to develop ownership advantages abroad.

In terms of competitiveness assets, it is believed that firms from developed countries have an inherent advantage over firms from emerging countries, which is the effect of the country of origin stereotype over its international branding. Thanasuta et al (2009) argue that products from highly industrialized economies usually are seen as superior in terms of quality and technology, making the country of origin effect to have a great influence over the consumers’ willingness to pay.

Although there are different standards between MNCs, studies have shown that both emerging MNCs and MNCs from advanced countries seek to develop complementary strategies to expand their ownership advantages (Hayashi and Serapio, 2006). They used to follow an incremental strategy of internationalization, based on the psychic distance as a determinant factor for market selection in the early stages, in particular, which means, that the process of gradually increasing commitment would still be expected to be the norm (Dunning and Lundan, 2008). There are also evidences about the role of social networks as a key factor of learning, developing new markets, and managing disadvantages related to the LOF.

Results from different empirical studies suggest that an incremental behavior is also a feature from the internationalization of EMNCs (Pillania, 2008), and the psychic distance also affects the market selection process, even though it does not determine alone, for example, the foreign direct investment destination (Li, 2003). Regarding the extent to which a firm will depend mostly on ownership, internalization and locational advantages to internationalize its activities, Li (2003) and Lee and Slater (2007) suggest an adaptation for the specific case of EMNCs; this is because these firms often end up developing ownership advantages on foreign markets, mostly in developed countries, due to better access of technology and knowledge.

5. Determinants of OFDI from emerging economies: Proposition of a framework

An analysis of the International Business literature shows that due to the complexity of the phenomena of Multinational Companies from developing economies, scholars have been using more eclectic approaches to investigate the process of internationalization of firms from countries of different levels of development. However, although some authors have suggested new theories of EMNCs, it seems that the eclectic paradigm (Dunning, 1988) is still a powerful framework for a multi-perspective approach, that take under account factors related to country and firm advantages. Thus, the OLI paradigm provides a general
theoretical framework for the understanding of the FDI determinants from emerging economies. The main advantages of the framework lie in the fact that it allows to integrate two main analytical dimensions; the dimension that focuses on the country specific advantages (CSA), and the dimension that considers the firm-specific advantages (FSA). Rugman (2005) has emphasized the importance of the two dimensions and their interaction for the analysis of MNCs strategies. CSA can be listed under the Dunning’s sub-paradigm of localization advantages, while FSA can be listed under the Ownership Advantage’s sub-paradigm.

Therefore, in the case of emerging economies, there are different and specific reasons for the successful internationalization of their firms. Different authors have investigated the differences in the path and pattern between EMNCs and MNCs from developed countries (Cuervo-Cazura, 2007, 2008), suggesting a higher level of complexity, and a need for a more multi-approach to analyze their strategies and determinants. We propose here a framework that, in the tradition of the International Business literature, combines factors related to CSA and FSA.

The CSA are related to the location advantages and how they contribute to international competitiveness of firms. Although the CSA can be related to the L-advantages, the concept is however different. While the L-Advantage in the Dunning’s framework is related to the extent to which the global interests of the enterprises are served by creating, accessing or utilising, its “O” advantages in a foreign location, the CSA concept will consider a double perspective of advantages or disadvantages, mainly the home market and the host market perspectives. The Home Location advantages are home-market specific assets that turn such location positive for the firm to create, or to enlarge its ownership advantages, especially, regarding factor endowments, economic performance and institutional quality.

On the other hand, to address FDI determinants, a host country perspective is also relevant, in that sense that the changes and the configuration of market and competition affect the strategy of the firm in the host country. The host country perspective provides relevant insights for the understanding of how the MNC adapt, adjust and manage the cultural, economic and institutional differences between home and host country.

The Firm Specific Advantages (FSA) describe in which extent the firm possesses unique and sustainable ownership-specific (O) advantages vis-à-vis firms of other nationalities, in the servicing of particular markets or groups of markets. Thus, FSA are inherent to the company and crucial to the internationalization, because they are a matter of differentiation among firms, they are related to the intangible assets and the position conquered by the firm, such as innovation capacity, qualified labor and financial status that allows it to compete in foreign markets.

In the attempt to understand the pattern and path of the international expansion of MNCs from emerging economies, we present and discuss some few propositions.
Proposition 1: A MNC from a emerging country, with a short period of experience of internationalization and limited ownership advantages will be influenced more likely by psychic distance factors when internationalizing into new markets.

MNCs from developed countries, with specific ownership advantages, legitimacy that is related to the advantages of the home market, high accumulated knowledge about processes of entering into foreign markets, and inserted in networks relationships worldwide will reduce the costs and disadvantages related to the liability of foreignness. Therefore, firms with large ownership advantages and high ability to develop systematic learning’s processes will be more likely to manage their internationalization on a global level, adapting their strategies to the host market structures, and to the opportunities of strategic alliances with local and/or global partners.

On the other hand, EMNC, with a short period of experience of internationalization and limited ownership advantages will be influenced more likely by psychic distance factors when internationalizing into new markets. In this case, due to their limited technological and managerial capabilities, EMNCs are more likely to face higher costs to manage the LOF in culturally distant market, or in not stable institutional environments, which may concentrate their investment projects in regionally or culturally closed host countries.

Proposition 2: MNCs from advanced economies, due to their international experiences, accumulated knowledge about foreign markets, and learning abilities, are better than EMNCs at coping with weak institutional environments.

The internationalization of the firm will depend, not only on the interaction between ownership, location and internalization advantages, as discussed in the eclectic paradigm, but also including variables from the institutional approach. It means that introducing factors related to the institutional environment, in which firms operate and develop their resources and capabilities, may contribute to explain how location and ownership advantages interact; creating the conditions to overcome the disadvantages to be acting in a foreign market.

In this context, gainfully exploiting their firm-specific assets through the process of internalization, taking advantage of the location, and governments’ role in influencing international business patterns as well as access to some relevant institutional infrastructures will combine to produce different behaviors and internationalization’s patterns. We, therefore, suggest that, the way how the variables interact and how they affect the internationalization’s patterns of firms are different in the case of MNCs from emerging economies.

Company from a emerging country, by learning to operate in an unstable institutional environment may acquire a competitive advantage that makes the firm to have a sort of ability in working in such environments, when firms from developed countries, have more difficulties to operate in them. However, due to accumulated knowledge in foreign markets, and business experiences in different cultural environments may provide the MNC from advanced economies a better advantage to manage their value-added activities in countries presenting weak institutional arrangements; this is a way to overcome the liability of foreignness.

A company from an emerging country, however, with reduced ownership advantages, and limited experiences and knowledge in international management presents a reduced capability to cope with low institutional environment, particularly in culturally distant countries. Emerging countries are not homogeneous, not culturally, and less then in terms of their institutional makeup.
Proposition 3: While MNCs from developed economies follow Multiple FDI strategies, on global level, EMNCs are more likely to invest abroad following a market-seeking and resource seeking strategies.

Firms with large ownership advantages and high ability to develop knowledge will be more likely to manage their internationalization on a global level, adapting their strategies to the host market structures, and to the opportunities of strategic alliances with local and/or global partners.

A MNC may enter other foreign markets (developed or developing) for different reasons: exploring host market opportunities for growth (market-seeking), seeking for strategic assets such as taking advantage of R&D centers or acquiring or merging with resourceful business companies (strategic-asset seeking), and to exploit its ownership advantages (e.g. intangible assets such as brand names and proprietary technology). The latter strategy, for example, will mean that a MNC will be looking for complementary assets abroad to enlarge its ownership advantages (Hayashi and Serapio, 2006; Serapio and Dalton, 1999).

MNCs from developed economies are more prompt to develop different strategies in the same host market, which mean that they will be implementing different investment programs, according to the changes of the economic and institutional environments, and to the relationships to their network and market partners. The differences in the strategy development abilities are, therefore, related to their abilities to manage their exposure to the liability of foreignness.

Thus, MNCs from developed economies, due to their ownership and home market specific advantages (legitimacy) will be more prompt to develop different strategies in the same host market to overcome the LOF. This process of diversified strategic engagement allows firms to have a better access to knowledge and strategic partnership, which may contribute to their abilities to cope better with economies presenting weak institutional performances.

However, EMNCs entering foreign markets are found to be, for the most part, market-seekers, entering, in large, close foreign markets (UNCTAD, 2006). Entering other developing markets to acquire raw materials or developed markets to seek strategic assets (acquiring established brands or entering into merger agreements) can be important internationalization strategies to be adopted (Cuervo-Cazurra, 2007; Luo and Tung, 2007). Although EMNCs’ strategic asset-seeking strategies in foreign markets, especially in developed ones, are relatively found to be modest (Gugler and Fetscherin, 2010, Bongalia, et al., 2007), they need strategic assets (e.g. mergers, acquisitions, and foreign brands) to boost the development of their competitive advantages in foreign markets. As established elsewhere, there is the belief that firms from developed countries are perceived to be superior in terms of quality and technology, which makes the country of origin exert much influence on consumers’ preference to buy products from firms from developed countries (Thanhasuta et al. 2009). Hence, a EMNC’ internationalization into developed or foreign markets will be characterized by much effort to take advantage of strategic assets available in any market; this is where the firm’s networks of exchange relationship may be useful to facilitate access to strategic assets, which the firm lacks.

However, MNCs from an emerging economy have less technological and managerial capabilities to cope with significant differences inside and among locations, which may reduce their ability to strategy development, limiting their main foreign market approaches to market seeking or to resource seeking strategies.
6. Conclusion

The aim of this chapter was to address the determinants of OFDI from developing economies and to show how the institutional perspective contribute to the understanding of the dynamic and strategies of EMNCs.

A integrated model, which draws on insights from the economic perspective (Eclectic Paradigm), Institutional, and the managerial perspective (Uppsala model), has proved useful by helping to shed some light on the literature about MNCs’ internationalization process.

To sum up, the international expansion of MNCs is mostly based on their ownership advantages. On the other hand, the international expansion of firms, in recent times, depends also on the abilities of developing different alliances with other MNCs, and using their networks in order to overcome their lack of knowledge about new and emerging foreign markets. Thus, the potential of growth on global level will be highly related to the ability of firms to, using their specific advantages, adjust their strategies to different institutional environments.

The case of EMNCs is relevant in many aspects. Firstly, because it shows how the limited ownership advantages reduced the ability and intensity of the firm to enlarge their economic value-added activities across-borders. Secondly, the changes in the internationalization’s path by EMNCs during the end of the 1990s reflected also the changes that happened in their home markets, which means that the home market factors have contributed significantly on the creation and enlargement of the new assets by the firm to enable it to go abroad. It is not only firm specific advantages (ownership) that explain the differences between the internationalization of the firms, but also the home market specific advantages (legitimacy) and their interactions with the former that explain patterns and performances.

The international expansion of EMNCs pointed out to a gradual process of international expansion, beginning at the regional level, where the market configurations are relatively similar, and therefore the psychic distance is lower, which means that also factors of the host country explain the pattern and intensity of the expansion of EMNCs.

Furthermore, MNCs from an emerging economy have less technological and managerial capabilities to cope with significant differences inside and among locations, which may reduce their ability to overcome the liability of foreignness and to strategy development, limiting their main foreign market approaches to market seeking or to resource seeking strategies.

Finally, it is important to notice that emerging countries are not homogeneous, not culturally, and less then in terms of their institutional makeup. The implication of the market diversity of developing markets suggest that, EMNCs will not hold a competitive advantages against MNCs from developed countries, when entering into those markets. EMNCs have better knowledge to cope with unstable institutional environments specifically in culturally closed countries. This means, that their ability to cope with different institutional environments is limited to their regional expansion.

By MNCs from developed economies, a multiple strategy development contributes to improve their learning process and to the accumulation of technological and managerial knowledge, which may enhance their abilities to manage transactions in different markets. Furthermore, it may mean better organizational and managerial capabilities to cope with different institutional environments.
7. References


www.intechopen.com


Very often the process of globalization is referred to as economy evolution. Often we measure and study globalization in the economic relevance. The economy is possibly the most recognized dimension of globalization. That is why we see many new phenomena and processes on economic macro levels and economic sectoral horizons as well as on specific geography of globalization. The book The Economic Geography of Globalization consists of 13 chapters divided into two sections: Globalization and Macro Process and Globalization and Sectoral Process. The Authors of respective chapters represent the great diversity of disciplines and methodological approaches as well as a variety of academic culture. This book is a valuable contribution and it will certainly be appreciated by a global community of scholars.

How to reference
In order to correctly reference this scholarly work, feel free to copy and paste the following:
