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DEVELOPING COUNTRY MULTINATIONALS: SOUTH-SOUTH INVESTMENT COMES OF AGE

by

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PREFACE

This Working Paper is a first attempt at mapping and evaluating the contribution of outward foreign investment to so-called South-South co-operation. Policy makers refer frequently to the need to increase and deepen economic co-operation among emerging, transition, and developing countries, and to the positive role that private sector actors can make in this regard, but we have only limited knowledge of the dimension of this phenomenon and of its actual impact.

Although the origins of South-South investment can be traced back decades – and of course much depends on how one defines South-South - the authors find that it is only in recent years that these flows have been growing significantly, to the point that they constitute roughly 20 per cent of total FDI flows going to developing countries. Even more recent has been the rise of South-North flows, as Chinese, Indian and South African corporations mature, as well as their home markets, and they need to seek further growth overseas.

While this phenomenon has been widely noticed, little is known or understood about it. Not much has been written about it or little resources (e.g. databases) have been developed. In principle, the vibrancy of South-South FDI is good news because this FDI typically reaches very poor and remote developing countries. Early studies conducted in the 1970s also showed that Southern companies were more likely to use “appropriate” technologies, i.e. intensive in abundant labour and not in scarce capital, than multinationals from OECD countries. With globalisation and market liberalisation, however, many things have changed and a decisive push towards more policy-oriented research on issues such as linkages, spillovers and corporate behaviours is warranted.

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RESUMÉ

Les grandes sociétés des pays de l'OCDE ont longtemps investi à l'étranger pour pénétrer les marchés, s'approvisionner des ressources, et augmenter leur efficacité. Après l'explosion des investissements directs étrangers (IDE) vers les pays du Sud dans les années 90, c'est maintenant au tour des plus grandes compagnies des économies d'émergence et de transition, y compris celles des pays dits BRIC, d'intensifier leurs IDE extérieurs à travers les fusions et acquisitions, aussi bien que par des investissements *greenfield*. Cet article analyse ce phénomène naissant, avec une focalisation sur la quantification du poids des flux d'IDE Sud-Sud et sur leurs conséquences en matière de développement.

SUMMARY

Large Western corporations have long invested overseas to penetrate markets, seek resources, and increase efficiency. After the explosion of inward FDI to the South in the 1990s, it is now the turn of the largest companies from emerging and transition economies, including the so-called BRICs, to intensify their outward FDI through mergers and acquisitions as well as greenfield investments. The contours of this emerging phenomenon are described in this paper, with a focus on the quantification of the weight of South-South FDI flows and their developmental consequences.

JEL classification:

F02 - International Economic Order

F23 - Multinational Firms; International Business

L21 - Business Objectives of the Firm

INTRODUCTION

Foreign Direct Investment (FDI) has been one of the main vectors of globalisation in the past and has possibly grown in importance over the past decade (Jones, 2005; OECD, 2005). The multinational corporations (MNCs) from the industrialized countries that channel most FDI have provided a massive infusion of capital, technology, marketing, and managerial expertise that, under certain conditions, has played a major role in the process of economic transformation and growth that many less developed and newly industrialized countries from around the world have experienced over the past two decades¹. In the process, some enterprises from emerging, 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. In less than a decade, Samsung has become one of the top 20 most valuable brand names in the world². It is fair to expect this trend to continue in the years ahead. Another indicator is that the ratio of the foreign assets of the largest EMNC to those of the world's largest MNC has risen from 5.67 per cent in 1999 to 6.92 per cent in 2003 (UNCTAD 2001 and 2005a)³. In April 2006, Russian Gazprom surpassed Microsoft to become the world's third most valuable company. Also, China Mobile's market capitalisation exceeded UK's telecom company Vodafone's.

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 small number of countries (Lecraw, 1977; Lall, 1983; Wells, 1983)⁴. The earliest major developing-country sources of FDI in this latter

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1. As the OECD membership widened to include emerging economies such as Mexico, 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. To be true to the truth, Turkey has been an OECD country since 1964 even as 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. Korea and Singapore are defined as non-developed countries, even if they are by now net contributors to the World Bank Group (in other words, they are not eligible for loans anymore). On the other hand, Israel is excluded. The terms "emerging" and "Southern" multinationals are alternatively used in this paper.
 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

period were a small group of economies, including Argentina; Brazil; Hong Kong, India, Korea, Singapore, and Taiwan⁵. It is only since the late 1980s that an increasing number of developing countries, including Chile, China, Egypt, Malaysia, Mexico, Russia, South Africa, Thailand and Turkey, have become significant sources of FDI. Since 2003, the growth rate of outward FDI (OFDI) from emerging markets has outpaced that growth by companies from the industrialized countries (UNCTAD, 2005a). While OFDI from the BRIC countries – Brazil, Russia, India and China – has received more attention (Sauvant, 2005), other developing countries are 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 by DP World of Dubai. MNCs from new source countries as “exotic” as Lebanon, Peru, or Uganda are now emerging. Sri Lankan firms for example are now very important players in export-oriented clothing industry in many countries (in particular Bangladesh, India and Madagascar).

Inasmuch as EMNCs have become a permanent, sizeable and rising feature of the world economy, they can no longer be regarded as idiosyncrasies or artifacts. This paper provides an introduction to some of the key issues regarding EMNCs⁶, including:

- their size, nature, motives, and patterns of internationalisation;
- the challenges that they encounter in their quest abroad (e.g. difficulties in creating sustained competitive edges over well-established incumbents and managing complex operation processes that require both foreign adaptation and cross-border integration);
- their contribution to the global economy, not least by investing in other developing countries, as a burgeoning instance of south-south co-operation, in particular supporting the dynamics of regional integration and following the stimuli created by regional agreements.

Section II examines the investment patterns and characteristics of EMNCs in general and in selected industries; section III develops a simple conceptual framework for the analysis of motivations and strategies by developing-country MNC; section IV 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 levels⁷; and the conclusions try to

two much larger neighbours, Argentina and Brazil (Jacob 2003). There were also about 100 pre-World War II Chinese MNCs (Mira Wilkins, personal communication, 16 June 2006).

5. The official names for these entities are Hong Kong (China) and Taiwan Province of China, shortened here for simplicity’s sake.
6. We draw extensively on Goldstein (2006a) and World Bank (2006).
7. 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

separate those questions for which there is a preliminary answer from those where a lot of research is still necessary.

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 do not analyse 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 2006a) – and in non-OECD ones – as competitors as well as important actors in the development of the private sector in hitherto unexplored markets.

II. PATTERNS AND CHARACTERISTICS

With increased globalisation of operations and complex business strategies, it is harder than ever to assign a nationality as well as define and monitor international operations of a multinational company. At the aggregate level, differences in the way FDI data are collected, defined and reported contribute to explain some of the oddities in global data compilations – in particular, while inward and outward FDI should in principle balance, they rarely do. In 2004, global FDI outflows stood at \$730 billion, whereas the inflows were \$648 billion. At the bilateral level, outflows reported by the investing economies seldom resemble the data provided by the recipient country. The inconsistency in data is further exacerbated by the activities of off-shore financial centres that do not report FDI outflows – for instance according to official data the biggest ‘investing country’ in India is Mauritius.

All such limitations are further magnified in the case of FDI outflows from the South, and for a number of reasons, OFDI statistics for non-OECD countries tend to be patchy and relatively unreliable. Some of these 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 estimates of FDI outflows are considerably smaller than the actual level of flows. Official statistics do not usually include financing and reinvested components of OFDI as well as the capital that is raised abroad (Aykut and Ratha, 2004). Also, they in general only reflect the large investments while excluding small and medium size transactions. In addition, countries with capital controls, exchange controls or high taxes on investment income provide a substantial incentive for underreporting by investors. Conversely, the liberalisation of exchange controls may have resulted in less attention to attracting such data. This problem is exacerbated by lax accounting standards, weak tax administration, and limited administrative capacity in agencies responsible for data collection, that results in private flows being grouped into residual categories (rather than classified by FDI, bond, 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; Pradan (2005) finds the same result for India. Some portion of the estimated \$245 billion capital flight from Russia during the 1992–2002 period is believed to be unrecorded FDI flows (Vahtra and Liuhto, 2004). Wong and Chan (2003) document the substantial under reporting 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 \$53 billion. Similarly, the outward FDI stock of Turkey is estimated at \$15 billion, three times of the official numbers in 2004 (Erdilek, 2005).

II.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 (developing vs. developed countries)? The debate in economics and business studies is largely inconclusive (Goldstein 2006b) and yet most discussions on EMNCs centre on this issue. Some see ownership as a central issue and therefore 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 to assign nationality. Possibly the best-known example is Mittal Steel, *a fortiori* following its attempt to take over Franco-Luxemburgeseo-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 in 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 Officer⁸. 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 reside⁹; 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 invest themselves in other developing countries;
- companies in emerging which 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.
- EMNCs which buy fixed assets from OECD-based MNCs, that receive in turn large stakes in the latter (Lenovo/IBM, TCL/Alcatel, BenQ/Siemens).

II.2. What Are the Trends?

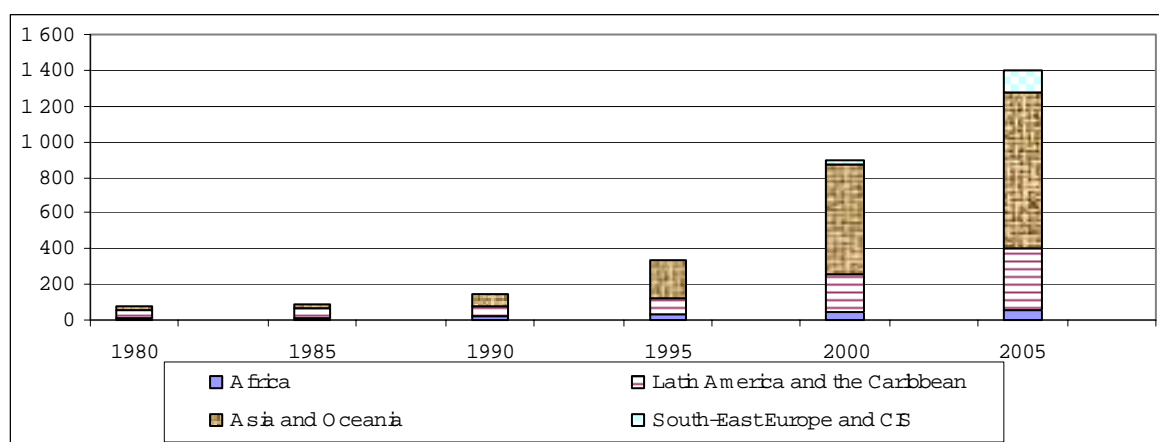
All these caveats, and the fact that year-on-year variance is so large – are very important to consider when examining available aggregate statistics. OFDI stock from developing economies and countries in transition has increased rapidly in recent years, from \$147 billion in

8. 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.

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

1990 to over \$1 trillion in 2004 (see Figure 1). The raise in the absolute value of OFDI flows is equally impressive – from slightly more than \$53 billion in 1992-98 to more than \$85 billion in 1999-2004, with a peak of \$147 billion in 2000. Global FDI flows over this period, however, rose much faster, and as result developing countries’ weight has diminished from 14.7 per cent in 1992-98 to 9.9 per cent in 1999-2004 (approaching 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 stronger investment integration, led by M&As, among OECD economies.

Figure 1. OFDI Stock by Developing Regions, 1980–2005
(billions of US dollars)



Source: UNCTAD (2006), *World Investment Report*.

Developing 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, Taiwan, the Russian Federation and Singapore.

Table 1.0 FDI from selected regions and developing 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, Ilbvo Sugar, Mondi, Steinhoff
Latin America and the Caribbean	59	261	272	11	3.2	
Argentina	6	22	22		0.0	Techint (Textiles and Textiles)
Brazil	41	55	64	9	3.7	Odebrecht, Gerdaul, Embraer
Cayman & Virgin Islands (UK)	2	118	116	-2	0.0	
Chile		14	14		6.5	
Mexico	1	14	16	2	1.3	Cemex, Telcel, America Movil, FEMSA, Grupo Alfa
Asia and Oceania	68	623	718	95	2.9	
West Asia	8	15	15	..	-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, TCL, Lenovo
Hong Kong (China)	12	340	406	66	57.0	Hutchison Wampoa, 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, Famosa
South Asia	..	6	8	2	0.9	
India	..	5	7	2	1.0	Tata, Infosys, Bharat Forges, Ranbaxy, Mahindra & Mahindra, Cipla, ACE Laboratories
South-East Asia	11	107	120	14	5.9	
Malaysia	3	12	14	2	7.7	Petronas, Malaysian Banking, Telekom Malaysia, Hong Leong
Singapore	8	90	101	11	25.4	Singapore Airlines, Neptune Orient Lines, SingTel, Keppel Corp., CapitalLand, 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, Rosal, Gazprom
Developing economies as percentage of world	7.3	10.6	10.6	10.8	..	

* Gross fixed capital formation.

Source: UNCTAD, FDI/TNCs database.

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

Extreme care is particularly important with Chinese data, as FDI enjoys favourable treatment compared to domestic investment, resulting in an incentive to label projects as foreign¹⁰. A significant part of investments pouring in from Taiwan, Hong Kong, and Singapore is round-tripping from China's mainland¹¹. Despite the distortional effect of round-tripping on Chinese FDI statistics, its abuse of government foreign investment attracting measures and the negative consequences for tax revenues, Cross *et al.* (2004) argue that it has brought certain benefits – a sort of second-best practice that has promoted access to international capital markets and has catalyzed the internationalisation of Chinese enterprises. As Athukorala (2006, Table 2.3) shows, another, perhaps even more important, problem with Chinese FDI data has to do with “over-reporting” of inward FDI, a phenomenon that seems to affect flows from other developing Asia countries more than OECD source countries.

The Russian Federation is another major source of South FDI, with a heavy concentration in the natural resources and transportation sectors of the 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 targets to become one of the world's six biggest producers; and it has already completed major acquisitions in two G7 countries (Rouge in the US, 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. Also, the investment flow from (or via) Cyprus to other Eastern European countries is relatively big and a significant share of these “Cypriot” investments is considered to be of Russian origin.

10. In the early years of the 20th 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.

11. 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).

Companies headquartered in other transition economies in Central and Eastern Europe have only recently become outward investors and their foreign presence is gaining momentum, also in Western Europe as a result on the May 2004 EU enlargement, although from a very low basis. The privatisation 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 set cross-border production as early as in the early part of the 20th century and were still dominating the geography of Southern FDI in the 1970s, now account for a much smaller share (11.71 per cent in 1992-98, falling to 10.62 in 1999-2004). Chile, which has the smallest population among the six largest Latin American investors, has been consistently ranked among the top three. 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, and a 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 (along the patterns of what Rugman 2005 calls "regional multinationals") and those that do so globally. Intra-regional FDI has increased significantly since the early 2000s. Reasons for this:

- the wave of retreat of some global MNCs from Latin America since the early 2000s, gave the opportunity to Latin American firms to expand their activities in the region;
- access to oil and gas reserves (Petrobras in Argentina, Bolivia and Venezuela);
- state policy of regional energy integration (PDVSA in Argentina, Brazil, Cuba, etc.).

The trends in South African data reflects the decision of many of the country's traditional 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 go into the rest of Africa after apartheid, and in 2004, it eased foreign exchange restrictions 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, in 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 also being other significant FDI recipients. Many South African firms (ESKOM, MTN, Vodacom, SAB Miller and Anglo Gold) have strong presence in other African countries and outside Africa, though some of them have moved their headquarter outside South Africa. Another fast-rising African MNC is Orascom 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. The "oil money" is also used for FDI in developed countries, including the United States, targeting, for instance, hotels and automotive firms.

II.3. The Geography of EMNCs' Investments

Despite the differences in their institutional characteristics, most EMNCs tend 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 where they have acquired a certain familiarity through trade, or ethnic and cultural ties. Increasing openness to capital and trade – in particular, the progress in privatisation – have provided opportunities in developing countries and played an important role in the recent surge of South–South FDI. 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 Asian countries. EMNCs from Chile, Brazil, and Argentina expanded their operations mainly in other developing countries in the region. Further, South African investments in other developing countries are almost completely in the Southern part of Africa.

Table 2. Selected EMNCs: the Geography of Business (end-2005 data)

	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

Notes:

a = production

b = employees

c = subscribers

d = capital

e = sales

f = March 2006, including Wind

Despite the advantages of intraregional 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).

II.4. In Which Industries?

The discussion so far is about data on aggregate FDI flows. Data on industry/source country distribution of FDI are even more problematic, as for most countries simply tabulation based on investment approval records is available. It is well known that there are vast discrepancies 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 the country. Thus official approval records grossly understate FDI in Thailand.

This said, anecdotal evidence indicates that South-South FDI flows are highly concentrated in the services and extractive sectors as developing country firms have been successfully participating in large privatisation and M&A deals in the sectors. Data on cross-border M&A deals completed by in developing and transition countries in 2004 reveal that in value terms EMNCs accounted for 47 per cent of regional activity in Africa, for 13 per cent in Latin America, 24 per cent in Asia and Oceania, and 25 per cent in South East Europe and CIS (UNCTAD, 2005*a*, Annex table A.II.1). In developing countries, Southern investors accounted, in terms of value, 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).

The progress in the liberalisation of services sector has been an important factor in the recent surge of South-South FDI flows. First, privatisation of state-owned assets in infrastructure sector has provided great opportunities for developing 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 developing countries have emerged as significant investors (Table 3). This has been so particularly since 2001 as local and regional operators and investors have begun to fill the significant gap left by the retreat of some of the traditional international operators from infrastructure projects in the developing world (PPIAF, 2005). Intra-regional South-South FDI in 1990-2003 has been as high as 49 per cent in sub-Saharan Africa and 48 per cent in North Africa and the Middle East (Guislain and Zhen-Wei Qiang, 2006).

Africa and the Middle East, given their relatively low fixed-line penetration and large population, have grown into the world's fastest-growing markets. In sub-Saharan Africa, Vodacom (a joint venture between Telkom and Vodafone of the United Kingdom) and MTN jointly have more than 17 million subscribers outside of South Africa (March 2006). If Orascom 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 US 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, the second- and fourth-largest operators in Uzbekistan, Unitel and Buztel, and Ukraine's fourth-largest operator, Ukrainian Radio Systems (URS). In addition, Altimó (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, Altimó announced its readiness to pay as much as \$3 billion for one of the largest Turkish mobile operators (Vahtra, 2006).

Table 3. Selected Telecom Providers in Emerging Countries (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, Cameroon, 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).

In the oil and gas sector, companies from developing countries, mostly state-owned, have become active cross-border investors. With their exclusive access to the resources, national oil companies from the South are leading players in the market and have expanded their operations globally both in upstream to diversify their portfolio and downstream countries to reach consumers directly (Table 4). For example, Venezuela's PDVSA took over CITGO (USA) in 1989 and has long had investments in refineries in Germany, Belgium, Scotland, UK and Sweden to process its heavy crude. More recently PDVSA has been expanding in Brazil, Argentina, Chile,

and Paraguay. On the back of its strong technical competencies in deep-water exploration, Brazilian Petrobras and Malaysian Petronas invested in more than twenty developing countries in exploration and production projects with. State-owned companies oil companies in high-growth economies, such as China and India, have acquired resource related assets or licenses in other developing countries.

Table 4. Selected Southern Multinationals in the Oil and Gas Sector

Corporation (Home Country)	Ownership	2004 Assets (\$ billion)	Selected Countries of Operation
NPC (China)	State	110.6	Sudan, Venezuela, Kazakhstan, Myanmar, Ecuador, Mauritania, Canada
PEMEX (Mexico)	State	84.1	Argentina
PetroChina (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).

III. MOTIVATIONS AND STRATEGIES

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

III.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 now-incumbent MNCs, remains a relatively neglected topic (Bonaglia *et al.*, 2006). The OLI (ownership/location/internalisation) theory is squarely based on the experiences of large, predominantly Anglo-American, successful international firms that can easily find the resources and the capabilities to expand internationally if they wish to do so¹². On the other hand, when they decide to invest overseas, EMNCs rarely have at hand resources such as proprietary technology, financial capital, brands, and experienced management. They have to internationalize, in new conditions created by globalisation, in order to capture the resources needed. Moreover, for them the luxury of waiting does not seem to exist anymore as protection at home is eroded by market liberalisation, 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 their advantages – a reversal of the traditional perspective.

12. Dunning (1981; 1988) brought together 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 abroad, such as brands or proprietary technologies, bringing greater fire power to bear on their domestic competitors in host markets (the “ownership” advantage). There was the potential advantage of being able to integrate activities across sectors 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).

Utilizing a perspective that focuses on firms' resources in an international setting, Bonaglia *et al.*, (2006) consider internationalisation 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 internationalisation 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 internationalisation.

One interesting facet of the internationalisation of EMNCs is in the way that they use and leverage various kinds of strategic and organisational 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 for instance has evolved rapidly as a worldwide cluster of independent corporate entities (Mathews, 2002). Secondly, they have been able to achieve this accelerated internationalisation not through technological innovation, but through organisational innovations that are well adapted to the circumstances of the emergent global economy. South African retail banks, for instance, are extending so-called *mzansi* accounts, aimed at domestic low-income users, to their African operations, while Illovo Sugar has enjoyed significant success in part due to out-grower schemes which incorporate low- and middle-income farmers and collectives (Goldstein and Pritchard, 2006). Third, they built linkages with incumbents in innovative ways that enable 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 locus in the home country and region, but derive as well from inter-related position in the global and regional value chain (which differs by industry), a classification of EMNC strategies must therefore 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, makes computer monitors and acquired Hynix in Korea to manufacture small-sized flat displays used in mobile phones and other portable devices. This way it sought to improve the efficiency of its core business by exploiting some economies of scale and scope. Tata Steel, on the other hand, took over NatSteel to export its own billets as raw material for the acquired affiliate in Singapore. Similarly, by taking over OGMA in Portugal, Embraer gained a presence in the European MRO (maintenance, repair and operation) market.

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	→

III.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 the business; the industrial and development policies of these countries/regions; and, interrelated, the position of these countries/regions in the international division of labour, including the degree and type of relationship with incumbent MNCs. 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 sketch synthesis of the close connections between patterns of national and regional development and the internationalisation 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 at EMNCs in recent months echo those that became common in the United States and, to a lesser extent, Europe, in the late 1980s (Goldstein, 2006a).

Table 6. Patterns of National and Regional Development and the Internationalisation 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 to play the post-privatisation regulatory game and have become leaner and meaner as suppliers to Western MNCs.
East Asian Tigers	Export-oriented with strong state	Conglomerates (<i>chaebols</i> , Temasek) and contract manufacturers	Innovation capabilities
ASEAN	FDI-driven	Conglomerates (CP Group)	Management of mainland China's insertion into global value chains, <i>Guanxi</i>
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)	SA regional players in services, strong in project execution capabilities that can be deployed in pillage economies, and global ones in mining.
New Europe	EU convergence	Privatised firms, Turkish conglomerates (Koç, Sabanci)	Regional players in telecoms, electricity and gas, retail.
Russia and the CIS	Big bang and crony capitalism	State-owned enterprises (Gazprom) and privatized firms still dependent on Kremlin support (Severstal)	Russian regional players in telecoms and global ones in metals and natural resources.

In the case of Latin American MNCs, the increasing competition due to liberalisation 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 are able to compete on global markets. The car industry, and in particular the manufacturing of parts and components, provides a nice illustration. Most Brazilian and Mexican companies that had grown under import substitution industrialisation 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 set itself in China, again 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 impending protectionist threat from the EU and USA.

The regional agreements that have proliferated around the world in the mid-1990s (World Bank, 2005b) may have also encouraged intraregional trade and investments. Some of these regional arrangements such as 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 repatriation¹³. Some members of the regions maintain bilateral investment agreements and double-taxation treaties. In addition, like 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, 1999). The Thai government actively promotes Thai firms' involvement in infrastructure projects in Mekong countries in the region (UNCTAD, 2005a). In Brazil, the national development bank, BNDES, has created in 2002 a special credit line to support outward FDI, which is granted on the condition that within six years the beneficiary increases its 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 *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 internationalisation 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.

“North” is also increasing becoming an important destination for EMNC investments as they try to expand their markets. EMNCS usually enter these developed markets by acquiring already companies with already 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

13. Other regional arrangements include South Asian Association for Regional Co-operation, Arab South–South among others.

IBM. Haier's attempt to buy Maytag was not only for its brand name, but also for its distribution channel. Compared to other Southern MNCs, Chinese MNCs seems 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 last century. A small but increasing number of investments, mainly from Asia, are being made in R&D to tap technology in a wide range of sectors in developed countries. There is also some indication that strong economic and cultural ties play a role when these companies invest in developed countries. For example, almost all FDI outflows from Latin America to high-income OECD countries went to the US and Spain. Major investment destinations for East Asian investors are Korea and Australia. Further, the UK receives 40 per cent of African – mainly South African – investments to high-income OECD countries.

IV. IMPLICATIONS FOR SOUTH-SOUTH CO-OPERATION

Developing countries see South-South co-operation as “an imperative to complement North-South co-operation 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 co-operation can contribute to overcome the most pressing development challenges. As noted above, “in addition to growing political commitment, the new vibrancy in South-South co-operation 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 the Southern multinationals may have important implications for economic development. Firstly, South-South FDI represents an opportunity for low-income countries. Except in the extractive sector, most Northern multinationals are unlikely to invest in small markets as their location decision is mainly driven by market size (Levy-Yeyati *et al.*, 2002). Whereas southern multinationals 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 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 may represent an opportunity for low-income countries and its development impact becomes particularly important for the World Bank in its supporting poverty reducing efforts.

Secondly, in recent years, South-South FDI 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 temper fluctuation, positively contributing to the economic development of host countries. In fact, following the Argentinean default, while North-South FDI slumped, several assets were bought by Brazilian investors. For example, in May 2002 AmBev, a leading beer and beverages producer, unveiled plans to purchase a one-third share of Argentina's top beer-maker, Quilmes, a deal valued at \$700m. That was the first major foreign investment since the default. That same year Petrobras, the oil company, bought a controlling stake in Perez Companac for some \$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 countries¹⁴. They may for example be able to use more appropriate production processes and source locally available inputs. Moreover, to the extent that a country's absorption capacity is greater with a smaller technological gap between the foreign firm and domestic firms (Durham, 2004), the fact that such gap is smaller in the case of South-South FDI may also be positive.

Early work seemed to support the expectation that EMNCs have a more benign impact on host economies than OECD peers 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 parentage 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 ownership 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, 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 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 the Shandong province in China finds that Korean firms developed many fewer backward linkages with local firms than subsidiaries of US and Hong Kong firms (Park and Lee, 2001). A similar study that examines whether nationality of foreign investors affects the degree of vertical spillovers from FDI in case of Romania indicates that inflows from far away source countries that are not part of the 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 indicates that developing country firms are relatively less integrated in terms of local sourcing (UNIDO, 2006). Distance, agreements and the

14. 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.

duration of the investment among other things affect the share of intermediate inputs sourced by multinationals from a host country and are likely to increase with the distance between the host and the source economy. Given that there is a significant regionalism element in South-South FDI flows (often supported by trade agreements) and the investments are relatively recent, South-South FDI may in some cases have less positive vertical linkages than North-South flows.

Table 7. Multinational Firms' Parentage, Factor Proportions and Spillovers

Paper	Country and Years	Sample	Methodology	Results
Lecraw, 1977	Thailand, unspecified	88, <i>ah hoc</i> survey	Controlled for other firm attributes	TWMNCs are relatively more labour intensive
Wells and Warren, 1979	Indonesia		Compared average factor intensity	TWMNCs are relatively more labour intensive
Busjeet, 1980	EPZs in Mauritius and the Philippines	36, interviews	No matching sample	TWMNCs are relatively 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 parentage and capital intensity are industry-specific
Kabelwa, 2004	Tanzania	128, from IPA files		SA companies have significant potential in terms of technology transfer and spillovers

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 sector has equally been an innovator in extending *mzansi* accounts, aimed a 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 out-grower 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 also 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 SOEs) 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, the 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 makes it likely that it will become 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 specific corporate social responsibility (CSR) initiatives. Such initiatives are less likely to have been implemented by Southern companies, which also may have low environmental and labour standards (Save the Children, 2005). That said, compliance with corporate governance standards by developing countries is increasing, although significant regional and sectoral variations remain (OECD, 2005). In addition, state ownership is much more prominent for MNCs from developing countries. This indicates that considerable amount of South–South FDI may be driven not only 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 home economies for developing countries has not yet been assessed. It will depend on a range of factors, including the sectors and particular operations of MNCs, whether outward FDI is complementary or substitute to domestic production, and the absorptive capacity of home countries for new technologies and know-how acquired abroad. When outward FDI is complementary, as Southern firms increase their profits by expanding and diversifying their markets, the home economy gains from increased economic activities and employment related to FDI projects, and tax revenues. If in the future it becomes a substitute to domestic investment, the impact would not be clear. Surveys report 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 tended to be more profitable than the domestic operations (Yao and He, 2005). Geographic risk diversification and market access can be crucial for some southern firms that are faced 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).

V. CONCLUSIONS

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

Is there anything inherently new in these trends? Certainly the base on which EMNCs grow are different, as the traditional OLI advantages give way to the LLL ones. 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 internationalisation is very different from the one which drove earlier experiences, and which mostly involved export expansion and trade promotion. Otherwise, to the extent that developing-country firms benefit from better connections to international markets, increased productive capacity, and more 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 home countries. Therefore, in developing policy options, proper consideration should be given to maximizing the benefits of OFDI given the costs.

Another contentious issue surrounds the behaviour of EMNCs, their willingness to adopt 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, why? 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 they more likely to enter “conflict zones”, that their presence decrease 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 in fact 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 information, 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*) 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? Are cross-border merger and acquisition strategies undertaken by developed country multinationals can be generalized to emerging market multinationals? In what ways do they compete and collaborate with host country businesses? *ii*) the extent of spillovers from South–South FDI and how these differ from spillovers from North–South FDI.

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