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Internationalization of Firms from Emerging Markets: Location Choice and the Impact of Institutions and State Ownership*

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Introduction

Since its early days in the 1960s, the literature on foreign direct investment (FDI) has always sought to understand and explain observed phenomena (Caves, 1996; Dunning, 1980, 1998). Between the 1960s and 1990s, most actual FDI took the form of the creation of subsidiaries by American firms in Europe, or European firms in America. From the 1970s, investments by Japanese firms in both America and Europe also became significant (Yang et al., 2009). This might all be regarded as ‘north–north’ investments; and the theorizing to explain it focused on ‘ownership advantages’ (Dunning, 1980) of source firms, often based around technology or brands, or firm specific advantages (Rugman, 1982) that can be developed by careful corporate strategy. Even in this period, of course, there was also FDI, for example, between firms based in developed and less developed economies – ‘north–south’ investments – to exploit natural resources; captured by Dunning as resource seeking as a motivation for FDI (Dunning, 1980). However, the period between 1990 and 2008 saw increasing movements of FDI between developed and developing countries and for motives including efficiency seeking and market seeking. This was the era of emphasis on ‘emerging markets’, where growth and development was seen to be concentrated in a small group of countries termed the BRICs (Brazil, Russia, India, China) by Goldman Sachs economist Jim O’Neill (O’Neill, 2012).

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In 2010, the flows of FDI to developing economies for the first time exceeded the flows to developed economies. The FDI literature shifted from issues of ownership and internalization advantages towards also analysing in-depth location issues, in particular questions of institutional quality and risk (e.g. Habib and Zwawick, 2002; Khanna and Palepu, 2000; Khanna and Rivkin, 2001; Meyer et al., 2009).

In recent years, the pattern of FDI has begun to shift once again to reflect the increasing levels of wealth and maturity in emerging markets. We are now beginning to see yet another form of FDI influencing the literature, namely investment flows by companies domiciled within developing economies. These flows are both south–north and south–south; for example, widely reported activities by Chinese multinationals in African countries related to their needs for secure supplies of raw materials. In the same way that previous major shifts in the form of FDI have influenced the literature, it seems likely that these changes will impact greatly on our understanding of the FDI process and this is already reflected in the literature (e.g. Cuervo-Cazurra and Genc, 2008; Yiu, Lau, and Bruton, 2007). While the scale of FDI from emerging markets remains relatively small in comparison with north–north and north–south investments, it is very fast growing (UNCTAD, 2011) and likely to become increasingly significant over time as the BRICs and other emerging markets play an increasing role in the international division of labour (O’Neill, 2012).

There are many ways that the emphasis of research might change in response to this shifting FDI pattern, but I will focus only on two. The first concerns the global strategies of emerging market multinationals. Clearly, north–north and north–south FDI can be understood using traditional tools; for example, resource-seeking, market-seeking and efficiency-seeking motives. Emerging market multinationals may have resource-seeking motives, as noted already, but the latter two motives at first sight seem less convincing. These firms already operate in economies that are amongst the largest and fastest growing in the world. Moreover their growth has been driven to a significant extent by the exploitation of cost advantages, notably labour costs, which cannot easily be replicated in developed economy host environments. Indeed the fundamentals of the eclectic paradigm might be brought into question when one thinks about emerging market multinationals, because their ownership advantages for a global economy are not as clearly delineated in the technologies, brands, distribution networks and other intangible assets that can explain how developed economy multinationals have overcome the ‘liability of foreignness’ (Zaheer, 1995).

A second issue raised by the growth of south–north FDI is the role of home country characteristics in the internationalization process. Until now, this has been a less important issue for the literature because the variation in source

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