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THE PROMOTION OF OUTWARD FOREIGN DIRECT INVESTMENT:
A COMPARATIVE POLICY ANALYSIS OF BRIC COUNTRIES

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ABSTRACT

This dissertation has sought to identify the role of BRIC country governments in the internationalization of their firms. Drawing upon an exploratory comparative analysis of BRIC OFDI trends and policies, it contributes to further an initial understanding of this phenomenon by shedding light on how and why BRIC governments have been promoting their multinationals. For this, it analysed specific OFDI-related policies implemented by BRIC countries as a way of highlighting policy-gaps and the effects of institutional set-ups in the development of internationalized companies.

The rapid rise of MNCs from BRIC countries is quite a recent phenomenon. Although they had invested abroad before, only since the early 2000s OFDI by BRIC MNCs has become substantial. BRIC MNCs are becoming major players in many industries, taking-over competitors in both developed and developing countries, and reshaping competition in many industries.

In this process, BRIC governments have played an important role. While until the early 1990s, BRIC governments restricted OFDI because of a negative perspective on its effects on home economies (e.g., reduction in investments at home, exports of jobs, and constraints to the balance-of-payments), in the 2000s their perception of OFDI changed. They have become more aware of the importance of OFDI for the competitiveness of their firms and industrial upgrade. While China, and to a lesser extent India, are one step further, having already put in place a comprehensive set of specific OFDI promoting policies, Brazil and Russia have yet to take further steps in order to create an enabling environment for their companies to fully exploit the advantages of global expansion.

Key words: Foreign Direct Investment – BRIC – OFDI Policies – Bilateral Investment Treaties (BITs) – Double Taxation Treaties (DTTs) – Emerging Country Multinationals – BRIC Multinationals – Political Risk Insurance

RESUMO

Esta dissertação procurou identificar o papel dos governos na internacionalização produtiva de empresas dos países BRIC. Por meio de uma análise comparativa do comportamento dos investimentos diretos no exterior (IDE) destes países e dos mecanismos existentes de suporte à internacionalização das empresas, foi possível identificar as diferentes maneiras de envolvimento desses governos na internacionalização produtiva de suas empresas e apontar lacunas de políticas públicas nestes países. Destarte, esta dissertação contribui à compreensão inicial sobre como e por que os governos destes países têm promovido o desenvolvimento de multinacionais.

A rápida ascensão das multinacionais dos países BRIC é um fenômeno recente. Apesar de terem investido no exterior anteriormente, apenas a partir do início dos anos 2000 que o IDE de empresas destes países tornou-se significativo. Desde então, as multinacionais dos países BRIC estão se tornando importantes *players* em diversas indústrias, adquirindo competidores de países desenvolvidos e em desenvolvimento, e redesenhando a concorrência em muitas indústrias globais.

Neste processo, os governos dos países BRIC têm desempenhado um papel importante. Até o início dos anos 1990, o IDE era restringido porque era associado a efeitos negativos sobre as economias domésticas (como por exemplo, à redução de investimentos no país de origem, à exportação de empregos, e a problemas na balança de pagamentos). Desde o início dos anos 2000, entretanto, os governos dos países BRIC mudaram de percepção e passaram a adotar políticas favoráveis à internacionalização produtiva de empresas domésticas. Eles perceberam a importância da internacionalização para a manutenção ou expansão da competitividade das empresas domésticas em um mundo globalizado. A China, e em menor grau a Índia, estão um passo adiante, tendo já posto em prática um conjunto de instrumentos específicos que facilitam a internacionalização de suas empresas. O Brasil e a Rússia ainda têm de tomar novas medidas para criar um ambiente propício para que suas empresas possam mais facilmente explorar as vantagens da expansão global.

Palavras-chave: Investimento direto no exterior – BRIC – multinacionais de países emergentes - Tratados Bilaterais de Investimento – Acordos de Dupla Tributação – seguro de risco politico**.**

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LIST OF ABBREVIATIONS

(I)	Internalization-specific advantages
(L)	Location-specific advantages
(O)	Ownership advantages
(Oa)	Asset-specific ownership advantages
(Oi)	Institutional assets ownership advantages
(Ot)	Transaction costs-minimizing ownership advantages
ALADI	Latin American Integration Association
APEX	Brazilian Trade and Investment Promotion Agency
ASEAN	Association of Southeast Asian Nations
BCG	Boston Consulting Group
BIT	Bilateral Investment Treaty
BNDES	Brazilian National Development Bank
BOP	Balance of Payments
BRIC	Brazil, Russia, India and China
CAGR	Compound Annual Growth Rate
CAMEX	Chamber of Foreign Commerce
CCP	China's Communist Party
CDB	Chinese Development Bank
CIC	China Investment Corporation
CIS	Commonwealth Independent States
CMN	National Monetary Council
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
CSA	Country-Specific Assets
DPR	Department for Trade and Investment Promotion
DTT	Double Taxation Treaty
ECGC	Export Credit Guarantee Corporation
EMNC	Emerging (Developing) Country Multinational
EU	European Union
FDI	Foreign Direct Investment
FSA	Firm-Specific Assets
FX	Foreign Exchange
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
HOS	Hecksher-Ohlin-Samuelson
ICBC	Industrial and Commercial Bank of China
ICT	Information and Communication Technology
IDP	Investment Development Path
IFDI	Inward Foreign Direct Investment
IMEMO	Institute of World Economy and International Relations
IOC	Indian Oil Corporation
IPA	Investment Promotion Agency
IPO	Initial Public Offering
IWG	International Working Group on Sovereign Wealth Funds
M&A	Merger & Acquisition
MCTF	Floating Exchange Rate Market
MCTL	Free Exchange Rate Market
MFTEC	Ministry of Foreign Trade and Economic Cooperation

MIGA	Multilateral Investment Guarantee Agency
MIT	Massachusetts Institute of Technology
MNC	Multinational Corporations
MOF	Ministry of Finance
MOFCOM	Ministry of Commerce
MOFERT	Ministry of Foreign Economic Relations and Trade
NOIP	Net Outward Investment Position
NPC	Chinese National Planning Commission
OECD	Organization for Economic Co-operation and Development
OFDI	Outward Foreign Direct Investment
OLI	Ownership, Location and Internalization
ONGC	Oil and Natural Gas Corporation
PDC	Productive Development Programme
PRI	Political Risk Insurance
R&D	Research & Development
RBI	Reserve Bank of India
RMCCI	International Capital and Foreign Exchange Market Regulation
SAFE	State Administration of Foreign Exchange
SAIC	Shanghai Automotive Industry Corporation
SASAC	State Assets Supervision and Administration Commission
SDRC	State Development and Reform Commission
SEC	Securities Exchange Commission
SME	Small and Medium Enterprise
SOE	State-Owned Enterprises
SWF	Sovereign Wealth Fund
TNC	Transnational Corporation
TNI	Transnationality Index
TRIP	Trade-Related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
VCC	Vale Columbia Centre
WTO	World Trade Organization

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I INTRODUCTION

Until recently, developing countries were mainly viewed as recipients of foreign direct investments (FDI)[1] from developed economies. As developing countries started to open up their economies in the late 1980s and early 1990s, FDI flowing into them substantially increased. In spite of rougher competition brought by foreign firms, some developing country firms have managed to catch up with their foreign counterparts and have gained leading positions in their industries.

In recent years, developing economies have actually become an important source of outward FDI (OFDI), having augmented their participation in world OFDI flows from an average around 8% between 1990 and 1992 when OFDI flows started to grow, to an average around 16% in the 2007-2009 period[2]. Most striking is that the growth of OFDI flows from developing economies has outpaced the growth of OFDI from developed economies. Since 2003, OFDI flows from developing economies have risen at a compound annual growth rate (CAGR) around 30% and its capital invested abroad at a CAGR of around 19% (UNCTAD, 2006).

Among the developing economies going through this process, Brazil, Russia, India and China (BRIC) have drawn much attention since the acronym first appeared (Goldman Sachs, 2001). In 2010, their economies represented the 2nd (China), 7th (Brazil), 10th (India) and 11th (Russia) largest economies in the world according to the International Monetary Fund (IMF)[3]. Despite such large economies, BRIC firms have just recently intensified their internationalization. Hence, BRIC OFDI flows increased substantially since 2002. This year, BRIC responded for only 1.9% of world OFDI flows. Together they also responded for around 18% of capital invested abroad from developing economies in 2002 and around 2% of world capital invested abroad. In 2009, these figures had gone up to around 26% and 3.75% respectively. In 2009, BRIC OFDI flows accounted for roughly 9% of world OFDI flows. Between 2003 and 2009, BRIC capital invested abroad have roughly grown at an annual compounded rate of 25%, reaching USD 713 billion in 2009[4].

[1] For definition of specific terms, please see the glossary at the end of this dissertation.
[2] UNCTAD FDI database
[3] IMF datamapper, US$ nominal terms
[4] UNCTAD FDI database
[5] Coase, R. H. (1937) 'The nature of the firm', *Economica n°4,* pp. 386-405.
[6] Williamson, O. E. (1975) '*Markets and hierarchies: analysis and anti-trust implication.* New York:

Although often put together, BRIC outward investment profiles are not entirely similar, as will be seen in chapter 3. Nevertheless, what is common to them is their recent intensification of outward investment and some similarities in regards to BRIC firms' motivation to go abroad (Sauvant, 2005; Holtbrügge and Kreppel, 2008; Aykut and Goldstein, 2006). Moreover, they are increasingly investing in both developing and developed economies, and in some of them governments have started to actively support this movement.

This last point may seem normal for developed countries, which have long liberalized OFDI policies (Sauvant, 2005), but represents perhaps an watershed point in the political scene of most of the developing countries. Apart from some Asian countries (e.g. Malaysia, Singapore and Philippines) that liberalized OFDI policies in the 1960s and 1970s, and established OFDI supporting programs, only recently developing economies have recognized the benefits of OFDI for their companies and economies (Rasiah et al., 2010; Goh and Wong, 2010; Sauvant, 2005; Arbix et al., 2004; UNCTAD, 2006). Although the deregulation of capital controls in the 1990s opened the way for investments abroad by developing country firms, most governments were still reluctant to endorse such movements.

Among the BRIC, China has put in place an active supporting program: the Go Global policy (Luo et al., 2010). Brazil is another country that has put in place some measures to encourage OFDI, although it has not yet established a formal policy (Alem and Cavalcanti, 2005; Sennes and Mendes, 2010; Sauvant, 2005). India has also relieved restrictions in the early 2000s and has supported the internationalization of its firms (Pradhan, 2008; Kumar and Chadha, 2009; Prasad, 2009). Russia, like Brazil, does not have an explicit policy towards OFDI, although since the Puttin administration (1999-2008) it has intensified its influence on the matter (Sauvant, 2005; Filippov, 2010; Kalotay and Sulstarova, 2010). This new context shows that BRIC governments have paid more attention to the importance of the internationalization of their firms. No single model has been pursued, and instruments used to promote OFDI differ considerably across BRIC.

To this point, most of the FDI-related literature focused on explaining investment between rich countries, or from developed economies to developing ones, and on the benefits of FDI to the host-economies. The early economic models did not predict that developing economies would become sources of OFDI, and especially that it would reach such magnitude. Although

OFDI from developing economies is not a new phenomenon, only recently this phenomenon has gained more attention from scholars (Chudnovsky and Lopez, 2000; Aykut and Goldstein, 2006; Goldstein, 2007; Mathews, 2006; Luo and Tung, 2007; Khanna and Palepu, 2004; Van Agtmael, 2007). Before, only a few pioneering studies had focused on the subject (Wells, 1983; Lall, 1983; Lecraw, 1977).

The early work of scholars focused on the first wave of OFDI from developing economies. The first wave occurred in the 1960s and 1970s when mainly Latin American firms started to invest in their neighbouring countries in an early market-and-efficiency-seeking approach. A second wave took place in the 1980s, and was mainly dominated by newly industrialized Asian countries that begun to invest in other developing countries in search for resources and market. Recently, some authors have argued that a third wave of OFDI from developing countries, notably the BRIC, is taking place since early 2000s (Chudnovsky and Lopez, 2000; Gammeltoft, 2008).

This is more geographically distributed as Latin American firms are investing abroad again, CIS countries' firms have initiated, Asian firms have continued, and the magnitude of developing country OFDI has consistently increased. But the distinctive feature has been the substantial increase in OFDI into developed countries as a result of technological and other asset-seeking investments by developing country multinationals (EMNCs). The main characteristics of the three OFDI waves from developing countries are described in Table 1.

In spite of this, few studies have drawn attention to home government measures supporting the internationalization of domestic firms. To this point, most of the policy-oriented research has concentrated on host-country conditions attracting FDI and how developing economies governments could foster measures to boost FDI inflows into their economies. There is still lack of understanding of the role of home governments in promoting OFDI from developing countries. Yet, nowadays, governments have started to actively support its firms to invest abroad.

Table 1 - OFDI waves from developing economies

	First	Second	Third
Period	1960s to mid-1980s	Late 1980s to mid-1990s	Since the late 1990s
Outward investing regions/ countries	Especially Latin America	Especially Asia	More geographically diverse country origins Resurgence of Latin America Rising flows from Russia and South Africa
Large outward investors	Brazil, Argentina, Singapore, Malaysia, Venezuela, Philippines, Hong Kong, Korea, Colombia, Mexico, and India	Hong Kong, China, Taiwan, Singapore, South Korea, Brazil, and Malaysia	Hong Kong, Taiwan, Singapore, Brazil, South Africa, China, Korea, Malaysia, Argentina, Russia, Chile, Mexico, and India
Destinations	Mainly other developing countries in same region	Mainly developing countries, but also to more distant locations, including developed economies	Increasingly global with knowledge-intensive activities spreading to developed economies
Types of OFDI	Primary sector small-scale manufacturing	Into developing: primary sector, difficult-to-trade services (finance, infrastructure) into developed: mature, cost-competitive industries (automotives, electronics, and IT services), asset-augmenting investments	As second wave, but with more going into developed economies
Structure	Mainly horizontal	Horizontal and vertical	Horizontal, vertical, and integrated
Ownership advantages	Home country specific Low cost inputs, production process capabilities, networks and relationships (e.g. ethnic), organizational structure (e.g. conglomerates), "appropriate" technology, business models, and management	Home country and firm specific Same as in first wave	Home country and firm specific Now also: economies of scale technological, managerial, and organizational capabilities, vertical control over factor/ product markets
Motivations	Resource and market seeking	Into developing: resource and market seeking, into developed: market and asset seeking	As in second wave, but increase in asset seeking
	Asset exploitation	Asset exploitation minor asset augmentation	Also asset augmentation, market power enhancing (especially natural resource related)
Trade orientation	Import substitution	Export orientation	Globalization
Ownership policy	Regulated FDI	Coordinated and facilitated FDI	Promoted FDI

Source: Rasiah et al., 2010.

Apart from companies, Sovereign Wealth Fund (SWFs) from both developed and developing countries have also emerged as a conduit for OFDI. Although SWFs are more likely to undertake portfolio investments, OFDI by SWFs has substantially increased since 2005 (UNCTAD, 2010, p.14). The growing importance of SWFs as direct outward investors has raised political concerns, notably in developed countries. It is argued that SWFs can be a threat to national security of host countries, as they might be politically motivated to advance a country's foreign policy by acquiring strategic assets in host markets (UNCTAD, 2010, p.15). Among BRIC, Brazil, Russia and China have established their SWFs. India is considering the creation of one. A brief discussion on BRIC SWFs is presented in chapter 4.

Understanding these transformations and identifying the instruments used by governments to support the international insertion of their domestic firms is crucial for policy-makers to design effective ways of promoting OFDI, as well as it is for private managers to explore how these measures may affect their companies competitive environment. In addition, to benefit from OFDI, developing countries need to pursue adequate outward investment policies (UNCTAD, 1995; Battat and Aykut, 2005). As indicated in UNCTAD (1995) report, there is no "one-size-fits-all" approach, and governments need to design specific policies that comply with their long-term goals and competences, industrial structure and comparative advantages.

In this sense, this dissertation seeks to compare OFDI policies implemented by BRIC countries as a way of highlighting policy-gaps and the effects of institutional set-ups in the development of internationalized companies. Drawing upon a comparative analysis of BRIC countries, it contributes to the understanding of this phenomenon by shedding light on how and why BRIC governments have been promoting their MNCs, and under which conditions they have moved towards an OFDI-friendly orientation. Further understanding of the role of governments in spurring developing market firms is needed to assist policy-makers in developing economies develop more adequate OFDI policies.

This dissertation intends to identify how different is BRIC governments involvement in the internationalization of their domestic firms and what are their objectives related to OFDI polices. To shed light on these issues, the following questions are addressed:

1. What has been the role of the state in the internationalization of BRIC firms since the early 1990s?
2. What has been the motivation behind BRIC policies towards OFDI?

By comparing the motivations and policy-orientation deployed by BRIC governments to support their firms' internationalization, this dissertation contributes to further the understanding on how Brazilian and other developing market public officers can improve the business environment for their firms to compete globally in equal or better footing against their peers, and how these instruments can best be used to achieve objectives of long-term economic competitiveness of the country.

1.1 Considerations on the methodology

This research project follows a qualitative comparative analysis (Hancké, 2009) method, in which cases are selected to help achieve a sound answer for the asked question. Hence, this dissertation closely looks at the experiences of the four BRIC countries in order to gain a preliminary understanding of the importance of developing country governments to the development of their enterprises abroad. These four countries were chosen due to their increasing importance in world OFDI flows and stocks, but also due to their recent change in government's orientation towards OFDI.

In order to identify what are the motivations behind BRIC OFDI policies and how much involved their governments are in the internationalization of their domestic firms, this dissertation looks for evidence in regulations, in OFDI statistics provided by UNCTAD, in the literature, in governments and public institutions websites, in public authorities speeches, and in the financial press. In order to better analyse the cases, this dissertation has created a framework of analysis based on previous literature (UNCTAD, 1995; Rasiah et al., 2010; Luo et al., 2010; Alem and Cavalcanti, 2005).

It begins by analysing the main trends and motivations driving OFDI by BRIC MNCs. This is achieved through OFDI and M&A data analysis, literature review, and illustrative examples of BRIC MNCs. This is further contrasted with OFDI policies implemented by BRIC governments, as evidenced by regulations and speeches by government officials.

To further the understanding of involvement of BRIC governments in the internationalization of domestic firms, this dissertation conducts a comparative analysis of historical changes in regulations and policies, and of current OFDI policies in place in these countries. Essentially, the range of policies goes from restrictive, permissive and proactive. Current OFDI policies are clustered into three broad categories (Table 2): financial and fiscal support, information and technical assistance, investment protection (UNCTAD, 1995).

As an indicator of financial and fiscal support, this dissertation uses credit provided by public institutions for internationalization of domestic firms and double taxation treaties (DTTs). For information and technical assistance, the indicators are related to the provision of the following services by public agencies: general information on host country FDI environment, matchmaking services, business promoting missions, business intelligence support, support with local contacts, among others. As indicators for investment protection, there are both the number of bilateral investment treaties (BITs) and the provision of political risk insurance by state agencies (PRI).

Table 2 - OFDI supporting instruments for analysis

Types of instruments	Instruments	Explanations
Information and technical assistance	General information	Country investment guides: legal and administrative framework, information about home and host country support, host country macroeconomic and business conditions, host market opportunities
	Matchmaking	OFDI projects database, local partners search and introductions
	Project development and start-up assistance	Assistance in finding financing, in preparing legal documents, in complying with host country rules, and contacts with host country consulting, legal and accounting services
	Business promoting missions	Investment missions, trade fairs, and seminars
	Business intelligence support	Feasibility and market studies, industry reports, distribution and logistics support planning, among others
Financial and fiscal	Loans/Credit support	Credit support for equity investment abroad
	Equity support	Equity investment for supporting the internationalization of firms
	Double taxation treaties (DTTs)	The number of DTTs by state agencies
	Tax subisidies	The existence of subsidies supporting the internationalization of domestic firms
Investment protection	Bilateral Investment treaties (BITs)	The number of BITs signed and ratified per country
	Political risk insurance (PRI)	The provision of PRI by state agencies

Source: author

1.2 Organization of the study

The second chapter contains the relevant literature review. The first section of the literature review explores the main models explaining FDI: Hymer (1960, published in 1976) ownership specific advantages model; the product lifecycle (Vernon, 1966); the OLI or Eclectic paradigm (Dunning, 1977); the risk diversification hypothesis (Rugman, 1975); the Uppsala model (Johanson and Vahlne, 1977); Kojima's (1973) extensions of the Flying Geese model (Akamatsu, 1935); and the International Development Path (IDP) (Dunning and Narula, 1996).

The second section of the literature review explores the advancements on FDI models in light of the emergence of developing country multinationals (EMNCs). Essentially, it reviews the earlier explanations of EMNCs advanced by Wells (1983), Lall (1983), Lecraw (1977), and the most recent ones by Mathews (2006), Luo and Tung (2007) and Khanna and Palepu (2004).

The third section of the literature review deals with the debate on how beneficial is OFDI to the home economy, drawing on existing empirical studies to support the theoretical debate (UNCTAD, 1995; Lipsey, 2002; Globerman and Shapiro, 2008; Moran, 2008; Kokko, 2006; Navaretti and Venables, 2004; Arbix et al., 2004).

Chapter 3 explores the trends and patterns of OFDI by BRIC MNCs, including their destinations, entry-modes, main investors and motivations. For this, both quantitative data provided by Central Banks, UNCTAD and research centres, and extant studies from both domestic and international researchers are used. This serves as a departing point to analyse governments' motivations to support the internationalization of their firms.

Chapter 4 discusses the role of the state in the development of BRIC MNCs. It looks into the historical changes in outward policies of BRIC countries, and how these policies have influenced OFDI patterns. Moreover, it discusses their current policies towards OFDI, and compares what kind of policies these countries have put in place to assist their domestic companies.

The final chapter presents the conclusions and limitations of the study, and puts forward recommendations for future research.

II Literature Review

2.1 Models of Foreign Direct Investment

The post industrial revolution era has had two intense periods of globalization: a) 1850 – 1914 when the falling transportation costs and migration led to a convergence between Western economies at the time (Williamson, 1998); b) from 1960 on, when the liberalization of international trade, the changes in the international monetary system and also the falling transportation and communication costs have led to rapid rise in: i) international trade (Crafts and Venables, 2001); ii) in FDI, especially after 1984; iii) global financial integration (Baldwin and Martin, 1999).

Nested in the second globalization wave, several models on firms' internationalization emerged. These focused on explaining cross-border investment flows from one developed economy to another (from the US to Western Europe, and vice-versa), which dominated the FDI environment in the post-war period. In the 1970s and 1990s, scholars' attention also turned to the internationalization of advanced country firms into developing economies. With both investment flows (North-to-North and North-to-South) in mind, scholars' focused on explaining why companies would invest abroad and what capabilities they were able to leverage internationally in order to compete with indigenous companies in the local markets. Drawing upon the rising American MNCs, the most prominent models were advanced by Hymer (1960, published in 1976), the ownership market power, and by Vernon (1966), the product lifecycle explanations.

Since then, other models centred on OECD firms have been developed in order to explain why and how firms internationalize, of which two streams stand out: i) the evolutionary perspective, notably the Uppsala school, which stresses that a firm's increasing levels of resource commitment to foreign markets derives from the evolution of its organizational learning and accumulation of experience, following a process that starts with an arm's length commitment to international market (Johanson and Valhne, 1977); ii) the economical perspective, which builds on both transaction costs economics and international trade theory to explain foreign activities of MNCs.

Among the scholars focusing on economic reasons to internationalization, Kojima (1973) sought to explain a country's propensity to engage in foreign production based on extensions of international trade theory; Buckley and Casson (1976, 2003), Buckley (1990), and Rugman (1981, 2009), building on transaction costs economics, argued that a firm's internationalization is based on its need to operate in the market for intermediate products on an multi-country level; Dunning (1980) builds on earlier models to create a general framework that intends to explain the multinational firm development according to three economic reasons: ownership-specific advantages, location-specific advantages and internalization-specific advantages. Since then, Dunning has refined his work to incorporate recent evolution of the modern MNC, and to explain the pattern of inward and outward FDI in a country at different development stages (Dunning and Narula, 2000).

Most of these models addressed developed country MNCs since at the time there was almost no FDI from developing country firms. When the first wave of outward investments from developing countries occurred in the 1970s and early 1980s, scholars recurred to the existing models of the MNC. The early studies on EMNCs focused on the differences between the new South-to-South flows and the traditional North-to-North and North-to-South investment flows (Wells, 1983; Lecraw, 1977; Lall, 1983). Nevertheless, as Wells (2009:24) stated, much of the work was embedded in the broad political agenda and little attention was given to how "third-world MNCs" actually fit the general models of "multinationalization".

Recently, with global integration and increasing participation of developing economies in world FDI flows during the 1990s and 2000s, scholars have once again given attention to developing country MNCs. As these firms sometimes pursue different internationalization strategies (Agtmael, 2007), and their investments pattern often deviates from its developed country counterparts, as well as the institutional context in which they occur, some scholars have argued that the existing models, though valid, may not be the most appropriate to fully capture the essence of rising EMNCs (Matthews, 2006; Luo and Tung, 2007; Rasiah *et al.*, 2010).

On the other hand, others remain sceptical that new models are needed to explain developing economy MNCs (Rugman 2009; Narula, 2006). In fact, although most scholars recognize the need for adaptations, there seems to be a large consensus that existing models still provide a

reasonable framework for understanding the emergence of developing market MNCs and their strategies to compete in world markets.

2.1.1 Hymer's model of oligopolistic market power

With the surge of FDI from American MNCs in the post-war period, the existing models used to explain all kinds of international investment flows – notably the international portfolio model – became more and more inadequate to explain cross-border investments in production abroad (Buckley, 2011; Dunning and Rugman, 1985). Hymer's (1960, published in 1976) dissatisfaction with the model is due to its lack of explanatory power when risks and other structural transaction costs were incorporated to the model, denoting that these market imperfections actually changed the strategies of firms servicing foreign markets. Based on the industrial organizational model, he shifted the focus of models from states to firms (Dunning and Lundan, 2008: 84).

Under financial market imperfections, insufficient information, risks and uncertainty, and an oligopolistic industrial structure, the MNC would prevail over international trade between firms, because by internalizing the functions of commercial partners the MNC can reduce uncertainty, improve resource efficiency and mainly reduce competition (Hymer, 1968). According to Hymer (1970), "multinationals are a substitute for the market as a method of organizing international exchange". By integrating internationally or expanding abroad, companies were able to reduce competition in industries facing entry barriers that sustained local monopolies, and thus internalize the pecuniary externalities that this sort of competition created.

Hymer (1968) argues that direct investments in production distinguish greatly of mere international financial transfers. They involve, besides financial capital, a package of resources such as technology, organizational capabilities, and management skills. Most importantly, he argues that FDI does not involve the transfer of ownership of resources, neither property rights. Through FDI, firms can engage in foreign activities while controlling the use of property rights (and increasing market power), whereas this is not possible through portfolio investments or other forms of operation, such as licensing. This distinction in terms of control in the modes of operation places Hymer as the founder of modern theory of the MNC (Dunning and Lundan, 2008: 84).

Hymer's seminal model of the MNC postulates that for firms to engage in FDI they need to rely on ownership-specific advantages that host country indigenous firms do not possess, and that these advantages have to be capable of overcoming the liabilities of foreignness, such as lack of knowledge of local customs, laws and norms, language differences, and exchange rate fluctuations. He argues that firms would expand abroad to exploit their proprietary or monopolistic power, which refers to advantages arising from the ownership of patents, brands, production and management skills. In this sense, the MNC is a product of market structural imperfections, which enables them to derive monopolistic power from their ability to transfer ownership-specific advantages (e.g., patents, brands, management and production skills) abroad that host country firms do not possess without loosing control over them, as could be the case under licensing agreements for instance.

However, as Dunning and Rugman (1985) note, by overly focusing on the MNC desire to advance its monopolistic power and, thus, "separate markets and prevent competition", Hymer failed to acknowledge other forms of transaction costs influencing this process. Notably, he missed that MNCs might substitute markets for efficiency reasons, such as reducing costs, improving product quality and fostering long-term competitiveness, and as well increase their market power due to their "ability to use internal markets across nations".

Only in his 1968 article, he briefly incorporates these ideas and recognizes that MNCs could improve international allocation of resources by circumventing market failures. Dunning and Rugman (1985), however, observe that he paid little attention to location-bound advantages of the MNC that influences the process of FDI, and that his model fails to explain the presence of MNCs in highly competitive industries. Nevertheless, his seminal work based on industrial organization and market imperfections, and his later contributions helped shape the internalization models of the MNC that were later developed. As Dunning and Lundan (2008: 85) note, after Hymer (1960, published in 1976), scholars went on looking for what kind of ownership-specific advantages MNCs had. As Dunning and Rugman (1985) clarify, only after Hymer (1960, published in 1976) that it became clear that FDI was much more related to the transfer of knowledge and ownership-specific assets than financial capital flows.

2.1.2 Vernon's model of the product lifecycle

Vernon (1966) takes a quite different approach. Drawing upon the microeconomic model of the product cycle and newer trade models available in the early post-war period, he develops his model of the MNC as an evolution of technological leadership, productivity differentials and industry maturity levels. He argues that not only factor endowments influence the propensity of a country to engage in international trade activities, but also the capability of its firms to leverage its assets and develop new ones, notably technologies. He claims that the structure and pattern of home-country institutions, factor endowments and markets, in addition to the entrepreneurial spirit of firms, contributes to create competitive advantages (Porter, 1980) that firms need to compete in international markets.

Vernon develops his model based on the American MNC and the American economy of the time, which were marked by high unit labour costs and high-income levels. He argues that effective communication between the demand and the supplier is a driver for spurring innovations in certain products that either serve high-income individuals or that substitute capital for labour. Producers would be willing to undertake the risks of product development due to unmet needs of customers and the associated earlier monopoly benefits they gain from being the first movers. He asserts that production serving the domestic market initially locates near its innovation activities and/or markets, and not necessarily the lowest cost location, notably due to the need of production flexibility for adjustments and a swift and easy communication between the demand and the supplier.

As demand for the product grows, some sort of standardization is desirable and the previous locational advantages become less important (e.g., flexibility declines). Standardization and long-term commitment encourages the search for economies of scale to reduce costs, even though competitors might still not be able to fully imitate production. Thus, suppliers start to serve foreign markets similar to their home market. However, as competitors enter the market, leading to more price-elastic demand, as foreign markets expand, and as labour-related cost efficiency becomes increasingly important, suppliers are pressured to locate production abroad to serve foreign markets. Hence, it is when the product and technologies reach maturity that companies move to low-cost locations. Eventually, in the decline stage, these foreign production units start to export to third countries, and back to the home country. Vernon (1966) also argues that other forces threating the *status quo* accelerate this process,

such as trade barriers and/or the possibility of local entrepreneurs setting up production units in target markets.

However, as Vernon (1979) recognizes later on, the explanatory power of his model became less satisfactory in the view of the increasing global reach of MNCs involved in production of new products, and in face of reducing differences between the American economy and other advanced industrialized countries. The prevailing different conditions in the early post-war period are no longer the same, two to three decades later, in both market size and factor cost configuration terms. As Dunning and Lundan (2008: 86) highlight, his model did not explain other FDI motivations, such as efficiency-seeking and asset-seeking. Fleury and Fleury (2011: 71) also note the product cycle failed to explain the internationalization of Swedish firms, which were obliged to internationalize earlier due to the small domestic market.

Nonetheless, although recognizing its hypothesis limits, Vernon (1979) argues that the product lifecycle model of the MNC is probably still valid for small innovative firms. However, these firms might not be able to sustain innovation lead for long time because the speed of imitation and capacity of local innovators to come up with similar products are higher due to similar home conditions in other countries.

Vernon (1979) also argues that firms from rapidly industrializing countries possibly follow the lifecycle hypothesis, exploiting markets in less developed countries, pointing to Wells (1983) as an early evidence of this movement. But Vernon recognizes that, at that time, these investments had much more to do with oligopolistic power than with technological leadership. His model also does not explain direct investments from developing countries into developed economies, as they lack technological firm-specific advantages enabling them to compete in such markets. Nevertheless, his evolutionary model, linking international trade and foreign production, together with Hymer's industrial organization approach, helped build additional models of the MNC (Dunning and Lundan, 2008: 87).

2.1.3 The internalization model of the MNC

The internalization model of the MNC basically asserts that a company internalizes imperfect markets for intermediate products whenever this represents a favourable cost opportunity, and that they locate certain activities in low-cost regions following the international division of

labour. The interaction between these two forces (internalization pressure and location costs) determines the industry structure internationally. As Buckley (1988) explain, these two are related since the MNC's ability to use international transfer pricing in its benefits also favours the location of international activities in low-tax regions. Building upon the transaction costs theory, having its roots in Coase (1937, in Buckley and Casson, 1976, p. 220)[5], the internalization model of the MNC, developed by Buckley and Casson (1976) and Rugman (1981), among others, works to explain why firms become MNCs within the hierarchies versus markets discussion (Williamson, 1975, idem)[6].

Simply put, Buckley and Casson (1976) consider two types of costs associated with international activity: transaction costs associated with markets for intermediate products and coordination costs associated with the use of company's resources. Whenever the external transaction costs are higher than the internal transaction (coordination) costs, the company would rather internalize the market. Essentially, this means that in the presence of market imperfections, the MNC organizes its activities internally in order to exploit its firm-specific advantages in knowledge and other intermediate products (Rugman, 1981). As Dunning and Lundan (2008: 94) elucidate, the model seeks to explain the relative costs and benefits of the intra-firm international division of labour (hierarchy) in contrast to the inter-firm form of organization (market).

Further, Rugman and Verbeke (1992), recognizing that a MNC have a firm-specific advantage (FSA) that can be technology-base, knowledge-based or reflect organizational skills, extend the internalization analysis to incorporate a dynamic location variable (country-specific advantages). While FSAs represent firm's proprietary unique capabilities, CSAs refer to country factors that are unique to business operating in that particular location, such as natural and factor endowments, cultural factors, and institutional factors. Rugman (1981) argues that the interaction between available FSA and CSA determines the way a firm allocates resources and coordinates its use worldwide.

Essentially, FSAs result from MNC's ability to economize on transaction costs as a result of the hierarchical coordination and common governance of assets. CSAs result from MNC's

[5] Coase, R. H. (1937) 'The nature of the firm', *Economica nº4,* pp. 386-405.
[6] Williamson, O. E. (1975) '*Markets and hierarchies: analysis and anti-trust implication.* New York: Free Press.

ability to reduce risk (Rugman, 1976) and benefit from specific local opportunities. As Rugman and Verbeke (1992) highlight, it is the MNC dynamic ability to combine both FSA and CSA that lead to new or extended FSAs. Citing earlier works, Buckley (1988: 182) shows that transaction costs are high in "vertically integrated process industries, knowledge-intensive industries, quality assurance-dependent products and communication-intensive industries", and argues that these industries see the predominance of multinational organizations.

However, he reminds that this is a dynamic process and that industrial structure and firms' core competences determines the level of control a firm seeks to have. This explains why MNCs in the 1980s were starting to forego control of production in favour of control of marketing and distribution. This came in a time when the internalization model was being contested in face of the increasingly renowned Japanese management model, and "the rising tendency towards externalization rather than a rising degree of internalization" (Fleury and Fleury, 2011, p.73).

Dunning and Lundan (2008: 94) also argue that there is also a need to consider location-specific variables to the model in order to fully explain the MNC activity. Rugman (1981) introduces location specific variables, but does not consider that these can eventually become firm-specific assets (FSA) as well. Moreover, the model does not deal explicitly with the ownership-specific advantages that MNCs should possess in order to overcome the liabilities of being a foreigner, as Hymer (1970) had postulated. In the Internalization model, all FSAs are efficiency-based in light of transaction costs, and are not treated in terms of monopolistic advantages (asset-based ownership advantages) as Hymer advocated. In this sense, although helping understand why firms would go abroad, the internalization model fails to explain which firms are prone to undertake OFDI.

Later on, Buckley (1988) recognizes the need for incorporating more dynamic elements to the model, but remains sceptical about introducing "ownership-advantages". Hence, it seems that the internalization model perceives a firm's internationalization as a defensive movement relating to remaining competitive, following Vernon's (1966) view, instead of exploiting its ownership-advantages, as Hymer (1970) had postulated.

2.1.4 The Eclectic Paradigm or OLI Framework

The Eclectic Paradigm or OLI Framework[7] is the outcome of a major systemizing effort of Dunning (1977) to put together explanations given by previous FDI models. As a framework, it attempts to provide a general conceptual structure for explaining what is the level and structure of a firm's foreign activities, rather than predicting what it should be (Dunning and Lundan, 2008: 95). Dunning's Eclectic Paradigm was first published in 1997 and refined and improved many times since then. It has become the main reference in international business literature. Basically, Dunning (1977) acknowledges that there are several reasons why firms invest abroad, and that these reasons differ according to industries and countries (home and host) concerned.

The Eclectic Paradigm builds upon modern international trade theory – the Heckscher-Ohlin-Samuelson (HOS) model – and other microeconomic theories of the firm, such as Hymer's (1968) oligopolistic power and the previous internalization model. It agrees with the HOS theory that the distribution of factors endowments and capabilities determines the location of production. However, it argues that location-specific endowments[8] are not sufficient to determine international activity of MNCs. Firms only engage in foreign production if two types of market failures are present: Hymer's type of *structural* market imperfections which discriminates between firms in their ability to control and manage ownership-specific advantages; and *transactional* imperfections of intermediate product markets in transacting them more efficiently (at lower cost) than a hierarchy (Dunning and Rugman, 1985).

As Dunning and Lundan (2008: 97) clarify, the locational choice in the production of intermediate products relates to the decision export versus licensing, rather than export versus foreign direct production. This arises when there are imperfections in the market for intermediate products, leading the company to choose a hierarchical organization of foreign activity. Basically, the existence of ownership-specific advantages, which can be created or even purchased, helps determine which firms will supply international markets; location-specific advantages shape how the firm will supply the foreign market, either through exports

[7] OLI stands for ownership, locational and internalization advantages

[8] These include not only Ricardian-type of endowments, such as natural resources, labour and proximity to markets, but also the environment in which these are used: market structure, legislation and policies (Dunning, 1980).

or local-production, but does not determine under whose ownership foreign production would occur.

However, it is the internalization forces driven by market failures that determine if the company will internalize the exploitation of its ownership-specific advantages or will sell/lease its advantages to a local firm exploit them. Thus, the decision to invest abroad can be explained by the OLI framework: the company will invest if it perceives gains of market power by the ownership (O) of products and production processes; if the company has location (L) advantages in locating their plant in foreign country; or if they achieve advantages of internalizing (I) their foreign activities in fully owned subsidiaries.

Ownership-specific advantages arise from a firm's ability to bundle and access resources more efficiently than its competitors in a way that it creates, although it might even purchase, some sort of proprietary right of use. These ownership advantages include both intangible assets, such as brands, access to institution, technology, organizational skills, entrepreneurial capacity, and other assets arising from the coordination and governance of activities, such as access to raw materials, control of distribution channels, economies of scale. It is the possession of such ownership advantages that gives a MNC the competitive advantage it needs to overcome the barriers of operating internationally. The more it possesses ownership advantages relative to firms from another country, the more is the incentive to internalize their use and exploit them in foreign markets.

Although ownership advantages might often be linked to location endowments, their use is not so confined, giving MNCs the power to exploit these ownership advantages and extract monopolistic rents from it abroad. The fact that MNCs operate in different locations also gives them an additional ownership-specific advantage. Contrary to local competitors, a MNC can reduce risk by diversifying assets allocation; reduce supply disruption risks and uncertainty by shifting production between locations more easily, engage in international transfer pricing.

In further refinements of the OLI Framework, Dunning and Lundan (2008: 100) introduced different categories of ownership-specific advantages according to their nature. One type of ownership advantage arises from the control of asset-specific advantages, such as patents, brands and management skills. Another type arises from a firm's capacity in organizing and

coordinating such asset-specific advantages. These are referred to as transaction costs-minimizing advantages, which relates to the advantages of common and complementary governance of assets, such as economies of scale and scope, size, product diversity, favoured or exclusive access to raw material and product markets, access to resources of parent company at marginal cost, and bargaining power. Finally, there are also ownership advantages that arise from institutional assets that govern activities within firms, and between firms and stakeholders, such as corporate culture, incentive and appraisal systems.

The (L) location-specific advantages refer to the benefits of producing in a particular place as, for instance, lower production and trade costs, economies of agglomeration and spillovers, better institutional framework. Local production also allows companies to better tailor their final product to local demand (e.g., car manufacturers are able to avoid tariffs and trade barriers). Locating production in the target market might also reduce the marginal cost of supplying the market, by saving trade costs, compared with serving the market through imports (Navaretti and Venables, 2004, p. 30).

However, as Navaretti and Venables (2004: 31) explain, there are trade-offs between locating production abroad and serving the market through exports. This has to do with essentially two types of FDI: horizontal and vertical FDI. The former refers to the set up of a foreign plant, in addition to the home plant, that duplicates the same stage of the production process (e.g., an assembly plant). The latter refers to splitting the different stages of the production process across different locations.

Firms in industries, in which the firm-level activities are a major source of economies of scale, and plant-level economies of scale are minor, are more likely to undertake horizontal FDI. Firm-level assets include asset-specific advantages, such as patents, brands, and management skills. In these industries, however, production can easily be located abroad and even duplicated because the firm will increase returns on economies of scale at the firm-level assets. The benefits from market access and the exploitation of firm-level economies of scale are higher than the foregone economies of scale at the plant level. This tends to be the case in industries such as chemicals and automobiles.

Conversely, industries such as apparel and leather are more likely to undertake vertical FDI, because they can extract significant factor costs savings by spreading different stages of

production across countries. In such industries, the cost that may arise from separating production stages is not significant enough to justify keeping production stages together. In certain industries, the benefits of factor costs savings are higher than the losses of disintegrating the value chain.

As Navaretti and Venables (2004:27) explain, disintegration losses have to do with technical efficiency losses from having operations separated across countries and other associated trade costs (e.g., freight costs, time in transit, import tariffs). Essentially, in industries where international trade costs and technical efficiency losses overcome factor costs savings from having different stages of production spread across countries, firms are more likely to engage in horizontal FDI. Conversely, firms in industries facing little trade costs are more likely to engage in vertical FDI. It is worth mentioning though, that a FDI investment cannot probably be associated with only one type. It will normally involve both types of investments, but with one type being more significant.

Finally the decision to internalise foreign activities relates to *transaction* costs involved in having arm's length agreements in the market (Dunning and Rugman, 1985). Dunning (1977) argues that incentive to internalize the use of (O) ownership or (L) locational advantages comes from market imperfections and institutions affecting the allocation of resources. Whenever the costs of controlling/monitoring the production chain and/or firm-specific assets (reputation, brand, patents), and whenever institutional failure is high (e.g., contractual incompleteness, imperfect information), firms are more likely to internalize the ownership of its endowments. The (I) internalization-specific advantages result from the ability of a firm to deal more efficiently (because of common governance of assets) with market imperfections than the market itself, and also from its ability to exercise monopoly power over its own assets.

Understanding these three factors – (O), (L), and (I) advantages – helps comprehend which firms will choose to go abroad, where they are likely to locate and how they will exploit foreign activities. However, this analysis does not specify what types of motives lead companies to undertake international activities. It only shows what are the variables influencing their behaviour. Hence, Dunning later identified four main motives: *market-seeking, asset-seeking, resources-seeking and efficiency-seeking* (Dunning and Lundan, 2008, p.67).

(a) Market-seeking FDI

Market-seeking FDI refers to investments undertaken to protect or sustain existing markets, or exploit or promote new ones. Differently from other foreign direct investors, market-seekers usually serve local markets with their local production, although sometimes they may also export to neighbouring markets and benefit from economic zones treaties. As Dunning and Lundan (2008:69) explain, market-seeking FDI is normally associated with four main motives. The first is the need to follow costumer or supplier that has gone overseas. This was the case of consulting and auditing firms in the 1980s and 1990s that established offices abroad to increase their presence in their clients foreign markets.

The second is the need to better tailor the company's product or service to their target clients in foreign markets. In these cases, companies feel they need a local presence to adapt products to local taste, resources and capabilities, and also better understand regulations and customs, and marketing procedures. This is the case of industries such as consumer goods, food and drink, professional services, among others.

The third reason is to simply reduce trade costs (e.g., freight costs, time in transit, import tariffs). Industries, in which the benefits of having smaller local production close to final markets is greater that the economies of scale foregone in having a large production centre and serve the market through exports, are more likely to invest in foreign production. This might be the case for industries in which costs of product transportation are substantially high and that can be locally produced at an economical viable manner, as it is the case of the automotive industry. Moreover, trade-barriers and other restrictions may also motivate market-seeking FDI.

The fourth, and more recent, reason for investing is the need to follow competitors. As Dunning and Lundan (2008:70) note, this is often the case of oligopolistic industries, such as: pharmaceuticals, semiconductors, accountancy and advertising, autos, and rubber tyres. The authors also note that a part of foreign investments into China are related to firms following industry leaders, rather than following customers.

Apart from these reasons, governments have also played an important role in attracting market-seeking FDI to their territories. While in the post-war period many FDI took place in order to circumvent foreign countries' import controls and tariffs, more recently governments have use a range of direct investment incentives to attract FDI. Besides the use of subsidies, tax concessions, attractive credit, governments have increasingly signed Bilateral Investment Treaties (BITs) to improve the institutional environment for foreign direct investments. While countries had signed only 389 BITs by 1989, in 2003 the number of BITs had grown to 2.265[9].

Market-seeking investments are also usually associated with (L) location advantages such as input and transport costs, market characteristics and public policies; (I) internalization advantages, such as reduction of buyer uncertainty, transaction and information costs, assurance of quality and protection of property rights; (O) ownership advantages, such as capital, technology, organizational skills, scale economies at firm-level, trademarks and brands, oversupply of R&D (Dunning and Lundan, 2008, p. 71).

(b) Natural resources-seeking FDI

Resource-seeking FDI refers to normally export-led investments undertaken to have access to or secure stable supply of particular natural resources that contribute to increasing the competitiveness of the firm. Here, Dunning and Lundan (2008: 68) specify three main types. The first are those investments seeking physical resources, which are usually location-bound oriented and involve large capital expenditure. Usually primary producers that want to minimize cost and assure stability of supply of such particular resources (e.g., mineral fuels, industrial minerals, metals and agricultural products). Chinese and Indian firms have pursued investments of such type in Africa and Latin America in recent years. This type of FDI can face resistance from host countries, as they might be perceived as a threat to national security[10]. This also holds true for recent state and private firms agricultural investments

[9] UNCTAD Quantitative data on BITs and DTTs. Available: http://www.unctad.org/templates/WebFlyer.asp?intItemID=3150&lang=1, [30 Aug 2011].

[10] In 2005, the Chinese firm CNOOC attempted to takeover the American oil company Unocal, but faced strong political resistance within the American congress. Finally, CNOOC backed down and withdrew its bid. See FT, July 26, 2005: http://www.ft.com/intl/cms/s/0/07ca91da-fdfc-11d9-a289-00000e2511c8.html#axzz1P8bvP3GS.

abroad for agriculture production and subsequent exports back to their countries, such as Arabs and Chinese investments in Africa and South America[11] [12].

The second type of resource-seeking investments is the ones seeking low-cost labour supply. These investments are associated with manufacturing and services MNCs, usually from developed countries, that establish subsidiaries in lower real labour costs countries in order to produce and supply labour-intensive final or intermediate products for foreign markets through exports. This is the classical international division of labour movements. This is the case of apparel industry investments in Vietnam, Morocco, Turkey, among others, and also of IT services in India. Countries willing to attract such investments have often set up export processing zones. On the other hand, home countries are sometimes resistant, as they associate such investments with jobs moving abroad.

The third type of resource-seeking investment is the one related to a firm's need to acquire technology, marketing expertise and other organizational skills. This type of FDI is actually increasing, with firms from developing countries investing, making alliances with and/or acquiring companies in developed countries, such as high technology Korean and Chinese investments in the US and EU, and also developed country firms diversifying R&D investments across the world, such as French pharmaceuticals companies' FDI in the US.

In general, resource-seeking investments are usually associated with (L) advantages such as control over supply of raw materials, good infrastructure and skilled workforce; (I) internalization advantages, such as reduction of price uncertainty and supply disruptions, and increase of market control and access to technology; (O) ownership advantages, such as capital, technology, market access and complementarity of assets (Dunning and Lundan, 2008, p. 104).

(c) Efficiency-seeking FDI

[11] See The Economist, May 21, 2011, "Outsourcing third wave: rich food importers are acquiring vast tracts of poor countries' farmland. Is this beneficial foreign investment or neocolonialism?" Available: http://www.economist.com/node/13692889, [30 Aug 2011].

[12] See FT, March 6, 2011, "Brazil plans curbs on farmland speculators". Available: http://www.ft.com/intl/cms/s/0/6333b494-4819-11e0-b323-00144feab49a.html#axzz1WipF21i8, [30 Aug 2011].

According to Dunning and Lundan (2008: 72), efficiency-seeking FDI refers to those investments undertaken by firms to rationalise their operations structure, and hence benefit from economies of scale and scope, and risk diversification. Basically it consists into establishing an specialised production process in few locations in order to supply multiple foreign markets in the most efficient possible manner, and hence take advantage of different factor endowments, cultural and institutional arrangements, market structures, and economic policies that certain locations offer.

Here again, Dunning and Lundan (2008: 72) make a distinction between two types of efficiency-seeking investments. First, there are those that follow the international division of labour. Usually large and mature MNCs, operating in fairly standardised industries, that engage in foreign production of labour-and-resource-intensive products in developing countries, and the production of capital-and-knowledge-intensive products in developed countries, in order to benefit from differences in the relative cost of factor endowments. The second type refers to investments in similar countries in order to benefit from firm-level economies of scale and scope, and other market characteristics, incentives schemes and local institutions. Nonetheless, efficiency-seeking investments are usually linked to one of the previous types of FDI (market and resource-seeking).

Efficiency-seeking investments are usually associated with (L) location advantages, such as economies of specialization and lower relative costs of factor endowments and local content; (I) internalization advantages, such as economies of vertical integration and of common governance; and (O) ownership advantages, such as market access, geographical distribution, economies of scope. These are common among motor vehicles, R&D-intensive industries, electronics, textiles and clothing, among others (Dunning and Lundan, 2008, p.105).

(d) Strategic-asset-seeking FDI

Strategic-asset-seeking FDI refers to the acquisition of foreign assets by firms in order to sustain or advance their global competitiveness. As Dunning and Lundan (2008: 73) argue, these investments are usually less related to the exploitation of cost or marketing advantages, and more related to a firm's drive to increase its global portfolio of assets in order to sustain global competitiveness. In this sense, a company engages in M&A activity to take advantages of economies of scale, or in order to combine complementary resources of each part. This is

also the case for first-time foreign direct investors that need to acquire some kind of critical assets in order to enter the market, such as distribution channels or brand name.

Companies engaging in strategic-asset-seeking FDI are usually looking for complementarities between new and old assets – like R&D synergies and spillovers, increasing market power, new organizational skills, risk diversification, distribution outlets, brands – which will increase their innovatory or production competitiveness, besides access to new markets. Such type of investment occurs in a wide range of industries, but especially in knowledge-intensive industries that offer economies of scale and market access opportunities. As it is the case for efficiency-seeking investments, strategic-asset-seeking FDI is complementary to other types of FDI.

As Dunning (1998) demonstrated, since the 1980s there has been an increase in asset-seeking acquisitions related to protecting or augmenting an existing (O) advantage of a firm, notably intangible assets, rather than exploiting previous existing ones. This contributes to explain such a large share (between 50% and 60%) of cross-border M&A in knowledge and information-intensive sectors that occurred in the 1985-95 period (UNCTAD, 1997, in Dunning, 1998). Hence, companies, in industries in which the benefits of the ownership of assets are higher than allowing other companies to deploy the assets, are more likely to protect their revenues by securing access to those assets. This type of investment has also led to changes in the locational needs of MNCs, shifting from access to market and resources, to those locations where there is access to high knowledge-intensive assets and learning experiences (Dunning, 1998).

2.1.5 The behavioural approach: the Uppsala model

The Uppsala model of FDI is the product of research undertaken back in the 1960s and 1970s by some Swedish scholars that were intrigued with the lack of capacity of traditional FDI models in explaining international investments by Swedish companies (Fleury and Fleury, 2011:76). Referring to these studies, Fleury and Fleury (2011:76) note that Vernon's model, for instance, did not fully apply to the Swedish reality. First, the Swedish market was too small for companies to enter maturity stage before recurring to internationalization. Second, Swedish standards and consumption habits were very different from the American ones.

Third, Swedish companies gave more importance to competences concerning their relations with markets than their organizational competences in products and processes.

Hence, diverging from previous economic-based theories, the Nordic school relied on an evolutionary and behavioural approach in order to explain Swedish firms' internationalization. Instead of admitting a company's internationalization as an outcome of "a strategy for optimum allocation of resources to different countries, where alternative ways of exploiting foreign markets are compared and evaluated" (Johanson and Valhne, 1977:26), it focused on how the decision-making system, including the personal characteristics of decision-makers, influenced and determined the process of internationalization.

Johanson and Valhne (1977) were one of the first to develop a model under such approach. They identified that Swedish firms went abroad in small steps instead of engaging in large FDI at one point in time. Normally, Swedish firms would start serving a foreign market through exports, then establish a sales subsidiary, and eventually invest in foreign production. Moreover, they identified that firms internationalized gradually from the lower psychic distant[13] country to the further, and that even production followed a learning curve.

Thus, acknowledging these peculiarities that diverged from traditional models, they came up with the Uppsala model emphasizing how companies internationalize rather than why they do it. Building upon the behavioural model of the firm (Cyert and March, 1963, in Johanson and Valhne, 1977, p. 23)[14] and on Penrose's (1966, in idem, p. 28)[15], the authors argue that knowledge, notably Penrose's experiential type of knowledge, play a major role in the decision-making process of internationalization. They argue that the lack of knowledge, mainly due to psychic distance, is an obstacle for firm's internationalization, especially in early stages (Fleury and Fleury, 2011; Dunning and Lundan, 2008). To the extent that the knowledge component is critical for internationalization decisions, that gaining information is costly, and that businesses decisions are time-constrained, the authors argue that internationalization decisions are made in an incremental manner.

[13] The authors define psychic distance as "the sum of factors preventing the flow of information from and to the market, [such as] "differences in language, education, business practices, culture, and industrial development" (Johanson and Valhne, 1977: 24). It consists of a transaction cost related to learning and understanding how to do business in the foreign (host) country.
[14] Cyert, R. M., March, J. G. (1963) '*A behavioral theory of the firm'*. Englewood Cliffs
[15] Penrose, E. (1966) '*The theory of the growth of the firm'*. Oxford

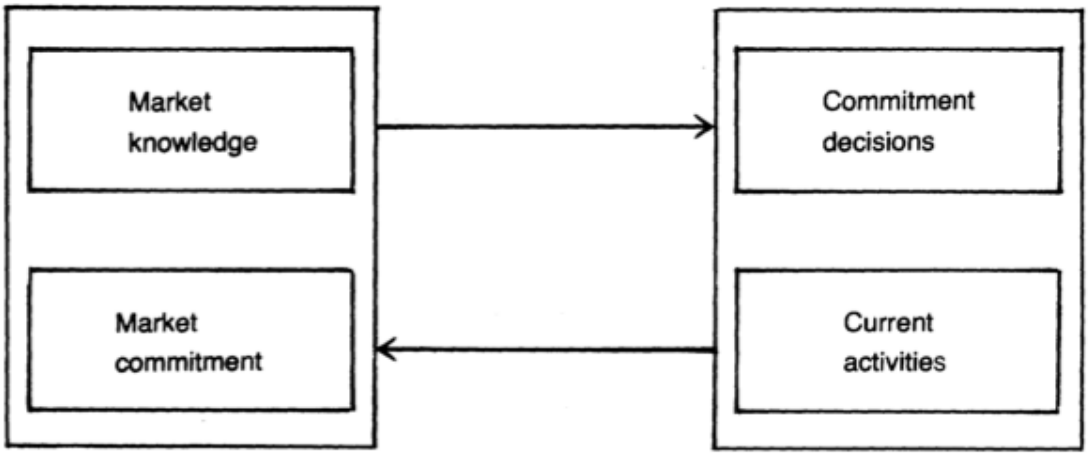

Figure 1 - The Uppsala model of internationalization
Source: Johanson and Valhne, 1977, p. 26.

This way, Johanson and Valhne's (1977) dynamic model (Figure 1) involves a basic mechanism for internationalization, in which a firm's level of knowledge of a foreign market determines the amount and degree of resource commitment the firm will deploy to such a market. The more resources are specific to a particular market, the grater the degree of commitment to such a market. In regard to foreign market knowledge, the authors refer to experiential-type of knowledge, which cannot be taught, can only be learned through personal experience. It is this market-specific knowledge that will allow managers to incrementally seek and exploit concrete opportunities in foreign markets. Likewise, it is the learning process from executing and repeating the daily operations of current activities that provides managers with the experiential knowledge needed to make further decisions.

In summary, the Uppsala model argues that the internationalization process of the firm depends on the acquisition, integration, and use of knowledge about foreign markets and operations, and that this necessary knowledge is of the experiential-type, which can mainly be acquired through the learning experience of having operations abroad. Thus, the model argues that firms increase resource commitment to foreign markets successively as a consequence of the accumulation of experience and organizational learning. So, companies initially establish an arm's length relationship with foreign markets through exports, then establish a sales subsidiary, and eventually invest in foreign production. As Johanson and Valhne (1977:23) claim: "internationalization is the product of a series of incremental decisions".

2.1.6 A Macro approach towards FDI: Kojima's extended Flying Geese model

The previously described FDI models essentially focus on explaining the phenomenon of FDI at the firm-level or industry level. However, one can think on FDI in terms of countries. Under this macro approach, the objective is more to explain which types of firm-related activities are countries best positioned to engage in, rather than explaining the reasons behind firms' internationalization. Essentially, these models build upon the international division of labour and comparative advantage, linking international trade with FDI.

Kojima (1973, in Kojima, 1982, p.1)[16] developed one of the first models under this macro approach of FDI, in a paper entitled "A macroeconomic approach to foreign direct investment". It was basically an extension of Akamatsu's (1962) "Flying Geese" model of industrial development that incorporates an export-oriented FDI (Pro-trade FDI) stage. As a background to Kojima (1973, idem), a brief revision of Akamatsu's model is provided.

Akamatsu's (1962, in Ozawa, 2007, p.12)[17] flying geese model of economic development was developed having in mind Asian country experiences, notably Japan, in the period from the 1870 to World War II. The model deals with economic development after the laggard economies open industries to trade. Ozawa (2007) explains that Akamatsu identified three stages in these Flying Geese pattern of economic development: (a) a sequence of import to domestic production, and further to exports of industrial goods; (b) through this import-production-exports sequence, crude goods move earlier than refined goods, as well as consumers goods go through the process earlier than capital goods; (c) countries align along the different development stages in a flying geese formation.

As Ozawa (2007) explains, catching-up countries would engage in import-substitution-to-export-promotion at each ladder level, absorbing advanced technology and skills from imports of products of advanced countries, and exporting manufactures to advanced countries, in order to upgrade their products and industrial structures, and sequentially move up the ladder. Drawing upon Akamatsu's (1962) Flying Geese model, Kojima (1982) extends the model by including a subsequent activity, namely export-oriented OFDI (Pro-Trade FDI), leading to

[16] Kojima, K. (1973) 'A macroeconomic approach to foreign direct investment'. *Hitotsubashi Journal of Economics,* vol. 14, nº1, June.
[17] Akamatsu, K. (1962) 'A historical pattern of economic growth in developing countries'. *Journal of Developing Economies,* vol. 1, nº1, pp.3-25. Available: http://www.ide.go.jp/English/Publish/Periodicals/De/pdf/62_01_02.pdf, [7 Jun 2011].

imports from the home country. The extended model comprises the following stages: (a) Import> (b) Domestic Production> (c) Exports> (d) Pro-Trade FDI> (e) Import. Noteworthy is that the first Import stage (a) is different form the last Import stage (e), as the former contributes to develop an infant manufacturing industry, whereas the latter Import stage (e) refers to the relocation of such industry's production overseas due to losses on comparative advantages. Basically, the country becomes an importer of products it was once an exporter (Ozawa, 2007).

Further, Kojima (1982) explains the reasons behind his two additional stages. He argues that FDI would occur in the comparatively disadvantaged industry (*marginal industry*) or activity of the investing country, which might be a potentially comparative advantaged industry or activity in the host country. In such industries, the superior technology and management skills of the investing firm would contribute to reduce production costs in the receiving country. Hence, imports from the host country would become cheaper than before. This consists of a pro-trade (or export-oriented) type of FDI, as was the case of Japanese FDI.

Kojima (1982) argues that as FDI occurs in industries in which the investing country presents comparative disadvantages (*marginal industries)*, this will enable the development of comparative advantages in such industries in the host country. This way, FDI works in a complementary manner to develop and augment international trade. Conversely, if FDI takes place in industries that the investing country has a comparative advantage and the receiving country cannot develop a comparative advantage, FDI would substitute and decrease trade because it would become more expensive to import from the host country.

Kojima (1982) extends the concept of marginal industry to embrace also marginal production (or economic) activity. This helps explain the internationalization of small and medium Japanese firms in labour-intense and simple technology industries to neighbouring developing countries. The author notices that although the big Japanese firms had a comparative advantage in such industries and could continue to export, the marginalized small and medium firms had not competitive power in the home country and had to move abroad.

However, Kojima's model has been criticized by scholars associated with the international business school. Dunning and Lundan (2008) argue that Kojima's model, as all other traditional modern trade-based models, fails to recognize the importance of market failures

and transaction costs in determining international resource allocation, arguing that hierarchies may improve rather than worsen the allocation of resources. Hence, it fails to explain FDI related more with the exploration of economies of scale and scope opportunities, or with the benefits of hierarchical common governance of assets, and less with the distribution of factor endowments.

Kojima (1982) contests by arguing that the oligopolistic approach supported by Dunning (1977) and the efficiency approach by the internalization school (Buckley and Casson, 1976; Rugman, 1981, 2009) work only to enhance private company's interests, but do not account for the macroeconomic effects of FDI in both home and host countries. In this sense, all models work in partial equilibrium. Further, he argues that such models promote the creation of giant MNCs with monopolistic market power, which generates new market imperfections that are only beneficial to the company, but that is harmful to both national and international economies. In a similar manner, Hymer (1970) had already noted that MNCs work to diminish competition between firms of different nations, though also recognized that FDI worked to transfer technology, capital and organizational skills to host countries.

2.1.7 Risk diversification explanation of FDI

This financial line of explanation came to complement other models explaining the motives why firms become multinational. Without extending too much into this line of reasoning, it essentially argues that MNCs have an advantage in contrast to a national firm because of their ability to diversify their assets internationally (Agmon and Lessard, 1977; Rugman, 1976). This financial advantage arises from international financial market imperfections, and complements other motives to internationalize. At that time, this went against the traditional approach to international investment that believed that foreign operations increased the risk of US firms due to foreign exchange risks, risks of expropriation, and other possible governmental interventions associated with foreign operations (Shapiro, 1978).

As Agmon and Lessard (1977) explain, for international risk diversification to become beneficial at the firm level, there must be higher barriers and thus costs to international capital flows than to direct investment. Additionally, investors must also recognize that a MNC provides a unique diversification opportunity that otherwise does not exist in other forms in the market. The authors argue that even when there are barriers to both types of investments,

FDI will be freer than portfolio investments due to firms' flexibility to shift revenue-producing resources among its units.

Further, they find evidence that American investors recognize and reward the international composition of US-based MNCs' activities. Shapiro (1978), using the capital asset pricing model to incorporate market imperfections, also recognizes that there is evidence supporting that foreign operations lead to a reduction of both actual and perceived risk, because a MNC geographical diversification can offset the risks of individual foreign projects.

Rugman (1976) also argues that international diversification offers an advantage to the MNC, provided that the fluctuations of the foreign economies are not perfectly positively correlated. His empirical testing ratified that firms with higher ratios of foreign to total activities were able to reduce their earnings volatility, taking that as a *proxy* for risk. Therefore, individual investors looking for diversification could do it indirectly by buying shares of MNCs. He argues that, as international diversification refers to the risk associated with a geographically dispersed portfolio of real assets, companies have to assess the uncertainties and risks of their investment locations. In this sense, MNCs would consider the impact of investment locations in the total risks of their portfolio of assets.

Later, however, Rugman (2005) recognizes that because of large market imperfections, including regulations, there is a strong regional bias in firm-level sales, even in the world's international capital markets, which are dominated by MNCs, denoting a lack of globalization. As he argues, international diversification does not occur to the degree the model predicted because market imperfections prevent full capital market integration, and thus investors remain home biased. According to the model, investor should not be home biased due to risk reduction benefits of international diversification. Hence, he explains that the internalization model is best positioned to explain the high level of international activity, measured as foreign to total activity, and low level of globalization (regional bias of firms).

2.1.8 The Investment Development Path (IDP)

After criticisms to the OLI framework due to its static characteristics and its limitations to explain FDI from developing country MNCs (EMNCs), Dunning and Narula (1996, in

Goldstein, 2007, p. 81)[18] came up with the Investment Development Path (IDP) model. The IDP provides a dynamic framework for analysis of a country net outward investment position (NOIP) in light of an economy's structural features (Goldstein, 2007, p. 82).

The IDP model stresses that a country's NOIP will vary accordingly to a country: (a) stage of economic development, (b) the structure of its factor endowments and markets, (c) its political and economical systems and institutions set-up; (d) the nature and extent of market failure in the transaction of intermediate products across national boundaries. Essentially, the IDP builds upon the interactions of the changing ownership advantages of firms with locational advantages of countries to explain a country NOIP (Dunning, 1988). "The basic hypothesis [behind the IDP model] is that, as a country develops, the configuration of OLI advantages facing foreign-owned firms that might invest in that country, and of its own firms that might invest overseas, changes" (Dunning and Lundan, 2008, p. 330). This way, the international investment position of a country will go through to 5 different stages (Figure 2).

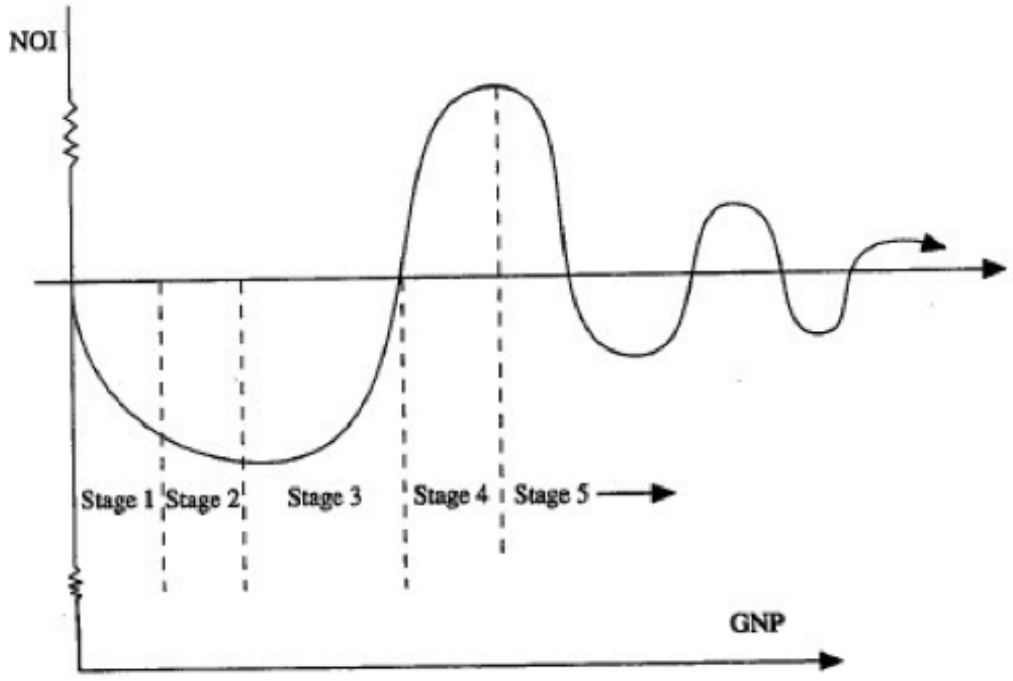

Figure 2 - The Investment Development Path (IDP)
Source: Carvalho, 2008, p. 26.

[18] Dunning, J. H., Narula, R. (1996) 'The investment path revisited: some emerging issues'. In *idem* (eds.), *Foreign direct investment and governments: catalysts for economic restructuring.* London and New York: Routledge, pp. 1-41.

In the first stage, there will be almost no inward and even less outward FDI. The country lacks locational advantages to attract foreign investments. It has poor infrastructure, bad governance, lacks skilled labour, and insufficient markets and factor endowments that prevent it from attracting even vertical (low cost seeking) investments. The very few inward investments rely on the country's natural resources, or eventually to very simple labour-intensive production of products directed to domestic or exports markets. Inbound MNC activity tends to be related to asset-specific ownership advantages, rather than transaction efficiency advantages. Indigenous firms have little created capabilities (such as organizational skill and technology capacity), and hence, outbound MNC activity tends to be negligible. The perhaps existing one tends to be related to trade-support. In this stage, the NOIP will be negative but almost zero (Dunning and Lundan, 2008, p. 332; Dunning, 1988).

In the second stage, as infrastructure improves and the economy develops (higher disposable income, better factor endowments), the country becomes more attractive (increasing L advantages, in addition to natural resources) for investments in more value-added activities. Both inter-industry FDI and inter-industry trade increase, although some intra-industry trade might also appear. Inward FDI continues to be resource-based, but in more capital-intensive sectors (e.g., basic chemicals, minerals and small-scale engineering activities), and there is also an increase in low-cost labour-seeking investments (e.g., clothing, leather goods, some electrical products).

As inward FDI increases, indigenous firms slowly accumulate firm-specific assets to the extent that country's institutions are able to provide an appropriate environment (upgrade capabilities and productivity of local resources) for them to absorb capabilities and improve output quality. At this second stage, the existing limited OFDI consists of very few firms undertaking resources-and market-seeking investments in other developing countries in primary or light manufacturing sectors, and eventually in some service sector. In the second stage, the NOIP will be increasingly negative, as the country receives more inward FDI than invests abroad.

In the third stage, the industrial level and economic structure of the developing country starts to resemble those of developed countries. Rising real wages makes low-cost labour-based industries less competitive in world markets, and local consumers become more demanding in terms of quality of products. Inward FDI continues to grow, but at slower pace as indigenous

firms become more competitive. At this stage, MNCs investing in the country are more interested in its domestic market for more sophisticated and more skilled labour-based products. Inward FDI continues to contribute to upgrading host economy institutions and capabilities, particularly helping to develop more knowledge-intensive sectors due to inward FDI ownership of specific assets in which the host country is still comparative disadvantaged.

Although inward FDI can be very helpful in contributing to the development of clusters and industrial upgrading, governments can also play a major role as facilitator or even as conductors/promoters of domestic-led industrial upgrade and cluster formation. Dunning and Narula (2000) point to the case of Korea as an example of domestic-led engine of growth, as large domestic companies mostly fostered growth without significant participation of MNCs. However, they argue that economic liberalization and inward FDI may represent the most efficient option, since there are many high costs in doing it domestically.

Therefore, depending on knowledge-transmission structure in place, the interaction with inward FDI will lead to the development of more sophisticated and innovation-based industries in the host country, moving away from natural resources or physical-capital intensive industries. At this stage, indigenous firms become more competitive, developing their own created-assets (organizational skills and technological capacity) based upon the structure of factor endowments (where they have comparative advantages). Because of this, foreign MNCs find it harder to exploit their ownership-specific advantages but continue to be attracted by locational advantages.

Eventually, through a learning-by-doing process, indigenous firms engage in all sorts of investments. Market and/or resource-seeking predominate in neighbour markets and through Greenfield investments, but some few firms may also engage in some efficiency-seeking and asset-augmenting investments through M&A with more developed country firms. Both intra-industry trade and investment increase in additional service sectors (e.g., construction and banking) and in differentiated consumer goods. As OFDI grows faster than inward FDI, the NOIP converges to zero. At this stage, the attitude of governments towards both inward and outward FDI becomes essential to determine the pace of progress of international economic involvement. Policies and institutions working to facilitate resource allocation and diminishing transaction costs become increasingly important (Dunning, 1988; Dunning and Narula, 2000).

In the fourth stage, indigenous and foreign firms compete equally in the market, and the country becomes a net outward investor (positive NOIP). Indigenous firms have already developed enough ownership advantages to compete with foreign MNCs, at least in some sectors. Locational advantages move away from factor endowments and early-stage created assets to more knowledge-intensive created assets and sophisticated infrastructure. Inward FDI becomes more of an efficiency-seeking or asset-seeking type, as foreign MNCs perceive the benefits of host country locational advantages. As technological progress and human resources development advances, economic activity of firms shifts towards more knowledge-intensive services and products.

OFDI becomes more of an asset-augmenting and efficiency-seeking type, as inward FDI, notably in knowledge-intensive sectors, such as ICT, bio and nanotechnology, consulting services. Indigenous firms intensively engage in cross-border M&A activity, both regionally and globally. Governments are likely to focus on assisting firms overcome endemic market failures by fostering innovation and human resources development. As the structure of factor endowments become quite similar between countries in this stage, the efficiency in their macroeconomic and macro-institutional systems becomes an important factor determining outward and inward MNC activity. At this stage, countries are concerned with the spillover effects of inward and outward MNC activity in leveraging the efficiency and competences of local competitors, suppliers and institutions (Dunning and Lundan, 2008, p. 335).

In the fifth stage, the characteristics of both foreign MNCs investing in the country and its indigenous MNCs remain fairly the same to the fourth stage, but the NOIP converges to zero or slightly positive. The reasons for this is that, at this stage, the economic structure and income levels of countries are very similar, and there is almost no more disparity in such countries comparative advantages, especially in the internationally transferable ones. Dunning (1988: 16) predicts that “the more evenly resources are distributed, and the less the transactional market failure, the narrower the dispersion in NOIP of countries is likely to be”. At this final stage, the NOIP will fluctuate around zero. Countries at this stage of the IDP model are very developed, such as US, Japan and Sweden.

Table 3 - Summary of relevant FDI models

Authors	Model name	Main characteristics
Hymer (1960)	Oligopolistic market power	◆ FDI differ greatly from international financial transfers. FDI involves the transfer of a package of resources, such as technology, organizational capabilities, and management skills, besides financial capital. ◆ The MNC is a product of market structural imperfections, which enables them to derive monopolistic power (proprietary) from their ability to transfer ownership-specific advantages (e.g., patents, brands, management and production skills) abroad that indigenous firms do not possess, without loosing control over them because FDI does not involve the transfer of ownership or resources neither of property rights. By expanding abroad, firms reduce competition in industries facing entry barriers that sustained local monopolies.
Vernon (1966)	Product lifecycle	◆ Firms begin by serving domestic markets. Initially, due the need for flexibility and communication with demand, production locates near its innovation activites and/or near the market. ◆ As demands grow, firms standardize production and products, and previous locational advantages becomes less relevant. Standardization induces the search for economies of scale and firms begin to export to markets similar to their home market. ◆ As competition enters the market, and its products and technologies reach maturity, firms move production to low labor cost locations.
Buckley and Casson (1976)	Internalization	◆ In the presence of market imperfections and hence transaction costs, the MNC relies on FDI instead of market arm's length relationships (e.g., exports and licensing) when there are cost benefits arising from the common governance of assets and internal transactions. Essentially, the model argues that firms sometimes allocate resources more efficiently through internal transactions than through the market. ◆ It is the common governance of assets and internal coordination of transactions that build firms specific assets that they exploit abroad.
Dunning (1977)	Eclectic Paradigm or OLI Framework	◆ Firms expand internationally to exploit ownership-specific advantages (i.e. intangible assets, such as brands, patents, organizational and management skills). Only those firms that have ownership-specific advantages move abroad. ◆ Locational factors (e.g., resources endowment and labour costs) determine where firms establish production, but do not determine under whose ownership foreign production occurs. ◆ Transaction costs determine if the firm internalizes the exploitation of its ownership-specific advantages or if it sells/leases its advantages to a foreign local firm exploit them. ◆ The firm invests abroad if it perceive gains of market power by the ownership (O) of products and production processes; if the company has locational (L) advantages in locating their plant in a foreign country; and if they achieve advantages of internalizing (I) their foreign activities in fully owned subsidiaries.
Kojima (1973)	Extended Fliyng Geese	◆ The model predicts that countries initially engage in imports for creating a domestic industry. Then, once domestic production achieves competitive levels, firms begin to export. As costs begin to rise in the domestic market, production moves to low cost locations to export back to the home country and also to export to third countries. ◆ Under this model, FDI occurs in a country comparative disadvantaged industry, which might be a potentially comparative advantaged industry or activity in the host country. In such industries, the superior technology and management skills of the investing firm would contribute to reduce production costs in the receiving country. Hence, imports from the host country would become cheaper than before.
Rugman (1976), Agmon and Lessard (1977)	International risk diversification	◆ Under imperfect financial markets, MNCs have an advantage in contrast to a national firm because of their ability to diversify their assets internationally. To the extent that there are higher barriers to international capital flows than to FDI, the MNC provides individual investors with a unique diversification opportunity. Even if there are barriers for both FDI and portfolio investments, FDI are freer due to MNCs' flexibility to shift revenue-producing resources among its units. ◆ Hence MNCs invest abroad to diversy risks of relying just on the domestic market
Dunning and Narula (1996)	Investment Development Path (IDP)	◆ The IDP provides a dynamic framework for analysis of a country net outward investment position (NOIP). Accordingly, a country NOIP varies conforming the interactions of changing ownership advantages of both domestic and foreign firms with locational advantages of countries. ◆ In a first stage, the country lacks locational advantages to both attract inward FDI and develop outward FDI. In a second stage, the country develops insfrastructure and markets and begins to attract inward FDI. At this stage, indigenous firms begin to develop firm-specific assets as they absorb capabilities. Very little OFDI in other developing countries take place during this stage. In a third stage, the industrial level and economic structure of the developing country begins to resemble those of developed countries. Inward FDI continues to grow but at lower pace, and are more focused on skilled-labour and sophisticated products. At this stage indigenous firms become more competitive and begin to engage in mainly market and resources-seeking FDI. ◆ In the fourth stage, indigenous and foreign firms compete equally in the market, and the country becomes a net outward investor (positive NOIP). OFDI becomes more of an asset-augmenting and efficiency-seeking type. In the fifth stage, the characteristics of both foreign MNCs investing in the country and its indigenous MNCs remain fairly the same to the fourth stage, but the NOIP converges to zero or slightly positive, because the economic structure, income levels, and comparative advantages of such countries converge.
Johanson and Valhne (1977)	Uppsala Model	The Uppsala model emphasizes how companies internationalize rather than why they do it. It argues that the internationalization process of the firm depends on the acquisition, integration, and use of knowledge about foreign markets and operations. Hence, firms increase resource commitment to foreign markets incrementally as a consequence of the accumulation of experience and organizational learning. As Johanson and Valhne (1977:23) claim: "internationalization is the product of a series of incremental decisions".

Source: author.

2.2 Review of explanations in light of the emergence of developing market multinationals

The rapid increase in OFDI from developing economies since the 1990s (UNCTAD, 2010) has introduced the debate on whether the previous models of FDI, based upon developed countries experience, also apply to developing country MNCs (Luo and Tung, 2007; Mathews, 2006). The many existing differences between EMNCs experience in OFDI and that of their developed counterparts, and also between developing countries, contribute to question the explanatory power of previous models. These differences are evident in EMNCs motives, paths, home country characteristics, and quality of economic institutional environments (Rasiah *et al.,* 2010; Dunning *et al.,* 2008).

The early works on the first wave of developing country MNCs (1960s to mid 1980s) focused on their differences in comparison to more established MNCs from advanced economies. Authors argued that developing country firms relied on labour-intensive technology, which was suitable for small-scale production (Lecraw, 1977; Wells, 1983) and/or shortage of skills (Lall, 1983), and relied on their know-how on substituting imported material by locally available material to compete in undifferentiated and mature products in other developing countries (Wells, 1983). This followed Vernon's (1966) product lifecycle model. These simple and adaptable technologies made up for the needed FSA to invest in other import-substituting countries as long as tariffs prevented large-scale technologies from entering the market. However, it soon became known that these advantages were conditioned to the protected business environment of that time.

Another characteristics had been the investment of developing country firms, especially those from the rapidly growing East Asian countries, in other less developed countries as products matured and production costs grew (Wells, 2009). This export-oriented FDI characteristic was typical of the flying-geese model. This also aligns with the Investment Development Path model in which countries in low development stages (stages 1 and 2 of IDP) will only minimally engage in resource and market-seeking OFDI in other developing countries. The first wave was pretty much explained through traditional models. Authors perceived that firms had developed some FSAs that allowed them to venture abroad, and their motives were closely related to what theory predicted (natural resources, market access and trade support).

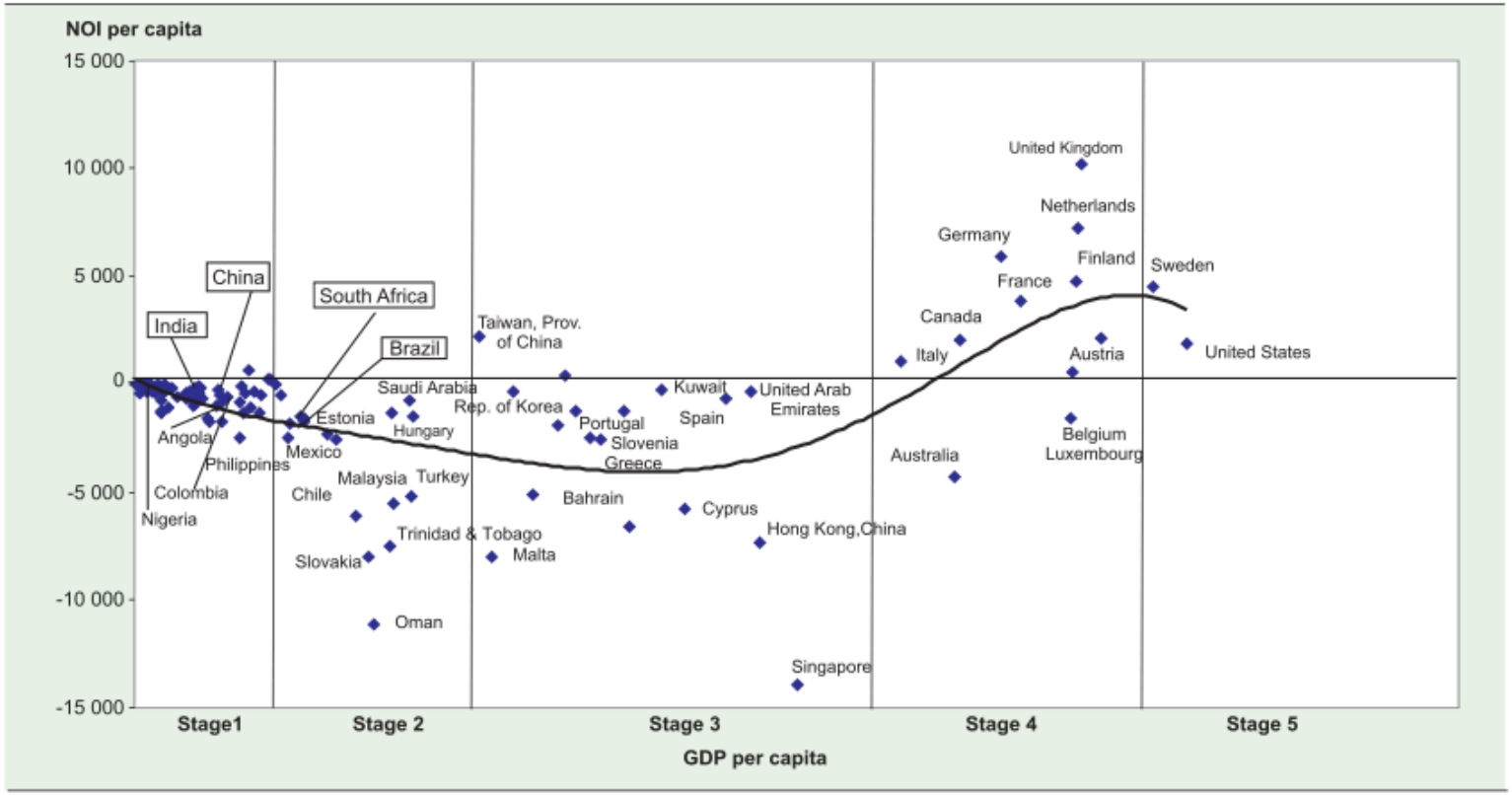

Figure 3 - Relationship between Net Outward Investment Position (NOIP) and GDP per capita, selected countries (2004)
Source: UNCTAD, 2006, p. 144.
Notes: A total of 135 countries were included in a regression equation, which postulated a relationship between the level of development and the net outward investment position (NOIP) of countries (i.e. outward FDI stock less inward FDI stock). Only a small number of countries have been indicated in the figure, for illustrative purposes. The points on the bottom axis at which the stages are divided from each other were chosen to correspond with theoretical predictions of the relationship between the NOI and level of development, and in this sense are notional. These points dividing the stages are roughly $2,500 (between stages 1 and 2), $10,000 (between stages 2 at 3), $25,000 (between stages 3 and 4), and $36,000 (between 4 and 5).

However, since the 2000s, there has been a shift in the pattern of EMNCs investments, and the differences to their developed counterparts has led to explanations that differ from what model would predict. Developing countries are increasingly investing in developed countries, although developing countries continue to be the main destination. Developing country governments have been quite active and influential in firms' investment decisions when compared to developed country firms. The services sector has become the dominant sector over manufacturing and natural resources, as in India and Brazil.

Although few developing countries are responsible for the bulk of OFDI, there has been an increase in the number of developing countries engaging in it. More interesting, countries are engaging in FDI at earlier stages of development that would have been predicted by the IDP model, which has been the most accepted model in explaining the emergence of new outward investors (Figure 3) (Dunning et al., 2008; Gammeltoft, 2008). Knowledge-based capabilities and competencies – created-assets – were associated with firms from countries on stages 4 and 5 of the IDP. EMNCs are also internationalizing not in an incremental way as Uppsala model predicted (Luo and Tung, 2007). The recent rise in OFDI from developing countries has brought the monopolistic advantage reason for internationalization into question (Mathews, 2006; Luo and Tung, 2007).

Mathews (2006) argues that recent EMNC activity has been increasingly driven by the search for markets and technological innovations in order to compete in the global economy. Focusing on Asian successful MNCs (Dragon Multinationals), he argues that newcomers do not start in a cautious way. They see the interconnected world market as their market from the start. Differently from original monopolistic models, in which a firm would developed its FSA at home and then exploit it abroad, newcomers see the world as a source of resources to be tapped. This way, they internationalize to access resources they need to compete globally, provided that they can devise the appropriate complementary strategies and organizational forms. Thus, they conquer their space in world markets not by relying on their own strengths, but by leveraging resources from others, through cross-border partnerships and joint ventures.

Confronting the traditional view that firms venture abroad to exploit its superior resources, Mathews (2006) suggests a framework grounded on globalization that states that firms internationalize due to resource *linkage, learning and leverage.* Linkage refers to the perception that critical resources can be accessed outside of the company, and thus a global

orientation becomes an advantage. For the newcomer, global orientation is a necessity since they lack FSAs to compete globally. Leverage refers to strategies EMNCs can apply to leverage resources from partners in order to overcome barriers from superior resources from established enterprises. Learning refers to the repeated application of linkage and leverage strategies that results in organizational learning and higher capacity to undertake such process in a more efficient manner.

Luo and Tung (2007) argue that, in addition to acquire strategic resources, EMNCs internationalize to reduce their home institutional and market constraints. Through risk taking and strategic acquisitions of assets from mature MNCs they overcome disadvantages of the latecomer, and also performance-hindering home institutional voids. Their recurrent *springboard* steps allow them to build the necessary network of strategic assets required to become globally competitive. This occurs in addition to potential latecomer advantages, such as the ability to leapfrog technological development stages. The springboard steps are related to strategic and complementary acquisitions that allow firms to build a globally competitive network of assets (e.g., logistics, sales, and R&D). The challenge they face is to integrate and adapt their strategies at home to fit with new capabilities they acquire internationally, so to maintain or increase performance at home markets as well.

Khanna and Palepu (2004) argue that home country institutional voids (e.g., lack of infrastructure, bad quality of suppliers, lack of talent pool) forced EMNCs to be innovative to overcome the lack of proprietary advantages. They argue that the capabilities firms had to develop in order to deal with institutional voids at home become FSAs these firms exploit in other developing markets. These organizational and strategic innovations are able to compensate for the lack of technical and managerial skills when deployed in other similar developing countries. Khanna and Palepu (2004) argue that often EMNCs are part of family business groups that, in spite of potential negative effects, help creating efficient internal markets for capital, labour, technology, and products, which compensate for institutional voids.

Battat and Aykut (2005) and Aykut and Goldstein (2006) argue that, compared to developed countries multinationals, EMNCs have often some comparative advantages when investing in developing countries, such as: greater ability to deal with economic and political conditions of host countries, to manage risks in post-conflict and politically complicated situations, and to

identify suitable products and services to developing countries markets, lower overhead costs and cultural distance, among other locally sensitive knowledge.

Following the same rationale, Tolentino (2001) argues that monopolistic ownership advantages (i.e., those that create barriers to entry and market power) are not a necessary condition for international production, as the OLI framework and other models predict. In fact, there is evidence that the majority of EMNCs do not possess strong FSAs, notably of knowledge-based kind, that they could exploit to compete in international markets, yet they do go abroad based on location-bound factors (Rugman, 2009). Their domestic environment is unfavourable for generating FSAs of the traditional kind (intangible assets like brands and patents), so EMNCs have built upon their CSAs, such as natural resources and cheap labour. However, as Gammeltoft *et al* (2010) suggest, these are not sustainable advantages to compete in advanced economies, although they may well serve other developing markets.

Tolentino (2000, in Cantwell and Barnard, 2008)[19] explains that country-specific factors, such as market size and resources availability, contribute to shaping the initial advantages of developing country firms. Firms from large resource-based countries are able to develop and exploit capabilities abroad in natural resource extraction (e.g., Brazil and Russia) and related manufacturing. Firms from resource-scarce countries would have to invest abroad to either directly access such resources (e.g. China and India), or to generate enough foreign currency for purchasing them. The author explains that the latter is the reason why smaller countries (e.g., Singapore and Hong Kong) tend to develop and engage in OFDI in specialized service industries.

As Cantwell and Barnard (2008) observe, the availability of natural resources in large and medium countries allow their firms to take leadership positions in resource-based industries and in low research-intensive manufacturing. But they argue that because of more informal learning process (based on learning-by-doing) and of different capabilities in comparison to developed country firms, EMNCs OFDI destination differs. According to the authors, EMNCs invest in other developing countries to develop the experience of doing business abroad and to expand their markets in more knowledge-intensive service industries, which they perceive as an entry point to global economy. This allows them to develop the expertise

[19] Tolentino, P. E. (2000) '*MNCs corporation: emergence and evolution*'. London: Routledge.

in an environment that is not dominated by established international leaders. Further, the most powerful EMNCs invest in developed countries to assume global leadership position in their industries. In this case, however, EMNCs operate in low and medium research-intensive industries because they lack the capabilities to compete in higher value-added activities.

2.3 Debate on benefits to home country and government support to OFDI

The debate if developing countries should actively promote or restrain OFDI, or even be neutral to both IFDI and OFDI, is somehow a new one. As Globerman and Shapiro (2008) note, to this point, there have been very few contributions to these questions. Most of the literature has focused on the impacts of FDI to the host economy, leaving aside home-country effects, or the effects of OFDI to home economy of developed countries. Home-country measures implemented by developing countries have also just recently caught attention of scholars, although often the focus has been their importance to OFDI by firms from certain countries, rather than their real necessity for the development of EMNCs. There has not been enough discussion on which policies work best.

For a long period, developing countries have been restrictive to outward investments due to usual shortages of foreign exchange and capital constrains in many of such countries. In this sense, countries felt they should prevent the export of capital, as they were concerned with potential negative impacts on domestic investments, jobs generation and balance-of-payments constraints. The main concerns are that OFDI would export jobs and constrain GDP (UNCTAD, 1995, p. 307).

More recently, however, some developing countries have recognized the importance of OFDI for their firms' competitiveness and for the overall performance of their economies (Sauvant, 2005). As Sauvant (2005) notes, the number of developing countries reporting OFDI went from 70 in 1985 to 122 in 2003. Many of such countries have put in place liberalizing or supporting policies in order to support the internationalization of domestic firms, believing OFDI have overall net positive economic benefits to the home economy.

It seems, however, that sometimes the benefits of OFDI to the home economy are taken for granted, following similar arguments to the ones for "learning by exporting" (Branstetter,

2000, in Nicolas and Thomsen, 2008, p. 39)[20]. As Moran (2008) points out, it is often believed that MNCs can lead the acquisition of external inputs of R&D and lead the upgrading and restructuring of domestic industries in which they operate. Although there is some evidence for this (Globerman and Shapiro, 2008; Visser, 2006; Lipsey, 2002) for developed countries, one cannot imply that the impact of OFDI to developing economies will mirror those observed for developed countries because there are important differences between developing and developed country firms and institutional contexts (Globerman and Shapiro, 2008).

As Moran (2008) argues, the decision for government support should be based upon the assessment of the impact of OFDI to the home economy and the country political objectives. As Globerman and Shapiro (2008) point out, the debate on whether OFDI is positive or negative to an economy depends on how much OFDI contributes to increasing productivity levels, and therefore how does it contributes to the international economic integration of the country. These can best be inferred by assessing OFDI relation to international trade, technological change and domestic capital formation.

2.3.1 Empirical evidence of OFDI effects to the home economy

(a) OFDI and trade

Revising some of the empirical literature on the effects of OFDI on international trade, Globerman and Shapiro (2008) point out to a complementary relation between them. This is aligned with the main body of FDI theory. According to the theory, firms internationalize to explore FSAs abroad, and firms would rather engage in FDI when they can deal with market imperfections more efficiently through FDI than through an arms-length relationship. Therefore, exports would be encouraged when the home country presents location-bound advantages, and imports when the opposite is the case. Both inter and intra-industry trade would be encouraged by OFDI. The former as a result of specialization of production within the home country along its comparative advantages, and the latter as a result of geographical distribution of value added activities within industries (Globerman and Shapiro, 2008).

[20] Branstetter, L. (2000) 'Is FDI a channel of knowledge spillovers? Evidence from Japan's FDI in the United States'. *NBER Working Paper Nº 8015.*

Moran (2008), drawing upon developed country experience, argues that OFDI serves to increase exports of parent firms investing abroad. He argues that this positive relationship hold true for both high and low-tech industries, low and highly advertising-intensive industries, and heavily and non-unionized industries. In the same direction, Navaretti and Venables (2004:220) cite earlier studies supporting that exports from home country usually complements activities of foreign subsidiaries. However, Lipsey (2002) argues that there is no universal relationship between exports and OFDI. There are situations that OFDI supports exports and other it reduces exports. The effect depends on the nature of the investment abroad (vertical or horizontal), as well as if it is carried in goods or service industries.

Navaretti and Castellani (2002) explain that vertical investments relocate stages of production abroad, increasing intra-industry trade. When upstream stages of production are transferred abroad, there is a decline in the exports of finished products, but might encourage intermediate products exports. Horizontal investments may increase domestic plants exports if home and foreign products are complements, whereas it reduces exports if they are substitutes. Citing Blonigen (2001)[21], Navaretti and Venables (2004: 221) explain that Japanese investments in car assembly in the US are complementary to exports of auto parts from Japan. On the other hand, Japanese investments in auto parts in the US are substitutes for auto parts exports. According to Navaretti and Venables (2004:221), most studies for developed countries indicate that vertical investments increase exports, but this is not always the case for horizontal investments.

Arbix et al. (2004) also finds a positive relationship between exports and OFDI by Brazilian MNCs that invest abroad seeking innovation. The authors conclude that these firms increase their competitiveness as a result of technological innovations enabled by internationalization, and that this allows them to boost exports. Alem and Cavalcanti (2005) argue that as national firms internationalize and increase their exports, they also contribute to improve their home country economies by reducing external vulnerability.

Globerman and Shapiro (2008) note, however, that differences between developing and developed country firms may induce different effects of OFDI to the home economy. The authors argue that specific attributes of EMNCs, such as the prevalence of large diversified

[21] Blonigen, B. A. (2001) 'In search of substitution between foreign production and exports'. *Journal of International Economics,* vol. 53, nº1, pp. 81-104.

business groups and family-control, government involvement, and other institutional voids, tend to hinder the benefits of OFDI to developing economies. This happens because the strength of the linkages between OFDI and trade and technological diffusion is likely to be weaker.

Kokko (2006) also argues that overall OFDI effect to developing home countries should be limited. To the extent the developing countries firms normally invest in other developing countries (South-South investment), there should be a low technological gap between home and host firms, as EMNCs do not rely on advanced technological capabilities in general. The low technological gap, combined with difficult to protect patent rights, make EMNCs competitive advantages likely to be temporary, and thus the effect of OFDI on home country should be limited. Likewise, as low-skill services sectors (e.g., hotel and construction) are relatively predominant in South-South OFDI, Kokko (2006) argues that OFDI impact is uncertain due to limited flow of intermediates.

Nonetheless, the author recognizes that South-North investments by EMNCs are often motivated by the wish to acquire technology and skills. In these cases of backward integration, the new skills and knowledge enhance firms' ability to export to other developing countries or become more efficient. This has a positive impact on productivity, employment and exports. This is also accompanied by the diffusion of knowledge to other firms in the home country.

(b) OFDI and employment

As mentioned earlier, there are concerns that OFDI would imply a reduction in employment at home due to differences in wage levels between countries. As Navaretti and Castellani (2002) explain, vertical FDI is usually cost saving and thus would reduce home employment by relocating valued added activities abroad. The effects of horizontal FDI on employment depend on the relationship of substitution or complementarity between domestic and foreign output. Employment would decline if only capital-intensive activities were carried at home, or if there were gains in efficiency of domestic production as a result of foreign operations. In turn, it would increase if there were higher demand for headquarter services, or if domestic labour becomes more productive than other domestic inputs.

Empirical evidence on developed country experiences, however, indicates that OFDI tends to not substitute employment at home (Navaretti and Venables, 2004: 221; Lipsey, 2002). Navaretti and Venables (2004: 221) revise some of the literature on the matter, and conclude that, although there are problems in measuring the effects of OFDI on home employment, firms in general are not exporting domestic jobs to low-wage countries as the conventional wisdom thinks. Nevertheless, although employment at home is usually not affected by wage changes in low-wage countries, there is some substitution effect between home and foreign employment in affiliates based in other high-income countries.

Lipsey (2002) finds evidence that OFDI leads to a shift by parent firms towards more capital-intensive and skill-intensive domestic production. As Visser (2006) explains, while employment in manufacturing production at home fell when it augmented abroad, high-skill activities increased at the home country, denoted by the rise in employment at the headquarters of firms.

(c) OFDI and technology upgrade

One of the indirect effects associated with OFDI is gain in productivity derived from the access to new technologies and skills, besides efficiency improvements brought by economies of scale and specialization. As mentioned in the previous section, there has been a substantial increase in asset-augmenting OFDI, notably from developing countries. These knowledge-seeking investments potentially can directly promote technology change by transferring home new production and management techniques (Globerman and Shapiro, 2008).

According to Navaretti and Venables (2004: 231), results on the effects of foreign knowledge and technology on productivity on developed countries are mixed. Braconier et al. (2001, in Navaretti and Venables, 2004, p. 231)[22], looking at the OFDI from Swedish firms, found no evidence of R&D spillovers to the home country induced by foreign technological sourcing, as measured by productivity changes. Conversely, Pottelsberghe de la Potterie and Lichtenberg (2001, in Navaretti and Venables, 2004, p. 231)[23], analysing 13 OECD countries,

[22] Braconier, H. *et al* (2001) 'In search of FDI-transmitted R&D spillovers: a study based on Swedish data'. *Weltwirtschafliches Archiv,* vol. 137, pp. 644-665.

[23] Pottelsberghe de la Potterie, B., Lichtenberg, F. (2001) 'Does FDI transfer technology across borders?' *The Review of Economics and Statistics,* vol.83, nº3, pp. 490-497.

found that a country's productivity is increased by OFDI investments in R&D-intensive countries.

Branstetter (2000, in Navaretti and Venables, 2004, p. 231)[24] also found evidence of R&D spillovers to the home country as a result of OFDI. In this case, the author found that Japanese firms investing in the US have higher propensity to patent, denoting that R&D spillovers are associated with technological upgrades, besides higher productivity. In general, Navaretti and Venables (2004: 231) show that there is evidence of technological upgrade at home, because investing firms become more skill-intensive and transfer foreign technological knowledge from their foreign subsidiaries.

Navaretti and Castellani (2002), looking at the Italian experience, also find evidence of productivity gains in earlier stages of internationalization, with firms substantially increasing their productivity after opening their first foreign branch. As Navaretti and Venables (2004: 232) explain, after comparing MNCs and domestic firms, there is evidence that foreign investments enhance the productivity path of investing firms.

However, as Globerman and Shapiro (2008) observe, realizing the benefits of foreign technological spillovers depends on both the absorptive capacity of the domestic firm, as well as on the country's capacity to absorb, use and diffuse effectively the acquired knowledge. The authors argue that although developing countries more easily benefit from foreign technological sourcing due to substantial divergence in technological levels, they have weaker absorptive capacity than developed countries. The authors cite the study of Kokko (2006), which supports the view that developing countries need a minimum critical level of human capital to take advantage of spillovers opportunities from both IFDI and OFDI.

(d) OFDI and domestic investments

Another major concern associated with OFDI is that investments that could take place in the home country would be transferred abroad, following a similar argument to the one of domestic employment. However, Desai et al. (2005), having researched American MNCs investing abroad in the 1980s and 1990s, find evidence of higher levels of foreign capital expenditure being associated with greater levels of domestic investments. According to them,

[24] Branstetter, L. (2000) 'Is FDI a channel of knowledge spillovers? Evidence from Japan's FDI in the United States'. *NBER Working Paper Nº 8015.*

contrary to previous research (Feldstein, 1995, cited in Desai et al., 2005)[25], foreign and domestic investments are thus complementary.

Likewise, Visser (2006: 351) cites a study (Braunerhjelm et al., 2004)[26] on Swedish MNCs that has found a positive relation between vertical OFDI and domestic investments, whereas horizontal OFDI was associated with a reduction in domestic investments. Researching the relationship between OFDI and domestic investments in developing home countries, Globerman and Shapiro (2008) find no significant correlation between gross fixed capital formation (GFCF) and OFDI. They argue that OFDI as a percentage of GDP is much lower than domestic savings as a share of GDP in the vast majority of developing countries, notably in Asian countries. Therefore, according to the authors, it is unlikely that an increase in OFDI as a share of GDP would affect the ability of domestic investors to fund domestic capital expenditure from domestic savings. In the case of Latin American countries, the authors argue that OFDI flows are relatively too small to explain the low levels of domestic savings. In this case, the authors point to political instability as a more reasonable argument.

In fact, Globerman and Shapiro (2008) argue that to the extent that OFDI contributes to real income growth in developing markets, either because of new markets or because of efficiency and productivity gains, is it more likely that OFDI will contribute to higher savings in such countries. This way, they argue that there is no basis for concluding that OFDI reduces domestic investments.

2.3.2 Debate on the role of governments and instruments to support OFDI

From the discussion above, it is clear that there is no unanimous conclusion on the positive effects of OFDI to home countries. A wide range of conditions must be in place for the benefits to accrue to the home country. This is also true for negative impacts to occur. Among the positive effects, the most important one is the impact on home country firms' competitiveness and size (Navaretti and Venables, 2004: 239). In a globalized world, firms are increasingly affected by international competition. Hence, to invest abroad is also

[25] Feldstein, M. S. (1995) 'The effects of outbound foreign direct investment on the domestic capital stock', In Feldstein, M., Hines jr., J. R., Hubbard, R. G. (eds.) *The effects of taxation on MNCs corporations.* Chicago: Chicago University Press, pp. 43-66.
[26] Braunerhjelm, P., Oxelheim, L., Thulin, P. (2004) 'The relationship between domestic and outward foreign direct investment: the role of industry-specific effects'. *IUI Working Paper Nº 625.*

important as a survival strategy, besides acting as an instrument for leveraging competitiveness (Alem and Cavalcanti, 2005).

Evidence indicates that exports are likely to increase, or at least not diminish, and that the internationalization is accompanied by more investments in marketing and R&D often carried at home. OFDI is usually followed by an upgrade in employment at the home country towards more capital and skill-intensive activities, which pay higher salaries (Lipsey, 2002). Kokko (2006) also notes the importance of OFDI for knowledge spillovers as a result of strategic-asset seeking investments, and its role in securing access to raw materials.

In spite of some negative effects in some situations, all of the benefits mentioned above contribute to developed countries view that altogether foreign investments are more likely to strengthen home activities. The majority of developed country governments assume this net positive view as indicated by the variety of policies encouraging OFDI in place in those countries. As table 4 shows, these policies consist of information and technical assistance, financing and fiscal support, and political risk insurance for outward investing companies.

Table 4 - OFDI promotion programmes of OECD countries, early 1990s

	Information and technical assistance					Financing		Insurance
Country	Information	Matchmaking	Missions	Feasibility studies [a]	Project development and start-up [a]	Equity	Loans	Guarantees
Australia	•	•	•	•				
Austria	•					•	•	•
Belgium	•	•				•	•	•
Canada	•	•	•	•	•	•		
Denmark						•	•	•
Finland	•		•	•	•	•	•	•
France	•			•	•	•	•	
Germany	•	•	•	•	•	•	•	•
Italy	•	•	•	•	•	•	•	•
Japan	•	•	•	•	•	•	•	•
Netherlands	•	•	•	•		•	•	•
New Zealand	•	•		•		•		
Norway	•	•	•	•	•		•	•
Portugal	•	•	•				•	
Spain	•	•	•			•	•	•
Sweden	•	•		•		•	•	
Switzerland	•	•	•	•	•	•	•	•
United Kingdom						•	•	•
United States	•	•	•	•	•		•	•

Source: UNCTAD, 1995, p. 313.

More recently, some developing economy governments have also began to adopt an active role in promoting OFDI, having implemented similar liberalizing and promotional policies (Rasiah et al., 2010; Sauvant, 2005; Luo et al., 2010). As Sauvant (2005) explains, some developing countries have moved in a phased manner from restrictive to permissive to pro-active policies towards OFDI. Before, developing markets relied on capital export restriction policies to keep investments at home and avoid capital flight because of shortfalls in domestic savings and balance-of-payments deficits (UNCTAD, 1995: 307).

However, Globerman and Shapiro (2008) question if developing country governments should actively promote OFDI. It is one thing to remove unnecessary barriers and impediments to the international expansion of domestic firms and another to provide financial or other direct support. They argue that while benefits to the home economy are plausible, there are many conditions for them to occur, making it hard to identify the benefits empirically. According to the authors, this is particularly true for developing countries, as the linkages between OFDI, globalization and real income growth are not as straightforward or as significant as for developed countries.

According to them, increased profits generated by foreign operations should not be enough for governments to undertake policies that subsidize or lower costs of outward investments. Hence, such policies are potentially justifiable only if OFDI contributes to the efficiency of the home country more generally, also increasing the real income levels of those who are not owners of MNCs (Globerman and Shapiro, 2008). Essentially, there must be broader spillovers to the home economy. Instead of focusing on OFDI, the authors argue that developing countries should implement policies focused on improving their capability and of their firms to benefit from globalization more generally. This includes refining public sector governance, education, R&D and physical infrastructure and so forth.

As Kokko (2006) notes, another concern relates to increasing bargaining power of firms as they internationalize. Increasing foreign production and sales leads to a decrease in the importance of home markets for the company. Although most of the MNCs continue to rely on home markets, there are some widely global firms that rely extensively on foreign markets, notably those from smaller countries. As MNCs become less dependent on home markets, they might confront governments for desirable policies by threatening to relocate abroad. As governments fear the loss of domestic jobs and tax revenues, they may find themselves in

tough bargaining positions (Kokko, 2006). However, to the extent that firms raise their competitiveness and home country economic performance, this does not seem to be a reasonable view to undertake restrictive policies.

In fact, restrictive policies have been used to avoid negative balance-of-payments (BOP) effects. As Kokko (2006) shows, countries such as the US and Sweden had restrictions on domestic borrowing for OFDI investments, as well as licensing requirements for OFDI applied for most of the countries. Such restrictions were lifted in most of the developed countries before the 1980s, as international capital markets became more integrated and the worries of negative effects of OFDI reduced following studies pointing to OFDI benefits to the home economy. Alem and Cavalcanti (2005) argue that to the extent that OFDI is associated with higher exports, it contributes to reducing countries external vulnerabilities, and governments should encourage FDI through active policies.

Although developed countries, and more recently developing countries, have adopted a positive view towards OFDI, as noted by phased liberalization of OFDI policies, the need for direct support remains debatable. In face of budget constraints, the case for government funds to support their firms' internationalization is not so straightforward.

Navaretti and Venables (2004: 253) argue that FDI policies, as other policies, must be related to market failures, notably those related to coordination problems in cases with external economies of scale and learning-by-doing. To the authors, potential benefits of OFDI are not sufficient for active policies. Under well-functioning markets all benefits would be realized. Active policies in the absence of market failures may be justified, but not on welfare grounds. They should better be understood under a political economy framework.

Goldstein (2007: 95) argues that, no matter how many competences EMNCs possess, they always start from weaker positions than their established foreign rivals. Hence, government support is justified to the extent that it compensates for indigenous firms' lack of ownership and internalization advantages. Luo et al. (2010) also support the view that governmental OFDI promotion is a legitimate way to help compensate for EMNCs late-mover disadvantages, shortfall in distinctive capabilities, and liabilities of foreignness.

Likewise, Goldstein (2007: 95) argues that developing countries may face additional market failures (e.g., financial bottlenecks and informational asymmetry) that justify OFDI policies. He argues that because EMNCs compete in international markets, it is easier to exert discipline on them and prevent them from receiving unnecessary subsidies. The stronger competition in the international market in relation to the domestic market already imposes higher performance requirements. Additionally, many times it is the very policy setting in developing countries that prevent firms to internationalize. "There are limits to outward investment, lack of insurance for outward investment, exchange rate controls […] lack of information on overseas investment opportunities, and lack of access to finance" (UNCTAD, 2005, p. 13).

Adopting a more politically sensitive approach, Moran (2008) argues that provided that there are positive effects to exports and economic upgrade, more favourable policies should be implemented. From the developed countries experience, few instruments are strongly correlated with outward international investment flows to developing countries. In spite of not knowing the extent of their impact, the following instruments are considered to be quite important: provision of political risk insurance, avoidance of double taxation of profits earned abroad, and regulation to prevent bribery and the diversion of public revenues to private pockets (Moran, 2006, p. 114).

To the extent that South-South investments represent a large part of OFDI from developing markets, these instruments may be important. Furthermore, there are other market failures that hinder EMNCs' OFDI to both developing and developed countries, and therefore might justify the use of "light-handed" measures by home governments (e.g., information and technical support).

Revising policy implications of OFDI to developed home countries that can be transposed to developing countries, Moran (2008) argues that one important issue is the tax treatment. He argues that there are three approaches to tax policy: National Neutrality, Capital-Import Neutrality and Capital Export Neutrality. These policy approaches are associated with the use or not, and the nature of Double Taxation Treaties (DTTs).

Among them all, National Neutrality approach is the most restrictive toward OFDI, although it does no prohibit domestic firms to go abroad. It seeks to maintain domestic firms at home

and maximize home country tax. Under such policy approach, governments do not allow foreign tax credits for taxes paid abroad by domestic firms, allowing only for their deduction as a business expense associated with doing business abroad. Hence, domestic firms end up suffering double taxation in the case of equal or higher taxes, and also loosing the benefits of lower taxes or tax breaks offered by host countries, as the home country would collect the difference. Hence, a National Neutrality approach would impose an extra burden on firms competing internationally (Moran, 2008).

The Capital-Import Neutrality is the opposite policy approach. It seeks to ensure that domestic firms be taxed at the same rate as foreign local competitors, providing an extra incentive for firms to internationalize. This approach is consistent with the view of positive effects of OFDI to the competitiveness of domestic firms, and to employment as a result of the creation of export-led jobs with high wages. Under such approach, the government exempts domestic firms from paying taxes at home for foreign-generated earnings, allowing these firms to benefit from any sort of tax breaks and tax holidays offered by host-countries (Moran, 2008).

As Moran (2008) notes, although this approach make sense when there are broad spillovers to the home economy, it is difficult to identify empirically which sectors and firms will in fact provide such benefits and deserve such treatment. Even if this is defined, others will make the same arguments and insist that they deserve the same treatment. However, Navaretti and Venables (2004: 254) alert to reductions in welfare if industries without externalities are subsidized.

Finally, there is the Capital Export Neutrality approach, which lay between the other two approaches. It also recognizes the benefit to home economy, but it does not push firms abroad. It seeks to ensure that firms investing abroad be taxed as those that remained at home. Under such approach, domestic firms are taxed on their global operations and receive foreign tax credits for taxes paid abroad. This way, managers can ignore foreign income tax, as firms will always pay taxes as if they remained at home. This approach contributes to prevent artificial distortions in locational decisions arising from host-country tax incentives (e.g., tax breaks or tax holidays) (Moran, 2008).

(a) Fiscal incentives

The above-mentioned tax policies that are favourable to OFDI are best expressed in Double Taxation Treaties (DTTs). DTTs are usually of a bilateral nature as they aim to avoid taxation of the same income by two or more national States. They provide for the allocation of exclusive or shared rights to taxation by the parties involved, specifying the applicable tax base and the applicable withholding taxes. As DTTs represent cooperation between parties, there is an expectation that they would increase investments (Blonigen and Davies, 2002).

However, as Blonigen and Davies (2002) argue, this may not happen exactly because they can reduce tax avoidance and other tax-savings strategies by firms. For instance, DTTs may limit the ability of firms to engage in transfer pricing to diminish global taxation by transferring profits to low tax locations. Against common sense, the authors found empirical evidence for OECD countries that the formation of recent treaties does not increase FDI activity. In fact, recent treaties had a negative influence but were not statistically significant. However, they found a positive relationship between DTTs and FDI when all DTTs, including those concluded before the sample period, were taken into account. The uncertainty of effects is an important issue due to the costs of treaty formation for the countries involved.

Barthel et al. (2009) revised studies using bilateral FDI data, and concluded that most of them failed to find a positive effect of DTTs on FDI. On the other hand, they point out to studies' limitations due to small and non-representative sample size. Using a broader dataset, the authors looked to the effect of DTTs on FDI in both developed and developing countries over a long period of time, concluding that DTTs increased bilateral FDI stocks substantially.

Nonetheless, they alert for one important cost factor associated with DTTs: the potential loss of tax revenues since DTTs normally favour residence taxation over source taxation. While FDI flows between developed countries are quite symmetrical, the countries involved do not face a severe loss of tax revenue. However, as developing countries are usually FDI recipients, DTTs often lead to losses in tax revenues in such countries. Neumayer (2007) argues that, because of their capital importer characteristics, for developing countries DTTs would only pay off if they were to receive more FDI in return. Supporting the formation of DTTs, the author finds evidence that middle-income developing countries that signed DTTs with the US or other developed country do receive more FDI. This is not the case for low-income developing countries.

In spite of uncertain effects of DTTs on bilateral FDI flows, countries have constantly engaged in such agreements in recent years. According to Barthel et al. (2009), in the 2004-2007 period, 92 new DTTs were signed on average every year, totalizing 2,351 treaties in force at the end of 2007. Out of these, developed countries are involved in 74%, of which 24% is in agreement with other developed countries, 38% with developing countries, and 12% with transition economies. South-South DTTs account for 16% of all treaties. Neumayer (2007) notes that the surge in worldwide DTTs occurred in the 1990s, concomitantly to an increase in FDI flowing to developing countries. Goldstein (2007: 103) notes that 172 new DTTs between developing countries were signed in the 1990s.

As UNCTAD (1995: 341) notes, historically developing countries viewed the negotiation of such treaties from the perspective of host countries. As Neumayer (2007) observes, the surge in worldwide DTTs happened during the 1990s, concomitantly to an increase in FDI flowing to developing countries. Although only few developing countries have signed, most of those that signed relied on DTTs to improve their investment climate to receive inward FDI. Currently, as their firms move abroad, these countries have a broader interest in international policies, and potentially perceive more benefits in such instruments, as it occurred with BITs.

(b) Financial incentives

Direct financial support is another mechanism through which governments have encouraged their firms to go abroad. The use of financial support is often associated with the selection of particular industries and firms to become national champions upon which governments rely on to pursue political and economic goals. The rationale for selective industrial policy is the existence of market failures that diminish welfare and, therefore, demand for welfare-enhancing interventions (Noland and Pack, 2003, p. 16).

Moran (2008) points out to more specific rationales for the creation of global national champions. According to him, a first rationale would be the existence of national firms in sectors that provide good jobs and/or high value-added activities, and that would benefit from internationalization. A second justification would be the strategic trade justification for national champions. Basically, the country would seek to have a national firm in sectors in which economies of scale and entry barriers are important, and externalities are especially large, and that firms from rival states could become dominant. This way, governments can

help shift excess returns from foreign to domestic firms in sectors facing imperfect competition.

Finally, Moran (2008) argues that a third rationale is to avoid dependence on external suppliers who might delay or deny the provision of goods and services that are crucial to the functioning of the home economy. This is best understood under a political economy perspective, as for instance the national security argument. However, Moran (2008) alerts to the difficulty in identifying market failures and externalities, and to political pressure in the selection among potential firms. Likewise, it is also difficult to establish the limits of national security justification to limit candidates for support.

Selective industrial policies have been widely used by developed and developing countries, with varying degrees and characteristics. Results from these experiences have been widely debated, and no unanimous position has been reached. Among many others, one important adverse argument has been the loss of competitiveness by supported firms that focused on captive domestic markets (inward-looking policies), and did not raise their productivity to international standards. Goldstein (2007:95) alerts that, to the extent that firms are supported to go abroad, they will naturally compete internationally and thus will have to increase their productivity to remain competitive. Hence, to the extent that OFDI is encouraged, it is easier to exert discipline on supported domestic firms.

UNCTAD (1995:315) observes that about a half of OECD countries provided financial support for private FDI projects into developing countries through some type of development finance institution. From the table 4, one can see that both loans and equity support is provided by many advanced countries. Usually, such institutions take minority positions that are offered for sale once an operation becomes profitable. Many times the support is associated with investment in strategic regions for the home country or in advancing its export capacity, or is even limited to small and medium enterprises. These are done through institutions like the Caisse Centrale de Cooperation Economique (France), Commonwealth Development Corporation (United Kingdom), and the Swedish Fund for Industrial Cooperation with Developing Countries (Sweden), the German Finance Company for Investment in Developing Countries (Germany), Overseas Private Investment Corporation (United States) among others.

Among developing countries, direct financial support has also been used to encourage OFDI projects. As of 1992, Korea, for instance, has encouraged OFDI to provide access to new technologies and contribute to the restructuring of the home economy in the globalizing world. The government promoted OFDI to secure access to raw materials and facilitate exports (Dunning et al., 1997). After the 1997 Asian Crisis, Korea engaged in further extensive investment liberalization and OFDI promotion. Currently, the EXIM Bank of Korea provides loans with preferential rates to finance up to 80% of total OFDI amount (Lee, 2007).

Malaysia has also encouraged firms to go abroad since 1991 by introducing fiscal and financial incentives to overseas investments, as a result of the recognition of the importance of internationalization of firms to guarantee access to markets and secure access to raw materials. Also after the Asian crisis, OFDI in agriculture was encouraged to ensure food security. In 2003, the government has introduced additional fiscal and financial incentives for firms acquiring companies abroad for high technology production or for gaining new exports markets. The EXIM Bank of Malaysia also provides loan financing overseas investments in infrastructure, manufacturing and other developmental projects (Ariff and Lopez, 2007).

UNCTAD (1995: 338) also finds evidence of financial support to OFDI by other developing countries. Singapore combines tax and financial incentives with close government business coordination. Thailand provides loan to finance overseas investment through its EXIM bank. Taiwan also has a programme to support OFDI through both tax and financial instruments, with the latter been mainly carried by the EXIM Bank, which provides investment loan financing. This show how developing countries' financial support to OFDI has been closely related to trade-based exports promotion programmes.

(d) Information and technical assistance

A market failure preventing firms from investing abroad is the lack of information about foreign markets, due to limited prior experience with foreign investments, cultural and language barriers, lack of home-host country connections and networks. As Moran (2008) explains, first movers incur in high risks when deciding on FDI site, while followers can rapidly copy their strategies and prevent first movers from rewarding the risks taken. This may imply a market failure that justifies government support FDI site identification.

Hence, many countries have put in place a wide range of policies to overcome this problem and help their firms find local partners, identify investment opportunities, and deal with host country regulations. Such measures include providing basic information on countries legal frameworks, macroeconomic conditions, industry characteristics and other factors that influence the investment climate of potential destinations. In general, they help firms overcome the asymmetry problem that end up relatively affecting investment and locational decisions.

Basically, UNCTAD (1995:313) identifies five types of *informational and technical* assistance: *information, matchmaking, missions, feasibility studies and project development and start-up*. *Information* refers to investment climate information and constitutes an essential element in the decision process. So government agencies can work to identify, evaluate and promote investment opportunities to domestic firms, especially in other developing countries where data may not be readily available. This can be particularly important for SMEs seeking to go abroad. Instruments used are trade and investment fairs, seminars, publications, and specific websites. Some home governments proactively list aspirant outward investors and their capabilities, to better coordinate and promote their interest abroad through website, embassies and trade agencies (Rasiah et al., 2010).

Countries that have adopted proactive OFDI promotional programmes have often relied on their Investment Promotion Agencies, foreign commercial service and other development institutions, such as EXIM banks and development banks. These institutions have been used to help uncover exports and also FDI opportunities. They organize *investment missions*, in which business executives, along with government officials, travel to potential investment destinations and meet with local officials and potential local business partners. The government engagement contributes to linking potential investor with opportunities.

Some government agencies have also provided direct *matchmaking* services, which consist in matching FDI opportunities with particular home investors. Likewise, some governments provide support for the assessment phase, either by financing part of *feasibility studies* or by connecting the investor with local agents that can potentially help in evaluating business opportunities. Finally, governments have also provided *start-up support* to OFDI projects, such as assistance in funding, preparing legal documents, and training local personnel.

According to UNCTAD (1995:335), many developing countries provide informational and technical support to OFDI projects. Singapore's Economic Development Board has created a database of foreign investment opportunities. In the early 1990s they also set up an International Business Development Strategic Business Unit to analyse foreign market potential, match FDI opportunities with domestic investors, establish government-to-government business councils to promote trade and investments, and provide information on tax and financial incentives to boost outward investments. Thailand is another country that has set up an Overseas Investment Unit to analyse FDI opportunities, conduct feasibility studies, examine relevant rules and regulations.

(e) Investment protection and insurance

Bilateral Investment Treaties (BITs)

A major concern when investing abroad is the uncertainty related to what type of treatment foreign investors will receive by the host country. From the developed world experience, the inability of developing countries governments to make credible commitments due to the lack of sound institutions increases significantly the political risk associated with FDI. To the extent that developing countries are increasingly investing in other developing countries, and especially in industries that involve large sunk and irreversible costs (e.g., infrastructure and natural resources), instruments to protect investments against political risks become substantially important.

Although BITs are usually encouraging but vague in terms of specific home country policies towards OFDI, they can "guarantee certain standards of treatment that can be enforced by binding investor-to-state dispute settlement outside the domestic juridical system" of the host country (Neumayer and Spess, 2005:1). Essentially, BITs provide for non-discriminatory policies towards foreign investors and foreign investment protection against expropriation or nationalization. This way BITs seek to limit barriers and ensure transparency and stability for investment in foreign countries. According to Neumayer and Spess (2005), developing countries usually accept restrictions on their sovereignty in order to increase the flow of FDI into their economies. UNCTAD (2005:22) notes, however, that among developing countries, BITs tend to be more symmetrical by establishing home country responsibilities to promote OFDI as well as host country obligations regarding FDI treatment.

The importance of BITs for the new developing country outward investors is reflected in the growth of BITs among developing countries since the 1990s. According to Goldstein (2007: 102), in 1990 there was only 44 BITs between developing countries. By 2004, this number had surged to 653 BITs, or 28% of BITs worldwide. Asia is the main promoter of South-South agreements, accounting for 68% of them, followed by Latin America. Moreover, developing countries have also sought to integrate regionally by signing regional investment agreements, such as the ASEAN Investment Area Agreement or the Andean Community Decision 292, which promotes regional MNCs (Goldstein, 2007, pp. 102-103).

In spite of the rise on the number of BITs, their impact on FDI is somewhat unclear. Neumayer and Spess (2005) found evidence that BITs raise the flow of FDI to developing countries. However, BITs does not substitute for poor institutional environment in the host country. Sachs (2009), on the other hand, highlights empirical studies that find both negative and positive effects. She argues that in spite of mixed results, governments continue to sign such agreements. The reasons for this are either because they are afraid that investors may avoid investing in countries that have not signed; or because they face pressure by already-investing companies (from both home and host countries); or because they want so signal that they are willing to bind to international agreements more favourable domestic FDI policies and regulations. To the extent that international agreements cannot be changed unilaterally, foreign investors would feel more confortable in investing in such countries.

Political risk insurance (PRI)

Another mechanism through which governments can promote OFDI is to provide investment insurance against political and other non-commercial risks to OFDI investors. Political risk refers to "the probability of disruption of the operations of MNCs by political forces or events" (MIGA, 2009:28), in both host and home countries, or as a result of international environment. In host countries, political risk is associated with: breach of contract by governments, restrictions on currency transfer and convertibility, expropriation, political violence (war, terrorism and civil disturbance), non-honouring of sovereign financial obligations by the host country (MIGA, 2009: 28).

As Moran (2006: 77) explains, political risk, specially breach of contract, is particularly important for FDI projects involving large sunk and irreversible costs, using stable technology and producing low-differentiated products, such as the ones associated with natural resources

and infrastructure firms. These activities are more vulnerable to host country measures changing the rules under which they operate because they have lower bargaining power once investment is made and are subject to hold up. Other industries like manufacturing and assembly industries that request little sunk capital, or industries employing rapidly changing technologies and producing highly differentiated products, can better negotiate with host governments because they can more easily withdraw, make use of their ownership power over local producers of more commoditized products, or decide not to deploy new technology (Moran, 2006: 77).

The use of political risk insurance was historically associated with MNCs from developed countries undertaking FDI in developing countries. However, in recent years, with the emergence of South-South FDI, political risk insurances are increasingly expected to become an important instrument for EMNCs. In a recent survey conducted by MIGA (2010:20), political risk was ranked first among the major concerns for the following three years by MNCs investing in developing countries. Echoing investors concerns is the rise in the number of treaty-based investment disputes from 23 in 2000 to 206 in 2009, with 28% of these in Latin America (MIGA, 2010, p.18). Although recognizing the importance of political risks, south-based investors rely more often than their OECD counterparts on non-contractual strategies to mitigate the risk, such as joint venture with local partners, engagements with local governments. Of all investors, only 21% declared to use of political risk insurances, with North-based investors been twice likely to use it compared to South-based investors. The low use of PRIs is associated with investors' lack of knowledge of such instruments and their coverage of political risks.

Mirroring OECD economies, developing countries have also set up national instruments to provide their MNCs with political risk insurance. Korea, for instance, provides political risk insurance through its Export Insurance Corporation, as does the EXIM Bank of Malaysia and the EXIM Bank of Thailand (MIGA, 2008, p.7). Private insurers also offer political risk insurance to projects facing typically more modest political risks, and generally covering just breach of contract. Multilateral agencies, such as MIGA, also offer political risk insurance to firms from member countries investing in developing countries (Moran, 2006, p.117; UNCTAD, 1995, p. 339).

2.3.3 Sovereign Wealth Funds

Another emerging player serving as a conduit for OFDI from developed and developing countries is the recently created Sovereign Wealth Funds (SWFs). Essentially, SWFs are a result of the accumulation of foreign exchange (FX) reserves, as it is the case for Asian countries since 2000. According to Park and Estrada (2009), in principle, FDI would provide countries with higher earnings on FX reserves than traditional reserve assets (liquid but low-yielding assets), but in practice the political sensitivity of state-led FDI prevents SWFs to undertake large FDI. To the extent that SWFs are profit-oriented, rather than liquidity-oriented as Central Banks, SWFs could become a mechanism to promote OFDI from countries facing excess of FX reserves. Examples: Singaporean Temasek, the Korean Investment Corporation, and China Investment Corporation (CIC) (Park and Estrada, 2009).

The growing importance of SWFs as outward investors from both developed and developing countries have raised concerns that SWFs could be a threat to national security and to market-based economies of host developed countries (UNCTAD, 2010: 15). As indicated by UNCTAD, some recipients have tightened their FDI regimes, while SWFs have tried to increase transparency in response. Park and Estrada (2009) explain that there are two concerns over SWFs foreign investments: lack of institutional capacity to become successful active FDI investors overnight, and host country doubts about whether SWFs' investments are motived by purely commercial considerations. This latter is particularly true for acquisitions by SWFs of national champions or in particularly important industries for host countries, both OECD and developing countries.

Although there are some grounds for concern over geopolitical motives, Park and Estrada (2009) argue that SWFs advantages vis-à-vis the private sector due to government guarantees, giving them more power to bid aggressively for foreign assets, is a more reasonable concern. Despite all this, some SWFs, such as the Norway's Government Pension Fund and Singapore's Temasek, have been quite successful. Hence, although still limited due to host country constraints, FDI remains an option for SWFs seeking a more profitable use of surplus reserves, especially through strategic partnerships with domestic firms to invest abroad.

2.4 Learning from the literature review

This chapter began by briefly reviewing the main FDI models explaining what takes firms abroad and how they compete in international markets. This was followed by the recent discussion on how well these models, based on the experience of developed firms, can be applied to the recent phenomenon of developing country MNCs.

It was shown that developing country firms are increasingly investing in developed countries, although developing countries continue to be the preferred destination. To the extent that EMNCs are expected to have fewer ownership advantages than developed country firms, they would not be able to compete in developed markets, yet they do. This has brought the monopolistic advantage rationale for FDI into question. EMNCs' investments into developed countries seem to be related to their engagement in strategic-asset-seeking investments, which are taking place at earlier stages of development than would have been predicted by the IDP model. Capabilities and competencies – management skill, innovative capacity and brands – were associated with firms from countries on stages 4 and 5, namely developed countries (vide sub-section 2.1.8). Not only EMNCs are internationalizing more rapidly, they are not following an incremental way as the Uppsala model predicts.

EMNCs see the interconnected world market as their market from the start. Differently from original monopolistic models, in which a firm would developed its FSA at home and then exploit it abroad, newcomers seem to see the world as a source of resources to be tapped. EMNCs apparently internationalize to circumvent their domestic institutional and market constraints. Through risk taking and strategic acquisitions of assets from mature MNCs, they overcome disadvantages of latecomers and surpass home institutional voids. The capabilities these EMNCS developed to deal with home institutional voids become FSAs that they can exploit in other developing markets. The organizational and strategic innovations help to compensate for the lack of technical and managerial skills. Despite this, EMNCs do not possess strong FSAs, notably of the knowledge-based kind, that they can exploit to compete in international markets, yet they do go abroad based on locational factors, such as natural resources and cheap labour availability.

Following, this chapter reviewed the debate if developing countries should actively promote or restrain OFDI, or even be neutral to both IFDI and OFDI. It began by revising empirical

studies on the impact of OFDI to the home country. Although not unanimous, evidence based on advanced economies points to a fairly positive effect on trade and productivity levels, as well as domestic investment level. Evidence also indicates that OFDI tends to not destroy jobs at home. However, the extrapolation of developed country results to developing countries is clearly not guaranteed. One of the reasons is because the strength of the linkages between OFDI and trade and technological diffusion is likely to be weaker in developing countries. Hence, positive effects tend to be weaker in developing countries.

In fact, for a long period, developing countries had been restrictive to outward investments due to ubiquitous shortages of hard currency and due to concerns that OFDI would displace domestic production and employment. More recently, developing countries have started to share the developed countries' view that altogether foreign investments are more likely to strengthen home economies. Hence, they began to adopt an active role in promoting OFDI, implementing similar liberalizing and promotional policies, under the assumption that there are broader spillovers to the home economy.

The adoption of these policies is related to market failures, notably those associated with coordination problems, in cases with external economies of scale and learning-by-doing. To the extent that developing countries may face additional market failures (e.g., financial bottlenecks and informational asymmetry), OFDI policies may be justifiable. Potentially negative externalities of selective industrial policy can be diminished by the simple fact that EMNCs compete in international markets. To the extent that competition is tougher in international markets than at home, the very own need to remain competitive in relation to foreign firms would relatively act as a performance requirement.

Finally, current policies encompass a wide range of instruments devoted to promote OFDI. Three broad categories exist: information and technical assistance, direct financial and fiscal support and investment protection and insurance. The role of these measures and how countries have used them were presented, and are discussed within BRIC context in Chapter 4. Before, the following chapter revises some recent OFDI trends at global, sectorial and firm levels, and discusses the strategic drivers of OFDI by BRIC MNCs. The understanding of what is driving firms to invest abroad is of great importance for policy makers to provide effective support for their firms venturing abroad, which is the discussion of Chapter 4.

III Outward Foreign Direct Investment from BRIC economies

Since Brazil, Russia, India and China opened up their economies in the 1990s, the world has seen the rise of BRIC MNCs. In the 2000s, they have emerged as new global competitors and are starting to gain worldwide recognition. These are companies like Haier, Lenovo and CNOOC (China), Tata group and Mittal Steel (India), Embraer, Vale, Gerdau and Petrobras (Brazil), Lukoil and Gazprom (Russia). The importance of BRIC economies has already been recognized by their market size and GDP growth potential, which is expected to overcome the current richest countries by 2050 (Goldman Sachs, 2003).

Nowadays, not only these economies together are altering global economic geography, but also their companies have already taken significant positions in many global or niche industries and have engaged in cross-border acquisitions in both developed and developing countries (BCG, 2011).

3.1 OFDI from BRIC economies: trends and patterns

The rapid rise of MNCs from BRIC countries is quite a recent phenomenon. Although they had invested abroad before, BRIC OFDI has become substantial only from early 2000s on. Together OFDI flows from BRIC peaked at USD147 billion in 2008 (Table 5), almost 8% of world outflows, rising from around 1% in 1998 (Figure 4). In 2009, due to the global financial crisis, BRIC OFDI flows fell to USD 99 billion, but stood at roughly 9% of world total as developed countries OFDI flows dramatically shrank during that year. Figure 4 also shows that the weight of BRIC OFDI is even more meaningful when compared to other developing and transition economies[27].

Over the 1995-2009 period, OFDI flows from BRIC countries went from representing 7% of total developing and transition economies OFDI flows in 1995 to 35% in 2009. BRIC OFDI flows have grown at an average annual rate of 46% during the 2000-09 period, compared to 19% of developing and transition countries and only 7% of total world OFDI flows. In 2009, China and Russia were the 6th and 7th largest outward investors, ahead advanced countries like Italy (8th), Canada (9th) and Norway (10th).

[27] Transition economies refer to the following countries in transition from centrally planned to market economies, and refer to the following countries: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

Table 5 - OFDI flows from BRIC, 1995 - 2009 (US$ billion[a])[28]

	Brazil	Russia	India	China	Total BRIC	Developing and Transition economies	World
1995	1.1	0.6	0.1	2.0	3.8	55.7	362.6
1996	- 0.5	0.9	0.2	2.1	2.8	65.0	396.5
1997	1.1	3.2	0.1	2.6	7.0	77.2	476.1
1998	2.9	1.3	0.0	2.6	6.8	52.1	682.3
1999	1.7	2.2	0.1	1.8	5.8	71.0	1,076.8
2000	2.3	3.2	0.5	0.9	6.9	138.2	1,232.9
2001	- 2.3	2.5	1.4	6.9	8.6	85.6	753.1
2002	2.5	3.5	1.7	2.5	10.2	54.3	537.1
2003	0.2	9.7	1.9	2.9	14.7	56.1	565.7
2004	9.8	13.8	2.2	5.5	31.3	134.6	920.3
2005	2.5	12.8	3.0	12.3	30.5	141.4	893.1
2006	28.2	23.2	14.3	21.2	86.8	252.5	1,410.6
2007	7.1	45.9	17.2	22.5	92.7	343.7	2,267.5
2008	20.5	56.1	18.5	52.2	147.2	356.9	1,928.8
2009	- 10.1	46.1	14.9	48.0	98.9	280.3	1,101.0

Source: UNCTAD FDI database.
Note: ([a]) US$ dollars at current prices.

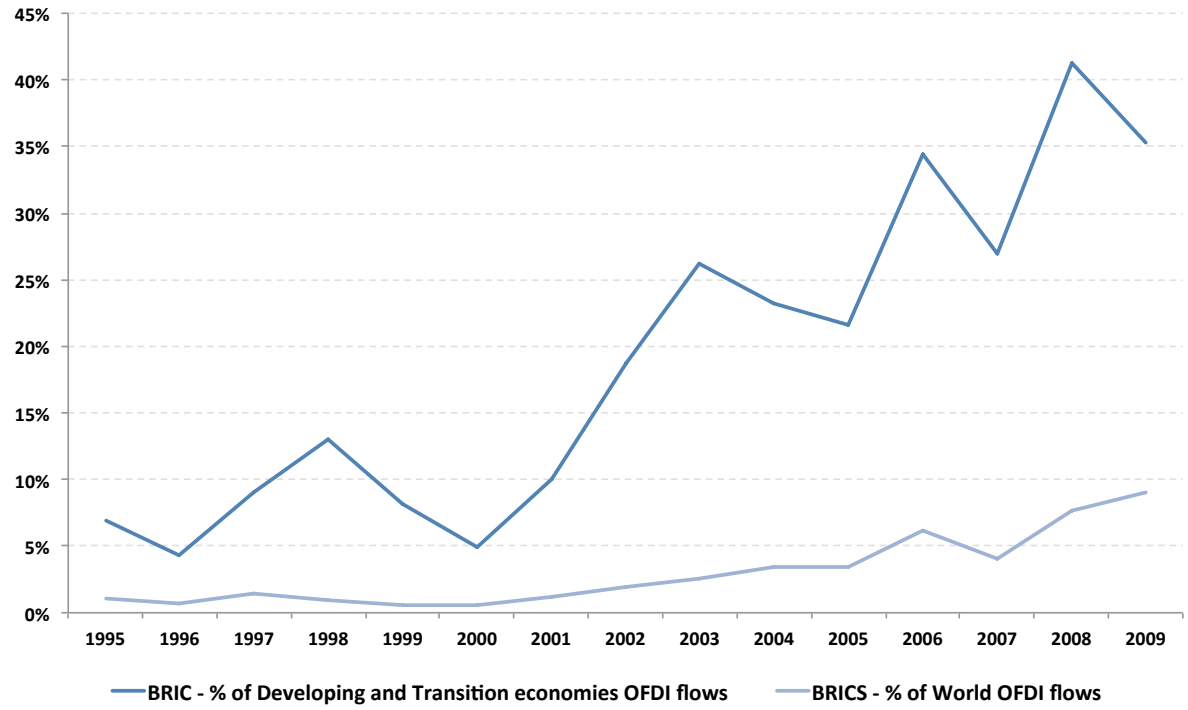

Figure 4 - OFDI flows from BRIC as a share of world and developing and transition economies OFDI flows, 1995 - 2009
Source: UNCTAD FDI database.

[28] All the data must be interpreted with caution because of possible inaccurate calculations from national statistic agencies (UNCTAD, 2010).

While OFDI from BRIC has increased, most of them have remained as net FDI absorbing countries (Figure 5). Although data must be taken with caution, among the BRIC, Russia is the only country that has repeatedly seen greater FDI outflows than inflows[29]. Figure 6 shows that this happened in the years 2000, 2002, 2003 and 2009. In 2006, OFDI flow from Brazil also overcame FDI inflow, largely as a result of the acquisition of Inco (Canada) by the Brazilian mining company Vale (VCC, 2007). Chinese OFDI flows rapidly grew following the country's WTO accession and the implementation of the "Go Global" policy by the government in 2001 (see item 4.1.4, chapter 4). India's OFDI flows also consistently increased after the government's adoption of further OFDI liberalizing policies in 2004 (see item 4.1.3, chapter 4) (Pradhan, 2008; Buckley at al, 2007).

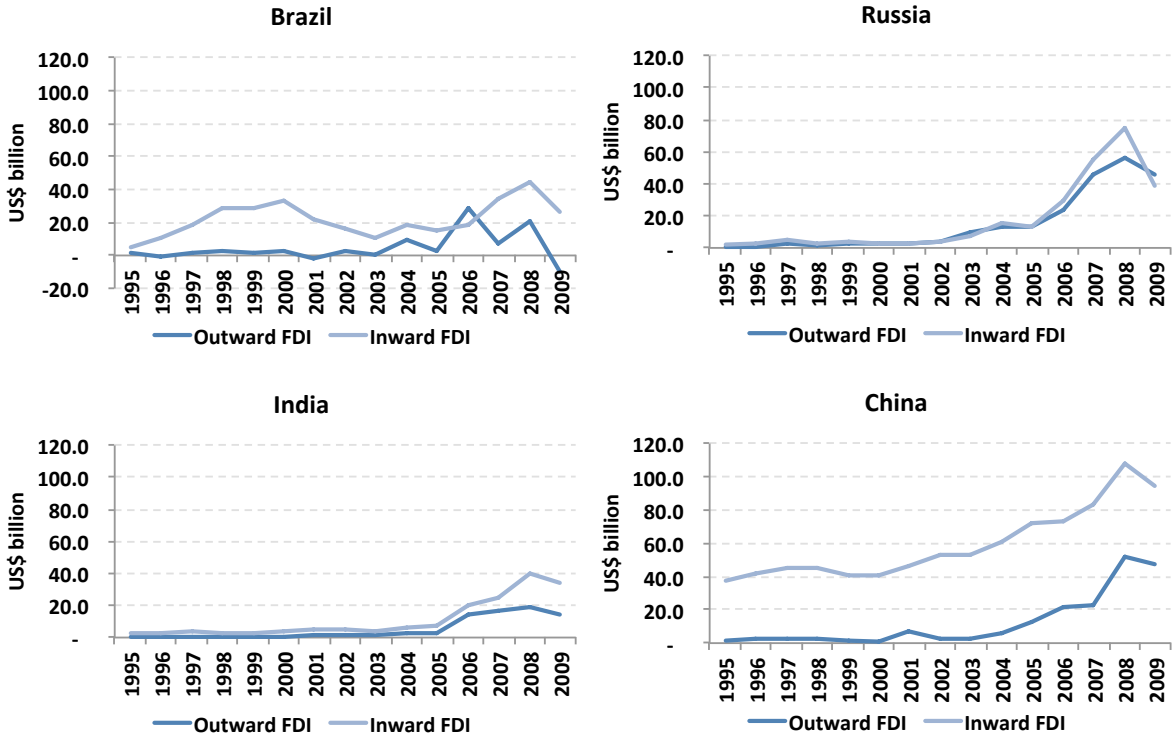

Figure 5 - FDI outflows vs. inflows from BRIC, 1995 - 2009 (US$ billion[a])
Source: UNCTAD FDI database.
Note: ([a]) US$ dollars at current prices.

[29] Sauvant (2005) alerts to the fact that, as in the case of other BRIC, data must be interpreted with caution. Round-tripping (see glossary) plays a role in both Russian and Chinese data. In Russia, data collection and statistics were also a problem until 1999 when the Central Bank improved data collection system (Kalotay, 2010). The improvement in the methodology and data registration system only partially explains the growth in OFDI from Russia. Russian companies are indeed increasingly investing abroad. Data on Russian capital accumulated abroad suffers even more from statistical issues, as the valuation of assets from the time of Soviet Union is hard to achieve. Changes in valuation methods explain large part of differences between the accumulation of flows and stock estimates.

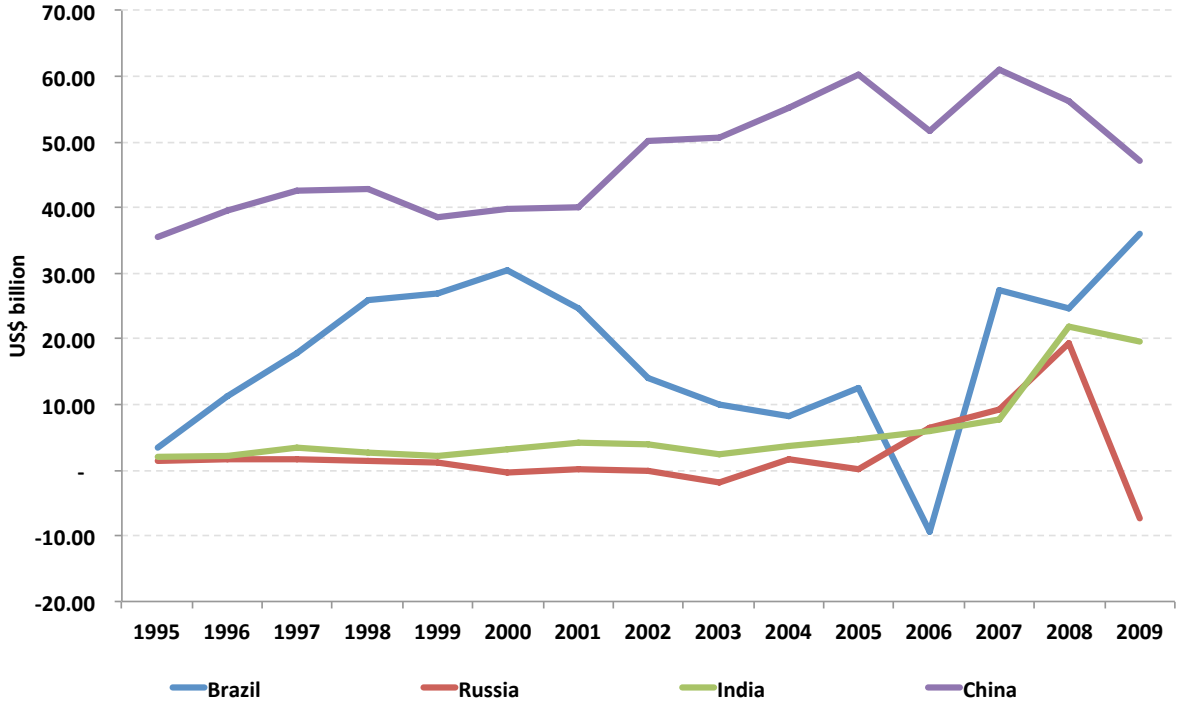

Figure 6 - Net FDI (inflow minus outflow) from BRIC, 1995 - 2009 (US$ billion[a])
Source: UNCTAD FDI database.
Note: ([a]) US$ dollars at current prices.

Although emerging as a source of OFDI, BRIC still lag behind developed countries when considering OFDI flows relative to GDP. Table 6 shows that among the BRIC, Russia stands out, with OFDI flows accounting for 2.74% of GDP on average during the 2003-2009 period, which is close to the average of 2.95% of developed countries. On the other hand, OFDI flows as a share of GDP for Brazil, China and India remained below 1% during the same period.

Table 6 - OFDI flows from BRIC, 1995 - 2009 (share of GDP)

	Brazil	China	India	Russian Federation	World	Transition economies	Developing economies	Developed economies
1995	0.14	0.26	0.03	0.15	1.23	0.12	0.95	1.33
1996	-0.06	0.24	0.06	0.24	1.32	0.19	1.01	1.43
1997	0.13	0.26	0.03	0.79	1.59	0.65	1.12	1.75
1998	0.34	0.25	0.01	0.47	2.30	0.36	0.81	2.73
1999	0.29	0.16	0.02	1.13	3.49	0.78	1.09	4.15
2000	0.35	0.08	0.11	1.22	3.89	0.87	1.98	4.47
2001	-0.41	0.52	0.29	0.83	2.39	0.63	1.23	2.75
2002	0.49	0.17	0.33	1.02	1.63	0.95	0.72	1.89
2003	0.05	0.17	0.32	2.25	1.52	1.75	0.59	1.77
2004	1.48	0.28	0.31	2.33	2.20	1.69	1.35	2.45
2005	0.29	0.53	0.37	1.67	1.97	1.34	1.20	2.24
2006	2.59	0.76	1.57	2.34	2.88	1.74	1.85	3.28
2007	0.53	0.65	1.51	3.55	4.12	2.88	2.00	4.98
2008	1.28	1.21	1.48	3.35	3.19	2.63	1.74	3.81
2009	-0.66	1.02	1.21	3.71	1.87	2.94	1.19	2.11
Average 2003-09	**0.79**	**0.66**	**0.97**	**2.74**	**2.54**	**2.14**	**1.42**	**2.95**

Source: UNCTAD FDI database.

Russia is also the main outward investor in terms of capital invested abroad (US$249 billion), followed by China (US$230 billion), Brazil (US$158 billion) and India (US$77 billion), respectively (Figure 7). In 2002, Russia became the major BRIC outward investor. China took the second position from Brazil in 2008. Despite lagging behind, India's capital invested abroad has grown very rapidly. From 2000 to 2009, it has grown roughly 45 times, against 12.3 times for Russia, 8.3 times for China, and 3 times for Brazil. However, it remains small relative to the other BRIC. Russian capital invested abroad in 2009 was 3.3 times that of India, 1.6 times that of Brazil, and very close to the Chinese stocks level.

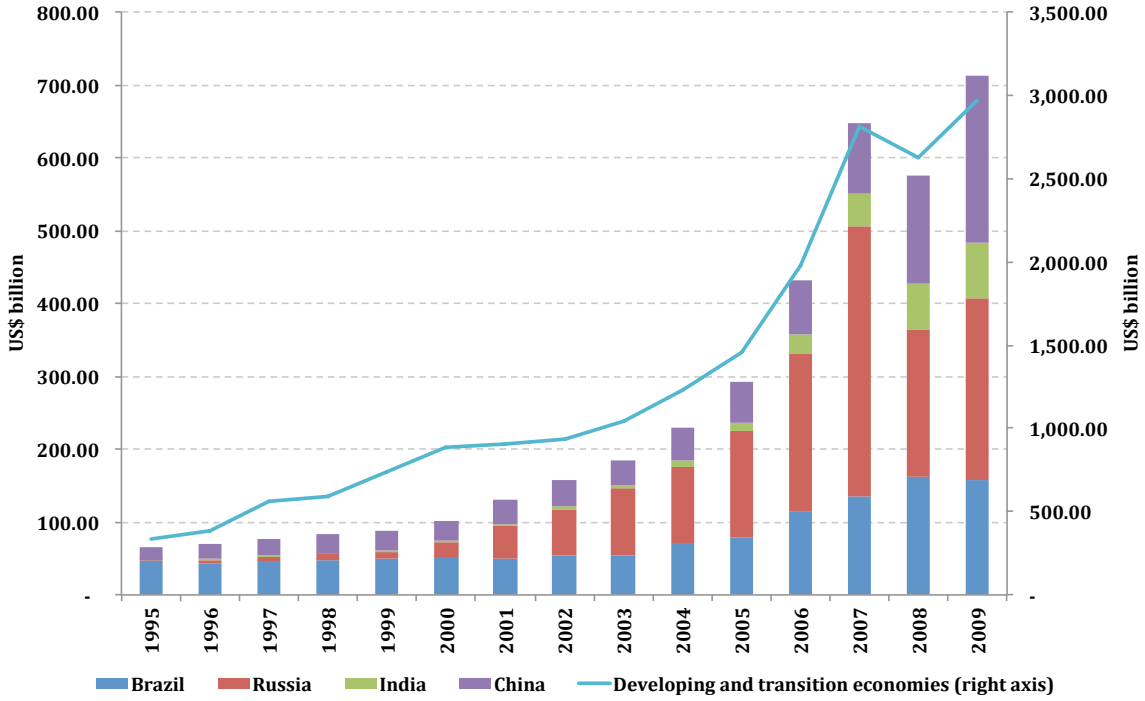

Figure 7 - Capital invested abroad from BRIC and developing and transition economies, 1995 - 2009 (US$ million[a])
Source: UNCTAD FDI database.
Note: ([a]) US$ dollars at current prices.

BRIC are increasingly becoming important outward investors since 2000 (Figure 8). Together BRIC accounted for 3.8% of world capital invested abroad in 2009, almost three times more than its 1.3% share of world's capital invested abroad in 2000. In comparison to developing and transition economies, BRIC capital invested abroad share rose from 11.4% in 2000 to roughly 25% in 2009. In 2009, Russia was the 15th largest outward investor of the world, China was the 17th, and Brazil was the 22nd, and India the 29th.

Over the years Brazil has lost ground to other BRIC as an outward investor. In 1980, Brazil was the 5th largest outward investor of the world, and the 1st among developing and transition economies, with US$ 38 billion of capital invested abroad. The other BRIC did not make the top 15 investors from developing and transition countries. In 1990, Brazil was still the 1st outward investor from developing and transition countries, but had dropped to the 11th position in the global ranking. In the same year, China featured in the 7th position among developing and transition economies. In 2005, Russia became the 2nd main outward investor from developing and transition economies, behind Hong Kong. The same year, Brazil dropped to the 5th position, and China took over the 6th place (UNCTAD, 2006: 113).

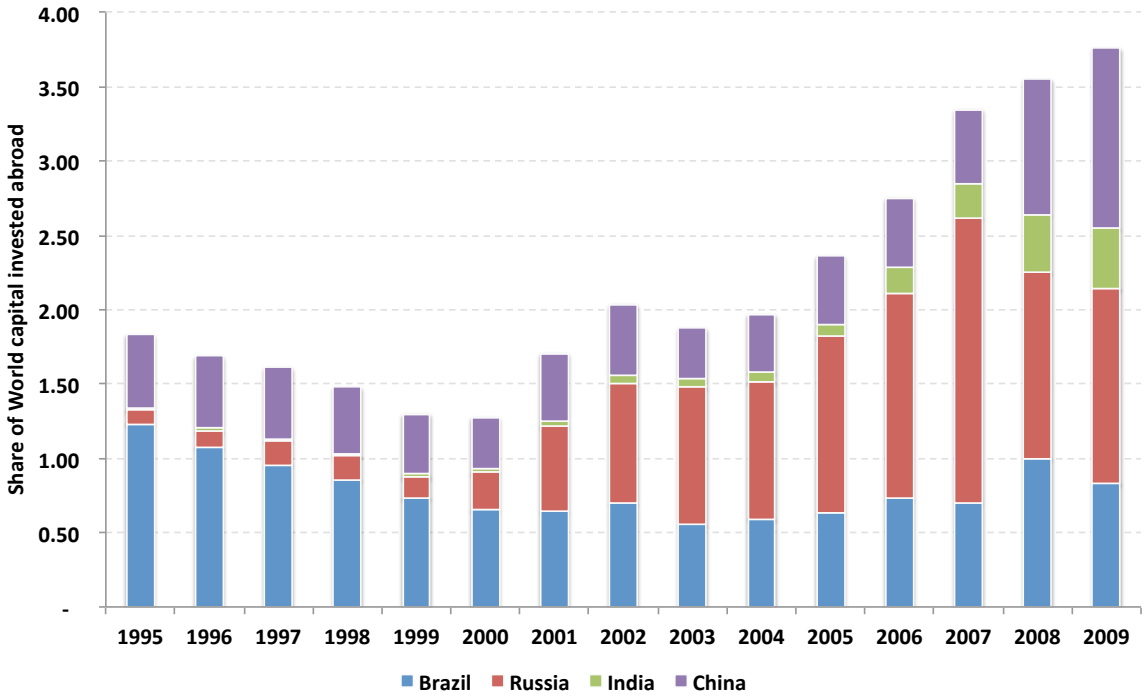

Figure 8 - Capital invested abroad from BRIC, 1995 - 2009 (Share of World total)
Source: UNCTAD FDI database.

In spite of rapid growth, BRIC OFDI as a share of GDP is still relatively small compared to other developed countries (Figure 9). Between 2001-2009, developed country capital invested abroad as a share of GDP averaged 34%, while it averaged 19.2% in Russia, 10% in Brazil, 2.9% in China and 2.59% in India. Among the BRIC, Brazil has seen the slowest growth (Table 7). Between 2001-2009, Indian capital invested abroad as a share of GDP grew at 36% CAGR, the Chinese grew at 8% CAGR, the Russian at 4% CAGR, and the Brazilian at merely 1.75% CAGR.

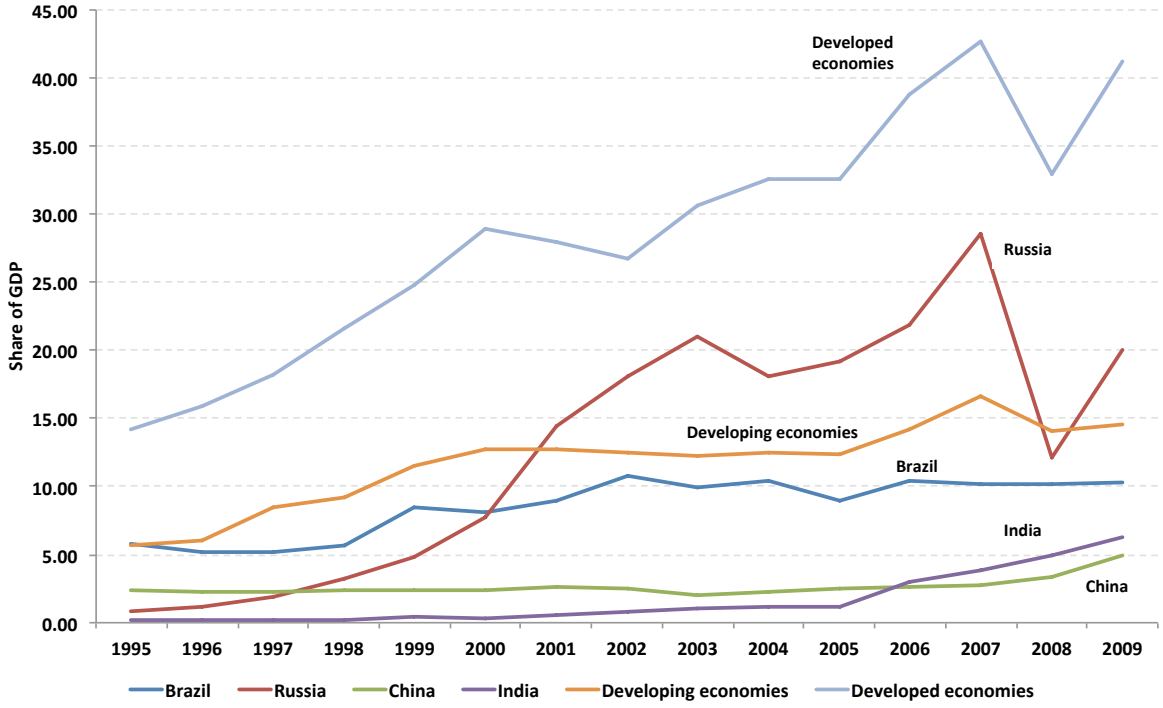

Figure 9 - Capital invested abroad from BRIC, developed and developing economies, 1995 - 2009 (Share of GDP)
Source: UNCTAD FDI database.

Table 7 - Capital invested abroad from BRIC, developing, transition, and developed countries, and World total, 1995 - 2009 (Share of GDP)

	Brazil	China	India	Russian Federation	World	Transition economies	Developing economies	Developed economies
1995	5.78	2.35	0.13	0.84	12.25	0.86	5.69	14.15
1996	5.24	2.23	0.19	1.12	13.60	1.08	6.05	15.93
1997	5.18	2.28	0.15	1.88	15.72	1.67	8.42	18.16
1998	5.69	2.40	0.17	3.27	18.80	2.56	9.25	21.65
1999	8.46	2.44	0.38	4.88	21.93	3.61	11.57	24.85
2000	8.06	2.33	0.37	7.75	25.17	5.79	12.68	28.93
2001	8.97	2.63	0.52	14.42	24.40	10.47	12.72	27.90
2002	10.75	2.56	0.81	18.05	23.51	13.25	12.48	26.70
2003	9.94	2.02	1.03	21.06	26.58	15.53	12.30	30.63
2004	10.43	2.31	1.11	18.13	27.86	13.31	12.50	32.53
2005	8.99	2.48	1.20	19.18	27.45	14.24	12.35	32.63
2006	10.46	2.64	2.97	21.88	31.95	16.28	14.21	38.77
2007	10.20	2.77	3.86	28.60	35.10	21.65	16.60	42.71
2008	10.17	3.42	4.98	12.10	26.77	9.89	14.09	32.93
2009	10.30	4.89	6.27	20.05	32.78	16.09	14.58	41.24
Average 2001-09	**10.02**	**2.86**	**2.53**	**19.27**	**28.49**	**14.52**	**13.54**	**34.01**
CAGR 2001-09	**1.75%**	**8.04%**	**36.36%**	**4.20%**	**3.76%**	**5.52%**	**1.73%**	**5.01%**

Source: UNCTAD FDI database.

Greenfield projects remain the preferred mode of entry in overseas markets for all BRIC-based firms (Figure 10). During the period 2003-2009, Greenfield projects accounted for more than 70% of the number of OFDI projects on a year average for all BRIC. Nevertheless, cross-border M&A has boosted the rise in the value of OFDI from BRIC during the period

2003-2009. Despite data being only available on a net basis (see Figure 10 notes), it gives an idea of how important cross-border M&A has become to BRIC OFDI. For Brazil, cross-border M&A peaked at US$ 19 billion in 2006, against mere US$1.7 billion in 2003. Russian cross-border M&A peaked at US$ 18.6 billion in 2007, against US$ 0.9 billion in 2003. Chinese cross-border M&A peaked at US$37 billion in 2007, against US$1.1 in 2003. Indian cross-border M&A reached US$29 billion in 2007, against US$1.1 billion.

Considering only the top 30 cross-border M&A deals by BRIC firms (Tables 8, 10, 12, and 14), it becomes clear its importance to OFDI. The magnitude of the average deal size is quite significant for all BRIC. This is particularly impressive in the case of China, whose average deal size is more than twice as a large as the average deal size of other BRIC. While the average deal size for China is roughly US$1.45 billion, it is US$0.63 billion for Brazil, US$0.59 billion for Russia, and US$0.45 billion for India.

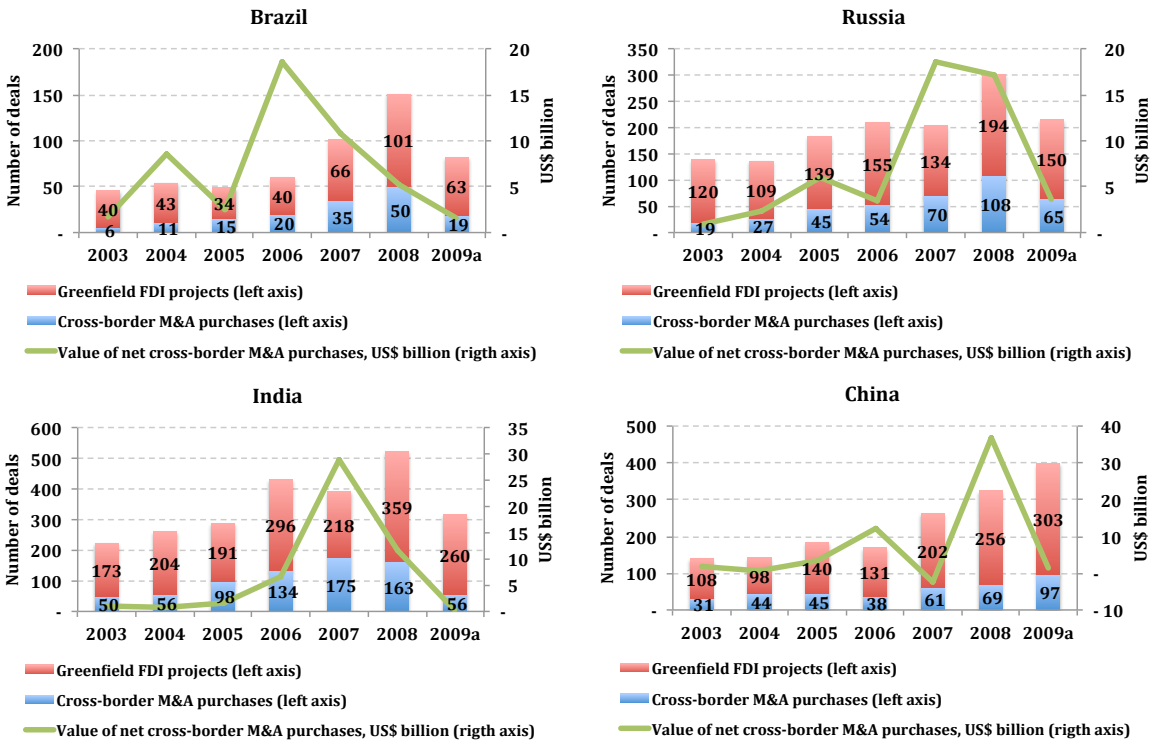

Figure 10 - Cross-border M&A purchases and Greenfield projects by BRIC, 2003 - 2009
Source: UNCTAD Cross-border M&A database.
Note: Cross-border M&A purchases are calculated on a net basis as follows: purchases of companies abroad by home-based MNCs (-) sales of foreign affiliates of home-based MNCs. The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Data refer to the purchases by the region/economy of the ultimate acquiring company.

Table 8 - Top 30 Cross-border M&A deals by Brazilian MNCs, 2003 - Jul/2011 (US$ thousand)

	Acquiror name	Acquiror country	Acquiror major sector	Target name	Target country	Target major sector	Acquired stake (%)	Announced date	Deal value th USD
1	COMPANHIA VALE DO RIO DOCE	BR	Metals & metal products	INCO LTD	CA	Metals & metal products	100	11/08/2006	14,621,768.46*
2	COMPANHIA DE BEBIDAS DAS AMERICAS - AMBEV	BR	Food, beverages, tobacco	LABATT BREWING COMPANY LTD	CA	Food, beverages, tobacco	100	03/03/2004	7,160,000.00*
3	GRUPO GERDAU SA	BR	Metals & metal products	QUANEX CORPORATION	US	Metals & metal products	100	19/11/2007	1,673,000.00
4	GRUPO GERDAU SA	BR	Metals & metal products	GERDAU AMERISTEEL CORPORATION	CA	Metals & metal products	33.7	30/06/2010	1,600,000.00*
5	JBS SA	BR	Food, beverages, tobacco	SWIFT & COMPANY	US	Food, beverages, tobacco	100	10/05/2007	1,425,000.00*
6	COMPANHIA DE BEBIDAS DAS AMERICAS - AMBEV	BR	Food, beverages, tobacco	QUILMES INDUSTRIAL (QUINSA) SA LUXEMBOURG	LU	Food, beverages, tobacco	34.46	13/04/2006	1,200,000.00*
7	CAMARGO CORRÊA SA	BR	Construction	HOLDTOTAL SA	AR	Chemicals, rubber, plastics, non-metallic products	100	20/04/2005	1,025,000.00
8	CAMARGO CORRËA SA	BR	Construction	LOMA NEGRA COMPAÑÍA INDUSTRIAL ARGENTINA SA	AR	Chemicals, rubber, plastics, non-metallic products	100	20/04/2005	1,025,000.00
9	MARFRIG FRIGORÍFICOS E COMËRCIO DE ALIMENTOS LTDA	BR	Wholesale & retail trade	KITCHEN RANGE FOODS LTD	GB	Food, beverages, tobacco	100	23/06/2008	900,000.00*
10	MAGNESITA REFRATÁRIOS SA	BR	Chemicals, rubber, plastics, non-metallic products	LWB REFRACTORIES GMBH	DE	Chemicals, rubber, plastics, non-metallic products	100	07/09/2008	849,825.38
11	COMPANHIA VALE DO RIO DOCE	BR	Metals & metal products	AMCI HOLDINGS AUSTRALIA PTY LTD	AU	Primary Sector (agriculture, mining, etc.)	100	26/02/2007	822,826.81
12	HRT PARTICIPAÇÕES EM PETRÓLEO SA	BR	Other services	UNX ENERGY CORPORATION	CA	Other services	100	24/02/2011	777,927.53*
13	COMPANHIA VALE DO RIO DOCE	BR	Metals & metal products	CANICO RESOURCE CORPORATION	CA	Metals & metal products	100	11/11/2005	748,203.62*
14	JBS SA	BR	Food, beverages, tobacco	SMITHFIELD BEEF GROUP INC.	US	Food, beverages, tobacco	100	04/03/2008	565,000.00
15	PETRÓLEO BRASILEIRO SA	BR	Primary Sector (agriculture, mining, etc.)	EXXON MOBIL CORPORATION'S RETAIL FUEL ASSETS IN CHILE	CL	Wholesale & retail trade	100	03/12/2009	500,000.00
16	UNIVERSO ONLINE SA	BR	Other services	DIVEO BROADBAND NETWORKS INC.	US	Other services	100	30/12/2010	413,412.81
17	VOTORANTIM CELULOSE E PAPEL SA	BR	Wood, cork, paper	CEMEX SA DE CV'S TWO US CEMENT PLANTS	US	Chemicals, rubber, plastics, non-metallic products	100	12/11/2004	400,000.00*
18	SINERGY DE BRASIL	BR	Other services	AEROVIAS DEL CONTINENTE AMERICANO SA	CO	Transport	75	18/03/2004	364,000.00
19	PETRÓLEO BRASILEIRO SA	BR	Primary Sector (agriculture, mining, etc.)	PASADENA REFINING SYSTEM INC.	US	Chemicals, rubber, plastics, non-metallic products	50	03/02/2006	360,000.00*
20	COMPANHIA DE BEBIDAS DAS AMERICAS - AMBEV	BR	Food, beverages, tobacco	QUILMES INDUSTRIAL (QUINSA) SA LUXEMBOURG	LU	Food, beverages, tobacco	Unknown minority	29/01/2008	352,817.00*
21	BRASKEM SA	BR	Chemicals, rubber, plastics, non-metallic products	SUNOCO CHEMICALS INC.	US	Chemicals, rubber, plastics, non-metallic products	100	01/02/2010	350,000.00*
22	PARATI SA – PARTICIPACOES EM ATIVOS DE ENERGIA ELETRICA	BR	Gas, Water, Electricity	LUCE LLC	US		100	07/07/2011	328,628.03
23	SINERGY DE BRASIL	BR	Other services	AEROVIAS DEL CONTINENTE AMERICANO SA	CO	Transport	25	20/09/2005	323,000.00*
24	COMPANHIA VALE DO RIO DOCE	BR	Metals & metal products	MINA CERRO LARGO	CO	Metals & metal products	100	23/12/2008	305,800.00
25	VOTORANTIM METAIS LTDA	BR	Metals & metal products	US ZINC CORPORATION	US	Metals & metal products	100	20/11/2007	295,000.00*
26	GRUPO VOTORANTIM	BR	Gas, Water, Electricity	CEMENTOS AVELLANEDA SA	AR	Chemicals, rubber, plastics, non-metallic products	50	11/11/2009	206,626.37*
27	JBS SA	BR	Food, beverages, tobacco	SWIFT ARMOUR SA	AR	Wholesale & retail trade	85.3	31/08/2005	200,000.00*
28	VOTORANTIM METAIS ZINCO SA	BR	Metals & metal products	REFINERIA DE ZINC DE CAJAMARQUILLA SA	PE	Metals & metal products	85	19/11/2004	183,000.00
29	CAMIL ALIMENTOS SA	BR	Food, beverages, tobacco	SA MOLINOS ARROCEROS NACIONALES	UY	Food, beverages, tobacco	100	22/08/2007	110,000.00
30	STEFANINI INTERNATIONAL HOLDINGS	BR	Other services	TECHTEAM GLOBAL INC.	US	Other services	100	02/11/2010	93,435.00*
								Average deal size	**628,114.85**

Source: Bureau Van Dijk M&A database.

Table 9 - Top 10 Greenfield projects by Brazilian MNCs, 2007 - 2009 (US$ million)

Rank	Year	Investing company	Sector	Host economy	Estimated / announced transaction value
1	2008	Vale	Minerals	New Caedonia	3,200
2	2009	Braskem	Plastics	Mexico	2,500
3	2009	Braskem	Plastics	Peru	2,500
4	2008	Votorantim	Metals and metal products	Colombia	1,500
5	2008	Gerdau	Metals and metal products	Peru	1,400
6	2007	Braskem	Chemicals	Bolivia	1,400
7	2008	Vale	Minerals	Oman	1,365
8	2008	Petrobras	Coal, Oil and Gas	Nigeria	1,263
9	2007	Vale	Coal, Oil and Gas	Mozambique	1,200
10	2008	Petrobras	Coal, Oil and Gas	Japan	976
Total					**17,304**
Average					**1,730**

Source: VCC, 2010.

Table 10 - Top 30 Cross-border M&A deals by Russian MNCs, 2003 - Jul/2011 (US$ thousand)

	Acquiror name	Acquiror country	Acquiror major sector	Target name	Target country	Target major sector	Acquired stake (%)	Announced date	Deal value th USD
1	NORILSKII NIKEL OAO	RU	Metals & metal products	LIONORE MINING INTERNATIONAL LTD	CA	Metals & metal products	100.00	23/05/2007	6,412,674.46*
2	MECHEL OAO	RU	Primary Sector (agriculture, mining, etc.)	ORIEL RESOURCES PLC	GB	Primary Sector (agriculture, mining, etc.)	100.00	26/03/2008	1,359,593.39*
3	TRUBNAYA METALLURGICHESKAYA KOMPANIYA OAO	RU	Metals & metal products	NS GROUP INC.	US	Metals & metal products	51.00	14/03/2008	1,250,000.00*
4	SEVERSTAL OAO	RU	Metals & metal products	ESMARK INC.	US	Metals & metal products	100.00	25/06/2008	1,250,000.00*
5	LUKOIL OVERSEAS HOLDING LTD	RU	Primary Sector (agriculture, mining, etc.)	NELSON RESOURCES LTD	GB	Primary Sector (agriculture, mining, etc.)	66.30	03/10/2005	1,241,000.00
6	ATOMREDMETZOLOTO OAO	RU	Metals & metal products	MANTRA RESOURCES LTD	AU	Metals & metal products	100.00	20/04/2011	1,018,050.66
7	SIBUR KHOLDING OAO	RU	Primary Sector (agriculture, mining, etc.)	CITCO WAREN-HANDELSGESELLSCHAFT MBH	AT	Wholesale & retail trade	100.00	08/06/2009	1,000,000.00*
8	ALFA GROUP	RU	Other services	PYATEROCHKA HOLDING NV	NL	Wholesale & retail trade	44.83	12/04/2006	978,000.00
9	LUKOIL-ZAPADNAYA SIBIR OOO	RU	Primary Sector (agriculture, mining, etc.)	KHANTY MANSIYSK OIL CORPORATION OAO	US	Primary Sector (agriculture, mining, etc.)	100.00	15/05/2006	787,000.00*
10	GAZPROM NEFT OAO	RU	Primary Sector (agriculture, mining, etc.)	SIBIR ENERGY LTD	GB	Primary Sector (agriculture, mining, etc.)	22.39	15/02/2011	740,000.00
11	GAZPROM NEFT OAO	RU	Primary Sector (agriculture, mining, etc.)	ORTON OIL COMPANY LTD	US	Primary Sector (agriculture, mining, etc.)	100.00	22/06/2009	735,000.00*
12	ROSNEFT OAO	RU	Primary Sector (agriculture, mining, etc.)	EAST ASIA TRANSIT LLC	MN	Wholesale & retail trade	66.00	08/08/2007	730,787.09
13	SEVERSTAL OAO	RU	Metals & metal products	LUCCHINI SPA	IT	Metals & metal products	50.82	07/09/2006	691,562.93
14	LUKOIL OVERSEAS HOLDING LTD	RU	Primary Sector (agriculture, mining, etc.)	NELSON RESOURCES LTD	GB	Primary Sector (agriculture, mining, etc.)	33.70	03/10/2005	674,000.00
15	ATOMREDMETZOLOTO OAO	RU	Metals & metal products	URANIUM ONE INC.	CA	Metals & metal products	37.66	08/06/2010	641,195.27*
16	GAZPROM OAO	RU	Primary Sector (agriculture, mining, etc.)	BELTRANSGAZ OAO	BY	Gas, Water, Electricity	12.50	18/05/2007	625,000.00
17	NOVOLIPETSKII METALLURGICHESKII KOMBINAT OAO	RU	Metals & metal products	STEEL INVEST & FINANCE SA	LU	Metals & metal products	50.00	21/04/2011	600,000.00
18	MECHEL OAO	RU	Primary Sector (agriculture, mining, etc.)	BLUESTONE COAL CORPORATION	US	Primary Sector (agriculture, mining, etc.)	100.00	26/02/2009	568,000.00*
19	TRUBNAYA METALLURGICHESKAYA KOMPANIYA OAO	RU	Metals & metal products	NS GROUP INC.	US	Metals & metal products	49.00	12/06/2008	500,000.00*
20	TORGOVAYA KOMPANIYA MEGAPOLIS ZAO	RU	Wholesale & retail trade	DIXY RETAIL LTD	VG	Banks	100.00	01/02/2008	443,000.00*
21	NORILSKII NIKEL OAO	RU	Metals & metal products	TALVIVAARAN KAIVOSOSAKEYHTIÖ OY	FI	Metals & metal products	11.00	20/11/2006	408,000.00
22	SEVERSTAL OAO	RU	Metals & metal products	WCI STEEL INC.	US	Metals & metal products	100.00	16/05/2008	370,000.00*
23	NOVOLIPETSKII METALLURGICHESKII KOMBINAT OAO	RU	Metals & metal products	BETA STEEL CORPORATION	US	Metals & metal products	100.00	04/09/2008	350,000.00
24	MECHEL OAO	RU	Primary Sector (agriculture, mining, etc.)	LAKECROFT LTD	CY	Metals & metal products	100.00	03/09/2008	336,785.28
25	GAZPROM OAO	RU	Primary Sector (agriculture, mining, etc.)	ARMROSGAZPROM ZAO	AM	Gas, Water, Electricity	14.57	18/02/2008	310,000.00*
26	MAGNITOGORSKII METALLURGICHESKII KOMBINAT OAO	RU	Metals & metal products	ONARBAY ENTERPRISES LTD	CY	Primary Sector (agriculture, mining, etc.)	50.00	15/10/2009	309,000.00*
27	SEVERSTAL OAO	RU	Metals & metal products	ROUGE INDUSTRIES INC'S ASSETS	US	Metals & metal products	100.00	24/10/2003	279,000.00
28	RUSSKII ALYUMINII ZAO	RU	Metals & metal products	ALUMINUM SMELTING COMPANY OF NIGERIA	NG	Metals & metal products	77.50	03/02/2006	250,000.00
29	MOBILNYE TELESISTEMY OAO	RU	Other services	UZDUNROBITA	UZ	Other services	26.00	28/06/2007	250,000.00
30	VERITAS SPA	RU	Gas, Water, Electricity	VESTA SPA	IT	Gas, Water, Electricity	100.00	03/07/2007	242,522.23
								Average deal size	**588,419.26**

Source: Bureau Van Dijk M&A database.

Table 11 - Top 15 Greenfield projects by Russian MNCs, 2006 - 2007 (US$ million)

Rank	Year	Investing company	Sector	Host economy	Estimated / announced transaction value
1	2006	Gazprom	Metals and metal products	Serbia & Montenegro	2,000
2	2006	Rosneft	Warehousing & storage	China	2,000
3	2008	Sistema	Telecommunications	India	2,000
4	2007	Gazprom	Coal, Oil and Gas	Armenia	1,700
5	2006	SUAL	Metals and metal products	Kazakhstan	1,500
6	2006	Russkiy ugol (Russian Coal)	Metals and metal products	Vietnam	1,500
7	2007	Rosneft	Coal, Oil and Gas	Algeria	1,300
8	2007	MMK	Metals and metal products	Turkey	1,100
9	2006	Renova	Automotive	South Africa	1,000
10	2007	MMK	Metals and metal products	United States	1,000
11	2007	Gazprom	Coal, Oil and Gas	Germany	620
12	2007	Itera Group	Transportation	Turkmenistan	600
13	2007	Itera Group	Coal, Oil and Gas	India	570
14	2007	Gazprom	Coal, Oil and Gas	Germany	540
15	2007	Gazprom	Coal, Oil and Gas	Lithuania	400
Total					**17,830**
Average					**1,189**
Other selected Greenfield projects					
	2008	Russian Railways	Construction and Engineering	Libya	350
	2008	VimpelCom	Telecommunications	Vietnam	267
	2006	Sistema	Telecommunications	Belarus	161

Source: VCC (2007), SKOLKOVO (2008), VCC (2010d).

Table 12 - Top 30 Cross-border M&A deals by Indian MNCs, 2003 - Jul/2011 (US$ thousand)

	Acquiror name	Acquiror country	Acquiror major sector	Target name	Target country	Target major sector	Acquired stake (%)	Announced date	Deal value th USD
1	TATA IRON & STEEL CO., LTD	IN	Metals & metal products	Corus Group	UK	Metals & metal products	100	30/01/2007	12,200,000.00
2	HINDALCO INDUSTRIES LTD	IN	Metals & metal products	NOVELIS INC.	CA	Metals & metal products	100	11/02/2007	5,406,866.72*
3	ONGC VIDESH LTD	IN	Primary Sector (agriculture, mining, etc.)	IMPERIAL ENERGY	UK	Primary Sector (agriculture, mining, etc.)	100	30/12/2008	2,800,000.00
4	TATA MOTORS LTD	IN	Machinery, equipment, furniture, recycling	JAGUAR CARS LTD	GB	Machinery, equipment, furniture, recycling	100	26/03/2008	2,300,000.00*
5	ESSAR STEEL HOLDINGS LTD	IN	Metals & metal products	ALGOMA STEEL INC.	CA	Metals & metal products	100	15/04/2007	1,730,427.46*
6	TATA CHEMICALS LTD	IN	Chemicals, rubber, plastics, non-metallic products	GENERAL CHEMICAL INDUSTRIAL PRODUCTS INC.	US	Chemicals, rubber, plastics, non-metallic products	100	31/01/2008	1,005,000.00
7	GMR INFRASTRUCTURE LTD	IN	Construction	INTERGEN (NORTH AMERICA) INC.	US	Gas, Water, Electricity	50	25/06/2008	954,000.00
8	JSW STEEL LTD	IN	Metals & metal products	JINDAL UNITED STEEL CORPORATION	US	Metals & metal products	90	22/08/2007	810,000.00
9	ONGC VIDESH LTD	IN	Primary Sector (agriculture, mining, etc.)	TALISMAN ENERGY'S SUDAN ASSETS	SD	Primary Sector (agriculture, mining, etc.)	100	30/10/2002	758,000.00
10	SAHARA INDIA PARIWAR	IN	Construction	GROSVENOR HOUSE HOTEL	GB	Hotels & restaurants	100	14/11/2010	728,435.14*
11	WIPRO TECHNOLOGIES LTD	IN	Other services	INFOCROSSING INC.	US	Other services	100	06/08/2007	600,000.00*
12	DR REDDY'S LABORATORIES LTD	IN	Chemicals, rubber, plastics, non-metallic products	BETAPHARM ARZNEIMITTEL GMBH	DE	Wholesale & retail trade	100	16/02/2006	577,200.58
13	SUZLON ENERGY LTD	IN	Machinery, equipment, furniture, recycling	HANSEN TRANSMISSIONS INTERNATIONAL NV	BE	Machinery, equipment, furniture, recycling	100	17/03/2006	561,458.58
14	BHARTI AIRTEL LTD	IN	Other services	CELTEL ZAMBIA LTD	ZM	Other services	78	20/05/2010	498,525.07*
15	DLF LTD	IN	Construction	AMANRESORTS INTERNATIONAL PTE LTD	SG	Hotels & restaurants	Unknown majority	27/11/2007	400,000.00*
16	MAHINDRA & MAHINDRA LTD	IN	Machinery, equipment, furniture, recycling	SSANGYONG MOTOR COMPANY	KR	Machinery, equipment, furniture, recycling	70	23/11/2010	386,382.09
17	FIRSTSOURCE SOLUTIONS LTD	IN	Other services	MEDASSIST HOLDING INC.	US	Other services	100.00	29/08/2007	330,000.00
18	RANBAXY LABORATORIES LTD	IN	Chemicals, rubber, plastics, non-metallic products	TERAPIA SA	RO	Chemicals, rubber, plastics, non-metallic products	96.7	29/03/2006	324,000.00
19	GODREJ CONSUMER PRODUCTS LTD	IN	Chemicals, rubber, plastics, non-metallic products	MEGASARI MAKMUR, PT	ID	Chemicals, rubber, plastics, non-metallic products	100	06/04/2010	309,221.41*
20	APOLLO TYRES LTD	IN	Chemicals, rubber, plastics, non-metallic products	VREDESTEIN BANDEN BV	NL	Chemicals, rubber, plastics, non-metallic products	100	29/04/2009	300,000.00*
21	RELIANCE COMMUNICATIONS LTD	IN	Other services	YIPES HOLDINGS INC.	US	Other services	100	16/07/2007	300,000.00
22	TATA IRON & STEEL CO., LTD	IN	Metals & metal products	NATSTEEL ASIA PTE LTD	SG	Metals & metal products	100	16/08/2004	296,856.88*
23	BHARAT PETROLEUM CORPORATION LTD	IN	Chemicals, rubber, plastics, non-metallic products	ENCANA BRASIL PETRÓLEO LIMITADA	BR	Primary Sector (agriculture, mining, etc.)	Unknown remaining %	13/09/2007	283,000.00
24	INDIABULLS REAL ESTATE LTD	IN	Construction	DEV PROPERTY DEVELOPMENT PLC	GB	Construction	100	28/02/2008	270,800.63*
25	WOCKHARDT LTD	IN	Other services	NEGMA LERADS SAS	FR	Chemicals, rubber, plastics, non-metallic products	100	03/05/2007	265,000.00
26	SHREE RENUKA SUGARS LTD	IN	Food, beverages, tobacco	EQUIPAV SA AÇÚCAR E ÁLCOOL	BR	Food, beverages, tobacco	50.34	21/02/2010	251,537.17
27	AEGIS LTD	IN	Other services	PEOPLESUPPORT PHILIPPINES INC.	PH	Other services	100	20/09/2008	250,000.00
28	RELIANCE POWER LTD	IN	Gas, Water, Electricity	UNDISCLOSED INDONESIAN COAL MINE	ID	Primary Sector (agriculture, mining, etc.)	100	17/03/2008	247,269.53
29	SHREE RENUKA SUGARS LTD	IN	Food, beverages, tobacco	VALE DO IVAÍ SA - AÇÚCAR E ÁLCOOL	BR	Food, beverages, tobacco	100	11/11/2009	240,000.00*
30	SECURITY AND INTELLIGENCE SERVICES (INDIA) LTD	IN	Other services	CHUBB SECURITY HOLDINGS AUSTRALIA LTD	AU	Other services	100	04/08/2008	235,800.12*
								Average deal size	**1,311,932.23**

Source: Bureau Van Dijk M&A database.

Table 13 - Top 25 Greenfield projects by Indian MNCs, 2007 - 2009 (US$ million)

Rank	Year	Investing company	Sector	Host economy	Estimated / announced transaction value
1	2008/09	National Thermal Power Corporation	Oil and gas	Iran	5,150
2	2007	GAIL India	Chemicals	Saudi Arabia	4,150
3	2008	Tata Group	Metals and metal products	Vietnam	3,500
4	2008	ONGC	Oil and gas	Iran	3,000
5	2006	ONGC	Oil and gas	Iran	2,000
6	2008	Era Group	Oil and gas	Zambia	1,800
7	2007	Mahindra Satyam (Satyam Computer Services)	Software and IT services	Malaysia	1,714
8	2009	Essar Group	Oil and gas	Kenya	1,701
9	2007	Videcon Industries	Consumer electronics	Poland	1,700
10	2007	Ispat Industries	Metals and metal products	Philippines	1,600
11	2008	Essar Group	Metals and metal products	United States	1,600
12	2007	Videcon Industries	Consumer electronics	Italy	1,576
13	2008	National Alumny Company	Oil and gas	Indonesia	1,500
14	2008/09	ONGC	Oil and gas	Iraq	1,450
15	2008	SKIL Infrastructure	Real Estate	Oman	1,200
16	2007	Ispat Industries	Oil and gas	Montenegro	1,100
17	2007	Reliance Industries	Chemicals	Egypt	1,000
18	2007	Jindal Organization	Metals and metal products	United States	1,000
19	2008	BSEL Infrastructure Realty	Real Estate	Malaysia	940
20	2007	Tata Group	Automotive OEM	Argentina	905
21	2006/07	Darvash Group	Metals and metal products	United Arab Emirates	817
22	2008	Indian Farmers Fertiliser Cooperative (IFFCO)	Minerals	Australia	800
23	2009	Sanghi	Oil and gas	Kenya	749
24	2008	Jindal Organization	Metals and metal products	Indonesia	700
25	2007	Krishak Bharati Cooperative	Chemicals	Oman	675

Source: VCC, 2010b.

Table 14 - Top 30 Cross-border M&A deals by Chinese MNCs, 2003 - Jul/2011 (US$ thousand)

	Acquiror name	Acquiror country	Acquiror major sector	Target name	Target country	Target major sector	Acquired stake (%)	Announced date	Deal value th USD
1	GUANGZHOU AUTOMOBILE GROUP CO., LTD	CN	Machinery, equipment, furniture, recycling	DENWAY MOTORS LTD	HK	Machinery, equipment, furniture, recycling	62.10	08/06/2010	3,999,360.71*
2	CHINA PETROLEUM & CHEMICAL CORPORATION	CN	Chemicals, rubber, plastics, non-metallic products	UDMURTNEFT OAO	RU	Primary Sector (agriculture, mining, etc.)	96.90	20/06/2006	3,500,000.00
3	YANZHOU COAL MINING CO., LTD	CN	Primary Sector (agriculture, mining, etc.)	FELIX RESOURCES LTD	AU	Primary Sector (agriculture, mining, etc.)	100.00	13/08/2009	2,914,397.06
4	CNPC EXPLORATION AND DEVELOPMENT CO., LTD	CN	Primary Sector (agriculture, mining, etc.)	PETROKAZAKHSTAN INC.	CA	Primary Sector (agriculture, mining, etc.)	67.00	23/08/2006	2,735,302.00
5	CHINA PETROCHEMICAL CORPORATION	CN	Chemicals, rubber, plastics, non-metallic products	OCCIDENTAL ARGENTINA EXPLORATION & PRODUCTION INC.	KY	Primary Sector (agriculture, mining, etc.)	100.00	10/12/2010	2,450,000.00
6	CHINA NATIONAL BLUESTAR (GROUP) CORPORATION	CN	Chemicals, rubber, plastics, non-metallic products	ELKEM SILICON MATERIALS	NO	Chemicals, rubber, plastics, non-metallic products	100.00	11/01/2011	2,382,159.31*
7	CAPITALAND CHINA (RE) HOLDINGS CO., LTD	CN	Construction	ORIENT OVERSEAS DEVELOPMENTS LTD	HK	Other services	100.00	18/01/2010	2,200,000.00
8	ZHEJIANG GEELY HOLDING GROUP CO., LTD	CN	Machinery, equipment, furniture, recycling	VOLVO PERSONVAGNAR HOLDING AB	SE	Machinery, equipment, furniture, recycling	100.00	28/03/2010	1,800,000.00
9	YANTAI WANHUA POLYURETHANE CO., LTD	CN	Chemicals, rubber, plastics, non-metallic products	BORSODCHEM NYRT	HU	Chemicals, rubber, plastics, non-metallic products	62.00	01/02/2011	1,683,994.26*
10	HUANENG POWER INTERNATIONAL INC.	CN	Gas, Water, Electricity	SINOSING POWER PTE LTD	SG	Gas, Water, Electricity	100.00	29/04/2008	1,610,963.68
11	CHINA MINMETALS NONFERROUS METALS CO., LTD	CN	Metals & metal products	OZ MINERALS LTD'S ASSETS	AU	Metals & metal products	Unknown majority	01/04/2009	1,354,000.00
12	PETROCHINA CO., LTD	CN	Primary Sector (agriculture, mining, etc.)	SUN WORLD LTD	VG	Banks	100.00	27/08/2008	979,566.22
13	CHINA MERCHANTS GROUP LTD	CN	Transport	LOSCAM LTD	AU	Transport	100.00	05/07/2010	589,400.01*
14	CHINA NATIONAL BLUESTAR (GROUP) CORPORATION	CN	Chemicals, rubber, plastics, non-metallic products	RHODIA SA'S SILICON PRODUCTS MANUFACTURING DIVISION	FR	Chemicals, rubber, plastics, non-metallic products	100.00	25/10/2006	518,604.95*
15	HONITON ENERGY GROUP	CN	Gas, Water, Electricity	HONITON ENERGY HOLDINGS PLC	GB	Gas, Water, Electricity	100.00	07/07/2008	500,000.00
16	CHINA NATIONAL BLUESTAR (GROUP) CORPORATION	CN	Chemicals, rubber, plastics, non-metallic products	DRAKKAR HOLDINGS SA	BE	Food, beverages, tobacco	100.00	20/10/2005	500,000.00*
17	CHINA NATIONAL CHEMICAL CORPORATION	CN	Chemicals, rubber, plastics, non-metallic products	ADISSEO FRANCE SAS	FR	Food, beverages, tobacco	100.00	02/02/2006	485,024.86*
18	CHINA MOBILE COMMUNICATIONS CORPORATION	CN	Other services	PAKTEL LTD	PK	Other services	88.86	21/01/2007	460,000.00*
19	JINCHUAN GROUP LTD	CN	Metals & metal products	CONTINENTAL MINERALS CORPORATION	CA	Metals & metal products	100.00	20/12/2010	453,183.31*
20	AIR CHINA LTD	CN	Transport	CHINA NATIONAL AVIATION CO., LTD	HK	Transport	31.60	22/06/2006	413,559.76
21	YANTAI DAHUA HOLDINGS CO., LTD	CN	Wood, cork, paper	CHINA AGRO-TECHNOLOGY LTD	VG	Other services	100.00	28/12/2007	394,560.00*
22	GRAND CHINA LOGISTICS HOLDING (GROUP) CO., LTD	CN	Transport	OFFSHORE HEAVY TRANSPORT AS	NO	Transport	60.00	30/09/2010	380,000.00*
23	BEIJING ORIENTAL ELECTRONICS TECHNOLOGY GROUP CO., LTD	CN	Machinery, equipment, furniture, recycling	HYNIX SEMICONDUCTOR INC.'S TFT LCD BUSINESS	KR	Machinery, equipment, furniture, recycling	100.00	27/09/2002	380,000.00
24	SINOSTEEL CORPORATION	CN	Metals & metal products	ZIMASCO CONSOLIDATED ENTERPRISES LTD	MU	Metals & metal products	92.00	29/11/2007	368,000.00*
25	SHANGHAI PHARMACEUTICALS HOLDING CO., LTD	CN	Chemicals, rubber, plastics, non-metallic products	CHINA HEALTH SYSTEM LTD	KY	Wholesale & retail trade	65.24	30/11/2010	355,040.41
26	CHINA NATIONAL CHEMICAL CORPORATION	CN	Chemicals, rubber, plastics, non-metallic products	QENOS PTY LTD	AU	Chemicals, rubber, plastics, non-metallic products	100.00	31/10/2005	295,202.95*
27	SANY HEAVY INDUSTRY CO., LTD	CN	Machinery, equipment, furniture, recycling	SANY HEAVY MACHINERY INVESTMENT CO., LTD	VG	Machinery, equipment, furniture, recycling	100.00	08/10/2008	290,053.18*
28	SINOPEC INTERNATIONAL PETROLEUM EXPLORATION AND PRODUCTION CORPORATION	CN	Primary Sector (agriculture, mining, etc.)	HUPECOL DOROTEA AND CABIONA LLC	CO	Primary Sector (agriculture, mining, etc.)	100.00	23/12/2010	281,000.00
29	SICHUAN CHANGHONG ELECTRIC CO., LTD	CN	Machinery, equipment, furniture, recycling	STEROPE INVESTMENTS BV	NL	Other services	75.00	23/04/2007	278,876.73
30	CHINA NATIONAL PETROLEUM CORPORATION	CN	Chemicals, rubber, plastics, non-metallic products	ENCANA INTERNATIONAL (CHAD) LTD	TD	Primary Sector (agriculture, mining, etc.)	100.00	12/01/2007	202,500.00*
								Average deal size	**1,450,180.39**

Source: Bureau Van Dijk M&A database.

Table 15 - Top 20 Greenfield projects by Chinese MNCs, 2008 - 2009 (US$ million)

Rank	Year	Investing company	Sector	Host economy	Estimated / announced transaction value
1	2008	Sinopec	Coal, Oil and Gas	Vietnam	4,500
2	2009	Wuhan Iron and Steel Co (WISCO)	Metals and metal products	Brazil	4,000
3	2008	Citic Group	Real Estate	Angola	3,535
4	2008	Shanghai Electric Power	Engines and turbines	India	3,000
5	2009	China Mettalurgical Group Corporation (CMCC)	Metals and metal products	Afghanistan	2,900
6	2008	China Union	Metals and metal products	Liberia	2,600
7	2008	Shenzen Energy Group	Coal, Oil and Gas	Nigeria	2,400
8	2008	China National Petroleum Corporation (CNPC)	Coal, Oil and Gas	Turkmenistan	2,200
9	2008	Xingxing Group	Metals and metal products	India	2,159
10	2008	Alumnium Corporation of China (CHALCO)	Metals and metal products	Peru	2,150
11	2009	China National Petroleum Corporation (CNPC)	Coal, Oil and Gas	Iran	1,760
12	2007	China National Petroleum Corporation (CNPC)	Coal, Oil and Gas	Sudan	1,701
13	2008	Sinopec	Coal, Oil and Gas	Saudi Arabia	1,657
14	2009	China National Petroleum Corporation (CNPC)	Coal, Oil and Gas	Oman	1,657
15	2008	China National Petroleum Corporation (CNPC)	Coal, Oil and Gas	Niger	1,587
16	2008	China National Petroleum Corporation (CNPC)	Coal, Oil and Gas	Chad	1,587
17	2009	China Huaneng	Alternative/Renewable Energy	Singapore	1,431
18	2008	China National Petroleum Corporation (CNPC)	Coal, Oil and Gas	Syria	1,500
19	2008	Jiangxi Copper	Metals and metal products	Peru	1,400
20	2008	Sinopec	Coal, Oil and Gas	Iran	1,206
Total					**44,930**
Average					**2,246**
Other selected Greenfield projects					
	2009	Tianjin Pipe	Tools	United States	1,000
	2009	SAIC Chery Automobile	Automotive OEM	Brazil	700
	2008	SAIC Chery Automobile	Automotive OEM	Argentina	500
	2008	China Telecommunications	Communications	United States	500
	2008	Shanghai Union Technology	Electronic components	Portugal	327
	2009	A-power Generation Systems	Engines and turbines	United States	300
	2009	JAC Motors	Automotive OEM	Brazil	299
	2009	Dongfer Motor	Automotive OEM	Turkey	250
	2009	SAIC Chery Automobile	Automotive OEM	Taiwan	238
	2009	Yantai Shuchi Vehicle	Automotive OEM	Russia	202
	2009	SAIC Chery Automobile	Automotive OEM	Thailand	191
	2008	Sinohydro	Alternative/Renewable Energy	Zambia	400
Total					**4,907**

Source: VCC, 2010b.

3.2 Geographical distribution

During the first (1960s to 1980s) and second (1980s to mid 1990s) waves of OFDI from developing country firms (Chudnovsky and Lopez, 2000; Gammeltoft, 2008), BRIC MNCs concentrated most of outward investments in other developing countries close to their home country, and where they had acquired previous knowledge of the market through trade, or had close cultural or ethnic ties. However, in the third wave (from mid-1990s on) of OFDI from developing country firms, BRIC MNCs have increasingly invested in developed and developing countries outside their regions. Although it was not possible to compile the very same data for comparison across BRIC, the data used in this section gives a sound idea of the geographical distribution BRIC MNCs investments. Data must also be taken with caution as financial offshore centres play an important role as first destination of OFDI from BRIC MNCs.

Brazilian MNCs, since the early 2000s, increasingly invested in developed countries. As the Figure 11 shows, while developed countries, notably in the North Atlantic (Austria, United States, Denmark, Spain, among others), responded for 20% of Brazilian capital invested abroad in 2003, they accounted for roughly 49% in 2009. The share of Latin America went from 79% in 2003 to roughly 50% during the same period. Similarly to the other BRIC, tax havens are major destination of Brazilian OFDI. In 2009, tax havens in Latin America accounted for 42% of Brazilian capital abroad[30]. Latin America, other than fiscal paradises in the region, remained important accounting for almost 8% of outward stocks. As investments in tax havens are often redirected to other locations, OFDI distributions might be misleading. Hence, data must be taken with caution.

Acquisition has been the preferred entry mode of Brazilian MNCs expanding to developed markets, while both Greenfield and acquisitions are significant entry modes into developing countries (Fleury and Fleury, 2011:215). Table 8 shows that out of the top 30 cross-border M&A by Brazilian MNCs in the 2003-2011 period, 20 went to developed countries. The lasting 10 went to other Latin American countries. Argentina has been the preferred location since the early 2000s (Tavares, 2006). Brazilian firms concluded that the opportunity to acquire assets in the country during difficult times in the early 2000s more than offset the risks involved (Goldstein, 2007:19). Latin America and other developing countries have also

[30] Cayman Islands, British Virgin Islands, and Bahamas are the top three.

attracted Greenfield projects (Table 9). These, however, have had a more broad geographical reach than acquisitions.

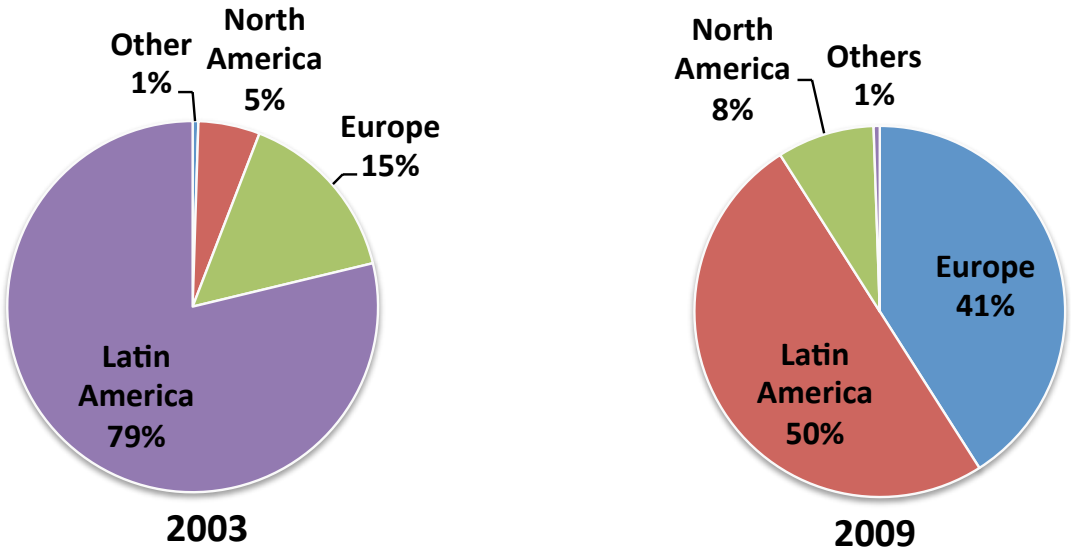

Figure 11 - Geographical distribution of Brazilian capital invested abroad, 2003 and 2009 (%)
Source: Brazilian Central Bank, Brazilian Capital Abroad database.

Russian MNCs investments were traditionally directed towards Commonwealth Independent States (CIS) during the 1990s. Following the collapse of the Soviet Union, former soviet SOEs sought to regain control over assets located in current CIS countries to re-establish their value chains. CIS remain an important destination of Russian OFDI, although this is not fully captured in statistics[31] (Filippov, 2010; Vahtra and Liutho, 2006). Since the late 1990s, Europe and North America have become the main destination of Russian MNCs. This trend intensified from the early 2000s on, as favourable macroeconomic conditions, such as high commodity prices, economic growth and FDI liberalization, have enabled Russian MNCs to intensify their investments abroad.

As of 2007, the top 25 Russian MNCs held 42% of total foreign assets in Western Europe, 10% in Eastern Europe, 18% in CIS countries, 9% in Asia and Australia, 11% in Africa, 9% in North America, and 1% in Latin America (Figure 12). Statistics from the Central Bank of Russia show that, apart from top tax havens destinations like Cyprus (1st) British Virgin

[31] The high level of Russian investment into CIS is not evident from statistics. Vahtra and Liutho (2006) alert to the fact that statistics underestimate the real value of investments in CIS as large part is channeled through financial offshore subsidiaries.

Islands (2nd), Bermuda (6th), some OECD and few CIS countries are among the main destinations of Russian capital invested abroad[32].

This trend of increasing investments flowing to developed countries is also captured in the number of Russian acquisitions in such region. Filippov (2010) shows that while in 2000 Russian MNCs conducted 17 acquisitions in CIS countries and 11 in Europe. In 2007, Russian MNCs made 35 acquisitions in CIS countries, against 73 in Europe. Table 10 also denotes that the top 30 Russian cross-border acquisitions have spurred Russian OFDI in developed countries, especially North America. Table 11 shows that major Russian Greenfield projects were done in developing countries.

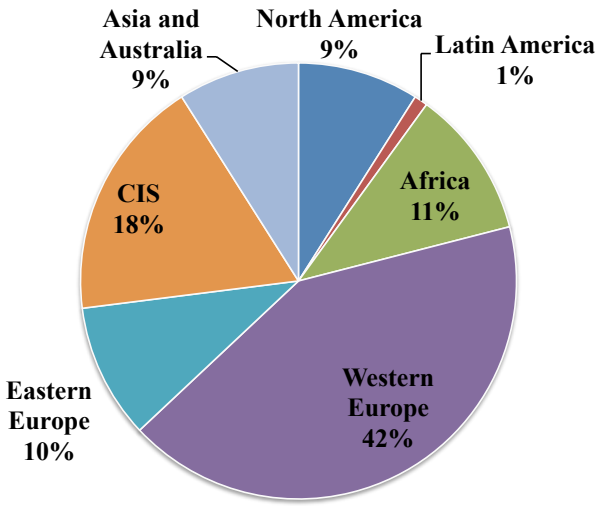

Figure 12 - Geographical distribution of foreign assets of top 25 Russian MNCs, 2007
Source: SKOLKOVO (2008).

Indian MNCs initially invested abroad in the 1970s and 1980s in an attempt to overcome domestic stagnation and policy restrictions on growth and diversification of Indian firms[33]. During this first wave of Indian OFDI, investments were concentrated in other developing countries in Africa and South East Asia, such as Singapore, Malaysia, and Thailand. As of 1986, 96% of Indian capital invested abroad was in other developing countries (Pradhan, 2007, p. 8).

[32] Netherlands (3rd), United States (5th), United Kingdom (7th), Switzerland (8th), Germany (9th), Austria (10th), Belarus (11th), and Ukraine (12th), Kazakhstan (17th), and Lithuania (22nd).
[33] The Indian regulatory system had a dual effect. On one hand it protected domestic industries. On the other, the very same sytem placed restrictions on the growth and diversification of Indian firms, pushing OFDI at the time according to Lall (1983).

From 1990s on, Indian OFDI[34] became more up-market oriented, increasingly flowing to United States and United Kingdom, and involving much more capital (Pradhan, 2011). Since the 2000s, investments in developed countries intensified even further. Figure 13 shows that together Europe and the North America received 43% of Indian OFDI flows from 1990 to 1999. During the decade, Asia remained an important destination, receiving 44% of Indian investments. From 2000 to 2009, however, Europe and North America dominated 51% of Indian OFDI flows. Investments also increased in Africa and CIS, notably Russia.

This rise in Indian OFDI into developed markets occurred mainly through M&A. As seen in Table 12 and Table 13, developed markets dominated Indian MNCs cross-border M&A acquisitions. Very few large Greenfield projects occurred in such markets. In the case of entering developing markets, the experience has been more mixed, with both Greenfield and M&A being important entry strategies.

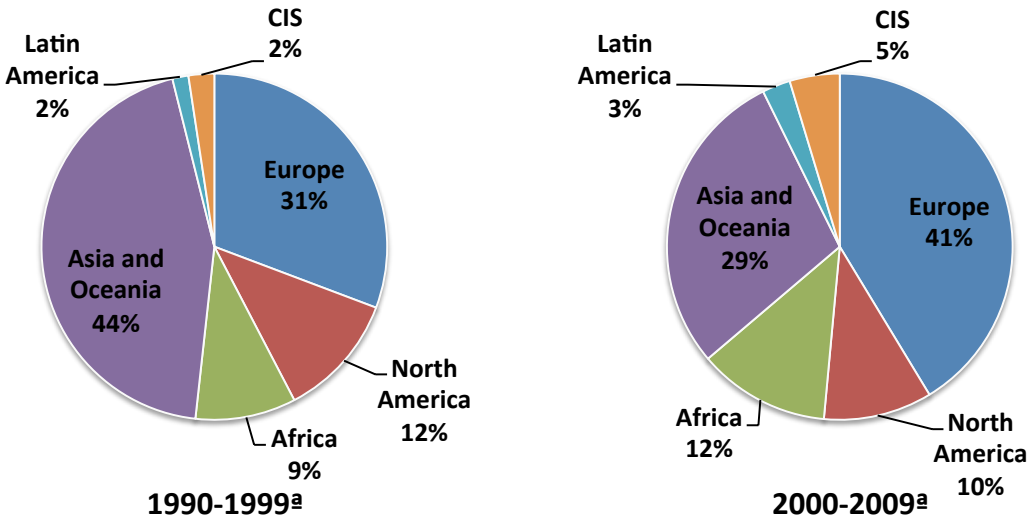

Figure 13 - Geographical distribution of Indian OFDI flows (1990/99 - 2000/09)[a]
Source: Pradhan, 2011.
Note: ([a]) data refers to the accumulated flows of Indian OFDI during the period.

Chinese investments, on the other hand, continue to be mainly directed towards other developing economies, notably in Asia (Figure 14). Recently, Chinese MNCs are also investing in resource-rich countries in Latin America, Africa, and Oceania (Australia),

[34] The same story of offshore financial centers of other BRIC apply to Indian OFDI, as Mauritius, Channel Islands and Cyprus have also received concentrated investments. Hence, data must be taken with caution.

particularly led by SOEs. This is due to its importance to domestic economic growth by ensuring access to critical supply chains. Buckley et al. (2007) also find evidence of Chinese MNCs investing in more risky countries by Western standards than developed country firms. They argue that such investments are associated with domestic capital markets imperfections arising from close government support. Financial support (low cost of capital) and state ownership (political motivations) possibly explain such behaviour, as they influence the perception of risk.

Investments in developed countries have also increased. Figure 14 shows this trend. While in 2003 Asia concentrated 80% of Chinese capital invested abroad, in 2009 it diminished to 75%[35]. Conversely, Europe and North America went from accounting 1.5% and 1.7% of total Chinese capital invested abroad in 2003, respectively, to 4% and 2% in 2009. Africa also increased its importance from 1.5% in 2003 to 4% in 2009. Oceania, notably Australia, has gone from absorbing a total of 1.4% in 2003 to 2.6% in 2009. Similarly to other BRIC, Chinese MNCs have preferred M&A to enter developed markets, while both Greenfield and M&A have been used to enter developing countries, as seen in Table 14 and Table 15.

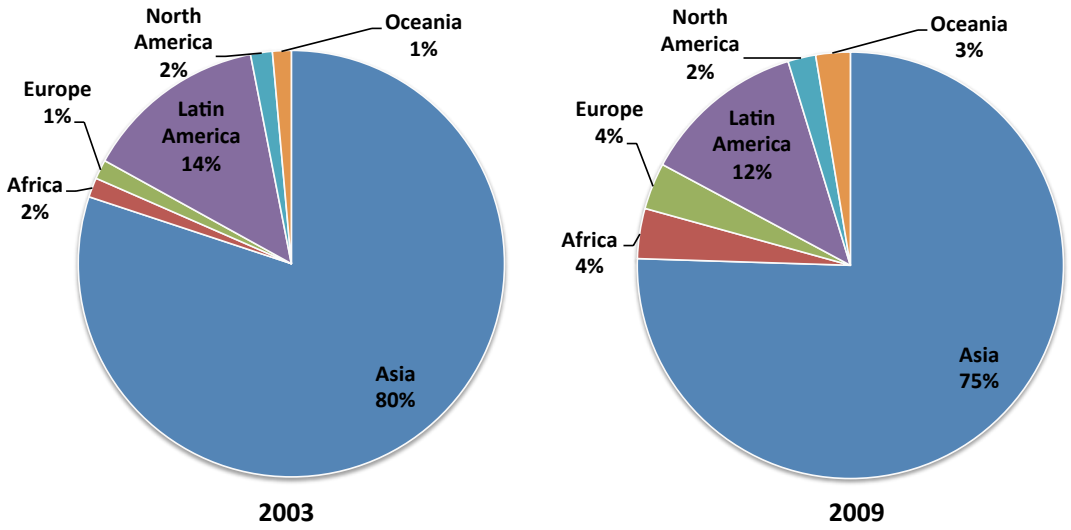

Figure 14 - Geographical distribution of Chinese capital invested abroad, 2003 and 2009
Source: MOFCOM (2009).

[35] Hong Kong alone represented roughly 66% of the total capital invested abroad as of end 2009. This is largely due its important capital markets that allows Chinese firms to raise funds to finance operations both abroad and in Mainland China (round-tripping) (Buckley et al., 2007; Morck et al., 2008).

3.3 BRIC Multinationals and sectorial distribution

Over the 2000s, the world has seen the rise of BRIC firms with global aspirations. Several BRIC-based companies have taken significant positions in many global industries. For instance, Tata Group of India now owns Jaguar and Land Rover, two ailing but renowned Western brands; Chinese Huawei and ZTE have become the 2nd and 5th largest global manufacturers of mobile telecom equipment by revenues; Brazilian JBS has become the largest beef producer; and Russia's Rusal, the largest producer of aluminium (BCG, 2011). The rapid growth of BRIC MNCs is reflected in the number of BRIC firms making the 2011 Fortune Global 500 ranking (Table 16).

Table 16 - Number of BRIC MNCs in the Fortune Global 500 ranking (2005 - 2010)

	Forturne Global 500		
	2005	**2007**	**2010**
Brasil	3	5	7
China	16	24	61
India	5	6	8
Russia	3	4	7
Total	**27**	**39**	**83**
Share in the Global 500	**5%**	**8%**	**17%**

Source: based on Fortune Global 500, 2011.

The emergence of BRIC MNCs is also captured in the 2011 ranking of top 100 BCG Global Challengers by the Boston Consulting Group (BCG, 2011). Global challengers refer to companies from rapidly developing economies that represent significant challenges to established players. Out of 100 companies identified by BCG as global challengers, 73 are from BRIC countries (Table 17). These MNCs are turning into global expansion as a way of increasing their competitiveness in a globalized world.

These enterprises operate in a broad range of industries (Figure 15), invest in both developed and developing countries, and have been quite active in cross-border M&A activities, posing different challenges for policy-makers and competitors, including those from developed countries. Despite the broad activity spectrum, there is an important share of firms operating in four industries (Mining & Metals, Steel, Construction, Fossil Fuels), which signals the rising significance of natural resources and infrastructure to the ultimate success of their economies, either as suppliers or users (Figure 15) (BCG, 2011).

Table 17 - The 2011 BCG Global Challengers from BRIC

	Company	Country		Company	Country
1	Embraer	Brazil	38	China Shipbuilding Industry Corporation	China
2	Marcopolo	Brazil	39	China Shipping Group	China
3	Camargo Corrêa Group	Brazil	40	Cosco Group	China
4	Odebrecht Group	Brazil	41	Anshan Iron and Steel Group	China
5	Natura	Brazil	42	Baosteel Group	China
6	WEG	Brazil	43	Sinosteel	China
7	Brasil Foods	Brazil	44	Huawei Technologies	China
8	JBS	Brazil	45	ZTE	China
9	Petrobras	Brazil	46	China Communications Construction Company	China
10	Magnesita Refratários	Brazil	47	Li & Fung Group	China
11	Vale	Brazil	48	Bajaj Auto	India
12	Votorantim Group	Brazil	49	Bharat Forge	India
13	Gerdau	Brazil	50	Mahindra & Mahindra	India
14	Coteminas	Brazil	51	Tata Motors	India
15	Chery Automobile	China	52	Reliance Industries	India
16	Geely International	China	53	Tata Chemicals	India
17	Wanxiang Group	China	54	Larsen & Toubro	India
18	China National Chemical Corporation	China	55	Suzlon Energy	India
19	Sinochem	China	56	Crompton Greaves	India
20	Lenovo Group	China	57	Tata Global Beverages	India
21	China State Construction Engineering Corporation	China	58	Tata Consultancy Services	India
22	Sinohydro	China	59	Infosys Technologies	India
23	Zoomlion	China	60	Wipro	India
24	BYD Group	China	61	Hindalco Industries	India
25	Shanghai Electric Group	China	62	Vedanta Resources	India
26	Chint Group	China	63	Dr. Reddy's Laboratories	India
27	Johnson Electric	China	64	Lupin Pharmaceuticals	India
28	LDK Solar	China	65	Tata Steel	India
29	Sinomach	China	66	Bharti Airtel	India
30	Suntech Power	China	67	Tata Communications	India
31	China National Offshore Oil Corporation	China	68	Gazprom	Russia
32	Yanzhou Coal Mining Company	China	69	Lukoil	Russia
33	Galanz Group	China	70	Norilsk Nickel	Russia
34	Haier	China	71	United Company Rusal	Russia
35	Aluminum Corporation of China	China	72	Evraz Group	Russia
36	China Minmetals	China	73	Severstal	Russia
37	China International Marine Containers Group	China			

Source: BCG, 2011.

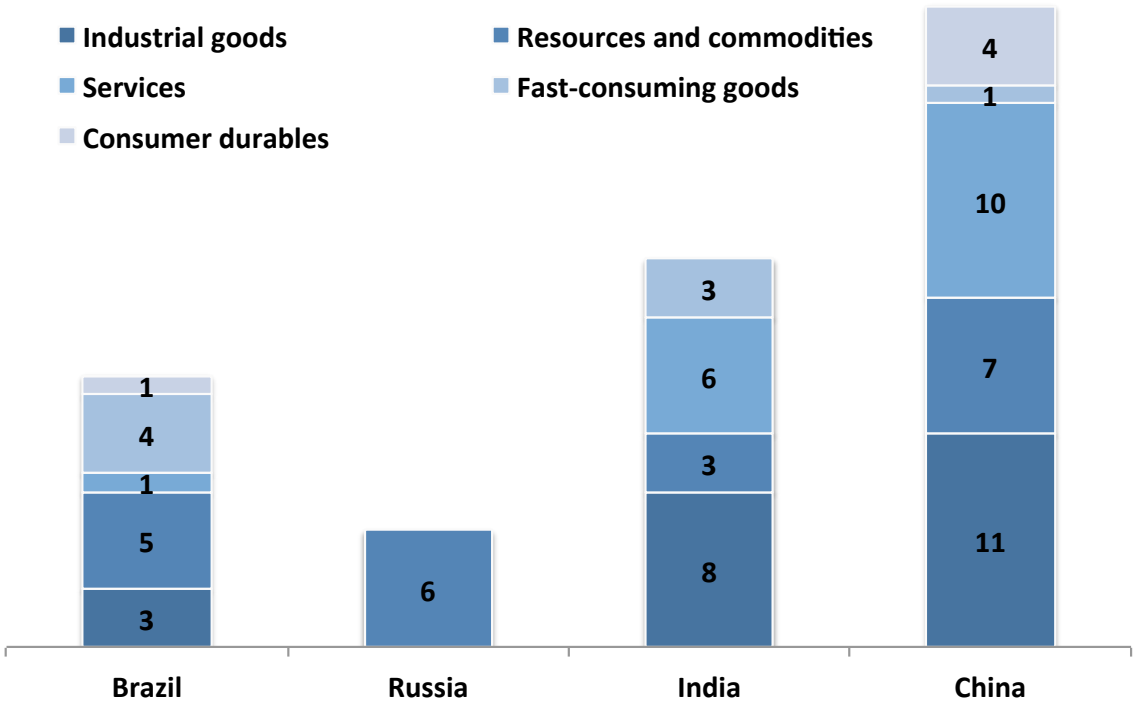

Figure 15 - The 2011 BCG Global Challengers from BRIC by industry
Source: based on BCG (2011).

Table 18 - BRIC MNCs among the top 100 non-financial TNCs from developing and transition economies, as ranked by foreign assets (2008[a])

Ranking by:					Assets		Sales		Employment		
Foreign assets	TNI [b]	Corporation	Home economy	Industry [c]	Foreign	Total	Foreign	Total	Foreign [d]	Total	TNI [b] (Per cent)
2	88	CITIC Group	China	Diversified	43 750	238 725	5 427	22 230	18 305	90 650	21.0
7	46	China Ocean Shipping (Group) Company	China	Transport and storage	28 066	36 253	18 041	27 431	4 581	69 648	49.9
8	61	Lukoil	Russian Federation	Petroleum and natural gas	21 515	71 461	87 637	107 680	23 000	152 500	42.2
9	67	Vale S.A	Brazil	Mining & quarrying	19 635	79 931	30 939	37 426	4 725	62 490	38.3
15	18	Tata Steel Ltd.	India	Metal and metal products	16 826	23 868	26 426	32 168	45 864	80 782	69.8
16	91	Petroleo Brasileiro S.A. - Petrobras	Brazil	Petroleum expl./ref./distr.	15 075	125 695	40 179	146 529	6 775	74 240	16.2
18	49	Metalurgica Gerdau S.A.	Brazil	Metal and metal products	13 658	25 750	10 274	23 182	22 315	46 000	48.6
20	82	Oil And Natural Gas Corporation	India	Petroleum expl./ref./distr.	13 477	30 456	4 238	27 684	3 921	33 035	23.8
23	53	Evraz	Russian Federation	Metal and metal products	11 196	19 448	12 805	20 380	29 480	134 000	47.5
27	100	China National Petroleum Corporation	China	Petroleum expl./ref./distr.	9 409	264 016	4 384	165 224	20 489	1 086 966	2.7
29	17	Hindalco Industries Limited	India	Diversified	8 564	12 653	11 371	14 338	13 447	19 867	71.6
32	77	Severstal	Russian Federation	Metal and metal products	8 066	22 480	9 325	22 393	12 662	96 695	30.2
37	90	China State Construction Engineering Corp.	China	Construction and real estate	7 015	29 873	3 619	29 080	15 765	113 251	16.6
40	48	Tata Motors Ltd	India	Automobile	6 767	14 359	9 869	15 635	17 998	49 473	48.9
47	70	Sinochem Corp.	China	Petroleum expl./ref./distr.	6 409	19 825	34 218	44 280	225	26 632	36.8
50	89	JSFC Sistema	Russian Federation	Telecommunications	5 698	29 159	3 983	16 671	11 000	80 000	19.1
54	15	Suzlon Energy Limited	India	Diversified	5 310	7 370	4 714	5 685	10 087	14 000	75.7
55	98	China National Offshore Oil Corp.	China	Petroleum expl./ref./distr.	5 247	59 917	4 475	28 028	1 739	51 000	9.4
64	93	MMC Norilsk Nickel	Russian Federation		4 389	20 823	1 998	13 980	4 000	88 100	13.3
67	94	China Communications Construction Co.	China	Construction and real estate	4 010	31 911	5 599	25 740	1 703	93 019	12.1
74	83	VimpelCom	Russian Federation	Telecommunications	3 726	15 725	1 520	10 117	10 233	38 403	21.8
75	14	Beijing Enterprises Holdings Ltd.	China	Diversified	3 662	6 670	2 524	2 530	28 260	37 000	77.0
78	99	China Railway Construction Corporation Ltd	China	Construction	3 146	32 204	2 475	31 571	18 613	190 545	9.1
79	56	ZTE Corp.	China	Other consumer goods	3 143	7 642	3 860	6 373	19 031	61 350	44.2
81	92	Mechel	Russian Federation	Metal and metal products	2 911	12 010	1 385	9 951	8 244	83 670	16.0
84	63	Lenovo Group	China	Electrical & electronic equipment	2 732	6 308	8 467	14 901	5 201	22 511	41.1
94	81	TMK	Russian Federation	Metal and metal products	2 361	7 071	2 302	5 690	4 101	48 494	27.4
97	96	China Minmetals Corp.	China	Metal and metal products	2 269	13 484	4 318	26 668	798	44 425	11.6
98	19	TPV Technology Limited	China	Wholesale trade	2 266	3 354	6 860	9 247	19 256	28 500	69.8

Source: UNCTAD/Erasmus University database.

Notes: (a) All data are based on the companies' annual reports unless otherwise stated; (b) TNI, the Transnationality Index, is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment; (c) Industry classification for companies follows the United States Standard Industrial Classification as used by the United States Securities and Exchange Commission (SEC); (d) In a number of cases foreign employment data were calculated by applying the share of foreign employment in total employment of the previous year to total employment of 2008.

Table 19 - VCC ranking of Brazilian non-financial MNCs, ranked by foreign assets (2009)

Ranking by foreing assets	Company	Industry	Status	Foreign Assets (USD million)	Total Assets (USD million)	Foreign Sales (USD million)	Total Sales (USD million)
1	Vale	Mining of metal ores	Listed	34,934	100,907	8,440	23,615
2	Petrobras	Extraction of crude petroleum and natural gas	Listed	15,937	198,413	12,173	104,904
3	Gerdau	Manufacture of basic metals	Listed	13,916	25,599	8,098	15,239
4	Votorantim	Conglomerate	Unlisted	7,809	35,140	2,354	14,642
5	JBS-Friboi	Crop and animal production	Listed	5,296	24,397	16,745	19,701
6	Camargo Corrêa	Conglomerate	Unlisted	2,161	14,811	1,669	9,054
7	Marfrig	Crop and animal production	Listed	1,529	6,575	2,931	5,524
8	Ultrapar	Extraction of crude petroleum and natural gas	Listed	1,514	6,368	1,103	20,737
9	Embraer	Other manufacturing	Listed	1,378	3,388	1,129	7,614
10	Weg	Manufacture of electrical equipment	Listed	509	3,085	999	2,934
11	Brasil Foods	Manufacture of food products	Listed	346	8,767	1,401	15,426
12	Magnesita	Manufacture of other non-metallic mineral products	Listed	300	522	491	1,259
13	Minerva	Manufacture of food products	Listed	233	1,190	87	505
14	Telemar	Telecommunications	Listed	210	35,177	114	17,224
15	Suzano Papel e Celulose	Manufacture of paper and paper products	Listed	171	3,997	n.a.	n.a.
16	Metalfrio	Manufacture of machinery and equipment	Listed	169	413	153	369
17	Coteminas	Manufacture of textiles	Listed	143	908	1,382	1,531
18	Itautec	Manufacture of computer, eletronic and optical products	Listed	131	743	274	1,199
19	Natura	Manufacture of chemicals and chemical products	Listed	100	1,566	164	2,430
20	Tupy	Manufacture of fabricated metal products	Listed	79	1,327	170	703
21	Sabó	Manufacture of other transport equipments	Unlisted	56	297	142	314
22	Duratex	Specialized construction activities	Listed	46	2,488	75	1,289
23	Iochpe	Manufacture of other transport equipments	Listed	38	799	33	757
24	Artecola	Manufacture of other non-metallic mineral products	Unlisted	34	114	49	161
25	Marcopolo	Manufacture of other transport equipments	Listed	30	60	373	1,182
26	Indústrias Romi	Manufacture of machinery and equipment	Listed	20	30	36	273
27	Klabin	Manufacture of paper and paper products	Listed	18	373	n.a.	n.a.
28	Totvs	Computer programming, consultancy and related activities	Listed	14	694	11	620
29	Stefanini IT solutions	Computer programming, consultancy and related activities	Unlisted	14	85	43	364
30	G Brasil	Conglomerate	Unlisted	14	359	96	658
Total				**87,149.00**	**478,593.00**	**60,733.00**	**270,228.00**

Source: VCC, 2010.

(a) Brazilian MNCs

Although some Brazilian MNCs achieved important positions in some global industries (e.g., Embraer, Vale, Petrobras, JBS), overall the country still lags behind other developing countries as few domestic firms have a truly global orientation (Prochnik, 2009). This is evident in comparison to other BRIC MNCs. As of 2008, only three of the top 100 non-financial TCNs from developing and transition economies, as ranked by foreign assets, were Brazilian (Table 18). The number of Brazilian firms (14) in the 2011 BCG Global Challengers list is also lower than Chinese (33) and Indian (20).

In 2009, the services sector was responsible for 52% of Brazilian capital invested abroad (Table 20). Financial services alone accounted for 31%, and Business services for 15%. Manufacturing accounted for mere 6%, with food and beverages, and metals being the most important. As expected for a resource rich country, mining and oil & gas have also been important sectors in Brazilian OFDI. Sectorial distribution of Brazilian OFDI stocks, 2007 - 2009 (US$ million)

Table 20 - Sectorial distribution of Brazilian OFDI stocks, 2007 - 2009 (US$ million)

Sector	2007	%	2009	%
Total	**139 886**	**100%**	**164 523**	**100%**
Agriculture and natural resources	**63 221**	**45%**	**68 866**	**42%**
Mining & quarrying	36 582	26%	40 013	24%
Oil & Natural gas	26 313	19%	28 716	17%
Other	326	0%	137	0%
Manufacturing	**5 319**	**4%**	**10 096**	**6%**
Food and beverages	1 599	1%	3 614	2%
Metallurgy and metal produtcs	1 822	1%	3 437	2%
Automotive equipment	590	0%	1 220	1%
Other	1 308	1%	1 825	1%
Services	**71 347**	**51%**	**85 561**	**52%**
Financial services	43 337	31%	51 609	31%
Business services	19 532	14%	24 428	15%
Electricity and gas services	1 154	1%	1 058	1%
Trade and trade services	2 967	2%	2 039	1%
Engineering and construction services	821	1%	905	1%
Other	3 536	3%	5 521	3%

Source: Brazilian Central Bank statistics.

Although Brazilian capital invested abroad is concentrated in a few sectors, the top 30 Brazilian non-financial firms investing abroad have a broad industrial reach. Largest outward

investors are concentrated in resource intensive industries, as seen in Table 19. There are also several Brazilian MNCs in manufacturing, and in a diverse range of sectors. This goes in line with Tolentino (2000, in Cantwell and Barnard, 2008)[37] arguments that resource-rich countries tend to develop MNCs in primary sector and low-research intensive manufacturing. Further, software firms have recently begun internationalization and appear at end of the list. Totvs, for instance, is expanding towards other Portuguese-speaking countries and Latin America (Table 19). Similarly to India, most Brazilian MNCs have gone abroad on their own, without much help from the government (Alem and Cavalcanti, 2005).

(b) Russian MNCs

Russian outward investments are largely state-driven, embedded within the Russian foreign policy, as signalled by the increasing government ownership and control of domestic firms, particularly, in energy and natural resources industries (Filippov, 2010). The state has also a great deal of influence in Russian private MNCs due to indirect relations with some oligarchs[38], who have become owners of previously SOEs after privatization in the early 1990s, mainly in raw materials and energy sectors (Filippov, 2010; Kalotay, 2010). Russian MNCs have also strongly relied on foreign IPO since 2005 to overcome underdeveloped financial sector in Russia. As of November 2010, 31 Russian firms were listed in the London Stock Exchange, in comparison to 5 from China, none from Brazil and 31 from India (Filippov, 2011).

As the Table 21 shows, Russian OFDI is predominantly undertaken by large firms in natural resources industries (e.g., Lukoil and Gazprom in oil & gas; JSC Novoship in transport; Norilsk in mining). Metallurgical companies (e.g., Severstal, Rusal and Evraz Group) have also become important outward investors. Together, the top two oil firms detained more than 40% of total foreign assets of Russian firms in 2009. The three main steel firms accounted together for 27%.

Although firms in resource industries are largely the dominant group investing abroad, followed by telecommunication firms (e.g., VimpelCom and JSFC Sistema - Mobile

[37] Tolentino, P. E. (2000) '*MNCs corporation: emergence and evolution*'. London: Routledge.
[38] Oligarchs refer to Russian businessmen that were close to the Russian government officials during privatization in the early 1990s, and that were favored in the process, enriching very fast by acquiring state assets extremely cheap.

Telesystem) that began internationalization in the last decade towards CIS countries. At the end of the tail, there are more diverse players expanding mainly to CIS countries or Eastern Europe, such as: Sitronics in telecom equipment and IT solutions, Russian Gaz in transport equipment, and Ritzio Entertainment in the gaming industry.

Table 21 - Top 25 Russian MNCs as ranked by foreign assets, 2007 (US$ million)

Rank	Company	Industry	Foreign Assets (US$ million)	%
1	Lukoil	Oil & Gas	20,805	23%
2	Gazprom	Oil & Gas	17,236	19%
3	Norilsk Nickel	Mining & Metals	12,843	14%
4	Evraz group	Mining & Metals	6,221	7%
5	Severstal	Mining & Metals	5,130	6%
6	Sovcomflot	Transport	4,874	5%
7	Rusal	Mining & Metals	4,533	5%
8	JSFC Sistems (Mobile telesystems)	Telecommunication	3,812	4%
9	VimpelCom	Telecommunication	3,572	4%
10	Novolipetsk Steel	Mining & Metals	1,594	2%
11	PriSCo	Transport	1,208	1%
12	TNK-BP	Oil & Gas	1,150	1%
13	FESCO	Transport	1,055	1%
14	IMH/OAO koks	Mining & Metals	978	1%
15	Eurochem	Agrichemicals	901	1%
16	InterRao	Electricity	799	1%
17	TMK	Mining & Metals	606	1%
18	Mirax	Development	470	1%
19	Gaz	Automotive	384	0%
20	ChTPZ	Mining & Metals	262	0%
21	Acron	Agrichemicals	261	0%
22	Alrosa	Mining & Metals	231	0%
23	Sitronics	Electronics	226	0%
24	OMZ	Engineering	207	0%
25	Ritzio Entertainment	Entertainment	200	0%
	Total		**89,558**	**100%**

Source: SKOLKOVO, 2008.

(c) Indian MNCs

Since the 2000s, the world has also seen the rise of Indian firms as global players. Although Indian capital invested abroad are small compared to other BRIC, the total number of firms investing abroad went from 1,275 during the 1990-99 period to 2,104 in the 2000-07 period, and the number of host economies jumped from 88 to 106 during the same time periods (Pradhan, 2008).

Indian MNCs stand out of their BRIC counterparts due to their comparative advantage in skill-intensive products and services (Ramamurti and Singh, 2009, BCG, 2011). Among the top 100 BCG Global Challengers (BCG, 2011), Indian MNCs also differ from other BRIC MNCs, especially Chinese and Russian, because there is only one SOE within the group of Indian global challengers: the Oil and Natural Gas Corporation. This also denotes the little influence of the Indian government in the internationalization of Indian firms, as Indian firms were going abroad in response to domestic and international market forces (Ramamurti and Singh, 2009). Despite the rise of many Indian MNCs, there were only five Indian companies among the largest 100 non-financial Transnational Companies (TNCs) from developing and transition economies, as ranked by foreign assets in 2008 (UNCTAD, 2010) (Table 18 above).

Table 22 - Indian OFDI by broad sectors, 1999/2001 - 2001/2009 (%)

Sectors	Total 1991/2001[a]	Total 2001/2006	Flows 2006-07	Flows 2007-08	Flows 2008-09	Total capital invested 2001/2009
Manufacturing	39.4	67.2	24.9	43.7	47.0	44.6
Financial services	2.2	2.2	0.2	0.2	1.4	0.9
Non financial services	51.2	21.7	54.7	12.1	5.6	20.6
Trading	5.7	4.2	8.3	3.2	8.6	6.1
Others	1.4	4.6	12.0	40.7	37.3	27.8
Total (%)	100	100	100	100	100	100
Total (US$ million)	**4,262.23**	**11,695.6**	**15,060.0**	**23,072.0**	**22,097.9**	**71,925.8**

Source: Ministry of Finance of India, Available at: http://finmin.nic.in/the_ministry/dept_eco_affairs/icsection/Annexure_4.asp, [10 Sep 2011].
Note: data are by fiscal year (1 April – 31 March).

Until the 1990s, textiles, pulp and paper, light engineering, and agrochemical firms dominated Indian OFDI flowing mainly to Asia and Africa (VCC, 2010b). In the 1990s, OFDI from India concentrated in the services sectors, notably IT services with firms like Tata Consultancy Services, Infosys, and Wipro (Table 22). Since the 2000s, it concentrates in manufacturing, but in more skill-intensive industries like pharmaceuticals (e.g., Ranbaxy and Dr. Reedy's), and automotive (Mahindra & Mahindra and Tata Motors) (Table 23). Recently, there has also been an increase in OFDI in resources seeking, notably in mining and oil & gas. Firms in such industries have intensively engaged in cross-border M&A as an entry mode into developed countries, while Greenfield projects have been preferred when investing in developing countries, as seen in Tables 12 and 13.

Table 23 - VCC ranking of non-financial Indian MNCs, ranked by foreign assets, 2006 (US$ million)

Rank	Name	Industry	Foreign assets
1	Oil and Natural Gas Corporation (ONGC)	Oil and gas operations	4,700
2	Tata Group of companies	Conglomerate	4,200
3	Videocon Industries	Conglomerate	1,600
4	Ranbaxy Laboratories	Pharmaceuticals	1,000
5	Dr. Reddy's Laboratories	Pharmaceuticals	870
6	HCL Technologies	IT services	780
7	Hindalco Industries	Aluminum manufacturer	580
8	Sun Pharmaceuticals	Pharmaceuticals	280
9	Reliance Industries	Oil and gas	250
10	Suzlon Energy	Power and energy	140
11	Larsen and Toubro	Engineering and construction	130
12	WIPRO Technologies	IT services	130
13	Bharat Forge	Auto component solution provider (forging)	110
14	Patni Computer Systems	IT services	81
15	Hexaware Technologies	IT services	70
16	Biocon Limited	Pharmaceuticals	50
17	i-Gate Global Solutions	IT services	49
18	Max India Limited	Conglomerate	37
19	Mahindra & Mahindra	Automobile manufacturer	35
20	NIIT Limited	IT services	31
21	Piramal Healthcare Limited	Pharmaceuticals	26
22	Birlasoft (India) Limited	IT services	21
23	Raymond Limited	Fabric manufacturer	18
24	Infosys Technologies Limited	IT services	9

Source: Indian School of Business' and Vale Columbia Centre on Sustainable International Investment's ranking of Indian multinationals, 2009
Note: The table ranks the top 24 Indian MNCs headquarter in India and that had at one foreign affiliate. As not every company responded to the survey, the list gives an idea of main investors and their magnitude, but is not a definite list of the largest Indian outward investors.

(d) Chinese MNCs

The internationalization of Chinese firms since the early 2000s is strongly related to the Chinese government. It has directly supported the internationalization of Chinese firms through the adoption of a wide range of measures supporting overseas investments (financial and non-financial) since the 2000s (Luo et al., 2010). Chinese largest outward investors are predominantly SOEs, and are concentrated in mining, oil & gas, transportation and construction sectors (Table 24).

Table 24 - Top 18 Chinese MNCs, as ranked by foreign assets, 2008 (US$ million)

Rank	Company	Industry	State-Owned	Foreign Assets	%
1	CITIC Group	Diversified	Yes	43,750	33%
2	China Ocean Shipping Company	Transport and storage	Yes	20,345	15%
3	China State Construction Engineering Corporation	Construction and real rstate	Yes	13,923	10%
4	China National Petroleum Corporation (CNPC)	Oil & Gas	Yes	9,409	7%
5	Sinochem	Oil & Gas	Yes	6,409	5%
6	China Shipping (Group) Company	Transport and storage	Yes	5,962	4%
7	China National Offshore Oil Corporation (CNOOC)	Oil & Gas	Yes	5,247	4%
8	China Communications Construction Company	Construction and real rstate	Yes	4,010	3%
9	Beijing Enterprises Holdings	Diversified	Yes	3,662	3%
10	Sinosteel	Metals and metal products	Yes	3,514	3%
11	China Railway Construction Corporation	Construction and real rstate	Yes	3,146	2%
12	ZTE	Telecom equipment and networking solutions	Yes	3,143	2%
13	Sinotrans & CSC Group	Transport and storage	Yes	2,813	2%
14	Lenovo	Computer and related activities	No	2,732	2%
15	Shanghai Automotive Industry Corporation (SAIC)	Automotive	Yes	2,317	2%
16	China Minmetals	Metals and metal products	Yes	1,694	1%
17	Shaghai Baosteel Group	Metals and metal products	Yes	1,091	1%
18	Haier Group	Home appliances	No	784	1%
Total			**Total**	**133,951**	100%

Source: VCC, 2010d. Notes: Lenovo has a large indirect government stake, but ownership is shared foreign MNEs and private equity firms. Haier is a collective enterprise, but its ownership is opaque and suffers from government interference (Nicolas and Thomsen, 2008).

Chinese state-owned oil companies (e.g., CNPC and CNOOC) have led investments in infrastructure and extractive sectors in Africa and Latin America to ensure access to natural resources and long-term supply for domestic economy. These firms have acquired firms in Australia, Canada and United States, and strongly relied on Greenfield projects to enter

developing countries. Engineering firms have also relied on Greenfield for expansion abroad into Africa recently (VCC, 2010c).

Chinese manufacturing firms are also starting to become important global companies as they show an increasing appetite for strategic assets and managerial capabilities. Recent large acquisitions, such as Lenovo's acquisition of IBM's PC unit, and the establishment of R&D centres in developed countries, denote Chinese firms' intention to acquire technology and build global brands (Williamson and Zeng, 2009; Deng, 2004). Other manufacturing firms in new sectors like the automotive sector are expanding into other developing countries through Greenfield projects. This is the case, for instance, of Shanghai Automotive Industry Corporation (SAIC) that has expanded into Thailand, Brazil, Turkey and Argentina (VCC, 2010c).

In terms of sectorial distribution of Chinese capital invested abroad, Table 25 shows that in 2009 Chinese OFDI were predominant in the services sectors. Business services and leasing accounted for 30% of the total, financial services for 19%, and wholesale and trading for 15%. The primary sector came next, with mining, quarrying and petroleum accounting for 17% of the total, having increased from 13% in 2004. Manufacturing, although important, is relatively minor, responding for 6% of total.

Table 25 - Sectorial distribution of Chinese capital invested abroad, 2004, 2007 and 2009 (US$ million)

Sector	2004	%	2007	%	2009	%
Total	**44 777**	**100%**	**117 911**	**100%**	**245 755**	**100%**
Agriculture and natural resources	**6 786**	**15%**	**16 220**	**14%**	**42 608**	**17%**
Mining, quarrying and petroleum	5 951	13%	15 014	13%	40 580	17%
Agriculture, forestry, husbandry, fishery	834	2%	1 206	1%	2 028	1%
Manufacturing	**4 538**	**10%**	**9 544**	**8%**	**13 592**	**6%**
Services	**33 454**	**75%**	**92 146**	**78%**	**189 556**	**77%**
Financial services	-	-	16 720	14%	45 994	19%
Business services and leasing	16 428	37%	30 515	26%	72 949	30%
Transport and storage	4 581	10%	12 059	10%	16 631	7%
Wholesail and retail	7 843	18%	20 233	17%	35 695	15%
Engineering and construction services	817	2%	1 634	1%	3 413	1%
Other	3 784	8%	10 985	9%	14 873	6%

Source: MOFCOM, China, 2009.

3.4 Strategic drivers of OFDI by BRIC MNCs

3.4.1 Market-seeking

Throughout the three waves of OFDI from developing country firms, market-seeking investments by BRIC MNCs have always occurred. In line with the Uppsala model, during the first two waves, BRIC MNCs sought market-seeking investments in neighbouring developing countries. As seen in previous sections, since the late 1990s, BRIC MNCs have expanded to more distant and culturally different countries, particularly to developed countries. Differing from the traditional models explaining OFDI, these firms do not rely entirely on traditional FSAs. Many times, it is their own institutional environment or CSAs that have led them to exploit markets abroad. In this process, the need to overcome trade barriers has been an important reason for OFDI by BRIC MNCs. Regional integration and more competitive domestic markets due to liberalization in the 1990s has spurred regional investments as well. However, in most cases, there is not only one motive explaining internationalization, as BRIC MNCs are pursuing multiple objectives in an OFDI project.

Brazilian MNCs, from the 1960s to 1980s, expanded to South America, mainly Argentina and Uruguay, in an early market-seeking approach, and as a result of cultural proximity and previous market knowledge through exports, in line with the Uppsala model (Gammeltoft, 2008; Chudnovsky & López, 2000). According to Chudnovsky and Lopez (2000), Brazilian MCNs did not have traditional Hymer's (1968) ownership advantages (technology and brands) to compete abroad. In turn, their ability in managing and adapting the use of available technologies in a way suited for other developing markets were the ownership advantages that enabled their internationalization. Villela (1983) explains that Brazilian manufacturing MNCs[39] undertook market-seeking OFDI in Latin America to overcome trade barriers, and construction and engineering firms[40] moved to Africa and Middle East to diversify markets and increase utilization of installed capacity.

Since the late 1990s, Latin America and Europe have been the main destinations of OFDI by Brazilian manufacturing MNCs that had survived liberalization in the early 1990s. Regional integration and globalization pressures spurred market-seeking investments in neighbouring countries in industries such as: textiles, chemicals, and steel and car components. Often these

[39] Examples of Brazilian MNCs were: Caloi, Gradiente, Odebrecht and Andrade Gutierrez.
[40] Construction and engineering firms internationalized to overcome the sluggish economic growth after the mid 1970s, based on accumulated experience from large domestic infrastructure projects.

investments were motivated by the need to be close to customers and to provide trade support (Iglesias and Veiga, 2002). Chudnovsky and Lopez (2000) argue that these firms internationalized based on their production and management skills, not anymore on their ability to adapt diffused technology, challenging previous explanations (Wells, 1983; Lall, 1983) of OFDI from developing country firms.

Sabó, for instance, internationalized to follow its global customers in the automotive industry, based on its production techniques and quality standards. In 1994, it acquired Kako, a German company, and began using it as its European base and main R&D source. In 2006, it moved into the United States (Fleury and Fleury, 2009). Ambev acquired Quilmes in Argentina in 2003 and several others in Central and South America (Fleury and Fleury, 2011, p.269). Gerdau, for instance, entered the market of special steel products through the acquisition of Sidenor in Spain in 2006. It also acquired four large steel companies in the United States in 2006 and 2007. Embraer internationalized based on its innovative business model and project management competences. In 2002, it invested in the United States for trade support and maintenance. It also set an assembly plant in the country in 2004 to overcome trade barriers in the military aircraft market (Fleury and Fleury, 2011, pp.249, 262).

Russian MNCs also began expansion towards neighbour countries. The prospects of future growth in CIS countries have recently attracted non resource-based firms. In line with the Uppsala model, these investments are associated with low cultural and psychic distance (Filippov, 2010). Among non-resource-based companies, Russian telecommunications firms, such as MTS and VimpelCom, are the most prominent outward investors into CIS. Filippov (2010) argues that, besides cultural and business proximity, these firms benefit from the lack of Western competitors in such markets. Other non-resource based firms, like Kaspersky Lab and Sitronics in IT services, have entered CIS and also European markets based on CSAs (skilled manpower at low cost) (Panibratov, 2010).

Resource-based Russian firms also began expansion towards CIS, but quickly moved to Eastern and Western Europe mainly through acquisitions (Filippov, 2010). Following privatization in the 1990s, large domestically owned financial and industrial groups were

created, notably in oil & gas, mining & metals, and telecommunications[41]. The oligopolistic advantages of these firms, derived from this, allowed them to go abroad fast (Kalotay, 2011). Yet, entering developed markets has been more complicated[42]. Nevertheless, some Russian MNCs have succeeded. Lukoil has made acquisitions in the United States and Western Europe in order to establish control over downstream assets and enter higher margin markets. Evraz Group, a Russian steelmaker, has made acquisitions in the US and Europe to overcome import quotas and secure access to such markets. Gazprom has also expanded into European downstream natural gas market in an effort to strengthen its position as a supplier and distributor of natural gas to end customers (Vahtra, 2007).

Indian MNCs initially sought market-seeking investments in other developing countries during the first wave of Indian OFDI (1960s to 1980s). They invested abroad in an attempt to overcome domestic stagnation and policy restrictions (domestic market protection[43]). During this first wave, India OFDI was concentrated in other developing countries in South East Asia, such as Singapore, Malaysia, and Thailand. This was associated with their existing ownership-advantages of replicating foreign technology in cost-efficient ways (Lall, 1983)[44], but also as a result of historical, geographical, ethnical and linguistic proximity, in line with the Uppsala model (Pradhan, 2008).

However, following the deep and broad economic reforms in output markets in 1991 and other more favourable policies put in place afterwards, the rising Indian MNCs intensified outward investments in advanced economies. Since the 1990s, Indian MNCs differ from other BRIC as they have become more skill-intensive. Stronger competition at home, larger market opportunities abroad and the need to provide after-sales support have encouraged Indian IT

[41] During privatization the government prohibited the participation of foreign companies, and established restrictions on foreign investments in certain sectors, providing Russian firms with leading positions in home markets (Kalotay, 2011).
[42] Regulatory restrictions, different business practice, fierce competition, and in many times political unease make such investments more challenging. According to Filippov (2010), many firms have had to use financial offshore firms or foreign subsidiaries to indirectly acquire assets in developed markets, so that the transaction did not raise much political concern. Host governments fear that Russia uses its MNCs to foster foreign policy, due to their strong ties with the government or even state-ownership.
[43] Domestic market protection had a dual role. On one hand it protect domestic industries. On the other Lall (1983) found out that poor regulatory environment placed restriction on growth and diversification of Indian firms, which pushed OFDI at the time.
[44] Lall (1983) argued that Indian MNCs relied on non-traditional FSAs, such as small-scale technologies, ability to substitute imported inputs with local ones, products tailored do developing countries need, and ability to manage regulatory process and local networks.

firms, such as Wipro and Infosys, to invest in the United States. Indian pharmaceutical firms, such as Ranbaxy and Dr. Reddy's, have also pursued market-seeking investments in both developed (United States and Europe) and developing markets (mainly Latin America) to overcome trade and regulation barriers to serve such markets with their generic drugs (Rajan, 2009).

Chinese MNCs began investing abroad in the 1980s[45], but market-seeking investments mainly took place in the 1990s. Since the mid 1990s, overcapacity and limited domestic demand in labour-intensive and low-value added activities (e.g., textiles, footwear, electronics and home appliances) pushed Chinese MNCs to look for foreign markets[46]. Regional integration and trade protection in exports markets have pushed Chinese MNCs to invest abroad as a way to overcome barriers on their exports. Even after Chinese accession to the WTO, restrictions persist. This type of investment has occurred in both developed and developing markets. Haier, for instance, invested in manufacturing and assembly facilities in the US to avoid American trade barriers. Some firms have also invested in third-countries to benefit from their preferential trade agreements with another country. This is the case of Chinese textiles firms that invested in Turkey in order to access the EU market or that invested in Jamaica to export to the US (Deng, 2004; Whang, 2002).

3.4.2 Resources-seeking

Resources-seeking investments, notably of natural resources, have recently become one of the major drivers of OFDI from BRIC countries in recent years. Strong and consistent domestic economic growth, combined with commodity prices in recent years, has pushed BRIC firms abroad to secure access to raw materials. In this run for resources, Chinese SOEs are the leading firms. Pradhan (2011) and Buckley et al (2007) found empirical evidence that Chinese MNCs are strongly motivated to set up operation in resource-abundant countries. Chinese MNCs have actively acquired firms for the exploration of oil & gas, mining and metals in

[45] Following the implementation of the "open door" policy in 1979, which initiated the opening of the Chinese economy. Initial investments were mostly of resource-seeking type to sustain rapid industrialization the country was going through. These were usually directed towards Australia and Canada (Whang, 2002).

[46] Whang (2002) notes that by the mid 1990s, overcapacity was around 40% in the textile industry, 60% in color TV manufacturing, 65% in washing machines. Home appliances in general operated below capacity. OECD (2008) notes that the automotive industry had an estimated overcapacity of 3 million units in 2004.

Russia, Australia, Central Asia, Latin America and Africa, as can be seen in Table 14 and Table 15, listing major cross-border M&A and Greenfield projects by Chinese MNCs.

The Chinese government has a great deal of influence in this quest for natural resources due to the short supply at home (Buckley *et al.,* 2007). These firms (mostly state-owned) can benefit from financial support and political influence in securing overseas natural resources. As Deng (2004) observes, Chinese MNCs in resource-based industries ship back to China a large chunk of foreign production[47].

Even Indian OFDI, which traditionally went into manufacturing and services, has started to flow to resource-rich countries since the 1990s and more intensively in the 2000s. Pradhan (2011) argues that although natural resources endowments in host countries was not a determinant of total OFDI by Indian MNCs during the 2001-2008 period, a large number of Indian firms, notably state-owned, have pursued such goals. This is noted in Tables 12 and 13, listing major cross-border M&A and Greenfield projects by Indian MNCs. The primary sector is important in both.

The expansion of Russian oil & gas and metal companies to CIS countries can also be largely explained by the need to secure access to natural resources. Filippov (2010) cites the cases of Lukoil's operation in Azerbaijan and Mechel's (Russian steelmaker) operations in Kazakhstan. It is also the case of Rusal's acquisitions in Angola, Guinea, Nigeria and South Africa. However, to the extent that Russian MNCs in resource-based industries tend to have abundance of raw materials, they are keener on downstream investments to gain control over the entire value chain, and hence secure position on strategic markets (Vahtra, 2007). Tables 10 and 11 show the dominance of resource-seeking investments in Russia's main cross-border M&A and Greenfield projects.

Several Brazilian MNCs have also pursued natural resources-seeking investments, as seen in Tables 8 and 9. Petrobras began investing abroad to secure access to natural resources in the 1970s as a result of governmental direction to diminish dependence on oil imports (Villela, 1983). As of 2008, it operated in more 27 countries (Fleur and Fleury, 2011, p.234). Vale has made the largest acquisition by a BRIC MNC when it acquired Inco from Canada in 2006.

[47] An illustrative example is CNOOC's CEO declaration that investment in the West Shelf Gas Project in Australia was to meet supply demand of rapidly growing market in China (Rasiah et al., 2010).

Braskem, for instance, has established partnership with the state-owned Pequiven in Venezuela in order to serve the Brazilian and North American markets, and with Peru's oil-company PetroPeru to serve the pacific coast (Fleury and Fleury, 2011, p. 266-267).

3.4.3 Asset-and-efficiency-seeking

Asset-seeking investments have been a major determinant of Chinese and Indian OFDI. Technology-seeking investments have dramatically increased since the 2000s. Almost all Indian IT companies, such as Wipro, Tata Consulting and Infosys, have set up R&D facilities or acquired software development firms in developed countries, including the US. This is also the case of Indian pharmaceutical companies that acquired foreign companies in order to expand their R&D base, besides accessing distribution networks and markets (Rasiah et al., 2010; Sauvant, 2005). Rajan (2009) cites acquisitions by Ranbaxy in Germany, France, Belgium, Spain and Italy from 2000 to 2006 as examples of technology-seeking investments.

Chinese MNCs have also sought to capture externalities of host-country technology clusters, such as: Huawei's investment in R&D facilities in Sweden and the US; Haier's investments in Germany and in India; JAC Motors investment in Italy (Francoise and Thomsen, 2008). Von Zedtwitz (2005) conducted a research with 77 leading Chinese R&D-intensive firms and found out that they had 37 R&D operations abroad as of end 2004, of which 26 in developed countries (Europe, United States and Japan), and in several sectors including engineering and IT. Chinese firms are also looking to acquire brands and skills. For instance, Lenovo has acquired IBM's PC unit, and Haier has acquired Maytag in the United States (OECD, 2008). SKOLVOVO (2010) also cites Dishang Group, a Chinese garment manufacturer, that has acquired companies in France and Germany to access brands and superior design capabilities.

Conversely, according to Filippov (2010) Russian OFDI motivated by technology-seeking is still rare. Renova's acquisition of Oerlikon in Switzerland is an exception. Strategic-asset-seeking investments by Russian MNCs are more related to securing infrastructure functionality abroad and increasing market power (Vahtra, 2007). For instance, Yukos acquisition of infrastructure networks in CIS countries, including seaports and oil pipelines delivering crude oil and products to European and US markets. Similarly, Lukoil has made downstream acquisitions in the United States and Europe to internalize the entire value chain, and strengthen its global market position. Severstal acquired Rouge Industries in the United

State to overcome US steel imports quota, and became a supplier to American auto manufacturers (Vahtra, 2007).

Likewise, Carvalho et al (2010b) found evidence that few Brazilian firms have pursued technological-seeking investments in developed countries. There are exceptions though, such as Sabó that acquired German Kako because of R&D facilities and proximity to German universities. Petrobras is another firm that operates in the technology frontier in the oil industry. In general, the authors found evidence of *technology-exploiting* motives in Brazil's OFDI into developed countries, denoting that Brazilian MNCs may rely on extant specific capabilities when competing globally. The authors argue that, even the few Brazilian MNCs in technology-intensive sectors not necessarily rely technology-based FSAs. Embraer, for instance, relies on its unique business model and management skills to operate its outsourcing system, benefiting from suppliers technologies embedded in their products.

Efficiency-seeking investments by BRIC MNCs are less common. After all, as seen in chapter one, this type of investment is more related to countries in stage 4 and 5 of the IDP. There are, however, a few BRIC firms that internationalize due to economies of scale and scope. As mentioned in the previous section, Russian MNCs expansion into CIS countries in the attempt of re-establishing disrupted value chain due to collapse of the Soviet Union is to a certain extent motivated by efficiency gains arising from common ownership of such assets (Filippov, 2010).

Few Chinese and Indian firms in IT, automobiles, electronics and electrical products industries have also invested abroad to lower costs. For instance, Infosys and Tata Consultancy Services have established global sourcing bases in China. Tata Motors acquired Daewoo in Korea to establish a regional production network, whereby Indian small vehicles are sold in Korea through Daewoo outlets and brand, and Korean heavy trucks are sold in India through Tata's outlets and brand (Rajan, 2009). In China, rising labour costs have also induced a few Chinese firms in low-tech labour-intensive manufacturing and assembly plants to invest in other less developed countries, such as Vietnam (OECD, 2008).

3.5 Conclusion

The intensification of competition in BRIC countries following liberalization, and to some extent privatization, in the early 1990s has induced the internationalization of BRIC firms. In this new globalized environment, international competitiveness of domestic firms is vital for national economic performance. Often grouped together, BRIC MNCs share similarities but also important distinctions (Table 26). While Russian and Chinese MNCs are closely tied to state foreign policy, Indian and Brazilian MNCs internationalization tend to behave more like private economic agents. Indian OFDI is more skill-intensive and up-market oriented than other BRIC. Moreover, while developed countries are the main destinations of Russian, Indian and Brazilian OFDI, Chinese investments are heavily concentrated in other developing countries, although they are increasingly flowing to developed markets too.

Despite OFDI being mainly dominated by developed economies, BRIC are surging as important outward investors. South-South OFDI flows from BRIC occur mainly in infrastructure and extractive sectors, while South-North tend to be more mixed and particularly in the form of M&A, as seen in the cross-border M&A and Greenfield projects tables for all BRIC (Tables 8 to 15).

As it is the case for other developing market firms, BRIC MNCs still rely predominantly on CSAs to compete internationally. However, some have managed to combine CSAs with niche strategies and low-cost innovation and build FSAs that rivals find it difficult to replicate. Market-seeking and resource-seeking are the main motives for OFDI by BRIC MNCs. Asset-seeking investments to acquire distribution networks and technology, and build global brands are also increasing. OFDI to offer trade support and overcome trade barriers are common, and financial offshore centres are dominant OFDI destinations among BRIC MNCs. M&A has increasingly been the choice of BRIC MNCs when entering foreign markets, notably developed markets.

Understanding what is driving domestic firms abroad is of extreme importance for BRIC governments to design and implement policies to assist them in this process, as well as it is for governments to extract widespread spillovers from OFDI of their firms. The role of BRIC governments in OFDI is the subject of the next chapter.

Table 26 - Summary of BRIC OFDI characteristics

	Brazil	Russia	India	China
OFDI stocks in 2009 (US$ million)	157,667	248,894	77,207	229,600
as share of GDP	10.3%	20.0%	6.3%	4.9%
OFDI stocks CAGR growth 2003-2009	19.2%	18.3%	52.8%	38.0%
Average OFDI outflows 2003-2009 (US$ million)	8,316.43	29,641.61	10,278.58	23,484.67
as share of GDP	0.79%	2.74%	0.97%	0.66%
Sectors	Services, mining, oil & gas, manufacturing	Oil & gas, mining, telecom, manufacturing	Pharmaceuticals, manufacturing, recently (oil & gas, steel), IT	Mining, oil & gas, manufacturing, services, trade, transport
Destination	Europe, US, tax havens(Bermuda, Cayman Islands), Latin America	European Union, US, CIS, CEE	US, UK, Russia, Mauritius, Singapore, South East Asia	Hong Kong, South East Asia, US, Australia, Russia, Africa
100 BCG Global Challengers in 2011 (nº of companies)	13	6	20	33
Fortune Global 500 in 2010 (nº of companies)	7	7	8	61
Example of MNCs	Vale, Petrobras, Embraer, JBS, WEG, Odebrecht	Lukoil, Severstal, Evraz Group, Norilsk, Rusal, VimpelCom	Ranbaxy, Infosys, Mahindra, ONGC Videsh, Tata Motors, Hindalco	Lenovo, Haier, CNPC, Sinochem, ZTE, Huawey, Baosteel, CNOOC
Notes	Important export-related FDI	Outflows repeatdly higher than inflows	Up-market oriented and skill-intensive	SOEs dominate, close ties with government

Source: based on Gammeltoft, 2008.

IV The role of BRIC governments in Outward Foreign Direct Investments

The understanding of BRIC OFDI trends at firm level presented in the previous chapter would be incomplete without reference to government policies towards OFDI. BRIC governments' perception of outward investment has changed over time, and this has been reflected in OFDI policies that have evolved from restrictive to permissive and, to some extent, promotional in recent years. Nevertheless, while OFDI liberalization has taken place in most of BRIC countries, red tape is still an issue in China and India, and the lack of active supporting measures in Brazil and Russia put firms in disadvantage to compete with developed country counterparts. These have long established a comprehensive policy framework to actively promote OFDI (Table 4, in chapter 1), recognizing its importance to the competitiveness of their domestic firms in a globalized market (UNCTAD, 1995).

Among developing countries, Singapore, Malaysia, Taiwan, and Korea have already established an OFDI promoting policies (UNCTAD, 1995; Rasiah et al., 2010). Between BRIC, China and India have already implemented a comprehensive set of OFDI supporting policies, while Brazil and Russia have yet to do so (Sennes and Mendes, 2010; Sauvant, 2005; Pradhan, 2007; Nayyar, 2008). Both Brazil's former and Russia's current presidents[48] [49] have made declarations in support of OFDI, but government policy has not yet followed.

The Brazilian government has just recently begun a movement to implement promotional policies. To this point, Brazilian MNCs had mostly gone abroad on their own (Alem and Cavalcanti, 2005; Fleury and Fleury, 2006). In 2005, the Brazilian National Development Bank (BNDES) created a credit line for the internationalization of domestic firms (Alem and Cavalcanti, 2005). However, the government has not yet implemented further supporting policies, such as BITs and DTTs and political risk insurance.

[48] Financial Times, 2008. "Copy China and invest abroad, says Medvedev", January 31, 2008.

[49] Sauvant (2005) recalls two Brazilian government officials declaration in support of OFDI. One from the former President, Mr. Luis Inácio Lula da Silva, that urged Brazilian businesspople in 2003 "to abandon their fear of becoming MNCs businesspeople" in a speech delivered at the Portuguese Industrial Association, Lisbon, 11 July 2003. Another from the former Minister for Development, Industry and Foreign Trade, Mr. Luis Fernando Furlan, that said "the Brazilian government expects the country to have 10 really transnational companies by the end of President Lula's term office", in a lecture given at Fundação Dom Cabral, 22 March 2003.

Russia, on the other hand, is still a step behind in terms of policies, as it is much more focused on attracting FDI to the country[50]. Hence, the government has not implemented further OFDI support apart from signing some Double Taxation and Bilateral Investment Treaties. OFDI by Russian MNCs is still sometimes perceived as capital flight, as mentioned in previous section. Hence, government policies tend not to encourage OFDI (Vahtra and Liuhto, 2006; Sauvant, 2005; Filippov, 2010).

China and India have recognized earlier the importance of OFDI to their economies. Government support has been an important underlying factor of Chinese and Indian firms OFDI since the early 2000s, in spite of approval requirements. Over time, Chinese and Indian governments have facilitated outward investment through policy reforms, including the liberalization of foreign exchanges policies and the simplification of approval procedures. As it will be presented in section 4.1.3 and 4.1.4, both countries have gone further by establishing additional support measures, such as signing international investment and double taxation treaties, providing technical and information assistance, as well as financing and political risk insurance (Rajan, 2009; Pradhan, 2007; Luo et al., 2010; Buckley et al., 2007).

To the extent that governments become supporters of OFDI, it is important to know what type of policies and instruments they can rely on to spur more OFDI. BRIC governments have influenced the recent surge of OFDI in different manners and degrees. They have lifted OFDI restrictions and put in place supportive measures. Essentially, OFDI liberalization has followed the accumulation of foreign exchange reserves by BRIC.

4.1 Evolving BRIC's OFDI policies

4.1.1 Brazilian OFDI policy evolution

Brazil has never had a comprehensive set of laws or policies to foster OFDI[51]. In fact, the Brazilian industrialization path is actually characterized by strict control of capital movements as a result of years of import-substitution policies until the early 1990s. The restrictive

[50] President's Medvedev speech at the 22nd meeting of the Comission for Modernisation and Technological Development of Russia's Economy, 30 March, 2011. "Ten measures to improve investment climate". Available: http://eng.kremlin.ru/misc/1985, [10 Aug 2011].

[51] Differently from China and India, Brazil has never had specific OFDI regulations or policies. Capital controls were mostly done through currency restrictions. Research for this section was carried in the legislation database of the Brazilian Central Bank, which covers both the Central Bank's resolutions, as well as those of the National Monetary Council. Legislation of the Brazilian Chamber of Foreign Commerce was also researched.

environment gave place to a gradual liberalization during the 1990s and early 2000s. Just very recently, in 2005, the government began to emphasize the importance of OFDI to the Brazilian economy. However, OFDI supporting policy has not yet been put in place. Brazil is taking a bit longer to design and implement policies as compared to China and India. One can argue that Brazil has had three distinct OFDI policy phases, of which the third has just begun.

The first phase of OFDI policy was characterized by rigid foreign exchange controls until the 1990s, and it is embedded in Brazil's foreign trade policy. Until the mid-1960s, Brazilian OFDI was insignificant as companies had little incentives and capacity to invest abroad, adding to restrictions in place. The inward-oriented import-substitution policies conspired against the increase in productivity and deferred the maturity of many of domestic industries. The protected markets provided no incentives for domestic firms to invest in technology capacity and limited the achievable economies of scale. Following the military coup in 1964, Brazil adopted more outward-oriented policies (export promotion and less distorted exchange rates) as a response to low growth rates, high inflation and balance of payments pressures. Embedded in this export-oriented environment, initial OFDI took place[52] making the country one of the main outward investors among developing countries.

The inward looking import-substitution model was prone to cause foreign exchange restrictions as a result of balance of payments problems. Hence, the government adopted capital controls, including of OFDI, to deal with balance of payments issues. Contrary to India and China, Brazil has never had specific OFDI policies. Capital controls were done through foreign exchange regulations. Until 1988, all overseas investments required prior approval from the Central Bank. Circular 1.280 (of January 1988) even required that Brazilian outward investors sold an equivalent amount of gold to the Central Bank to compensate for foreign exchange use in their outward investments. This restriction was later lessened in the same year. Table 27 presents the evolution of Brazilian legislation. During the 1980s, the Brazilian government imposed severe constraints even to buy foreign currency for international travels, which was limited to US$1 thousand each six months per individual. Hence, companies faced difficulties to send employees overseas. So many restrictions led to

[52] Brazil's OFDI during this period were authorized by the Central Bank in the context of promoting Brazilian exports, supporting trade and securing access to resources (self sufficiency). Hence, OFDI was concentrated in the financial sector, oil industry, capital goods manufacturing, and civil engineering and construction, which could entail exports of Brazilian capital goods (Villela, 1983, pp. 220-249, In Lall, 1983).

the formation of a *quasi-official* parallel dollar market through which companies and individuals dribbled legislation.

In December 1988, the National Monetary Council (CMN) began the foreign exchange liberalization by creating the Floating Exchange Rate Market (MCTF). The MCTF was initially reserved for transactions involving imports or service payments, or international travel expenses. The previous Administrative Exchange Rate Market (replaced by the Free Exchange Rate Market (MCTL) in 1990[53]) was reserved for transactions involving inflows of foreign investments and international loans, and required approval for all transactions. Through the MCTF companies and individuals were allowed to buy or acquire foreign exchange at floating rates with authorized financial institutions, without prior approval. In spite of easing changes, regulation remained strict.

In the 1990s, things start to change, although rather slowly, as the country began to embrace a structural liberalization of the economy and face increasing current account deficits. In 1992, the requirement for Brazilian outward investors to compensate foreign currency remittances abroad associated with OFDI by selling an equivalent amount of gold to the Central Bank was abolished. The MCTF market was enlarged to encompass transactions regarding Brazilian OFDI, but a complex approval system remained in place. The approved amount of outward investment was limited to US$1 million, for a period not less than 12 months, without prior approval of the Central Bank. Yet, it required a wide range of documents for registration. In 1994, the limit was once again raised to US$5 million. Investments above this sum required the approval of the Central Bank. The long list of documents, besides the limit, remained a constraint for outward investors. Further liberalization occurred in terms of portfolio investments during the following years. However, OFDI regulations remained the almost unchanged until 2005, in contrast to China and India that strongly liberalized in the end of the 1990s and early 2000s.

Despite having a quite advanced financial system, it was clear that the foreign exchange system required modifications if the country wanted to further integrate into world economy. Hence, in 2005, a major shift in foreign exchange policy occurred in an attempt to modernize, simplify and liberalize the market, affecting Brazilian outward investments. Through

[53] Resolution 1.690, of March 18, 1990

Resolution nº 3.625 (March 6, 2005) the government unified MCTF and MCTL into one single foreign exchange market. Through Circular nº 3.280, (March 9, 2005), Brazilian Central Bank established the rules for the unified foreign exchange market (*Regulamento de Mercado de Câmbio e Capitais Internacionais* – RMCCI), and fully liberalized OFDI for non-financial corporations. Under RMCCI, previous limits on amount and time period for Brazilian OFDI were revoked; prior approval from the Central Bank was no longer required; and the list of documents were limited to those providing proofs of adequate economic fundamentals and lawfulness of transaction, and those required by the authorized financial institution involved in the transaction. Currently, Brazilian outward investors are only required to register investments within the Central Bank for statistics and monitoring.

In spite of foreign exchange liberalization, Brazilian companies face other hurdles when venturing abroad. Tardiness in setting a comprehensive set of OFDI supporting policies is especially detrimental for small and medium enterprises. It seems that a third phase in OFDI policy is about to start. The government has included the internationalization of firms in parts of its former industrial policy plan launched in 2007, the *Productive Development Programme* (PDP), aiming in promoting OFDI in specific industries: mining, oil and petrochemicals, rubber and paper, meat and agriculture, among others.

In December 2009, the government issued the *Term of Reference: Internationalization of companies*, which summarizes the initial debate of the working group on the internationalization of companies created by the Federal Government under the coordination of the Executive Secretary of the Chamber of Foreign Commerce (CAMEX). Since 2002, BNDES is allowed to finance Brazilian foreign investments, provided they resulted in higher exports. First deal was only done in 2005[54]. Apart from a debate on credit allocation, funding remains a crucial issue. The VCC (2010) survey with Brazilian MNCs suggests that access to BNDES funds or other domestic banks for internationalization is still limited. The majority of firms indicated their own capital as the main source of funding for internationalization. It remains to be seen what role BNDES will play (Iglesias and Veiga, 2002; Alem and Cavalcanti, 2005; VCC, 2010).

[54] Friboi got a US$ 80 million loan to acquire Swift Armour in Argentina (Alem and Cavalcanti, 2005).

Table 27 - Key OFDI liberalizations in Brazil

	Regulations	Enunciator	Time issued	Key points
1	Circular nº1.280	Central Bank	Jan-88	Authorizes remittances in foreign currency intended for the formation of Brazilian investment abroad, upon the sale of an equivalent amount of gold bought in the domestic market to the Central Bank.
2	Resolution nº 1.534	CMN	Nov-88	Establishes an alternative scheme to the compensation scheme with sale of gold to the Central Bank. Remittances in foreign currency associated with OFDI may be authorized upon the compensation for the use of foreign currency by an equivalent amount of inward foreign investment (new money) in the remittant company or in a company of the same economic group.
3	Resolution nº 1.552	CMN	Dec-88	Authorizes the sale of up to US$ 4 thousand of foreign currency by authorized financial institutions for the purpose of international travels, per traveller.
4	Circular nº 1.414	Central Bank	Jan-89	Exempts from the gold compensation scheme, remittances of foreign currency intended for the formation of Brazilian capital in Portugal not exceeding 20% of the company's net worth or US$ 20 million.
5	Resolution nº 1.852	CMN	Jul-91	Authorizes the installation of agency, branch or representative office, and equity capital abroad by multiple banks, reatial and investment banks, provided that allowed to operate in foreign exchange market.
6	Resolution nº 1.925	CMN	May-92	Extinguishes the gold compensation scheme.
7	Circular nº 2.172	Central Bank	May-92	Designates the floating exchange rate market for Brazilian direct investment transactions. It does not eliminate the requirement of prior authorization and registration with the Central Bank. Authorises accredited banks to conduct transactions related to Brazilian investments abroad in subsidiaries or affiliates, or to the purchase real estate, and or to purchase of equity stakes in foreign companies, as well as for installation of foreign offices.
9	Resolution nº 1.968	CMN	Sep-92	Authorizes Brazilian investments, by companies or individuals, in Mercosul member-countries through the acquisition of securities at the spot market of stock exchanges, as well as through long positions in the futures and option market for the exclusive purpose of hedging their portfolio.
10	Circular nº 2.243	Central Bank	Oct-92	Authorizes accredited banks to conduct foreign exchange remittances of up to US$ 1 million, or its equivalent in other currencies, for the formation of Brazilian investments abroad, per economic group and for a period not inferior to 12 months. Investments above US$1 million requires prior approval from the Central Bank. Simplify procedures for registration, control and monitoring of Brazilian investments abroad. The authorized banks become responsible for collecting the required documents for foreign currency remittances abroad related to OFDI, and communicating and registering such transactions with the Central Bank through the electronic system (Sisbacen). The documents required consist of: two letters signed by directors of the investing company under the mode required by the Central Bank, a negative debt certificate and the by-law or social contract of the company receiving the investment. Investments above US$1 million requires additional documents, and that they be presented by the company directly to the Central Bank for approval.
11	Circular nº 2.316	Central Bank	May-93	Extinguishes the limits on the acquisition of foreign currency for international traves within Mercosul.
12	Circular nº 3.716	Central Bank	Feb-94	Establishes new procedures for registeting Brazilian investments abroad with the Central.
13	Circular nº 2.472	Central Bank	Aug-94	Increases the limit for Brazilian investment abroad by non-financial corporations to US$ 5 million through authorized banks upon the presentation of required documents described in the Circular. Investment above that amount requires the presentation of additional documents by the investing company directly to the Central Bank for approval.
14	Circular nº 2.494	Central Bank	Oct-94	Eliminates limits on the acquisition of foreign currency for international travel regardless destinies and other previous restrictions.
15	Circular nº 3.037	Central Bank	May-01	Authorizes Brazilian foreign investments through share or assets swap. In such a case, an asset assessment report from the Brazilian Securities and Exchange Comission (CVM) is required.
16	Resolution nº 3.265	CMN	Mar-05	Unifies the free exchange rate market (MCTL) and the floating exchange rate market (MCTF). Auhtorizes individuals and corporations to buy or sell foreign currency or to undertake international financial transfer, regardless the nature of transaction, without any amount limitations, and without prior approval from the Central Bank, provided the legality of such transaction and based on economical fundamentals and responsibilities defined in the legislation.
17	Circular nº3.280	Central Bank	Mar-05	Establishes the new International Capital and Foreign Exchange Market Regulation (RMCCI). It eliminates the previous restrictions on Brazilian investments abroad.
18	Circular nº 3.313	Central Bank	Feb-06	Establishes the rules under which Brazilian investors abroad are required to register investments carried during the fiscal year for monitoring reasons. Only investments totalling a value above US$ 100 thousand during the fiscal year are required to be registered.
19	Resolution nº 3.548	CMN	Mar-08	Authorizes Brazilian exporters of goods and services to keep 100% of their proceeds abroad. Repatriation is no longer required.

Source: Central Bank of Brazil, 2011.

4.1.2 Russian OFDI policy evolution

Similarly to Brazil, Russia does not have specific OFDI policies. Capital control has also been mostly regulated through currency legislation. Until 2004, Russia had relatively restrictive regulations in comparison to BRIC, partially because of suspected linkages of OFDI to capital flight. The main regulatory piece regulating OFDI is the currency law, enacted in 2003 and further amended in 2007[55]. The legislation came into force in June 2004 and eliminated the previously existing need for Central Bank's approval for almost every currency operation. In turn, it introduced the compulsory use of special-type accounts and mandatory "reserving" (requirements that 25% of the amount of transaction be deposited with the Russian Central Bank when foreign exchange operations are conducted) for currency transactions (Baker and Mckenzie, 2006; Vahtra, 2006).

In 2007, reserve requirements and the use of special accounts were eliminated, completing the liberalization process of currency control. The transfer of funds abroad for OFDI, among other capital movements, no longer requires the deposit of a quarter of the sum at the Russian Central Bank. However, to prevent capital flight, Russian companies are still required to repatriate all foreign currency exports proceeds. The purchase and sale of currency may only be conducted at authorized Russian banks (Baker and Mckenzie, 2007). In 2009, in an attempt to strengthen Russia's domestic financial market, the government tightened restrictions on the amount of equity capital that can be raised abroad by Russian firms. As of January 2010, the selling of shares in international markets is limited to 25% of the firm's total amount of shares. In the case of an IPO, this is limited to 5% (Salans, 2010).

The strengthened role of the Russian state in the economy since 2006, particularly in energy-related industries (Kalotay, 2010), has had consequences on Russian OFDI. Since 2004, SOEs have acquired major domestic and foreign energy assets from Russian private firms[56] (OECD, 2008b). This has raised host government concerns about the motivations behind Russian OFDI, especially in energy sectors. According to Kalotay (2010: 58), SOEs like "Gazprom and Rosneft are now influenced by Russia's foreign policy". It has been particularly troublesome for Russian firms acquiring downstream assets in Baltic States and Eastern

[55] Federal Law Nº 173-FZ of December 10, 2003, concerning currency regulation and currency control.
[56] For instance, Gazprom's takeover of privately owned Sibneft; and Rosneft and Gazprom's acquisition of Russia's largest private oil company Yukos (OECD, 2008b)

European countries[57]. The increasing state participation in the energy sector has contributed to the expansion of Russian OFDI in such sector (Vahtra and Liuhto, 2007; VCC, 2009).

There has also been an indirect support by the Russian government for the internationalization of firms through economic diplomacy. The government has signed several investment and taxation treaties since the 1990s to the benefit of Russian MNCs. Most of BITs are with traditional Russian foreign investments counterparts (OECD, 2008b). Several cover important energy buyers Norway, Netherlands, China, France, Germany, and the United Kingdom. In 2010, the Russian government ratified the regional *Agreement on Encouragement and Mutual Protection of in Eurasian Economic Community Member States* (Russia, Belarus, Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan) signed in December 2008[58]. This allows further regional integration and investments within the region.

Despite all this, there is no information and technical assistance policies, neither direct credit policies supporting OFDI by Russian firms. This might be changing, as Mr. Medvedev (before becoming president) publicly incited Russian firms to "copy China and go global on a buying spree of foreign companies to bolster the economy and cut dependence on technology from abroad"[59]. Moreover, within the context of Russia's accession to the WTO, OFDI supporting policies will become increasingly important to the competitiveness of firms and the economy, as the membership will boost competition in domestic markets. This is of particular importance for new Russian MNCs in non-natural resources industries. While their expansion to CIS countries contributes to increasing efficiency and regional integration, the less challenging environment of such markets do not transform their business practices as fast as needed to compete with Western companies (Vahtra and Liuhto, 2006).

In comparison to other BRIC, Russia has the least OFDI supportive environment. To the extent that Russia advance in attracting more FDI and in integrating itself into the global economy, OFDI policies in the sense of making the outward investment process more transparent and less cumbersome will become more relevant to economic performance. The creation of active OFDI policies seems to follow a gradual process that begins by OFDI

[57] Political concerns have been raised over deals in Austria, Spain, Poland, Hungary, Lithuania, and Latvia, involving both public and private companies of host countries.
[58] Kremlin archive, 2011. Available: http://eng.news.kremlin.ru/acts/712, [3 Sep 2011].
[59] Financial Times, 2008. "Copy China and invest abroad, says Medvedev". January 31, 2008.

liberalization to create a more favourable environment, and moves to the use of several instruments to create a supportive one.

4.1.3 Indian OFDI policy evolution

Indian OFDI policy has had three distinct phases. It went from being restrictive in a first phase (1978-1992), to permissive in a second phase (1992-2003), and liberal in the third phase (2004 – 2011) (Nayyar, 2008). After years of inward-looking import-substitution policies, the Indian government began to develop an outward-oriented industrialization policy in 1969 and further consolidated it in 1978. This year, the government revised the *General Guidelines on Indian Joint Ventures Overseas*, which had been set in 1969. An Inter-Ministerial Committee on Joint Venture was established to scrutinize and approve OFDI proposals. OFDI, however, were constrained by balance of payments restraints.

At that time, the Indian government sought to cooperate with the industrialization of other "Southern countries" through OFDI. The guidelines explicitly required that Indian OFDI conformed to host countries rules and regulations, and required the formation of minority-owned joint ventures with host country companies in order to transfer capabilities (Pradhan, 2007; Nayyar, 2008). During this first phase, OFDI was only allowed in the form of exports of capital goods, technology and know-how. Cash remittances were not allowed, hence companies had to capitalise exports for equity. 50% of all dividends had to be paid back.

All OFDI projects had to be submitted to the Inter-Ministerial Committee for approval. The approval procedure was, however, quite bureaucratic and cumbersome. Although the Inter-Ministerial Committee supervised the final approval procedure, Indian outward investors had to apply in several government agencies for scrutiny[60]. Approvals were granted based on financial and technical feasibility, but also on financial standing and previous export performance of the aspiring outward investing firm. Despite all these hurdles, there were also

[60] For instance, OFDI projects carried with exports of Indian capital goods had to go through the Ministry of Commerce, while OFDI projects carried with Indian firms' know-how had to go through the Foreign Trade Division of the Department of Economic Affairs within the Ministry of Finance. The EXIM Bank, for instance, analysed and imposed restrictions on the choice of technology, product, country and foreign partner. Every project was submitted to the Ministry of Commerce, Ministry of External Affairs, Ministry of Finance, Ministry of Law, Justice & Legal Affairs, Administrative Ministry, Reserve Bank of India, Exim Bank of India, Indian Investment Centre (Pradhan, 2007).

some fiscal and financial incentives provided by the EXIM Bank through its overseas investment scheme (Pradhan, 2007).

The second phase (1992-2003) was characterized by the stepwise easing of Indian OFDI policy. This reflected the changes in OFDI policy objectives following economic liberalizing reforms undertaken in 1991 by the Indian government. OFDI began to be perceived as a strategic tool for raising Indian firms competitiveness and technological capacity, while the South-South cooperation was set aside. In 1992, the Guidelines for Indian Joint Ventures and Wholly-Owned Subsidiaries set this new policy regime. The restriction on cash remittance was relaxed, and the minority-ownership restriction removed. An automatic route for OFDI approval was created for investments up to US$2 million, of which a quarter could be in cash. In 1995, the guidelines were reviewed and policy objectives were once again explicit:

> "i) Recognising the link between trade and investment flows, to provide a framework for Indian industry and business to access global networks […];
> ii) to give liberal access to Indian business for technology-sourcing or resource- seeking or market-seeking as strategic responses to the emerging global opportunities for trade in goods or services […];
> iii) to give a signal that there is a qualitative change in the approach of the Government, from one of regulator or controller to one of facilitator" (Reserve Bank of India, 1995).

In 1995, the limit for automatic OFDI approval was raised to US$4 million. The Reserve Bank of India (RBI) was vested with the authority for approval of projects up to US$ 15 million, while the Ministry of Finance (MOF) remained the authority for approvals above that limit. In 2000, the upper limit for automatic approval was raised to US$50 million per annum without profitability conditions. In 2002, it was once again raised to US$100 million, of which 50% could be obtained from any authorized foreign exchange dealer. In 2004, the required repatriation of investment through dividends within a five-year period was also removed. This second phase coincided with worldwide inward FDI liberalization that occurred in the period. Hence, the Indian government lifted restrictions on outward investments to allow companies domestic firms to benefit form worldwide liberalization. In addition, the Indian government signed several DTTs and BITs during the period.

The third phase (since 2004) of Indian OFDI has been characterized by further liberalization measures (Table 28) and greater access to international financial markets, as the country accumulated foreign exchange reserves. In 2004, Indian firms were allowed to invest up to

100% of net worth under the automatic route, which could be entirely obtained from any authorized foreign exchange dealer. In 2005, the upper limit for outward investment was raised to 200%. The use of special purpose vehicles to invest abroad was authorized, as well as short term credit to overseas subsidiaries was permitted without prior approval from the Reserve Bank of India.

In 2006, Indian banks were allowed to extend credit to Indian overseas joint ventures or wholly owned subsidiaries up to 20% of their unimpaired capital funds[61]. In 2007, the upper limit for OFDI was raised to 400% of their net worth. However companies are still required to repatriate to India all the receivables due by the foreign entity, such as royalties, dividends, and technical fees[62]. The changes in regulations coincide with the rise of Indian OFDI around the year 2000, and the boom from 2005 on (vide Figure 5, chapter 3) (Nayyar, 2008; Pradhan, 2007). However, there are still some restrictions on overseas investments in real estate and banking, unless provided clearance under the Banking Regulation Act, 1949, from the RBI.

Finally, as will be presented in the next section, the government has also expanded the role of the EXIM Bank in providing credit for foreign expansion through the bank's Overseas Investment Finance Scheme. The Export Credit Guarantee Corporation (ECGC) also provides investment insurance for Russian MNCs. The government has also actively supported Indian MNCs through the signing of BITs and DTTs.

[61] According to the Reserve Bank of India, unimpaired capital funds refer to a bank's Tier I and Tier II capital, consisting of equity capital and disclosed reserves (Tier I), and undisclosed reserves, general loss reserves, subordinated term debt (Tier II). See: http://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=3149, [12 Sep 2011].

[62] The latest OFDI regulations can be found at the RBI's website: http://www.rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=6532#L3, [12 Sep 2011].

Table 28 - Major Indian OFDI liberalization measures since 2002

2002-04	◆ Automatic route was further liberalised in March 2002 wherein Indian parties investing in JVs/WOSs outside India were permitted to invest an amount not exceeding US$ 100 million as against the earlier limit of US$ 50 million in a financial year. ◆ Also the investments under the automatic route could be funded by withdrawal of foreign exchange from an authorized dealer (AD) not exceeding 50 per cent of the net worth of the Indian party.
2004	◆ Indian companies are allowed to invest up to 100% of their net worth in overseas JV/WOS without any monetray ceiling (the US$100 million ceiling is removed). ◆ The provision restricting overseas investments in the same activity as its core activity at home of the Indian company were removed. ◆ Listed Indian companies, residents and mutual funds permitted to invest abroad in companies listed on a recognized stock exchange and in company that has the shareholding of at least 10% in an Indian company listed on a recognized stock exchange in India. ◆ The three years profitability condition requirement was removed for Indian companies making overseas investments under the automatic route. ◆ Overseas investments were allowed to be funded up to 100.0% by ADR/GDR proceeds up from the previous ceiling of 50.0%. Further an Indian firm that had exhausted the limit of US$ 100.0 mn in a year could apply to the RBI for a block allocation of foreign exchange subject to such terms and conditions as may be necessary. ◆ Overseas investments were opened up to registered partnership firms and companies that provided professional services. The minimum net worth requirement of Rs. 150 mn for Indian companies engaged in financial sector activities in India was removed for investment abroad in the financial sector. ◆ Indian firms were allowed to undertake agricultural activities, which were previously restricted, either directly or through an overseas branch; and are now permitted under the automatic route. ◆ The RBI further relaxed the monetary ceiling on Indian companies' investment abroad. Indian companies can now invest up to 100.0% of their net worth without any separate ceiling even if the investment exceeds the US$ 100.0 mn limit. Furthermore, Indian companies can now invest or make acquisitions abroad even in areas unrelated to their business at home.
2005	◆ Banks were permitted to lend money to Indian companies for acquisition of equity in overseas joint ventures, wholly owned subsidiaries or in other overseas companies as strategic investment. ◆ The ceiling of investment by Indian entities was revised from 100 per cent of the net worth to 200 per cent of the net worth of the investing company under the automatic route of overseas investment.
2006	◆ The automatic route of disinvestments was further liberalized. Indian companies are now permitted to disinvest without prior approval of the RBI in select categories. To encourage large and important exporters, proprietary/unregistered partnership firms have been allowed to set up a JV/WOS outside Indian with the prior approval of RBI.
2007	◆ The limit of 200 per cent of the net worth of the Indian party was enhanced to 300 per cent of the net worth in June 2007 under automatic route (200 per cent in case of revisited partnership firms). In September 2007, this was further enhanced to 400 per cent of the net worth of the Indian party. ◆ The Liberalized Remittance Scheme (LRS) for Resident individuals was further liberalized by enhancing the existing limit of US$ 100.00 per financial year to US$ 200.00 per financial year (April-March) in September 2007. ◆ The limit of portfolio investment by listed Indian companies in the equity of listed foreign companies was raised in September 2007 from 35 per cent to 50 per cent of the net worth of the investing company as on the date of its last audited balance sheet. Furthermore, the requirement of reciprocal 10 per cent shareholding in Indian companies has been dispensed with. ◆ The aggregate ceiling for overseas investment by mutual funds, registered with SEBI, was enhanced from US$ 4 billion to US$ 5 billion in September 2007.
2008	◆ This was further raised to US$ 7 billion in April 2008. The existing facility to allow a limited number of qualified Indian mutual funds to invest cumulatively up to US$ 1 billion in overseas Exchange Traded Funds, as may be permitted by the SEBI would continue. The investments would be subject to the terms and conditions and operational guidelines as issued by SEBI. ◆ Registered Trusts and Societies engaged in manufacturing/educational sector have been allowed in June 2008 to make investment in the same sector(s) in a Joint Venture or Wholly Owned Subsidiary outside India, with the prior approval of the Reserve Bank. ◆ Registered Trusts and Societies which have set up hospital(s) in India have been allowed in August 2008 to make investment in the same sector(s) in a JV/WOS outside India, with the prior approval of the Reserve Bank.

Source: RIB (2010: 54) and Singh and Jain (2009).

4.1.4 Chinese OFDI policy evolution

Chinese OFDI regulations have also been marked by three distinct periods (Luo et al., 2010). An early restrictive period that faced gradual opening from 1984 to 1990. A second phase

(1991-2000) characterized by OFDI liberalization, and increasing state coordination of OFDI. And a third phase (2001-present) characterized by the consolidation of the "go global" strategy undertaken by the Chinese government.

During the first phase (1984-1990), Chinese OFDI policy was a result of pressing needs for furthering the broad economic reform initiated in 1978 with the "open door" policy that aimed to integrate China into the world economy. Embedded in the need of advancing industrial policies, reforming state-owned enterprises (SOEs) and accumulating foreign exchange, OFDI began to appear in the government agenda. Until 1984, only state-owned trading companies were allowed to invest abroad on a case-by-case basis under the approval of the former Ministry of Foreign Economic Relations and Trade (MOFERT)[63]. Provincial and municipal economic and technological cooperation enterprises were also allowed to invest abroad upon approval of the State Economic and Trade Commission (SETC)[64]. During this early phase, OFDI was tightly linked to government's political considerations (Buckley et al., 2007; Luo et al., 2010; OECD, 2008).

In 1984, the government created the first regulatory framework on OFDI, allowing non-SOE to apply for permission to invest abroad, provided they had sufficient capital, technological and organizational know-how, and a joint venture partner. However, investments were limited to US$10 million, and all profits had to be repatriated. All OFDI projects had to be submitted for approval by the State Council or National Planning Commission (NPC). The regulation of OFDI reflected the government's objective to accumulate foreign exchange. The State Administration of Foreign Exchange (SAFE) assessed the foreign exchange risk of every OFDI project, and required a deposit of 5% of the project's value in a special account managed by SAFE. During this phase, OFDI remained dominated by SOEs, including non-trading ones. The narrow constraints of this initial phase also echoed the on-going debate on OFDI impacts on domestic investments and economic development at home (Buckley et al., 2007; Luo et al., 2010; OECD, 2008; Nicolas and Thomsen, 2008).

[63] MOFERT is the predecessor of the Ministry of Commerce
[64] SETC was absorbed by the National Development Reform Commission (NDRC), former State Development Planning Commission (SDPC) and National Planning Commission (NPC)

The second phase (1991-2000) was marked by governmental endorsement of OFDI. Following domestic liberalization started under Deng Xiaoping's[65] in 1992, OFDI officially became part of China's Communist Party (CCP) plan for economic development. In the same year, during a national CCP event, Jiang Zemin, then Chairman of the CCP, publicly stated, "we should encourage enterprises to expand their investment abroad and their transnational operations" (Nicolas and Thomsen, 2008, p.10). Hence, sub-national authorities began to promote overseas investment by companies in their jurisdiction. During this period, foreign exchange requirements were lifted, and Chinese investors were allowed to purchase foreign exchange for OFDI from SAFE regardless the firm had earned any foreign exchange previously. Under more favourable policies, several SOEs also engaged in real estate and stock market speculation in Hong Kong, and suffered losses (Buckley et al., 2007; Luo et al., 2010; OECD, 2008).

The 1997 Asian financial crisis raised government concerns about the exposure of Chinese SOEs firms abroad. This led to greater scrutiny of financial outflows, including OFDI projects. Approval procedures became stricter, especially for amounts above US$1 million. The NPC was given the authority for examining all OFDI projects involving state-assets above US$1 million, while those above US$30 million had to through the State Council before proposals were sent to the MOFERT for final approval (Buckley et al., 2007; Luo et al., 2010; OECD, 2008).

The government started to focus on directing OFDI towards more "strategic" industries. During this period, OFDI policy focused on large SOEs with national monopolies, which became the main outward investors, and in companies in several industries (e.g., power generation, mining, automobiles, electronics, iron and steel, machinery, chemicals, construction, transport, aerospace and pharmaceuticals). Companies in trade-related activities in light industries (e.g., textiles and home-appliances) were benefited with export tax refund and preferential financing. This rather encouraging environment coincided with China's preparation to access to the WTO, which it finally did in 2001. To the extent that the accession would bring foreign competition into the country, OFDI was pursued to increase domestic firms competitiveness (Luo et al., 2010; OECD, 2008; Nicolas and Thomsen, 2008).

[65] In 1992 Deng Xiaoping made an emblematic journey to the South of China during which he defended China's need for economic and openness reforms.

The third phase is characterized by the active promotion of OFDI by the Chinese government. OFDI was perceived as a way of adjusting the Chinese economy to globalization. In 2000, the Chinese government adopted the "go global" policy, establishing a strong institutional support to further OFDI. In the following years, several regulations and promotional instruments were introduced (Table 29). The objective was to drive Chinese firms to become world-class companies and brands. The new regulating environment also set a different role for the state. While in the previous phase, the state directly took part in business decisions, following the "go global" policy the role of the state became guiding and influencing business outcomes through regulations and incentives to a wider range of industries and enterprises, but the decision to invest abroad remained with the firms (Buckley et al., 2007; Luo et al., 2010; OECD, 2008; Nicolas and Thomsen, 2008).

During this phase, the approval procedure was simplified and decentralized. Foreign exchange rules were also simplified, and restrictions on the purchase of foreign exchange for OFDI projects were lifted. Local SAFE units were given the authority for approving the use of foreign exchange for OFDI projects up to US$ 10 million against previous limit of US$3 million in 2002. Larger projects were still required to apply through the SDRC. The required repatriation of profits was eliminated. In 2006, with the accumulation of foreign reserves, the previous foreign exchange quota of US$5 billion available for OFDI was revoked (Luo et al., 2010; OECD, 2008).

In 2009, the Ministry of Commerce (MOFCOM) issued a new *Administrative measure on regulating outbound investment* to simplify and decentralize even more the approval procedure. Under this new regulation, approval of the central level MOFCOM is required from all OFDI project exceeding US$ 100 million, or involving an offshore special purpose vehicle, or concerning the interest of multiple countries, or investment in particular countries, including those without diplomatic ties with China and in countries defined by the MOFCOM as politically sensitive territory. All OFDI projects between US$10 and US$100 million, or in energy or natural resources, needs approval of MOFCOM's provincial branches. Below US$10 million, the investment qualifies for special approval procedure, which can be done online and takes up to three business days. Nevertheless, the assessment and approval requirements for the use of foreign exchange from SAFE remain for all OFDI projects.

Despite all streamlining the process remains complex, as many state bodies have a say on OFDI projects[66] (Rosen and Hannemann, 2009, p. 21).

Beyond liberalization, the government created specific OFDI promoting measures. In the early 2000s, funds were created to support the internationalization of small-and-medium enterprises. In 2004, subsidized credit was directed towards OFDI projects in natural resources, in manufacturing projects promoting the exports of Chinese technologies, products and equipment, in R&D projects that would bring to China advanced technologies, managerial experience, and specialized talents, and in cross-border M&As increasing the markets and international competitiveness of firms. Additionally, China Export and Credit Insurance Corporation provides firms with investment insurance and risk assessment services (Luo et al., 2010; OECD, 2008)

Also in 2004, the government went further and created preferential treatment concerning taxes, funding, foreign exchange and approval procedures for companies within encouraged industries and investing in 67 target countries. Industries were classified into encouraged, permitted and prohibited. OFDI in encouraged sectors receive subsidies for pre-operational fees and expenses, and interest discounts for medium and long-term loans. In October 2007, the government launched a sovereign wealth fund (SWF), China Investment Corporation (CIC), to invest the country's foreign reserves in both foreign and domestic companies (Luo et al., 2010; OECD, 2008; Nicolas and Thomsen, 2008).

Assuming the importance of OFDI for economic development, the Chinese government put in place a wide range of mechanisms to guide and coordinate OFDI projects. Information on OFDI projects began to be collected, and both online and in person informational services were created to help new outward investors deal with common challenges and particular situations involving overseas investments. The MOFCOM also provided information on investment opportunities and demand, host country rules and regulations, and promoted several international investment conferences to foster OFDI. Follow up reports and

[66] In addition to MOFCOM and SAFE approval, investors must also consider the interests of other competent government agencies, if applicable, including entities such as: National Development and Reform Commission (NDRC), the State-Owned Assets Supervision and Administration Commission (SASAC), or industry regulators such as the China Banking Regulatory Commission (CBRC) or the China Insurance Regulatory Commission (CIRC).

assessments of projects were also carried. Investment promotion agencies also began to deal with OFDI in addition to inward FDI (Luo et al., 2010; OECD, 2008).

During the go global phase, Chinese diplomacy has been actively engaged in promoting OFDI. OECD (2008) notes that several diplomatic missions accompanied by business delegations took place during this period. The Chinese government has also actively assisted domestic firms in tenders for the exploration of natural resources and construction contracts abroad. China's government has signed several investment treaties to assure protection and markets for Chinese capital abroad. OECD (2008) argues that this active involvement reflects the need for circumventing trade frictions arising from rapid expansion of China's exports, and the need to mitigate currency devaluation pressures from other countries.

Taken together, Chinese government has put in place a comprehensive set of supportive OFDI policies (Figure 16) that go from direct support to guidance, through monitoring and assessment of OFDI performance. Concisely, the Chinese OFDI policy was designed to: i) promote investments abroad through the simplification of approval procedures, the easing in required capital and direct incentives to target industries; ii) to monitor and coordinate outward investments through the provision of guidance, information and statistics, and post-investment evaluation of OFDI projects.

Through all this mechanisms the Chinese state has spawned several Chinese MNCs. The first generation was closely linked to government's political consideration and comprised main large SOEs with national monopolies in natural resources, international trading, shipping and financial services. Following the go global policy, a second generation of MNCs appeared. These are companies like Haier, TCL, Huawei and ZTE, in which the level of state ownership is diversified but still quite important (Nicolas and Thomsen, 2008, p. 11).

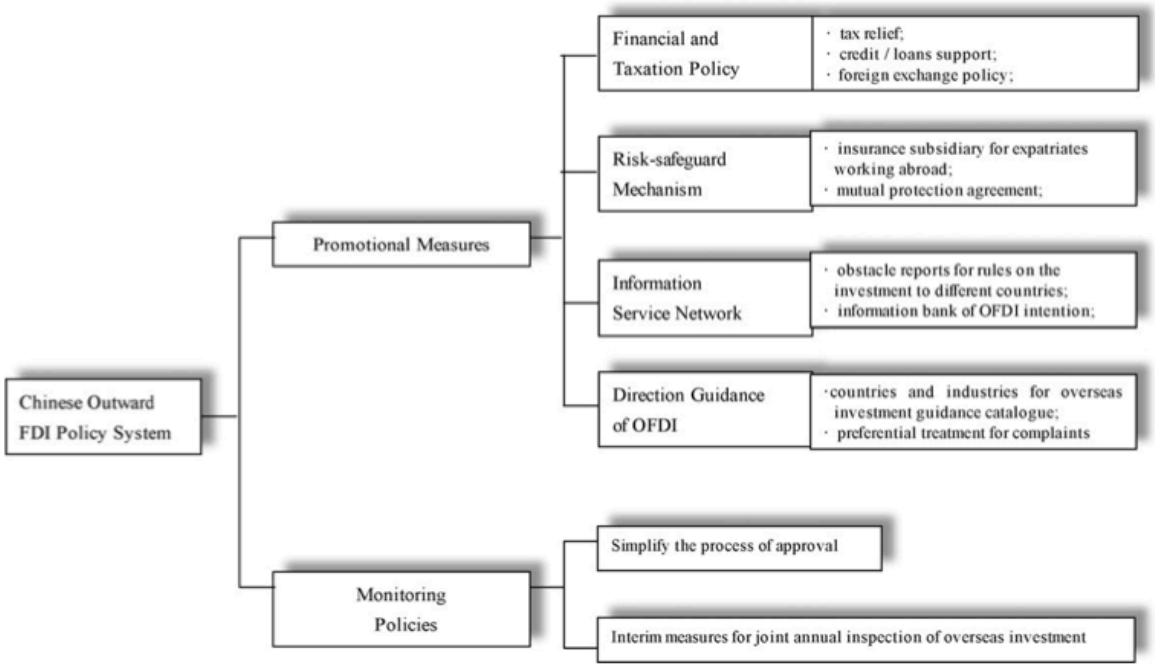

Figure 16 - China's OFDI policy framework
Source: Luo et al., 2010.

Table 29 - Key OFDI regulations in China

	Regulations	Enunciator	Time issued	Key points
1	Circular Concerning Approval Authorities and Administrative Principles for Opening up Non-Trade Joint Venture Overseas	MFTEC	May-84	The first regulation on Chinese OFDI
2	Circular Concerning Approval Procedures for Setting up Overseas Subsidiaries	MFTEC	Jul-85	(1) Lays out the principles for the regulation of OFDI; (2) opens OFDI for all economic entities with financial resources, foreign joint venture partners, and relevant capabilities
3	Provisional Regulations Governing Control and Approval of Establishing Non-trade Enterprises Overseas	MFTEC	Jul-85	Ceiling for investments set at US$10 million
4	Measures for Foreign Exchange Control relating to Overseas Investment	SAFE	Mar-89	(1) SAFE evaluates the source of funds to be invested abroad as well as the foreign exchange risk; (2) 5% of the OFDI sum has to be deposited in a special account; (3) profit earned abroad should be remitted back to China
5	Implementation of Administrative Measures for Foreign Exchange Investment Overseas	SAFE	Jun-90	Detailed regulations enumerated in the ''Measures for foreign exchange control relating to overseas investment''
6	Publication of the State Planning Commission on Administration of Overseas Investment Projects	NPC	Mar-91	(1) A core document throughout the 1990s—indicates direction of Chinese OFDI; (2) Chinese OFDI should focus on using overseas' technologies, resources, and markets; (3) OFDI projects should include a feasibility report for the process of going abroad; (4) projects which total an excess of 1 million should be approved by NPC; a sum exceeding 30 millions should be approved by the State Council; (5) projects concerning state-owned assets must be approved by State Council
7	Regulations on Examination and Approval of OFDI Project Proposals and Feasibility Reports	NPC	Aug-91	(1) Details the necessary content of feasibility report; (2) specifies that the approval result should be handed down in no more than 60 days
8	Regulations on Approval and Administration of Non-trading Overseas Enterprises	MFTEC	Mar-92	Synthesizes and details all regulations concerning OFDI already in place
9	Procedural and Approval Standards on OFDI-related Foreign Exchange Risks and Capital Resources	SAFE	Sep-93	(1) Specifies that the responsibility of SAFE is to review the certification of investor, foreign exchange risk, and source of investment fund; (2) first document to detail the management of foreign exchange after the approval of OFDI projects.
10	Supplemental Provisions on Administration Measures on Foreign Exchange for Overseas Investment	SAFE	Sep-95	Chinese investors are allowed to purchase foreign exchange for an OFDI project; prior to this, a Chinese investor had to earn the foreign exchange
11	Guidance on Granting Credit for Overseas Processing and Assembling	SAFE; PBC	Jun-99	(1) Aims to encourage export; (2) provides a loan to enterprises which use matured technology and equipment to invest abroad—most of these enterprises concentrate in light industries, textile industries or home appliance industries; (3) correlates with the industry restructuring within China
12	Measures of Capital Support for Small- and Medium Enterprises to Develop International Markets	MFTEC; MOF	Oct-00	(1) These measures are formulated in order to support the development of small-and medium-sized enterprises, to encourage small-and medium-sized enterprises to join in the competition of international markets; (2) sets up ''international market developing funds of small- and medium-sized enterprises''
13	Measures for Comprehensive Assessment of OFDI Performance	MFTEC	Oct-02	Clarification of standards and procedures for evaluating OFDI projects which have been operating overseas
14	Interim Measures for Joint Annual Inspection of OFDI	MFTEC; SAFE	Oct-02	Provides post-investment evaluation of OFDI projects
15	Provisions on Statistical Report of OFDI	MFTEC	Dec-02	(1) Aims at mastering the first-hand data about investing overseas; (2) provides training for enterprises going abroad to report correctly; (3) allows for real facets like entrance mode, performance of OFDI, and situations of operation to be known
16	Notice on Simplifying Foreign Exchange Administration Relating to OFDI	SAFE	Mar-03	(1) SAFE will only investigate domestic foreign exchange sources; (2) foreign exchange obtained from a source outside of mainland China no longer examined
17	Notice on Providing Credit Support to Key OFDI Projects Encouraged by the State	SDRC	May-03	OFDI projects fulfilling one of the following requirements will be provided with a lower lending rate credit fund: (1) natural resource- seeking in areas where China is lacking; (2) manufacturing promotes export of technologies, products, and equipments; (3) R&D projects which could bring in advanced technologies, managerial experience, and specialized talents; (4) M&A to increase international competitiveness and market exploration of firms
18	Reform Measures Governing OFDI-related Foreign Exchange Inflows and Outflows	SAFE	Nov-03	(1) Simplifies approval procedures concerning foreign exchange; (2) establishes pilot areas for SAFE to extend local authority
19	Notice on Establishing the Data Bank about OFDI Proposals	MOC	Nov-03	To set up an information bank of overseas investment intention of enterprises for guidance and coordination, requirements for application enterprises: (1) the registered capital of the enterprise is more than RMB 10 million Yuan, and the enterprise has made profits in three consecutive years; (2) the amount of overseas intention investment of a single project is more than one million US dollars
20	Decision on Reforming Investment System	State Council	Jul-04	(1) A major reform of the approval process, but is not limited to OFDI; (2) provides the basis for the subsequent reforms
21	Guiding Directories of Target Nations and Industries for OFDI	MOFCOM	Jul-04	(1) Lists more than seven supported industries and 67 approved countries; (2) companies complying with requirements have preferential treatment concerning funding, tax collection, foreign exchange, customs and others
22	Verification and Approval Procedures for OFDI	SDRC	Oct-04	(1) Grants permission to all types of companies to invest abroad; (2) sets up the threshold values for examination at national level and clarifies the approval process; (3) this measure replaces the policy from August 1991
23	Annual Report System on Operational Obstacles in Major Target Countries	MOFCOM	Nov-04	Using annual reports from enterprises investing abroad, MOC collects all kinds of obstacles and problems confronted OFDI companies. These reports are the basis for the ''Foreign Market Access Reports''
24	Report Requirements for Overseas Mergers and Acquisitions	MOFCOM; SAFE	Mar-05	(1) Requiring enterprises with intentions to involve in M&A abroad to report to MOC; (2) improving the supervision of M&As
25	Further Measures on Foreign Exchange Administration Stimulating OFDI	SAFE	May-05	(1) Reform of the exchange approval regime is extended to the whole country; (2) further decentralization: local SAFE named as authority on OFDI projects with a higher threshold (from USD 3 to 10 millions); (3) total foreign exchange available for all investors is increased from USD 3.3 to 5 billions
26	Notice on Using and Managing Special Funds for Foreign Economic Cooperation	MOFCOM; MOF	Dec-05	Sets up special funds to encourage Chinese enterprises invest abroad. Special funds may be used to support foreign economic cooperation by the following means: (1) subsidies for pre-operational fees; (2) interest discounts for medium and long-termed loans; (3) subsidies for operational fees

Table 29 – Key OFDI regulations in China (cont.)

	Regulations	Enunciator	Time issued	Key points
27	Encouraging and Supporting "Go-global" of Privately Owned Enterprises (Draft)	MOFCOM	Feb-06	The first regulation that explicitly treats the private-owned enterprises as main objects, and lays down the foundation for future refinement
28	Supplement Measures of Foreign Exchange Usage for OFDI	SAFE	Jun-06	(1) All the branches (foreign exchange management departments) of SAFE shall not abide by the quota for purchasing foreign exchange for overseas investments; (2) the necessary foreign exchange for the domestic investors to invest abroad may be the self-owned foreign exchange, the foreign exchange purchased by RMB, or the domestic and overseas foreign exchange loans
29	Notice on Statistical Report of OFDI	MOFCOM	Jan-07	Incorporates quarterly information on the establishment of overseas investment projects and round-tripping investment via tax havens to better track and account for investments by private enterprise
30	Administrative measures on regulation of outbound investment	MOFCOM	May-09	All outbound investments need to be submitted to MOFCOM for approval; outbound investment is defined as (a) establishing new overseas firms; (b) merging with, acquiring, or obtaining controlling stakes in an existing firm; or (c) reinvestment in an existing overseas subsidiary. An investment needs to be approved by central MOFCOM if the investment volume exceeds $100 million, involves an offshore purpose vehicle for the purpose of listing overseas, if it concerns the interests of multiple countries, or if the investment is to take place in a politically sensitive territory (as defined in a list by MOFCOM and other relevant authorities). An investment needs approval by provincial-level MOFCOM authorities if the investment volume is between $10 million and $100 million, or if the investment is made in the areas of energy and natural resources. If the investment is below $10 million and does not meet any of the above mentioned criteria, it qualifies for a special approval procedure: The application can be submitted electronically to the responsible MOFCOM bureau (local offices for local firms, central MOFCOM for centrally administered firms); the approval process should not take more than three business days. If approved, firms get an outbound investment certificate, which they can use for the following years to proceed with other necessary formalities, for example foreign exchange purchase or bank loans. In addition to MOFCOM approval, investors must also consider the interests of other competent government agencies, if applicable; this includes entities such as National Development and Reform Commission (NDRC), the State Administration of Foreign Exchange (SAFE), the State-Owned Assets Supervision and Administration Commission (SASAC), or industry regulators such as the China Banking Regulatory Commission (CBRC) or the China Insurance Regulatory Commission (CIRC).
31	Draft regulations of foreign exchange administration for domestic enterprises' overseas direct investments	SAFE	May-09	Firms will no longer have to submit an application including the source of funding for approval to SAFE; instead, companies must register at the local SAFE bureau and can report the funding source after the investment took place. Companies will be allowed to use a broader range of funding sources for overseas investments than in the past: they can use their own foreign exchange, recycle retained profits from overseas, and purchase foreign exchange with renminbi; renminbi-denominated OFDI will also be permitted on a trial basis. Domestic institutions will be allowed to provide loans, financing guarantees, and follow-up financing for overseas firms in which they are invested. Remittances will only have to be registered ex post instead of being approved in advance, and early-stage expenses of up to 1 percent of the total investment volume will be allowed. SAFE will further streamline its administrative procedures with other regulatory authorities; there will be an annual joint examination of outbound FDI projects together with MOFCOM.
32	Notice on the administration of cross-border loans by domestic enterprises	SAFE	Aug-09	All firms that meet certain standards will be allowed to make cross-border loans to overseas units. Eligible firms can transfer up to 0 percent of the value of their total equity to offshore subsidiaries. The permitted sources of loan funds include firms' own foreign exchange reserves, renminbi-purchased foreign exchange, and other funds approved by local SAFE bureaus.

Source: Luo et al., 2010; Rosen and Hanemann, 2009.

4.2 Current BRIC OFDI policies

There are several policies that induce the internationalization of firms. The broader policies are those addressing the need to create proprietary advantages of domestic firms, and increasing competition in the home market so that companies feel pressured to move abroad to increase productivity and remain competitive. These consist of mainly horizontal regulatory reforms and technological development policies (Iglesias and Veiga, 2002). These policies are not the subject of this section. Policies this section discusses are those directly and explicitly affecting the environment under which firms internationalize. These are policies related to: i) the provision of technical and informational assistance to firms whishing to invest abroad; ii) the provision of financial and fiscal incentives; iii) the provision of

investment protection instruments. As mentioned in chapter 1, these comprehend a set of policies widely used by developed countries to promote their MNCs.

It is within this framework that current BRIC OFDI policies will be assessed. As the following discussion shows, China seems to have already a coordinated OFDI policy system using a wide range of instruments, while India and Brazil have begun to implement such policies. Russia is still in the transition to a supportive environment. The relatively low level of domestic investment and inward FDI, and large net capital outflows by companies is still an impediment for establishing more supportive measures in Russia[67].

4.2.1 Informational and technical assistance

China has the most advanced informational and technical assistance system among the BRIC. Under the Ministry of Commerce, China's Investment Promotion Agency (IPA) keeps an online information platform (Invest in China[68] and China International Investment Promotion Platform[69]) that gathers information on both inward FDI projects and outbound investment intentions and projects so that companies can easily communicate between them and explore potential collaborative initiatives. The government also provides firms with information on FDI policies and business regulations in several host countries. It also gathers information on financial and fiscal incentives provided by host countries.

The government provides helpful information on specific problems investors face when entering certain countries through the publishing of the *Obstacle report on rules on the investment to different countries*. In addition, the government publishes an annual *Report on trade and investment environment in different countries*, and also organizes several investment fairs and business missions to promote China's overseas investments. Finally, the

[67] Despite having large current account, trade surplus, and international reserves, Russia is concerned with high levels of capital export. Differently from Brazil, India and China that receive large amount of FDI inflows and portfolio investments, Russia has repeatedly had larger capital outflows than inflows. This has increased since the 2008 financial crisis. In 2008, 2009, and 2010, OFDI was much larger than IFDI. This adds to the concerns of capital flight, especially in the form of "fictitious transactions", including non-repatriation of export proceeds and non-supply of goods and services against pre-paid import contracts, and transfer under fictitious transactions with securities. Net capital export data is available: http://www.cbr.ru/eng/statistics/print.aspx?file=credit_statistics/bal_of_payments_10_e.htm&pid=svs&sid=pbNP, [19 Sep 2011].

[68] http://www.fdi.gov.cn/pub/FDI_EN/default.htm

[69] http://www.ciipp.com/en/index.html

government publishes *Guidelines for investments in overseas countries and industries*, which lists industries in 68 countries that enjoy favourable financial support, taxation, and approval treatment. The MOFCOM argues that this is only for coordination and approval of OFDI projects, but it may actually distort capital allocation by directing OFDI to those countries and industries. Investor in other industries might be discouraged to attempt approving OFDI projects, or investors in such industries might be tempted to invest if they believe they will receive differentiated treatment (OECD, 2008; Luo et al., 2010).

In a sharp contrast, both Russian and Indian governments have not implemented any informational service for potential overseas investors, although both governments have indicated its intention to support OFDI more actively. In Russia, the VCC and IMEMO (2011) report alerts to limited resources available to Russian state bodies and trade representations abroad to provide Russian firms with OFDI-related information. In India, only the EXIM Bank has provided clients with limited pre-investment advisory services, besides financial resources. This is particularly detrimental to SMEs that do not have the same resources as large companies to acquire information, find local partners and seize investment opportunities as large firms. In the case of Russia, it may even be more critical as the country is advancing negotiations to access the OECD and WTO, which will mostly certainly increase competition at home.

The Brazilian government sits in between. It has already begun to provide informational and technical assistance for outward investors. Currently, both the Brazilian Trade and Investment Promotion Agency (Apex Brazil)[70] and the Department for Trade and Investment Promotion (DPR) of the Ministry of Foreign Affairs provide these services. Essentially, Apex offers four services supporting investments: (1) market research and strategic planning for entering foreign markets; (2) support for the establishment of local offices (i.e., administrative and legal counselling for instance); (3) in logistics and distribution through its Business Centres spread around the world. These business centres not only offer commercial intelligence in terms of market research and matching services (i.e., identification of locals partners and customers), but they also provide storage and office spaces for short-term periods (12 to 18 months) (Sennes and Mendes, 2010).

[70] Apex Brazil website: http://www.apexbrasil.com.br/portal/

Department for Trade and Investment Promotion (DPR) is the unit within the Ministry of Foreign Affairs charged to design exports and investments promotion policies, and also their implementation. Since 2009, the DPR has been upgraded to meet the surging requests of an increasing number of domestic firms expanding abroad. In 2010, DPR began to explicitly supporting the internationalization of Brazilian firms by providing informational services through BrazilGlobalNet[71], and by connecting Brazilian firms to legal, accounting and consulting services in foreign markets through Brazilian embassies and consulates all over the world. DPR also sometimes organizes investing promotion missions for Brazilian businessmen along presidential visits to foreign countries.

4.2.2 Investment protection instruments

(a) Bilateral Investment Treaties[72]

In terms of investment protection, Brazil lags behind other BRIC. While China, Russia and India have since the 1990s signed and ratified several international investment agreements, Brazil has signed only 14 BITs as of June 2011, of which none have been ratified by Brazilian the congress (Figure 17). According to Sennes and Mendes (2010), BITs were removed from the Congress' agenda in 2003 under the argument that they were a threat to national sovereignty, and that Brazil remained an important FDI destination even in the absence of such agreements. Even within Mercosur, both the Buenos Aires Protocol and the Cologne Protocol, signed in 1994, to promote and protect investment from non-member and member countries, respectively, have not been ratified.

[71] BrazilGlobalNet is a website that provides information for Brazilian firms wiling to internationalize. It gathers information on host country investment promotion agencies or similar agencies that work to attract foreign investors. It lists important Brazilian investors in several countries. It also gathers information on Brazilian public policy from which an investor can benefit. It also provides several links to country investment guides prepared by several legal and accountancy firms. The BrazilGlobalNet website: http://www.brasilglobalnet.gov.br/frmPrincipal.aspx

[72] BITs protect firms from unfair and inequitable treatment and expropriation by host countries that are party to the treaty, as well as usually establish international rules for the settlements of disputes.

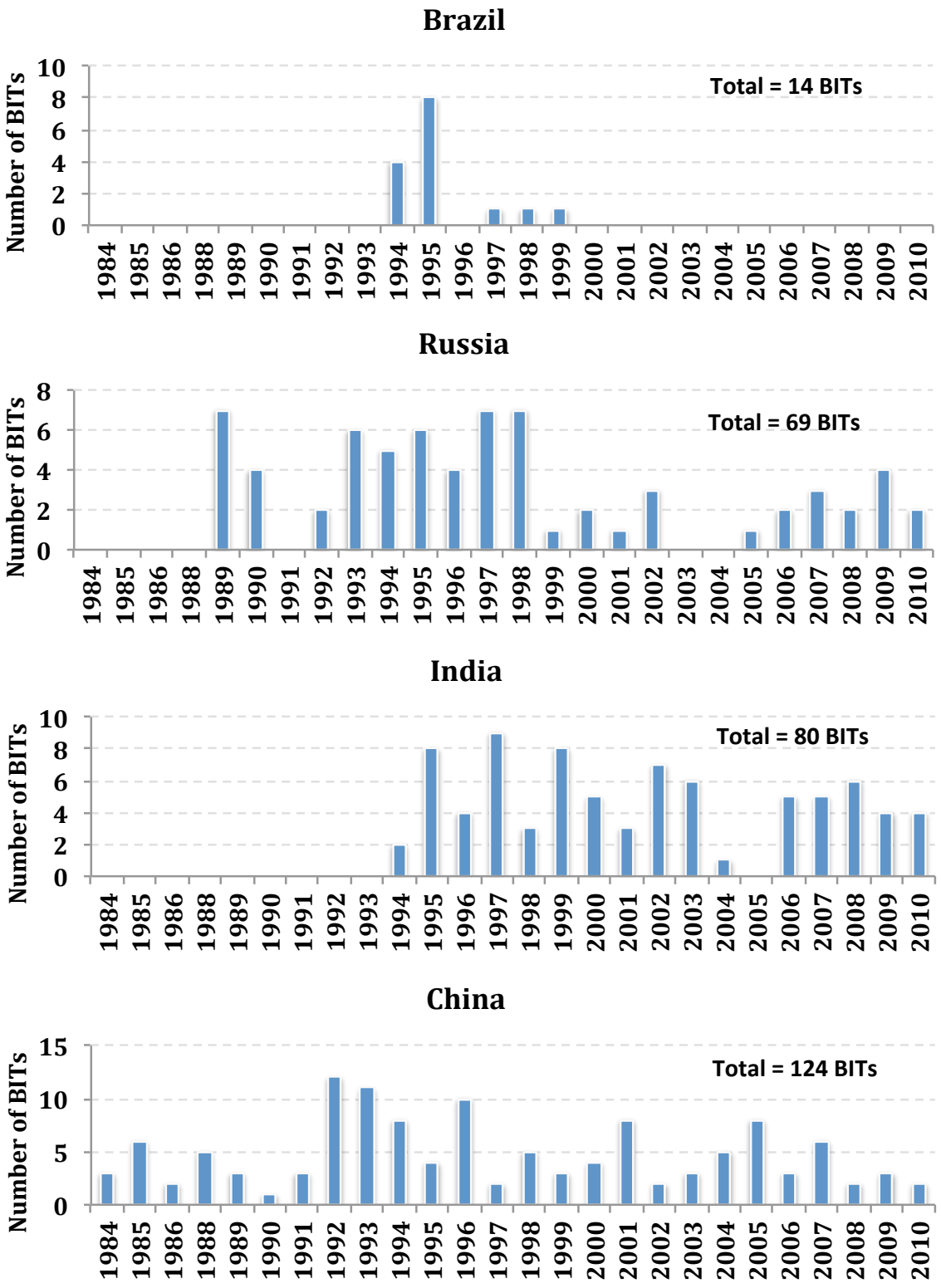

Figure 17 - Number of BITs signed by BRIC: 1984 - 2011 (as of June 2011)
Source: UNCTAD International Agreements Database.

Previously, the lack of BITs might not have been an impediment for receiving inward FDI, but it may become an issue for Brazilian firms venturing abroad. The nationalization of

Petrobras' assets in Bolivia (2006) denotes the need of government commitment to improve investment infrastructure for Brazilian MNCs. In this particular case, Petrobras was able to resort to the BIT signed between Bolivia and the Netherlands to assure an adequate expropriation treatment, because it had structured the Bolivian operation through its Dutch subsidiary (Sennes and Mendes, 2010). In 2008, Odebrecht got expelled from Ecuador[74]. To the extent that the country has become a capital exporter, it is necessary that the Brazilian external policy encompass mechanisms to protect OFDI. Moreover, as show in the previous chapter, there is a significant level of OFDI flowing to riskier countries in Latin America, Africa and Middle East, and in industries facing large sunk costs (Tables 9, in chapter 3).

Russia, India and China, on the other hand, have long relied on BITs to both attract FDI and provide protection for OFDI, as indicated by the regional diversification of BITs signed (Figure 18). China has notably increased the number of BITs signed with African countries since the early 2000s, while Russia and India have intensified this movement between 2006 and 2011 (Figure 17). It is during this period that resource-seeking and construction services investments from these countries have intensified. The higher number of BITs signed by these three countries with South American countries other than Brazil is also significant. While Brazil has signed 14 BITs and none was enacted, China has signed 124 BITs, of which 95 have been ratified, India 80 (of which 66 ratified), and Russia 69 (43 were ratified). Moreover, China and India have signed a regional investment agreement with the ASEAN community in 2009, and Russia signed a regional investment agreement with the Eurasian Economic Community.

Brazilian, Chinese and Indian firms in services sectors may benefit from the *General Agreement on Trade in Services* (GATS), being these countries members of the WTO. The agreement contain provisions for *most favoured nation* [75] treatment, transparency requirements, market access conditions and *national treatment*[76], covering, among other

[74] http://g1.globo.com/Noticias/Economia_Negocios/0,,MUL771485-9356,00-equador+suspende+direitos+constitucionais+de+diretores+da+odebrecht.html

[75] The *most favored nation treatment* refers to the obligation that each country "shall accord immediately and unconditionally to services and service providers of any other Party, treatment no less favorable than that it accords to like services and service providers of any other country". Available: http://www.wto.org/english/docs_e/legal_e/ursum_e.htm#mAgreement, [3 Sep 2011].

[76] The national treatment provision refers to the obligation to treat foreign and domestic service suppliers in the same manner. There are, however, some exceptions allowing countries to lodge restrictions for certain activities under national security reasons.

activities of service providers, the commercial presence, i.e., subsidiaries, branches or representative offices. GATS, however, does not contain provisions on expropriation. Brazil and India are also signatories of the WTO *Agreement on Trade-Related Aspects of Intellectual Property Rights* (TRIPS), which provides protection for intellectual property. Brazil is also a signatory of the *OECD Declaration and Decisions on International Investment and Multinational Enterprises*[77], under which adhering countries accord to provide foreign-controlled enterprises on their territories no less favourable treatment than that provided to domestic firms.

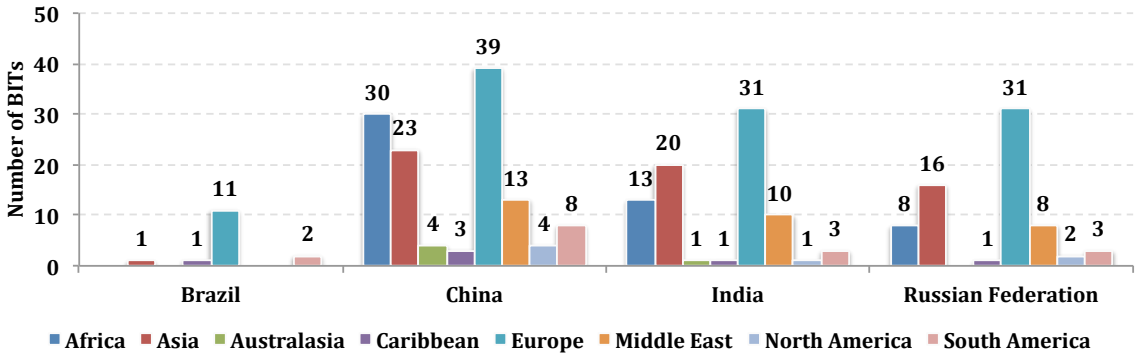

Figure 18 - Number of BITs by BRIC, total per region (as of June 2011)
Source: UNCTAD International Agreements Database.

(a) Political Risk Insurance

Another important instrument available for international investment protection is the Political Risk Insurance (PRI). The MIGA (2009:38) Political Risk Survey with BRIC MNCs found out that political risk was their leading concern in FDI in that year, followed by macroeconomic instability in host countries. Among the several types of political risks, breach of contract appeared within the top three concerns for Brazilian, Russian and Indian investors. Transfer and convertibility restrictions were also a concern for investors from Brazil, China and India, and non-honouring of government guarantees were pointed by both Brazil and Russia (Figure 19).

Even highlighting the importance of political risks to investments performance, 11% of BRIC investors said they did not take measures to mitigate risk at all, and 28% said they were unaware of specific products and tools available. Among those that managed risks, the most

[77] Apart from 34 OECD countries, 8 non-member countries (Argentina, Brazil, Egypt, Latvia, Lithuania, Morocco, Peru and Romania) have adhered to the declaration.

popular tools were political risk reports and assessments, engagement with host governments and in joint ventures with local firms. PRI ranked very low, except for Russia (MIGA, 2009: 40).

In your opinion, which types of political risk are of most concern to your company when investing in emerging markets?

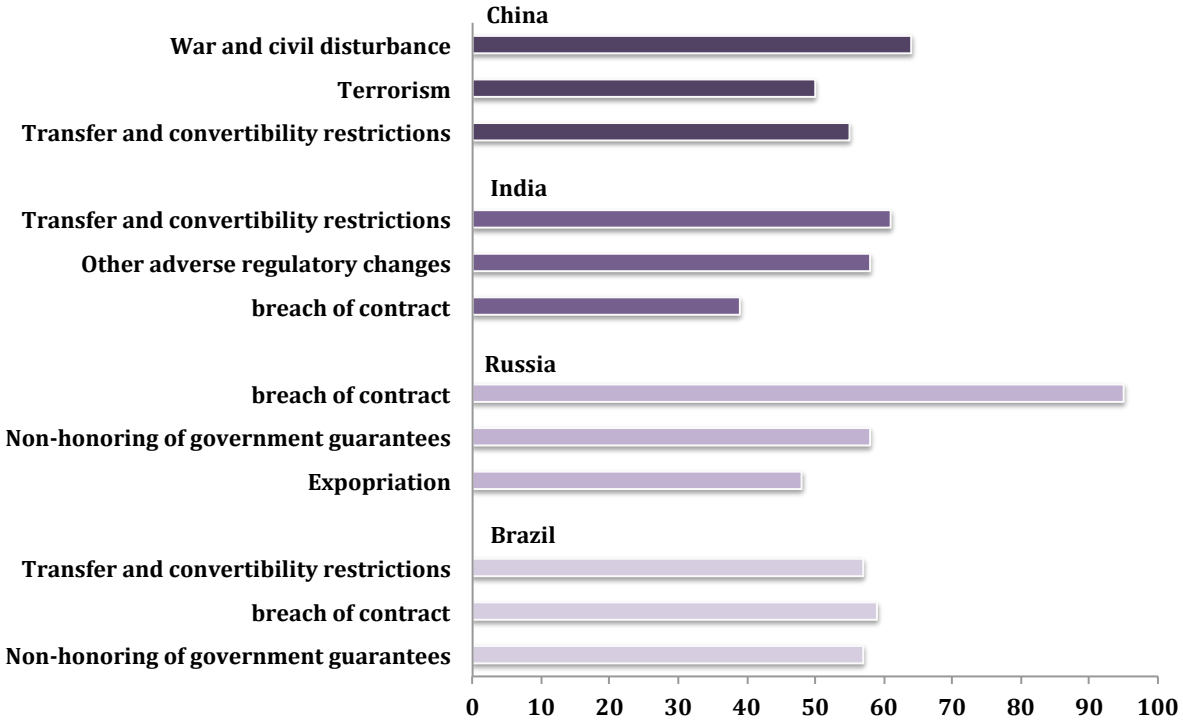

Figure 19 - Top political risks selected by BRIC investors, 2009
Source: MIGA, 2009, p. 39.
Note: Percentages add up to more than 100 per cent due to multiple selections.

As of June 2011, only China and India have institutional providers of political risk insurance. The ECGC, under the Ministry of Commerce of India, besides providing a wide range of exports credit insurance and guarantees, offers political risk insurance to Indian firms investing abroad through equity capital or loans. War, expropriation, and restrictions on remittances are covered, encompassing investment and annual dividend or interest receivable, and covers investments up to 15 years. However, the provision of insurance is normally linked to the existence of a BIT between the host country and India.

The Chinese export credit insurance corporation, Sinosure, also provides political risk insurance for Chinese overseas investments, besides the traditional export credit insurances and guarantees. Sinosure's PRI business has grown ten-fold since it first started to support Mainland Chinese overseas investors in 2005 (MIGA, 2009: 57). Its product consists of

equity and liability insurance, and covers risks of war, restrictions on transfer and currency conversion, expropriation, and breach of contract[81]. Sinosure does not require the existence of a BIT agreement between the receiving country and China for providing the service.

In contrast, Brazil and Russia do not have any national PRI mechanism for investments abroad, so their firms have to rely on private or multilateral sources. The problem is that private insurers do not covers risks beyond breach of contract, and multilateral institutions normally require the existence of BIT between investor and investee countries, and only provide PRI for member countries' firms. However, they have export credit insurance that covers political risks as well.

In the case of Russia, the Russian Bank for Development (*Vnesheconombank*) provides this service. The government however is planning the launch of a new Export Credit and Investment Insurance Agency that would be fully dedicated to provide insurance services, possibly including political risk insurance. The new agency would remain under the management of the Russian Bank for Development[82].

In Brazil, there are two export insurance instruments. One is the export credit insurance[83], provided by Seguradora Brasileira de Crédito à Exportação (SBCE) through its network of partners, including Banco do Brasil, BNDES, and Coface (a French exports credit insurance company), among others. It covers commercial and political risks associated with exports, including construction and engineering services. The other is a multilateral instrument (*Reciprocal Payments and Credits*) available for members of the Latin American Integration Association (ALADI) called. This is a compensation scheme for commercial payments between residents of member-countries that each country Central Bank operates, and that has worked residually as guarantee for commercial risks[84] (Sennes and Mendes, 2010).

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[81] For more information on Sinosure: http://www.sinosure.com.cn/sinosure/english/products_introduction01.htm

[82] Kremlim. http://premier.gov.ru/eng/events/news/14947/, [24 Aug 2011].

[83] For more information: http://www.sbce.com.br/aEmpresa.asp, [24 Aug 2011].

[84] Through this multilateral mechanism, every four months, Central Banks transfer of receive their countries overall balance with the system. Essentially, whenever commercial payments are registered through the system, Central Banks assume the risk. Exporters receive payments from their Central Banks, which in turn will have credits with the debtor Central Bank. Under the mechanism, Central Banks only receive their credits after liquidating their debits with other Central Banks. Hence, the instrument guarantees the payment of exports, mitigating commercial risks. For more information:

4.2.3 Financial and fiscal incentives

(a) Fiscal incentives

BRIC have implemented some sort of fiscal incentive for supporting OFDI, although in different degrees. The most commonly used instrument has been Double Taxation Treaty (DTT). Although the number of DTTs used in this section to compare the BRIC might be overestimated[85], they capture the level of commitment of each country to such instrument (Figure 20 and 21).

The Russian government has signed 68 DTTs over the years (Figure 20), notably during the 1990s. While the first DTTs were mostly signed with developed countries, the most recent ones have drifted towards developing countries. In general, Russian DTTs gravitate around Europe, Asia and Middle East (Figure 21).

India has signed 80 DTTs over the years, slightly concentrated in the 1990s. Most recent DTTs are in line with Indian OFDI recipient regions, notably Europe and Asia.

Brazil, on the other hand, has signed very few DTTs in comparison to other BRIC (Figure 20). Double taxation is a major barrier for internationalization as indicated by the VCC (2010) survey with Brazilian MNCs. As of June 2011, the country had signed only 38 DTTs[86], and a large part was signed before the 1990s. In the 2000s, the country has engaged in new DTTs with European and South American countries. Brazil, however, does not have any DTT signed with the United States and the United Kingdom, which might represent an important barrier for Brazilian MNCs, as those countries are significant worldwide FDI destinations. As Brazilian firms increasingly move abroad, DTTs become an important policy tool.

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http://www.aladi.org/nsfaladi/arquitec.nsf/VSITIOWEB/Cpycr?OpenDocument&ExpandSection=8%2C3%2C4%2C1#_Section8 [24 Aug 2011].

[85] DTTs considered in this section include all DTTs under the UNCTAD database. These may include a very few partial DTTs, such as the sea and transport double taxation treaties, or protocol between countries. Hence, the number of proper DTTs might be slightly overestimated as a few countries are counted twice.

[86] UNCTAD International Agreement Database: Argentina, Austria, Belgium, Bolivia, Canada, Chile, China, Czech Republic, Denmark, Ecuador, Finland, France, Germany (not valid since 2006), Hungary, India, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, Norway, Paraguay, Peru, Philippines, Portugal, Russia, Slovakia, Spain, Sweden, Turkey, United Kingdom (Air and sea transport only) and United States (air and sea transport, and cooperation and exchange of information).

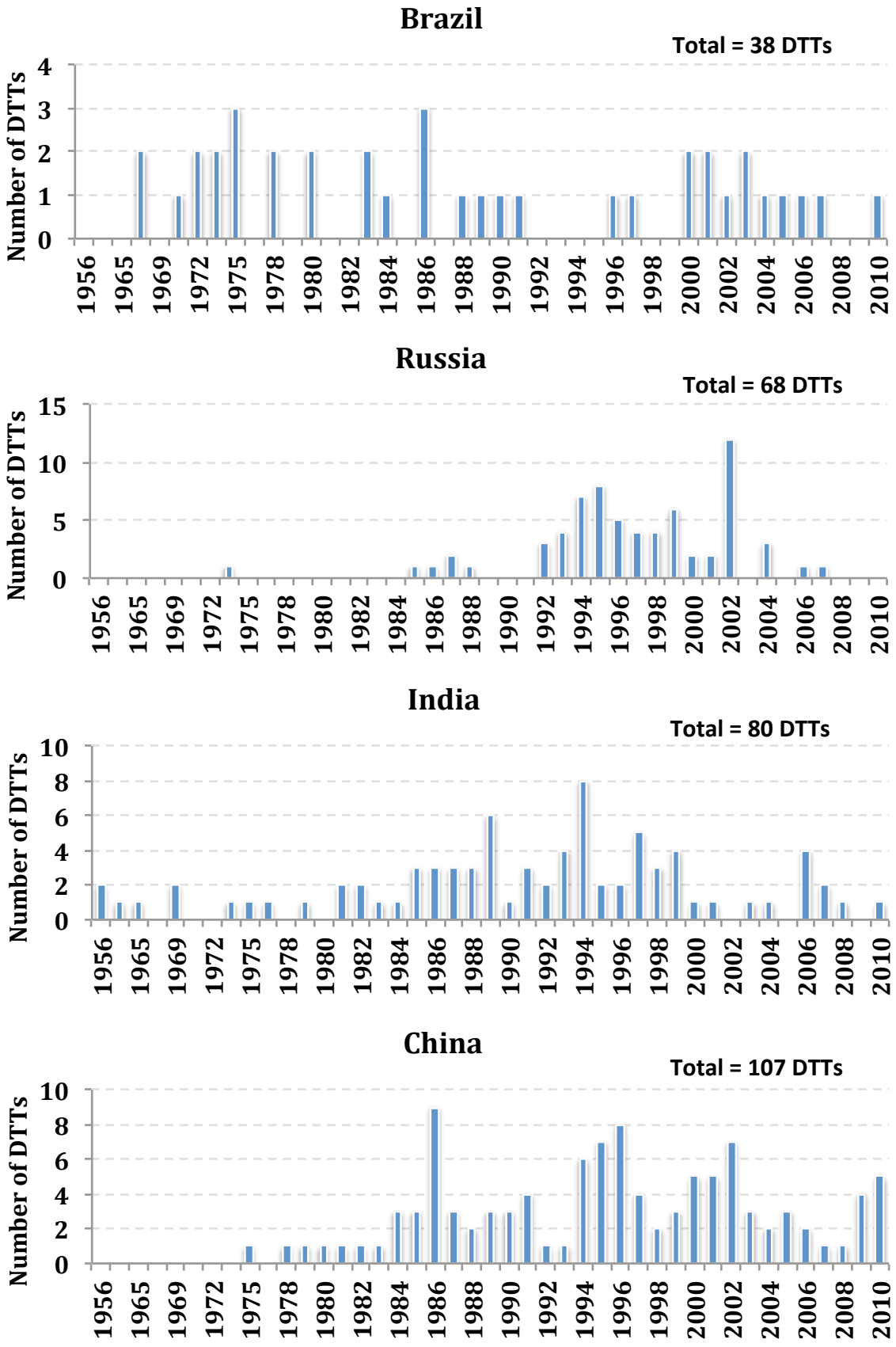

Figure 20 - Number of DTTs signed by BRIC: 1956 - 2011 (as of June 2011)
Source: UNCTAD International Agreements Database.

China has signed a total of 107 DTTs until June 2011. In the 1990s, most DTTs were signed with European countries. In the 2000s, Asian countries were the main counterparts. Like India, China has numerous DTTs with African countries, in contrast to Brazil and Russia. OECD (2008) points out that the Chinese government exempts Chinese firms overseas from corporate tax for the initial five years of operations abroad. In addition, some local governments in China provide extra fiscal incentives, including tax exemption.

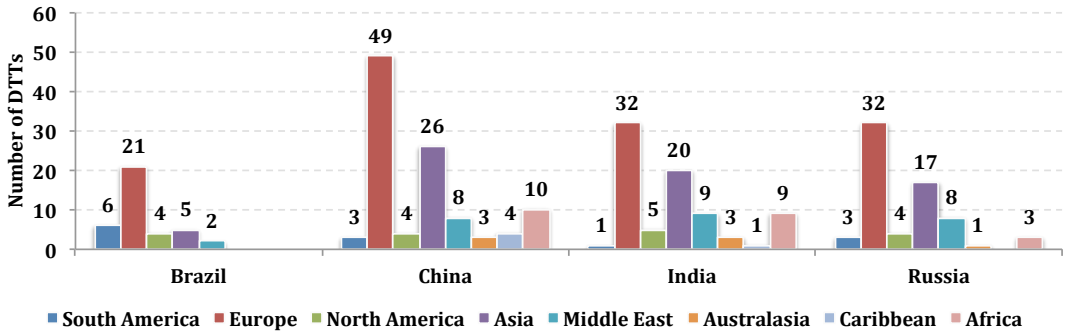

Figure 21 - Number of DTTs signed by BRIC, total per region (as of June 2011)
Source: UNCTAD International Agreements Database.

(b) Financial incentives

Financial incentives are the most common instruments used by the BRIC to support OFDI. In fact, all four countries have put in place different mechanisms that are either directly focused on promoting the internationalization of domestic firms, or can indirectly be used to sustain such objective. However, the ways these instruments have been used differ considerably across the BRIC. Unfortunately, there is no available time series data on the volume of financial support, specifically directed towards supporting firms' internationalization provided, by BRIC institutions, with the exception of the Indian EXIM Bank.

In the case of Brazil, the BNDES had its by-laws altered in 2002 to be allowed to finance Brazilian OFDI projects. Currently, this is done through a specific credit line created in 2005 and securities underwriting. While the bank had long supported large Brazilian firms through special credit lines, it was not allowed to directly finance their expansion abroad. Through the new BNDES financing scheme, Brazilian firms can finance the acquisition, expansion, construction or modernization of foreign facilities, conditioned on exports performance gains associated with the project (Alem and Cavalcanti, 2005).

Consistent with Brazilian industrial policy set in the Productive Development Programme (PDP) in 2007, BNDES has supported OFDI projects in target industries[87]. From 2005 to 2009, BNDES disbursed roughly more R$4.5 billion (US$ 2.7 billion[88]) under the new credit line for OFDI projects in several countries[89] (IPEA, 2010, p.286). In 2005, its first deal was the financing of US$80 million under such scheme for JBS-Friboi's acquisition of Swift Armour in Argentina. Since then the BNDES has been very active in supporting particularly the internationalization of Brazilian beef producers, such as JBS and Marfrig. While both were only large domestic firms in 2005, currently they are world-leading firms in their industries.

BNDES has also actively funded the internationalization of several Brazilian firms through securities underwriting by the BNDESPar, its investment arm. In 2007, for instance, the BNDESPar invested US$750 million in JBS equity for supporting the acquisition of US Swift Armour (Sennes and Mendes, 2010). BNDESPar has equity stakes in several large Brazilian MNCs (IPEA, 2010, p.286). BNDES has also been instrumental in the internationalization efforts of engineering contractors in line with the objectives of advancing infrastructure and economic integration in South America. Finally, BNDES plans to use its London subsidiary to raise funds abroad and directly support Brazilian OFDI, without having to bring the funds to Brazil (IPEA, 2010, p.287). In spite of growing efforts by BNDES, respondents to the VCC survey (2010) said they mainly relied on their own capital to finance investments abroad.

In India, the local EXIM-Bank is the main provider of financial support to Indian overseas investments. Beyond exports-related services, the bank has a specific overseas investment programme, through which it provides a wide range of products and services covering all stages of investments abroad: pre-investment advisory services, equity financing, term loans, guarantees and due diligence. This is available for Greenfield and brownfield projects, and foreign acquisitions directly or through special purpose vehicles (EXIM Bank, 2011, pp. 31-32). The bank, however, normally requires investment insurance from ECGC or MIGA

[87] Such as: mining, steel, oil & gas, petrochemicals, rubber and paper, meat and poultry, aeronautics, bioethanol, IT/software, construction and engineering, and capital goods, among others.
[88] Converted by the exchange rate (1,6522 BRL/USD) provided by the Central Bank at 5/09/2011. Available: http://www4.bcb.gov.br/pec/conversao/conversao.asp, [6 sep 2011].
[89] Germany, Argentina, Australia, United States, France, Netherlands, India, Ireland, Russian, Turkey, Egypt, Ecuador, Spain, Costa Rica, United Kingdom, Italy, Mexico, Paraguay, and Peru (IPEA, 2010, p.286).

covering political and comprehensive risks[90]. Since 1998, the EXIM-Bank also takes direct equity stakes in Indian joint ventures or wholly owned subsidiaries abroad to enhance the creditworthiness and penetration of Indian firms abroad[91].

While in 2005, the EXIM bank provided assistance to 21 Indian firms to finance their overseas investments in 13 countries amounting to Rs.11.32 billion, in 2010, it provided assistance amounting to Rs.84 billion to 64 companies to invest in 28 countries, including the acquisition of pharmaceutical companies in Brazil and in the US, acquisition of coal mines in Australia and Indonesia, and the setting up of BSV Biosciences in Germany, an advanced R&D unit belonging to Bharat Serum and Vaccines. To this point, the bank has financed 331 ventures abroad set up by 268 companies in 68 countries, amounting to Rs.209 billion and covering a wide range of sectors (EXIM Bank, 2011, p. 31-32). However, regulations still pose restrictions on financing acquisition by Indian banks[92]. Besides the EXIM Bank, only the State Bank of India and the ICICI, largest India private bank, are allowed by the RBI to provide financing for overseas acquisitions. Nonetheless they are constrained to raise 100% of the required capital abroad[93].

The Chinese government has used several financial instruments to support Chinese OFDI in priority industries under the "go global" policy, notably projects that: encourage exports of domestic technologies, products, equipment and labour; secure access to natural resources; increase competitiveness through M&A; and involve overseas R&D centres to use foreign advanced technologies and managerial skills. Hence, to foster such policies, the government provides, through several state institutions, subsidized loans, equity capital, and other official aid related subsidies[94] (OECD, 2008; Luo et al., 2010).

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[90] EXIM Bank of India: http://www.eximbankindia.in/old/services-1b.html

[91] EXIM Bank of India (1998) '*Exim bank receives government NOD for equity investment in overseas ventures'*. Available: http://www.eximbankindia.in/old/whatsnew.html, [24 Aug 2011].

[92] RBI Notification Nº 93/2005. Available: http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=2281&Mode=0, [24 Aug 2011].

[93] India Express (2007) 'India banks not allowed to finance takeovers: bansk seek Nod for takeover financing', February 12. Available: http://www.indianexpress.com/news/banks-seek-nod-for-takeover-financing/23108/, [24 Aug 2011].

[94] China's official development aid programmes for infrastructure construction, for instance, normally requires the participation of Chinese engineering contractors (OECD, 2008).

Since 2004 China's EXIM Bank provides subsidized credit and several other preferential lending terms for key OFDI projects conforming to the "go global" policy objectives[95]. The EXIM Bank also provides below market rate and/or higher grace period loans for large projects. The EXIM Bank is also responsible for providing subsidized loans for OFDI projects under the special funds created by the Ministry of Commerce (MOFCOM) (e.g., the International Market Developing Funds of SMEs and the Special Funds for Foreign Economic and Technical Cooperation in agriculture, forestry, and fisheries). The agency also provides subsidized finance for pre-investment expenses (i.e., feasibility studies, consulting services and regulatory-related expenses). In addition, the government offers a 20% subsidy for the costs of transportation associated inbound natural resources logistics carried by Chinese MNCs (OECD, 2008; Luo et al., 2010).

The Chinese Development Bank (CDB) also supports key OFDI projects in energy, transport, natural resources and agriculture related industries[96]. The CDB also operates the China-Africa Development Fund to support Chinese investment in the continent. In 2010, the fund disbursed US$4 billion to investments in Africa. Investing firms can also get subsidized loans from other large state-banks[97] (OECD, 2008; Luo et al., 2010).

In contrast to other BRIC, the Russian government has not put in place any credit facility support to the internationalization of firms, besides Russia's EXIM Bank exports credit line. In turn, it has directly supported the creation of Russian national champions, and the rising of Russian MNCs as a natural consequence. This is evident in the strengthening of state control over Russian firms in energy and natural resources sectors, such as Gazprom, and their increasing investments abroad as seen in chapter 3, item X. Nevertheless, Vahtra (2007) and Filippov (2010) note that there is little influence of the Russian state in the recent internationalization of Russian MNCs in non-resource-based sectors.

[95] The Ministry of Finance (MOF) covers the interest differential between the market rate and the subsidized rate.
[96] For instance, the Bank has provided financing for Sinopec's acquisition of 40% of Repsol Brazil. The CDB and the EXIM Bank have also financed, for instance, Huawei's global expansion with a US$10 billion and US$600 million credit line respectively (OECD, 2008).
[97] These are capped at 3% interest rate for loans in foreign currency, or at the People's Bank of China benchmark rate for financing in Renminbi (RMB)[97] (Luo et al., 2010).

4.2.4 Sovereign Wealth Funds

Like China and Brazil, Russia created a US$32 billion Sovereign Wealth Fund (SWF) in 2008 that is chartered to invest in foreign equity stakes and bonds[98]. As of August 8, 2011, it already had roughly US$93 billion of assets under management[99]. The Ministry of Finance has declared that it does not have the intention to invest in strategic and sensitive sectors in the short-term, notably to avoid concerns over political motivations, as Russian firms already arise suspicion from host governments[100].

Brazil created its much discussed SWF (*Fundo Soberano do Brasil*) in 2008 with "the objective of promoting investments in Brazil and abroad, generating public savings, mitigating the effects of economic cycles, and fostering strategic projects at home and abroad"[101]. Unlike its Chinese and Russian counterparts, the Brazilian SWF is to be financed by additional primary budget surplus, besides the initial bond issue (Deutsche Bank, 2010). As of July 2011, it had US$11.3 billion of assets under management[102], with equity investments in Petrobras and Banco do Brasil. However, its intended use to stem the appreciation of the Brazilian Real through the purchase of dollars in the domestic market has raised criticism[103].

China has established its main SWF in 2007. China Investment Corporation (CIC) was created with US$200 billion of assets under management. As of July 2011, it had roughly US$410 billion of AUM[104]. Modelled after Temasek Holdings of Singapore, it was created to take active equity stakes in large corporations across the world, including Chinese firms overseas. CIC has also been used to help SOEs pursue acquisition of natural resources based assets worldwide. However, CIC has made few FDI investments, remaining mostly a portfolio investor. In its first year, CIC took minority stakes in Blackstone and Morgan

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[98] NYT (2008) *'Russia Creates a $32 billion Sovereign Wealth Fund'*. Available: http://www.nytimes.com/2008/02/01/business/worldbusiness/01fund.html, [24 Aug 2011].

[99] Ministry of Finance of Russia (2011). Available: http://www1.minfin.ru/en/nationalwealthfund/statistics/amount/index.php? id4=5830, [24 Aug 2011].

[100] see previous note.

[101] National Treasury of Brazil (2011). Available: http://www.tesouro.fazenda.gov.br/english/fundo_soberano_brasil/index.asp

[102] SWF Institute (2011). Available: http://www.swfinstitute.org/fund-rankings/, [Aug 2011].

[103] FT (2010) 'The rising BRL: Brazil's sovereign debt, sorry, wealth fund to the rescue'. Available: http://blogs.ft.com/beyond-brics/2010/09/21/the-rising-brl-brazil's-sovereign-debt-sorry-wealth-fund-to-the-rescue/#axzz1WGr89zUe, [24 Aug 2011].

[104] SWF Institue (2011). Available: http://www.swfinstitute.org/swfs/china-investment-corporation/, [24 Aug 2011].

Stanley, resulting in significant losses with the 2008-2009 financial crisis. In 2009 and 2010, it made FDI investments in AES in the United States and Teck Resources in Canada[105].

The Chinese State Administration of Foreign Exchange (SAFE) has also begun to take equity stakes, though mostly small equity stakes, in foreign companies through SAFE Investment Company, a Hong Kong based subsidiary. As of July 2011, it had US$568 billion of assets under management, with equity interest in companies like Rio Tinto, Tesco, Barclays, BHP Billiton, and Royal Dutch Shell[106].

Likewise, India is considering creating a SWF to support the country's search for energy and natural resources worldwide is gaining momentum[107]. Advocates of the SWF argue India otherwise India will lag behind China in the quest for natural resources. The fund would be essentially funded through budgetary allocation. The Reserve Bank of India has been reluctant to use foreign reserves to fund the SWF as the country has been facing current account deficits[108].

Coming from developing countries, the increasing role of SWFs in overseas investments is raising concern over political motivations in host countries (Park and Estrada, 2009). Park and Estrada (2009) argue, however, that the potential of SWFs to become conduits for OFDI is limited, at least in the beginning of operations. They still lack the institutional knowledge and investment management capacity required for profitably managing the firms they buy, particularly for investments in more risky asset classes, such as private equity and venture capital or emerging industries. In turn, the authors argue that they can in the future partner with domestic companies to further their internationalization. The SWF would provide capital and the partner would bring in industry-specific knowledge and experience in seizing profitable opportunities.

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[105] China Investment Corporation (2009) '*2009 Annual Report'*. Available: http://www.china-inv.cn/cicen/include/resources/CIC_2009_annualreport_en.pdf, [6 Sep 2011].
[106] SWF institute (2011). Available: http://www.swfinstitute.org/swfs/safe-investment-company/, [24 Aug 2011].
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4.3 Discussion of policy development

This chapter has discussed the governmental environment under which BRIC firms are moving abroad. It is clear that China, India and Brazil have recognized the importance of OFDI to their economies. The Russian government, on the other hand, still struggles with possible capital flight associated with OFDI and hence supporting policies have not been implemented yet.

The case for government support is forwarded in the academic literature (Luo et al., 2010; Sauvant, 2005; Rasiah et al., 2010). Essentially, there is an assumption that OFDI promotion "is a legitimate political action needed to help compensate for EMEs' competitive disadvantages and organizational deficiencies" (Luo et al., 2010, p.1). Ozawa (2011) even suggests that this "[Outward] FDI-led industrial take-off" has arisen as a new catch-up model that is a much quicker and more effective way of acquiring technology and export competitiveness than old-fashioned import substitution that developed countries relied on. China has clearly relied on such approach, implementing policies to foster OFDI. This way, firms can more quickly access technology and organizational skills, and boost exports by acquiring firms and establishing themselves abroad.

The Brazilian government has just very recently started to discuss the implementation of OFDI supporting policies. There is room for improvement, notably in eliminating taxation barriers and providing risk mitigation instruments for Brazilian firms investing abroad. This may be critical for investments in the primary and secondary sectors, which may involve large sunk costs. Establishing OFDI supporting policies can also contribute to advance industrial policies in terms of improving firms organizational and management skills, as well as transferring technology to the country, and increasing exports (Arbix et al., 2004).

Fleury and Fleury (2006), comparing Brazilian with Chinese MNCs, argue that most Chinese firms have relied on internationalization to compensate for the lack of ownership advantages, such as brands and organizational skills. Brazilian firms, in turn, were forced to develop some sort of ownership advantages (e.g., production management essentially) in the 1990s following liberalization, before going abroad. This partially reflects the differences in policies implemented by such countries so far. While the Chinese government has actively supported its firms to go abroad, recognizing earlier the importance of OFDI for industrial upgrade and

competitiveness of domestic firms (Luo et al., 2010; Buckley et al., 2007), Brazilian MNCs have mostly gone abroad on their own. Until the 2000s, in addition to macroeconomic constraints, OFDI was associated with the exports of jobs and investments by Brazilian public authorities. Hence, the government did not encourage firms to internationalize (Alem and Cavalcanti, 2005; Fleury and Fleury, 2006).

Some of the barriers to internationalization that Brazilian firms face can be eased with government support. The VCC (2010) survey with Brazilian MNCs points to some important reasons external barriers to internationalization: the regulatory environment of host markets was pointed as one of the main external barriers for internationalization by 14% of respondents; double taxation issues was also raised by 9.2% of respondents; and difficulties in raising funds. These issues indicate policy gaps that the government could focus on.

The lack of government policies addressing such issues, and possibly other specific issues affecting outward investors, may affect the degree of internationalization of firms. As seen in chapter 3, among BRIC MNCs, Brazilian MNCs were the least outward investors in the last decade. This is due to many other reasons[109], but the lack of government support until the mid-2000s might contribute, to a lesser extent, to explaining this. The effects of recently implemented policies (financial support through the BNDES and information and technical assistance through APEX Brazil and DPR) remain to be seen. However, these do not address important issues raised by outward investors, namely: host country environment/regulations and double taxation issues.

In contrast, the Indian and Chinese governments have recognized earlier the importance of OFDI to their economies. Over time, Chinese and Indian governments have facilitated outward investment through policy reforms, including the liberalization of foreign exchanges policies, foreign ownership ceilings, and access to international capital markets, and also the simplification of procedures. However, they have implemented much earlier a comprehensive set of OFDI supporting instruments. Government support has been an important underlying

[109] Cyrino and Oliveira Junior (2003, in Prochnik, 2009, p. 25)[109] conducted an extensive research and found out that high taxes, lack of financing and large domestic market were the three most important reasons for late internationalization of Brazilian firms. Iglesias and Veiga (2002) added to that the country's position in commodities, as these do not require large volumes of foreign investment to support trade; and the fact that Brazilian manufacturing exporting firms, which would require larger foreign investments abroad, are often subsidiaries of foreign investors that already have distribution networks abroad.

factor driving Chinese and Indian firms' OFDI, in spite of remaining approval requirements above established thresholds.

They have engaged in signing international investment and double taxation treaties, providing technical and information assistance, as well as financing, and political risk insurance. However, while Indian government has supported OFDI, it did not drive Indian firms to move abroad as it is the case in China. The Chinese government has actively encouraged and directed firms' internationalization in strategic industries through targeted policies.

Although the Chinese model has been quite successful in spurring OFDI, Francoise and Thomsen (2008:14) alert for the risks of such approach. According to the authors, to the extent that firms decide to go abroad on their own to acquire skills and increase competitiveness, policy support seems to be consistent with corporate strategies. However, the authors argue that "by designating some firms – principally SOEs – as strategic, the government is distorting the allocation of capital within the Chinese economy by encouraging the expansion of these firms at the expense of other firms or sectors". This may also cause distortion in capital allocation between foreign and domestic investment: "By lowering the cost of capital for these firms in their international expansion, there is a risk of moral hazard by encouraging them to invest abroad beyond the level which could be commercially justified or even sustained" (Francoise and Thomsen, 2008, p. 14).

The Russian government, on the other hand, is still a step behind in terms of OFDI policies, as it is much more focused on attracting FDI to the country[112]. Outward investment is often perceived as capital flight and government policies tend not to encourage it. Nevertheless, the Russian government has recently strengthened state control in the economy, notably in the energy sector, which has also reflected in the expansion of Russian firms abroad. In this context, several host countries are often resistant to Russian companies due to concerns about political interference and security issues, but also due to corporate governance and transparency issues (Kalotay, 2010). It seems that Russia could also make use of further OFDI policies in order to reduce political resistance in host markets, and improve domestic firms productivity, notably of new Russian MNCs in non-natural resource industries.

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V Conclusions and limitations of the study

This dissertation has sought to identify the role of BRIC governments in the internationalization of their firms. Drawing upon an exploratory comparative analysis of BRIC OFDI trends and policies, it contributes to further an initial understanding of this phenomenon by shedding light on how and why BRIC governments have been promoting their multinationals. For this, it analysed OFDI policies implemented by BRIC countries as a way of highlighting policy-gaps and the effects of institutional set-ups in the development of internationalized companies.

In order to understand the rapid emergence of BRIC firms OFDI since early 2000s, this dissertation began by reviewing the relevant literature explaining OFDI. It was seen that, most of the literature focused on explaining outward investments by developed country firms into other developed and developing countries. Main explanations were that firms internationalize to exploit their monopolistic ownership advantages (e.g., brands and technology) (Hymer, 1968); or that firms internationalize because of locational advantages of host countries (e.g., lower labour cost) given the stage of development of the product lifecycle (Vernon, 1966). It was further argued that firms internationalize through FDI because of transaction costs in the market for intermediate products. Whenever the benefits of common governance of assets are superior to the benefits of having arm's length relationships in foreign markets, firms would prefer to serve the market through FDI (Buckle and Casson, 1976).

These models fairly explained the first (from 1960s to 1980s) and second (mid-1980s to mid-1990s) waves of OFDI by developing country firms, arguing that these firms had developed specific ownership advantages (not of the traditional type such as brand and technology) suited for other developing countries with similar institutional environments (import substitution policies). However, since the mid-1990s, the different characteristics of OFDI by developing country firms have brought into question the explanatory power of traditional FDI models. The increasing level of OFDI by developing country firms into developed markets weakens the argument that firms internationalize to exploit their ownership advantages. Recently, Mathews (2006) and Lung and Tung (2007) have argued that these firms are increasingly moving abroad to acquire assets they do not possess to compete globally.

In this context of increasing levels of OFDI by developing country firms, the discussion on the possible effects of OFDI on developing home economies has emerged. For a long period, developing countries had been restrictive to OFDI, as they perceived themselves as capital-importing countries. They felt they should prevent the export of capital, because of concerns with exports of jobs, and potential negative impacts on domestic investments and the balance-of-payments. Recently, this perspective has changed. BRIC, for instance, have put in place OFDI liberalizing policies since the early 1990s. China, Brazil and India have further implemented OFDI encouraging policies in the 2000s, believing that OFDI has overall net positive effects to their economies.

The effects of OFDI on home economies are still an understudied phenomenon, especially for developing home economies. From the literature reviewed in chapter 2, it is clear that there is no unanimous conclusion on the positive effects of OFDI to home countries. A wide range of conditions must be in place for the benefits to accrue to the home country. This is also true for negative impacts to occur. Although not unanimous, positive effects are associated with increase in exports, domestic investments, productivity gains and a shift towards more skill-intensive activities at home. It is often believed that MNCs can lead the acquisition of external inputs of R&D and lead the upgrading and restructuring of domestic industries in which they operate. Most developed country governments assume this net positive view since they have implemented several policies encouraging OFDI.

However, despite some evidence of positive effects on developed home economies, there is no certainty that this is also the case for developing countries. Globerman and Shapiro (2008) and Kokko (2006) argue that there are important differences between developing and developed country firms and institutional contexts that need to be taken into consideration. For instance, the benefits of foreign technological spillovers depends on both the absorptive capacity of the domestic firm, as well as on the country's capacity to absorb, use and diffuse effectively the acquired knowledge.

From the point of view of developing country firms, particularly BRIC MNCs, there must be benefits accruing to them as they are increasingly investing abroad since the 2000s, as seen in Chapter 3. It is argued that under global competition, these firms need to internationalize to survive and maintain competitiveness. Although they had invested abroad before, only since the 2000s that OFDI by BRIC MNCs has become substantial. At the country level, the four

BRIC countries have become major outward investors even in comparison to developed countries. Their firms are becoming major global players in many industries, taking-over competitors in both developed and developing countries, and reshaping competition in many industries. Out of 100 companies listed in the 2011 BCG 100 Global Challenger report, 72 are from BRIC. These companies are turning into global expansion as a way of securing and/or increasing their competitiveness in a globalized world.

The early internationalization of BRIC firms followed the Uppsala model. BRIC MNCs initially sought investments in neighbouring countries, in which they had previously acquired market knowledge through trade, and also had cultural proximity. Since the 1990s however, BRIC MNCs have taken a global orientation. Across BRIC, data on OFDI destination must be interpreted with caution, as the main destinations are often financial offshore centres. Cross-border M&A is more relevant in this sense, but it does not cover Greenfield projects, which are still important in number of deals.

Brazilian MNCs have mainly targeted investments in developed countries since the 2000s, but Mercosur remains important. The services sector dominates OFDI, but oil & gas, and mining are also very important. Within manufacturing, food & beverages and metals and metal products are the most important industries. Since the 2000s, Brazilian MNCs have increasingly relied on M&A to enter foreign markets, especially developed ones. Market-seeking investments are the most common. These firms have moved abroad as a response to increasing foreign competition in the domestic market since the opening of the economy in the early 1990s, and also because of trade barriers and the need to be close to customers in international markets. Market diversification has also been pointed as a reason for Brazilian firms to internationalize. The search for natural resources, for exports essentially, has also been an important driver of Brazilian OFDI flowing to Canada and developing countries in Africa, Latin America and Middle East. Technology-seeking OFDI by Brazilian MNCs is less common, especially in relation to Chinese and Indian MNCs.

Russian MNCs initially (in the 1990s) sought investments in CIS countries to regain control over assets of former Soviet SOEs and reintegrate their value chains. In the 1990s, OFDI was also largely associated with capital flight due to the politically unstable home environment. In terms of destinations, CIS countries have always been an important destination of resource-seeking investments. More recently, CIS countries have become the destination of market-

seeking OFDI by non-resource based MNCs (e.g., telecommunications and automotive). Western Europe and North America has been the main destination of Russian MNCs in resource-based industries (e.g., oil & gas, mining and metals) since the 2000s. These firms have acquired downstream assets in such countries to gain control over the entire value chain, and overcome import quotas. Asset-seeking investment by Russian MNCs are still rare. Similarly to China, SOEs are important Russian outward investors, and Russian private MNCs are also closely linked to the Russian state.

Indian MNCs stand out of other BRIC MNCs because of their concentration in relatively more skill-intensive activities. In the 1990s, Indian MNCs in non-financial services, notably IT services, were the most prominent outward investors. North America was the main destination. These firms mainly internationalized to be close to customers. Since the 2000s, however, manufacturing MNCs (e.g., in pharmaceuticals and automotive) have been the leading outward investors. These firms have mainly invested in developed countries through acquisitions in order to rapidly access markets and overcome trade barriers, but also to access technology and brands to compete in global markets. Among BRIC MNCs, Indian and Chinese MNCs seem to be more prominent in undertaking asset-seeking investments. Since the mid-2000s resource-seeking investments to serve the growing Indian domestic market have also increased. Cross-border M&A in developed countries has been particularly important in the metals sector, and Greenfield projects have been the main entry mode in other developing countries in oil & gas.

Chinese OFDI, in contrast, has mainly been directed towards other developing economies, mainly in Asia[113], since the 2000s. The financial sector, and wholesale and trade dominate OFDI by Chinese MNCs. Since the implementation of the "go global" policy by the Chinese government in 2000, developing countries in Africa and Latin America, as well as Australia, have increasingly been targets of resource-seeking investments by Chinese MNCs, particularly SOEs. These investments seek to secure access to raw materials needed to sustain the growth of the Chinese domestic market. Chinese OFDI in manufacturing industries is relatively minor, mostly encouraged by the need to overcome trade barriers. But Chinese

[113] Hong Kong has been the preferred location for investments, largely due its important capital markets that allows Chinese firms to raise funds to finance operations both abroad and in Mainland China. This makes it harder to identify the real geographical distribution of Chinese OFDI as Hong Kong serves as an intermediary destination.

MNCs' increasing appetite for strategic assets and managerial capabilities has drawn media attention. Recent large acquisitions, such as the acquisition of IBM PC unit by Lenovo, and the establishment of R&D centres in developed countries, denote Chinese firms' intention to acquire technology and build global brands.

Broadly speaking, market-seeking and resource-seeking investments have dominated OFDI by BRIC MNCs. In the quest for foreign markets, trade barriers and regional trade agreements have been important drivers of OFDI by such firms. Limited domestic demand in China and increasing foreign competition in the domestic Brazilian and Indian markets have also pressured firms to internationalize. The need to be close to customers has also been an important driver of BRIC OFDI. Resource-seeking investments has been particularly important for China, and to a lesser extent to India, as a way to secure access to raw materials needed to support the growing domestic market. Brazil and Russia undertake such investments to strengthen their market position and enhance their capacity of serving exports markets. Chinese and Indian MNCs have also been active asset-seeking outward investors.

Chapter 4 has discussed the role of government policies in supporting OFDI. Drawing upon historical analysis of legislation[114], this dissertation identified a change in governments' perception of the impacts of OFDI to their economies. They have become more aware of the importance of OFDI for their firms' and countries competitiveness. Overall there has been a clear shift in OFDI policy orientation, from an early restrictive phase until the 1990s, followed by liberalization until the mid-2000s, and a more encouraging orientation since then in Brazil, India and China. The increase in OFDI by BRIC firms coincides with OFDI liberalization and encouraging measures in the 2000s.

China and India have recognized earlier the importance of OFDI to their economies. Government support has been an important underlying factor of Chinese and Indian firms OFDI since the early 2000s. Over time, Chinese and Indian governments have facilitated outward investment through policy reforms, including the liberalization of currency policies and the simplification of approval procedures. These governments have gone further by establishing a wide range of OFDI supporting measures.

[114] The comparison of BRIC OFDI policies, however, is not straightforward. China and India have specific OFDI policies provisioning procedures and thresholds for approval requirements. In contrast, Brazil and Russia have relied on currency regulations to control OFDI by their domestic companies.

The Chinese government has been particularly active in encouraging OFDI. It has put in place a comprehensive set of supportive OFDI policies that go from direct support (financial and non-financial) to guidance, through monitoring and assessment of OFDI performance. Concisely, it direct firms' internationalization in strategic industries through targeted policies, it coordinates and monitors OFDI through the provision of guidance, and informational and matchmaking services, it also supports OFDI through double taxation treaties (DTTs) and risk reduction mechanisms, such as bilateral investment treaties (BITs) and political risk insurance. The Indian government has also engaged in several BITs and DTTs, as well as it provides political risk insurance to Indian firms investing abroad. As it is the case of China, several of these instruments are coherent with geographical distribution of Indian investments. The Indian government also supports the internationalization of domestic firms through credit and equity support provided by the Indian EXIM Bank.

Brazil and Russia have indicated their interest in supporting the internationalization of domestic firms. But they have yet to take further steps. Beyond liberalization, the Russia government has not implemented further OFDI support apart from DTTs and BITs. OFDI by Russian MNCs is still sometimes perceived as capital flight, and thus government policies tend not to encourage it. To this point, Russian state agencies do not provide political risk insurance or credit support to outward investing firms.

Brazil has just begun implementing further active support to the internationalization of domestic firms. In 2005, the BNDES began to offer credit support for equity investments abroad by domestic firms. APEX Brazil and the Department for Trade and Investment Promotion of the Ministry of Foreign Affairs have began to offer informational and technical assistance to Brazilian outward investors. It remains to be seen what role this policies will play in promoting Brazilian OFDI. In spite of such advancements, not much has followed. In comparison to other BRIC, the Brazilian government has signed very few DTTs and BITs. Brazilian state agencies also do not provide political risk insurance. To the extent that double taxation and host country regulatory environment have been indicated as major concerns by Brazilian MNCs (VCC, 2010), the Brazilian government should considerate implementing instruments addressing these issues.

This dissertation has focused on identifying specific policies used by BRIC governments to facilitate OFDI. It has identified policy gaps that governments can focus on if looking to establish a comprehensive set of OFDI supporting policies. It also provides a preliminary understanding of the role of BRIC governments in the internationalization of their domestic firms. However, further research is required to assess the real impacts of such instruments on OFDI, and also to analyse their importance to different group of firms within countries, such as SME or industries.

Further research is also required to address other broader challenges that BRIC firms need to overcome to compete globally, such as developing ownership-specific advantages. This requires broader policies addressing the need to create proprietary advantages of domestic firms, and increasing competition in the home market so that companies feel pressured to move abroad to increase productivity and remain competitive. These consist of mainly horizontal regulatory reforms and technological development policies. Further research is also required to understand what types of policies work best in developing international companies.

Finally, more research seems to be necessary to fully understand the impacts of OFDI on home developing economies, such as the BRIC. As seen, governments have assumed that overall there are greater benefits to the home economy. It seems that this need to be further investigated.

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VII GLOSSARY

Bilateral Investment Treaties	"Bilateral investment treaties (BITs) are agreements between two countries for the reciprocal encouragement, promotion and protection of investments in each other's territories by companies based in either country" (UNCTAD, 2011).
Capital flight	Capital flight is a fuzzy concept. Here it refers to the transfer abroad of legal, legitimately acquired income or assets, motivated by the desire to escape either the legitimate domestic tax authorities and/or the predatory attentions of corrupt and confiscatory agents of the state – central, regional or municipal – or of the criminal community (Buiter and Szegvari, 2002).
Cross-border M&A	Cross-border M&A refers to acquisition of a firm resident in one country by a firm resident in another country. For the purpose of this dissertation, it is only considered the transactions resulting in equity stakes above 10% to be characterized as a FDI investment.
Double Taxation Treaties	Double Taxation Treaties are agreements between two countries for the avoidance of double taxing a taxpayer on the same taxable income or capital in both countries.
Firm specific assets (FSA)	Firm-specific assets refer to brands, patents, organizational and management skills. These are also referred to as created-assets or ownership-advantages.
Foreign Direct Investment (FDI)	Foreign direct investment refers to an investment by an enterprise (direct investor) resident in one country into another enterprise resident in a different country than that of the direct investor, resulting in the direct or indirect ownership of at least 10% of the voting capital. FDI investments include the initial equity capital that meets the 10% threshold and subsequent equity investments, intercompany loans, and retained earnings proportional to ownership degree (OECD, 2008c).
Institutional Voids	Institutional voids refer to the absence or malfunctioning of intermediary institutions, such as deficient intellectual property rights regulations, poor logistics and infrastructure systems, underdeveloped risk capital system, shallow talent pool, among others, that prevent buyers and sellers from easily transacting between them (Khanna and Palepu, 2004).
Internalization advantages	Internalization advantages refer to the ability of a firm to deal more efficiently (because of common governance of assets) with market imperfections than the market itself. Whenever the costs of controlling/monitoring the production chain and/or firm-specific assets (reputation, brand, patents), and whenever institutional failure is high (e.g., contractual incompleteness, imperfect information), firms are more likely to internalize the ownership of its endowments.
Inward FDI	Inward FDI refers to FDI investments received by firms in a country, i.e., FDI investments received by a resident enterprise from a non-resident enterprise.
Locational advantages	Locational advantages refer to the benefits of producing in a particular place as, for instance, lower production and trade costs, economies of agglomeration and spillovers, better institutional framework.
Net capital outflows	Net capital outflows refer to the difference between the purchase of foreign assets by residents and the purchase of domestic assets by non-residents of a country.
Outward FDI	Outward FDI refers to FDI investments realized by firms from a country,

	i.e., FDI investments realized by a resident firm into a non-resident firm.
Ownership advantages	Ownership advantages refer to a firm's ability to bundle and access resources more efficiently than its competitors in a way that it creates, although it might even purchase, some sort of proprietary right of use. These (O) advantages include both intangible assets, such as brands, access to institution, technology, organizational skills, entrepreneurial capacity, and other assets arising from the coordination and governance of activities, such as access to raw materials, control of distribution channels, economies of scale.
Political Risk Insurance (PRI)	Political Risk Insurance is an instrument for business to mitigate and manage risks arising from the action or inaction of host governments. Political risks are normally understood as: risks of expropriation, breach of contract, currency inconvertibility and transfer restrictions, political violence (war, terrorism, civil disturbance), and non-honouring of sovereign financial obligations (MIGA, 2009).
Portfolio investment	Portfolio investment refers to investments whereby investors do not generally expect to influence the management of the enterprise. This consists of the purchasing of less than 10% of ownership of voting power. Above 10% it is considered that the investor expects to influence management decision, and is consequently considered as direct investment (OECD, 2008c).
Round-tripping	"Round-tripping refers to the channelling abroad of local funds by direct investor and the subsequent return of these funds to the local economy in the form of direct investment" (OECD, 2008c).
Sovereign Wealth Funds (SWFs)	"Sovereign wealth funds are special purpose investment funds or arrangements, owned by the general government. Created by the general government for macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies that include investing in foreign financial assets. The SWFs are commonly established out of balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports" (IWG, 2008).
Transition economies	Transition economies refer to the following countries in transition from centrally planned to market economies, and refer to the following countries: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.