How different are Emerging Economy MNEs?
A comparative study of location choice

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for Copenhagen conference, October 2012

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Abstract

What distinguishes emerging economy (EE) multinational enterprises (MNEs) from industrialized countries' ones (ICs)? We propose the critical distinguishing feature to be relative maturity in international business. Hence, locations offering learning opportunities have a stronger positive effect, while barriers to entry have a stronger negative effect on EE MNEs.

We test six hypotheses on location choice derived from this maturity perspective against alternatives from the strategic asset seeking and political economy perspectives. We use conditional logit methods on a dataset of MNEs from nine countries investing in OECD economies, and find the maturity perspective arguments to dominate over the alternatives. However, further country-by-country analysis suggests that, while applicable in certain contexts such as China, these theoretical ideas cannot always be generalized across EEs.

Keywords: foreign direct investment, emerging economy multinationals, location choice, maturity perspective

Introduction

Recently, multinational enterprises (MNEs) originating from an emerging economy (EE) have received considerable attention in the strategic management literature. Some contributors argue that these MNEs are in important ways systematically different from MNEs originating from an industrialized economy (IE), and thus call for the development of new theories to explain their characteristics (Child & Rodgriguez, 2005; Guillen & Garcia-Canal, 2009; Mathews 2006; Rui & Yip, 2009). In contrast, other authors argue that scholars analysing these 'new' MNEs should not prematurely abandon established theories because they have the capacity to explain the fundamental features of EE MNEs, though this may involve incorporating some additional features into the existing theoretical frameworks (Dunning 2006; Narula 2012; Ramamurti 2012; Rugman, 2009).

We take this debate forward by presenting a 'maturity perspective' suggesting that while the fundamental determinants of location choice are the same for EEs and IC MNEs, the strength of effects of various locational advantages differ primarily because of the former are less mature in international business. Thus, EE MNEs have less experiential knowledge in conducting international business operations (Meyer & Thaijongrak, 2013, Peng, 2012, Ramamurti, 2012), and therefore are more sensitive to factors such as learning opportunities and barriers to entry in the host economy than their more experienced counterparts from ICs.

The literature on EE MNEs suggests a number of characteristics that might distinguish MNEs from EEs and from IEs including the capabilities to operate profitably in emerging markets and preferential access to home country advantages (Cuero-Cazurra, 2009; Hennart, 2013; Ramamurti 2012). Moreover, the literature can be organised into three lines of innovative theorizing, namely learning perspectives (Elango & Pattnaik, 2011, Li, 2010, Mathews, 2006, Meyer & Thaijongraj, 2013), the strategic asset seeking (or springboard) perspective (Luo & Tung, 2007; Luo, Zhao & Wang & Xi, 2011) and the political economy perspective (Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007; Chen & Young, 2009; Cui & Jiang, 2012; Zhang, Zhou & Ebbers, 2010). However, most empirical contributions in this literature are based on single country studies that elicit insights regarding the – supposedly distinct – features of the particular country, but necessarily offer limited insights into the comparative aspect of the research question (Deng, 2012; Jormanainen & Koveshnikov, 2012). To put this literature in context, and to identify whether EE MNEs as a group are *systematically* different from those originating

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from ICs, we design a comparative study, and focus our theoretical development on what distinguishes EE MNEs as a group from IC MNEs.

We integrate the theory of the MNE, especially the locational (L) dimension in the OLI paradigm (Dunning, 1998, Dunning & Lundan, 2009), with recent work on experience effects and internationalization processes in international business (Johansen & Vahlne, 2009, Meyer & Thaijongrak, 2013). The theory of the MNE posits that FDI is attracted to locations that offer advantages in terms of markets and/or resources, and offer favourable conditions for doing business in terms of for example institutions and infrastructure (Bevan, Estrin & Meyer, 2004, Globerman & Shapiro, 2002, Grosse & Trevino, 2005, Wei, 2000). The location decision of a specific firm depends on the interaction of its firm specific advantages (FSA) (Rugman, 1982), also known as ownership advantages (Dunning & Lundan, 2009), with the specific locational advantages at potential host locations. In the terminology of the resource based view (Barney, 1991), firms are expanding internationally where they can redeploy their internationally-transferable proprietary resources and capabilities to both exploit and to explore their resource base. Thus, the choice of investment location is determined by the interaction of the firm with the host context.

The firm however is evolving over time as it goes through the process of internationalization (Johansen & Vahlne, 2009, Meyer & Thaijongrak, 2013). In particular, it is accumulating experience in operating in international business environments along multiple dimensions, both relating to international business in general and specific to host economies (Clarke, Tamaschke & Liesch, 2012, Li & Meyer, 2011). To some extent, such experience can be shared within business networks, especially networks of companies from the same origins (Jean, Sinkovics & Tan, 2011, Meyer & Skak, 2002, Tan & Meyer, 2011). Hence, the accumulated experience of the firm, its business networks, and its home community – in other words its IB maturity – critically contributes to the firm's FSAs, and hence its location choice. By international business maturity we therefore mean the stock of knowledge accumulated by the firm, embodied for example in the management team or in management processes, and such knowledge that the firm can tap into through its business networks, which derives from the business experiences which the firm has had internationally. The lesser maturity of EE MNEs as a group within each country thus becomes a critical factor distinguishing them from IC MNEs.

We base our empirical analysis on an extended version of the so-called gravity model borrowed from international trade theory (Bevan et al., 2004, Bloningen, 2005; Globerman & Shapiro, 2003). We develop a unique firm-level dataset which allows us to compare the locational choices of outward FDI into OECD countries by a large number of MNEs from *both* ICs and EEs. We focus on OECD countries as host countries because it is the investment by EE MNEs into these relatively more advanced economies that creates the most challenges for the theory of the MNE (Hennart, 2012, Ramamurti, 2012, Luo & Tung, 2007, Tsui & Yip, 2007). If EE MNEs were driven by motivations fundamentally different from those addressed in traditional theories, then the determinants of location choice would include specific factors not relevant for IC MNEs. On the other hand, if the current theory of the MNE has universal applicability, then determinants of inward FDI would *not* differ with the status of the country-of-origin as IC or EE though the relative imoact of different factors might vary according to host economy location. Our empirical results provide evidence in favour of the latter view. Specifically, we find differences that can be explained by the lesser maturity of EE MNE, and these effects dominate over effects suggested by other theorizing, a notable exception being the effect of host market growth.

This leads us to propose a research agenda for future research on EE MNEs that emphasizes theory extension, including fine-grained contextual moderators, such as the resource endowment and the institutional framework of the country of origin and, the impact of differences in the ownership and governance arrangements such as the access to resources and risk taking propensity. These contextual variables vary substantially across EEs, such that generalizations need to be made very cautiously.

We offer the following contributions to the strategic management literature. First, we develop a theoretical argument on how international business experience – or economic maturity – moderates determinants of location choice. Second, we empirically analyse the determinants of FDI location choice from a range of EEs and ICs to test the proposition that determinants are systematically different. Third, we extend our empirical analysis to country-by-country analysis to show that other arguments may hold for specific countries, but those findings are not always generalizable across emerging economies as a whole. Finally, based on the insights that the fundamental determinants are the same, we propose a research agenda extending existing theories to explain variations of FDI across countries of origin.

<center>**Emerging Economy Multinationals**</center>

The phenomenon

MNEs from EE have rapidly increased their relative position in the global economy in the first decade of the 21st century. As an empirical phenomenon, FDI by EE MNEs is not entirely new (Lall, 1983, Lecraw, 1993). Yet, it is of greatly increased importance in terms of number of MNEs and volume of FDI capital outlays (Table 1), though the levels still remained modest in aggregate by the year 2010. The dominance of US and UK MNEs, who together accounted for 57% of worldwide FDI stock in 1980, has successively been eroded and fell to 32% by 2010; at the same time MNEs from an ever increasing range of countries became substantive players on the global stage. Hence, the recent rise of China, India and Russia represents the extension of a longer trend of increasing diversity of origins of MNEs.

<center>*** *insert Table 1 here* ***</center>

However, several arguments have been put forward to suggest that this recent wave of EE MNEs show some characteristics that – while perhaps not unique – distinguish them from typical MNEs from the USA and the UK, even some fifty years earlier (Caves, 1982; Rugman, 1982). Specifically, most EE MNEs lack the famous brands and leading-edge technologies that are usually viewed as the drivers of MNEs' overseas FDI. The theory of the MNE, suggests that firms engage in outward FDI when they have some resources that they can transfer and exploit, also known as firm specific advantages (FSAs) (Rugman, 1982). The apparent absence of FSAs that MNEs from EEs could exploit abroad has been puzzling some scholars (Mathews 2006, Rugman 2009).

However, FSA is a very broad concept that encompasses *any capability* that can be transferred to another country and enable foreign entrants to successfully compete with local firms. The EE MNEs literature suggests that two types of FSAs driving their internationalization. First, several studies identify specific types of FSAs held by EE MNEs, mostly relating to operational capabilities of particular relevance to operating in an emerging economy context (Verbeke & Kano, 2012). Some EE MNEs are innovating in their home country, in particular 'process innovations' that allow them to lower production costs without necessarily reducing product quality (Zeng & Williamson 2009), and 'frugal innovation' generating new products initially designed for needs of an EE, but also enabling entry into niches in advanced economies (Govindarajan & Ramamurti, 2011).

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Other EE MNEs develop capabilities in managing dispersed value chains and labour-intensive manufacturing processes, such as Taiwanese MNE Hon Hai (also known as Foxconn) operating manufacturing sites in China and South East Asia (Ramamurti, 2012). Yet other EE MNEs develop "the ability to manage institutional idiosyncrasies" (Henisz, 2003), which helps EE MNEs to compete in other emerging economies, and provides them with a competitive advantage in those contexts (Cuervo-Cazurra & Genc, 2008, Del Sol & Kogan, 2007).

Second, the FSAs of EE MNEs may be grounded in their preferential access to country-specific advantages of their home country (Hennart, 2013). This preferential access arises both from close network relationships in the home country, and from ownership and governance forms that are distinctly different from the 'outside shareholder firm' predominant in the USA and the UK. In particular, many firms investing overseas belong to business groups that share resources and internalize markets. These EE MNEs may be driven by their role within the group, notably the resources shared within the group (Guillén, 2002; Tan & Meyer, 2010) and the governance structures over group member firms (Bhaumik, Driffield & Pal, 2010; Estrin, Poukliakova & Shapiro, 2009).

A special case of preferential access arises with state ownership and other forms of association with the home country government. State ownership often facilitates the obtaining of finance from state-owned banks on comparatively favourable terms for projects that further national policy agendas. Therefore, firms aligning themselves with governmental policy agendas are reportedly finding it easier to attract resources that facilitate outward FDI, for example in China (Buckley et al., 2007, Morck, Yeung & Zhao, 2008, Wang et al., 2012). This preferential resource access enables them to be less averse to political risk, and to be more likely to seek resources of national rather than of purely corporate interest, such as natural resources and technologies (Balasamy et al., 2012; Chen & Young, 2010; Cui & Jiang, 2009; Luo et al., 2011). This effect may be reinforced by governance structures that allow managers leeway in the pursuit of objectives in addition to pure profit (Morck, Wolfenzon & Yeung, 2005).

In conclusion, EE MNEs enter the global stage with different sorts of FSAs than a typical IC MNE, be they internal to the firm (such as operational capabilities) or in form of preferential access to country specific advantages of the home country. These differences in starting points impact on their outward FDI strategies, and have hence stimulated new theorizing.

Theoretical perspectives

The recent literature on EE MNEs offers several lines of theorizing that have been suggested as being novel. We first introduce the learning perspective (Li, 2010, Mathews, 2006, Meyer & Thaijongrak, 2013) which provides the basis for our main line of argument that the lesser IB maturity is the distinguishing feature of EE that moderates their location choice. Thereafter, we briefly summarize two other arguments from the recent literature, the strategic asset seeking (or springboard) and political economy perspectives, which serve as the basis for alternative hypotheses in our empirical tests.

      Learning Perspective. EE MNEs begin their international business activity from a position of relative weakness compared to global leaders. They lack knowledge of how to overcome various barriers to entry that MNEs face when entering 'foreign' locations because they lack international business experience in both its general and its host country-specific forms (Clarke, et al., 2012). Hence EE MNEs are still at early stages of their 'internationalization process' (Johansen & Vahlne, 2009) and their first challenge is to 'learn how to play' on the global stage, despite their often considerable size in the home country, Hence, many of the activities of EE firms outside their own country may be explained primarily by their contribution to the firm's capability building process and learning trajectory (Li, 2010, Mathews, 2006).

      The internationalization process is driven by both internal, experiential learning and external learning through knowledge sharing in business networks (Johansen & Vahlne, 2009, Meyer & Thaijongrak, 2013). Especially for small and medium sized EE MNEs, the embeddedness in business networks shapes their processes of international learning and growth (Prashantham & Dhanaraj, 2011, Zhou, Barnes & Luo, 2007). In consequence, especially at early stages of internationalization, they tend to invest in locations where they can tap into existing networks of compatriots that facilitate their learning processes and operations (Jean, Tan & Sinkowicz, 2011; Tan & Meyer, 2012). Moreover, EE MNEs use acquisitions of small firms abroad to strategically accelerate their internationalization processes and to overcome barriers to entry (Elango & Pattnaik, 2011, Luo et al., 2011, Meyer & Thaijongrak, 2013).

      In the learning perspective, each FDI project is viewed in the context of its contribution to the firm's process of building a portfolio of competences that will eventually enable the firm to compete in its chosen markets internationally. Translated to the country-of-origin level, this 'maturity perspective' suggests that EE MNEs have less international business experience, and can draw on less such experience shared in their

home community. This suggests that learning how to overcome high barriers to market entry in host economies and creating learning opportunities that assist in building international business capabilities would be key motivators of EE MNEs location choice:

Proposition 1: Because EE MNEs typically lack international business experience, their international operations in ICs are largely driven by their lesser ability to overcome industry barriers to entry and the need to create learning opportunities.

Strategic Asset Seeking Perspective. A common thread in the empirical literature is the observation that EE MNEs appear particularly likely to acquire strategic assets overseas by taking over firms in ICs that are more advanced in terms for example of technology, distribution skills and even management than they are themselves (Deng, 2009; Madhok & Keyhani, 2012, Peng, 2012, Rui & Yip, 2009). They do this even at an early stage of their international activity, which led to the suggestion that FDI by EE MNEs primarily aims to create FSAs, rather than to exploit FSAs (Gubbi, Aulakh, Ray, Sarkar & Chittoor, 2010, Luo & Tung, 2007, Rugman, 2009). These acquired assets are strategic in the sense that they strengthen capabilities of the acquirer not only in the local market, but in its global operations, providing for example advanced technologies or international brand names that strengthen the firm's competitive position vis-a-vis its competitors back home. Such strategic asset-seeking is not new (see e.g. Kogut & Chang, 1991), but appears to be particularly prevalent in the recent wave of FDI by EE MNEs. Yadong Luo and his collaborators (Luo & Tung, 2007; Luo, Sun & Wang, 2011, Luo, Zhao, Wang & Xi, 2011) thus coined the term "springboard perspective" to describe strategies to acquire resources abroad that then are combined with existing resources to compete more effectively both at home and abroad.

This motive mainly applies to FDI by EE MNEs into ICs, which is the focus of this paper.[1] It suggests that outward FDI by EE MNEs is primarily designed to accomplish a catch-up with global leaders, and targets locations where complementary assets such as technology are available. We summarize this theoretical argument as follows:

Proposition 2: Because EE MNEs typically lack key strategic assets, notably technology and skills, they tend to invest in ICs specifically to acquire such assets.

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[1] MNEs are said to pursue exploitation strategies in other emerging economies (Cuervo-Cazurra & Genc, 2008; Tsui & Yip, 2007), an issue we do not take further in this paper.

Political Economy Perspective. The close association of many EE MNEs with their home government has led several scholars to develop a political economy or institutional perspective of EE MNEs that explores how this association affects their outward FDI strategies. Two arguments emerge from this work suggesting firstly that government association provides access to certain types of resources, but also creates pressures to align firm strategies with government policy.

A close association with the home country government arises both directly through state-ownership and more subtly through personal ties between managers and government officials (Peng & Luo, 2000, Sun et al., 2010). Both ownership and managerial ties provide resources to firms aspiring to grow internationally, for example in form of preferential access to information on foreign business environment, collaboration with research institutes and universities, and bank guarantees (Kotabe, Jiang & Murray, 2011, Morck et al., 2008). This perspective has been stimulated by empirical evidence in China suggesting that firms aligning themselves to national political agendas find easier finance overseas investment (Luo et al., 2011; Morck, et al., 2008; Peng, 2012; Ramasamy, Yeung & Laforet, 2012)

Governmental support, however, comes at a price. In particular, SOEs are in a position of resource dependence and therefore need to align their outward FDI strategies to the objectives of their governments. What these objectives are varies across countries; they have been described in the case of China as acquiring natural resources and advanced technologies, as well as supporting political relationships with other countries (Luo et al., 2010; Zhang et al., 2010). This however has consequences for the degree to which SOEs pursue pure business motives: Compared to their fully-private owned counterparts, Chinese SOEs are more likely to invest in higher risk and natural resource rich locations (Ramasamy, et al., 2012), and more likely to experience negative share price performance impact of acquisitions (Chen & Young, 2010).

The political economy argument thus suggests that the relationship between EE MNEs and their home country government strongly influences their strategies, creating both specific sets of opportunities and constraints. Moreover, this literature asserts that such ties are more common, and more critical, for MNEs from EE. We summarize this theoretical discourse in Proposition 3:

Proposition 3: Because EE MNEs are to a high degree supported by their government, they tend to invest in activities of national rather than purely corporate interest, such as seeking natural resources and acquiring technologies.

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Location Choice of MNEs

This study is concerned with the locational choices of EE MNEs, and specifically how their locational choices differ from those of IC MNEs. The study of locational determinants of FDI originated with Mundell's (1957) factor endowment theorem (see also Brainard, 1997). The predominant approach in Economics to study FDI flows are gravity models borrowed from international trade research, which posit that the main drivers of trade or investment flows are a) the size of the host economy, b) the growth of the host economy, and c) the distance between the two economies (Bloningen, 2005, Carr et al., 2001). While these variables are usually shown to be important determinants of the attraction of FDI (Chakrabarti, 2001, Anderson & van Wincoop, 2003), recent literature has considerably broadened the notion of locational advantages to encompass the attractiveness of a potential host economy as both a site for production and as a market. Contemporary literature considers for example:

- the costs of production, especially unit labour costs (or wage differentials) and locally available intermediate goods (Bevan & Estrin, 2004) and natural resources (Hejazi & Pauli, 2003);
- human capital and other factors enhancing productivity (Dunning, 1980, Globerman & Shapiro, 2002, Ramasamy & Yeung, 2010);
- institutional framework facilitating or inhibiting the operations of foreign investor by focusing on specific aspects such as corruption (Brouthers, Gao & McNicol, 2008, Habib & Zurawicki, 2002, Wei, 2000), or by analysing multiple aspects simultaneously (Bevan et al., 2004, Disdier & Mayer, 2004, Globerman & Shapiro, 2003, Grosse & Trevino, 2005).

For our study, these extensions of the gravity model provide the theoretical benchmark against which to explore how and why how host country attractions may vary for investors from different countries of origin. The theory of the MNE, suggests that the choice of location is driven by firms finding the optimal place where to *combine* their FSAs with locational advantages to both exploit and explore their FSAs (Dunning, 1993, Narula, 2012, Rugman, 2009). Thus the combination of the FSAs of the firm with the specific conditions found in potential host locations is essential. In other words, different types of firms – in our case firms from different countries of origin – are attracted to different locational advantages.

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As argued above, EE MNEs may possess FSAs in certain specializations, including non-conventional types of FSAs, while they are at the same time relatively weak in general international business competences because of their comparatively short period of accumulating experience in a competitive market economy, and in international markets in particular (Luo & Tung, 2007, Meyer & Thaijongrak, 2013). Most contemporary EE MNEs are at early stages of developing international business, whereas most IC MNEs have been around for longer (Ramamurti, 2012). Hence, many of the observed differences are likely to arise from the maturity of the firm.

This insight, summarized in Proposition 1, provides the main basis for hypothesizing on moderating effects on the relationship between characteristics of host economies and the attraction of FDI from respectively EEs and ICs. However, the implications of Proposition 1 are sometimes at odds with the arguments of the strategic asset seeking perspective (Proposition 2) and the political economy perspective (Proposition 3).

Gravity Model Variables. Geographic and cultural distance have been identified as core variables in recent international business research (Estrin et al., 2009, Tihanyi et al., 2005, Zaheer et al., 2012). The costs of doing business increase the further a host location is away from the MNEs prior operations but also opportunities for arbitrage increase (Ghemawat, 2007, Shenkar, 2001). Usually the cost of distance outweigh the additional opportunities, in such a way that MNEs have been shown to follow geographic patterns in their processes of growth (Johansen & Vahlne, 1977) and even mature MNEs tend to do most of their business in their home region (Rugman & Verbeke 2004). Hence, our baseline expectation is that all *MNEs are less likely to invest in a country that is in greater distance*.

We are concerned with how this effect might vary between EE MNEs and IC MNEs? The effect of distance is critically moderated by firm-level experience. In particular, certain costs of distance, such as the lack of local knowledge and networks as well as information barriers inhibiting the recognition and assessment of opportunities, decline with the accumulation of experiential knowledge in international business (Johansen & Vahlne, 2009, Li & Meyer, 2009) and in nearby countries (Hutzschenreuter, Voll & Verbeke, 2011). For example, having gone through a process of experiential learning when establishing a prior affiliate, MNEs that have pursued subsequent entries can be expected to have built tacit knowledge of the local context. Similarly, investors expanding from an existing local subsidiary have experience in managing different types

of workforces (in both the local and their home context) and may have already developed human resource systems adapted to the workforce characteristics in the host country. Moreover, if home country business communities have little experience to share, this increases the need for firms to generate such knowledge themselves when entering distant countries. For example, EE MNEs are known to face considerable challenges to recruit, prepare and manage managers suitable to take on leadership roles in overseas subsidiaries because of the lack of human resources not only in the firm but in the home country (Tung 2007, Morilha Muritiba et al., 2012). Hence, since EE MNEs typically have considerably less experience in operating internationally, we suggest that:

Hypothesis 1a: MNE are more likely to locate in a country the lower the geographic distance, and this effect is stronger for EE MNEs than for IC MNEs.

A counterargument arises from the strategic asset seeking perspective of Proposition 2. Complementary assets are most likely to be found in countries that are distinctly different from the investors' home country, and hence in higher distance. For example, distant countries are more likely to develop distinctly different technologies, practices or brand values, thus creating opportunities to arbitrage on such distances (Ghemawat, 2007). If EE MNEs' outward FDI was primarily driven by the quest for complementary assets, then distance should have a positive or less negative effect on EE MNEs location choice compared to IC MNEs' location choice:

Hypothesis 1b: MNE are more likely to locate in a country the lower the geographic distance, and this effect is weaker for EE MNEs than for IC MNEs.

The economic growth of a host economy is a major attraction for foreign investors because they seek new opportunities to sell their products. These opportunities are associated with the size and growth of the local market in the host economy (Brouthers et al., 2008, Garcia-Canal & Guillen, 2008,). Indeed combined with the distance effect, the former argument underlies the widespread use of the gravity model (Bevan & Estrin, 2004; Bloningen, 2005, Chakrabarti, 2001). Hence, our baseline expectation based on this literature is that *MNEs are more likely to invest in a country that has higher economic growth.*

If we follow the logic of Proposition 1 for economic growth in the host economy, we propose that the pull of higher growth will be even stronger for firms from EEs. This is because less mature MNEs, at an early stage of their internationalization, are more likely to be more market seeking than developing sophisticated global value chains. The

principal reason is that they initially lack the capabilities to manage complex international operations, which are the basis of efficiency motivated FDI ( ). Moreover, EE MNEs more likely to seek markets that are structurally similar to their home country, which for them implies in high growth markets, because their organisations are designed to operate in such a context. This argument is supported by evidence that a large share of FDI by EE MNEs is targeted at other EEs ( ). Hence, we suggest:

H2a: MNE are more likely to locate in a country higher the economic growth, and this effect is stronger for EE MNEs than for IC MNEs.

Proposition 2 suggested that EE MNEs are instead investing overseas to a larger extent in strategic asset seeking projects, which are ultimately aimed at strengthening global markets or even home country markets, rather than host markets (Luo & Tung, 2007). This implies that – relative to IC MNEs – the host market is less important for the EE MNE. Moreover, many EE MNEs experience high growth at home, and if growing markets were their primary target, then they would probably invest primarily in their home market rather than in OECD countries. Proposition 3 would lead to the expectation of investment in projects in host economies strong in natural resources or of importance for source economy national strategy. There is no reason to expect such economies to necessarily be fast growing, and indeed resource curse arguments (see Collier, 2009) suggest the converse. Hence, our alternative hypothesis based on either Proposition is :

H2b: MNE are more likely to locate in a country higher the economic growth, and this effect is weaker for EE MNEs than for IC MNEs.

Technological Barriers to Entry. Foreign investors are at a natural competitive disadvantage relative to local competitors when competing abroad due to the liability of foreignness, and it is only because of their unique FSAs that they can overcome this disadvantage (Dunning, 1993, Zaheer, 2005). These barriers to entry for foreign MNEs are higher, the stronger are local firms in terms of their indigenous capability. In other words, the less experienced are MNEs, the more they are potentially deterred by barriers to entry (Proposition 1), in particular those created by the technology and competitiveness of domestic incumbent firms; the technological base of local firms acts as a barrier to entry for potential foreign market entrants. Hence, *MNEs are less likely to invest in a country that is has a strong skill and/or technology base*.

IC MNEs normally compete on the basis of the strength of their technology based FSAs (Rugman, 1982), which helps them to overcome technology based barriers to entry in host markets. In contrast, as argued above, EE MNEs enter ICs on the basis of FSAs in operational capabilities or preferential access to resources in the home country (Hennart, 2012, Zeng & Williamson, 2009, Verbeke & Kano, 2012), and they have less experience in developing them internationally. Moreover, a highly skilled workforce will be seen as a disadvantage because the EE MNE does not have the experience or capacity to manage them effectively. Therefore, they will find it more challenging to overcome technological barriers to entry. In other words, EE MNEs are more distant from the global technology frontier than their IE counterparts, and thus more deterred by barriers to entry created by local technology and skills. Hence we propose:

Hypothesis 3a: MNE are less likely to locate in a country the stronger the technology and capability base, and this effect is stronger for EE MNEs than for IC MNEs.

Hypothesis 4a: MNE are less likely to locate in a country the stronger the skill base, and this effect is stronger for EE MNEs than for IC MNEs.

However, the strategic asset seeking perspective suggests that investments by EE MNEs in ICs are to a large extend motivated by the desire to acquire strategic assets (Proposition 2). Studies of IC MNEs have shown that they are seeking local skills and capabilities because it allows them to build stronger local operations (Globerman & Shapiro, 2002; Mody & Srinavasan, 1998). In the case of EE MNEs, technology nd skills are important not only for the local operation but – potentially – for the worldwide operations. Such assets are expected in particular in countries with cutting edge technology and skills, such as Germany and the USA (Klossek, Linke & Nippa, 2012, Knoerich, 2010). If indeed this strategic-asset-seeking motive dominates over traditional market seeking motives, then EE MNEs should be attracted to high technology economies, rather than being deterred by the barriers to entry in such contexts. Hence, as an alternative to Hypotheses 2a and 3a, this perspective suggests:

Hypothesis 3b: MNE are more likely to locate in a country the stronger the technology and capability base, and this effect is stronger for EE MNEs than for IC MNEs.

Hypothesis 4b: MNE are more likely to locate in a country the stronger the skill base, and this effect is stronger for EE MNEs than for IC MNEs.

Institutional Barriers to Entry. The institutional environment of a host economy has been identified as a critical determinant in attracting foreign direct investment (Brouthers et al., 2008, Disdier & Mayer, 2004, Grosse & Trevino, 2005, Pajunen 2008). In particular, this literature established that FDI is attracted to countries with a more market oriented institutional framework, that in particular offers better protection of property rights because that lowers the costs of doing business and creates a more level playing field between local and foreign competitors (Bevan et al., 2004; Globerman & Shapiro, 2002). Hence, our baseline expectation based on this literature is that *MNEs are more likely to invest in a country that has better protection of property rights.*

The protection of property rights is particularly critical for MNEs competing on the basis of easily copied technologies, while cutting edge businesses can protect themselves through a number of informal practices, such as keeping critical knowledge tacit and internal, and continuously innovating to stay ahead of the competition. The capabilities of EE MNEs are more likely to be based on relatively less mature technologies that depend on proper protection to avoid imitation, while IC MNEs are more likely to compete based on tacit, organizationally embedded competences that cannot be easily copied by local firms, even in the absence of strict property rights regimes. Hence, we can extend the maturity argument of Proposition 1 to suggest:

H5a: MNE are more likely to locate in a country the better the property rights are protected, and this effect is stronger for EE MNEs than for IC MNEs.

In contrast, some studies suggest that EE MNE have have comparative advantages (relative to IC MNEs) when it comes to operating in less sophisticated institutional environments because they may possess capabilities in the management of unstable, inconsistent or incomplete institutional environment (Henisz, 2003, Spencer & Gomez, 2011). This is in part an outcome of the ownership and governance arrangements discussed in Proposition 3. These capabilities are behind the expansion of EE MNEs to other EEs (Cuervo-Cazurra & Genc, 2008, Del Sol & Kogan 2007) and, by extension of the argument, would also help them compete in the relatively less sophisticated institutional environments among OECD countries. This suggests that, contrary to Hypothesis 4a, EE MNEs would be drawn to (relatively) weaker host institutions:

H5b: MNE are more likely to locate in a country the better the property rights are protected, but this effect is weaker for EE MNEs than for IC MNEs.

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Closely related to the efficiency of the institutional framework is the question of political risk, which is both an indicator of opportunity and of potential loss. In high risk environments, investors that survive may obtain high returns. However, since Kobrin (1976), the literature has identified political risk as a major deterrent for foreign direct investment activity (Asiedu et al., 2009) and extensive empirical evidence supports this contention (e.g. Globerman & Shapiro, 2002, Mody & Srinavana, 1998). Based on this literature, our baseline expectation is that *MNEs are more likely to invest in a country that has higher political stability.*

MNEs' ability to handle political risk grows with their development of management practices related to both the assessment of risk and the implementation of mitigating actions once a disruptive political event happens ( ). Moreover, mature MNEs would normally be geographically more diversified, which facilitates risk diversification. Due to their lesser global scope and experience (Proposition 1), EE MNEs have fewer opportunities to diversify risk arising from the exposure to specific high risk contexts, and they have less experience in assessing and managing the sorts of risks associated with adverse political events in foreign countries. With less maturity in international business, we would thus expect EE MNEs to be more sensitive to political risk in potential host countries:

H6a: MNE are more likely to locate in a country the higher the political stability, and this effect is stronger for IC MNEs than for EE MNEs.

Proposition 3, in contrast, suggests that EE MNEs have closer relationships with their home country government, which strengthens their ability to manage political risk, for three reasons. First, they are more embedded in intra-governmental relationships, which implies that adverse political actions may trigger supportive reactions by the home country government. Second, their attitude to risk may be tempered by their access to implicit guarantees from government agencies or state banks, and (in the case of SOEs) by soft budget constraints (Buckley et al., 2007). These contingent resources would help EE MNEs manage their political risk, and make them less sensitive to potential losses due to the backing of their national governments (Ramasamy et al., 2012; Quer et al., 2012). Moreover, EE MNEs are used to operating in volatile environments and thus better prepared to handle risks (Cuervo-Cazurra, 2012). Hence:

H6b: MNE are more likely to locate in a country the higher the political stability, but this effect is weaker for IC MNEs than for EE MNEs.

Table 2 summarizes our hypotheses. We have explored six direct effects suggested by the theory of FDI and location economics. For these six determinants, the maturity perspective suggests stronger effects in the case of EE MNEs compared to IC MNEs because of their lesser economic maturity. In contrast, counter arguments derived from the strategic asset seeking and political economy perspectives in the recent literature on EE MNEs suggest that the effect may be weaker, or even reversed.

*** *Insert Table 2 about here* ***

METHODOLOGY

Methodology

Location decisions have traditionally been analysed focusing on the volume of FDI from one country to another (e.g. Bevan, et al., 2004, Globerman and Shapiro, 2003; Brouthers, Gao & McNicol, 2008) and the count of foreign investors at any given location (e.g. Garcia-Canal & Guillen, 2008, Ramasamy et al. 2012). They therefore focus equal attention on the characteristics of the source and host economies, and assume a common model determines location choice from each source economy. However, we are exploring whether a common framework can or cannot be appropriately applied and therefore must choose an estimation method that allows the determinants to vary for different source economies. Indeed, our hypotheses concern the factors influencing the MNCs choice of location with respect to the characteristics of the host economies for each specific source economy or group of source economies (IC versus EE). Thus, we investigate whether the same factors in each host economy affect MNCs conditional upon the specific context of their home economy. Hence, we follow studies of FDI location choice focusing on agglomeration effects (Chang & Park, 2005, Disdier & Mayer, 2004, Head et al., 1995, Shaver & Flyer, 2000; Tan & Meyer, 2012) and employ a conditional logit model; an extension of the multinomial logit model that is particularly appropriate in models of choice behavior, where the explanatory variables include attributes of the choice alternatives as well as characteristics of the firms making the choices (Maddala, 1983). The specification of the model takes the form of the traditional Logit model,

$$\text{Prob}(Y_i = j | x_{i1}, x_{i2}, \ldots \ldots x_{iJ}) = \text{Prob}(Y_i = j | X_i) = P_{ij} = \exp(x'_{ij}\beta) / \Sigma_{i=1} \exp(x'_{ij}\beta) \quad (1)$$

where in this case the x denotes choice variables (Greene, 2011).

In our approach, firms in the source country's are making choices about whether or not to invest (I) across a variety of host countries h according to the characteristics of those host countries C_s and a vector of control variable (*X*). I is a bivariate variable taking the value one if there is an investment in a host country s and zero otherwise. Thus, we estimate a conditional logit equation of the form:

$$\text{Prob}(I_{,s,h}) = f(\ C_s, X). \tag{2}$$

Data

We constructed our dataset concerning the locational choices of foreign investors in a variety of source economies by using the Orbis dataset developed by Bureau van Dyck database. The database contains records of all firms filing their annual reports in many of the countries in the world, including the bulk of OECD countries, and includes foreign owned firms operating in all the host economies. We define a firm as being foreign owned when the ultimate owner holds a direct or indirect participation of more than 50.01% of the stock. The ultimate owner is the largest shareholder that is independent.[2] We restrict our attention to firms that were incorporated after 2005, so as to focus research attention on investments by IC and EM MNEs that are comparable in terms of market conditions and institutional context.[3] The dataset allows us to identify all firms operating in a given host economy owned by firms from any given source country, provided the subsidiary is of the minimum size to be included in the database.[4]

To test our hypotheses, our dataset must encompass MNEs originating from both industrialized and emerging economies. We decided to focus on the source countries providing the vast majority of all FDI in the host database. We therefore extracted data on all MNEs originating in five industrialized economies (France, Germany, Japan, United Kingdom and United States) and four emerging economies (China, India, Russia, South Africa).[5] In 2011, these five industrialized countries generated about two thirds of global FDI from developed economies, and the four emerging markets around two thirds of all

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[2] If a largest shareholder is not independent, the ultimate owner is traced back again via the largest shareholder until an ultimate owner which is independent is finally identified.

[3] We are including "all active companies and companies with unknown situation" in 2011. This ignores companies incorporated after 2005 and closed before 2011. The latter filter helps in reducing the survival bias that would emerge if we included firms incorporated some time previously.

[4] Unusually, there is no minimum size of firm as a criterion to be included in Orbis and all firms that have a legal requirement to file accounts are covered. However this legal requirement varies across countries and there could be differences due to the type of firm; in case of the US sample, for instance, only public companies are included. Small firms are therefore probably under-represented, but apparently "more than 60% of all existing firms, in the class size 15 to 200 employees, are covered for European countries except the Netherlands and Portugal." (http://www.bis.gov.uk/files/file49042.pdf)

[5] Our analysis does not include Brazil, because the number of Brazilian investment projects in the dataset is too small to run a regression on that subsample.

investment from developing countries (UNCTAD 2012). We also wished to consider the widest possible range of developed market economies into which MNEs from the source economies invest. We therefore included 24 host countries in our dataset: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, and the United States. These countries received more than 80% of all FDI to developed economies in 2011 (UNCTAD, 2012). Thus our equations are estimated on FDI from nine source economies, grouped into EE and IE respectively, entering 24 industrialized economies.

Measurements

Our dependent variable is the probability that a given firm chooses one particular host country from the available set of countries as the location for a subsidiary. Our explanatory variables cover a wide range of characteristics of the host country suggested by the theories discussed above as likely to determine foreign direct investment from both IC and EE. We test our hypotheses by comparing the equations estimated for IEs and EEs.

Our explanatory variables have been drawn from a wide range of archival data sources. *Distance* is the geographic distance between the most populated cities in kilometers, (thousands), sourced from CEPII,[6] following studies such as Disdier & Mayer (2004). Hypothesis 1a suggests that it should have a stronger negative effect for EE MNEs, whereas Hypothesis 1b suggests the opposite.[7] Hypothesis 2a/b propose that the principal driver to the choice of host economy is the *Economic Growth*, which we proxy by GDP growth averages over the years 2004 to 2008 from the IMF. These years were chosen to avoid inclusion of data covering the years of the economic crisis after 2008.

The strength of the host economy in terms of *Technology* and capabilities (H3a/b) has been proxied first by the number of patent applications per capita, i.e. normalized by residents in 2007, and derived from the World Bank. Likewise, for the *Skill base* (H4a/b) of the host country we include the proportion (%) of the labour force with tertiary education from the World Bank, also in 2007.

The protection of property rights (*IP Protection*, H5) has been derived from the Heritage Foundation for the mid-year of our sample period, 2007. We also explore robustness by using some alternative measures of institutional quality, for example by

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[6] http://www.cepii.fr/anglaisgraph/bdd/distances.htm.
[7] Gravity models sometimes include distance in a quadratic form to pick up non-linearities in the relationship. However, as in Bevan and Estrin (2004), the quadratic term was not significant and was dropped.

using "Regulatory Quality" as an alternative for the strength of *IP Protection*. The variable was derived from the World Governance Indicators 2007. Political risk (H6) is measured by the series 'government stability' from the International Country Risk Guide published by PRS groups, which has been frequently used in empirical studies (Asiedu et al., 2009, Buckley et al., 2007))

In addition, we include in our regressions a number of control variables that we expect to impact location choice, but we have no theoretical reason to expect the effects to vary between EE and IC MNEs. First, as we noted above the empirical literature has been successful in explaining FDI flows using the gravity model, which sees size and growth of the host economy and geographic distance between the source and host economies as the main factors influencing FDI flows (Bevan & Estrin 2004). *Distance* and *Economic Growth* are subjects of our hypotheses. In addition, we capture the size of the host economy by two measures (Garcia-Canal & Guillen, 2008, Loree & Guisinger, 1995). *Population* in the year 2007 has been derived from the World Bank and was introduced in logarithms to ensure normality.[8] *GDP per capita* captures the average income level of the host economy for the year 2007, derived from the IMF. We also control for *Wages*, which provide an important indicator of comparative advantage in terms of unit labor costs; wage data comes from ILO: gross average nominal monthly wages in € in 2007 (Netherlands in 2005 and Switzerland in 2006).

Finally, some emerging economies are said to source natural resources through FDI (Ramasamy, et al., 2012). We therefore include the share of primary exports (food, fuel, ores and metals) in merchandise exports of the host economy, also derived from the World Bank for the year 2007.

The descriptive statistics for the host economies are reported in Table 3. We observe considerable variation in the variables of interest. Thus Technology measures as *patents* is very high in Korea, Japan and the Scandinavian economies, as well as Germany and the United States. *Topbrands* are especially strong in Switzerland and Finland, but virtually non-existent in many potential host economies. Firms looking for size of market might focus on the United States and the larger European economies, but for growth instead Ireland and Korea. Thus the dataset provides the variation in independent variables necessary to test our hypotheses concerning host economy characteristics.

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[8] We use population rather than GDP to reduce collinearity with other independent variable- see below.

We report in Table 4 the correlation matrix for the independent variables to explore the issue of potential collinearity. There are a number of areas of concern, which we take into account in our estimation strategy. Unsurprisingly, our control for the level of development, *GDP per capita*, is correlated with a number of other independent variables, namely Population, Wages and a variety of the *IP Protection* and *Skills* variables (*Regulatory Quality*; *Political Risk*). As is common in such studies, the independent variables concerned with institutional quality are quite highly correlated with one another (Bevan et al, 2004); *IP Protection* with *Regulatory Quality* and *Political Risk*, etc. Finally, in addition to correlations already noted, our gravity control variable, *Population*, is inversely correlated with *Economic Growth* and with some of the institutional quality variables. It should be noted that multicollinearity should always be considered in the context of the sample size, since both multicollinearity and "micro-numerocity" jointly affect the stability of coefficients (Goldberger, 1991). In that sense, a large sample size (as in our case) may alleviate the impact of multicollinearity; we estimate our central model on 490,000 observations – around 58,000 from EEs and 432,000 from ICs.

Nonetheless, we address the resulting biases by estimating a number of versions of our basic model. In particular we experiment with specifications that exclude GDP per capita, or replace GDP per capita with wages. We also use a horse race to exclude singly each of our variables capturing institutional quality, and replace IP protection with regulatory quality to test for robustness. Finally, we exclude the gravity model control, population. As one would expect given the size of the sample, the results with respect our hypotheses were not sensitive to changes of specification. In the analysis which follows, we report a variety of results for the sample as a whole, to indicate robustness of the results, before considering in detail a particular specification which allows us to test all the hypotheses simultaneously. All specifications are available from authors on request.

RESULTS AND INTERPRETATION

/// note to discussant: we are currently revising the regression analysis to address some methodological issues. There may thus be inconsistencies within the text ///

Our estimation strategy is as follows. We first provide results for one of the most general specifications, including distance (H1); real GDP growth (H2), patents and brands (H3)[9]; labor force with tertiary education (H4); IP protection (H5); and political risk (H6) as well as three controls (population, GDP per capita and primary sector exports). Our reporting of the results with respect to the hypotheses is based on this specification. We then go on to report robustness tests, including dropping highly collinear variables and using alternative measures of variables.

We therefore estimate the following equation first for the aggregate sample (Table 4, column 1) and then for two sub-samples of respectively IE and EE MNEs (Table 4, columns 2 and 3). Later we then apply the same regression to sub-samples of MNEs from each of the nine countries in a robustness test:

$$\text{Prob}(I_h) = a_{s0} + a_{s1} \, Distance + a_{s2} \, Growth \, + a_{s3} \, Technology\_ + a_{s4} \, Skills \, + a_{s5} \, IP$$
$$Protection\_ + a_{s6} \, Political \, Stability + a_{s7} \, Population + \, a_{s8} \, GDP \, pc + a_{s9} \, Primary$$
$$Exports \, + a_{s10} \, TopBrands \hspace{2cm} (3)$$

*** Table 5 about here***

Column 1 shows the aggregate results, with more than 490,000 observations and a relatively good fit for what is in effect cross section analysis (pseudo $R^2 = 0.30$). All the independent variables are highly significant at the 99.9% level. Column 2 reports the results for EE MNEs, and it shows the direction of coefficients to be signed in the same directions as in the aggregate regression, with *Economic Growth* being the only variable that is not significant. Column 3 reports the results for IC MNEs, and again we find that all coefficients are signed as in the aggregate, and without exception they are significant. This is encouraging from the perspective of general theory as is suggests that overall, location choices by EE MNEs and IC MNEs are driven by the same general determinants. Indeed, the pseudo R^2 is considerably higher (0.51 against 0.29) for the former, indicating that the standard model actually provides a better fit for EE MNEs than IC MNEs.

To test our pairs of hypotheses, however, we need to turn to the differences between the coefficients in Columns 2 and 3. Hypothesis 1a suggested that the negative effect of distance is bigger for EE MNEs than for IE MNEs, whereas Hypothesis 1b suggested the opposite. The results show that indeed the former coefficient (Column 2) is considerably bigger than the latter (Column 3)- -0.3 as against -1.23- and both

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[9] These are not highly correlated and there can be assumed to pick up different aspects of capabilities and technical development.

coefficients are very precisely estimated, with standard errors of 0.1 and 0.0 respectively. Thus we conclude that Hypothesis 1b ought to be rejected in favour of Hypothesis 1a.

Hypothesis 2a focusing on the growth opportunities in foreign markets, and suggested that host market growth would be more important for EE MNEs than for IC MNEs. We find that the coefficient in Column 3 is substantially larger than that in Column 2, with the latter not even statistically significant. Overall, thus, we find strong support for the alternative argument of Hypothesis 2b against the maturity argument underlying Hypothesis 2a.

Hypotheses 3a and 4a suggested that the entry barriers created by high levels of capabilities, technology and skills would have a stronger negative effect on the likelihood of entry by an EE MNE compared to an IE MNEs, whereas the strategic asset seeking argument suggested the opposite (Hypotheses 3b and 4b). The results are consistent with Hypotheses 3a and 4a for *Technology* and *Skills*, but if we also consider the effects of brands we find some weak evidence in favour of 3b, though the coefficient for emerging economies is quite imprecisely estimated. This suggests that firms from EEs may seek strategic assets in terms of brands, but the technological barrier effect dominates with respect to *Technology*. Estimates which retain the *Technology* variable (see Table 6 below) confirm the support for Hypothesis 3a.

*** *Table 6 about here* ***

In hypotheses 5a and 6a, we suggested that the less mature MNEs from EE are more sensitive to the quality of *IP protection* and *Political Stability*, whereas the political economy argument suggested EE MNEs would be more capable of managing in highly imperfect institutional argument. Again, the hypotheses derived from alternative theories are rejected in favour of the maturity argument. Thus, the coefficient on *IP Protection* in EEs is 0.14 as against 0.06 for IC's with standard errors of zero at the one digit level. The coefficient on *Political Stability* is 1.8 as against 1.0, with standard error of 0.2 and 0.0 respectively. We therefore once again support the hypotheses in the a. rather than the b. category.

Given the issues of collinearity discussed above, we estimated equation (3) with a large variety of specifications. For parsimony, we report the results for the aggregate data for some of the most important specifications. Thus in column 1 of Table 6 we repeat the results in Table 5 column as a basis for comparison, before reporting in column 2 results which exclude the *Topbrands* and in which the highly collinear *GDPpercapita* is replaced by wages. Column 3 further drops the *IP Protection* variable, which is collinear with

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Political Risk and in column 4, we drop both of these variables but include *Regulatory Quality* as an alternative to *IP Protection*. Finally, in column 5 we repeat the regression of Column 4 but exclude both *GDPpercapita* and wages together. The striking fact is that these various exclusions and alternative specifications have no effect on the results for the remaining variables, and where feasible, so not lead us to adjust our findings in any way. We believe this is due to the micronumerocity effect noted above. On this basis, we report a second round of robustness tests based upon the specification in Table 5.

Country-by-Country Analysis

Our tests so far have been designed to test whether the theoretical argument regarding maturity (Hypotheses H1a to 6a) rather than those related to strategic asset seeking (Hypotheses H1b to 4b) and political economy (Hypotheses 5b and 6b). We found overwhelming evidence in favor of the former over the latter. Yet, this evidence does not allow us to reject the latter lines of argument as the effects may still apply in specific subsets of MNEs; recall that most prior literature in EE MNEs is based on single country studies. Hence, we have conducted the same analysis separately for each of the nine countries of origin in our study (Table 6).

With respect to Hypotheses 1 a/b on *Distance*, we find that firstly all coefficients except for the Chinese one are negative as expected, and secondly, the coefficients on the other emerging economies are in the range of -12.0 for South Africa, -3.02 for India and -2.51 for Russia and thus much larger than those for industrialized economies, which range from -1.11 for Japan to -.065 for the USA (with the latter the only one statistically not significant). Hence, we note that this result reconfirms Hypothesis 1a, but China appears to be an outlier.

The impact of *Economic Growth* (Hypothesis 2a/2b) suggests a clear distinction between IC and EE MNEs that applies across all countries, providing additional support to Hypothesis 2b. For IC MNEs, the effects are all positive and significant, with effect sizes varying between 0.66 (Japan) and 2.05 (Germany). In contrast, EE MNEs from three countries of origin are not significantly influenced by host country growth, and in the case of Chinese the effect is negative at 1.50 and significant. Why may that be? EE MNEs seeking fast growing markets likely find their home markets to be quite attractive propositions as they all have been growing faster than most of the OECD countries considered as host countries in this study – and this applies to no one more than to Chinese MNEs. Hence, this analysis provides additional support for Hypothesis 2b.

With respect to Hypotheses 3a/b, we find that most of the coefficients on *Technology* range between -0.37 (UK) and -1.35 (India), but there is an outlier, namely Russia (-3.67). With respect to *Skills* (Hypotheses 4a/b), we similarly find that most of the coefficients are of a fairly similar magnitude ranging from -0.039 (South Africa) to -0.091 (Japan), but with one outlier, namely China (-1.03). Hence, for Hypotheses 3a/b and 4a/b, it appears that the result of the aggregate regression is driven by the outliers (respectively Russia, and China) rather than a pattern that applies to each of the emerging and industrialized economies. Russian MNEs are particularly deterred by technology barriers to entry (Hypothesis 3a), while Chinese MNEs are particular deterred by skills based barriers to entry (Hypothesis 4a). Hence, the support for these two propositions is limited to specific contexts.

With respect to Hypotheses 5a/b, we find the *IP Protection* coefficients for EE MNEs to range from 0.069 (Russia) to 0.27 (South Africa), which is larger than the coefficient for most IC MNEs. However, US MNEs appear to be an outlier with a coefficient of 0.12, which falls well within the range of EE, whereas the remainder vary from insignificant negative effects from German and French MNEs to 0.557 and 0.058 for respectively British and Japanese MNEs. This provides weak support for Hypothesis 5a.

For *Political Stability* (Hypotheses 6a/b), we have even more complex results. The coefficients for four countries are negative, namely South Africa (-1.85), US (-.94), India (-.53, not significant) and the UK (-0.036, not significant). What these four countries have in common is the heritage of the British Empire and hence a legal system based on common law. However, why common law countries would be adverse to political stability, and hence 'risk seeking', is not evident and suggests further research.

Reviewing this analysis for each country of origin, we note that Russia MNEs are particularly sensitive to *Political Stability* and to the size of the host economy in terms of both *Population* and *GDP per capita* (the latter are both control variables). On the other hand, they are strongly deterred by strong technology and skills of the host economy. These patterns likely arise from the raw materials oriented nature of contemporary Russia MNEs, which are seeking markets for their products, especially oil and gas, overseas. At the same time, Russian MNEs are relatively weak in technology-oriented activities. Moreover, in view of perceived political risk in Russia itself, Russia entrepreneurs are known to bring their resources out of the country. If such capital flight is a substantial

motivation for private Russia entrepreneurs, then they naturally would also be concerned about political stability of the host country.

Turning to Chinese MNEs, we have already noted the negative effect of host economy *Economic Growth*, which likely is a result of the attractive markets back in China. This may suggest that Chinese MNEs are less market-seeking than others (though the notion that they are predominantly asset seeking is contradicted by the negative coefficients on Technology, Skills and Brands). We also note that Chinese MNEs along with their US counterparts have an insignificant effect of *Distance*; perhaps MNEs from geographically large countries first grow domestically and then are less sensitive to distance; it might also be a methodological issue in that for large countries the distance measure based on the location of the capital are not as good a proxy as for smaller countries.

For South African MNEs, we noted a strong concern with *IP Protection*, and strong adverse effect of *Distance* and *Political Stability*. No obvious explanation of these patterns springs to mind. Indian MNEs stand out for not standing out – none of their determinants stands out in the patterns observed across countries, which might be interpreted as evidence of strong convergence and few country-specific features.

DISCUSSION

This study suggests two major implications for future international business research, the first theoretical and the second methodological. For theory, we find that the maturity argument, which is an extension of the internationalization process model (Johanson & Vahlne, 1977, 2009; Meyer & Thaijongrak, 2013) to the national level, has strong explanatory power for how and why EE MNEs would be different from IC MNEs, and has more explanatory power than alternative suggestions put forward in the literature.

On the other hand, the patterns of location choice is moderated by a number of country-of-origin level features that do not generalized across emerging economies, as we have seen in our country by country analysis. At this level, some support for the strategic asset seeking argument (Luo & Tung, 2007, Deng, 2009) and the political economy argument (Morck et al. 2007; Luo et al. 2012) can be observed. However, these arguments appear to apply only for some EE MNEs suggesting that such theorizing is in fact context-specific. This should not be entirely surprising given that the studies proposing those ideas are mostly single country studies, but it challenges the interpretation of the aforementioned studies as speaking about EE MNEs in general.

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This leads us to our second major contribution, which is methodological. Empirical results from any one of our country-of-origin specific regressions cannot be generalized to other countries – there appear to be a lot of national context variables that moderate these results. This applies not only for EE MNEs but also for IC MNEs (which we have not discussed in detail above). This raises a broader implication that is perhaps obvious for international business scholars but less so for general management scholars, namely that any empirical findings of management research (or any other social science) is influenced by the context of the study, and hence should be treated as context-specific finding unless proven otherwise.

The main implications for future research, however, concern the design of studies. Our discussion suggests to focus on determinants at a lower level of aggregation, considering each country with its unique features – or use indices to differentiate home country characteristics, rather than the simple bimodal separation between EE and IC. Single country studies may explain anomalies that we identified for specific countries, say, why are Russian MNEs so concerned about *Political Stability*, and Chinese investors apparently averse to host country *Economic Growth*. Such studies will require deep contextualization to interpret the results, which would enable deeper theorizing and the establishment of contextual boundaries for new theoretical ideas (Meyer, 2006).

Limitations

The importance of context naturally applies also to the host country, which suggests a substantive empirical limitation of our dataset, namely that we only cover OECD countries as host countries, due to data availability. However, 'emerging to emerging' FDI also entails interesting questions, for example Chinese investment in Africa (Balasamy et al., 2012). Unfortunately, the data we are using, derived from the Bureau van Dyck database, are not available beyond OECD countries; when such data become available future research may investigate the locational determinants of such FDI. limitations of the database itself   Brazil missing

CONCLUSION

We have investigated alternative views regarding the nature of EE MNEs, arguing respectively for the distinctiveness of the MNEs, and the communalities of these MNEs with MNEs from IC, moderated by the economic maturity (i.e. the need to learn about international business). Our empirical evidence supports that latter view. Moreover, we found some variations in some locational determinants at lower levels of aggregation,

suggesting that country-of-origin effects exist at the level of countries (not only as EE versus IC distinction), and that they may have to be addresses through a deeply contextualized approach. On this basis, we argue that future research on MNEs from emerging economies ought to incorporate not only international experience (Clarke, Tamasche & Liesch, 2012), but the maturity of the firm and its home environment.

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Table 1: The shifting pattern of Global FDI
In % of global FDI stock

	1980	1985	1990	1995	2000	2005	2010
USA	42.0%	36.4%	25.5%	37.8%	33.8%	29.3%	23.7%
UK	15.3%	14.6%	13.5%	8.5%	11.3%	9.7%	8.3%
Germany	8.2%	8.5%	8.9%	7.4%	6.8%	7.5%	7.0%
France	4.5%	4.6%	6.5%	5.7%	11.6%	9.9%	7.5%
Japan	3.7%	6.4%	11.8%	6.6%	3.5%	3.1%	4.1%
Other developed	24.4%	26.2%	29.9%	24.7%	21.9%	28.8%	31.8%
Total Developed	**96.0%**	**94.8%**	**95.2%**	**90.7%**	**89.0%**	**88.2%**	**82.3%**
Brazil	0.1%	0.2%	0.1%	1.2%	0.7%	0.6%	0.9%
China	...	0.0%	0.1%	0.5%	0.3%	0.5%	1.5%
India	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.5%
Russia	...	...	0.1%	0.3%	0.3%	1.2%	1.6%
South Africa	1.1%	0.9%	0.5%	0.6%	0.4%	0.3%	0.4%
Other Emerging	0.9%	2.2%	1.8%	2.8%	2.8%	3.5%	3.2%
Total Emerging	**2.1%**	**3.4%**	**2.6%**	**4.7%**	**4.1%**	**5.8%**	**7.6%**
NIE	**1.9%**	**1.9%**	**2.2%**	**4.6%**	**6.7%**	**5.9%**	**7.8%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: UNCTAD, World Investment Report: 1980 to 1990 from 1998 edition, 1995 to 2010 from 2011 edition.

Note: NIEs (Hong Kong, Singapore, Korea, and Taiwan) are reported separately as they arguably have shifted status (from 'emerging' to 'developed'_ during the reporting time. Three dots indicate data not available but presumed to be close to nil.

Table 2: Summary of Hypotheses

	Direct effect	Maturity Perspective	Strategic asset-seeking perspective	Political economy perspective
		Proposition 1	Proposition 2	Proposition 3
Distance	Negative	Stronger negative (H1a)*	Positive (H1b)	---
Economic Growth	Positive	Stronger positive (H2a)	Negative (H2b)*	---
Technology	Negative	Stronger negative (H3a)*	Positive (H3b)	---
Skills	Negative	Stronger negative (H4a)*	Positive (H4b)	---
IP Protection	Positive	Stronger positive (H5a)*	---	Negative (H5b)
Political Stability	Positive	Stronger positive (H6a)*	---	Negative (H6b)

Note: * = empirically supported hypotheses.

Table 3: Descriptive Statistics for the Dataset

Variable	Mean	Std. Dev.	Min	Max
Population	2.66	1.62	-1.16	5.71
IP Protection	82.08	12.85	50.00	90.00
GDP per capita	46.04	15.69	21.65	82.09
Economic Growth	2.71	1.05	0.88	5.34
Wage	2.62	0.88	0.96	4.77
Exports primary sector	26.13	21.48	5.00	78.00
Regulatory Quality	1.34	0.42	0.38	2.04
Political Stability	0.90	0.43	-0.15	1.49
Technology	5.28	0.97	3.16	6.68
Skills	30.62	11.18	3.30	61.10
Topbrands	0.07	0.12	0.00	0.53

Table 4: Correlation Coefficients:

		2	3	4	5	6	7	8	9	10	11	12
1	Population	1										
2	IP Protection	-0.332	1									
3	GDP per capita	-0.585**	0.586**	1								
4	Economic Growth	-0.612**	0.248	0.355	1							
5	Wage	-0.478*	0.539**	0.831***	0.232	1						
6	Exports primary sector	-0.403	0.185	0.278	0.271	0.154	1					
7	Regulatory Quality	-0.218	0.755***	0.417*	-0.133	0.346	0.097	1				
9	Political Stability	-0.719***	0.590**	0.574**	0.313	0.513*	0.209	0.351	1			
10	Technology	0.412*	0.235	-0.078	-0.086	0.132	-0.082	0.012	0.030	1		
11	Skills	0.218	0.239	0.091	0.114	0.165	0.122	-0.0038	-0.076	0.410*	1	
12	Topbrands	0.186	0.186	0.072	-0.051	0.217	-0.371	0.110	0.044	0.274	0.010	1

Note: * $p<0.05$, ** $p<0.01$, *** $p<0.001$* $p<0.05$, ** $p<0.01$, *** $p<0.001$

Table 5: Conditional Logit Regression Results: Aggregates

		ALL		EE		IC	
Distance	(H1)	-0.27***	(0.0)	-1.23***	(0.1)	-0.30***	(0.0)
Economic Growth	(H2)	1.34***	(0.0)	0.16	(0.2)	1.33***	(0.0)
Technology	(H3)	-1.47***	(0.0)	-1.70***	(0.2)	-1.36***	(0.0)
Topbrands		-17.6***	(0.4)	-12.6***	(1.4)	-17.0***	(0.4)
Skills	(H4)	-0.11***	(0.0)	-0.12***	(0.0)	-0.11***	(0.0)
IP Protection	(H5)	0.063***	(0.0)	0.14***	(0.0)	0.056***	(0.0)
Political Stability	(H6)	1.23***	(0.1)	1.77***	(0.2)	1.00***	(0.0)
Population		3.46***	(0.1)	3.32***	(0.2)	3.31***	(0.1)
GDP per capita		0.15***	(0.0)	0.13***	(0.0)	0.15***	(0.0)
Exports primary sector		-0.051***	(0.0)	-0.050***	(0.0)	-0.047***	(0.0)
Observations		490002		58200		431802	
Pseudo R-squared		0.299		0.514		0.286	

Notes: Marginal effects; Standard errors in parentheses, * $p<0.05$; **$p<0.01$; ***$p<0.001$

Table 6: Conditional Logit Aggregate Results: Robustness Checks

(All)	1		2		3		4		5		6	
Distance	-0.27***	(0.0)	-0.23***	(0.0)	-0.24***	(0.1)	-0.45***	(0.0)	-0.45***	(0.0)	-0.45***	(0.0)
Economic Growth	1.34***	(0.0)	1.24***	(0.0)	1.63***	(0.0)	0.57***	(0.0)	0.55***	(0.0)	0.56***	(0.0)
Technology	-1.47***	(0.0)	-1.91***	(0.0)	-2.05***	(0.0)						
Topbrands	-17.6***	(0.4)										
Skills	-0.11***	(0.0)	0.065***	(0.0)	0.052***	(0.0)	0.030***	(0.0)	0.028***	(0.0)	0.031***	(0.0)
IP Protection	0.063***	(0.0)	0.056***	(0.0)								
Political Stability	1.23***	(0.1)	1.74***	(0.1)	2.91***	(0.1)	0.28***	(0.0)	0.30***	(0.0)	0.23***	(0.0)
Population	3.46***	(0.1)	2.74***	(0.1)	2.96***	(0.1)	0.97***	(0.0)	0.94***	(0.0)	1.02***	(0.0)
GDP per capita	0.15***	(0.0)			1.63***						0.018***	
Exports primary sector	0.051***	(0.0)	0.036***	(0.1)	0.055***	(0.1)	0.011***	(0.0)	0.012***	(0.0)	0.011***	(0.0)
Wage			1.32***	(0.0)	1.01***		0.083***					
Regulatory Quality					1.67***		1.71***		1.76***		1.56***	
Observations	490002		490002		490026		490026		490026		490026	
Pseudo R-squared	0.299		0.246		0.261		0.236		0.236		0.237	

Marginal effects; Standard errors in parentheses, * $p<0.05$; ** $p<0.01$; *** $p<0.001$

Table 7: Conditional Logit Regression Results: Individual Source Countries

	Russia		India		China		South Africa	
Distance	-2.51***	(0.6)	-3.02***	(0.5)	0.32	(0.2)	-12.0***	(1.3)
Economic Growth	1.33	(2.0)	-0.13	(0.2)	-1.50***	(0.4)	-0.21	(0.2)
Technology	-3.67***	(1.1)	-1.35***	(0.2)	-1.03*	(0.5)	-1.05***	(0.3)
Topbrands	-7.11	(6.0)	-3.87*	(1.6)	-4.80*	(2.2)	-6.12***	(1.1)
Skills	-0.099***	(0.0)	-0.061***	(0.0)	-0.13***	(0.0)	-0.039***	(0.0)
IP Protection	0.069*	(0.0)	0.11***	(0.0)	0.17***	(0.0)	0.27***	(0.0)
Political Stability	8.03***	(1.1)	-0.53	(0.4)	1.27	(0.7)	-1.85***	(0.4)
Population	6.10***	(1.3)	2.18***	(0.3)	2.37***	(0.4)	1.59***	(0.3)
GDP per capita	0.22***	(0.1)	0.083***	(0.0)	0.13***	(0.0)	0.084**	(0.0)
Exports primary sector	-0.090	(0.0)	-0.032***	(0.0)	-0.040*	(0.0)	-0.032***	(0.0)
Observations	18408		11976		18480		9336	
Pseudo R-squared	0.757		0.368		0.610		0.502	

	Germany		Great Britain		Japan		USA		France	
Distance	-1.00***	(0.1)	-0.88***	(0.0)	-1.11*	(0.4)	-0.065	(0.1)	-0.65***	(0.0)
Economic Growth	2.05***	(0.1)	1.08***	(0.1)	0.66**	(0.2)	0.73***	(0.1)	0.94***	(0.1)
Technology	-1.03***	(0.1)	-0.37***	(0.1)	-1.21***	(0.3)	-1.15***	(0.1)	-1.03***	(0.1)
Topbrands	-16.0***	(0.9)	-15.8***	(0.9)	-5.18***	(1.3)	-5.50***	(0.5)	-6.83***	(0.5)
Skills	-0.062***	(0.0)	-0.079***	(0.0)	-0.091***	(0.0)	-0.060***	(0.0)	-0.040***	(0.0)
IP Protection	-0.00030	(0.0)	0.057***	(0.0)	0.058***	(0.0)	0.12***	(0.0)	-0.0040	(0.0)
Political Stability	0.60***	(0.1)	-0.036	(0.1)	0.92**	(0.3)	-0.94***	(0.1)	1.18***	(0.1)
Population	3.18***	(0.1)	2.31***	(0.1)	2.64***	(0.3)	2.66***	(0.1)	2.29***	(0.1)
GDP per capita	0.13***	(0.0)	0.11***	(0.0)	0.12***	(0.0)	0.17***	(0.0)	0.095***	(0.0)
Exports primary sector	-0.012***	(0.0)	-0.043***	(0.0)	-0.040***	(0.0)	-0.055***	(0.0)	-0.049***	(0.0)
Observations	113942		74681		10166		131721		101292	
Pseudo R-squared	0.327		0.348		0.320		0.448		0.258	

Notes: Marginal effects; Standard errors in parentheses, * $p<0.05$; **$p<0.01$; ***$p<0.001$