Location choice of the emerging market multinationals

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Abstract

In the last 20 years, the emerging market multinationals have become important actors of the world economy. The aim of this paper is to give an overview about the ongoing theoretical debate about the foreign direct investment activity of the emerging market multinationals and to provide a systematic literature review about their location choice decisions. The 35 articles included in the review were selected based on some well-defined criteria, using a specific keyword search. As a result, a detailed picture emerged about the main home and host country characteristics that are included in the emerging market multinationals' location choice research. Moreover, some research gaps were identified that could help the future advancement of the theories about emerging market multinationals.

Keywords: foreign direct investment, emerging market multinationals, location choice

I. Introduction

The firms' location choice for their foreign direct investments has been a subject of curiosity for a long time now in the international business field. The research stream on the location choice of the multinational companies is incorporating various economic, political and sociocultural aspects of the home and host countries when analyzing the spatial dimension of the firms. The majority of these studies are focusing on the location choice of firms from advanced markets; however, we have still limited knowledge about the emerging market multinationals (EMMs) and the factors that influence their location choice. Are they any different from the traditional MNEs? Do the same location determinants affect their location decisions in the same way? Or the peculiarities of their home countries have a major influence on their location choice outcomes? As the EMMs are becoming more and more prevalent on the global economic stage, especially because of their increased FDI activity, it is important to understand their geographic strategy.

The location choice of the EMMs has been studied by various theoretical and methodological approaches leading to inconsistent results that require a critical assessment. Therefore, the aim of this paper is to synthesize the existing theoretical body, identifying the current limitations and the possible future directions of the location choice research. For this purpose, a systematic literature review was designed, with special attention on the foreign direct investments (FDI) from emerging market economies both towards developed and developing countries. The analysis includes 35 articles from the most important international business (IB) journals and from journals specifically related to emerging markets.

During the analysis, a special attention was devoted to the distribution of home and host countries, the type of FDI investment and the key topics that were related to the location decisions. By doing so, it was found that in most of the cases China is the home country of the investments, but other emerging markets are still underrepresented. Moreover, the majority of the papers analyze the location choice of the outward foreign direct investments (OFDI), but they do not make any distinction between the M&As and greenfield investments.

The structure of the paper is the following: first, some common characteristics of the emerging markets were discussed; second, there is a theoretical overview about the emerging market multinationals and their location choice decisions; third, the methodology of the systematic literature review is described and finally, the results of the review are presented.

II. Defining the emerging markets

The first methodological step is to delineate the phenomenon under the investigation by making explicit decisions about definitions to allow for a clear description of the research focus. The concept of “emerging markets” was first used by Antoine van Agtmael, an economist in the World Bank at the end of the 1980’s. The expression was used to describe the rapidly growing economies with rapid industrialization (Van Agtmael, 2007). However, there is no consensus on which countries belong to the category of emerging markets. The classification is frequently modified based on the various indicators that are used to define it and also based on the institutions which are preparing it. There are several classifications developed by international organizations. The composition of these classifications is quite similar, although there are some notable differences that needs to be taken into consideration when deciding which one to work with.

To begin with, these classifications are usually built up by exclusions, meaning that they rather define which countries belong to the category of advanced markets and the rest of the countries will be considered as emerging and developing countries. The most widely used classification is that of the IMF, which, depending on the yearly edition of the World Economic Outlook report (2018), is excluding 23-28 advanced countries, while the rest of the countries are considered as emerging and developing markets.

Similarly, the UNCTAD (2018) classification is also based on exclusion, but there are some major differences. First, the UNCTAD classification considers advanced markets all the member states of the European Union, including Bulgaria, Croatia, Hungary, Poland and Romania. These countries in other classifications are not considered as advanced economies. Second, Singapore and South Korea are belonging to the category of developing countries, while they are considered as advanced economies according to the IMF classification. For this reason, even if UNCTAD is reporting the most on the FDI activity of the emerging markets, one needs to be careful when using this classification.

Furthermore, FTSE (2018), a leading provider of index data for institutional investors worldwide and the MSCI Global Investible Market index (2018) have also built up its list of emerging markets. The only difference between two indices is that while FTSE is considering the Republic of Korea as an emerging market, the MSCI list is not including it.

Finally, the buzzwords BRIC was introduced by Jim O’Neill of Goldman Sachs in 2001 (O'Neill, 2001), referring to the countries of Brazil, Russia, India, China. However, soon there was a need to mention some other countries when talking about emerging markets such as Mexico or Turkey. Currently, the Goldman Sachs for describing the emerging economies is using the list of the BRIC countries and the so-called "Next Eleven" that are expected to be the fastest growing economies in the 21st century. The differences of the various classifications are summarized in Appendix 1.

For the purpose of our analysis, we will use the classification of the IMF for the reason that in the yearly editions of the World Economic Outlook report, the list of the emerging countries is always updated in case of a change in the development status of a country. Moreover, it is a more restrictive classification, unlike the one of UNCTAD, in which certain countries of the European Union should not be considered as developed countries by default.

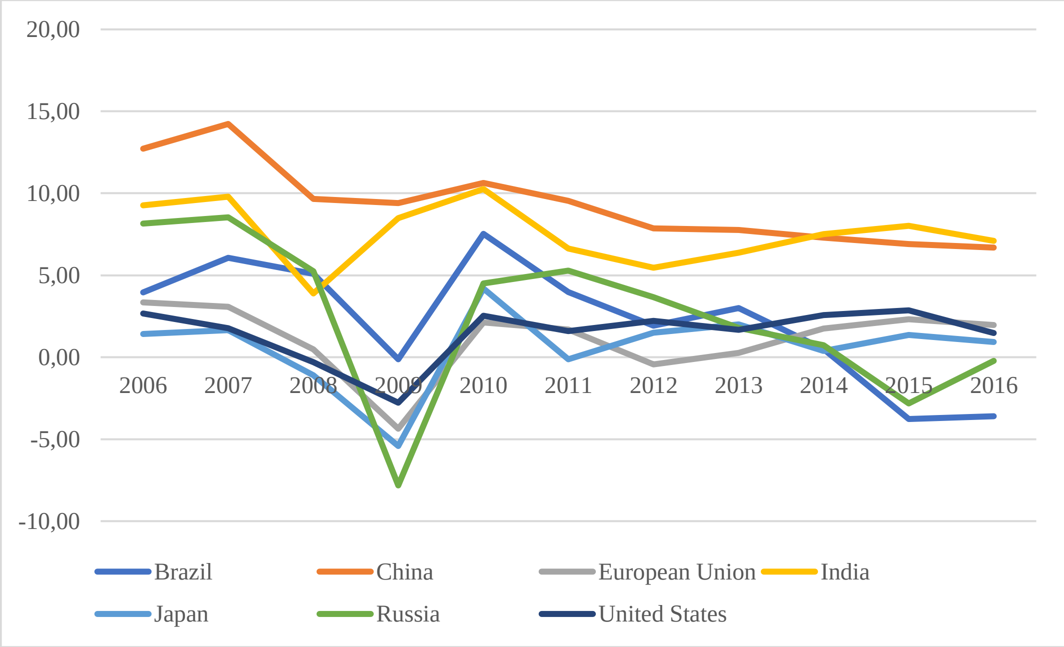
III. The characteristics and the importance of the EMMs

According to the definition of Tamer, Ghauri and Akcal, "emerging markets are countries which are in a transition phase from developing to developed markets due to a rapid growth and industrialization" (2013, p.5). The four most important common characteristics of these countries can be summarized as follows: first, they all have steady growth in their gross domestic product; second, they are facing the issues of poverty, poor infrastructure and overpopulation; third, their government is having a significant influence on the economy and their institutions are relatively weak; finally, they are being more and more integrated into the world economy. In the following section, each of the above mentioned characteristics will be discussed, highlighting the strengths and weaknesses deriving from them.

3.1.Economic growth and inequalities

First, in the following two decades, the size of the Indian economy in terms of GDP is expected to surpass those of Japan and UK, while by 2050 Brazil, Mexico and Indonesia should become larger than most of the European countries and Japan (Magnus, 2010). The following figure (Figure 1) reports the average growth rate of the BRIC countries and the Triad economies (US, EU and Japan).

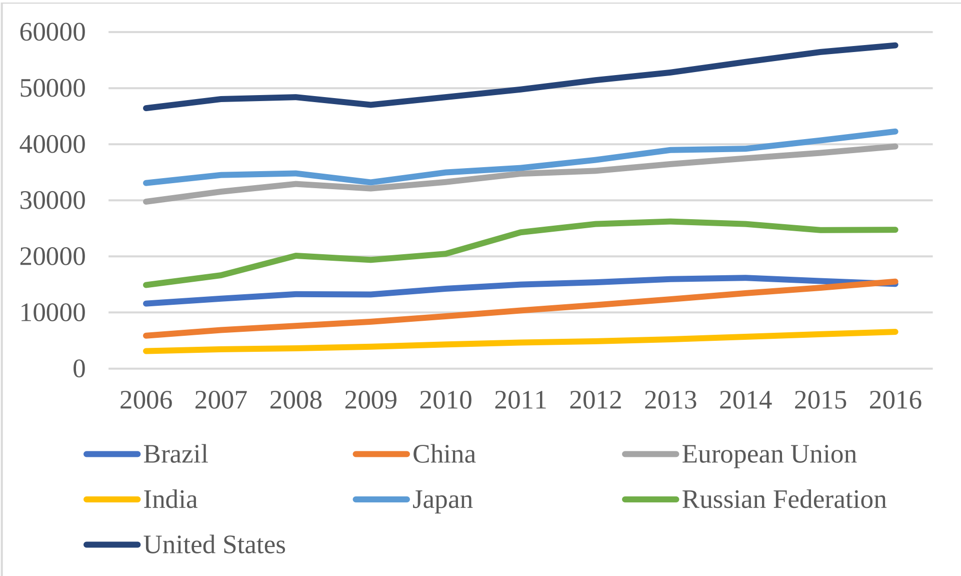
Figure 1 - GDP growth rate (%, 2006-2016)



Source: WorldBank

However, even if these countries seem to become more and more wealthy, their GDP per capita at purchasing power parity (PPP) is revealing that the individual income level of the population is still substantially lower than in the advanced economies (Figure 2). Moreover, most emerging market countries are suffering from high levels of income inequality and there are large differences of household income in the rural and the urban areas (OECD, 2011).

Figure 2 - GDP per capita (PPP, 2006-2016))



Source: WorldBank

3.2. Population

Second, another distinctive and common characteristic of the emerging markets is the young and growing population. On one hand, it means that there is an increasing pool of workers as these young people at some point will enter the labor market. Moreover, it also gives dynamism and support to the economic growth because of the augmenting consumption. Furthermore, as opposed to the developed markets, the old-age dependency ratio is relatively lower in the emerging markets. Consequently, it does not put burden on the economy by increasing government spending on social security.

3.3. Institutions

Third, the role of the government is substantial in the economic development of the emerging markets and its involvement in market operations is more significant than in the developed countries (Khanna & Yafeh, 2007). On one hand, the government makes important decisions about the countries' involvement in international trade and opening up their borders. On the other hand, the government is involved also through the centralized economic planning and through the ownership of economic enterprises, even if the share of state owned enterprises is being gradually reduced by privatization. Moreover, the business system in the emerging markets is considered to be rather relationship-based and the political decisions are often driven by interests. Consequently, due to the domestic companies' network and connection with the government, it may decide to protect them if it they are large employers or national champions (Montiel, 2011).

In addition, the phenomenon of institutional voids (Khanna & Palepu, 2010) needs to be mentioned, which is the result of relative inefficiencies in capital product and labor markets compared to the developed markets (Lee & Peng, 2008). These inefficiencies can derive from the weaknesses of the governance and legal system, the absence of intermediary institutions and the poor enforcement of regulations. The countries from emerging markets are characterized by corruption, bureaucratic inefficiency and political decisions driven by interests. The World Governance Indicators is a collection of measures of the quality of the different dimensions of institutions: Voice and Accountability (VA), Political Stability (PS), Government Effectiveness (GE), Regulatory Quality (RQ), Rule of Law (RL) and Control of Corruption (CC). The indicators vary on a -2,5 to a +2.5 points scale. As it can be seen in the following table (Table 1), all the BRIC countries are having relatively small values in each of the dimensions compared to Japan and the United States.

Table 1 - World Governance Indicators (2016)

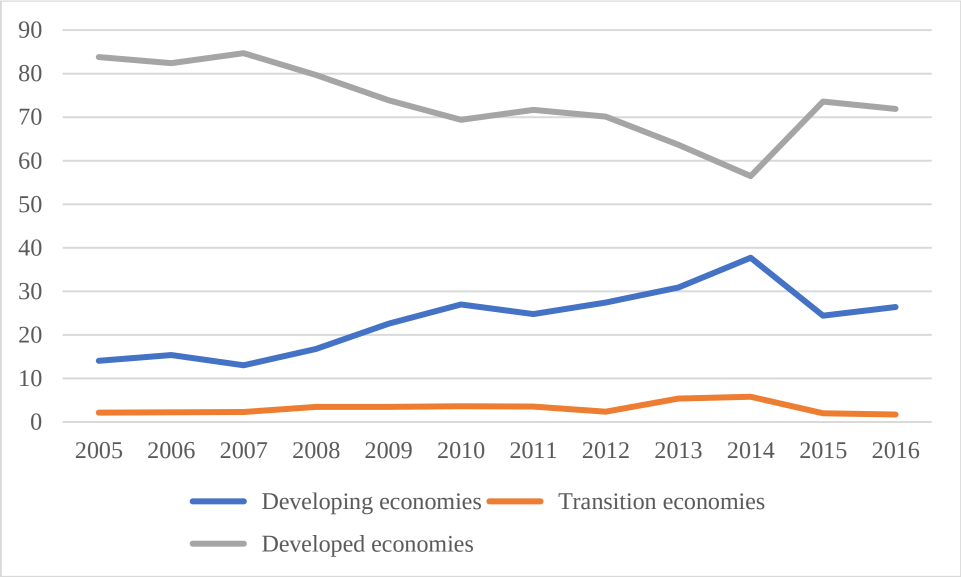
Country/Territory	VA	PS	GE	RQ	RL	CC
Emerging Markets Economies						
Brazil	0,47	-0,45	-0,18	-0,21	-0,08	-0,44
China	-1,62	-0,52	0,36	-0,26	-0,22	-0,25
India	0,41	-0,95	0,10	-0,31	-0,07	-0,30
Russian Federation	-1,21	-0,89	-0,22	-0,42	-0,80	-0,86
Advanced Market Economies						
Japan	1,00	1,01	1,83	1,43	1,38	1,51
United States	1,10	0,35	1,48	1,50	1,67	1,33

Source: World Governance Indicators

3.4.Integration to the world economy

Finally, there is the trend of the emerging markets and EMMs being more and more integrated in the world economy. It is the result of the liberalization policies of the emerging market governments and by today the emerging market economies are important players in the world trade. They have joined various international organizations such as the World Trade Organization and they have also established their regional trade agreements. Besides trade, the FDI investments from the emerging markets has been increasing since the early 2000s (Figure 3). Developing and transitional countries were mentioned as the newest sources of FDI in the yearly World Investment Report of UNCTAD (2006), representing the 17% of the world FDI outflows in 2005, with this being the highest ever recorded level by that time. During the years of the crisis, the FDI flow from these countries were steadily increasing and in 2009 it has arrived to the 25% share of the world FDI outflows (UNCTAD, 2010). The latest record was in 2013, where the 39% of the world FDI outflows was deriving from developing and transitional economies (UNCTAD, 2014). Since then, there was a slight decline in this trend caused by the increasing commodity prices, currency depreciations and geopolitical tensions. The only exception was China, where the level of outward FDI is still increasing (UNCTAD, 2016).

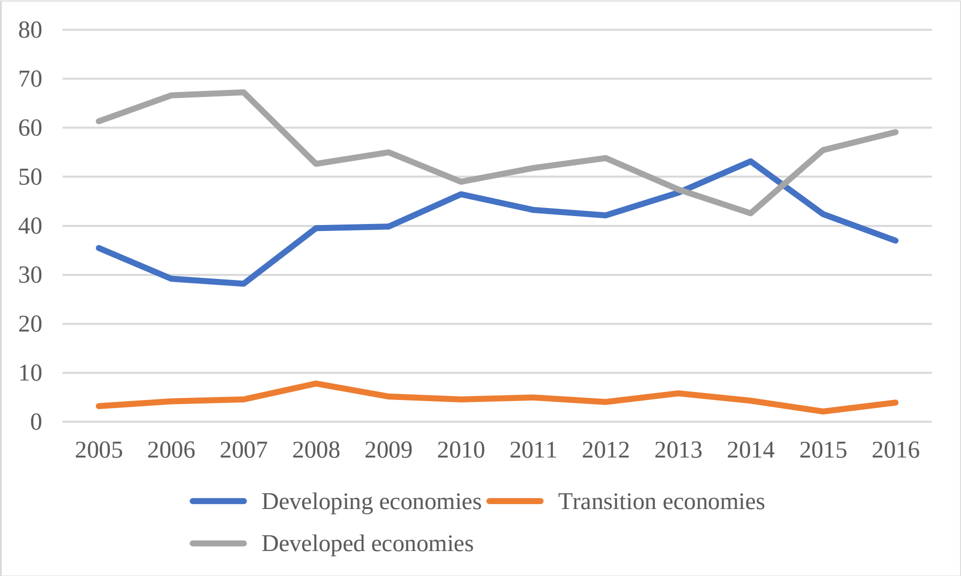
Figure 3 - OFDI (% of the world share)



Source: UNCTAD

Regarding the inward flowing FDI (Figure 4), currently almost the 60% of the world FDI is directed towards the developed economies in 2016. The developing economies experienced a gradual increase in the IFDI since 2007, with the record of 53,16% in 2014.

Figure 4 - IFDI (% of the world share)



Source: UNCTAD

IV. Theoretical background

There is an extensive literature about the internationalization of the multinational enterprises in the IB field. The main theories about the MNEs were developed in the 1970s based on the evidence from the experienced and mature Western MNEs and these paradigms are reflecting the characteristics of these firms MNEs (Meyer & Thaijongrak, 2013). However, the EMMs are originating from a different context and also the world economy has undergone some fundamental changes. The EMMs were a popular research topic in the late 1970s until the early 1990s (see e.g. Lecraw 1977,1993; Lall 1983; Kumar & McLeod 1981; Khan 1986) when these firms started to appear on the global economic stage. Recently, the trend of internationalization of these firms brought them back to the spotlight (Khanna & Palepu, 2010). Therefore, it is a timely question to ask whether the behavior of the EMMs can be explained by the existing theories?

4.1.The debate on the necessity to develop new theories for the EMMs

Currently, there are three main viewpoints about the need of developing new theories in order to analyze the activities of the EMMs. It has taken the form of a Goldilocks debate (Cuervo-Cazurra, 2012), namely it is difficult to agree which is the right approach. First, according to some authors (Rugman, 2010), the behavior of the EMMs can be simply explained by the existing theories. In their view, it is not necessary to develop new theoretical frameworks as the operation of the EMMs and their rapid internationalization can be easily understood in the context of globalization and it can also explain the differences between the EMMs and the developed market MNCs (Dunning et al. 2008).

Second, on the contrary, other authors argue that the phenomenon of the EMMs is new and it calls for new theories and models in order to be able to explain their behavior. Consequently, these authors made also an attempt to give an explanation to the internationalization of the EMMs. For example, Mathews (2006) came up with the LLL (i.e. linkage, leverage, learning) framework, according to which the EMMs use linkage by acquiring advantages externally, leverage on their network and learning by repetition and improvement in their internationalization process. Alternatively, there is the springboard perspective of Luo and Tung (2007) which implies that EMMs invest abroad in order to obtain strategic assets and to avoid the home country institutional and market deficiencies. In this view, the EMMs use their international expansion as a springboard to compensate for their disadvantages with respect to their developed market counterparts. Similarly, the work of Guillen and Garcia-Canal (2009) is also arguing that new theories need to be developed. The authors find the main difference between EMMs and developed market MNEs in the EMMs' accelerated internationalization, in EMM's weak competitive advantages, their strong political ties and high organizational adaptability. Moreover, Guillen and Garcia-Canal (2009) also mention that EMMs are simultaneously entering developed and developing markets as well balancing between their desire of global reach and capability upgrading.

The third approach to the debate is that the existing theories and models should be only extended in order to be applicable to the EMMs. The key argument here is that only some of the predictions of the existing theories need to be modified in order to explain the behavior of the EMMs, since there are some aspects of these theories that are universally applicable and other aspects that are not valid for the EMMs (Ramamurti, 2012). According to Ramamurti (2012, p.41), "to discover areas in which existing theory is inadequate is (…) to look for situations in which the behavior of the EMNEs appears to be strange or inexplicable based on what we know about DMNEs". This statement is encouraging to narrow the focus of the theoretical argument about the EMMs to more precise questions. One aspect that needs to be discussed in this way is that why do EMMs exist at all? If the theory says that a firm must have significant ownership advantages in order to expand internationally, how can we explain the existence of the EMMs that seem to lack these advantages?

4.2. The theoretical debate on the ownership advantages of the EMMs

A debate discussed in the previous section was about the necessity to develop new frameworks in order to explain the behavior of EMMs. Hereby a specific detail of this debate will be further discussed, namely if according to the OLI framework of Dunning it is a necessary condition to have ownership advantages in order to internationalize then do and if yes, what kind of advantages the EMMs possess?

There are four different viewpoints about this aspect in the international business literature that will be presented in this section. First, according to which the EMMs do not have ownership specific advantages; second, the theory that says they do have them and finally the ones that argue that they rely on the preferential access to their home country assets and then transform it to ownership advantages.

4.2.1 The Rugman approach: EMMs do not possess FSAs

The main proposition of Rugman's internalization theory (1981,1996) is that the firms go abroad in order to expand their own firm-specific advantages (FSAs). Similarly to Dunning's OLI framework, Rugman and Verbeke (1992) are also arguing for the necessity of the ownership advantages – or FSAs, as they call it – in the internationalization process of a firm. These FSAs can be technology or knowledge based or they can reflect managerial and/or marketing skills that are proprietary to the firm (Rugman & Verbeke, 2003). The other important building block of the theory of Rugman and Verbeke are the country-specific advantages (CSAs). These advantages are based on the characteristics of the home country that are unique to each firm in the country. For example, a CSAs can be the country's natural resource endowment or its labor force. In their view, the firms' international strategy is defined by the interaction of FSAs and CSAs. From the aspect of the EMMs, Rugman and Li (2007) argue that EMMs will be able to make sustainable investments only when they accumulate real firm-specific advantages such as cutting-edge technologies and strong brands. However, according to Rugman (2009), the EMMs do not have real firm-specific advantages and, especially in the case of knowledge-based FSAs, they are in disadvantage compared to the developed market MNEs. Consequently, in their FDI activity they rely on the country-specific advantages of their home county, such as cheap labor or natural resources, that are freely available for all firms – both for domestic and foreign ones.

4.2.2 The Narula approach: EMMs do possess ownership advantages

The argument that there is no need to develop different frameworks for explaining the internationalization of the EMMs is supported by Narula. More specifically, Narula (2012) argues that the basic principles (such as the OLI paradigm) behind the firms' internationalization have not changed with time. In his view, regardless of the firms' origin (developing or advanced market), they need to have an initial set of FSAs in order to make a successful and sustainable international expansion.

Narula (2012) examines the interaction of FSAs and location assets of the home country that will influence the firm's initial internationalization. On one hand, the firm's country of origin and its location-specific assets will define the kind of assets (both technological and organizational) that the infant MNEs will possess. In a given point in time, the countries have a specific set of resources that cannot be changed on the short run and firms are embedded in this local context by historic, social and economic ties and they interact with other actors at the same location. Consequently, the firms FSAs are functions of the home country's location assets as they build on the resources available in the home country and this drives their initial international growth (Simoes, 2003; Tan & Meyer, 2010). On the other hand, the availability of these locations-specific assets will impose different constraints to the internationalization of the firms from different home countries. Since the location-specific assets are like 'quasi-public goods' by nature, they are not freely available or having the same value to every firm (both domestic and foreign) in the given country. Consequently, the set of potentially available location-specific advantages will determine the kind of FSAs the infant MNE will develop. These basic principles are valid both for developing and advanced markets. Finally, Narula (2012) predicts that the linkage between the FSAs and location-specific assets will weaken by the evolving maturity of the home countries and the firms themselves.

However, Narula (2012) also argues that the location-specific assets constraint differently the developing and advanced market MNEs. These differences in the location-specific assets are not only about the strength or weakness of these assets, but rather related to their evolution that can be traced back in the differences of the institutional conditions of the countries. First of all, the differences in the institutional development is having a different influence on the infant MNEs internationalization. While the EMMs are facing underdeveloped and unstable institutional environments, encouraging them to go abroad to overcome these inefficiencies; the advanced market MNEs are operating in a stable and well-functioning home environment that does not urge the firms to internationalize, even if they have the potential. Second, the access to the capital markets is also having a diverse effect on the firms from different home countries. While for the EMMs the international expansion allows access to international capital markets, the advanced market MNEs in general have already access to credit markets and they can rely on these funds when they are going abroad. Third, regarding the bilateral and regional agreements, the advanced market MNEs are more integrated and have a rather similar regulations that makes the internationalization relatively easier for them than to the EMMs. All in all, Narula (2012) claims that these are the main differences in the way that infant MNEs internationalize, but regardless these differences (that will slowly disappear), the basic principles of the existing theories can explain the behavior of the EMMs.

4.2.3 The Cuervo-Cazurra and Genc approach: EMMs possess alternative advantages

Cuervo-Cazurra and Genc (2008) argue that both types of firms have ownership advantages, just that the developed market MNEs tend to have stronger ones. Regarding the influence of the home country on the firms' advantages, they argue that the disadvantage of the poor institutional environment in the developing countries can be turned into an advantage for the EMMs. The advantage derives from the fact that the EMMs are more used to working in an unstable institutional environment, where they face for example less efficient market mechanisms, burdensome bureaucracy and/or inefficient judiciary systems, while the advanced market MNEs are not used to such conditions. Consequently, even if both developed market MNEs and EMMs are facing difficulties during their internationalization process, the EMMs thanks to their ability to operate and manage in difficult institutional environment, will have an advantage over the developed market MNEs when expanding into other developing countries. In their later paper, Cuervo-Cazurra and Genc (2011) are focusing on the non-market advantages of the developing market MNEs over the developed market MNEs. They refer to the non-market advantages as resources that the firms develop and use "to interact with and operate in its environment, such as knowledge of the local language and customs or understanding of laws and regulations" (Cuervo-Cazurra and Genc, 2011, p. 444). Relying on these advantages, when developing country MNEs are operating in third countries with difficult institutional conditions, they may face fewer difficulties than developed country MNEs (Cuervo-Cazurra & Genc, 2008).

Similarly, Ramamurti (2009) argues that the ownership advantages are different from the ones that we know from the developed market multinationals. Besides their ability to function in difficult business environments, the EMMs have a deep understanding of the customers in the emerging markets. Thanks to this knowledge, the EMMs have the ability to make low-cost but still good enough products and services that are representing the right feature-price combination for the local customers (Ramamurti, 2012). Moreover, Ramamurti (2012) also argues that this kind of advantages should not be perceived as less important or precious than the traditional ownership advantages of the firms (advanced technology, strong brands). According to Ramamurti (2012), a partial explanation for the observed differences in the traditional ownership advantages of the EMMs and the developed market MNEs can be the result of their difference stage of evolution as a MNE rather than a difference stemming from their country of origin.

4.2.4 The Hennart approach: access to complementary local assets

A further viewpoint is the one of Hennart (2012), who takes a radical approach towards the OLI framework in the context of the emerging market multinationals (EMMs). When the scholars come to the question about the applicability of the OLI framework to the foreign investment activities of the EMMs, Hennart points out that there is basic flaw in the model that has not been considered before. He refers to the fact that according to the OLI framework, the firms go abroad when they can exploit more efficiently their ownership advantages in combination with the location specific advantages of the host country rather than in their home country. These location specific advantages in the OLI framework (and similarly the country specific advantages) are assumed to be freely available to all firms operating in that particular country. However, Hennart argues that this is not true, since resources “such as land, natural resources, labor and distribution assets are sold in imperfect markets” (Hennart, 2012, p.169). This condition is raising the market power of the local firms, explaining the reason why EMMs can compete with developed market MNEs in generating profits. Moreover, Hennart is extending this proposition to the intangible-asset seeking investments of the EMMs. In his view, the EMMs that have preferential access to the subset of CSAs mentioned before (called complementary local assets by him), will acquire abroad the complementary FSAs that they need in order to compete with the developed market MNEs.

Furthermore, Hennart (2012) argues that there are two other types of investments that cannot be fully explained by the OLI framework as they are not based on the exploitation of FSAs. First, the acquisition of natural resources and components whenever they cannot be obtained by other means like long-term contracts or spot purchases. In addition, when the distribution services cannot be obtained by contracts, but the firms rather integrated into foreign sales subsidiaries in order to support their export activities. Second, the investments that aim at FSA acquisition, such as acquiring intangibles or intangible-intensive firm and setting up greenfield research laboratories, are also difficult to explain within the OLI framework.

V. Overview of the location choice literature

Location choice research as it used to be a subject of international trade and capital theory. The authors highlight two traditions that shaped this research stream of location choice. The key difference between the two approaches is the way that they see the firm: on one hand, the economics tradition that is focusing on the costs associated with the location of the various activities (Hymer 1976). Similarly, the product life cycle theory is examining the shift of locations over time based on the required locational assets and the efficient exploitation of these assets (Vernon 1966). In this approach, the firm is governance structure that arises to cope with market imperfections (i.e. to minimize transaction cost, Coase, 1937). On the other hand, according to the behavioral approach, the firm is a bundle of capabilities and routines developed over time through the organizational learning (Cyert & March, 1963; Nelson & Winter, 1982). As a result, the location choice of the firm can be interpreted as a path-dependent outcome, determined by the experiential learning of the firm and its managers in the process of international diversification (Aharoni, 1966). It is important to understand these basic differences between the of economics and behavioral approach as they explain the variety of assumptions, unit of analysis and concepts in the evolution of foreign location choice research.

Since Dunning's (1998) imperative to give more attention to the location choice of the MNEs, the research stream has experienced a renewal. There has been a multidisciplinary approach in investigating the factors that influence the location choice decision. There are a few studies that are aiming to summarize the state of the art in the location choice literature with a systematic review. The fact that these studies take different approaches to the topic of location choice, provides the opportunity get a full picture of the current challenges and future directions of the location choice research.

First, Kim and Aguilera (2016) investigated 137 articles from the period 1998-2014 with the purpose of synthetizing the main findings of these articles within the topic of foreign location choice. The authors categorize them into three major groups: institutions, emerging markets and other topics, including the new economic geography, strategic-asset seeking investments, regions, offshoring and networks. Second, Jain et al. (2016) instead are proposing a comprehensive conceptual model to describe the location determinants in the decision-making procedure based on 151 articles published in the period of 1975-2015. The aim of this conceptual model is to give a guidance for the managers to which determinants to consider when making a location choice decision based on the motivation of the investments. Third, the review of Nielsen et al. (2017) takes a different approach, focusing on the quantitative empirical evidence in the location choice research. They select 153 articles from the period of 1976-2015, with the aim of organizing and analyzing the existing quantitative empirical evidence in the field. For this purpose, the authors identify the main hypotheses that have been analyzed in these studies. Moreover, they analyze the research design, the sample, the unit of analysis and the economic approach of the articles in order to identify the methodological challenges in the field.

Given the different approaches, the three review papers highlight different aspects of the location choice research. While the review of Kim & Aguilera (2016) are focusing on the most popular question explored, but unlike Jain et al. (2016) and Nielsen et al. (2017), they do not discuss directly the specific location determinants in their review. However, there are certain key elements of location choice that are appearing in at least two out of the three studies.

The role of institutions in the location choice is a common topic in all three reviews. According to Kim & Aguilera (2016) one of the most discussed topics in the literature is whether and to what extent institutional differences influence the location choice of the firms. Moreover, as it was found that the quality of institutions matters, several articles also investigate how some specific aspects of formal (e.g. corruption) and informal (e.g. cultural affinity) institutions affect the location decision. The finding is also confirmed by Nielsen et al. (2017), as the development of the institutions was among the most investigated hypotheses in the location choice research, while Jain et al. (2016) are incorporating the institutional distance in their conceptual framework as a determinant of location choice.

Furthermore, both the conceptual framework of Jain et al. (2016) and the most popular hypotheses according to Nielsen et al. (2017) include firm-, industry- and country-level determinants of the location choice. The most widely used firm level determinant is the international experience of the firm, while on industry level the competition between and the agglomeration of the firms are the factors that influence the location choice. On the country level, beside the numerous macroeconomic factors, the various aspects of distance between the home and the host country are the most important determinants of the location choice, as well as the countries' inter-regional and trade relations. However, these determinants are not necessarily used at the same time simultaneously and in the empirical models they appear might appear not only individually, but also their combination can be found, while in other studies they are included only in the control variables. For this reason, the review studies urge to integrate the firm-, industry- and country-level determinants in the future research, adjusting the determinants to the specific context of the analysis.

First, regarding the firm characteristics, Nielsen et. al (2017) are describing a mix between the OLI framework and the resource based view approach to the firm, saying that the ownership advantages, i.e. the peculiar individual resources of the firm are drivers of internationalization. Moreover, resources such as technological knowledge or brands may act as the principal determinants of location choice as they can also influence the location choice in two different ways: on one hand, they can compensate for the liability of foreignness of the firm abroad, even in risky and hostile environments. On the other hand, firms may also search for complementarities of these resources and for this reason, they would locate to relatively resource abundant places. Furthermore, the organizational knowledge and international experience as such can be considered as a resource of the firm. The hypotheses tested based on this argument were supporting the idea that the more experienced a firm is, the more likely it is that it will choose “unattractive” locations as a destination of its investment. In addition, as it is also noted by Jain et al. (2016), the firms’ prior investment can also increase the probability of a new investment in the same host country (Dowell & Killaly, 2009; Erkamilli, 1991; Lu et al. 2014). Finally, the firms’ location decision is also influenced by its customer relations, especially when they are in a client-vendor relationship (Hennart & Park, 1994; Li & Guisinger, 1992; Petrou 2007).

Second, another important determinant of the destination location is the inter-industry relations as well as the presence of intra-industry agglomerations and clusters. The location choice can be guided by the level of domestic and international competition within the industry (Ito & Rose, 2002; Li & Guisinger, 1992). Moreover, some firms may also imitate the behavior of other firms in the same industry in their location choice in order to mitigate the risks of internationalization (Ito & Rose, 2002). The agglomeration as a determinant derives from the debate of the importance of specialization and diversification in the location choice. In other words, in which cases do the firms prefer to invest in a location where there are other similar firms with the possibility of knowledge spillover and in which cases they prefer to invest in locations where there are firms with different, but possibly complementary knowledge (Chang & Park, 2005; Chung & Alcacer, 2002; Nachum & Wymbs, 2005).

Third, regarding the country characteristics, there are studies that consider the pure economic variables that have a direct impact on the firms’ costs and revenues, such as the market size of the host country, the level of corporate tax and wages the development of the infrastructure (e.g. Belderbos & Sleuwaegen, 2005; Enright, 2009; Flores & Aguilera, 2007). Based on the findings of these studies, it can be said that firms prefer better macroeconomic conditions when selecting a location. Moreover, the home-host country distance (cultural, geographic and economic) is generally accepted based on the hypotheses tested that the liability of foreignness of the firm is proportionally increasing as the distance is growing between the home and the host country (Eden & Miller, 2004). Consequently, larger distance is discouraging the firm to select a given location. Finally, the inter-regional relationship and network of the firm in the host country can facilitate FDI for the firms (Chen & Chen, 1998) and so influence the location choice. The table in Appendix 2 is summarizing the most frequently studied determinants of the location choice.

5.1.Implications for future research on location choice of the EMMs

The review studies discussed in the previous section were not distinguishing about the location choice of the developed and emerging market MNEs. Li et al. (2018) are the first to do so, proposing a review and comparison of the location choice decisions based on 54 articles from developed countries and 30 from emerging markets in the period of 1980-2016. The aim of the review is to understand to what extent do the determinants of the location choice of the EMMs and developed market MNEs differ and which factors can explain these differences.

Li et al. (2018) find that the home country factors are the least studied among all the factors that influence the location choice of the firm. This turns out to be an important gap, as the key home market factors that affect the location decision are quite different for the developed market MNEs and for the EMMs. While market and industry position are key determinants in the developed market MNEs, the EMMs are more affected by the home country's institutional hardships, the home economic market growth and business development stage.

The review of Li et al. (2018) is very helpful in exploring the differences in the location choice of the developed and emerging market MNEs; however, the 50% of the papers included in the review are considering Taiwan and South Korea. These two countries according to the IMF classification are not belonging to the group of emerging markets. Moreover, the review is not considering the theoretical variety applied by the papers on location choice that would help interpreting the location choice determinants. Finally, even if the review discusses the type of the location activity (manufacturing, R&D, services etc.), it does not differentiate between the various types of FDI (greenfield vs. M&As).

For this reason, we propose a broader approach to the study of the location choice of EMMs and as a first step of it a focused systematic literature review that is based on a strict selection criterion and beside the single determinants it is also incorporating the theoretical context that they are discussed in. Moreover, as the location choice as research field is reaching its maturity, we find it important to take stock on the knowledge that has been accumulated so far and fill in the gaps that are in this case related to the activity of the EMMs. Finally, the growing international presence of these firms and their embeddedness to their home countries that have some distinct characteristics is also justifying the need to better understand their behavior.

VI. Methodology

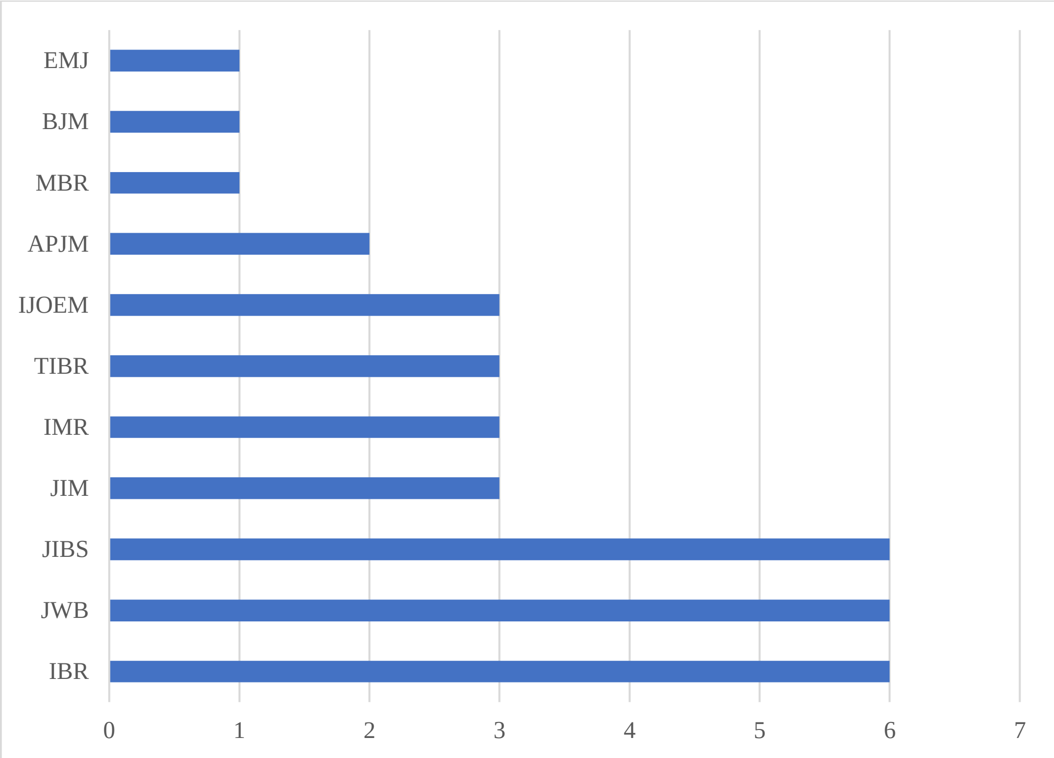
The focus of the review is the international location choice of foreign direct investments by EMMs, with the aim of revealing a full picture of the current state of knowledge in the topic. The aim of this review is to discover the differences in the location choice of the advanced and emerging market MNEs based on the assumption that the home country environment is influencing the internationalization strategy of the firm (Hobdari et al. 2017; Meyer & Peng, 2016). A systematic review approach was implemented in order to synthesize research carried out in the field so far. The methodology follows the approach of other research papers published in the international business and management field about the location choice in general and about the location choice of EMMs in particular (e.g. Nielsen et. al. 2017; Kim & Aguilera, 2016; Li et al. 2018), enhancing the reliability of the review.

6.1. Journal selection

As a first step, the range of the journals was defined. The articles were selected from top journals from in the international business field based on previous review studies (Kim & Aguilera, 2016) as well as those that demonstrated a specific interest in the topic. The final sample is composed of the following 11 journals (Figure 5): Asia Pacific Journal of Management, British Journal of Management, European Management Journal, International Business Review, International Journal of Emerging Markets, International Marketing Review, Journal of International Business Studies, Journal of International Management, Journal of World Business, Management Business Review and Thunderbird International Business Review. The timespan of the review period is from 1998 to 2018, where the starting point was selected as 1998 is the date of Dunning's article which is arguing that location has been a neglected factor in the international business literature and he is calling for an increased research in the field. Moreover, by this period the FDI activity of the EMMs was gaining a new impetus.

Figure 6 represents the selected journals and the number of articles published in the topic of location choice of EMMs in the given journal. The most popular journals are the International Business Review, the Journal of World Business and the Journal of International Business Studies with six articles published in each of them. In the journals that are dedicated to the topics of emerging markets (International Journal of Emerging Markets and Thunderbird International Business Review) there were also six articles published all together, while in the Asia Pacific Journal of Management there were further two articles published.

Figure 5 - Selected Journals



Source: individual elaboration

6.2. Collection of articles

Secondly, Web of Knowledge and ScienceDirect online databases were utilized to search for and to download the published articles. A systematic search was conducted in these databases, using a set of keywords as foreign direct investment, emerging markets and location choice and the pair-wise combination of them (FDI + emerging markets, FDI + location choice, emerging markets + location choice), in order to identify the relevant articles from the selected journals. This search technique resulted in 181 results.

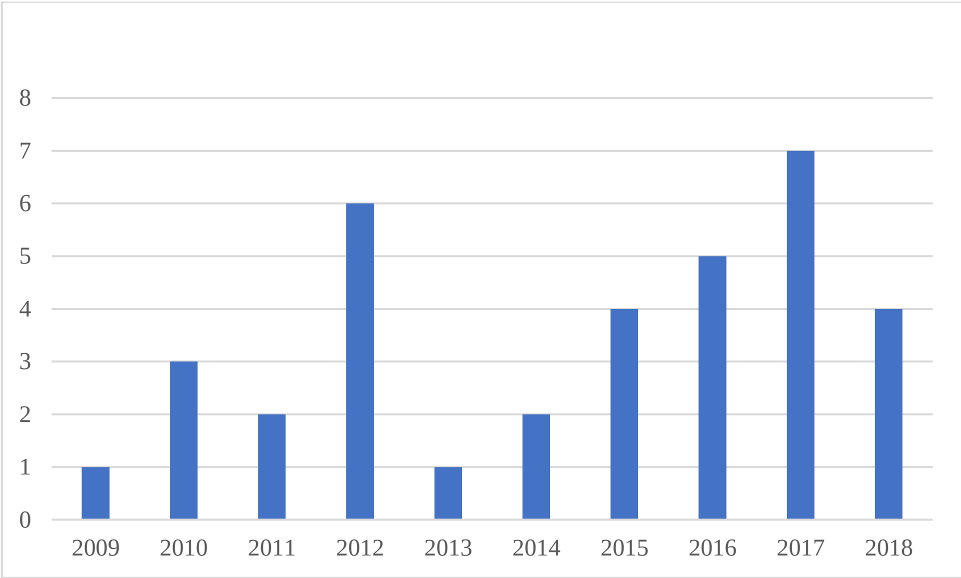
After downloading the articles, each of them was checked manually in order to decide whether to include it to the literature review or not. The manual check was necessary to avoid including articles that might respond to the selected keywords, but then their content is different from what one might expect. First, the abstract of the article was read to assure that the topic of the article was indeed the location choice of the EMMs. Second, the sample was read to find out whether the home country analyzed belong to the emerging markets of the IMF classification.

Third, the hypotheses of the article were checked to make sure that at least one of them was explicitly related to the location choice and not to other topics.

The list of the articles was further refined by excluding articles which subject was the location choice of regional headquarters or domestic location choice within the home country by incumbent firms. Another excluding criterion was if the dependent variable was the probability of investing in a given country without any alternatives (i.e. there was not a choice between two countries) or speed or performance of the internationalizing firm. Moreover, conceptual papers and literature reviews have been also excluded from the analysis together with book chapters, dissertations, editorials and commentaries. As a result, 35 articles were shortlisted, composed by 32 quantitative and 3 qualitative studies that make up the full sample. Similarly, other systematic literature reviews like Li et. al (2018) also find only 30 articles regarding the EMMs location choice. However, only 16% of the articles in this review were covered also by them because of the different excluding criteria.

After defining the final list, we can observe also the distribution of the articles in the selected period. As it is represented in Figure 6, there were no articles found before 2009. The year 2012 was the first when there was an increase in the number of articles published: 3 articles in the Journal of World Business, 1 in the International Business Review, 1 in the Journal of International Business Studies and 1 in the European Journal of Management. Then from 2015 there is an increasing tendency of the articles with the topic the location choice of the EMMs. In 2017 there were 7 articles published, most of the in the Asia Pacific Management Journal and in 2018 there are already 4 articles published that are available online, all of them in different journals. So it seems that the topic is becoming always more relevant and appears more frequently in the top journals of the international business field.

Figure 6 – Time distribution of the selected articles



Source: own elaboration

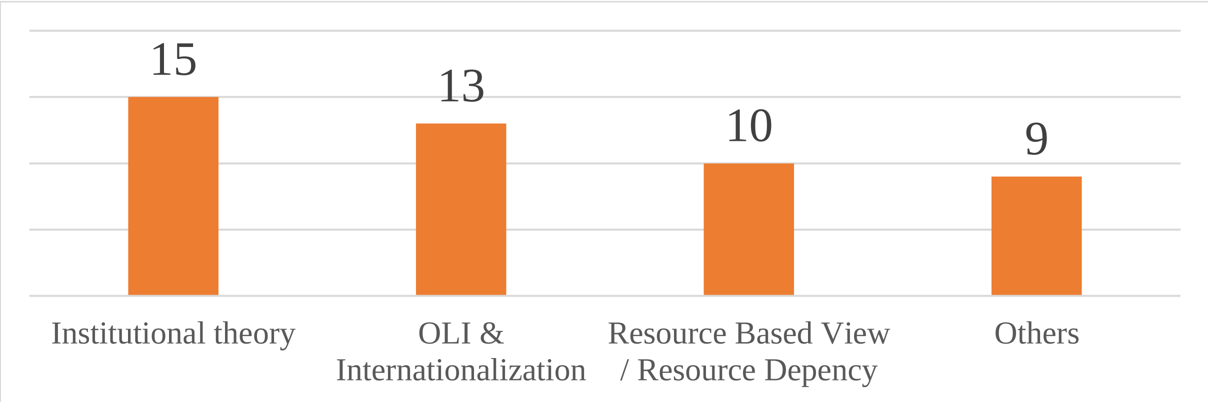
6.3. Excluding criteria and article selection

Finally, the contents of the papers were systematically analyzed by predefined aspects. First, as there is a theoretical fragmentation in the location choice research and also there are various theoretical approaches that explain the behavior of the EMMs, this became the first aspect to check. Second, by including only empirical papers in the review, there was a possibility to check on the level of variables how they are incorporating the home country influence and to see the level of importance that they give to the various factors that influence the location choice of the firm. Third, the dependent variables were checked in order to make sure that there are only articles included in the research that are focusing on the FDI location choice of the EMMs. Finally, the samples used by the studies were analyzed which helped to delineate the geographic scope of the research in the field. By doing so, the distribution of the home countries studied became clear and also the direction of the FDI flow (from emerging to other developing or to developed countries). Moreover, the description of the samples also revealed the type of FDI that was analyzed by the articles. As the last category, the main findings of the articles were also collected in order to be able to make some general conclusions about the state of the research in the field.

6.4. Findings

The theoretical approaches used in the articles is quite heterogeneous as it reflects the ongoing theoretical debate (Figure 7). The dominant approach is the institutional theory (15 papers), followed by the OLI framework and internationalization theory (12 papers). In certain cases, the articles use a mixed theoretical background in order to explain the FDI location choice of the EMMs or they refer to the theory as general IB theory. The most common was to combine the institutional theory and the resource based view (4 papers) to explain the behavior of the EMMs. Among the articles we can find examples of the resource dependency, liability of foreignness, Uppsala model, transaction cost theory and organizational learning. There are also articles were a specific theoretical approach was not reported (3 papers).

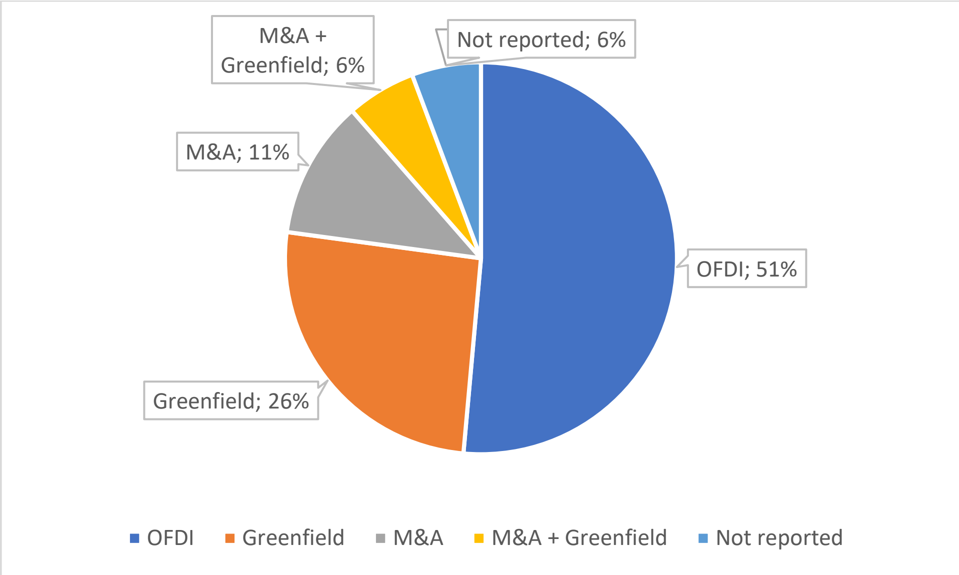
Figure 7 - Theoretical approaches



Source: individual elaboration

Furthermore, the articles can be also categorized based on the type of FDI activity that they are analyzing (Figure 8). Interestingly, the majority of the articles (50%) is not reporting specifically the type of FDI, but only referring to it in general as outward FDI. There are 9 articles analyzing greenfield investments (foreign subsidiaries, WOS, JV), while there are other 5 studies that investigate the international mergers and acquisitions (M&A) by the EMMs. Finally, there are only 2 studies that are including both greenfield and M&As for comparison and 2 of them is not reporting the type of FDI, but presumably they are also analyzing the OFDI in general.

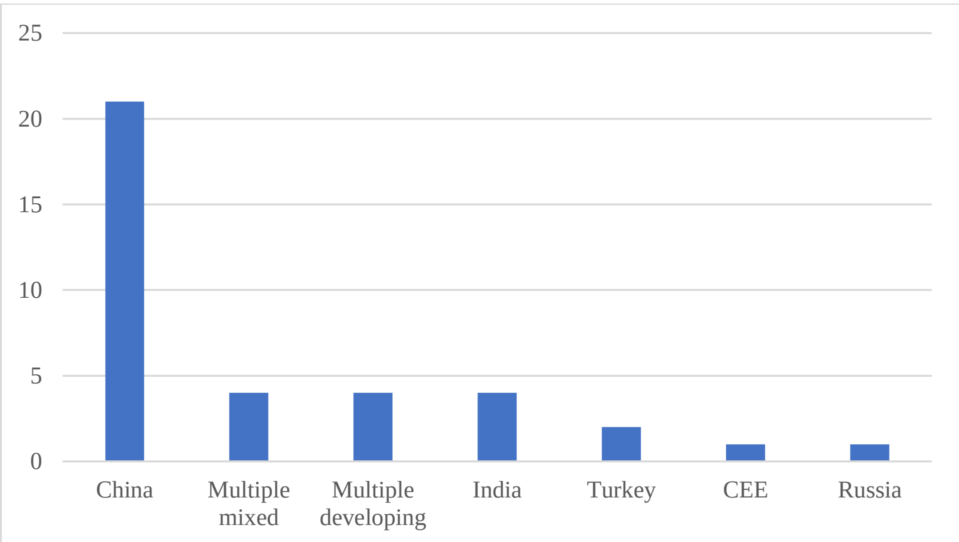
Figure 8 - Types of FDI



Source: individual elaboration

When looking at the distribution of the host countries (Figure 9), the prevalence of China can be immediately noticed. All together 21 articles (60%) study China, from which 19 are single country studies, while the other 2 articles are comparing China and India. Consequently, it is difficult to apply the findings of the studies to all emerging markets when there is a clear dominance of China in the samples. The second mostly studied country is India with only 4 papers, while there are also articles that are including multiple developing countries (4 papers). Moreover, another segment of articles (5 papers) is including both developed and developing countries that is enabling to make a comparison of the outcomes of location choice based on the development level of the home countries.

Figure 9 - Home countries in the samples



Source: individual elaboration

Finally, the articles were categorized by the factors that influence the location choice of the EMMs. The three main categories studied by the articles were defined as home country characteristics, host country characteristics and firm level variables.

6.4.1 Home country characteristics

The home country characteristics explicitly were considered only in one study (Stoian, 2013), however this article was focusing only on the location choice of the Central Eastern European countries during their institutional transition period. Here the inclusion of the institutional variables, such as institutional reforms on trade and foreign exchange or competition reforms, was significantly increasing the explanatory power of the model. Moreover, Deng & Yang (2015, 2017) were measuring the home and host market's effect on the location choice of M&As from nine different emerging economies. Their study was including the GDP growth and financial market indicators of both the home and the host country to simulate the difference between the resources available at home and abroad. In their view, following the resource dependence theory, the firms are escaping the home country because of the lack of availability of resources at home.

Similarly, Yang (2018) was analyzing if the firm is coming from an environment that is relatively corrupt, how much is it willing to invest in other relatively corrupt location. The assumption here is that if the firm is used to operating in a corrupt institutional setting, it will not be discouraged from investing in other relatively corrupt countries. Moreover, he studied also the effect of the home government involvement on the location choice and found that the effect of the home country's institutions is more pronounced in the case of private firms compared to state-owned enterprises. In this review, only those articles were included that study state-owned enterprises in comparison with private firms, as these firms' ownership structure is having a significant influence on the location choice outcome that was also confirmed by several studies (Deng & Yang, 2017; Quer et al. 2018). In addition, Lu et. al (2014) argue that the home government policy support is reducing the importance of prior host country experience and increase the likelihood of host country FDI entry, especially when EMMs are entering other developing countries.

Furthermore, in the articles (Yuan & Pangakar, 2010), where both developed and developing countries were included in the sample, there was a dummy variable to signal the difference in the economic development of the home country. The variable itself was not significant in the model; however, when it was part of interaction term, it became significant. In the rest of the cases, the characteristics of the home country was only included in the geographic, cultural and psychic distance between the home and the host country.

6.4.2 Host country characteristics

Regarding the host country characteristics, the most widely used independent variable when modelling the location choice of the EMMs was the political stability/riskiness of the host country (appeared in 13 out of 35 articles). It appeared both as a single variable or as a part of a larger set of independent variables that were used to describe the institutional environment of the host country. In these cases, besides the political stability/riskiness, also the rule of law and the level of corruption was included in the analysis. Moreover, factors such as state intervention or political influence can be also linked to this aspect. Interestingly, by most of the studies (Liu et al. 2016; Duanmu, 2012; Quer et al. 2011) it was confirmed that contrary to the developed market MNEs, the political instability or riskiness of a country is not discouraging the EMMs to invest in those countries.

Second, the technological development and knowledge/resource abundance (trademarks and patents) of the host country, as factors that influence the location choice outcomes were also frequently included in the analysis (Yoo & Reimann, 2017). In addition, the intellectual property rights protection in the host country was also concerned. While it was clear that the EMMs prefer to invest in the knowledge abundant host countries, the results on the intellectual property protection were quite mixed. On hand, the EMMs prefer to invest in developed host countries with weaker IP protection (Yoo & Reimann, 2017), so they can exploit this weakness of the host country to get access to knowledge. On the other hand, it was also found that some EMMs are escaping from the institutional deficiencies of their home country and they go abroad in the search of a location with a strong intellectual property protection system (Estrin et al. 2018).

Third, there were also some economic factors considered by the studies. The GDP and the GDP/capita were often used to approximate both the market size and the level of economic development of the host country. The host market size was found significant by the articles that studied the location choice for a manufacturing related investment (Duanmu, 2012). Another economic factor studied was the labor cost in the host country (Kang & Yiang, 2012; Duanmu, 2012). It was found that the EMMs are less influenced by the labor costs in the host country than their developed market counterparts. Moreover, the natural resources in the host country were also analyzed as factors that can attract FDI (Duanmu, 2012; Deng & Yang, 2015). According to the results of these studies, the availability of the natural resources is a more significant determinant when EMMs are investing in other developing countries.

Lastly, while it is a popular topic in the research of developed market MNEs, there was only one article that was investigating the effect of agglomeration economies on the location choice of the EMMs (Jindra et al. 2016). According to their results, the EMMs are positively affected by the agglomeration economies and the knowledge externalities related to it. This finding supports the argument that the EMMs go abroad with the aim of augmenting their ownership assets.

6.4.3 Firm characteristics

The mostly used firm characteristics, also as a moderator, was the ownership (private vs. public) structure of the firm as it has been already described. Furthermore, in some of the articles the previous international experience of the firm and the firm size was studied as influencing factors (Pangakar & Yuan, 2009). It was found that larger size and higher degree of diversification of the firm will induce the firm the locate into developed countries rather than to developing countries. However, the firm characteristics were mainly considered as control variables in the analysis. More importantly, there was only one study (Lv & Spigarelli, 2014) that was considering the established activity abroad when analyzing the location choice of the EMMs. According to his results, the countries with stable political environments are attractive for sales and service activities, while good control of corruption and low trade barriers are encouraging manufacturing subsidiaries. Finally, the R&D investments are attracted to large markets and non-human capital assets.

6.5 Discussion

The main findings of the articles reveal several crucial points regarding the location choice of the EMMs. First, even if both economic and institutional factors are influencing the location choice of the EMMs, institutional factors demonstrate a higher level of significance in the decision. However, their significance seems to be slightly different in the case of the single emerging home markets. For example, while the Chinese firms are more reluctant to political risks, Indian firms are found to be more concerned by the rule of law and regulatory quality of the host country. Still, both Chinese and Indian firm prefer to invest into countries with a similar institutional background (De Beule & Duanmu, 2012; Quer et al. 2017).

Second, it was found that EMMs when investing in developed economies, prefer to choose countries with stronger knowledge-based assets, while the weakness of the intellectual property right protection is having a mixed effect in the different studies.

Third, some of the studies claim that the location choice of the EMMs depends on their industry, and the cluster of origin or the presence of industrial clusters in the host country is having a more significant influence on the location choice than the country of origin.

Finally, the articles that compare the behavior of advanced and EMMs find that geographic and cultural distance is important for both group of countries; however, its weight in the location decision depends on the home country context. Similarly, the host country's stage of economic development is also having a moderating effect on the location choice outcome.

All in all, despite the mixed results of the studies, some general trends can be described about the articles. First, the majority of the articles are not making any differentiation between greenfield and M&As location decision; even if the motivation behind these investments can significantly influence the location choice. Second, even though the home country characteristics of the emerging markets are quite different from advanced markets, they are rarely included in the empirical analysis. Moreover, there is no distinction between the emerging markets, but they are considered as a homogeneous group of countries, which may lead to misleading generalization. Third, even if distance is one of the key elements of the location decision, the direction of the investments is still under-investigated. In the case of certain distance aspects, such as institutions and economic development, distance is not an absolute measure (like in the case of culture), but it can be positive or negative. Considering the direction of the investments can deliver further interesting details in a future research. Finally, the industry and the firm characteristics were mostly included as control variables; however, a broader prospective could provide more nuanced results regarding the location choice of the EMMs.

VII. Conclusions and future research

The paper's main contribution is the presentation of the state of the art of the location choice literature with a special attention to the emerging market multinationals. As it was discussed, the theoretical landscape is still fragmented and it is also reflected in the articles dealing with the emerging market multinationals. Moreover, the location choice research is generally focusing on the characteristics of the host countries, while the home country and individual firm and industry characteristics remain in the background. There is room for future research that is emphasizing more the importance of the individual home country characteristics and that could give a more detailed analysis and deeper understanding of the location choice of the emerging market multinationals as currently the majority of the findings is based on the Chinese context. Furthermore, there is a little differentiation between the various types of the outward flowing FDI from emerging markets, while it is believed to be important to be taken into consideration. Finally, the motivation of the investments should be emphasized more in the location choice research, as it is a crucial element of this strategic decision.

The debate on the question of whether the existing theories are able to explain the FDI activity of the EMMs seems to be closed by a neutral approach. By most of the authors, the current frameworks can be applied also in the context of the EMMs, however, they should be extended in certain cases. Most importantly, the unique ownership advantages that EMMs gained by being embedded in their home country environment should be incorporated first on a theoretical level that would allow also to empirically test their effects on the location choice of the EMMs. This would mean a step forward towards a firm level location choice research.

As previous and also this review suggest, there is a need to study more thoroughly the effect of the home environment on the location choice of the firm when the firms are from emerging markets. It is highly important in the case of the EMMs as they are operating in unstable institutional environments, with still numerous state-owned enterprises, while their home countries are currently undergoing a transition towards market-based economies. This unstable institutional environment may have two opposing effect on the location choice of the EMMs. On one hand, it may encourage the EMMs to escape their home countries and invest in developed market in the search of more stable institutions. However, on the contrary, it may also induce them to invest in other countries with unstable institutions as they are already familiar with working in such an environment, unlike the developed market MNEs. Future research should consider not only the institutional characteristics of the host country, but also to see which institutional setting (the combination of the various institutional factors in a given period of time) and under what conditions these institutions have a decisive role in the location choice.

Clearly, the same factors in the location choice may have a different effect on the outcome based on what type of OFDI (greenfield vs. M&A) and what kind of activities (e.g. manufacturing, R&D, HQ etc.) the firms start abroad as the different entry modes are requiring different levels of commitment, while the established activities are having different scale and cost sensitivity. Further research should be dedicated to study in a comprehensive manner also the activities established abroad in order to fix the inconsistent results that we can find currently in the literature. In addition, it would be also wise to include the motivation of the investments in the location choice research, comparing the developed market multinationals and the EMMs from this point of view.

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APPENDIX 1.

Country	IMF	UNCTAD	FTSE	MSCI	Goldman Sachs
Algeria	X	X			
Argentina	X	X			
Bangladesh	X	X			X
Brazil	X	X			X
Bulgaria	X				
Chile	X	X	X	X	
China	X	X	X	X	X
Colombia	X	X	X	X	
Czech Republic			X	X	
Egypt	X	X	X	X	X
Hungary	X		X	X	X
India	X	X	X	X	X
Indonesia	X	X	X	X	X
Iran	X	X			X
Malaysia	X	X	X	X	
Mexico	X	X	X	X	X
Morocco	X	X			
Nigeria	X	X			X
Pakistan	X	X	X	X	X
Peru	X	X	X	X	
Philippines	X	X	X	X	X
Poland	X	X	X	X	
Romania	X		X	X	
Russia	X	X	X	X	X
Singapore		X			
South Africa	X	X	X	X	
South Korea		X		X	X
Taiwan		X	X	X	
Thailand	X	X	X	X	
Turkey	X	X	X	X	X
UAE	X	X	X	X	
Ukraine	X	X			
Vietnam	X	X			X
Venezuela	X	X			

APPENDIX 2.

Construct	Measurement	Findings	Theory	Authors
Firm level				
Intangible assets	Production technology, Ability to improve processes and products, Procurement and distribution capacity, Ability to manage relationships, Brand advantage, Price advantage	Superior ownership advantages prefer to invest in more developed than less developed regions	RBV, OLI	Lei & Chen, 2011
Experiential learning/ International experience	Number of years of operation abroad Number of foreign subsidiaries	A prior investment can increase the probability of a further one in a given host country	RBV, ARK, UM	Dowell & Killaly, 2009; Erkamilli, 1991; Lu et al. 2014; Belderbos & Sleuwaegen, 2005; Enright, 2009; Garcia-Canal & Guillen, 2008; Henisz & Delio, 2001
Customer following	Scale measure for motivation to serve existing clients and markets from the home country	The firms are following abroad their clients, especially in the case of services	TC, OLI	Hennart & Park, 1994; Li & Guisinger, 1992; Petrou, 2007
Industry level				
Industry rivalry or imitation	Oligopoly: number of other firms in the host country	The presence of competitors is increasing the probability of locating in the same country	OLI	Ito & Rose, 2002; Li & Guisinger, 1992
Agglomeration/Clustering	Number of firms' own prior entry Number of firms' entry from the same home country Number of firms' entry from the same regional network	The higher the number of prior entries or entries from the same home country/regional network, the more like that the location will be chosen	Organizational theory, Internalization theory, OLI	Chang & Park, 2005; Chung & Alcacer, 2002; Nachum & Wymbs, 2005
Country level				
Economic factors				
Macroeconomic factors	Market size: GDP, GDP/capita Cost of labor: average wage Infrastructure: kilometer of roads, ratio of paved roads, number of telephone lines	Better macroeconomic conditions of the host country in general are increasing the likelihood of the location being chosen	IT, OLI, TC	Belderbos & Sleuwaegen, 2005; Enright, 2009; Flores & Aguilera, 2007; Galan et al. 2007; Globerman & Shapiro, 2003; Hahn et al. 2011; Henisz & Delio, 2001; Kumar, 2001; Shimizutani &

	Exchange rates: Host currency/ home currency Taxes: Corporate tax rate			Todo, 2008; Duanmu, 2012
Availability of natural resources	Export of natural resources as a share of GDP	The abundance and availability of natural resources is having a positive effect on the location choice	RBV	Asiedu, 2006
Distance				
Psychic	Index by Dow and Karunaratna (2006) differences in language, religion, industrial development, education and degree of democracy	The increased psychic distance is discouraging the location choice in the host country	UM	Dow & Ferencikova, 2012
Cultural	Hofstede (1980) Kogut & Singh (1988)	Firms prefer to locate in culturally closer countries	OLI	Li & Guisinger, 1992
Geographic	Kilometers Hours of flight between the countries/cities	The increased distance from the host country is negatively influencing the location choice	TC, Internalization theory, OLI	Boeh & Beamish, 2012; Erkamilli et al. 1999; Thomas & Grosse, 2001
Economic	GDP/capita Communication infrastructure: Phones per capita Transportation infrastructure: Roads paved	The firms prefer to invest in economically similar countries; economically less developed countries are less attractive	RBV, IT	Blanc-Brude et al. 2014; Cuervo-Cazurra, 2008
Institutions				
Regulatory Political	Legal system, Political hazards index created by Henisz (2000), Political risk index by Kaufmann et al. (1999)	The higher the similarity of the regulatory and the stability of the political institutions, the more likely is the location choice	Organizational capabilities, IT, OLI, LoF	Alcantara & Mitsuhashi, 2012; Fernandez-Mendez et al. 2015; Flores & Aguilera, 2007; Globerman & Shapiro, 2003; Trevino & Mixon, 2004
Networks and inter-regional ties				
Networks and relationships	Trade relations Membership in regional organizations Bilateral agreements	Positive	Network theory, TC	Chen & Chen, 1998