



ELSEVIER



journal homepage: www.elsevier.com/locate/emj



Are multinational enterprises from the emerging economies global or regional?

Deepak Sethi *

College of Business and Public Administration, Old Dominion University, 2038 Constant Hall, Norfolk, VA 23529, United States

KEYWORDS

Emerging economies;
FDI;
Regional MNEs;
Mergers and acquisitions

Summary While there is ample statistical evidence that the top 500 multinational enterprises (MNEs) are predominantly home-region-bound or bi-regional, the operations of MNEs from the emerging economies have not been comprehensively analyzed. This constitutes a vital gap since firms from emerging economies have been making prominent acquisitions in recent years, and these economies are expected to post impressive growth despite the global economic slowdown. MNE managers cannot ignore such opportunities and threats. This study analyzes the operations of MNEs from four leading emerging economies – Brazil, Russia, India and China (BRIC). Since aggregated FDI data often lack transparency due to off-shore tax havens, we supplement that analysis by examining 1430 mergers and acquisitions undertaken by MNEs from BRIC economies during 2000–2007. We also develop insights into their dispersion pattern across five industry sectors in six geographical regions.

© 2009 Elsevier Ltd. All rights reserved.

Introduction

The rapid pace of economic liberalization in the post-Cold War global business environment has contributed to the 27-fold increase in world trade and the large rise in foreign direct investment (FDI), which by 2007 had risen to \$1.8 trillion (UNCTAD, 2008a). The spectacular increases in the scale and scope of multinational enterprise (MNE) operations and their 'global' strategies have been driving globalization, leading some scholars to claim that markets have homogenized into a 'global village' (Levitt, 1983).

On the other hand statistical evidence indicates that 84.2% of the 380 MNEs from the world's top 500 firms for

which intra-regional sales data were available had over 50% of their sales solely in the home region of the 'Triad', comprising North America, European Union (EU) and Asia. Merely 6.6% of those 380 companies had 70% of their sales coming from just two regions of the Triad, while only nine MNEs could be truly characterized as 'global'. Scholars pursuing this line of research argue that globalization is a myth and therefore MNE managers need to develop 'regional' rather than 'global' strategies (Rugman, 2005, p. 7; Rugman and Verbeke, 2004).

Data on intra-regional and extra-regional sales of "The Fortune Global 500" (2002) firms and of MNEs in different industries indeed substantiate that MNE operations are mostly regional in scope (Rugman, 2005). Although those analyses were based mainly on data for 2001–2002, even

* Tel.: +1 757 683 4162; fax: +1 757 683 5639.
E-mail address: dsethi@odu.edu

UNCTAD's latest *World Investments Prospects Survey 2007–2009* (WIPS) has found that most companies would still prefer their home regions for future international investments, although they would now begin exploring other regions too (UNCTAD, 2007).

The globalization versus regionalization debate has thus far centered on the operations of "The Fortune Global 500" firms. However, over the past two decades Brazil, Russia, India and China (collectively called BRIC) have been registering rapid growth, much higher than other 'emerging economies'. Further, their aggregated outward FDI now almost equals their FDI inflows (Berman, 2008; Morck et al., 2008; UNCTAD, 2008a). However, although by 2007 "The Fortune Global 500" included 70 'emerging economy MNEs' (EEMs), when Rugman (2005) conducted his seminal study on regionalization in 2000–2001, there were very few. EEMs have also been undertaking extensive mergers and acquisitions (M&As) globally, many even into the developed economies. But do the EEMs have the same strategic motivations and similar spatial dispersion as the 'developed economy MNEs' (DEMs)?

The operations of DEMs have been researched extensively in the literature and their predominantly regional or bi-regional scope is well established. However, as Supachai Panitchpakdi, Secretary General UNCTAD observes in his foreword to Karl Sauvant's (2008) book, "*The Rise of Transnational Corporations from the Emerging Markets: Threat or Opportunity?*" the "second generation of globalization" has not received the analytical or policy attention that it deserves. This leaves a significant gap in the literature since most analysts assert that BRIC economies would continue to grow impressively despite the current worldwide recession. For instance, experts predict that the Chinese economy would post 8–9% growth (down from 11% to 12%), while India's economy would grow 6–7%, down from 9.2% last year (IBEF, 2009a, IMF, 2009). Since EEMs are emerging as active players on the global business landscape it is essential for MNE managers to monitor their strategies and geographical scope – not doing so could well result in ceding competitive advantage.

This study therefore examines, at the macro-level based on outward FDI and also at the firm-level, whether the operations of EEMs (MNEs from Brazil, Russia, India and China) are home region-biased, bi-regional or global. Apart from the FDI data we analyzed 1430 foreign M&As undertaken by EEMs over the eight year period 2000–2007. This study thus makes a substantive contribution to the globalization versus regionalization literature by developing deeper insights into the outward FDI from Brazil, Russia, India and China. We also study the strategic motivations and dispersion patterns of their foreign M&As country-wise, across five industry sectors. Given the rapid growth of these economies and the ascendancy of their MNEs we believe this analysis has great relevance for academics, MNE managements as well as government policy-makers.

Theoretical development

The location, control and the process of internationalization of MNEs form the core of academic discourse in interna-

tional business research (Eden and Lenway, 2001). The early literature had focused on providing a theoretical rationale for FDI mainly through the industrial organization economics research stream; e.g. *costs of doing business abroad* and *internalization* (Hymer, 1960; Kindleberger, 1969), *firm-specific competitive advantages* (Buckley and Casson, 1976; Caves, 1971), *risk diversification* (Rugman, 1979), *product-life-cycle* theory (Vernon, 1966) and the *eclectic paradigm* (Dunning, 1980).

Traditionally FDI trends have been analyzed through country-level *FDI determinants* such as economic and political stability, host government policies, market size, GDP, cultural distance, tax rates, wages, corruption, and production and transportation costs (Barkema and Vermeulen, 1998; Hofstede, 1980; Nigh, 1985; Sethi et al., 2003). The FDI location decision however is impacted by both environmental and endogenous factors. It is essentially a firm-level transaction that involves analyses of elements in the global, regional and national environments at the macro level, and firm-specific factors at the micro level (Aharoni, 1966; Buckley et al., 2007). Numerous aggregated firm-level decisions are analyzed as country-level FDI flows.

The FDI location decision has also been analyzed in the developmental economics literature to show how FDI motivations change in step with the host country's economic development (Dunning, 1981; Narula, 1996). Referred to as the *investment development path*, it shows that less developed countries attract mostly *resource seeking* and *efficiency seeking* FDI. As their technological infrastructure improves, they attract FDI in greater value-added activities. Likewise, Ozawa's (1992) notion of the *stages of economic development* also posits that a country in pre-take-off stage attracts FDI in primary products and labor-intensive sectors, while one in the take-off stage attracts it in medium/large capital-intensive sectors. The institutional economics literature examines the government's role in providing a suitable environment for FDI through an open economy, stable currency and investment incentives (Noorbakhsh and Paloni, 2001; Woodward and Rolfe, 1993). Such incentives could be broad-based or targeted towards specific industries or projects and thus affect the FDI location decision (Sethi et al., 2002).

During the Cold War era while the capitalist democracies had welcomed FDI much of the rest of the world was hostile to it due to fears of neocolonialism. This induced most Third World countries in Asia, South America and Africa to adopt the socialist economic model instead and restrict FDI. Consequently, suitable FDI locations were sparse with hardly any intra-country location options and thus country-level analysis of FDI was perhaps adequate then. However, with country-level variables micro-analysis of FDI locations and trends is not feasible (Rugman and Verbeke, 2007).

The Uppsala Model's incremental *internationalization process* explains the propensity of MNEs to operate initially in their home region (Johanson and Vahlne, 1977). The CAGE distance framework explains how cultural, administrative, geographical and economic distances increase transactions costs, thus promoting a home-region bias (Ghemawat, 2001). Rugman and Verbeke (2007) contend that the liability of intra-regional expansion appears to be much lower than the liability of interregional expansion, which is why

most MNEs operations are either home-region-based or bi-regional.

The geographical dispersion of "Fortune Global 500" firms has been extensively analyzed in the literature (Dunning et al., 2007; Rugman, 2005; Rugman and Verbeke, 2004, 2007). Scholars have also sought to determine the regional versus global scope of MNE operations in specific industry sectors or countries; e.g. Oh and Rugman, 2006 (cosmetics); Rugman and Collinson (2004) (automobiles), Rugman and Collinson (2005) (MNEs in Europe), Rugman and Collinson (2006) (Japanese businesses); Rugman and Girod (2003) (retail sector) and Rugman et al. (2007) (MNEs in UK). However, barring the Rugman and Li (2007) study on Chinese MNEs, and the Collinson and Rugman (2007) study on Asian MNEs no other study has attempted to analyze BRIC economies collectively. Our study seeks to fill this void.

The BRIC economies have consistently posted high growth over the past 15–20 years. Until 2000 their FDI outflows were small but increased sharply post-9/11, and in recent years M&As by EEMs have accelerated (UNCTAD, 2008b). As Diana Farrell (2006), Director, McKinsey Global Institute asserts, by 2050 China and India will account for nearly half the world's GDP. Aggressive M&A activity by EEMs is attributed to their need to access international markets, global production systems and knowledge networks to withstand global competition (UNCTAD, 2008b). Luo and Tung (2007) highlight how EEMs are using key M&As as a springboard to emerge as global players and due to hyper-competition their strategies need closer monitoring.

The original 'Triad' (USA, EU and Japan) had spawned the world's top 500 firms and hence MNEs focused only there-upon to attain "triad power" (Ohmae, 1985). The Triad however left out 75% of the world – geographically, demographically and politically – ostensibly because other regions did not attract significant IB activity. The Triad was later extended to include North America, the EU and entire Asia, but now scholars speak of Asia-Pacific, which includes Oceania. Even during the Cold War sizeable investments were made outside the Triad into Oceania, SE Asia, Latin America and Africa. However, due to the Triad focus those transactions remained outside the analytical purview in the global versus regional debate. Even the expanded designation of Triad leaves out large economies such as Russia, Brazil, South Africa and Argentina.

The *investment development path* (Dunning, 1981) explained how inward/outward FDI patterns change with the host country's stage of development. Similarly, Sethi et al. (2002) provided empirical evidence of the shifting trend of FDI from Western Europe into Asia, in response to the increased competitive intensity in Western Europe along with improvements in infrastructure, labor skills and incentives in Asia. They contended that when competition intensifies even in Asia due to increasing costs, fresh FDI would flow into other developing countries that meanwhile have improved infrastructure and liberalized economies.

The regional designation therefore needs to be more enduring to accommodate such shifts and we recommend basing it on the continents to obviate future revisions. Analyses based even on the continental metric are likely to rein-

force the regional/bi-regional scope of MNE operations, and we provide empirical validation for EEMs.

Metric to measure multinationality

What is the right metric to understand the geographical scope of EEMs since several dimensions constitute multinationality? UNCTAD has developed two indices: (1) *transnationality index*, which averages foreign assets/total assets, foreign sales/total sales and foreign employment/total employment; and (2) *internationalization index*, which captures 'intensity of foreign operations' based on foreign affiliates. Among the world's largest MNEs the least transnational are from Latin America (38.1), South Africa (48.0) and USA (48.2), while UK (69.2) and France (59.5) score high. South Asian (57.2) and East Asian EEMs (53.2) also are more transnational (UNCTAD, 2008c).

Since EEMs do not report their sales by region we use FDI data for our analysis and not sales data. The relative efficacy of country-level and firm-level data has been extensively debated (Dunning et al., 2007; Rugman and Verbeke, 2007). We contend that firm-level data can better explain strategic motivations and destinations for the following reasons: (1) Country-level FDI determinants obfuscate provincial and industry sector differences; (2) country-level data cannot distinguish genuine FDI from *round-tripping* (UNCTAD, 2006a); (3) FDI data are available either for various countries or for different industry sectors but seldom for both; e.g. China's country-wise FDI data do not provide industry-sector breakdown, which is essential to better understand the firm's FDI motivation.

Industry-wise location propensities

FDI decisions are idiosyncratic and several environmental and endogenous factors impact them. MNEs match firm-specific advantages (FSAs) with country-specific advantages (CSAs) to determine the most suitable location (Rugman and Verbeke, 1992, 2001, 2004). Firm-strategy factors however influence location decisions more profoundly and therefore each *FDI determinant* has different importance for respective firms as per their strategy. Although Dunning and Lundan (2008) integrate an institutional dimension into the eclectic paradigm to bridge the macro and the micro levels, they do not focus on firm-strategy factors.

Sethi et al. (2009) presented an integrative conceptual framework that combines insights from the traditional FDI theory, the institutional economics stream and the firm-strategy perspective to facilitate more fine-grained analyses of FDI distribution within countries, across different industry sectors. They examine firm-strategy factors at the industry level and assume those apply to all MNEs within respective industries. Using their approach we examine the dispersion propensities of the following sectors, which account for 90% of the FDI of BRIC economies: (1) agriculture and food products; (2) oil, gas and mining; (3) industrial, manufacturing and textiles; (4) business and financial services; and (5) wholesale and retail trade.

In the agricultural products sector geographical proximity is a major advantage for fast-deteriorating food items especially for EEMs, which seldom use refrigerated contain-

ers due to the costs and limited scale. These EEMs are therefore likely to be primarily home-region-bound and be the least dispersed. Conversely, oil/gas sector EEMs are the most dispersed since they have to seek these scarce resources globally despite the logistical disadvantages.

Lower CAGE (Ghemawat, 2001) distances confer significant advantages to EEMs in the manufacturing and textiles sector, which are mainly labor-intensive, small/medium scale enterprises for which language, ethnic and cultural links are especially beneficial. These EEMs are likely to be mainly regional or bi-regional. Competitive advantages of MNEs in the business/financial services sector are not as location-bound as other sectors. However, for such services administrative, regulatory and cultural proximity is advantageous and therefore these EEMs also would generally be home-region biased or bi-regional. CAGE distance proximity is an advantage for the wholesale/retail sector and hence these EEMs too would be mainly home-region-based. Diversified EEMs, especially conglomerates are likely to be more dispersed than single industry firms.

Industry characteristics thus significantly impact FDI location choices. Hence this study supplements the traditional country-level FDI analysis with analysis of M&As, which we contend better explain location patterns.

Spatial dispersion of EEM operations

Country-level analysis – FDI data

The overall quantum of outward FDI from BRIC economies is much less than that of the developed economies. However, they have increased investments abroad manifold since 2000; e.g. India's outward FDI stock, which averaged \$0.12 billion during the 1990s, had increased to \$17.3 billion by June 2006 and further to \$48.2 billion by June 2008 (RBI, 2008). Similarly, Chinese investments rose from \$0.91 billion in 1991 to \$16.13 billion in 2006, while Brazil and Russia too substantially increased FDI (UNCTAD, 2008d). Financial analysts expect that while FDI from DEMs would reduce due to the recession, BRIC economies would continue substantial investment abroad though at a slower rate (IMF, 2009).

Does increasing FDI from BRIC economies conform to their theorized 'stage of development' as per the *investment development path* (IDP) (Dunning, 1981)? An UNCTAD study (2005), which mapped FDI outflows for 2004 with GDP per capita, showed that BRIC economies are still at Stage 1 of the IDP and hence should theoretically have limited inward and outward FDI. However, China actually receives the highest FDI among developing countries, while India too attracted \$39.2 billion in 2007–2008; a 1003% increase since 2000 (RBI, 2008). Furthermore, BRIC economies have begun significant outward FDI much earlier than theorized, by leapfrogging IDP's stages (UNCTAD, 2005). More importantly, they are showing levels and patterns of development quite different from the developed economies (Lall, 2001).

The UNCTAD (2005) study had noted that FDI data from developing countries often lack consistency, accuracy and uniform metrics. Consequently, we could collect outward FDI data of BRIC economies only from varying sources with

some overlap in time-periods. Despite such limitations we were able to make a reasonable comparison of the home-region/bi-regional FDI propensities of BRIC economies.

During 1990–2002 Brazilian firms made only 8.4% of their investments within Latin America, but the adjacent North American region attracted 56.9% FDI. Since North and South America together received 65.3% FDI, the bi-regional bias of Brazilian investments is clear. Europe received 34.3% Brazilian FDI but Asia, Africa and Oceania attracted negligible investments. Russia's outward FDI, which increased 1038% during 2000–2006, had a much greater home-region concentration (72.3%), mainly into East European countries. The next highest region – Asia – attracted 16.8% FDI mainly into the Central Asian republics of the erstwhile Soviet Union.

India's FDI during 1996–2004 revealed greater geographical dispersion than other BRIC economies. Asia aggregated only 19.1% Indian FDI stock while Europe received the largest share (28.7%). North America (22.5%), Africa (19.9%), Latin America (8.2%) and Oceania (1.5%) also attracted sizable Indian investment. In China's case the home region attracted 63.9% investments and Latin America (26.2%) came next; these two regions alone accounting for 90% of FDI stock. The shares of Africa (3.4%), Europe (3.1%), North America (2.1%) and Oceania (1.3%) were much smaller (China National Bureau of Statistics, 2007). Within Asia, Hong Kong alone accounted for 88% of China's FDI stock followed by South Korea (1.98%), Macao (1.28%) and Singapore (1%), thus providing strong evidence of China's home-region-bound investments. Remarkably however China held FDI stocks in 175 countries as compared to US investments in only 143 countries. We discuss this anomaly later in the paper. Figure 1 depicts the home-region and bi-regional distribution of outward FDI stock from the BRIC economies.

The practice of *round tripping* (UNCTAD, 2006a) recycles unaccounted money through a web of offshore companies, which returns as 'legal' money and earns government incentives for inward FDI (Bajpai and Dasgupta, 2003). What

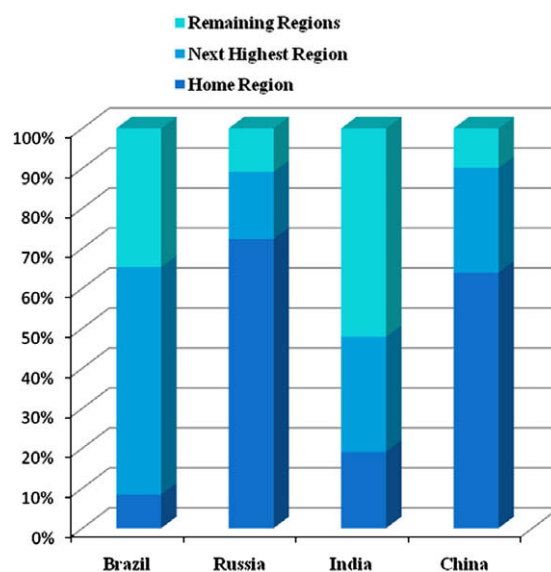


Figure 1 Regional distribution of outward FDI stock of BRIC economies. Source: Graphic based on data compiled from World Investment Reports, UNCTAD.

proportion of Chinese FDI into Hong Kong and Macao is genuine FDI and/or money-laundering is unclear. Similarly, Cayman Islands (72.15%) and Virgin Islands (24.12%) account for \$19.69 billion Chinese FDI stock in Latin America from where Chinese holding companies route investments into other countries; a practice called *trans-shipping* (UNCTAD, 2006a). India's outward FDI is also inordinately large in tax-havens such as Mauritius (9.2%), British Virgin Islands (7.9%) and Bahamas (2.8%) for channelizing into third countries.

Due to such lack of transparency it is impossible to ascertain the final destination or purpose of investments (UNCTAD, 2006a), and hence country-level FDI data do not provide accurate analyses of the dispersion of EEM operations. This study therefore supplemented FDI analyses with data on M&As by EEMs from BRIC economies. We contend that M&As denote strategic intent and accurately represent the actual investment destination, and hence yield better analyses of the dispersion propensities.

Firm-level analysis – M&As

For the firm-level analysis we compiled the following data on 1430 foreign M&As undertaken by EEMs from BRIC economies during the eight year period 2000–2007 from the Thompson One Banker database: (1) acquiring firm; (2) home country; (3) target firm; (4) host country; (5) 4-digit SIC code of the target firm; (6) percentage of equity held; (7) value of transaction; and (8) date announced.

As contended earlier industry characteristics make a stronger impact on FDI location choices thus affecting regional dispersion patterns. Consequently, the 1430 M&As were categorized for each BRIC economy using the 2-digit industry code into the following sectors: (1) agriculture and food products; (2) oil, gas and mining; (3) industrial, manufacturing and textiles; (4) business and financial services; (5) wholesale and retail trade. Table 1 provides the industry-wide breakdown of the M&As undertaken by EEMs from BRIC economies during 2000–2007.

Table 1 Industry breakdown of M&As by EEMs from BRIC economies.

Nationality of acquiring firm	Total deals	Location of target firm						Home region (%)	Bi-regional (%)
		Latin America	North America	Europe	Asia	Africa	Oceania		
<i>Agriculture and food products sector</i>									
Brazil	18	14	3	1	—	—	—	78	94
Russia	20	—	1	16	3	—	—	80	95
India	17	—	4	8	3	1	1	17	71
China	7	—	1	2	3	—	1	43	71
<i>Oil, gas and mining sector</i>									
Brazil	12	6	3	1	—	1	1	50	75
Russia	36	1	9	17	3	4	2	47	72
India	32	5	2	6	7	5	7	22	44
China	64	6	14	6	14	7	17	22	48
<i>Industrial, manufacturing and textiles sector</i>									
Brazil	63	26	17	19	1	—	—	41	71
Russia	112	—	11	89	7	4	1	79	89
India	231	4	51	116	38	14	8	16	67
China	120	1	24	26	62	2	5	52	73
<i>Business and financial services sector</i>									
Brazil	31	17	8	2	4	—	—	55	81
Russia	153	—	5	116	32	—	—	76	97
India	304	4	152	75	55	5	13	18	68
China	158	—	25	7	118	—	8	75	91
<i>Wholesale and retail trade</i>									
Brazil	2	1	1	—	—	—	—	50	100
Russia	18	—	1	16	1	—	—	89	94
India	18	—	8	8	2	—	—	11	56
China	14	—	1	—	12	—	1	86	93
<i>Total – all sectors</i>									
Brazil	126	64	32	23	5	1	1	50.8	76.2
Russia	339	1	27	254	46	8	3	74.9	88.5
India	602	13	217	213	105	25	29	17.4	53.5
China	363	7	65	41	209	9	32	57.6	75.5
Total	11,430	85	341	531	365	43	65	50.2	73.4

Source: Compiled from M&A data for 2000–2007 from the Thompson one banker database.

Table 1 also highlights some generic differences across industry sectors. As we had contended M&As in the agriculture and food products sector showed the highest propensity for regional/bi-regional concentration since CAGE distance (Ghemawat, 2001) proximity is especially important for this sector. M&As in the oil and gas sector had the least propensity for regional concentration, as indicated by the low percentages of M&As in respective home regions – Brazil (50%); Russia (47%); India (22%) and China (22%). Rapidly-growing but severely energy-deficient economies China and India are making extensive M&As worldwide in search of energy resources. Although Russia is an oil exporter only 47% M&As by Russian firms were in the home region whereas 25% were in North America.

Between these two extremes the propensity for regional concentration varied only slightly among the other three sectors. The wholesale and retail sector showed greater concentration, followed by the financial/business services and the manufacturing and textiles sectors. The regional dispersion pattern for these sectors varied according to the relative importance of cultural and ethnic links, and regulatory as well as geographical proximity to respective sectors.

Thus even the firm-level analysis fully validates the predominantly regional/bi-regional scope of international operations of firms from Brazil, Russia and China. However, the same does not hold true for Indian MNEs, which have very low presence in the home region, both in terms of M&As as well as aggregated FDI. Even their bi-regional concentration is much lower than other BRIC economies, and their operations are more dispersed in all regions of the world. Indian MNEs have a significant presence in Europe and North America and somewhat less in Oceania, Africa and Latin America in that order. We now discuss each BRIC economy individually.

Discussion

Brazil

Although Brazilian investments within Latin America were only 8.4% of her aggregate outward FDI, those financed 50.8% of the total M&As. Thus the home-region concentration of Brazilian firms is high numerically, albeit small in dollar value. This reinforces our contention that firm-level M&As yield more accurate analyses than country-level FDI data. Brazilian firms undertook numerically fewer M&As (21.4%) into the adjacent North American region but those were more expensive, accounting for 56.9% FDI. The bi-regional concentration of M&As in Latin America and North America is even larger (76.2%). Most M&As by Brazilian firms within Latin America were in the agriculture/food products sector (78%), with the financial/business services sector coming next (55%).

Europe attracted 34.3% of Brazilian FDI to finance 23 M&As (18.2%), the largest being in the petroleum and refining sector; e.g. MBB Teixeira (Portugal) and Renolit AG (Netherlands). Brazil's firms had only five M&As in Asia and just one each in Africa and Oceania, thus reaffirming the mainly bi-regional scope of their international operations.

Russia

The international operations of Russian firms are concentrated primarily in the home region, with 254 of their 339 M&As (74.9%) being made in Europe itself. Asia had 46 M&As and these two regions together accounted for 88.5% of the total. Furthermore, many of the M&As in Asia were in the Central Asian republics, which have high CAGE distance proximity being part of the erstwhile Soviet Union.

The predominantly home-region concentration of Russia's M&As is across all industry sectors; e.g. agriculture and food products (80%), industrial and manufacturing (79%), financial/business services (76%) and wholesale/retail trade (89%). The oil and gas sector is an exception with only 47% M&As within Europe. However, its bi-regional concentration is higher (72%) and that of other sectors even higher – ranging from 89% to 97%. Russian firms made maximum M&As (116) in the business/financial services sector, most of which were concentrated in East European and Central Asian countries such as Armenia, Ukraine and Kazakhstan.

Russian firms made 89 M&As in the industrial and manufacturing sector, mainly in Europe. However, increasingly M&As in North America, especially in the oil and gas (9), metal mining (11) and industrial machinery (5) sectors have been receiving media attention (Berman, 2008). Out of 339 M&As worldwide Russian firms had only eight in Africa, three in Oceania and just one in Latin America. Thus Russian MNEs are the most home-region-bound among all BRIC economies.

India

Indian firms do not conform to the same regional/bi-regional pattern displayed by other BRIC economies. Only 19.1% of India's FDI stock was in the home region, while Europe (28.7%), North America (22.5%), Africa (19.9%), Latin America (8.2%) and Oceania (1.6%) attracted the remainder. Investments by Indian firms are more widespread than other BRIC economies and span both developed and developing countries. Small countries such as Mauritius (9.2%), British Virgin Islands (7.9%) and Bermuda (2.8%) attract substantial Indian FDI, but since such investments are likely to be *round-tripping* and *trans-shipping* the final destination remains unclear. However, M&A data in Table 1 clearly show that international operations of Indian firms are dispersed in other regions, more than the home region.

The home-region bias of MNE operations is not replicated in South Asia due to geopolitical factors, and remarkably there is a near-total absence of Indian investment into contiguous countries. While Sri Lanka's share is just 0.7% the remaining countries (Pakistan, Bangladesh, Nepal, Bhutan, Myanmar, and Maldives) have almost negligible Indian investment. Despite major advantages of common culture and inter-linked infrastructure Indian FDI does not flow into these countries due to the vitiated political environment and cross-border terrorism (Bajpai and Sachs, 2000). Even in sectors where CAGE distance proximity has boosted the home-region concentration for other BRIC economies, Indian M&As in the agriculture/food products, wholesale/retail trade, and business/financial services sectors in the

home-region are merely 17%, 11% and 18%, respectively. In the manufacturing sector despite vital logistical advantages the share of the home region is low (16%), while in the oil and gas sector it is only 22%.

Europe (28.7%) attracted the highest volume of Indian FDI in dollar terms followed by North America (22.5%), but the number of actual M&As by Indian firms is higher in North America (217) as compared to Europe (213). The home region ranked third with 105 M&As, while Oceania (29), Africa (25) and Latin America (13) also attracted significant M&As. The overall bi-regional concentration of India's M&As is much lower (53.5%) than that of Russia (88.5%), Brazil (76.2%) and China (75.5%).

A large volume of India's outward FDI is *resource-seeking* mainly into oil and gas wherein ONGC, the state-owned oil company, is undertaking exploration, production and distribution in such widely dispersed locations as Algeria, Brazil, Colombia, Côte d'Ivoire, Cuba, Egypt, Iran, Iraq, Kazakhstan, Libya, Myanmar, Nepal, Nigeria, Qatar, Russia, Syria, Sudan, Vietnam and Venezuela (ONGC *vides*, 2008). Similarly, private sector firm Reliance Petroleum has acquired production-sharing interests in several oil companies abroad. Another important strategic motivation for several Indian M&As is to leapfrog into higher value-added products and services (UNCTAD, 2008b). Large highly-diversified business houses such as the Tata, Reliance and Birla groups, and rapidly growing information-technology firms like Infosys, TCS and WIPRO are adopting this approach (UNCTAD, 2008b).

The most spectacular *strategic-asset seeking* M&As have been undertaken by the Tata Group, which is among India's oldest and largest business houses, operating in seven businesses with 96 companies on six continents, and employs 350,000 people (Tata, 2008a). While its acquisition of Jaguar Land Rover in 2008 received intense media attention, it had made 35 M&As abroad during 2000–2008. Prominent among these were Gemplex, Tyco, INCAT, Good Earth, 8 O' clock Coffee and General Chemicals (USA), Tetley, Pearl Group and Corus Steel (UK), Daewoo (Korea), NatSteel (Singapore), Millenium Steel (Thailand) and CEC (China), besides several others in Germany, Spain, Switzerland, Poland, Czech Republic, Australia, South Africa, Indonesia and Chile. These M&As are enabling the Tata Group to leverage substantial scale and scope economies globally, along the entire value chain – raw material (steel), finished products (automobiles) and support activities (information-technology) – entirely in-house (Kripalani, 2008).

Similarly firms in the IT-enabled services and BPO segments that earlier were vendors are now engaging in 'upward integration' by acquiring those entities that were canalizing orders to them, using them as a springboard (Luo and Tung, 2007); e.g. IT firm Infosys acquired British consultancy Axon Group to venture into the high-end consulting business and leverage the latter's global presence to win deals in USA and Europe. India's TCS and UK's Pearl Group set up a new BPO company that assured TCS orders worth \$847 million over 12 years (Tata, 2008b). In another large acquisition BPO firm Firstsource Solutions bought Med-Assist Holdings for \$330 million to strengthen presence in healthcare insurance in USA. These are not isolated instances since international M&As by Indian firms increased from 37 in 2001 to 322 in 2008 (IBEF, 2009b).

Several M&As have also been made in the healthcare sector – the third largest growth segment in India (Pricewaterhouse, 2007). For instance, Ranbaxy acquired French firm RPG, Wockhardt bought British firm CP Pharma, and Ranbaxy Fine acquired US-based specialty chemicals major Mallinckrodt Baker. The strategic intent behind most such M&As is to consolidate presence in all segments of the healthcare sector, such as generic and branded drugs, clinical trials, medical transcription services, IT-enabled diagnostics and health insurance. Another thrust area is medical tourism, which involves combining world-class treatment/surgery packages at 12.5% of the costs in USA with a vacation (IBEF, 2009b).

Indian firms are thus increasing their scale and scope of global operations by exploiting India's talent pool in the knowledge-driven economy. This is getting manifested in much more dispersed international operations compared to the mainly bi-regional scope of other BRIC economies.

China

China's FDI is primarily home-region bound with Asia getting 63.9%, while the bi-regional concentration is 90.1%. Since the remaining regions share only 9.9% of Chinese FDI the widespread media-generated belief that China is investing heavily into USA and Europe is apparently not substantiated. However, due to *round-tripping* and *trans-shipping* large amounts could ultimately end up there, which is plausible since Cayman Islands (\$14.21 billion), Virgin Islands (\$4.75 billion) and Bermuda (\$2.08 billion) had accumulated substantial Chinese FDI stock by 2006. Furthermore, it is unclear how much of China's FDI stock in Hong Kong (\$42.37 billion) was diverted to other regions. Only M&A data therefore can better analyze geographical dispersion.

Except for the oil and gas sector wherein the home-region concentration of M&As was only 22% all other sectors were primarily home-region bound, albeit to varying degrees. The largest concentration was in the wholesale and retail trade sector (86%) followed by financial/business services (75%), manufacturing (52%) and agricultural/food products sectors (43%). The bi-regional concentration was even higher, ranging from 71% to 93%, except in the oil and gas sector (44%). Chinese firms made 65 M&As (17.9%) in North America, 41 (11.3%) in Europe and 32 (8.8%) in Oceania, whereas Africa and Latin America had just nine and seven M&As, respectively.

Due to dependency upon imported oil China has very actively acquired interests in oil and gas assets; e.g. CNPC's acquisition of PetroKazakhstan (Andrews-Speed, 2003). These investments are geographically dispersed in Central Asia, Middle East, Africa and Eastern Russia, wherever oil and gas reserves are procurable and proximity is not a factor (UNCTAD, 2008d). Due to the uproar following CNOOC's bid to acquire UnoCal, majority control is now less important to Chinese MNEs since small stakes are both educationally and politically acceptable, although Lenovo's acquisition of IBM's PC division is a notable exception. Chinese firms, characterized as 'Trojan Dragons', now regard access to skills as more valuable than control and have been acquiring minority holdings in financial sector firms and banks (Meyer, 2005). Apart from *resource-seeking* FDI, China's investments

Table 2 China's FDI stock in Africa in 2005 (US\$ millions).

Stock	Countries	Stock	Countries
Above \$100 million	Algeria; Sudan; South Africa; Zambia	\$50–100 million	Madagascar; Nigeria; Tanzania
\$10–50 million	Botswana; Congo; Egypt; Ethiopia; Equatorial Guinea; Gabon; Guinea; Ivory Coast; Kenya; Liberia; Libya; Mali; Mauritius; Morocco; Mozambique; Niger; Sierra Leone; Zimbabwe	\$1–10 million	Angola; Cameroon; Chad; Central African Republic; Gambia; Ghana; Mauritania; Namibia; Rwanda; Senegal; Seychelles; Togo; Tunisia; Uganda
Less than \$1 million	Cape Verde; Malawi		

Source: UNCTAD (2006b) Asian foreign direct investment in Africa, Table I.5, p. 19.

are mainly *strategic asset-seeking*, aimed at acquiring technology, R&D, brands, and organizational skills from the developed-countries (UNCTAD, 2008d).

China's FDI is mostly through state-owned-enterprises whose share was 85.5% and 83.7% in 2004 and 2005, respectively. Just 1.5% of FDI came from private firms (Cheng and Ma, 2007). State-owned-enterprises are expected to advance China's geopolitical objectives in third-world countries (Taylor and Smith, 2006). While its FDI into Sudan, Nigeria and Algeria is for energy-security, China uses aid and FDI to strengthen its influence in Africa, Middle East, Central Asia and South America (Morck et al., 2008; Taylor, 2006).

As we highlighted earlier China has investment stocks in 175 countries, which although small have the potential to eventually evolve into more commercially profitable ventures and yield first-mover advantages. While China has made such geopolitically-motivated investments in almost all developing countries we list only its investments in Africa in Table 2 as an illustration (UNCTAD, 2006b).

Propensity for bi-regional operations

Figure 2 depicts the regional distribution of M&As undertaken by EEMs during 2000–2007. While the bi-regional distribution of M&As almost corresponds to the FDI distribution pattern in Figure 1, there are some differences at the home-region level; especially Brazil. Due to the lack of transparency of FDI data we developed a composite index giving greater weight to M&A distribution. Based on the weighted distributions of FDI as well as M&A data, the propensity for bi-regional operations is the highest for Russia (88.8) followed by China (82.8) and Brazil (70.8). The bi-regional propensity of Indian firms is much less (50.7) and their operations are more dispersed in all regions.

Implications for research and practice

This study sought to extend the regionalization analysis to the operations of BRIC economy EEMs, whose increasing M&As despite the recession represent threats as well as opportunities for DEM managements. Since EEMs seldom report sales data by regions, we supplemented the country-level FDI data with firm-level analysis of 1430 M&As by EEMs from BRIC economies in all regions (not just the Triad), across five industry sectors. This methodology helps develop deeper insights into the strategic motivations and geographical scope of EEMs, which should be useful for MNE manage-

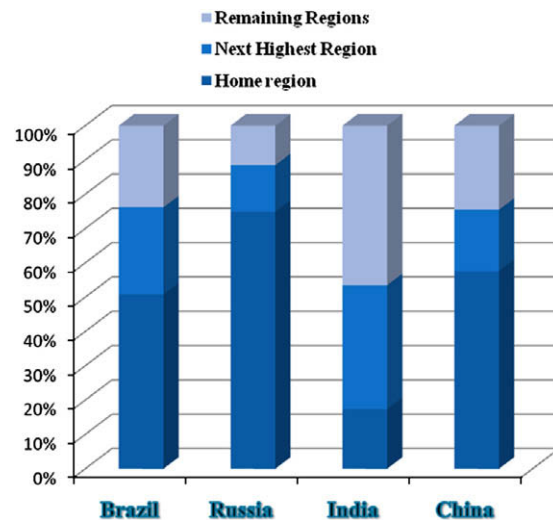


Figure 2 Regional distribution of M&As by EEMs from BRIC economies during 2000–2007. Source: Graphic based on M&A data compiled from the Thompson One Banker database.

ments for taking preemptive competitive actions and/or forging strategic alliances.

The study provided evidence about the predominantly regional and bi-regional scope of international operations of firms from Brazil, Russia and China, though Indian firms are less home-region-bound. Since FDI data lack transparency we accorded greater weight to the M&A distribution in the composite index of bi-regional propensity. Further empirical research into the industry-sector and regional distribution of the operations of firms from other developing economies is needed to help validate this methodology and bring those countries also within the ambit of the regionalization debate.

References

Aharoni, Y. (1966) *Foreign investment decision process*. Harvard Business School Press, Boston.
 Andrews-Speed, P. (2003) Foreign investment in exploration and production in China. *The Oil and Gas Review* 2, 134–136.
 Bajpai, N. and Dasgupta, N. (2003) *Multinational companies and foreign direct investment in India and China*. Columbia Earth Institute, Columbia University, New York.

- Bajpai, N. and Sachs, J. D. (2000) Foreign direct investment in India: Issues and problems. Harvard Institute of International Development, DDP No. 759, March.
- Barkema, H. and Vermeulen, F. (1998) International expansion through start-up or acquisition: A learning perspective. *Academy of Management Journal* 41, 7–26.
- Berman, D. K. (2008) Russians are coming, wallets in hand. *Wall Street Journal* 22(July), C1.
- Buckley, P. J. and Casson, M. (1976) *Future of the multinational enterprise*. Macmillan, London.
- Buckley, P. J., Devinney, T. M. and Louviere, J. J. (2007) Do managers behave the way theory suggests? A choice-theoretic examination of foreign direct investment location decision-making. *Journal of International Business Studies* 38(7), 1069–1094.
- Caves, R. E. (1971) International corporations: The industrial economics of foreign investment. *Economica* 38(149), 1–27.
- Cheng, L. K. and Ma, Z. (2007) China's outward FDI: Past and future, working paper. Hong Kong University of Science and Technology.
- China National Bureau of Statistics (2007) China statistical yearbook. <http://www.stats.gov.cn/english>.
- Collinson, S. and Rugman, A. M. (2007) The regional character of Asian multinational enterprises. *Asia Pacific Journal of Management* 24, 429–446.
- Dunning, J. H. (1980) Toward an eclectic theory of international production. *Journal of International Business Studies* 11(1), 9–31, spring/summer.
- Dunning, J. H. (1981) Explaining the international direct investment position of countries: Towards a dynamic or developmental approach. *Weltwirtschaftliches Archiv* 119, 30–64.
- Dunning, J. H., Fujita, M. and Yakova, N. (2007) Some macro-data on the regionalisation/globalisation debate: A comment on the Rugman/Verbeke analysis. *Journal of International Business Studies* 38, 177–199.
- Dunning, J. H. and Lundan, S. (2008) Institutions and the OLI paradigm of the multinational enterprise. *Asia Pacific Journal of Management* 25(4), 573–593.
- Eden, L. and Lenway, S. (2001) Introduction to the symposium. Multinationals: The Janus face of globalization. *Journal of International Business Studies* 32(3), 383–400.
- Farrell, D. (2006) A tale of two countries. http://www.ibef.org/Archives/ViewArticles.aspx?art_id=8069.&cat_id=348.
- Ghemawat, P. (2001) Distance still matters: The hard reality of global expansion. *Harvard Business Review* 79(8), 137–147.
- Hofstede, G. (1980) *Culture's consequences: International differences in work-related values*. Sage, Beverly Hills.
- Hymer, S. H. (1960) International operations of national firms: A study of direct investment. Ph.D. Thesis, MIT, Cambridge, MA.
- IBEF (2009a) India brand equity foundation. <http://www.ibef.org/economy/economyoverview.aspx>.
- IBEF (2009b) India brand equity foundation. http://www.ibef.org/artdispview.aspx?in=37&art_id=22211&cat_id=599&page=1.
- IMF (2009) World economic outlook 2009. <http://www.imf.org/external/pubs/ft/weo/2009/01/index.htm>.
- Johanson, J. and Vahlne, J. E. (1977) The internationalization process of the firm – a model of knowledge development and increasing market commitments. *Journal of International Business Studies* 8, 23–32.
- Kindleberger, C. P. (1969) *American business abroad*. Yale Press, New Haven, CT, Berlin.
- Kripalani, M. (2008) Inside the Tata Group empire. Business week, http://images.businessweek.com/ss/08/03/0312_tata/source/1.htm, March 03, pp. 1–15.
- Lall, S. (2001) Competitiveness indices and developing countries: An economic evaluation of the global competitiveness report. *World Development* 29(9), 1501–1525.
- Levitt, T. (1983) The globalization of markets. *Harvard Business Review*, May–June, 1983.
- Luo, R. and Tung, R. (2007) International expansion of emerging market enterprises: A springboard perspective. *Journal of International Business Studies* 38(4), 481–498.
- Meyer, M. W. (2005) Is China for sale? *Management and Organization Review* 1(2), 301–307.
- Morck, R., Yeung, B. and Zhao, M. (2008) Perspectives on China's outward foreign direct investment. *Journal of International Business Studies* 39(3), 337–350.
- Narula, R. (1996) *Multinational investment and economic structure*. Routledge, London.
- Nigh, D. (1985) The effect of political events on US direct foreign investment: A pooled time-series cross-sectional analysis. *Journal of International Business Studies* 16(1), 1–17.
- Noorbakhsh, F. and Paloni, A. (2001) Human capital and FDI inflows to developing countries: New empirical evidence. *World Development* 29(9), 1593–1610.
- Oh, C. H. and Rugman, A. M. (2006) Regional sales of multinationals in the world cosmetics industry. *European Management Journal* 24(2–3), 163–173.
- Ohmae, K. (1985) *Triad power: The coming shape of global competition*. Free Press, New York.
- ONGCvidesh (2008) Our footprint. <http://www.ongcvidesh.com/Company.aspx> (accessed 25.10.08).
- Ozawa, T. (1992) Theory of FDI as a dynamic paradigm of economic development. *Transnational Corporations* 1(1), 27–54.
- Pricewaterhouse Coopers (2007) Healthcare in India: Emerging market report 2007. [http://www.pwc.com/extweb/pwcpublishations.nsf/docid/3100DC81746FA2308525734F007458DF/\\$File/emerging-market-report-hc-in-india.pdf](http://www.pwc.com/extweb/pwcpublishations.nsf/docid/3100DC81746FA2308525734F007458DF/$File/emerging-market-report-hc-in-india.pdf).
- RBI (2008) Reserve bank of India. <http://www.rbi.org.in/scripts/IIP.aspx?Mn=0&Yr=0>.
- Rugman, A. M. (1979) *International diversification and the multinational enterprise*. Lexington Books, Lexington, MA.
- Rugman, A. (2005) *The regional multinationals: MNEs and "Global" strategic management*. Cambridge University Press, Cambridge, p. 7.
- Rugman, A. M. and Collinson, S. (2004) The regional nature of the world's automotive sector. *European Management Journal* 22(5), 471–482.
- Rugman, A. M. and Collinson, S. (2005) Multinational enterprises in the new Europe: Are they really global? *Organizational Dynamics* 34(3), 258–272.
- Rugman, A. M. and Collinson, S. (2006) Japanese business is regional. In *Regional Economic Integration* ed. Michele Fratianne. Elsevier, Oxford.
- Rugman, A. M. and Girod, S. (2003) Retail multinationals and globalization: The evidence is regional. *European Management Journal* 21(1), 24–37.
- Rugman, A. M., Kudina, A. and Yip, G. S. (2007) The regional dimension of UK multinationals. *Research in Global Strategic Management* 13, 297–315.
- Rugman, A. M. and Li, J. (2007) Will China's multinationals succeed globally or regionally? *European Management Journal* 25(5), 333–343.
- Rugman, A. M. and Verbeke, A. (1992) A note on the transnational solution and the transaction cost theory of multinational strategic management. *Journal of International Business Studies* 23(4), 761–772.
- Rugman, A. M. and Verbeke, A. (2001) Subsidiary-specific advantages in multinational enterprises. *Strategic Management Journal* 22(3), 237–250.
- Rugman, A. and Verbeke, A. (2004) A perspective on regional and global strategies of multinational enterprises. *Journal of International Business Studies* 35(1), 3–18.
- Rugman, A. M. and Verbeke, A. (2007) Liabilities of regional foreignness and the use of firm-level vs country-level data: A

- response to Dunning et al., 2007. *Journal of International Business Studies* 38(1), 200–205.
- Sauvant, K. P., Mendoza, K. and Ince, I. (2008) *The rise of transnational corporations from the emerging markets: Threat or opportunity?* Edward Elgar Publishing, Northampton, MA.
- Sethi, D., Guisinger, S. E., Ford, D. and Phelan, S. E. (2002) Seeking greener pastures: A theoretical and empirical investigation into the changing trend of FDI flows in response to institutional and strategic factors. *International Business Review* 11(6), 685–705.
- Sethi, D., Guisinger, S. E., Phelan, S. E. and Berg, D. (2003) Shift in foreign direct investment flows: A theoretical and empirical analysis. *Journal of International Business Studies* 34(4), 315–326.
- Sethi, D., Judge, W.Q. and Sun, Q. (2009) FDI distribution within China: An integrative conceptual framework for analyzing intra-country FDI variations. *Asia Pacific Journal of Management*, in press. doi: 10.1007/s10490-009-9144-5.
- Tata (2008a) Leadership with trust. http://www.tata.com/aboutus/sub_index.aspx?sectid=8hOk5Qq3EfQ=.
- Tata (2008b) TCS subsidiary Diligenta wins £100 million BPO contract. <http://www.tata.com/article.aspx?artid=PPuyBJ1rLLM=>.
- Taylor, I. (2006) China's oil diplomacy in Africa. *International Affairs* 82(5), 937–959.
- Taylor, I. and Smith, P. (2006) More business than Bandung. *The Africa Report*, March 16–21.
- UNCTAD (2005) Internationalization of developing-country enterprises through outward foreign direct investment. Issues note 15, United Nations, New York and Geneva.
- UNCTAD (2006a) World investment report 2006. United Nations, New York and Geneva, p. 12.
- UNCTAD (2006b) Asian foreign direct investment in Africa: Towards a new era of cooperation among developing countries. Table I.5, p. 19, United Nations, New York and Geneva.
- UNCTAD (2007) World investment prospects survey. United Nations, New York and Geneva, 1–5.
- UNCTAD (2008a) World investment report 2008. United Nations, New York and Geneva, 3–9.
- UNCTAD (2008b) World investment report 2008. United Nations, New York and Geneva, 26–32.
- UNCTAD (2008c) World investment report 2008. United Nations, New York and Geneva, 28–29.
- UNCTAD (2008d) World investment report 2008. United Nations, New York and Geneva, 49–51.
- Vernon, R. (1966) International investment and international trade in the product cycle. *Quarterly Journal of Economics* 80, 190–207.
- Woodward, D. and Rolfe, R. J. (1993) The location of export-oriented FDI in the Caribbean Basin. *Journal of International Business Studies* 24(1), 121–144.



DEEPAK SETHI is an Assistant Professor of International Management at Old Dominion University. He earned his Ph.D. from the University of Texas at Dallas. Before entering academia he served in the Indian Army as a Brigadier General. His research has been published in the *Journal of International Business Studies*, *International Business Review* and *Journal of International Management*.