

## Foreign Direct Investment Outflows of Emerging Countries Mnes: Case of Malaysia

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### Abstract

World investment witnessed a pattern of emerging countries MNEs becoming significant players in the global market. Despite of entering the global market at later stage, these firms manage to depict remarkable present. Their acceleration in the international expansion has changed the pattern of internationalization that have been discussed by scholars. The speed of acceleration in their internationalization caused them to springboard to ensure global participation contribute to the development of capabilities and competitiveness. This paper discusses the springboard perspectives view that has become one of the theoretic lens to analyze emerging market multinationals in the past decade. This study takes place in Malaysian MNEs as one of the emerging countries.

**Keywords :** Foreign Direct Investment, Emerging Countries, OFDI

### Introduction

Current trend of foreign direct investment (FDI) outflows have shown an overall decrease 35% in global flows in the first half of 2018 mostly due to huge repatriations of earnings by US parent companies from their foreign affiliates because of tax reform in United State (OECD, 2018). This decrease however is likely to have a minimal impact on investment activities abroad by MNEs from emerging countries with declined 6% reaching \$381 billion in 2016. Foreign direct investment outflows from developing Asia were reducing 9% for the first time since 2003, decreasing to \$ 125 billion in 2017 (UNCTAD, 2018). Meanwhile, Malaysia foreign direct investment outflows increase from RM0.45 billion in 1980 to RM 10.41 billion in 1997. Increase tremendously peak in 2011 to RM 72.43 billion but currently reduce to RM 23.03 billion in 2017.

FDI has become a primary part of corporate growth strategies for MNEs not only from advanced countries but also from emerging countries. In fact, firms from emerging countries now are paying special attention to international expansion as a source of investment and competitiveness. Nonetheless, experience accumulated by MNEs from emerging countries is far less than advanced countries. Despite such situation, these MNEs are striving to compete in the global market and keen to review their strategies to ensure their global participation.

The speed of international expansion for these firms is much shorter than MNEs from advanced countries, thus the pattern of internationalization is slightly different. Asian MNEs have made efforts by involving in exporting and licensing as initial stage in the process of internationalization before moving into investment activities abroad (UNCTAD, 2018).

However, these firms also faced various risks and challenges in their effort of becoming global players. Their study was inferred based on various emerging countries including the major countries such as China, India, Brazil, Mexico and Russia. The aggressiveness of emerging countries MNEs to participate in global competition forced them to springboard in their efforts of expansion. Hence, this study attempts to investigate further about the international expansion of MNEs from Malaysia and examine their characteristics of expansion. This paper will analyze the characteristics of international expansion based on the framework developed by Luo & Tung (2007). Malaysian MNEs that engaged in the international expansion have their own reasons and rationale which might be or might not be similar to other MNEs from other emerging countries. The differences of Malaysia from other emerging countries in the global market would create the uniqueness itself and might depict a different situation from other emerging countries.

## **Literature Review**

### **Springboard Theory**

Springboard theory or springboard perspective is an international business theory that addresses the unique motives, activities, challenges, facilitating forces and strategic behaviours of multinational companies in developing and expanding business markets internationally. Systematic efforts and strategies to exploit the advantages and reducing the company's weaknesses against institutional and market constraints are designed as a great plan to facilitate robust corporate growth and competitive long-term strategy in spearheading global enterprise market development Luo & Tung (2007, 2018).

This typology classifies MNEs on the basis of their business ownership and international diversification. There are four groups in the categories; niche entrepreneurs; world stage aspirants; transnational agents; and commissioned specialists. Niche entrepreneurs are privately owned firms that have specific focus in their business activities globally while world-stage aspirants are privately owned firms that have a wider involvement in their business activities globally. In contrast, transnational agents are public enterprises in which government have strong control and heavily involved in global business expansion, while commissioned specialists are public firms that specialize and focus on few selected foreign market to leverage their competitiveness and fulfill government aspirations.

Luo & Tung (2007, 2018) suggest that MNEs from emerging countries need to expand aggressively to ensure resources and capabilities development, thus in doing so they have to springboard in their international expansion. This is important not only in enhancing their competitiveness abroad but also to support some deficiencies in the home countries. Luo & Tung (2007, 2018) also argue that 'springboarding' behavior or unique activities is more extensive than leapfrog, apart from that springboard also links MNEs international expansion with their home countries. Among the characteristics of springboarding include improving their competitive positions and late entrants disadvantages; competing with global rivals; alleviate trade barriers and local constraints; secure preferential treatment offered by emerging market governments; and exploit their competitive strength in other emerging or

developing markets. Springboarding in their international expansion is the major strategy for them to compensate their competitive disadvantages compared to the MNEs from advanced countries. Various mechanisms are used in springboarding include seeking market in advanced countries, looking for sophisticated know-how and technology through aggressive acquisition of foreign firms or their subunits. These mechanisms enabled MNEs emerging countries to leverage and exploit their ownership-specific competitive advantages in foreign countries (Dunning, 1981; Lecraw, 1983). Emerging countries MNEs also are keen to acquire technology and establish their brands through internationalization. The willingness foreign firms' to sell and share brands, know-how, and technology has contributed to these MNEs to achieve their objectives (Cuervo-Cazurra, 2012). Besides gaining the advantage for international expansion, springboard also allows MNEs to compete with rivals in their home market. Springboard facilitates MNEs to avoid strict trade barriers such as special tariff penalties, quota restrictions, and anti-dumping penalties. As most of them mainly dependent on global export markets, this situation forced them to leverage production capabilities and reducing deficiency in reaching foreign customers.

Springboard behavior also can be seen when MNEs attempt to overcome their unique challenges to improve local institutional restrictions. Invalid institution functions such as poor enforcement of commercial laws and lack of legal protection for property rights become the pushing factor for them to expand abroad. Emerging countries MNEs also springboard in their international expansion to protect privileged treatment provided by emerging market governments. The offers by emerging market government are viewed as opportunities that could help them to secure their competitive positions against domestic vulnerability (Luo & Zhang, 2016). Exploiting competitive advantages in other emerging markets is also part of springboard behavior, expertise gained in mass production through OEM arrangements and cross national alliances has given them advantages, and furthermore they also can easily buy the technology and know-how needed. Low-cost position enabled them to take over the dominant positions by the advanced and NICs countries (Buckley, 2016).

### **Springboard Motives and Drivers**

Motives for springboard international expansion can be categorized as asset-seeking and opportunity-seeking. Asset-seeking may include technology, R&D facilities, know-how expertise, human capital, customer based, brands, distribution channel, natural resources and managerial expertise. While opportunity seeking may include shaping niche opportunities in advanced markets that complement their strengths; benefit from preferential financial and non-financial treatment offered by home and host government; increasing company size and reputation; escaping from institutional or market constraints at home; bypassing trade barriers into advanced markets; seizing opportunities in other developing countries to leverage their cost-effective manufacturing capabilities reason.

Springboard behavior of emerging countries MNEs are driven by several forces such as home government support for going global; willingness of global players to share or sell strategic resources and offshore availability of standardized technology; corporate entrepreneurship and strong motivation to enter key foreign markets; increasing competitive pressure from global rivals; quick changes in technological and market landscapes and a heightened borderless world economy. Entrepreneurial leadership is part of important motivated force behind springboard activities for both state-owned and non-state-owned enterprises. The

integrations between institutional legacies of emerging economies and dynamic capabilities of their corporate entrepreneurs are crucial for understanding their internationalization strategies (Child and Rodrigues, 2005). These MNEs that are proactive in international markets are often led by corporate executives who have sharp vision and have adopted pragmatic measures to tap into foreign markets that provide resource-seeking or market-seeking opportunities (Andreff, 2002; Tsang, 2002). Inability to compete with advanced countries MNEs in terms of their technological capabilities, emerging countries MNEs expanded their scale and scope by investing or reinvest parent capital in new project. They have built new competences necessary in emerging markets, diversified product lines, extended value chain activities, and enormous localization and adaptations (Buckley, 2016).

The rapid change in technological and market has forced emerging countries MNEs to go into the global stage. The dynamic and turbulent environment such as technological changes, intensifying significance of knowledge, shortened product life cycle, remarkable changes in information, rapid technology diffusion and communication technologies have compelled them to quickly cope with the phenomenon. Even some advanced economy share compatible strategic pursuits, obtaining critical assets from other advanced economies and even from emerging economies to bolster their home country capability portfolio, a pattern highlighted as knowledge-seeking OFDI (UNCTAD, 2017). Emerging MNEs will play a bigger role in shaping global norms and institutions that underpin the world economy.

### **Methodology**

This study employed a qualitative design in which case study approach is a main method used. Cases were selected from several MNEs originated from Malaysia and are heavily engaged in international market to illustrate the springboard international expansion phenomenon. Data is collected mainly through secondary data as a practical data collection which include various sources such as documentation, archival records, interviews, direct observations, participant observations and physical artifacts (Yin, 2003). Physical artifacts used in this study also include newspapers, books, magazine, websites, memos, transcripts of conversations, and annual reports. The population are all Malaysian MNEs that have international expansion and investment abroad and listed in Kuala Lumpur Stock Exchange Markets (KLSE), nine companies were selected out of 626 firms based on their international engagement from various sectors in Malaysia. These firms are Scomi Group Ltd, YTL Corporation, UMW Holdings Ltd, Eng Technology, Tong Guan Industries Ltd, UEM Builder Ltd, Sime Darby Ltd, Petronas, Telekom Malaysia (TM). Data analysis follow qualitative method of analysis where they were classified and filtered accordingly before they were grouped for common factors like motives, activities, and drivers.

### **Findings And Discussion**

In describing the springboard international expansion of Malaysian MNEs, nine firms were analyzed based on their international business activities in the global market. Based on the typology (Luo & Tung, 2007, 2018), it was found that Malaysian MNEs have the characteristics of world-stage aspirant, transnational agent, niche entrepreneur and commissioned specialist. The nine MNEs were categorized and Figure 1 below summarizes the classification for them.

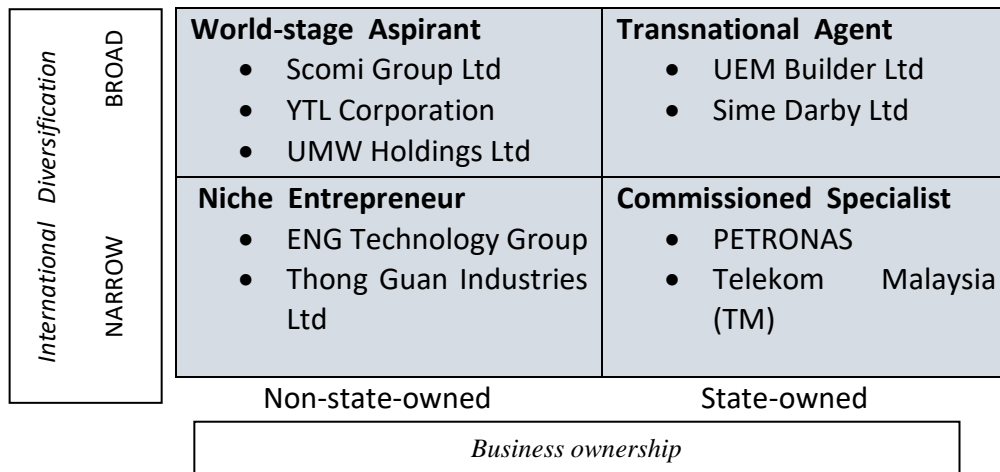


Figure 1: Typology of Malaysian MNEs

*World-stage aspirant* - Scomi Group Ltd, YTL Corporation, and UMW Holding Ltd are world-stage aspirants as they are large private MNEs that diversified in various products and have operations in many places all over the world. Scomi involved globally in activities like oilfield services, energy and logistic engineering, energy logistic and product enhancement at 65 locations in 36 countries. Among the foreign countries that they currently operates are Singapore, Indonesia, Australia, Brunei, Thailand and Saudi Arabia, Taiwan, China, Hong Kong, Vietnam, Sri Lanka, Brunei, Maldives, Seychelles, Philippines, Indonesia and Yemen. It is ranked top three overall offshore vessel owner in Asia and number one in South East Asia. It is also recognized as the top five offshore utility vessel owners in the world. YTL involved in various activities under six core businesses; construction contracting, power generation, cement manufacturing, property development, hotel development and management, IT and e-commerce. YTL Corp is one of Malaysia's biggest and most respected in the world company through its worldwide achievements. UMW engaged in automotive, heavy and industrial equipment, manufacturing and engineering, oil and gas businesses. Its business operations covered various locations worldwide including Singapore, Indonesia, Thailand, Myanmar, Vietnam, Papua New Guinea, Australia, Taiwan, China, India, the United Arab Emirates and Turkmenistan. Though their current scale and scope of internationalization is smaller compared to other emerging countries such as China, India, Russian, Brazil and Mexico, but they have created an alarming force in shaping the global competition where cost advantages are crucial particularly in products that are mass manufactured and technologically matured.

*Niche Entrepreneur* - Eng Technology Group (EngTech) and Thong Guan Industries Ltd are niche entrepreneurs as they are privately-owned MNEs that have limited coverage of products and global location. They focused specifically in a particular industry and the entrepreneurial characteristics were clearly depicted from the top management. They did not receive government funding and developed vast industrial experience independently. They specialized in their product lines to develop their strengths. EngTech specializes in design manufacturing, tape drive components, fabricate and assemble mechanical components, and precision engineering. Started as a family business, the company now runs operations in seven key locations including Malaysia, Philippines, China, and Thailand. Thong Guan specializes in plastic packaging and one of the largest producers of the cast pallet stretch film in Asia Pacific. Started as a small-sized company to serve the local market, Thong Guan grows



substantially in 1980s and currently operates globally through seven key subsidiaries in Malaysia, China and Thailand.

*Transnational Agent* - UEM Builder Ltd and Sime Darby Ltd are two Malaysian transnational agents in which both are public MNEs that have wide business expansion globally and under strong influence of local government. The ownership of the government in these corporations make them be known as government linked corporation (GLCs). The powerful control of government in their investment decisions making particularly pertaining to the global expansion are considered important supporting the economic development in the country. UEM is the largest construction company in Malaysia with 40 major operating companies under six core businesses; expressways, engineering and construction, environmental services, healthcare, property and information, communication and technology. Aggressive actions through international links with foreign partners and various foreign projects in India, Asian countries, Middle East, United Kingdom, Canada, New Zealand and Australia, has turned it to be an agent of the country. Sime Darby Ltd is another transnational agent of Malaysia and the country's most known conglomerate among local and foreign investors. It is one of the biggest companies in Southeast Asia with the core business being plantation including palm oil and the company original business, rubber; tire manufacturing, heavy equipment and motor vehicle distribution, property development, power generation, and engineering services. The market covers Hong Kong, Singapore, New Zealand, Australia, Thailand, Indonesia, Philippines, Brunei, Indonesia, Thailand, Vietnam, United Kingdom, Solomon Island, Papua New Guinea, and New Caledonia. It also has operations on paint manufacturing, refrigeration product manufacturing, travel and tourism services, hospitals and golf courses.

*Commissioned Specialist* - Petronas and Telekom Malaysia (TM) are commissioned specialist MNEs, they are government-owned companies that invest in few selected international markets to leverage their competitiveness whilst satisfying the home government aspirations. Petronas, the national petroleum company, has been awarded an exclusive ownership and control by the government, the core business activities range from upstream exploration, development and production of oil and gas to downstream oil refining, marketing and distribution of petroleum product, trading, gas processing and liquefaction, gas distribution, marketing of liquefaction natural gas, gas transmission pipeline operation, gas transportation petrochemical manufacturing and marketing and engineering and technical services. It operates through 36 wholly-owned subsidiaries, 21 partly owned subsidiaries with majority holding and 20 associated companies with minority holding in various countries including Iran, Sudan, Algeria, Libya/Tunisia, Pakistan, China, Myanmar, Thailand, Cambodia, the Philippines, Indonesia, Brunei Darussalam, South Africa, Angola, Seychelles, Turkmenistan, Chad, Egypt, Gabon, Cameroon and of course Vietnam, it also has interests in Australia, India, Argentina and Switzerland. Petronas has developed a strong brand name especially in Asia and Middle East countries. Telekom Malaysia (TM) is another specialist that focus on telecommunication business including establishing, maintaining, providing telecommunication and related services. As a government-owned company, it is closely monitored by the government through the ministry of Energy, Telecommunication and Posts. Its operations cover Pakistan, India, Thailand, Indonesia, Cambodia, Sri Lanka, Bangladesh, Malawi, and Republic of Guinea. Recently, TM is undergoing massive restructuring particularly in its foreign expansion strategies to stabilize its existence in the global market. Figure 2 summarizes the unique activities and unique challenges in these MNEs.

<i>Group</i>	<i>Company</i>	<i>Unique Activities or Behavior</i>	<i>Unique Challenges</i>
World-stage Aspirant	Scomi Group Ltd	<ul style="list-style-type: none"> <li>Strengthening global market position</li> <li>Enhancing international branding</li> <li>Undertaking acquisitions and technological partnerships</li> <li>Improving cost competitiveness</li> <li>Increasing productivity</li> <li>Improving efficiency</li> </ul>	<ul style="list-style-type: none"> <li>Political and economic risk</li> <li>Industry risk</li> <li>Technological risk</li> <li>Competitive risk</li> </ul>
	YTL Corp	<ul style="list-style-type: none"> <li>Building strong reputation and brand names</li> <li>Undertaking acquisitions of companies from advanced countries</li> <li>Improving efficiency</li> <li>Improving capabilities and competitiveness</li> <li>Improving product quality</li> <li>Enhancing market growth</li> </ul>	<ul style="list-style-type: none"> <li>Limitation for global competitiveness</li> <li>Limitation in technology competencies</li> <li>Significant trend in power industries</li> </ul>
	UMW Holdings Ltd	<ul style="list-style-type: none"> <li>Improving product and manufacturing techniques</li> <li>Expanding sales and market share</li> <li>Enhancing market growth</li> <li>Improving cost competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>Fluctuate in fuel price</li> <li>Higher in R&amp;D cost</li> <li>Financing cost (low trade in value)</li> <li>Acquiring ISO 14001</li> </ul>
Niche Entrepreneur	Eng Technology Group	<ul style="list-style-type: none"> <li>Enhancing market growth and diversification</li> <li>Improving capabilities and know-how</li> <li>Improving production and cost efficiency</li> <li>Increasing specialization</li> </ul>	<ul style="list-style-type: none"> <li>Economic constraint</li> <li>Nature disaster</li> <li>Imitation in Intellectual Property</li> </ul>
	Thong Guan Industries Ltd	<ul style="list-style-type: none"> <li>Lowering the production and logistics cost</li> <li>Enhancing market share and growth</li> </ul>	<ul style="list-style-type: none"> <li>Political problem in China</li> <li>Imitation in technology in China</li> </ul>

			<ul style="list-style-type: none"> <li>• Government policies change</li> <li>• Raw material price increasing-oil</li> </ul>
Transnational Agent	UEM Builder Ltd	<ul style="list-style-type: none"> <li>• Fulfilling government strategic plan</li> <li>• Increasing market growth</li> <li>• Grabbing opportunities in foreign counties</li> <li>• Utilizing preferential treatments by the home government</li> </ul>	<ul style="list-style-type: none"> <li>• Operation constraints</li> <li>• Market constraints</li> </ul>
	Sime Darby Ltd	<ul style="list-style-type: none"> <li>• Enhancing market share and growth</li> <li>• Improving manufacturing technologies</li> <li>• Improving cost competitiveness</li> <li>• Fulfilling the government strategic plan</li> <li>• Undertaking wholly-owned ventures</li> </ul>	<ul style="list-style-type: none"> <li>• Delay and high environment cost (Bakon hydroelectric Project)</li> <li>• Asian Financial Crisis Sime Bank Berhad (United Malayan Banking Corp)</li> <li>• China partner having financial problems</li> </ul>
Commissioned Specialist	Petronas	<ul style="list-style-type: none"> <li>• Focusing on developing countries for natural resources</li> <li>• Building strong brand name</li> <li>• Exploiting competitive advantage in less developing countries</li> <li>• Utilizing government support for foreign market</li> <li>• Supporting home government plan for economic development</li> </ul>	<ul style="list-style-type: none"> <li>• numerous competitor</li> <li>• social economic and political regulation</li> <li>• technology innovation</li> </ul>
	Telekom Malaysia (TM)	<ul style="list-style-type: none"> <li>• Expanding market growth</li> <li>• Seeking for innovations and technologies</li> <li>• Building competitiveness</li> <li>• Enhancing capabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Falling fixed line unit</li> <li>• Higher competitive cellular segment</li> </ul>



			<ul style="list-style-type: none"> <li>• Lack of long term commitment in investment</li> <li>• Lack of focus in selecting market</li> <li>• Lack of experience and knowledge</li> </ul>
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Figure 2: Malaysian MNEs International Springboard: Unique Activities and Unique Challenges in MNEs

### Motives for Malaysians MNEs International Expansion

A number of theories have been developed to explain the reasons for the global existence of emerging countries MNEs as mentioned by Dunning (1980,1993); Luo&Tung (2007) and other scholars. Motives for MNEs to invest abroad are commonly discussed within five major reasons which include natural resource-seeking, market-seeking, efficiency-seeking, strategic asset-seeking and opportunity-seeking. However, springboard international expansion emphasizes asset-seeking and opportunity-seeking are two core motives for emerging countries MNEs. Malaysian MNEs apparently have these two motives, but in the case of Petronas the motives go beyond that. Due to the scarcity of the natural resources in the country, this condition has forced the company invest in other potential countries. Scomi, YTL and UMW expanded globally and seeking to enhance their capabilities and competitiveness, improving their disadvantages as late entrants and increasing their market expansion. Hence, greater emphasis is given on the acquisition of technologies, branding development, and distribution of networks. The strategies used were also geared towards international joint ventures (ijvs) and acquisitions. They aimed for niche opportunities in advanced markets that complement their strengths and bypassing trade barriers into advance markets. YTL for instance acquired English utility company, Wessex Water for its water and sewage treatment technologies while Scomi enhanced its R&D capabilities by acquiring Anticor Chimie, a French company that first developed and applied preventive chemical process for control and remediation of deposition in crude oils.

EngTech and Thong Guan sought for efficiencies rather than assets and opportunities by utilizing their specialize expertise in lower cost countries and targeted only certain market. These MNEs avoid involved in equity based relationship like ijvs and acquisitions due to the cost but rather emphasis on non-equity based relationship like contractual agreement. Their global present was conducted through strong network with advanced foreign partners whilst striving for cost efficiencies whereby production centers were relocated to lower cost countries. EngTech and Thong Guan were forced to operate globally by the limited domestic market, thus expanding market share and growth is significant to them. Like Petronas, UEM and Sime Darby also sought for natural resources abroad as alternatives for their sustainability. Greenfield investments were common in these companies as control is an essence in managing such operations. Springboard argument that emerging countries MNEs focus on asset and opportunity seeking as motives of international expansion is not depicted clearly in the Malaysian MNEs. Hence, for Malaysian MNEs seeking out for natural resources remain as main motives for their international expansion. Apart from that, Malaysia MNEs

also were driven to invest abroad for efficiencies reasons. UEM, EngTech, Thong Guan for instance focused their foreign operations merely in reducing costs whilst improving capabilities as a source of competitiveness. Figure 3 summarizes the motives for the MNEs.

Company	Natural resource	Market	Efficiency	Asset	Opportunity
Scomi Group Ltd		x	x	x	x
YTL Corp		x	x	x	x
UMW Ltd	x	x	x	x	x
EngTech Group		x	x	x	x
Thong Guan		x	x	x	x
UEM Ltd	x	x	x	x	x
Sime Darby Ltd	x	x	x	x	x
Petronas	x	x	x	x	x
TM		x	x		x

Figure 3: Malaysian MNEs International Springboard: Drivers of Malaysian MNEs

### Conclusion

Malaysian MNEs internationally expanded as other MNEs from large emerging countries like China, India, Brazil, Mexico and Russia, however the springboarding of the expansion is rather limited. Malaysia MNEs failed to enjoy such as production scale which lower the costs through vertically integrated global production systems as enjoyed by China and India. Malaysian MNEs are yet struggling to minimize transaction costs for efficiencies as a source of competitive advantage. This is due to the size, resources, technological and financial capabilities that the country is lacking compared to these countries. Though the model of springboard international expansion fits well with Malaysian MNEs, there are certain criteria that remain to be seen in them but not in large emerging countries MNEs. The economies of scale and small domestic market did not give cost advantage and dominant position to these MNEs to utilize in global market. Lack of advanced technologies and know-how and strong government interventions slowed down the process of international expansion thus disable them to springboard. This perspective enables Malaysian MNEs to review their competitive positions relative to other MNEs from other emerging countries in the global market.

### Future Research

Through the finding and discussion obtained, some limitations were identified that prompt to further future research. Several improvement can be done through analyzing the international expansion theories of different MNEs in Malaysia by increasing the population sample of MNEs. Additionally, exploration to other developing countries springboard perspective factors can also be carried especially in Asia. Besides, varieties of international business theories can be applied to strengthen the understanding on Malaysian MNEs activities, drivers, risks and challenges. Other than that, comparing several factors related to international expansion of MNEs between loads of countries from emerging markets will develop more understanding of overall studies. International expansion strategies in developed countries can also be benchmarked to making the studies more informative to other researchers.

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