

*Emerging African multinational corporations: trends
and determinants*

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Preface

In an attempt to enhance the current understanding of the unfolding phenomenon of emerging multinational corporations (EMNCs), this thesis intends to explore the key salient features of emerging multinational corporations based in Africa (EAMNCs), as well as testing their key drivers, with application to South Africa and Egypt. Along with the introductory chapter, this thesis is organised into five chapters.

The second chapter outlines the primary theoretical aspects pertaining to emerging multinational corporations. These include the concept of emerging multinational corporations, theories explaining their evolution, market penetration modes, and finally types of such firms.

The third chapter gives an overview of EMNCs in general along with examining the key attributes of EAMNCs and to what extent they differ from that of their emerging peers, regarding performance, sector breakdown, the foreign market selection, and market entry modes.

Along with the above, the fourth chapter examines South African and Egyptian MNCs as case studies of emerging African MNCs and tests the key push drivers influencing their overseas investment. To complete the picture regarding the main drivers shaping the map of Egyptian and South African MNCs' cross-border investment, the fifth chapter discusses the foreign market selection of both groups of firms as well as examines key pull drivers affecting their foreign market selection.

Finally, and based on research findings, the thesis concludes with drafting some recommendations for policymakers in Egypt and South Africa to boost the global orientation of their domestic firms.

Abstract

Despite the recent attempts to address the evolution of EMNCs, limited research has been conducted to examine EAMNCs. Moreover, the importance of this investigation is increased as it may guide African governments in drafting their policy envisaging initiating and boosting the global orientation of their domestic firms. As such, this thesis intends to examine the phenomenon of EAMNCs, with application to South Africa and Egypt. Overall statistics exhibit that both South African and Egyptian MNCs were growing outstandingly, at a different pace during the period from 1990 to 2016. However, both groups of firms significantly lost ground on the emerging MNCs landscape during that period. In 2016, South Africa owned less than a quarter of its share in the early nineties. The Egyptian outbound investment did not surpass one percent of the corresponding investments owned by emerging economies over the same period. Moreover, the outward Foreign Direct Investment Performance Indices of both countries were often less than unity, indicating that they were playing a smaller role in the global outward foreign direct investment than their economies warrant.

Apart from the financial sector, the mining and quarrying sector ranked first for South African MNCs, while the industrial sector was the most important for Egyptian MNCs. The private sector dominated, to different extent, in both South African and Egyptian MNCs. Similar to emerging MNCs, South African and Egyptian MNCs both exhibited a remarkable preference to greenfield investment over mergers and acquisitions as foreign market entry mode, and to set their greenfield investments in nearby markets.

The empirical research proves that trade openness, patent and the gross domestic product (GDP) and the GDP growth rate of South Africa and Egypt are dominant drivers of their outward foreign direct investment. In contrast, the number of investment treaties and inward foreign direct investment rate do not significantly influence outbound investment decisions of South African and Egyptian corporations. Regarding the pull drivers, the market size, resources endowment and proximity between home and host country are significant pull drivers of both Egyptian and South African MNCs. While not affecting Egyptian MNCs, assets availability, trade openness, the service sector quality, export to the host country, the official exchange rate of the receiving destination and the quality of institutions have an influential impact on foreign market selection of the South African investors. Inflation neither affects the attention of Egyptian firms nor South Africans to choose a certain market to invest in.

Table of Content

<i>Declaration and Copyright</i>	i
<i>Acknowledgement</i>	ii
<i>Preface</i>	iii
<i>Abstract</i>	iv
<i>List of Figures</i>	viii
<i>List of Tables</i>	ix
<i>Acronyms</i>	x
<i>Chapter One : introduction</i>	1
1.1 SETTING THE CONTEXT	1
1.2 PROBLEM STATEMENT AND LITERATURE GAP	2
1.3 OBJECTIVES AND CONTRIBUTION OF THE THESIS	3
1.4 RESEARCH QUESTIONS	3
1.5 OUTLINE OF THE THESIS	3
1.6 METHODOLOGY AND DATA SOURCES	4
<i>Chapter Two: theoretical and conceptual framework of emerging multinational corporations</i>	6
2.1 INTRODUCTION	6
2.2 CONCEPT OF EMERGING MULTINATIONAL CORPORATIONS	6
2.2.1 Emerging markets	6
2.2.2 Multinational corporations	8
2.3 EMNCs THEORIES	11
2.3.1 The first category: firm advantages based theories	12
2.3.2 The second category: host country advantages based theories	16
2.3.3 The third category: firm and host country advantages based theories	18
2.4 TYPES OF EMNCs	23
2.4.1 Geographical dispersion of economic activities of EMNCs	24
2.4.2 Timing of engaging with global markets	25
2.4.3 Relation between the headquarters and affiliates	25
2.4.4 Global orientation motives	25
2.4.5 Other classifications	26
2.5 MARKET ENTRY MODES	26
2.5.1 Types of market entry modes	27
2.5.2 Classification of market entry modes	28
2.6 SUMMARY	29

Chapter Three: emerging multinational corporations landscape: where do emerging African multinational corporations stand?	31
3.1 INTRODUCTION	31
3.2 EMERGING MNCS OVERVIEW	31
3.2.1 Performance of EMNCs	32
3.2.2 Foreign markets of EMNCs	37
3.2.3 Preferred entry mode of EMNCs	38
3.2.4 Industry breakdown of EMNCs	39
3.3 LEADING COUNTRIES OF EMNCs.....	41
3.3.1 Performance of BRICS MNCs.....	41
3.3.2 Foreign markets and preferred entry mode of BRICS MNCs.....	43
3.3.3 Industry breakdown of BRICS MNCs	43
3.4 AFRICA’S STATUS IN THE EMNCs LANDSCAPE.....	44
3.4.1 Performance of EAMNCs	44
3.4.2 Foreign markets and preferred entry mode of EAMNCs.....	48
3.4.3 Industry breakdown of EAMNCs	47
3.5 SUMMARY	49
Chapter Four: push drivers of South African and Egyptian multinational corporations	51
4.1 INTRODUCTION	51
4.2 SOUTH AFRICAN AND EGYPTIAN MULTINATIONAL CORPORATIONS OVERVIEW	52
4.2.1 Performance of South African and Egyptian MNCs.....	52
4.2.2 Foreign market entry mode of South African and Egyptian MNCs	57
4.2.3 Sector breakdown of South African and Egyptian MNCs	58
4.2.4 Ownership structure of South African and Egyptian MNCs.....	60
4.2.5 Openness of South Africa and Egypt to OFDI.....	61
4.3 THEORETICAL FRAMEWORK AND LITERATURE REVIEW	62
4.3.1 Theoretical framework.....	62
4.3.2 Previous research	64
4.4 DRIVERS OF EGYPTIAN AND SOUTH AFRICAN MNCs	67
4.4.1 Methodology and data sources.....	67
4.4.2 Empirical results	73
4.4.3 Limitations of the findings.....	78
4.5 SUMMARY	78

Chapter Five: pull drivers of South African and Egyptian multinational corporations	80
5.1 INTRODUCTION	80
5.2 FOREIGN MARKETS OF SOUTH AFRICAN AND EGYPTIAN MULTINATIONAL CORPORATIONS	80
5.3 THEORETICAL FRAMEWORK AND LITERATURE REVIEW	84
5.3.1 Theoretical framework	84
5.3.2 Literature review	88
5.4 PULL DRIVERS OF EGYPTIAN AND SOUTH AFRICAN MNCs	91
5.4.1 Methodology and data sources	91
5.4.2 Empirical results	98
5.4.3 Limitations of the findings	106
5.5 SUMMARY	106
Chapter Six: conclusion and policy recommendations	109
6.1 KEY FINDINGS OF RESEARCH	109
6.1.1 Performance of emerging African MNCs and their status in the EMNCs landscape	109
6.1.2 Industry breakdown of emerging African MNCs	110
6.1.3 Ownership structure of emerging African MNCs	110
6.1.4 Preferred entry mode of emerging African MNCs	111
6.1.5 Foreign markets of emerging African MNCs	111
6.1.6 Push drivers of emerging African MNCs	111
6.1.7 Pull drivers of emerging African MNCs	112
6.2 LIMITATIONS OF RESEARCH	113
6.3 POLICY RECOMMENDATIONS	114
6.4 LESSONS LEARNED	116
6.5 FUTURE RESEARCH PROSPECTS	117
BIBLIOGRAPHY	119
ANNEXURE	131

List of Figures

Figure 2.1: Classification of EMNC theories	11
Figure 2.2: Types of emerging multinational corporations	24
Figure 3.1: Foreign assets, sales and employment as a percentage of total indicators of the top EMNCs and their Transnationality Index (1994-2015)	33
Figure 3.2: Listing frequency of the top EMNCs during the period (1990-2015)	35
Figure 3.3: Share of emerging versus developed economies in the world OFDI flow and stock (1990 – 2016)	36
Figure 3.4: Shift in non-financial industry structure of the top EMNCs (1994 -2015)	40
Figure 3.5: Share of the top BRICS MNCs in total and foreign assets, sales & employment of the top EMNCs (1994- 2015)	41
Figure 3.6: Foreign assets, sales, employment as a percentage of total respective indicators of the top BRICS MNCs and their Transnationality Index (1994- 2015)	42
Figure 3.7: Shift in non-financial industry structure of the top BRICS MNCs (1994 - 2015)	44
Figure 3.8: Foreign assets, sales, & employment as a percentage of total respective indicators of the top EAMNCs and their Transnationality Index (1995–2011)	45
Figure 3.9: Share of the top EAMNCs in total and foreign assets, sales, employment of the top EMNCs (1995 – 2011)	46
Figure 3.10: Share of EAMs in the total OFDI of EMs (1990–2016)	47
Figure 4.1: Foreign assets, sales, employment as a percentage of total respective indicators of the top SAMNCs and their Transnationality index (1995–2012)	53
Figure 4.2: South African and Egyptian outward FDI (1990-2016)	54
Figure 4.3: Share of SAMNCs in total and foreign assets, sales and employment of the top 17 EMNCs (1995-2011)	55
Figure 4.4: Stance of South Africa in the map of EMs OFDI (1990-2016)	55
Figure 4.5: Stance of Egypt in the map of EMs OFDI (1990-2016)	56
Figure 4.6: South African and Egyptian OFDI Performance Indices (1990-2016)	57
Figure 4.7: South African and Egyptian OFDI by type of investment (1990-2016)	58
Figure 4.8: Ownership structure of South African and Egyptian MNCs in 2013	60
Figure 4.9: OFDI openness of South Africa and Egypt versus the respective average of emerging markets (1990-2016)	61
Figure 5.1: South African and Egyptian greenfield investment projects by hosting continent in 2014	81
Figure 5.2: Geographical breakdown of Egyptian greenfield investment projects (2003-2014)	81
Figure 5.3: Geographical breakdown of South African greenfield investment projects (2003-2014)	82
Figure 5.4: Share of developing countries from total South African and Egyptian greenfield investment projects (2003-2014)	82
Figure 5.5: Geographical breakdown of South African OFDI assets (2000-2016)	83
Figure 5.6: Breusch-Pagan Lagrange Multiplier test of the random effect	151
Figure 5.7: Histogram of South African and Egyptian greenfield investment projects	151

List of Tables

Table 2.1: Different types of resources.....	16
Table 2.2: Investment-Development Path stages.....	22
Table 2.3: Firm multinationality level.....	26
Table 2.4: Emerging market lists proposed by international organisations.....	131
Table 2.5: Different emerging market lists used in literature.....	133
Table 2.6: Comparison of the primary attributes of different EMNC theories	135
Table 2.7: Classification of different entry modes	137
Table 3.1: Growth of foreign assets, sales, & employment of the top EMNCs (1994–2015)	32
Table 3.2: Growth of foreign assets, sales, & employment of the top EAMNCs (1995-2011)	45
Table 3.3: EAMNCs listed in the Financial Times Global 500 list (2008–2014).....	46
Table 3.4: Industry breakdown of the top EAMNCs recognised in UNCTAD lists (1995-2011)48	
Table 4.1: Performance of South African and Egyptian MNCs (2009 to 2013)	52
Table 4.2: Sector breakdown of SAMNCs in 2013.....	58
Table 4.3: Sector breakdown of Egyptian MNCs in 2013	59
Table 4.4: Variables used in the model, definitions, hypothesised signs and data sources	72
Table 4.5: Results of the dynamic model	75
Table 4.6: Different push factor determinants considered in previous research	139
Table 4.7: Variance inflation factor	142
Table 4.8: Results of the Im-Pesaran-Shin unit-root test	142
Table 5.1: Variables used in the model, definitions, data sources and hypothesised signs	98
Table 5.2: Pull factor determinants of OFDI of Egypt and South Africa.....	101
Table 5.3: Different pull factor determinants considered in previous research.....	143
Table 5.4: Variance inflation factor of Model 1 (South African OFDI stock).....	147
Table 5.5: Pairwise correlation coefficients of correlated variables in Model 1 (South African OFDI stock)	147
Table 5.6: Variance inflation factor of Model 1.a (South African OFDI stock).....	147
Table 5.7: Variance inflation factor of Model 1.b (South African OFDI stock)	148
Table 5.8: Variance inflation factor of Model 1.c (South African OFDI stock).....	148
Table 5.9: Results of the unit-root test for the South African OFDI stock dataset.....	148
Table 5.10: Variance inflation factor of Model 2 (South African greenfield investment projects)	149
Table 5.11: Variance inflation factor of Model 3 (Egyptian greenfield investment projects)...	149
Table 5.12: Results of the unit-root test for South African greenfield investment projects dataset	150
Table 5.13: Results of the unit-root test for Egyptian greenfield investment projects dataset ..	150
Table 5.14: Descriptive analysis of greenfield investment projects of Egypt and South Africa	151

Acronyms

BRICS	Brazil, Russia, India, China and South Africa
EAMNCs	Emerging African multinational corporations
ECOSOC	United Nations Economic and Social Council
EGMNCs	Egyptian MNCs
EMNCs	Emerging market multinational corporations
EMs	Emerging markets
FDI	Foreign direct investment
GDP	Gross domestic product
IBV	Institution- Based View
IDP	Investment-Development Path
IFC	International Finance Corporation
IFDI	Inward foreign direct investment
IMF	International Monetary Fund
JSE	Johannesburg Stock Exchange
JVs	Joint ventures
LRS	Labour Research Service
M&As	Mergers and acquisitions
MNCs	Multinational corporations
OFDI	Outward foreign direct investment
OFDIPI	Outward Foreign Direct Investment Performance Index
OLI	Ownership, Location and Internationalization model
R&D	Research and development
SAMNCs	South African MNCs
TNI	Transnationality Index
UNCTAD	United Nations Conference for Trade and Development
WOS	Wholly owned subsidiary

Chapter One

Introduction

1.1 SETTING THE CONTEXT

"A major development in the global foreign direct investment (FDI) market over recent years has been the rapid rise of multinational enterprises from emerging markets" (Colombia Center for Sustainable Investment, 2018). Overall statistics clearly support this statement. Foreign activities of the top emerging economies based multinational corporations (EMNCs) evolved significantly. They doubled their foreign sales, assets and employment, namely 51, 57 and 11 fold respectively, during the period from 1994 to 2015. Moreover, in 2016, the top EMNCs accounted for nearly 5 percent of total assets of the world's top 100 non-financial MNCs, valued at 1.5 trillion dollars, while not being counted in such group of firms in 1994 (UNCTAD, 2017).

In the same vein, EMNCs have also received better representation in the Financial Times Global 500 list from one year to another. While hosting only 6.5 percent of the headquarters of the world's top 500 firm (33 firms) in 2006, emerging markets hosted 14 percent (72 firms) in 2015. Consequently, the market value of EMNCs' assets doubled four times from 2006 to 2014 to reach \$4 trillion. As a result, in 2014, emerging markets controlled 10 percent of the total market value of the world's top 500 firms' assets, compared to only five percent in 2006 (Financial Times, 2015).

The unfolding evolution of EMNCs is further proven by the significant escalation registered in the magnitude of outward foreign direct investment (OFDI) coming from emerging markets (EMs). Actually, EMs were the sourcing economies of nearly 16 percent of the global OFDI flow in 2016, starting from less than one percent in 1990 (UNCTAD, 2017). The World Bank anticipates that the annual value and the number of cross-border mergers and acquisitions (M&As) deals engaged in by emerging market -based MNCs would grow by more than triple by 2025 (World Bank, 2011).

As EMNCs tend to expand their presence in the global OFDI landscape, an increasing number of researchers and academics have become more interested in studying factual findings related to such growing phenomenon (Goldstein & Pusterla, 2008; Amighini, Sanfilippo & Rabellotti, 2009; Kayam, 2009; Contessi & El- Ghazaly, 2010; Narula & Guimon, 2010; Cortesi & Plantoni, 2011; Deng, 2012; Ahmed, Draz & Yang, 2018). In addition, since 1995 UNCTAD has published an annual list of the top 100 non-financial MNCs coming from developing countries and economies in transition, reflecting the growing global impetus of EMNCs.

1.2 PROBLEM STATEMENT AND LITERATURE GAP

A review of existing literature relevant to EMNCs raises a number of interesting remarks. First, the focus of most previous research is to examine the key drivers of the unfolding evolution of EMNCs, both theoretically (Aspelund, 2010; Balcet & Bruschi, 2010; Laghzaoui, 2013) and empirically (Kyrkilis & Pantelidis, 2003; Wang, 2017; Ahmed, Draz & Yang, 2018).

As such, limited research has been conducted to determine and/or investigate the unique attributes of EMNCs. These include the foreign market selection (Andreff, 2002; Alon, 2010; Amal & Tomio, 2012; Beule & Bulcke, 2012; Andreff & Balcet, 2013), the timing of initiating the multinationality process (Goldstein, Bonaglia & Mathews, 2006), the internationalisation degree of EMNCs in comparison to their peers coming from developed markets (DMNCs) (Berrill & Mannella, 2012), risk and performance characteristics of EMNCs (Aybar & Thirunavukkarasu, 2005) and market strategies adopted by EMNCs (Ramamurti, 2008).

The second remark is that MNCs based in Africa have noticeably received less attention, relative to those domiciled in other continents (Mortensen, 2009). In addition, limited research has been done to examine East European-based MNCs. On the contrary, most studies, in particular empirical research, have focused on firms based mainly in Asia, particularly China and India, (Banga, 2005; Aminian, Fung & Lin, 2007; Frederickson, 2008; Masron & Shahbudin, 2010; Poncet, 2009; Beule, Bulcke & Zhang, 2014). Similar to Asia, but to lesser extent, MNCs-based in Latin America, particularly Brazil, are widely investigated in previous research (Concer, Turolla & Magarido, 2012; Amal & Tomio, 2012; Casanova, Kassum, 2013).

1.3 OBJECTIVES AND CONTRIBUTION OF THE THESIS

This thesis intends to unveil the key salient features of MNCs based in emerging African, countries with application to Egypt and South Africa. Eventually, there are two main rationales for choosing this research topic. First is to build upon existing literature, and therefore to enhance the current understanding of the unfolding phenomenon of EMNCs in general, and those based in Africa in particular. This is because literature in this domain remains remarkably sparse and in need of further development, despite the recent attempts to address EMNCs.

Along with the theoretical value added of the thesis, the importance of this investigation is increased by the fact that it may guide emerging African governments in drafting their outward foreign direct investment promotion policy. It envisages initiating and boosting the global orientation of domestic firms. Such policy would be of great importance for developing and emerging economies. This is because going multinational could tangibly improve competences of domestic firms (Moon & Roehl, 2001; Andreff & Balcet, 2013). To ensure the effectiveness of such policies, they should be based on detailed information regarding the key drivers of OFDI coming from these countries.

1.4 RESEARCH QUESTIONS

To meet research objectives, this thesis intends to address four main questions regarding emerging African multinational corporations (EAMNCs):

- 1) What is the current status of EAMNCs in the landscape of emerging multinational corporations and how does the performance of EAMNCs evolve over time?
- 2) What are the main attributes of EAMNCs?, And to what extent they differ from that of their emerging peers, particularly regarding sector breakdown, the ownership structure, market entry modes, and the foreign market selection?
- 3) What are the key push drivers (home country specifications) of EAMNCs?
- 4) What are the key pull drivers (host country specifications) of EAMNCs?

1.5 OUTLINE OF THE THESIS

Along with the introductory chapter, this thesis is organized into five chapters. The second chapter outlines the primary theoretical aspects pertaining to emerging economies-based MNCs. It covers four main aspects, namely: the concept of emerging multinational

corporations, theories explaining their evolution, market entry modes, and finally the types of such firms.

The following chapter presents an overview of the evolution of emerging multinational corporations in general. In addition, it discusses the key attributes of EAMNCs and to what extent they differ from that of EMNCs, particularly regarding the performance, the sectors in which EAMNCs are active, preferred market entry modes and the foreign market selection.

To enrich the analysis, the fourth chapter places focus on examining the key attributes of Egyptian and South African MNCs as case studies of emerging African multinational corporations. Moreover, it investigates the key push drivers (home country specifications) influencing them. The fifth chapter examines the foreign market selection of Egyptian and South African MNCs along with the pull drivers (host country specifications) affecting them. The last chapter exhibits some policy recommendations for Egypt and South Africa.

1.6 METHODOLOGY AND DATA SOURCES

Before going into detail about the methodology, it is worth mentioning that two main issues of concern are evident in the different methodologies applied in previous research. First, remarkably varied lists of emerging markets have been used in literature. This comes despite the relative convergence among different studies in defining the concept of emerging markets. It is possible to count eight different lists of emerging markets. The number of emerging markets remarkably varies from one list to another. It ranges from 10 to 62 countries, as exhibited in Table 2.4 in the Annexure.

The second issue relates to the unavailability of detailed data about the foreign activities of emerging markets-based multinational corporations. In fact, only a small number of previous research managed to investigate either company case studies (Goldstein, Bonaglia & Mathews, 2006; Mortensen, 2009) or domestic/international MNC records (Sethi, 2009; Berrill & Mannella, 2012; Cui, Meyer & Hu, 2013).

Instead, most literature has counted on outward foreign direct investment statistics to quantitatively analyse the foreign activities of EMNCs (Narula & Dunning, 2000; Aykut & Goldstein, 2006; Salehizadeh, 2007; Sauvart, Pradhan, Chatterjee & Harely, 2010). This could be attributed to the similarity between multinational corporations and outward foreign

direct investment, to the extent that both terms are likely to be used interchangeably to refer to the same phenomenon (Markusen, 1995).

To tackle the first issue of concern, this thesis promotes a similar methodology to that adopted by Andreff & Balcet (2013), grouping together countries commonly classified as emerging in previous research. As per literature review, only 20 countries commonly considered as emerging by the eight international organisations reviewed in this thesis. These countries include Argentina, Brazil, the Czech Republic, Chile, China, Colombia, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Morocco, Peru, the Philippines, Poland, Russia, South Africa, Thailand, and Turkey.

Accordingly, for the purpose of this thesis, the term EMNC hereafter refers to MNCs based in one of the above-mentioned 20 countries. Furthermore, it is noted that there are only three African countries commonly classified as emerging economies, including Egypt, Morocco and South Africa. However, this thesis focuses only on Egyptian and South African multinational corporations. MNCs coming from Morocco are excluded from the analysis owing to data limitation considerations. In this context, an emerging market multinational corporation is defined as a firm based in an emerging market and controls, through only foreign direct investment or equity modes, value-added activities in at least two countries (Arnold & Quelch, 1998; Hoskisson, Eden, Lau & Wright, 2000; Sandberg, 2012).

Apropos the second issue, data unavailability is found to be the key limitations encountering this thesis. It is particularly evident when it comes to the foreign markets and industry structure of outbound investments possessed by Egyptian and South African MNCs. To address this concern, this thesis advocates using multiple data sources to ensure the best possible coherence in addressing the aforementioned research questions. These sources include, inter alia, the World Bank, UNCTAD, and the Financial Times.

Along with OFDI statistics, it is possible to compile domestic and international records for some of the foreign activities of Egyptian and South African MNCs. This is done based on data retrieved from the FDI Intelligence Corporation, as well as Egyptian and South African local data sources. Owing to using multiple data sources, the time span of the analysis may differ from one chapter to another and even from one section to another in the same chapter. Moreover, different panel data models are employed to test the key push and pull factor driver of South Africa and Egypt-based MNCs.

Chapter Two

Theoretical and conceptual framework of emerging multinational corporations

2.1 INTRODUCTION

This chapter provides insight into the theoretical and conceptual framework of emerging market multinational corporations. It is organised into four sections. The first section describes the concept of EMNCs. The theories explaining EMNC evolution are discussed in the second section, while the remaining sections consider the types of EMNCs and entry modes adopted by them to go multinational.

2.2 CONCEPT OF EMERGING MULTINATIONAL CORPORATIONS

The distinctive features of the concept of emerging multinational corporations can be elaborated on by dividing this term into its two constituent parts, namely “emerging markets” (describing where EMNCs are based) and “multinational corporations” (addressing which firms are listed under the title EMNCs).

2.2.1 Emerging markets

The term emerging markets (EMs) was firstly introduced by the International Finance Corporation (IFC) in 1981 to describe new developing stock markets (Aybar & Thirunavukkarasu, 2005). This term has since been widely used by different researchers and international organisations. According to literature review (Arnold & Quelch, 1998; Aybar & Thirunavukkarasu, 2005; Constanza, 2009; Hoskisson, Eden, Lau & Wright, 2000; Cortesi & Plantoni, 2011; Sandberg, 2012), it emerges that three variables are commonly used to identify an emerging market.

These variables are population standard of living [often measured as the average gross domestic product (GDP) per capita, the pace of economic growth (frequently measured as the GDP growth rate) and finally economic policies adopted by the government to maintain

economic growth and improve the living conditions of its citizens. According to the World Bank classification, emerging countries often belong to the lower or upper-middle income categories, experience a higher growth rate than that achieved by industrial economies, and are more oriented towards applying a wide spectrum of economic policies favouring free market mechanisms.

Furthermore, according to Constanza (2009), emerging markets are characterised by institutional instability and lower levels of economic development, compared to industrialised economies. Sandberg (2012) suggests that the category of emerging markets should include growing economies facing structural transformation from a centrally controlled economy, or from what she describes as the “pre-market stage”, to the stage of matured industrialised economies. This is to be done through adopting integrated and coherent reforms of companies, markets, and society.

Despite the relative convergence among different studies in defining the concept of EMs, remarkably varied lists of emerging markets have been adopted by the different international organisations reviewed in this thesis. These are OECD (2005), IMF (2008), the World Bank (2011), the Institute of International Finance (2012), Standard and Poor’s (2012), UNCTAD (2012), Bloomberg (2014), and the Financial Times (2015), as reflected in Table 2.4 in the Annexure.

A general observation on Table 2.4 is that the number of emerging countries, listed by aforementioned organisations, ranges from 10 to 62 countries. Unlike other international organisations, UNCTAD (2012) supports a narrow definition of emerging markets. Its list encompasses only 10 countries belonging to Asia and Latin America. It, therefore, excludes many countries such as China, India, and Russia, commonly listed by other organisations, as being emerging countries. In addition, it does not include the Middle Eastern and emerging African countries, such as South Africa and Egypt.

UNCTAD statistics are proven to be the primary data source used in various studies concerned with capturing emerging multinational corporations activities (Goldstein & Pusterla, 2008; Sauvart, Maschek & McAllister, 2009; Cortesi & Plantoni, 2011; Kudina & Pitelis, 2014). However, owing to the previously mentioned critics, researchers are unlikely to adopt UNCTAD’s EM list. Instead, they often promote extended EM lists to become more inclusive and representative of all continents, as reflected in Table 2.5 in the Annexure.

It is also noted that amongst the 62 countries classified as emerging by the eight international organisations, only 20 countries are common among these organisations (i.e. mentioned by at least five out of the eight organisations). These countries are Argentina, Brazil, the Czech Republic, Chile, China, Colombia, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Morocco, Peru, the Philippines, Poland, Russia, South Africa, Thailand, and Turkey.

After determining the salient characteristics of emerging markets, this thesis proceeds to discuss in detail the second constituent part of the term “emerging multinational corporations” addressing the question of which firms should be considered as multinational corporations (MNCs).

2.2.2 Multinational corporations

According to Spero & Hart (2010), multinational corporations are business enterprises that maintain overseas direct investments in order to control or possess value-added assets in more than one country. Consequently, the enterprise that operates outside its national economy only as a contractor to foreign firms is not counted as a multinational corporation. Many other researchers (Markusen, 1995; Caves, 2007; Dunning & Lundan, 2008; Buckley & Casson, 2009) adopt a similar perspective and define MNCs as firms that acquire a substantial controlling power in establishments located in at least two countries, through outward foreign direct investment.

In the same vein, most international organisations, *inter alia*, UNCTAD, IMF, and OECD, define MNCs based on a sole criterion; the ratio of foreign to total assets. The threshold is usually determined to be more than or equal to 10 percent. UNCTAD (2009) perceives an MNC as an incorporated or unincorporated company that consists of a parent enterprise (which possesses not less than 10 percent of assets or voting power of a company existing outside its national economy), and foreign affiliates (not less than 10 percent of assets or voting power of these affiliates is owned by a company that exists abroad).

To be considered as a multinational corporation, equity modes have to be the sole entry modes for initiating the global orientation of a firm. Thus, firms using non-equity modes (such as exports) at the beginning of their going multinational process are not viewed as MNCs. Similarly, IMF (2008) and OECD (2008) define an MNC or direct investment enterprise as an incorporated or unincorporated enterprise in which a direct investor, who is

a resident in another country, owns 10 percent or more of the ordinary shares or the voting power. The affiliate may be a subsidiary (when a foreign investor owns more than 50 percent), an associate (when a non-resident investor owns equal to or less than 50 percent), or a branch (a wholly or jointly owned unincorporated enterprise).

From another perspective, it is important to raise the remark of Markusen (1995) pertaining to the similarity between multinational corporations and outward foreign direct investment, to the extent that both terms have often been used interchangeably to refer to the same phenomenon.

In addition, UNCTAD (2009) defines both outward foreign direct investment and multinational corporations in quite a similar way, in a sense that both terms may be, to a certain degree, considered synonymous. OFDI refers to a type of investment that aims to build a long-term relationship between one company (direct investor) and another company existing abroad (invested enterprise). The direct investor must possess no less than 10 percent of the assets or the voting power of the invested enterprise. Correspondingly, most studies (Narula & Dunning, 2000; Aykut & Goldstein, 2006; Salehizadeh, 2007; Sauvart, Pradhan, Chatterjee & Harely, 2010) depend on OFDI statistics to quantitatively analyse MNCs.

This can be attributed to the unavailability of detailed statistics on the activity of MNCs at the national level. Furthermore, the United Nations Economic and Social Council (ECOSOC) (2009) mentions that “Multinational corporations present a special measurement challenge for the balance of payment accounts”. ECOSOC interprets these challenges by the fact that the accounting systems of MNCs do not necessarily capture the real economic value of their activities and transactions, as it should be reflected in the national accounts of the different countries they invest in.

Before concluding this section, it should be taken into consideration that MNCs significantly differ according to their involvement in the international markets, or what is referred to as the multinationality/internationalisation degree¹. This can be captured through wide-ranged

¹The multinationality degree reflects to what extent a firm is involved in international markets (Sullivan, 1994). Moreover, it is a function of various factors, including, *inter alia*, the number of affiliates abroad, the number of markets in which the company operates, the ratio of foreign to total assets, revenues and profits and, finally, the depth of dependence of a certain company on foreign employees, stakeholders, and managers (Spero & Hart, 2010).

indicators, based on the data sources and the main target of each study (Sullivan, 1994; Gomes & Ramaswamy, 1999; Spero & Hart, 2010; Aggarwal, Berrill, Kearney & Huston, 2011). Aggarwal, Berrill, Kearney and Huston (2011) suggest classifying different multinationality degree indicators into three main categories.

These include performance indicators, company structural indicators, and company behavioural indicators². Owing to the fact that companies usually become involved in various markets through a mixture of penetration modes, Sullivan (1994) counters using a single variable approach to capture the degree of a firm's involvement in international markets. Rather, some researchers and international organisations promote composite indices to measure the multinationality level of a firm (Gomes & Ramaswamy, 1999³; Sullivan, 2004⁴; UNCTAD, 2010⁵; Aggarwal, Berrill, Kearney, and Huston, 2011⁶).

Having discussed the basic definitions of emerging multinational corporations, it remains important to consider a variety of crucial issues, such as how EMNCs start, why one firm can evolve into a multinational corporation while another cannot, what the main drivers are for going multinational, and when a firm starts engaging with international markets. All these issues are addressed in the next section, which reviews the different theories relevant to EMNC evolution.

² Company performance indicators reflect the scale and magnitude of foreign activities of the company, such as overseas sales and revenues, international transactions, and mergers and acquisitions (M&As). Company structural indicators capture the geographical, administrative and institutional framework of the company, such as the number of countries in which the company operates, the nationality of the executive board, the share of foreign workers and assets, and the compliance with world accounting standards. Company behavioural indicators measure the global orientation of the company's executive board, such as the importance of marketing abroad, as well as future foreign expanding plans.

³ Gomes & Ramaswamy (1999) construct an index encompassing three sub-criteria including sales abroad relative to total sales (as a measure of the dependence of the company on foreign marketing), the share of foreign assets to total assets (as a measure of the involvement of a company in the global value chain), and, finally, the number of foreign markets (as a measure of geographical divergence).

⁴ Sullivan (2004) promotes an index composed of five indicators including the ratio of foreign to total branches, the ratio of foreign to total assets, the ratio of foreign to total sales, the international experience of the top management, and the market dispersion.

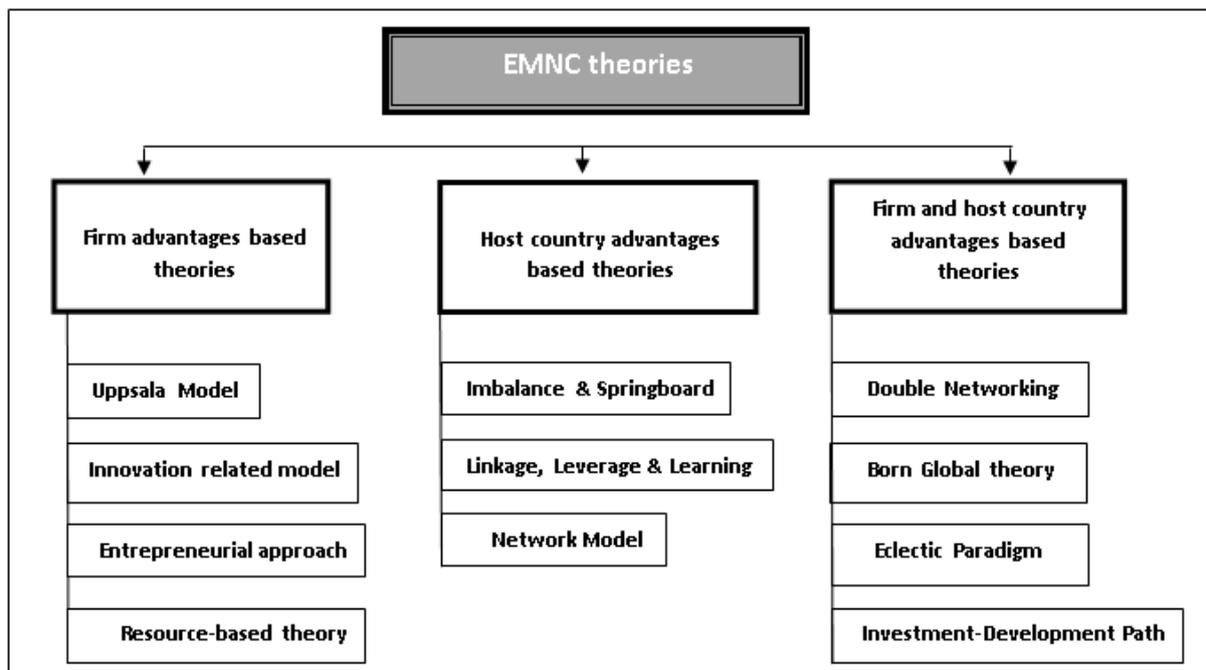
⁵ UNCTAD (2010) proposes an index entitled the "Transnationality Index". It is calculated as a simple average of three variables, namely sales abroad relative to total sales, foreign assets relative to total assets, and foreign labour relative to total labour.

⁶ Aggarwal, Berrill, Kearney and Huston (2011) propose an integrated methodology that is based on tracking two main attributes, breadth and depth. Breadth reflects the geographical spread of a company's activities. It has four scales: domestic, regional, trans-regional and global. Depth captures the level of engagement between the company and the foreign market. It ranges from shallow engagement (such as imports and exports) to strong engagement (foreign branches, strategic alliances, merger and acquisitions).

2.3 EMNCs THEORIES

Various theories and frameworks have been put forward for identifying and evaluating the significance of drivers influencing the unfolding evolution of emerging multinational corporations. Furthermore, these theories and frameworks pay significant attention to analyse the timing of initiating overseas investment, as well as the choice of markets and penetration modes. This thesis classifies the different theories into three categories, according to the motives for the foreign expansion (see Figure 2.1).

Figure 2.1: Classification of EMNC theories



Source: Author's own.

Emerging multinational corporations are expected to be motivated either by the need to exploit their resources (asset-exploiting investment, as discussed by the first group of theories) or to obtain access to unavailable resources (asset-seeking investment, as expected by the second group of theories). The last category deals with both sets of motives to provide a coherent perception, including the potential role of home countries' governments in boosting the foreign expansion of their firms.

Apropos the nature of multinationalisation process of emerging firms, it is often expected by most theories to be a slow and incremental process. As a result, firms tend to firstly work in their domestic markets for a certain period until they acquire the competencies required for

competing abroad. Soon after, they can start operating in the international markets. Conversely, a few theories argue that the global orientation of emerging firms could be accomplished through leapfrogging rather than an incremental process, enabling firms to start their foreign activities early, right from their inception.

Concerning market choice, most theories predict that firms will probably favour working in neighbouring markets owing to psychological proximity drivers, including the similarity in culture, language, traditions, and political systems. Table 2.6 in the Annexure outlines a comparative analysis of the distinct features of the different theories.

2.3.1 The first category: firm advantages based theories

In this category, the primary motive for the foreign expansion is the competitive advantages enjoyed by a firm relative to other competitors operating in the targeted foreign market. Andreff & Balcet (2013) indicate that the competitive advantages, or what they refer to as firm-specific advantages, can be divided into two subgroups. The first group involves ownership advantages, including patents and trademarks, while the second group involves non-ownership advantages such as the know-how, management structures, and business-relation networks. Given the diversity of a firm's competitive advantages, various theories have been developed to explain the evolution of emerging multinational corporations, including, *inter alia*, the Uppsala Model, the Innovation Related Model, the Entrepreneurial Approach, and the Resource-based Theory.

a) The Uppsala Model (Stages Model)

Johanson & Vahlne (1977) promote their model "Knowledge Development and Increasing Foreign Market Commitments" to explain the firm multinationality process, widely known as the Uppsala model. The core idea is that firms incrementally intensify their foreign market commitments (i.e. the magnitude of resources they commit towards owning or controlling economic activities overseas) as they develop and acquire new business knowledge. Subsequently, the firm's knowledge base considerably influences the pace and the pattern of its foreign expansion process.

Furthermore, a lack of market knowledge can hinder firms from expanding their economic activities beyond the boundaries of their national economy. Market knowledge relates to the opportunities and problems prevailing in foreign markets, present and future demand and

supply, investment rules and regulations, and marketing channels. All such information is deemed crucial for initiating decisions on foreign market commitment and the evaluation of overseas investment opportunities. According to this framework, learning by doing is the only mechanism to acquire market knowledge.

Therefore, firms have to work in the domestic market for a certain period until they have acquired the necessary knowledge. Thereafter they can move to work in international markets. Nevertheless, Johanson & Vahlne (1977) admit that certain firms may experience a prompt multinationality process and do not necessarily follow the process referred to above. Large firms may experience leapfrogging in their multinationalisation process due to extensive resources and market knowledge.

From another perspective, market knowledge can explain the firm's preferences concerning the choice of foreign markets and penetration modes. At the inception of their global orientation, firms may favour working in neighbouring markets owing to psychological proximity drivers. This relates to smaller differences in culture, language, traditions and political systems. After acquiring more market knowledge, firms can proceed to invest in markets that are further afield. As for penetration modes, firms are assumed to begin their foreign activities through low market commitment modes (such as occasional and then regular export orders) owing to the lack of market knowledge. Later, companies will commit more resources to their activities abroad (through joint ventures) once they acquire increasing levels of experiential knowledge.

b) The Innovation-Related Model (I-Model)

The Innovation-Related Model considers the multinationality process as an innovation for the firm, which is quite similar to the adoption of new products. Shifting a firm's orientation, from focusing only on the domestic market as a unique destination to being an international actor, poses many challenges to the firm's management. The new orientation may require making changes in the marketing channels, the administrative structures, the capabilities and competencies to cope with the business environment, and competition prevailing in the foreign markets (Aspelund, 2010).

The multinationalisation process consists of a number of stages, which may vary from one firm to another. However, Laghzaoui (2013) proposes categorising the process into three phases, namely the pre-engagement phase, the initial phase and the advanced phase. During the pre-engagement phase, firms are interested either in the local market or are planning to export. At the initial phase, firms plan to extend their activities abroad. Firms start engaging with the international markets in the advanced phase.

It is important to underline the relative similarity between the Uppsala model and the I-model. Both models share two main principles. First, the global orientation is a slow and incremental process due to the firm's need to either acquire the market knowledge or to adapt to the opportunities and risks related to investing abroad. The second principle is the acknowledgement of psychological distance. Therefore, firms prefer working in markets that are culturally and linguistically similar to their domestic market. However, the influence of psychological distance diminishes as firms gain more experience.

c) The Entrepreneurial Approach

This approach highlights the role of a firm's top management or the entrepreneur in the multinationalisation process. Top management can play an effective role in this regard. This is to be done through adopting globally oriented strategies, networking with international business communities, exploring and exploiting foreign investment opportunities, and managing foreign affiliates. In this regard, Wai and Yeung (2002) propose the term "transnational entrepreneurs" to describe the group of the top managers who can engage in entrepreneurial activities across borders. This entrepreneurship requires certain qualifications to facilitate overcoming investment barriers in the host countries and coping better with their cultural and social contexts.

Wai and Yeung (2002) define the transnational entrepreneur as "a social actor capable of bearing the risks and taking the strategic initiatives to establish, integrate and sustain the foreign operations". Therefore, the transnational entrepreneur has three interrelated functions to be carried out simultaneously. The first function is to control the economic activities in the different markets. The second function relates to the strategic management of resources across borders, through the creative and innovative deployment of the firm's investments.

Finally, the entrepreneur has to be able to explore and exploit foreign investment opportunities. Foreign markets are chosen based on the ability to construct business and social networks required for successful management of the firm's resources. Transnational entrepreneurship is assumed to be a gradual process evolving from experience and knowledge gained through practical engagement in foreign economic activities. This implicitly assumes, similar to the Uppsala and I-models, that the multinationality process is expected to be a slow and gradual one.

d) *The Resource-based Theory*

According to this theory, firms tend to invest abroad only if they own or control "strategic resources". This type of resources enables firms to hold a certain competitive advantage required for improving their business efficiency and in turn their profits. As acquiring strategic resources is a time-consuming process, multinationality is perceived to grow slowly (Barney, 1991). This framework drops the classical assumption of resource homogeneity, as well as the perfect mobility of resources. Instead, resources are presumed to be heterogeneous and immobile among firms (Watjatrakul, 2005).

According to Barney (1991), a firm's resources include all its assets, capabilities, organisational processes, firm attributes, information, and knowledge. These resources can be classified into three subgroups, namely physical resources (production technology, raw materials, and equipment), human resources (experience), and organisational resources (managerial and institutional structure). In order to be classified as strategic, a firm's resources must possess the following four attributes. They should be valuable, rare, difficult to imitate, and there should be no strategically equivalent substitutes for these resources.

In the same context, Watjatrakul (2005) distinguishes between strategic resources (which enable the firm to hold a competitive advantage through exploiting opportunities or neutralising potential risks) and the specific resources adopted by the transaction cost theory (resources that cannot be redeployed or transferred to other firms without a significant reduction in value). Consequently, Watjatrakul (*ibid*) distinguishes between four types of resources, as reflected in Table 2.1.

Table 2.1: Different types of resources

		Strategicness	
		Non-strategic	Strategic
Specificity	High	High-specificity, non-strategic resource (HSNR)	High-specificity, strategic resource (HSSR)
	Low	Low-specificity, non-strategic resource (LSNR)	Low-specificity, strategic resource (LSSR)

Source: Watjatrakul (2005).

2.3.2 The second category: host country advantages- based theories

Unlike the first category, this category of theories underplays the role of a firm's competitive advantages in initiating the multinationalisation process, since emerging multinational corporations often lack such advantages. Rather, it presumes that host country advantages are the key trigger for attracting foreign firms to operate in these markets (Sharma, & Erramili, 2004; Andreff & Balcet, 2013). In this context, various theories have been developed to explain the evolution of EMNCs, the most significant of which are the Imbalance and Springboard Approach, the Linkage, Leverage and Learning Theory, and the Network Model.

a) The Imbalance and Springboard Approach

Given the significant importance of pull drivers of the host countries, this approach views outward foreign direct investment as the launch pad or the springboard of MNCs coming from emerging countries. OFDI is quite pivotal to a company lacking the competitive advantage. It enables firms to possess strategic assets, highly developed technology, know-how, trademarks, and competencies (Luo & Tung, 2007). In this regard, Moon and Roehl (2001) remark that firms may tend to invest abroad not only to improve the profitability of a firm's specific assets, but also to search for complementary assets.

Therefore, ownership disadvantages are as crucial as ownership advantages in deriving overseas investment. This is why the core idea of the Imbalance and Springboard Approach is to look at both advantages and disadvantages or imbalances. Balcet and Bruschi (2010)

define the term “disadvantages” to be either the lack of resources such as know-how and management knowledge or the possession of small market share.

Accordingly, the competitive advantages can be an outcome of the involvement in the multinationality process, rather than being a prerequisite, as mentioned in before. Luo and Tung (2007) argue that the multinationalisation process of emerging firms has evolved at a higher pace than that experienced by their peers from industrialised economies. Subsequently, the multinationality of emerging market firms is likely to be accomplished through leapfrogging rather than being incremental. Moreover, Deng (2012) remarks that rapid growth of emerging markets has motivated their firms to explore foreign markets and to undertake massive acquisitions, particularly in the developed economies.

b) The Linkage, Leverage and Learning Theory

Mathews (2006) explains the expansion of emerging multinational corporations or what he refers to as “dragon enterprises” by three factors: linkage, leverage, and learning. The linkage is conceived by emerging MNCs as a primary tool for mitigating risks and uncertainty in the international markets and for acquiring resources that are unavailable in the domestic market. Firms can construct various types of linkages with incumbent firms operating in the targeted foreign markets. These linkages can be established in various forms, such as strategic alliances, joint ventures, and engagement in global value chains.

The leverage reflects the accessibility of external resources, as a direct result of establishing linkages between emerging firms and their foreign partners. Generally, firms are expected to target the most easily imitated and transferable foreign resources. The learning is the end result of repeating the application of the linkage and leveraging process. According to the framework proposed by Mathews (2006), multinationalisation is expected to evolve at an accelerated pace.

c) The Network Model

Firms tend to offset the unavailability of resources through building forward and backward networks with foreign firms that hold tangible experience in the targeted foreign markets. A network is simply defined as a set of inter-organisational relations, causing a firm to become dependent on its counterpart. It should be taken into consideration that building such

relations or networks is effort and time-consuming, which constrains a firm's ability to easily interchange its counterparts (Johanson & Mattsson, 1988).

The Network Model and the Linkage, Leverage and Learning Theory both share the same perspective on the usefulness of establishing business networks. Networks help firms to obtain access to the resources or assets required for improving a firm's competitive advantages. Nevertheless, the two theories differ significantly in respect of the timing of going global. Multinationalisation is expected to be achieved earlier in the Linkage, Leverage and Learning Theory than in the Network Model, as the latter perceives multinationalisation as a cumulative and time-consuming process.

2.3.3 The third category: firm and host country advantages based theories

This group of theories is deemed to be more coherent and comprehensive than the aforementioned theories. It combines the motives of firm and host country advantages. As a result, the global orientation is likely to be derived from the need to either exploit firm resources (asset exploiting investment) or obtain access to unavailable resources (asset-seeking investment) or both. Theories that support this perspective will subsequently be discussed.

a) The Double Networking Model

Emerging multinational corporations are characterised by multiple layers of interconnections, which can be summarised into two main categories: internal and external networks. The internal network describes the interdependence among the internal units (i.e. affiliates and the headquarters) of an MNC spread across borders. This network is responsible for the circulation of resources, knowledge, and technology within the MNC. Subsequently, the internal network may reflect the firm's asset exploiting objectives.

At the same time, MNC affiliates tend to construct external networks with other firms and institutions outside the boundaries of the mother firm to gain access to additional resources and knowledge. It seems that the Double Networking Model adopts a wider definition of external networks than that assumed by the Network Model and the Linkage, Leverage and Learning Theory.

According to the Double Networking Model, the external network includes not only firms and business institutions, but also encompasses other institutions such as research entities, universities, think tanks, etc. In this context, external networks represent the objectives of asset-seeking investment. It should be noted that the internal and external networks are not isolated from each other, as the characteristics of the internal networks are expected to have a tangible effect on the attributes of the external networks (Zanfei, 2006). Balcet and Bruscheri (2010) argue that the notion of “alliances” may be more precise and accurate for capturing the external network and its global expansion.

Similarly, the term “acquisitions” could better reflect the internal network between the headquarters and foreign subsidiaries. Both alliances and acquisitions shape the trajectories of the multinational evolution of emerging economy firms. Alliances and acquisitions may be located within the domestic economy in the first stage, and abroad in the second stage of the multinationalisation process. Consequently, multinationality may evolve slowly.

b) Born Global Theory

Rasmussen and Madsen (2002) remark that many researchers recognise the early start-up of a firm’s international activity. A wide range of terms are used to describe this phenomenon, including *inter alia*, international new ventures, global start-ups, infant multinational corporations, and leapfrogging firms. In this regard, they distinguish between four types of early start-up of multinational firms, based on the number of markets and activities the firm is involved in.

These types are as follows: export/import start-up (involved in a small number of markets and activities), multinational trader (involved in a small number of activities but in many markets), geographically focused start-up (involved in a large number of activities but in few markets), and global start-up (involved in a large number of both markets and activities).

Apart from the previous perspective, Kandasaami (2004) defines a Born Global firm as one that is engaged, through foreign direct investment, in overseas economic activities in more than five countries and selling more than 40 percent of its production abroad. Also, in order to be classified as Born Global, a firm must start international sales within the first two years of its establishment. Taking a different view, Wictor (2012) perceives a company as Born Global as if it has, within three years of its inception, foreign sales not less than 25 percent of

its total production, and seeks to derive a competitive advantage from exploiting its resources in multiple markets.

Three main groups of drivers are expected to direct the early global orientation. Firm characteristics comprise unique firm advantages, including, *inter alia*, products, technology, managerial skills, and consumer orientations. Environmental characteristics refer to foreign market advantages such as favourable government regulations, the availability of foreign market information, market competition, export promotion programmes, and profit opportunities abroad. Key decision-maker characteristics reflect the global orientation of the firm's top management, which is perceived to be one of the main triggers for the early multinationalisation.

c) The Eclectic Paradigm Model

Dunning firstly introduced his model, also known as Ownership, Location, and Internationalization (OLI) model, in 1976. Multinationality or investing abroad is attributed to three main advantages, namely ownership, location, and internalisation (Dunning, 1995). Ownership advantages are perceived to be the main engine for becoming involved in overseas value-added activities.

Thus, a firm must possess certain advantages to be able to compete in the international arena. A firm, therefore, has to work firstly in its domestic market, and then proceed to global markets. In the original form of the Eclectic Paradigm, Dunning distinguishes between three advantages. a) Those resulting from owning particular income generating assets. b) Those enjoyed by foreign affiliates relative to the headquarters. c) Those resulting from the geographical dispersion.

Location advantages relate to the market choice or the decision where a firm is going to locate its foreign activities. This group of advantages includes, *inter alia*, market size and the availability of cheap production factors. Internalisation advantages capture the different modalities (penetration modes) through which firms may arrange the creation and the exploitation of their core competencies based on the location advantages of different markets. Such modalities range from non-equity arrangements (such as exports and imports), to the acquisition of foreign firms.

Given the conceptual framework of the Eclectic Paradigm, the choice of the proper penetration mode depends on the type of advantages that a firm possesses. OFDI may be preferred if the firm holds all three advantages (i.e. ownership, location, and internalisation). In case of the unavailability of location advantages, export may be more appropriate. Finally, licences or franchises would be ideal if the firm has neither location nor internalisation advantages. This proves that having ownership advantages is a prerequisite for being involved in the multinationality process, while the availability of either both or one of the two other advantages determines the best entry mode (Pedersen, 2001).

From another perspective, Stoian and Filippaios (2008) describe the OLI as a general framework that could examine the significance of different drivers affecting initialisation and boosting of the going multinational process of emerging MNCs. Owing to its generality, the configuration of the Eclectic Paradigm Model could vary from one firm to another and from one country to another. They also highlight that it could be a dynamic model as the three advantages of the OLI interact with each other in a continuous process, which ends up with upgrading the ownership advantage of a firm.

d) The Investment-Development Path

The Investment-Development Path (IDP) is one of the widely utilised frameworks for explaining why firms are going to engage in outward foreign direct investment and how the magnitude of this activity dynamically changes with the pace of the home country's economic development (Dunning, 1997; Narula & Dunning, 2000; Fonseca, Mendonça & Passos, 2007; Mortensen, 2009; Narula & Guimon, 2010). Dunning presented the IDP in 1981 as a dynamic approach within the framework of the Eclectic Paradigm Model (Buckley & Castro, 1998).

The core idea of the IDP is the dynamic interaction between the flows of FDI (outward & inward) and the pace of economic development. Moreover, the IDP recognises the influence of the home country's governmental policies on both flows of FDI. As a result, the net FDI flow (outward minus inward) evolves at a pace that reflects the dynamic relation to the economic development. As such, Dunning recognises five stages of development, starting from the stage where a country is a net FDI receiver, and ending in the maturity stage in which a country can attain noticeably high levels of both FDI flows (Narula & Dunning, 2000).

Based on the framework of the IDP, Narula and Dunning (2000) argue that there are two groups of drivers influencing OFDI, namely asset-exploitation and asset-augmentation. Asset exploitation drivers include resources, market, and efficiency seeking. The primary purpose of these drivers is to maximise the economic rent generated from the existing assets. The second group (i.e. strategic asset-seeking) relates to the desire of a firm to add to its assets. Resources- seeking outward foreign direct investment often target countries holding an absolute advantage in a scarce natural resource. First-stage IDP countries usually do not have any location advantages, except for abundance of natural resources.

This motive is quite important for firms working in extractive industries. According to Kraemer and Tulder (2009), a firm can access raw materials through one of two alternatives: spot purchase of long-term contracts or internalisation of the production. As the country develops and progresses on the IDP, the significance of the resources-seeking motive diminishes, since the marginal extraction cost tends to increase over time. Subsequently, new motives emerge, such as market and efficiency seeking while economic development is improving. Market-seeking outward foreign direct investment is significant where the local market offers tangible opportunities for achieving economies of scale. This is likely to occur in countries existing in the last part of stage 1 and the beginning of stage 2 of the IDP.

Efficiency-seeking outward foreign direct investment is likely to take place in the latter part of stage 2 and the beginning of stage 3. Strategic asset-seeking outward foreign direct investment enables firms to acquire certain resources, such as patents and trademarks. This type of OFDI is expected to occur at the end of stage 3 and in the subsequent stages. Efficiency and strategic asset- seeking OFDI are similar in the respect that they require a certain threshold of location advantages and both are inspired by the process of globalisation (Narula & Dunning, 2000). Table 2.2 summarises the main attributes of the different stages of the Investment-Development Path.

Table 2.2: Stages of the Investment-Development Path

Stage	Outward FDI	Inward FDI	Net FDI flow	Economic development conditions	Motives for OFDI
Stage 1	Negligible	Negligible	Zero	Lacks both ownership and location advantages	Resources-seeking investment

Stage	Outward FDI	Inward FDI	Net FDI flow	Economic development conditions	Motives for OFDI
Stage 2	Remains very limited	Grows significantly	Negative	- Relative improvement in location advantages - Weak ownership advantages	Resources- seeking investment
Stage 3	Grows significantly	Lower growth rate	Remains negative as inward FDI stock remains higher	Relative improvement in both location and ownership advantages	Market-seeking and efficiency-seeking
Stage 4	Continued growth	Lower growth rate	Turns positive	Significant improvement in both location and ownership advantages	Efficiency-seeking, market-seeking and seeking to augment assets
Stage 5	High stock of outward FDI	High stock of inward FDI	Revolves around zero	Leading developed countries	Efficiency-seeking, market-seeking and seeking to augment assets

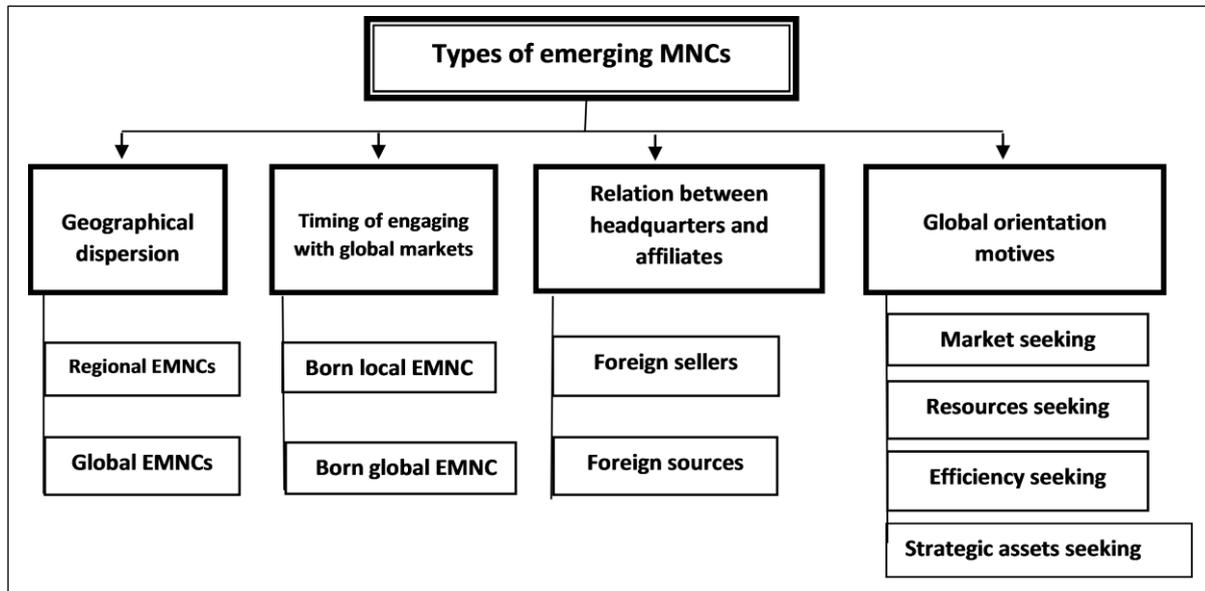
Source: Narula & Dunning (2000).

Following discussing the mainstream theories explaining the evolution of emerging multinational corporations, it remains important to address the different types of EMNCs, as an integral part of the conceptual framework of emerging multinational corporations. The next section of this thesis discusses in detail how EMNCs differ from one another.

2.4 TYPES OF EMNCs

Emerging multinational corporations vary from one another according to their global orientation motives (market-seeking, resources-seeking, efficiency-seeking and strategic assets-seeking MNCs); the geographical dispersion of their economic activities (regional and global MNCs); the relation between the headquarters and affiliates (foreign sellers, foreign sources); and the timing of engaging with global markets (Born Local and Born Global MNCs). Figure 2.2 illustrates the arrays of EMNCs.

Figure 2.2: Types of emerging multinational corporations



Source: Author's own.

2.4.1 Geographical dispersion of economic activities of EMNCs

Based on geographical proximity between the home economy and the foreign markets, Rugman (2005) distinguishes between two types of emerging multinational corporations, namely regional and global EMNCs:

a) *Regional EMNCs* often concentrate their value-added activities or their affiliates in the neighbouring countries, owing to the similarity in cultures and traditions. As mentioned before, several theories discuss these drivers under the title “psychological distance”. Moreover, regional trade and investment agreements are likely to provide further tax and financial incentives. These advantages can collectively contribute significantly towards minimising investment risks in the neighbouring markets relative to outlying peers and thus they become more attractive.

b) *Global EMNCs* work in neighbouring as well as far-flung markets outside their regions, including far-flung markets. The pattern of global geographical dispersion is derived from recent technological changes resulting in splitting the production process, and dramatic improvements in transportation and communication tools. Furthermore, multilateral trade and investment agreements have resulted in removing trade barriers and facilitating market entry.

Emerging multinational corporations may start out as regional firms and after years of doing business regionally, they may decide to widen the geographical spectrum of their economic activities to include markets further afield (Balcer & Bruschi, 2010; Johanson & Vahlne, 1977; Laghzaoui, 2013).

2.4.2 Timing of engaging with global markets

Emerging multinational corporations may vary according to the following two manners of timing of entry into the international markets, (Kandasaami, 2004):

- a) *Born Local EMNCs* work first inside the boundaries of their national economy, due to a lack of competence and competitive advantage required for investing abroad. Therefore, Born Local firms postpone the multinationalisation process until they enhance their competitiveness.
- b) *Born Global EMNCs* target controlling value-added activities in multiple markets. The Born Global *Theory* discusses the different drivers influencing the evolution of these firms.

2.4.3 Relation between the headquarters and affiliates

It is possible to distinguish between two types of emerging multinational corporations, according to the relation between the headquarters and affiliates (Accenture, 2010):

- a) *Foreign sellers* aim at expanding their markets and approaching new customers through controlling additional foreign subsidiaries and outlets.
- b) *Foreign sources* move towards overseas markets to overcome the unavailability or scarcity of resources in the domestic market. Subsequently, the main function of the foreign affiliates is to outsource materials to the headquarters.

2.4.4 Global orientation motives

Given the motives for overseas orientation, Narula and Dunning (2000) distinguish between the following four types of emerging multinational corporations:

- a) *Market-seeking EMNCs*: A firm may aim at expanding its markets following the success of exports. This expansion is dependent on many drivers, such as government regulations, the need to adapt products to local conditions and requirements, and the reduction of transaction costs.

b) *Resources-seeking EMNCs*: Foreign economic activities of this type of firm are motivated by the need to secure safe and cheap sources of raw materials and inputs.

c) *Efficiency-seeking EMNCs*: These are firms seeking to primarily improve their cost efficiency by moving their production activities to lower-cost markets.

d) *Strategic assets-seeking EMNCs*: These firms use overseas investment as a tool to acquire intangible or tangible strategic assets that are not available in their home markets.

2.4.5 Other classifications

In addition to the previous classifications of EMNCs proposed by this thesis, Aggarwal, Berrill, Kearney and Hutson (2011) recognise six types of MNCs, as exhibited by Table 2.3. This classification is based on tracking two main company attributes, namely breadth (reflecting geographical dispersion of a company’s activities) and depth (capturing the level of engagement between the company and the foreign market).

Table 2.3: Firm multinationality level

Breadth Depth	Local	Regional	Trans-regional	Global
Sales	Local sales	Regional sales	Trans-regional sales	Global sales
Investment	Local investment	Regional investment	Trans-regional investment	Global investment

Source: Aggarwal, Berrill, Kearney and Huston (2011).

As shown above, various types of emerging multinational corporations can easily be recognised, according to the timing and driving factors for going multinational, as well as the geographical scope of their activities, and the level of engagement between the company and the foreign market. In the following section, entry modes adopted by emerging multinational corporations will be discussed in detail.

2.5 MARKET ENTRY MODES

Entry mode is defined as “an institutional arrangement for organizing and conducting international business transactions by which all future decisions are influenced” (Varinder & Erramilli, 2004). The types and classification of market entry modes will be discussed as follow.

2.5.1 Types of market entry modes

Emerging multinational corporations can choose from a wide range of entry modes, from exports to wholly owned subsidiaries (Kim & Hwang, 1992; Hollensen, 2004; Varinder & Erramili, 2004; Peng, 2006; and Dunning & Lundan, 2008; Mukundakumar, 2012; Ulrich, Boyd & Hollensen, 2012; Rizwan, 2013).

- a) *Exports* take one of four main forms, namely direct, indirect (export is undertaken by an agent other than the producing firm, such as trading corporations), cooperative (often occurs among small and medium enterprises to achieve higher economies of scale), and intra-corporate transfers (exchange of goods and services among the parent firm and its affiliates).
- b) *Licensing* is an agreement that enables a firm to establish a branch or a subsidiary in a foreign market without carrying the capital investment. By licensing, a foreign agent can use the firm's technology or other resources in return for payment.
- c) *A turnkey project* is an arrangement whereby a firm takes the responsibility to design, construct and equip a manufacturing or service facility and turn it over to the owner when it is ready for operation.
- d) *Franchising* may contain trademarks, copyright, designs, patents, trade secrets and know-how. In return, the franchisor receives fees.
- e) *Contract manufacturing or research and development (R&D)* enables a firm to outsource the whole or a part of its research and development, marketing, distribution, sales, and servicing of its products on international markets.
- f) *A strategic alliance* is a cooperation agreement between two or more firms to achieve common interests or goals. It does not involve creating a new entity.
- g) *Original equipment manufacturers (OEMs)* are agent firms that import product components from the parent firm to assemble and retail the product under the trademark of the parent firm. This entry mode is very common in the automotive industry.
- h) *Joint ventures (JVs)* involve the creation of a new business entity that is legally independent from its parent firms. Generally, studies distinguish between three types of JVs, according to the ownership structure: majority share (the foreign firm controls more than 50 percent of assets), equal share (50/50), and minority share (the foreign firm controls less than 50 percent of assets).
- i) *A wholly owned subsidiary (WOS)* is a market entry mode also described as investment or hierarchical mode. It allows the parent firm to entirely own and control the foreign

affiliate. This can be done either through merger and acquisitions (M&As) or greenfield. Within this mode, a firm may adopt one of the four approaches of international human resources management, namely ethnocentric (sending employees from the home country to the host country), polycentric (hiring citizens of the host country), regiocentric (hiring employees based on a specific regional context) and geocentric (employees are selected regardless of where they originate from).

Coupled with drivers assumed by the aforementioned theories, Mariam (2008) suggests that a firm is expected to choose the preferred entry mode based on the merits and shortcomings of such a mode as well as external drivers (pertaining to the foreign market) and internal drivers (related to the firm itself). In addition, Mukundakumar (2012) argues that a firm may adopt one of three rules while choosing its ideal entry mode. The naïve rule implies that a firm prefers to use a sole entry mode irrespective of the market in which it is going to operate. The pragmatic rule assumes that a firm will choose a separate workable entry mode for each market. Firms may favour adopting low-risk modes while penetrating new markets. The strategic rule entails making a comparison between different modes to assure the best selection.

2.5.2 Classification of market entry modes

Entry modes vary significantly according to ownership, the control of parent firms over foreign activities, the nature of overseas operations, and the extent of externalising and internalising. Such diversity inspired studies to propose different classifications for the various entry modes, as reflected in Table 2.7 in the Annexure. In this regard, it seems important to underscore that previous research acknowledge that ownership or equity mode should be the sole entry modes for initiating the global orientation of a firm to be considered a multinational corporation (as discussed before). Thus, firms using non-equity modes (such as exports) in the beginning of their multinationalisation process are not viewed as MNCs. However, existing MNCs can adopt both equity and non-equity modes to expand their activities abroad, while being considered as multinational corporations.

2.6 SUMMARY

An emerging multinational corporation is a firm that is based in an emerging economy and controls outward foreign direct investment abroad, thus multinational corporations and outward foreign direct investment may be used interchangeably. International organisations adopt different emerging market lists, as there is no common agreement on which countries are classified as emerging markets.

Ten different types of emerging markets multinational corporations are recognised, based on the motives for global orientation, the geographical dispersion of economic activities, the relation between the headquarters and its affiliates and finally, the timing of initiating overseas investment. Emerging multinational corporations are likely to be motivated either by the need to exploit their resources (asset-exploiting investment) or to obtain access to unavailable resources (asset-seeking investment). Moreover, some theoretical frameworks recognise the potential role of the home country government in boosting the foreign expansion of its firms.

The multinationalisation of emerging firms is often expected to be a slow and incremental process. As a result, firms tend to firstly work in their domestic markets for a certain period until they have acquired the necessary competencies required for competing abroad. Soon after, they can start operating in the international markets. Conversely, a few theories argue that the global orientation of emerging firms could be accomplished through leapfrogging rather than an incremental process, enabling firms to start their foreign activities early, right from their inception.

Concerning market choice, most theories predict that firms will probably favour working in neighbouring markets owing to psychological proximity drivers. Such drivers refer to the similarity in culture, language, traditions, and political systems. Having explored neighbouring markets, firms can then proceed to invest in far-flung markets after having acquired the necessary competitive advantages. These advantages or competencies are pivotal for neutralising the threats resulting from investing in culturally and socially different markets. Also, firms are assumed to initiate their foreign activities through low market commitment modes such as occasional and regular export orders due to risks and uncertainty pertaining to working abroad (higher commitment modes). In a subsequent stage, companies

could commit higher resources to their activities abroad and commence investing in these markets.

Having explored the theoretical and conceptual framework of emerging multinational corporations, many research questions come to mind. First of all, what the key attributes of EAMNCs are and to what extent they differ from that of their emerging peers, regarding performance, sector breakdown, the foreign market selection, and market entry mode. Second, what the key factors affecting the outbound investment of EAMNCs.

Chapter Three

Emerging multinational corporations landscape: where do emerging African multinational corporations stand?

3.1 INTRODUCTION

This chapter gives an overview of the emerging multinational corporations and the countries dominating them. In addition, it examines the status of emerging African multinational corporations in the EMNCs landscape and how their performance evolves over time. Moreover, it discusses the key attributes of EAMNCs and to what extent they differ from that of EMNCs, particularly regarding sector breakdown, the foreign market selection, and market entry mode. This chapter comprises three sections.

As mentioned before, and to ensure the best possible coherence in addressing the aforementioned research questions, this chapter advocates using multiple data sources. In addition to outward foreign direct investment statistics, this thesis pays special attention to investigate the key salient features of EMNCs included in UNCTAD's list of the top non-financial MNCs. As the number of EMNCs recognised in UNCTAD lists varies considerably from one year to another⁷, a sample of the 17 largest EMNCs was drawn on the criterion of total assets, to ensure comparability across years. Top EMNCs will hereafter denote these 17 EMNCs.

3.2 EMERGING MNCS OVERVIEW

Given data limitations, certain attributes of EMNCs will be tackled in this section to explore the current status of EMNCs. These include, *inter alia*, the global influence of EMNCs and how it evolves over time, their geographical and industry structure and finally their preferred entry mode into foreign markets.

⁷ This is due to the fact that UNCTAD lists not only encompass MNCs based in countries perceived by this thesis as emerging, but also in developing economies and countries in transition. Moreover, the number of MNCs included in UNCTAD lists does not remain constant. Listing only the top 50 MNCs from 1994 to 2003, UNCTAD has broadened its annual list since 2004 to include the top 100 MNCs from developing countries and countries in transition.

3.2.1 Performance of EMNCs

Foreign activities of the top EMNCs evolved significantly from 1994 to 2015. For instance, the foreign assets held by top EMNCs doubled 51 times to reach \$466.4 billion, up from \$9.2 billion in 1994. They also expanded their foreign sales and employment remarkably, namely 57 and 11 fold respectively, during the same period. Table 3.1 summarises the growth of foreign assets, sales, and employment of the top EMNCs from 1994 to 2015. In line with the remarkable expansion of the foreign activities of EMNCs, there has been a dramatic growth of outward foreign direct investment flow from emerging markets in recent decades. From 1990 to 2016, OFDI flow from EMs grew nearly 18 times as fast as the world average. EMs accounted for OFDI flow of \$230 billion in 2016, up from less than \$2.1 billion in 1990. World investment has increased from \$241 billion to around \$1.5 trillion during the same period.

Table 3.1: Growth of foreign assets, sales, & employment of the top EMNCs (1994 – 2015)

Year	Foreign assets (\$ billions)	Foreign sales (\$ billions)	Foreign employment ('000 employees)
1994	9.2	9.4	46.8
1995	19.7	14.8	84.9
1998	42.5	30.4	56.6
1999	26.0	14.7	53.9
2000	42.9	50.2	94.9
2002	56.7	32.1	138.2
2003	77.0	58.8	68.6
2004	84.4	76.8	174.6
2005	107.4	88.3	153.9
2006	130.7	131.4	152.7
2007	247.8	195.3	256.4
2008	298.9	359.3	304.9
2011	473.9	519.9	363.8
2015	466.4	534.2	522.7

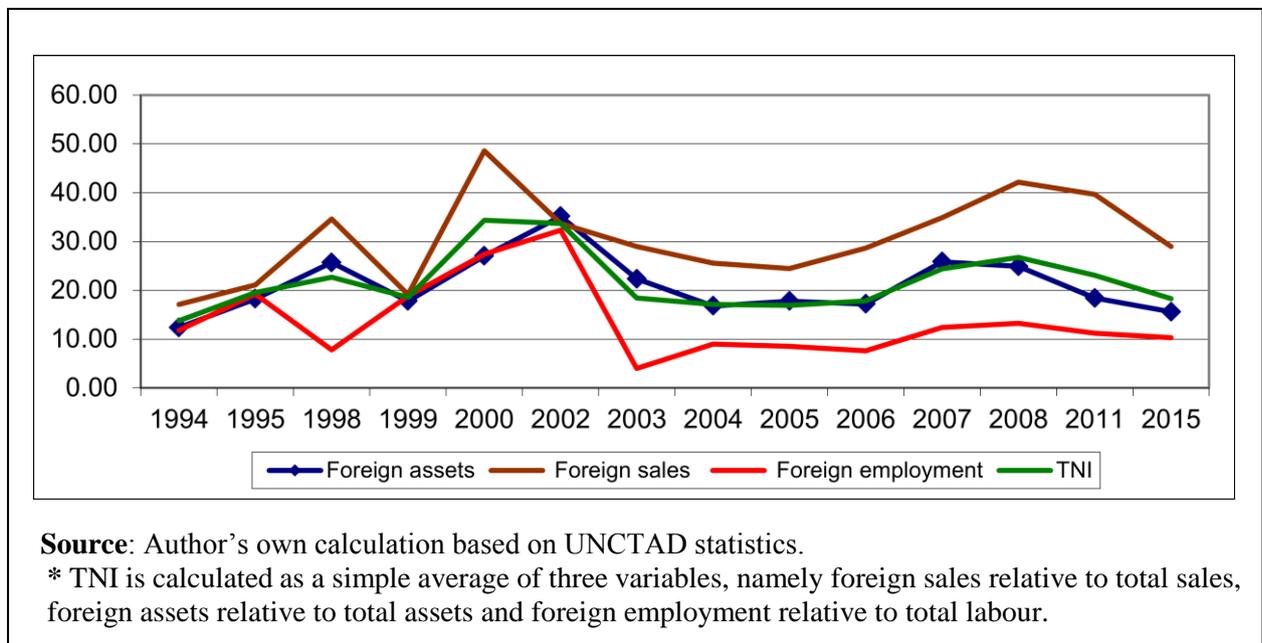
Source: Author's own calculation based on UNCTAD statistics.

As such, top EMNCs are assumed to experience leapfrogging in their internationalisation process; becoming involved in the global market at an accelerated pace⁸. This conclusion is

⁸ To reflect the involvement of EMNCs in the global market (referred to as the internationalization degree), multiple indicators are proposed by different studies, based on the data sources and the objective of each study (Sullivan, 1994; Gomes & Ramaswamy, 1999; Spero & Hart, 2010; Aggarwal, Berrill, Kearney & Hutson, 2011). Amongst those indicators, the foreign to total sales ratio is used to capture the company's dependence on foreign marketing, while foreign to total workers and assets ratios measure the involvement of a company in the global value chain. UNCTAD (2010) proposes a composite index entitled the "Transnationality Index". It is

supported by the evolution pattern of foreign to total assets and sales of EMNCs. Based on UNCTAD statistics, in 2015, foreign markets were responsible for absorbing 29 percent of the total sales of the top EMNCs, up from 17 percent in 1994. In addition, as shown in Figure 3.1, compared to 12 percent in 1994, 16 percent of the total assets of the top EMNCs now exist outside the borders of their national economies. Apparently, the slight drop in the foreign to total employment ratio has not prevented the Transnationality Index (TNI) of the top EMNCs from rising. The TNI rose from 14 to 18.3 percent between 1994 and 2015.

Figure 3.1: Foreign assets, sales and employment as a percentage of total indicators of the top EMNCs and their Transnationality Index from 1994 to 2015 (%)*



It should be underscored that this conclusion contradicts the fact that most EMNC evolution theories assume that an emerging firm is likely to experience a slow and incremental internationalisation process⁹. Yet, an accelerated internationalisation process might be observed in the internationalisation process under certain circumstances. According to the

calculated as a simple average of three variables, namely sales abroad relative to total sales, foreign assets relative to total assets, and foreign labour relative to total labour.

⁹ This is based on the assumption that a firm needs either to acquire the market knowledge or to adapt to the opportunities and risks related to investing abroad. This insight is promoted by many EMNC evolution theories, including the Uppsala model (Johanson & Vahlne, 1977), innovation related model (Aspelund, 2010; Laghzaoui, 2013), entrepreneurial approach (Wai & Yeung, 2002), resources-based theory (Barney, 1991; Watjatrakul, 2005), network model (Johanson & Mattsson, 1988), eclectic paradigm model (Dunning, 1995; Pedersen, 2001), investment-development path (Dunning, 1997; Narula & Dunning, 2000; Fonseca, Mendonça & Passos, 2007; Mortensen, 2009; Narula & Guimon, 2010) and double networking approach (Zanfei, 2006; Balcet & Bruschi, 2010).

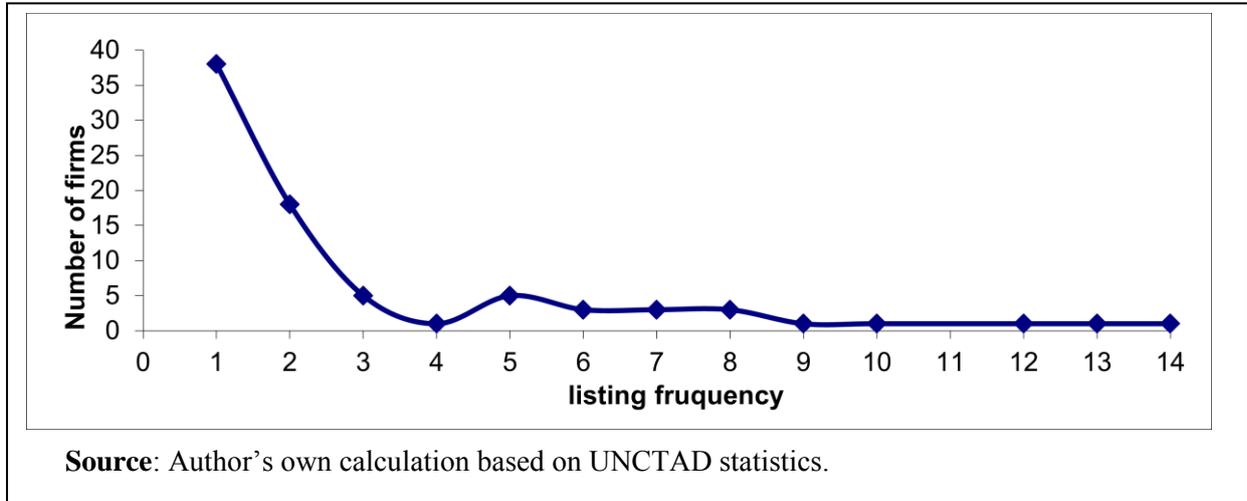
Uppsala Model, big firms may experience leapfrogging due to large resources and market knowledge, which represents the main source of the competitive advantage for corporations (Johanson & Vahlne, 1977).

Accelerated internationalisation is perceived by other theories as a motive for, rather than a consequence of growth. Pull factor based theories presume that host country advantages are the key trigger for attracting foreign firms to operate in a certain market, as EMNCs often lack the competitive advantage necessary for initiating the internationalisation process (Andreff & Balcet, 2013). Promoting a similar perspective, Goldstein, Bonaglia & Mathews (2006) conclude that EMNCs tend to knock on the doors of global markets for growth opportunities.

In conjunction with the diverse set of drivers put forward by EMNC theories to explain such extraordinary expansion, the rapid growth rate experienced by EMs is proven to play a significant role in promoting their OFDI. Subsequent to their rapid economic growth, emerging and developing countries seized two-thirds of the world's foreign reserves in 2010, up from 37 percent in 2000. Sovereign wealth funds have become a primary source of outbound investment by EMs. Moreover, increasing accessibility of matured regional and international capital markets enabled the EM-based MNCs to fund their foreign expansion. An increasing number of emerging firms have engaged in at least one of cross-border mergers and acquisitions (M&As) deals within two years of accessing foreign capital markets (World Bank, 2011).

From another perspective, the significance of EMNCs in the global business landscape is further supported by following the status of EMNCs in the world's top 100 non-financial MNCs list released by UNCTAD. In 2016, the top EMNCs accounted for nearly 5 percent of total assets of the world's top firms, valued at 1.5 trillion dollars. Yet, it should be noted that top EMNCs vary significantly from one year to another, as nearly 47 percent of the top EMNCs (81 firms) appear only once in all UNCTAD lists (14 lists) published from 1994 to 2015. Twenty two percent of companies (18 firms) have been twice recognised by UNCTAD as top firms, as depicted in Figure 3.2. *Petroleo Brasileiro* (Brazil) was the only firm present in all top EMNCs lists reviewed in this thesis, over the period from 1994 to 2015.

Figure 3.2: Listing frequency of the top EMNCs during the period from 1990 to 2015



In line with increasing representation in UNCTAD lists, EMNCs have also received better representation in the Financial Times Global 500 list from one year to another. While hosting only 6.5 percent of the headquarters of the world's top 500 firm (33 firms) in 2006, emerging markets hosted 14 percent (72 firms) in 2014. The market value of EMNCs, listed in the Financial Times Global 500, doubled 4 times from 2006 to 2014 to reach \$4 trillion. Therefore, they managed to control 10 percent of the total market value of the world's top 500 firms, compared to only 5 percent in 2006 (Financial Times, 2015).

In the same regard, a significant shift away from developed markets (DMs)¹⁰ towards EMs is recorded on the world landscape of OFDI. Over the last two decades, the share of EMs in the world OFDI flow market has witnessed a dramatic improvement at the expense of developed markets. EMs were responsible for generating nearly 16 percent of such global investment in 2016, starting from less than 1 percent in 1990. In return, DMs have lost market share. Despite dominating the global landscape in the early nineties, developed markets accounted for only 72 percent of the global investment, in 2016.

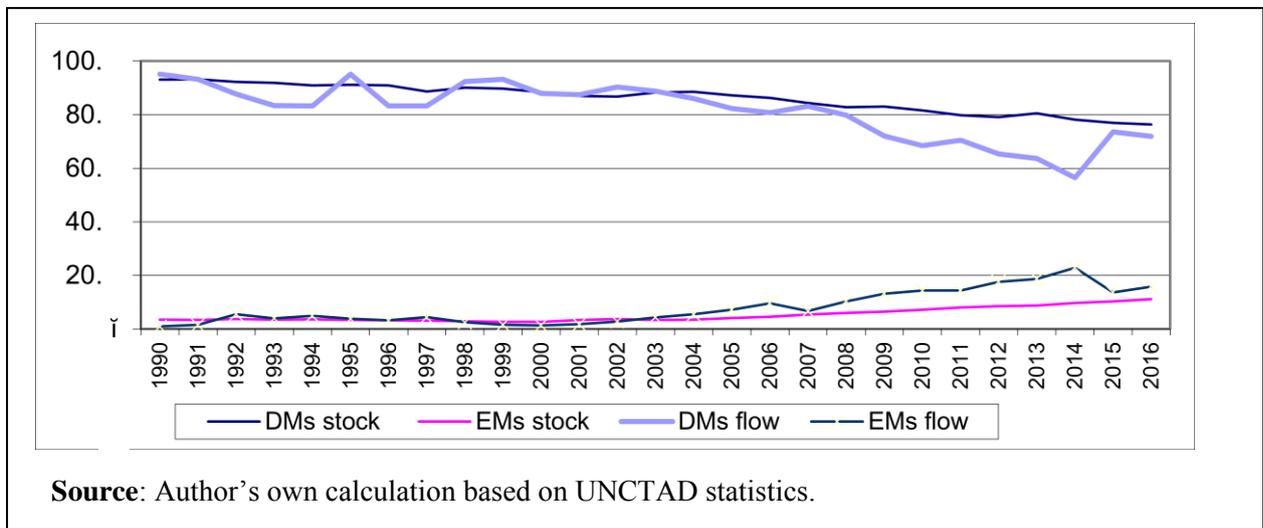
Similarly, EM investors successfully doubled their share in world OFDI stock 39 times between 1990 and 2016, reaching \$3 trillion compared to \$73 billion at the outset. Consequently, EMs accounted for 11 percent of the global OFDI stock, in 2016 (\$26.2 trillion). Over the same period, the share of DMs declined sharply from 93 to 76 percent.

¹⁰ This thesis adopts UNCTAD's definition of developed markets.

This trend is further supported by the continuing rise of emerging economies in the global ranking of the top investors.

According to the World Investment Report of 2017, four of the world’s most promising sources of foreign direct investment for the period from 2017 to 2019 belong to the emerging markets, namely: China, India, South Africa and Turkey (UNCTAD, 2017). Figure 3.3 outlines the world market share of emerging and developed countries in terms of both OFDI flow and stock during the period from 1990 to 2016.

Figure 3.3: Share of emerging versus developed economies in the world OFDI flow and stock from 1990 to 2016 (%)



The rise in EMNCs is foreseen to continue in the future. The World Bank anticipates that the annual value and number of cross-border M&As deals engaged in by emerging market-based MNCs would grow by more than triple by 2025. Therefore, the net FDI flow of EMs is foreseen to rise to a surplus of more than \$ 15.2 trillion over the same period. By 2025, emerging markets will be the predominating engines of the global economic growth, along with the industrial markets. Such rapid economic growth will fuel the ongoing expansion of EMNCs. As EMNCs pursue their overseas expansion, the share of emerging and that of developed markets from OFDI is going to converge. As such, global asset holdings will shift towards favouring emerging countries (World Bank, 2011).

3.2.2 Foreign markets of EMNCs

Limited information is available regarding the top destinations for hosting the activities of EMNCs. Yet, available statistics clearly reflect that developing markets are the most important destination of OFDI from EMs. The World Bank Report (2011) estimates that from 2003 to 2010 the volume of outbound investment from emerging market-based MNCs in developing economies was still higher than that in developed economies. In 2010, developing economies were receiving almost 54 percent of total outbound investment engaged by emerging markets based MNCs, valued at \$550 billion.

However, it is noted that from 2003 to 2010 emerging market-based MNCs tended to multiply their investments in developed markets at a faster pace than their corresponding investment in developing markets. Accordingly, the relevance of developed economies, as a preferred investment destination, tends to increase considerably over time. The growth rate of investment of EM-based MNCs in developed markets was three times higher than that of their corresponding investment in developing markets, to the value of around \$260 billion, up from less than \$50 billion. As such, one could expect that developed markets could overtake developing ones as top investment destinations for emerging market-based MNCs in the years ahead.

To a significant degree, the foreign expansion of EM-based MNCs reflects the impact of geographical proximity and economic relations between home and host country, irrespective of whether the host country is developing or developed (World Bank, 2011). The geographical proximity preference is supported by the various EMNCs' theories. Most theories predict that firms will favour working in neighbouring markets owing to psychological proximity drivers. Such drivers refer to similarities in culture, language, traditions and political and investment systems.

Having explored neighbouring markets, firms can then proceed to invest in far-flung markets after acquiring the necessary competitive advantages. These advantages or competencies are pivotal for neutralising the threats resulting from investing in culturally and socially different markets, according to firm specification related theories (Johansson & Vahlne, 1977; Laghzaoui, 2013).

3.2.3 Preferred entry mode of EMNCs

To penetrate foreign markets, EMNCs may use one or more of a wide range of entry modes, including exports, licensing, turnkey project, contract manufacturing or research and development, strategic alliance, joint ventures, and wholly owned subsidiary. These modes vary significantly according to ownership, the nature of overseas operations, the control of parent firms over these activities, and the extent of externalising and internalising (Kim & Hwang, 1992; Hollensen, 2004; Varinder & Erramili, 2004; Peng, 2006; Dunning & Lundan, 2008; Mukundakumar, 2012; Ulrich, Boyd & Hollensen, 2012; Rizwan, 2013). Tracking the preference of EMNCs to various entry modes proves to be quite difficult, except for wholly owned subsidiary modes, namely: M&As and greenfield developments. This is owing to data unavailability.

With respect to the wholly owned subsidiary entry modes, World Bank statistics indicate that preference of EM-based MNCs for such entry modes vary substantially across the different destinations for their activities. Meanwhile, greenfield investment¹¹ is often preferred over M&As, as an entry mode to developing markets, and vice versa in developed markets. From 2003 to 2009, greenfield investment accounted for 72 percent of investments of emerging market-based MNCs in developing markets. Greenfield investment is perceived to be the most reasonable entry mode for EM-based MNCs seeking to establish a physical presence in developing markets. This could be attributed to a wide range of drivers, most notably, proximity in political and regulatory frameworks and lack of suitable acquisition targets (World Bank, 2011).

Contrary to their preference for investing in developing markets following a greenfield approach, EM-based MNCs tend to penetrate and expand their investments in industrial markets predominantly through M&As, which accounts for 85 percent of such investment. Such preference is mainly derived from significant differences in business environment between host and home country as well as the need to acquire new resources that do not exist abundantly in developing markets (World Bank, 2011).

¹¹ Greenfield FDI relates to capital used for the purchase of fixed assets, materials, goods and services, as well to hire labour in the host country. While the mergers and acquisitions are commonly perceived as a form of ownership transfer, greenfield FDI contributes directly to capital formation and therefore adds to the productive capacity of the host country (UNCTAD, 2009).

From another perspective, UNCTAD statistics clearly show that in terms of the magnitude of investment globally, EMs are much more influential in greenfield investment than in M&As. This group of countries has succeeded in dominating nearly a quarter of the world greenfield projects, 4 times as much as their corresponding share in the world M&As operations in 2016. Between 2003 and 2016, greenfield projects possessed by EMNCs grew on average by an accelerated annual rate estimated at 26 percent, representing 10 times the global average¹².

As per the World Bank Report 2011, the preference of greenfield projects over M&As operations might support the assumption that emerging multinational corporations favour investing in developing markets. This finding comes in line with the foreign market selection pattern perceived by many EMNCs evolution theories. Proximity between home and host country is expected to be a key factor for choosing where EMNCs invest in, particularly at the early stage of the internationalization process (Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007; Alon, 2010; Amal & Tomio, 2012).

3.2.4 Industry breakdown of EMNCs

According to UNCTAD statistics, over the period from 1994 to 2015, the non-financial industry structure of the top EMNCs has witnessed dramatic changes¹³. While not being one of the major sectors in 1994, energy and mining sector has overtaken other sectors and has come to the forefront. In 2015, almost half of the top EMNCs were active in the energy and mining sector. The pressing need for energy to fuel economic growth has driven top EMNCs to penetrate foreign markets to establish a secure and cheap access to energy.

According to the International Energy Agency (IEA), EMs, particularly in Asia, will drive the global energy demand. Together, it is foreseen that they will generate almost 90 percent of the growth in the world energy demand until 2035. Therefore, the share of non-OECD energy demand is expected to reach 65 percent of total world energy, up from 55 percent in 2010 (IEA, 2012).

Likewise, and based on the Financial Times Emerging 500 list for 2014, energy and mining ranked the primary non-financial sector for top emerging firms, with regard to both the

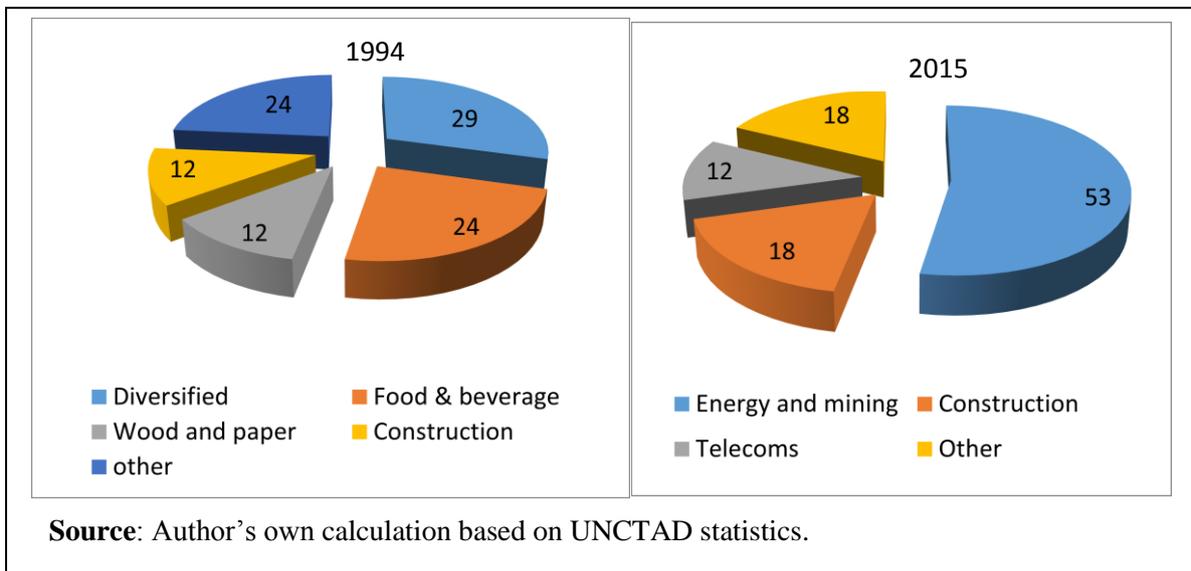
¹² UNCTAD greenfield time series data started from 2003, conversely to M&As.

¹³ UNCTAD lists of the top MNCs do not include those active in the financial sector.

number and market value of such firms. The energy and mining sector attracted 33 firms (6.6 percent of the total number of the top emerging firms), with a market value amounting to \$1trillion, which represented 14 percent of the total market value of the top 500 emerging firms.

From another perspective, unlike the situation in 1994, the relevance of sectors such as food and beverage was diminishing over time; therefore, they disappeared from the major sectors list in 2015. Figure 3.4 outlines the shift in the non-financial industry structure of the top EMNCs from 1994 to 2015.

Figure 3.4: Shift in non-financial industry structure of the top EMNCs (1994 -2015) (%)



Having determined the key characterising features of EMNCS and how their global role tends to evolve significantly over years, it remains important to identify which countries dominate the EMNC landscape, and to what extent their MNCs follow the general geographical and industry structure pattern adopted by EMNCs. It is equally important to consider where emerging African MNCs stand relative to their emerging peers. These questions are addressed in detail in the following section.

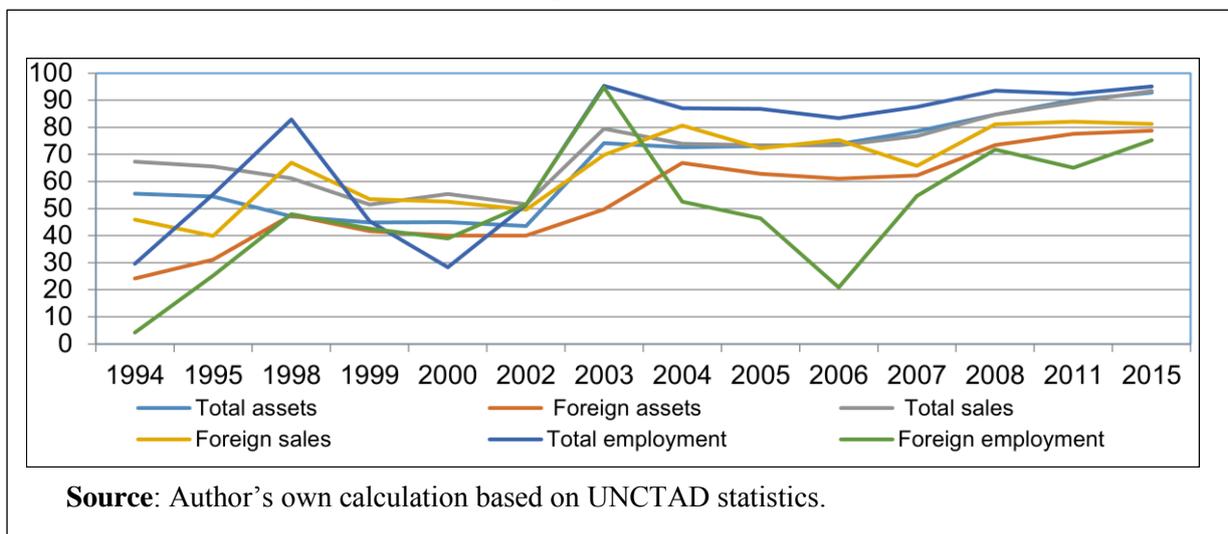
3.3 LEADING COUNTRIES OF EMNCS

Various UNCTAD statistics indicate that BRICS countries¹⁴-based multinational corporations (BRICS MNCs) dominate the list of EMNCs. Accordingly, this section discusses in detail the significance and features of BRICS MNCs. For the purpose of this thesis, the top BRICS MNCs hereafter refers to BRICS countries-based MNCs that are listed among the top EMNCs.

3.3.1 Performance of BRICS MNCs

It is found that most top EMNCs belong to one of the BRICS countries. Top BRICS MNCs held 79 percent of the foreign assets of the top EMNCs in 2015 (\$466 billion). In addition, their foreign sales amounted to \$534 billion, representing 81 percent of total foreign sales generated by top EMNCs. In 2015, the top BRICS MNCs appointed 522 thousand foreign employees, which accounted for 75 percent of the entire foreign staff complement hired by the top EMNCs. As seen in Figure 3.5, the share of BRICS countries in total and foreign assets, sales and employment of the top EMNCs climbed over the period from 1994 to 2015.

Figure 3.5: Share of the top BRICS MNCs in total and foreign assets, sales & employment of the top EMNCs from 1994 to 2015 (%)

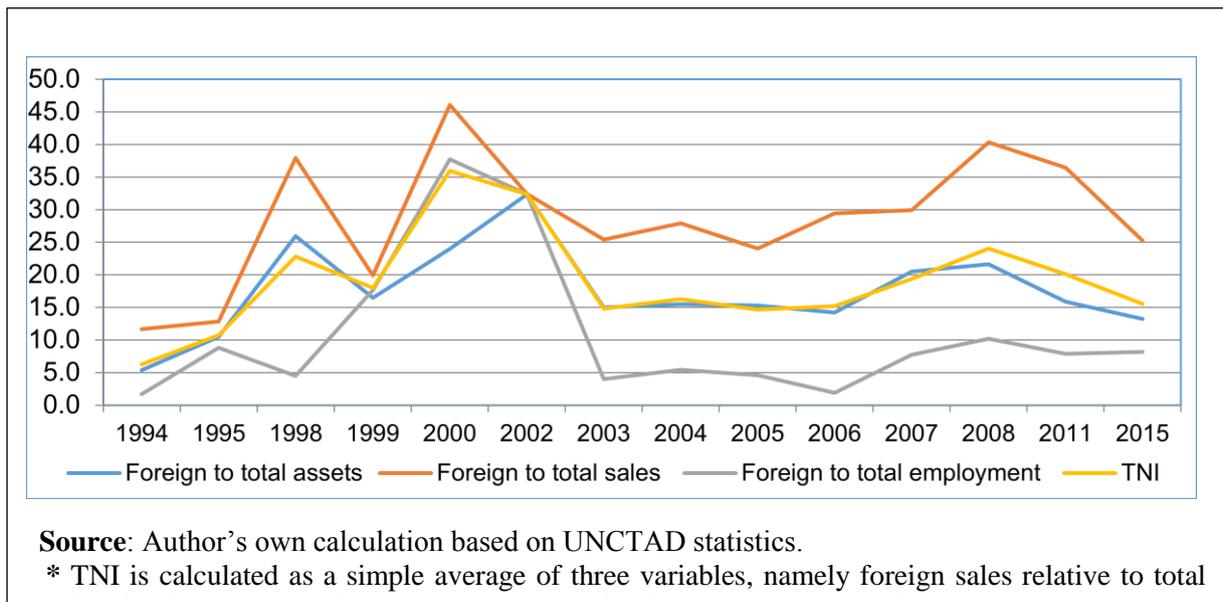


In line with this finding, the degree of internationalisation of the top BRICS MNCs tends to increase at a faster pace than that of EMNCs in general. Foreign to total assets, sales, and employment of the top BRICS MNCs increased 2.5, 2.2 and 4.8 times respectively,

¹⁴ This acronym refers to Brazil, Russia, India, China and South Africa.

compared to 1.26, 1.69 and 0.87 for the respective indices of EMNCs as a whole, over the period from 1994 to 2015. As a result, the average Transnationality Index of the top BRICS MNCs mounted faster than that of EMNCs, to reach 15.6 percent in 2015, up from 6.3 percent in 1994 (see Figure 3.6).

Figure 3.6: Foreign assets, sales, employment as a percentage of total respective indicators of the top BRICS MNCs from 1994 to 2015 (%) *



In conjunction with dominating the top EMNCs, the BRICS countries account for the majority of OFDI from emerging markets. In 2016, the BRICS countries controlled more than 72 percent of OFDI stock (\$2.1 trillion) and nearly 90 percent of OFDI flow (\$206 billion) of emerging markets. Despite being the top investor among EMs throughout the entire period from 1990 to 2016, the relevance of the BRICS countries decreased slightly as a percentage of the total OFDI stock possessed by EMs in favour of emerging European investors.

From another perspective, during the last couple of decades, OFDI from the BRICS countries has gained significant momentum globally. This group of countries accounted for nearly 14 percent of the world's entire OFDI flow in 2016, while the percentage has been almost negligible in 1990.

3.3.2 Foreign markets and preferred entry mode of BRICS MNCS

Developing countries hosted nearly 43 percent of BRICS OFDI stock in 2011 (World Bank, 2011). Most importantly, it is found that more than 87 percent of BRICS investment in developing markets is hosted by countries neighbouring the BRICS countries (UNCTAD, 2013). Likewise, after analysing 1430 cross-border M&As deals closed by MNCs based in Brazil, Russia, India and China (BRIC)¹⁵ from 2000 to 2007, Sethi (2009) concludes that 50 percent of such deals are concluded in countries located in BRIC home regions. In this regard, Russian MNCs are found to be more regional than their BRIC peers, as 75 percent of their M&As are regional, followed by the Chinese (58 percent), then the Brazilians (51 percent), and lastly the Indians (17.4 percent) (Sethi, 2009).

The tendency of BRICS MNCs to invest in developing markets is further supported by their foreign market entry mode. UNCTAD statistics exhibit BRICS economies' general preference to greenfield projects over M&As. In 2016, the volume of greenfield investment possessed by BRICS countries was about 4 times higher than that of the corresponding M&As deals. Moreover, BRICS economies' greenfield investment was registered to grow faster than that of their corresponding M&As over the period from 2003 to 2016 (UNCTAD, 2017).

As per the World Bank Report 2011, greenfield investment is perceived to be the most reasonable entry mode for emerging multinational corporations seeking to establish a physical presence in developing markets. In other words, and similar to EMNCs, BRICS MNCs are assumed to be motivated by asset exploiting motives rather than asset-seeking motives, as recorded by home country specifications related theories.

3.3.3 Industry breakdown of BRICS MNCs

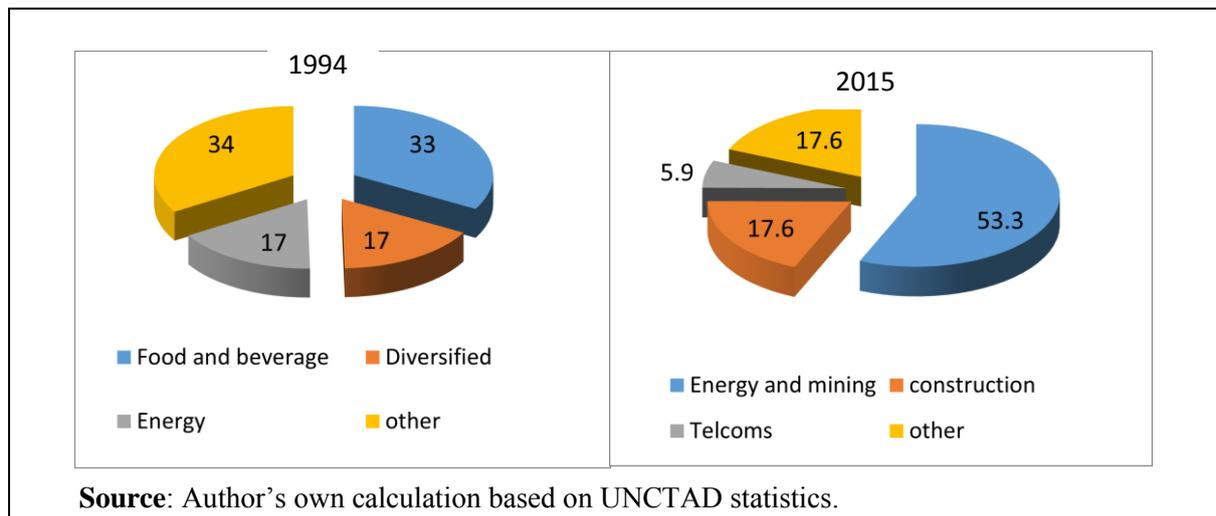
Similar to top EMNCs, from 1994 to 2015 the industry structure¹⁶ of the top BRICS MNCs has experienced drastic changes favouring the energy sector, as reflected in Figure 3.7. According to the International Energy Agency (IEA), China is expected to lead the expansion in the global energy consumption, with its demand rising 60 percent by 2035, followed by India, ranking second biggest growth engine in the world energy demand (IEA,

¹⁵ It is noteworthy that Sethi does not include South African MNCs in his analysis.

¹⁶ It remains important to keep in mind that UNCTAD top EMNCs do not include those active in the financial sector.

2012). The growing energy demand of the BRICS countries, in particular China and India, is deemed vital for fuelling their economic growth.

Figure 3.7: Shift in non-financial industry structure of the top BRICS MNCs (1994 - 2015) (%)



After determining the distinguishing characteristics of BRICS MNCs, this thesis proceeds to outline the role of Africa in the EMNC landscape, and how it evolves over time.

3.4 AFRICA'S STATUS IN THE EMNCs LANDSCAPE

Given available data, the following section outlines a number of features of EAMNCs, which refers to MNCs that are based in one of the emerging African markets (EAMs). From another perspective, top EAMNCs hereafter denote emerging African countries-based MNCs that are listed among the top EMNCs.

3.4.1 Performance of EAMNCs

Except for foreign employment, foreign activities of the top EAMNCs progressed remarkably from 1995 to 2011¹⁷, as shown in Table 3.2. For instance, the foreign assets held by top EAMNCs doubled nearly 7 times to reach \$9.4 billion, up from \$1.4 billion in 1995. They also expanded their foreign sales 4 fold during the same period. Foreign employment recruited by the top EAMNCs declined from 20.7 to 4.8 thousand employees.

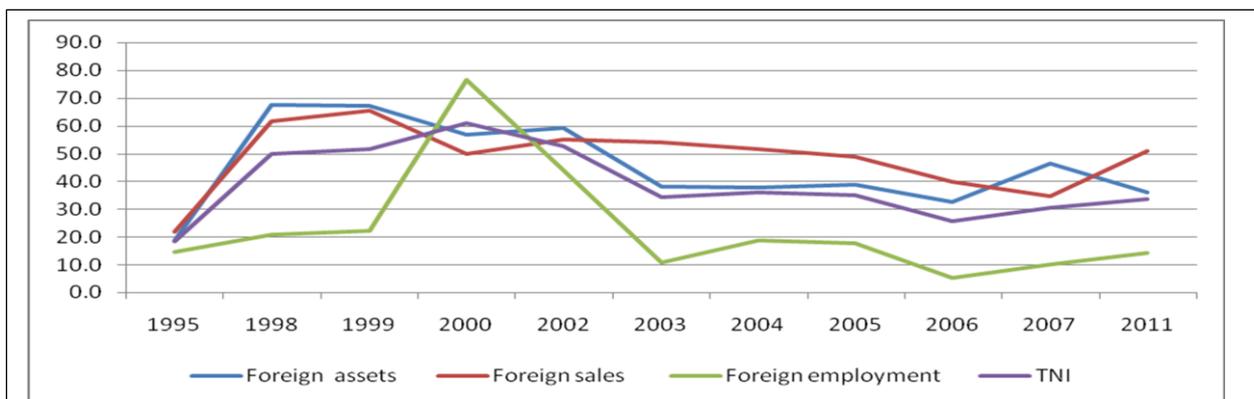
¹⁷ None of EAMNCs were listed in UNCTAD top EMNCs lists of 1994 and 2015.

Table 3.2: Growth of foreign assets, sales, & employment of the top EAMNCs (1995-2011)

Year	Foreign assets (\$ billions)	Foreign sales(\$ billions)	Foreign employment (thousands employees)
1995	1.4	2.7	20.7
1998	6.1	5.0	10.7
1999	5.2	5.2	9.4
2000	5.2	5.1	25.2
2002	15.5	10.6	61.4
2003	9.6	12.0	8.2
2004	4.9	5.5	5.8
2005	5.4	5.4	5.3
2006	9.3	6.5	2.2
2007	13.9	7.8	8.7
2011	9.4	10.4	4.8

Source: Author's own calculation based on UNCTAD statistics.

From another perspective, similar to top EMNCs, the top EAMNCs experienced leapfrogging in their internationalisation process; becoming involved in the global market at an accelerated pace. This conclusion is supported by the evolution pattern of foreign to total assets and sales of EAMNCs, as shown in Figure 3.8.

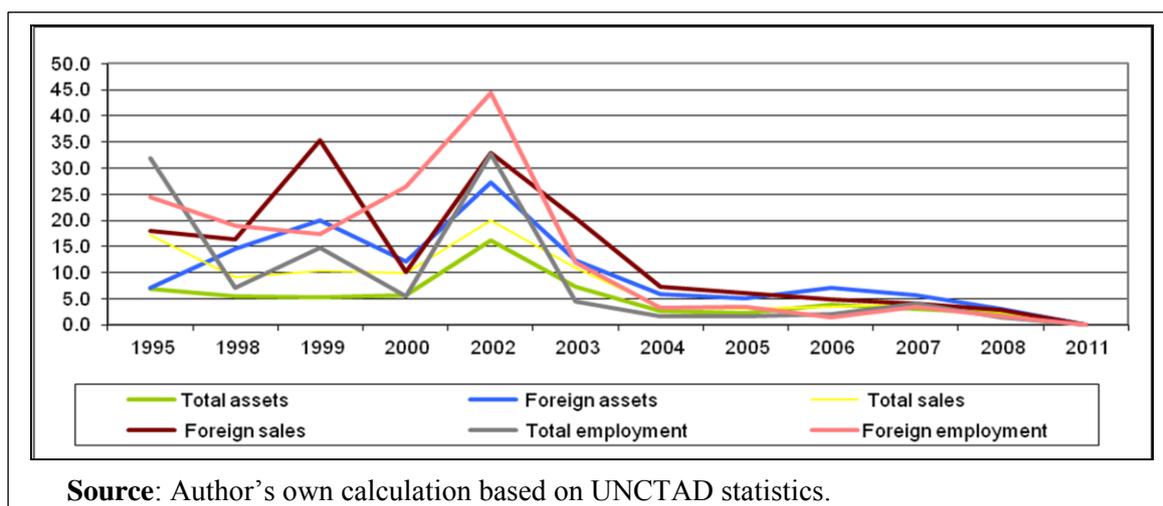
Figure 3.8: Foreign assets, sales, & employment as a percentage of total respective indicators of the top EAMNCs and their Transnationality Index (1995 – 2011) (%)*

Source: Author's own calculation based on UNCTAD statistics.

* TNI is calculated as a simple average of three variables, namely foreign sales abroad relative to total sales, foreign assets relative to total assets and foreign employment relative to total employment.

Despite such positive developments, a significant deterioration was apparent in the role of EAMNCs relative to their emerging peers over the period from 1995 to 2011. Based on UNCTAD statistics, the share of the top EAMNCs in both total and foreign assets, sales and employment of the top EMNCs, regressed substantially, as reflected in Figure 3.9.¹⁸

Figure 3.9 : Share of the top EAMNCs in total and foreign assets, sales, employment of the top EMNCs (1995 – 2011) (%)



Likewise, the number and market value of EAMNCs listed in the Financial Times Global 500 declined over the period from 2008 to 2014, as outlined in Table 3.3. In line with improvements seen in the foreign activities of EAMNCs, OFDI flow from EAMs (i.e. emerging African markets) witnessed a remarkable boost. It had namely increased more than 94 times, to amount to approximately \$5 billion in 2016 (up from \$52 million in 1990).

Table 3.3: EAMNCs listed in the Financial Times Global 500 list (2008 – 2014)

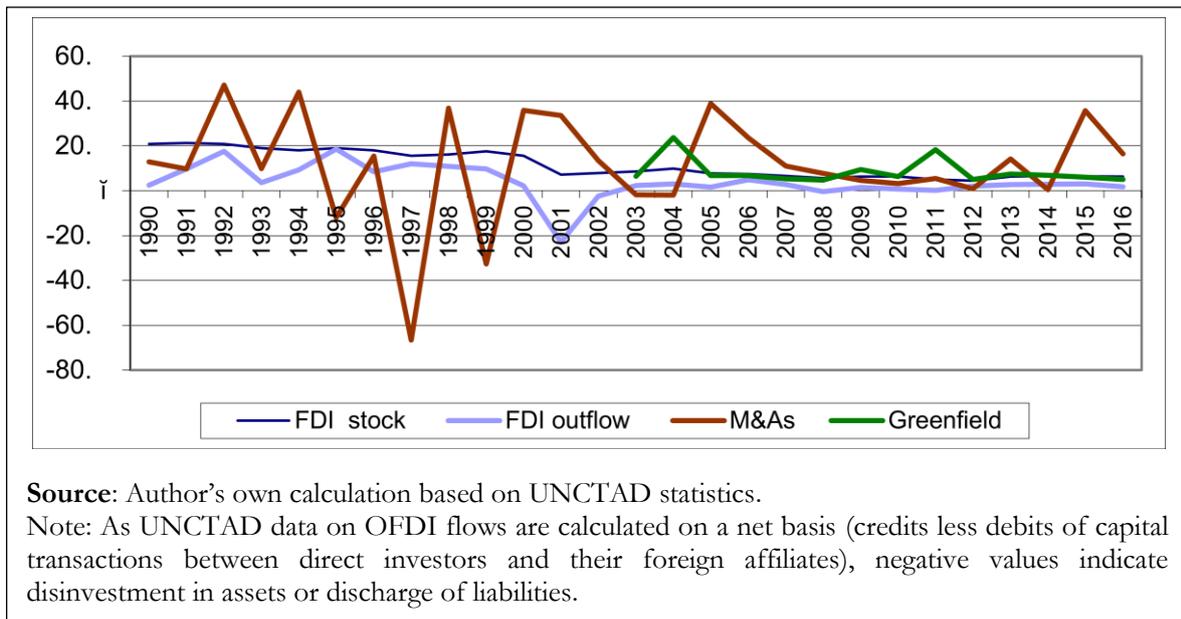
Year	No. of Firms	Market value (\$ billion)
2014	3	121
2013	5	128
2012	7	172
2011	6	171
2010	7	155
2009	7	103
2008	5	141

Source: Author's own calculation based on the Financial Times Global 500.

¹⁸ It should be underlined that from 1994 to 2011, South Africa is the sole African country recognised in UNCTAD lists of the top EMNCs.

Following the same pattern, at a lesser pace, the magnitude of OFDI stock acquired by EAMs increased 12 fold during the period from 1990 to 2016. As such, EAMNCs owned OFDI stock valued at \$185 billion in 2016, compared to \$15.3 billion in 1990. Despite expanding their OFDI substantially, EAMs lost ground in the OFDI landscape of EMs. While acquiring more than one-fifth of the total OFDI stock of EMs in 1990, EAMs possessed less than 7 percent, in 2016, as seen in Figure 3.10.

Figure 3.10: Share of EAMs in the total OFDI of EMs (1990 – 2016) (%)



3.4.2 Foreign markets and preferred entry mode of EAMNCs

Given data unavailability constraint, the geographical pattern of total African OFDI may be used to provide an approximate indication of the respective pattern of EAMNCs. Although the findings should be interpreted cautiously as this thesis classifies only three African countries as EMs¹⁹, most geographical features of African OFDI are found to be in line with the general geographical pattern of EMNCs. It has been established that the majority of African cross-border investments target mainly African markets. Africa received 66 percent of international investment by African MNCs in 2013 (equivalent to \$19 billion), followed by 14 percent investment by the European Union (UNCTAD, 2014). This finding is in line with the general tendency of EM-based MNCs to select foreign markets based on drivers of geographical proximity and economic relations between home and host country.

¹⁹ One should keep in mind that Morocco based MNCs are excluded from the analysis, due to data unavailability.

A further similarity between EMNCs and African MNCs is apparent with respect to the preferred entry mode. African OFDI reflects a noticeable preference for greenfield investment over M&As transactions in developing markets, and vice versa in developed markets. Ninety five percent of total African investment in developing countries occurs through greenfield investment.

To the contrary, M&As are found to be the most important entry mode for African investment in developed markets, accounting for 52 percent of such investments (UNCTAD, 2014). Eventually, the same conclusion is valid for EAMNCs, as their own greenfield investment is 1.5 times as high as their M&As deals in 2016 (UNCTAD, 2017). This pattern of investment may support the assumption that EAMNCs favour investing in developing markets (World Bank, 2011).

3.4.3 Industry breakdown of EAMNCs

Concerning the industry breakdown of EAMNCs, limited information is available. However, as outlined in Table 3.4, it is found that chemicals, telecommunications, and mining are the three most important sectors for top EAMNCs. As such, there is a certain degree of similarity between top EAMNCs and top EMNCs regarding the relevance of the telecoms and mining sectors. In this regard, it should be mentioned that over time, it is quite difficult to follow the change in the industry structure of the top EAMNCs, compared to that of the top EMNCs and top BRICS MNCs. This difficulty can be attributed to the fact that the number of the top EAMNCs is relatively small and varies substantially from one year to another, to the extent that it makes comparability over years virtually impossible.

Table 3.4: Industry breakdown of the top EAMNCs recognised by UNCTAD (1995 - 2011)

Sector	No. of Firms
Telecommunications	2
Mining and quarrying	2
Chemicals and pharmaceuticals	2
Wood and paper products	1
Trade	1
Metals processing	1
Household goods	1
Food and beverage	1
Diversified	1

Sector	No. of Firms
Construction	1
Business services	1

Source: Author's own calculation based on UNCTAD statistics.

3.5 SUMMARY

UNCTAD statistics clearly reveal that foreign activities of the top EMNCs increased significantly from 1994 to 2015. They managed to increase their foreign assets, sales, and employment, 51, 57, and 11 fold respectively. Moreover, while none of the EMNCs have been included in the list of the world's top 100 non-financial MNCs released by UNCTAD in 1994, in 2016 top EMNCs accounted for nearly 5 percent of total assets of the world's top firms, valued at 1.5 trillion dollars. EMNCs have also received better representation in the Financial Times Global 500 list from one year to another. In concurrence with the accelerated foreign activities of the top EMNCs, recent decades have seen a dramatic growth in OFDI of emerging markets.

Accordingly, a significant shift away from DMs towards emerging countries is recorded in the global landscape of OFDI. For instance, in 2016, EMs were responsible for generating nearly 16 percent of the world OFDI flow, starting from less than one percent in 1990. In return, DEs have lost market share. Despite dominating the global landscape in the early nineties, developed markets accounted for only 72 percent of the global investment in 2016.

Developing markets are found to be the top destination of OFDI from emerging markets, as they receive 54 percent of total overseas investment by these countries. However, the relevance of developed markets is increasing at a growing pace. Foreign expansion by EM-based MNCs, in both developing and developed markets, reflects the considerable impact of the geographical and business environment proximity and economic relations between home and host country.

The preferred entry mode for EMNCs differs across the destinations receiving their activities. Greenfield investment is often preferred over M&As in developing markets, and vice versa in developed markets. Greenfield investment accounts for 72 percent of investment by EM-based MNCs in developing markets. To the contrary, this group of firms

tends to expand their investments in DMs predominately through M&As, which accounts for 85 percent of such investment.

BRICS countries dominate the EMNCs landscape. Most top non-financial EMNCs originate in BRICS countries. In 2015, 79 percent of the foreign assets of the top EMNCs owned by BRICS countries. In the same context, BRICS countries combined accounted for generating most of OFDI from EMs, irrespective of the type of OFDI. BRICS countries controlled more than 72 percent and 90 percent of emerging OFDI stock and outflow respectively. Furthermore, in 2016 these countries were involved in approximately 76.4 percent and 73 percent of M&As and greenfield investment by EMs respectively.

A dramatic deterioration is seen in the role of emerging African MNCs relative to their emerging peers. From 1995 to 2016, a significant decline was recorded in the share of the top EAMNCs in foreign and total assets, sales and employment owned by top EMNCs. Moreover, while acquiring more than one-fifth of the total outward OFDI stock of EMs in 1990, emerging African markets owned less than 7 percent in 2016.

Contrary to what is assumed by most EMNC evolution theories, top EMNCs experienced leapfrogging in their internationalisation process; becoming involved in the global market at an accelerated pace. This finding could validate the assumption that top EMNCs go international in order to grow large.

Having examined the current status of emerging African MNCs, a number of potential research questions loom on the horizon. Important among these is the question of what the driving forces influencing the cross-border investment of emerging African MNCs.

Chapter Four

Push drivers of South African and Egyptian multinational corporations

4.1 INTRODUCTION

This chapter examines the key attributes of Egyptian and South African MNCs as cases studies of emerging African multinational corporations. Moreover, it investigates the key push drivers (home country specifications) influencing them. It is organised into three sections. The first section gives an overview of South African and Egyptian MNCs. The second section examines the theoretical framework and literature review of push factor determinants of overseas investment of EMNCs. The final section considers the key push drivers of Egyptian and South African MNCs.

In line with the methodology advocated by this thesis, this chapter is using multiple data sources. As to South African and Egyptian data sources, the Labour Research Service (LRS)²⁰ maintains a database for South African MNCs (SAMNCs). By contrary, none of the relevant Egyptian authorities publish a detailed record of Egyptian MNCs (EGMNCs). This thesis, therefore, compiled a list of Egyptian corporations that could be classified as MNCs²¹. This list gives some important insights over the salient features of EGMNCs as discussed hereafter.

²⁰ The Labour Research Service (LRS) was established in South Africa in 1986 as a non-profit labour service organisation. This database identifies 87 SAMNCs and maintains statistics covering a wide spectrum of aspects, including, inter alia, the five main shareholders in each corporation, sector, financial performance indicators, and listing in stock markets either in South Africa or abroad. For the purpose of this thesis, the abbreviation SAMNCs hereafter denotes the 87 South African corporations counted by the LRS as MNCs, unless otherwise stated.

²¹ It is difficult to list all Egyptian MNCs as most Egyptian firms do not publicly publish their financial statements to check whether or not they have cross-border investments. Accordingly, and owing to data limitation, the authors compiled their own list of EGMNCs based on reviewing cross-border investments involving top Egyptian firms as well as those listed on the Egyptian stock exchanges. To be counted as an MNC, an Egypt-based firm should possess not less than 10 percent of assets or voting power of a company (either a branch or associate or subsidiary) existing outside Egypt. This criterion is commonly adopted by most international organisations, including above all, UNCTAD. Applying this criterion, it is possible to recognise 55 Egyptian corporations as MNCs. For the purpose of this thesis, the abbreviation EGMNCs hereafter denotes the 55 Egyptian corporations counted by this thesis as MNCs, unless otherwise stated.

It is however quite important to interpret the attributes of EGMNCs, drawn from the abovementioned list, with caution as it has a probable exclusion error resulting from the unavailability of data over foreign activities of most Egyptian MNCs.

4.2 SOUTH AFRICAN AND EGYPTIAN MULTINATIONAL CORPORATIONS OVERVIEW

Given available information, certain attributes of South African and Egyptian MNCs will be examined in this section. These include performance, entry mode, industry and ownership structures, as well as the openness of both countries to OFDI.

4.2.1 Performance of South African and Egyptian MNCs:

The LRS database exhibits that SAMNCs have evolved markedly over the period from 2009 to 2013, regarding revenues, profits, and total assets. For instance, the total assets (i.e. domestic and foreign assets) held by all SAMNCs escalated to over \$1 trillion in 2013 from \$756.6 billion in 2009. Similarly, SAMNCs' total revenue (i.e. domestic and foreign revenues) increased by around \$100 billion over the same period, reaching \$349 billion. Similarly, but to different extent, total assets of EGMNCs, recognized in this thesis, mounted nearly three times to the value of around \$86 billion in 2013²², as reflected by Table 4.1.

Table 4.1: Performance of South African and Egyptian MNCs (2009-2013) (\$ billion)

Year	SAMNCs				EGMNCs**	
	Revenue	Profit before tax	Assets	Liabilities	Assets	Liabilities
2009	249.5	28.6	756.6	621.4	NA	NA
2010	316.0	50.5	981.8	742.4	32.7	30.6
2011	348.6	61.8	1081.0	1392.6	82.9	78.4
2012	361.4	44.4	973.2	759.5	54.4	51.1
2013	349.1	40.0	1048.0	774.5	85.9	80.4

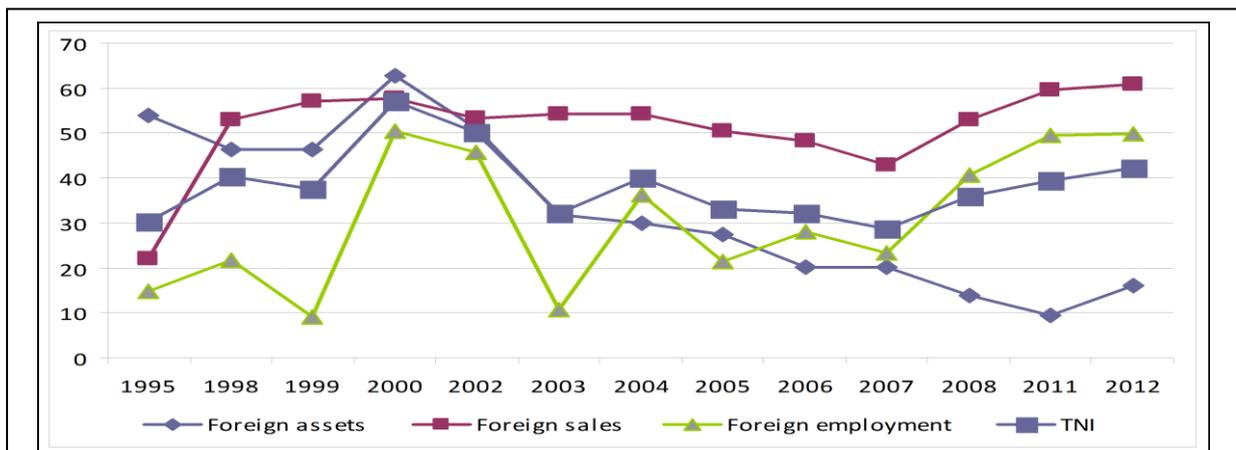
Source: Author's own calculation based on Labour Research Service (LRS) database.

**Data are retrieved from Mubashir database, www.mubashir.info. Original values are measured in Egyptian Pound. To be converted to US dollar, this thesis used the annual exchange rate derived from World Bank's World Development Indicators (WDI) database.

²² It should be mentioned that no data are available concerning the outbound investment involvement of EGMNCs.

Compared to only two Egyptian firms, a total of 14 SAMNCs has been included in UNCTAD lists of the top 100 MNCs coming from developing and transition countries over the period from 1995 to 2015. Top SAMNCs, listed by UNCTAD, have increased their foreign sales and employment nearly 3 fold from 1995 to 2012. Moreover, the Transnationality Index (TNI)²³ of the top SAMNCs mounted from 30 to 42 percent, reflecting that top SAMNCs tend to engage more with international markets over time (see Figure 4.1). It was also found that the TNI of the top SAMNCs is almost two times higher than the respective indices of EMNCs (23 percent) and BRICS countries²⁴-based MNCs (20 percent)²⁵.

Figure 4.1: Foreign assets, sales, employment as a percentage of total respective indicators of the top SAMNCs and their Transnationality index (1995 – 2012) (%)*



Source: Author's own calculation based on UNCTAD statistics.

* TNI is calculated as a simple average of three variables, namely sales abroad relative to total sales, foreign assets relative to total assets, and foreign labour relative to total labour.

In line with the above, overall UNCTAD statistics indicate that both South African and Egyptian OFDI flows have been growing during the previous years. Yet, both countries differ from one another. Over the period from 1990 to 2016, Egyptian overseas investment witnessed great leaps, compared to the corresponding South African investment.

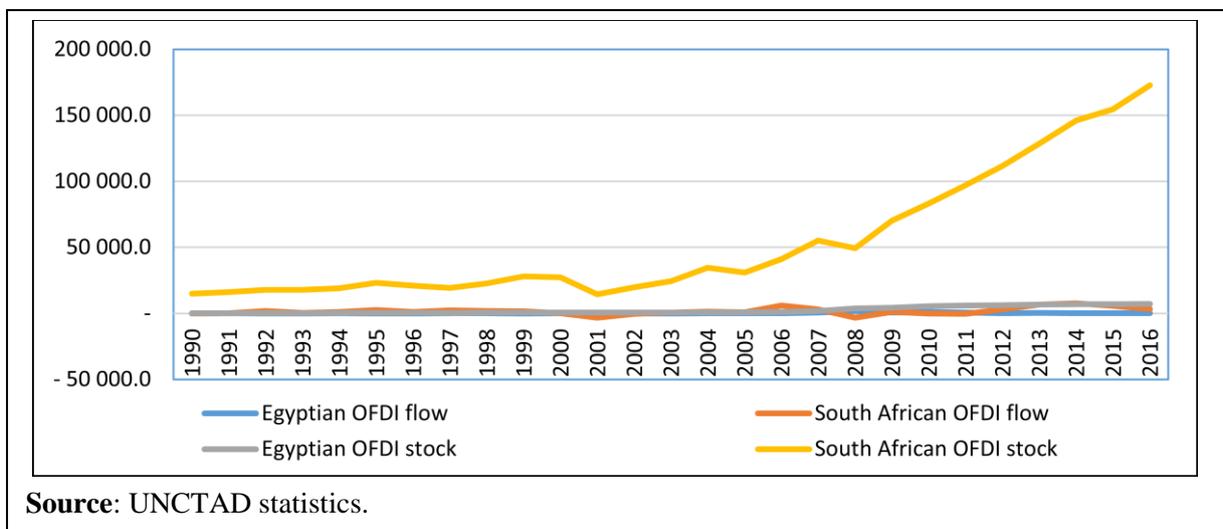
²³ TNI is calculated as a simple average of three variables, namely: foreign to total sales, assets and labour.

²⁴ This abbreviation refers to Brazil, Russia, India, China and South Africa.

²⁵ The number of the top SAMNCs, listed by UNCTAD among the top MNCs coming from developing economies and transition countries, varied considerably from one year to another. Moreover, it was difficult to track the change in the TNI of EGMNCs as the two firms listed by UNCTAD appeared once in two separate years.

While South African OFDI stock grew nearly 11 fold, the corresponding Egyptian investment had scaled up 44 fold during the period from 1990 to 2016, which could be largely attributed to the small magnitude of baseline investment of Egypt in 1990, as shown in Figure 4.2. However, Egypt still lags behind South Africa, regarding the magnitude of their outbound investment. Apparently, South African FDI outflow (\$3.4 billion) was 16 times higher than that of Egypt (\$0.21billion) in 2016. Similarly, South African OFDI stock (\$172.8 billion) was 24 fold higher than that of Egypt (\$7.2 billion) in the same year²⁶.

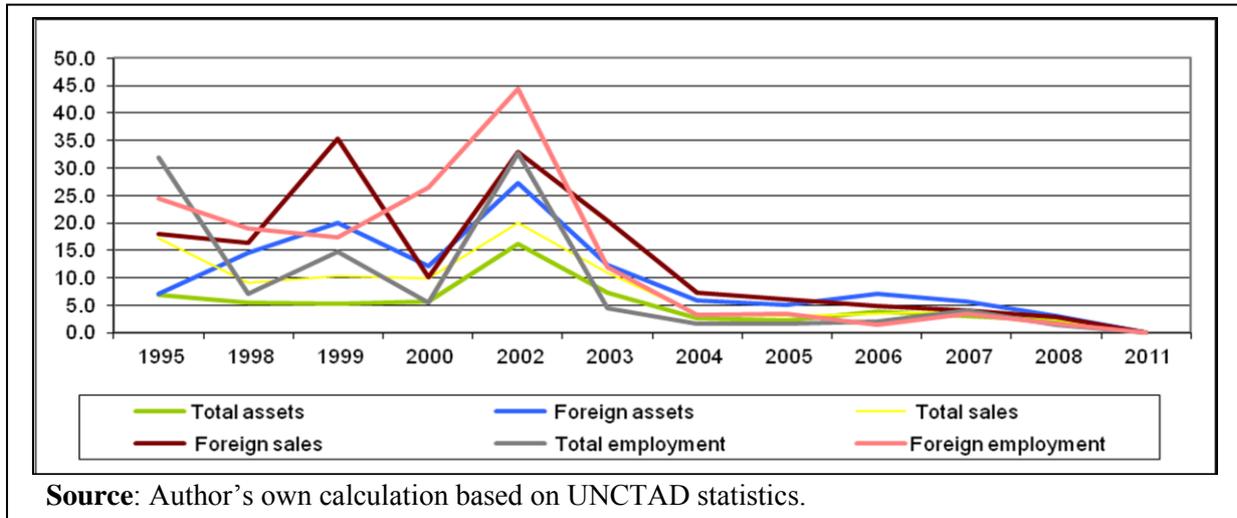
Figure 4.2 : South African and Egyptian outward FDI (1990-2016) (\$ millions)



As discussing the performance of Egyptian and South African MNCs, it is quite important to assess how they compare to their emerging competitors. The figures support the assumption that both groups of firms, particularly South African MNCs, have lost ground on the EMNCs landscape. While playing a significant role in the early nineties and the beginning of the twenty first century, the top SAMNCs lost their relatively influential position in the top EMNC landscape during 1995 to 2011 (see Figure 4.3).

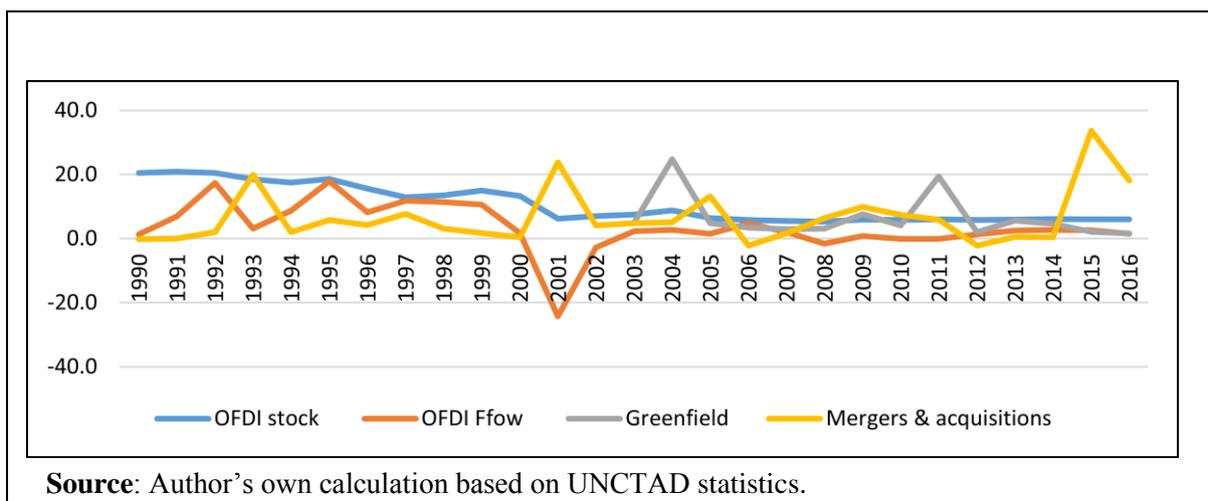
²⁶ Apparently, political developments experienced by the Egyptian economy at the beginning of 2011, commonly known as Arab Spring, had not changed the fluctuating pattern of the Egyptian OFDI. Moreover, the Egyptian OFDI level registered in 2010 remains higher than those seen in the years ahead.

Figure 4.3: Share of SAMNCs in total and foreign assets, sales and employment of the top 17 EMNCs (1995 - 2011) (%)



The same conclusion is further supported by the slightly declining participation of SAMNCs in the Financial Times global 500-list relative to their emerging rivals. While five SAMNCs were listed in the FT global 500 in 2008, only three firms were counted in 2015. As a result, the total market value of the listed SAMNCs declined from 141 to 122 \$ billion over the same period. This is contrary to the fact that EMNCs become more highly represented in the FT global list from one year to another²⁷. Likewise, South Africa owned nearly 6 percent of the total OFDI stock possessed by EMs, which represents a quarter of its share in the early (see Figure 4.4).

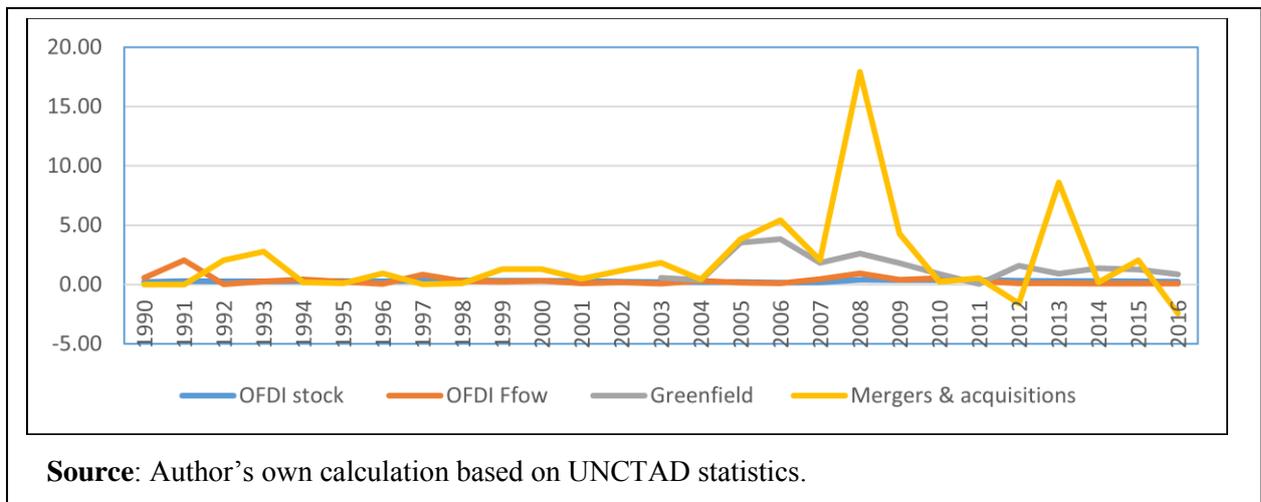
Figure 4.4: Stance of South Africa in EMs OFDI map (1990-2016) (%)



²⁷ While hosting the headquarters of only 6 percent (30 firms) of the world's top 500 firms in 2008, emerging economies became the home country of 11 percent (56 firms) of the world top firms in 2014.

With reference to the position of Egyptian MNCs in the EMNCs landscape, it was found that over 1994 to 2011, EGMNCs listed neither among the top 17 non-financial EMNCs nor among the Financial Times global 500. The marginal role of Egyptian MNCs is also supported by tracking the change in Egypt's role in the EMs OFDI landscape. Egypt owned less than 1 percent of the total OFDI owned by EMs; at both levels of flow and stock (see Figure 4.5).

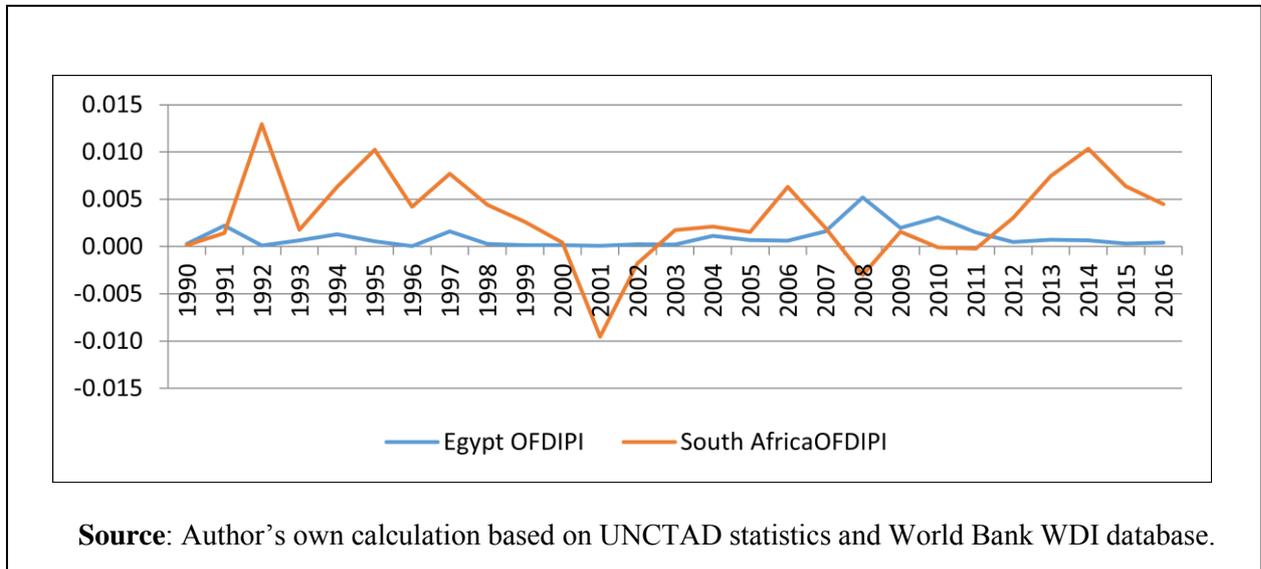
Figure 4.5: Stance of Egypt in EMs OFDI map (1990-2016) (%)



In conjunction with the above, OFDI Performance Index (OFDIPI)²⁸, developed by UNCTAD could give another indication for the performance of South Africa and Egypt in the OFDI landscape, The OFDI Performance Indices of both South Africa and Egypt are often less than unity. Consequently, each country's share of the world OFDI is less than its relative share of the world GDP, indicating that they are still playing a smaller role in the global OFDI landscape than warranted by their economies as reflected in Figure 4.6.

²⁸ The Outward Foreign Direct Investment Performance Index (OFDIPI) captures a country's relative success in investing in the global economy via foreign direct investment (FDI). If a country's share of global OFDI matches its relative share in the world gross domestic product (GDP), the country's OFDIPI is equal to one. A value greater than one indicates a larger share of OFDI relative to GDP; a value less than one indicates a smaller share of OFDI relative to GDP.

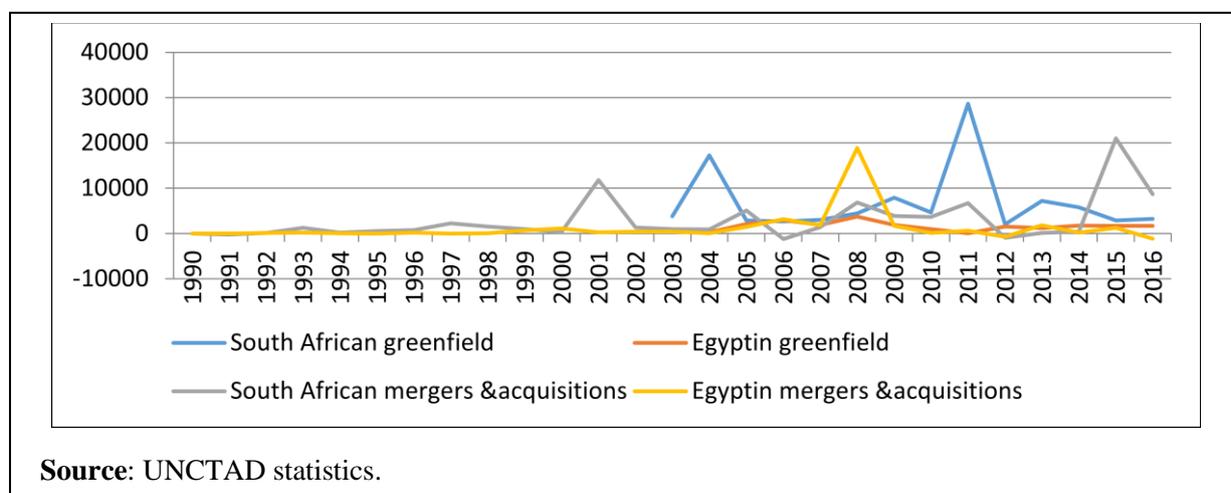
Figure 4.6: OFDI Performance Indices of South Africa and Egypt (1990-2016)



4.2.2 Foreign market entry mode of South African and Egyptian MNCs:

Over the period from 1990 to 2016, it is noted from Figure 4.7 that both South African and Egyptian MNCs show a preference to greenfield over M&As as foreign market entry mode. The average annual flow of greenfield investment possessed by South African MNCs is more than double their outbound M&As deals over the period from 1990 to 2016. Similarly, to lesser extent, average greenfield investments of Egyptian corporations was registered to be 1.3 times higher than their respective M&As over the same period. The preferred foreign market entry mode of South African and Egyptian MNCs comes in line with the respective mode of emerging multinational corporations discussed in the previous chapter.

Based on their preferred entry mode, South African and Egyptian MNCs are expected to favour investing in developing countries. Greenfield investment is perceived to be the most reasonable entry mode for emerging multinational corporations seeking to establish a physical presence in developing markets, owing to proximity in political and regulatory frameworks between home and host country and lack of suitable acquisition targets (World Bank, 2011).

Figure 4.7: South African and Egyptian OFDI by type of investment (1990-2016) (\$ millions)

4.2.3 Sector breakdown of South African and Egyptian MNCs:

In line with sector structure of the Top 17 non-financial EMNCs, the mining sector is dominant in the sector breakdown of SAMNCs, based on the number of firms in 2013. Nearly 16 percent of total SAMNCs listed in the LRS database were active in the mining and quarrying sector. Banking and financial services sector ranked second, followed by food and beverage, accounting for 12.6 percent and 11.4 percent of SAMNCs respectively. Education, business training & employment ranked last, as only one firm operated in this sector. As far as assets are concerned, the banking and financial services sector came first, as it accounted for around 63 percent of SAMNCs' total assets, as seen in Table 4.2. In fact, it is important to underscore that 8 of the top 10 SAMNCs were active in the financial sector.

Table 4.2: Sector breakdown of SAMNCs ranked by number of firms in 2013 (\$billion) ***

Sector**	Number of firms	Revenue	Profit before tax	Assets	Liabilities
Mining	14	5.5	5.5	141.1	38.0
Banking and financial services	11	12.9	12.9	739.2	671.9
Food and beverage	10	1.3	1.3	13.3	6.5
Retail	9	2.5	2.5	14.0	8.2
Industrial	8	5.5	5.5	88.6	53.6
Construction	6	0.6	0.6	10.1	6.4
Diversified holdings	6	2.4	2.4	41.6	20.3
Health	6	1.5	1.5	26.0	9.4

Sector**	Number of firms	Revenue	Profit before tax	Assets	Liabilities
Transport	6	1.8	1.8	37.4	23.0
Hospitality	3	0.5	0.5	3.7	2.1
Paper and packaging	3	0.7	0.7	16.1	10.5
Media	2	1.2	1.2	12.9	5.8
Technology and telecommunications	2	6.6	6.6	30.2	11.2
Education, business training & employment	1	0.0	0.0	0.5	0.2

Source: Author's own calculation based on Labour Research Service (LRS) database.

** Sector classification is based on what is mentioned in LRS database.

*** Note: As 2013 financial statistics were unavailable for some SAMNCs, latest available financial statistics were used instead. Accordingly, total values of assets, revenues, profit before tax and liabilities are less important.

As to the Egyptian MNCs, the financial services sector ranked first, with regard to both the number of firms and the assets as well. Almost 24 percent of EGMNCs were active in the financial services sector. It also accounted for more than 98 percent of EGMNCs' total assets. When considering the number of firms, the industrial sector ranked second, followed by construction, (22 and 20 percent respectively), as exhibited in Table 4.3.

Table 4.3: Sector breakdown of Egyptian MNCs in 2013

Sector**	Number of firms	Value of assets (\$ million)	Share in total assets (%)
Financial services	13	85125.5	98.5
Industrial	12	7.8	0.01
Construction	11	804.0	0.93
Technology and communications	6	62.2	0.07
Food and beverage	3	0.3	0.00
Hospitality	3	1.5	0.00
Trade	2	9.3	0.01
Diversified	1	(-)	(-)
Energy and mining	2	367.5	0.43
Transportation sector	1	0.1	0.00
Utilities	1	0.3	0.00

Source: Author's own calculation based on firm database published by www.mubashir.info

** Sector classification is based on what is published by www.mubashir.info.

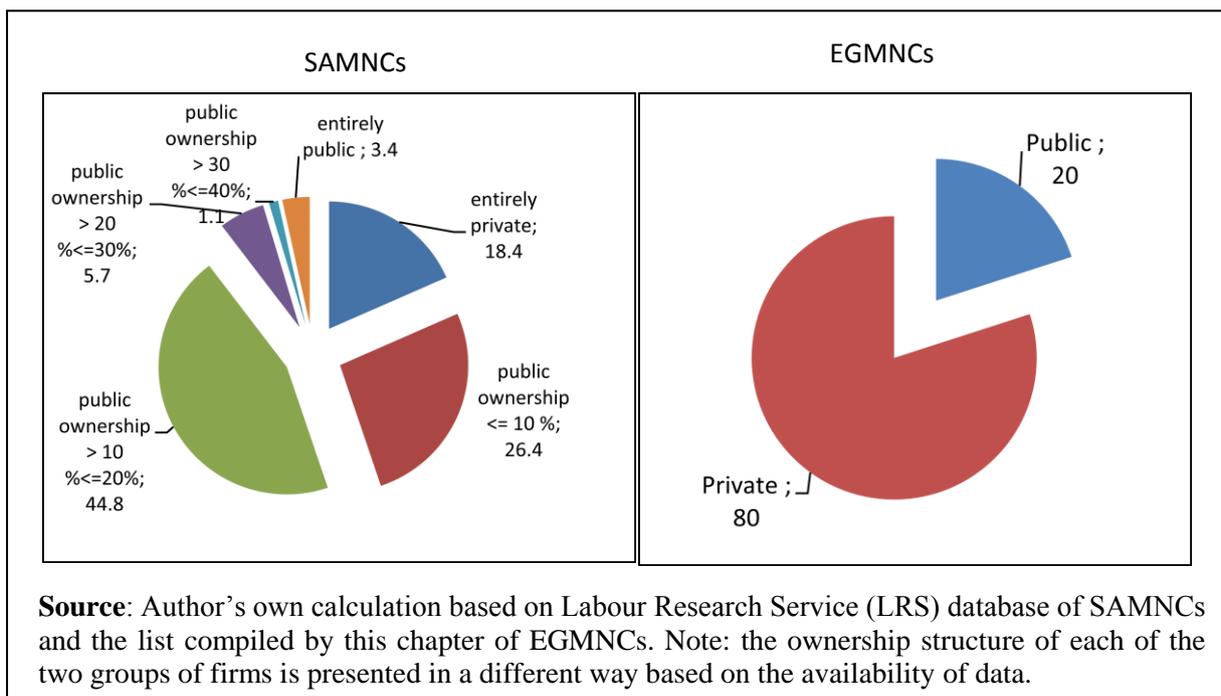
(-) means not available.

4.2.4 Ownership structure of South African and Egyptian MNCs:

The private sector is found to dominate, to different extent, in both South African and Egyptian MNCs. It controlled around 96 percent of SAMNCs in 2013 (i.e. the private sector holds more than 50 percent of a firm's shares). In contrast, the public sector solely controlled 3.4 percent of SAMNCs, while jointly owning 78 percent of SAMNCs. Total assets owned by the public sector reached \$145 billion, accounting for 12.3 percent of total assets of SAMNCs in 2013, as exhibited in Figure 4.8. In line with the private ownership of SAMNCs, it is found that most of them (96 percent) were listed on the Johannesburg Stock Exchange (JSE). In addition to the JSE, nearly 22 percent of SAMNCs were listed on one or more of 10 foreign stock exchanges.

Similar to SAMNCs, but to lesser extent, the private sector controlled around 80 percent of EGMNCs in 2013. On the other side, the government had the majority of 11 firms (20 percent), of which four firms were entirely owned by the government. Most EGMNCs (87 percent) were listed on the Cairo and Alexandria Stock Exchanges in Egypt. As mentioned before, this finding should be treated with caution as the list of EGMNCs compiled in this chapter was drawn mainly from top Egyptian companies as well as those listed in the stock exchange markets.

Figure 4.8: Ownership structure of South African and Egyptian MNCs in 2013 (%)

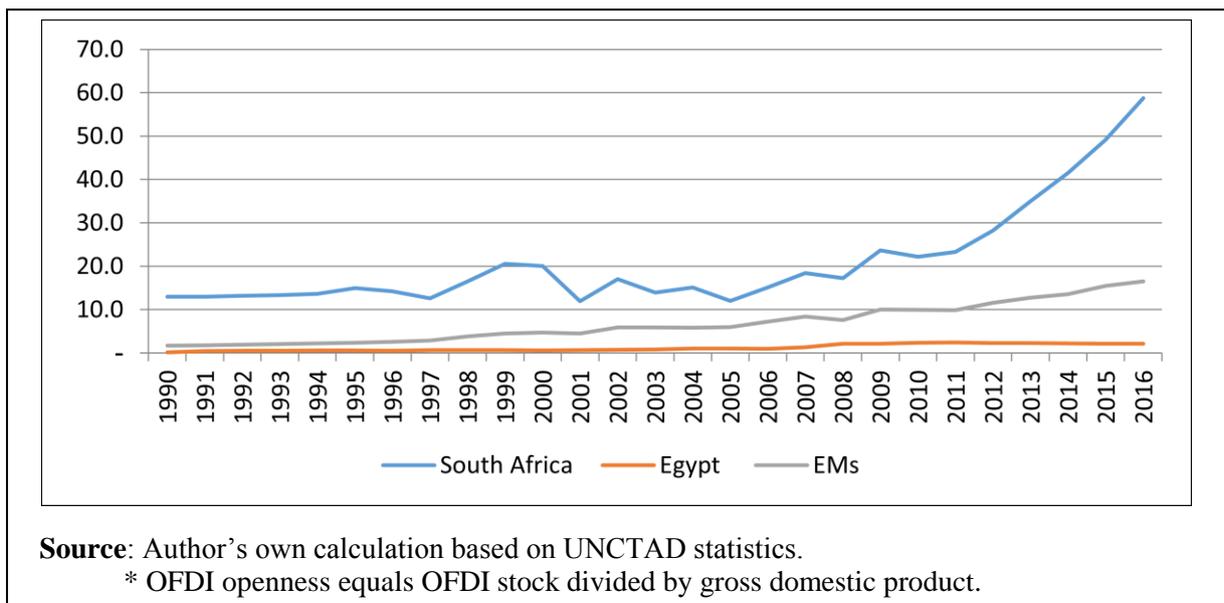


4.2.5 Openness of South Africa and Egypt to OFDI:

As discussing the main salient features of South African and Egyptian MNCs, it might be important to consider the openness of each economy to OFDI. This could be examined through following the developments of the OFDI index (i.e. OFDI stock divided by gross domestic product) as well as the number of investment treaties signed by the government of each country. UNCTAD statistics exhibit that both South African and Egyptian economies tend to be more open towards OFDI over time. From 1990 to 2016, the openness to OFDI index of South Africa escalated by roughly 46 points to reach 58 percent in 2016. Likewise, the Egyptian openness to OFDI index increased approximately fivefold.

Comparing to its emerging peers, the South African economy ranked first in respect of openness to OFDI in 2016. Moreover, the openness index of South Africa was 4 times as high as the average index of emerging economies, in 2016 (see Figure 4.9). Despite increasing over time, the Egyptian openness to OFDI index remained too modest compared to the respective average of EMs. In fact, the openness index of Egypt was estimated to be nearly 14 percent of the respective average index of EMs, indicating that Egypt remains less open to OFDI compared to its emerging peers. As such, the Egyptian economy ranked nineteenth among the twenty EMs counted in this thesis.

Figure 4.9: OFDI openness of South Africa and Egypt versus the respective average of emerging markets (1990-2016) (%)*



When it comes to investment treaties, from 1974 to 2003, the South African government has been involved in 23 bilateral investment treaties, of which five were terminated according to UNCTAD investment treaties' database. Europe is the major partner of South Africa in terms of bilateral investment treaties. Approximately 65 percent of bilateral treaties (15 treaties altogether) were signed with European countries and Russia. Africa comes in last, with only two treaties (Mauritius and Mozambique), while Asia and Latin America take the joint second spot (3 treaties for each continent). Moreover, South Africa has already engaged in 10 multilateral investment treaties, of which 80 percent are in force (UNCTAD, 2016).

On the other side, Egypt has signed 84 bilateral investment treaties with the most of countries, of which 73 remain in force. Europe is the major partner to Egypt in terms of bilateral investment treaties. Approximately 47 percent of bilateral treaties (34 treaties) have been signed with European countries and Russia, followed by the Arab world and Asia (22 and 21 percent respectively). Thirteen percent of treaties have been signed with African countries (9 treaties), which, therefore, rank fourth among the different continents. Moreover, Egypt has already engaged in 13 multilateral investment treaties, of which 85 percent are still in force (UNCTAD, 2016).

4.3 THEORETICAL FRAMEWORK AND LITERATURE REVIEW

In line with the scope of this chapter, the main focus of this section will be on the push drivers only.

4.3.1 Theoretical framework:

As per literature review, special attention has been assigned by literature to the Investment-Development Path (IDP) (Dunning, 1997; Narula & Dunning, 2000; Fonseca, Mendonça & Passos, 2007; Mortensen, 2009; Narula & Guimon, 2010). The IDP presents a dynamic framework to explain which countries are going to engage in outward foreign direct investment and how the magnitude of cross-border investment, as well as inward foreign direct investment (IFDI), dynamically changes depending on the pace of the home country's economic development. The IDP recognises the influence of the home country's governmental policies on both inward and outward FDI flows. The IDP identifies five stages of development (as exhibited in Table 2.2), starting with a country as net FDI receiver, and ending in the maturity stage in which a country can attain noticeably high levels of both inward and outward FDI flows (Narula & Dunning, 2000).

Along with the IDP, a number of theoretical approaches and frameworks have been promoted to examine push factor determinants of going multinational, including above all: the Uppsala Model, the Resource-Based Theory and the Born Global Theory as well. According to the model of “knowledge development and increasing foreign market commitments”, widely known as the Uppsala Model, the firm’s market knowledge influences the pace and the pattern of its foreign expansion. Firms incrementally intensify their foreign market commitments as they develop and acquire new business knowledge (Johanson & Vahlne, 1977).

As to the Resource-Based Theory, acquiring strategic resources is a key trigger for firms to invest abroad. These types of resources provide firms with a certain competitive advantage to improve their business efficiency. Strategic resources can be classified into three subgroups, namely: physical resources (production technology, raw materials and equipment), human resources (experience) and organisational resources (managerial and institutional structure). Home country specifications could influence a firm's strategic resources, and thus its ability to go multinational (Barney, 1991; Watjatrakul, 2005).

The resources of the home country could promote or prohibit a firm's ownership advantages. As such, resources are perceived to be the main engine to invest abroad, according to the Ownership, Location and Internationalization (OLI) Model (i.e. Eclectic Paradigm Model). A firm must thus possess certain advantages to compete in the international arena. Coupled with the ownership advantage, the OLI Model also considers internationalisation and location advantages. Internationalisation advantage refers to the ability of a firm to manage the different foreign market penetration modes. Location advantage captures host country specifications, which goes beyond the scope of this thesis (Dunning, 1995).

In addition to the above drivers, the availability of highly educated and well-trained human capital, particularly at the firm's top level, can play an effective role in boosting the internationalisation process. Some theoretical approaches, therefore, perceive the firm's top management as a determinant of going multinational (Wai & Yeung, 2002). Qualified top management can adopt globally oriented strategies, network with international business communities, explore foreign investment opportunities, and manage foreign affiliates. In this regard, Wai and Yeung (2002) propose the term “transnational entrepreneurs” to describe the group of the top managers who can engage in entrepreneurial activities across borders.

Promoting a wider perspective, the Born Global Theory confirms the paramount significance of both a firm's unique advantages and its decision-maker characteristics in explaining the early internationalisation of emerging multinational corporations, or what is referred to as born global firms. It should be underscored that this theory does not exclude the impact of host country specifications on the evolution of born global firms (Rasmussen & Madsen, 2002).

4.3.2 Previous research:

To explore the influence of push drivers on the outward foreign direct investment of emerging MNCs, a certain number of studies have been conducted (Kyrkilis & Pantelidis, 2003; Banga, 2005; Aminian, Fung & Lin, 2007; Bano & Tabbada, 2015; Cergibozan & Demir, 2017; Wang, 2017; Ahmed, Draz & Yang, 2018). In consideration of existing literature examining the push drivers of Asian and Latin American MNCs, one could conclude that literature remains remarkably sparse and in need of further development regarding the area of emerging African markets-based MNCs, as mentioned in before in Chapter one.

Apart from the geographical scope of interest of previous research, it is noted that a wide range of home country macroeconomic specifications have been tested in previous studies. Of the different specifications, the market size of the home country is perceived to be the most frequently tested push driver determinant of EMNCs. Actually, all reviewed studies are found to pay attention to this aspect. Similarly, but to lesser extent, the impact of trade openness is commonly traced in previous research (12 out of 15 studies reviewed in this thesis).

By contrast, only one study of the reviewed research addresses the impact of the tax policy of the home country government on its overseas investment (Banga, 2005). Likewise, Bano & Tabbada, (2015) examine the impact of foreign reserve on OFDI. In conjunction with the above specifications, other push drivers have been examined, including: inward foreign direct investment, OFDI openness, human capital, capital abundance, quality of infrastructure, institutions, technology capabilities, foreign reserves and currency strength (Banga, 2005; Masron & Shahbudin, 2010; Saad, Noor & Nor, 2011 & 2013; Bano & Tabbada, 2015; Wang, 2017).

To capture home country specifications, a remarkably wide range of variables have been used. Apparently, 29 variables had been used in the reviewed studies to test the causal relation between push drivers and OFDI flow from emerging countries. Such a large number of tested variables could be attributed either to differences in scope of interest of each study or data limitation, or both considerations.

Concerning domestic market conditions, four indicators have been introduced to capture the size of the home country economy from different aspects. These include the actual market size [gross domestic product (GDP)] (Banga, 2005; Masron & Shahbudin, 2010; Saad, Noor & Nor, 2013; Bano & Tabbada, 2015); the potential market size (GDP growth rate) (Banga, 2005); the demand side (GDP per capita) (Saad, Noor & Nor, 2011; Das, 2013; Cergibozan & Demir, 2017; Wang, 2017) and the gross national income (Ahmed, Draz & Yang, 2018). Despite being proven by most studies as a prominent driver of OFDI, Bang (2005) concludes that market size in no matter stimulates the intra direct investment flow among developing countries. Similar findings are concluded by Kyrkilis and Pantelid (2003), Tolentino (2008) and Wang (2017).

Except for Tolentino (2008), previous research agree that trade openness remarkably influences the cross-border activities of emerging MNCs, irrespective of the proxy used to capture the integration of the national economy into the global economy. Apparently, the most frequently used indices are exports as a percentage of GDP and exports plus imports as a percentage of GDP. In addition to the above, Banga (2005) adopts imports as a percentage of GDP. In addition, Kyrkilis and Pantelid (2003) depend on the volume of export plus import as a proximate indication of trade openness.

Inward foreign direct investment (IFDI) flow is found to be positively associated with the outward foreign direct investment, as concluded by Banga (2005), Masron and Shahbudin (2010) and, Saad, Noor and Nor (2011, 2013). By contrary, Bano & Tabbada (2015) find that IFDI has no significant impact on the FDI flow from Asian countries.

Unlike the significant influence of IFDI, conflicting results have been found regarding the impact of OFDI openness. OFDI stock as a percentage of GDP is proven to have a significant effect on OFDI flow from East, South and South East Asia (Niti & Vandana, 2013). Although Masron and Shahbudin (2010) have failed to statistically prove the impact of bilateral investment and trade agreements on Thai and Malaysian OFDI, Banga (2005) finds that intra OFDI among developing countries is triggered by these agreements.

In line with human capital, Saad, Noor and Nor (2011) show that real output per employee is of great importance to the Malaysian MNCs. Similarly, Cergibozan & Demir (2017) find that wage rate is positively related to outward FDI from Turkey. By contrast, Tolentino (2008) mentions that productivity does not represent a big concern for Chinese and Indian MNCs. Likewise, intra OFDI among developing countries is influenced more by the secondary enrolment ratio rather than real output per employee (Banga, 2005).

Primary energy consumption and transportation and communication, as a percentage of GDP, are perceived to be key determinants in the decision of undertaking overseas investment, according to Banga, (2005) and Saad, Noor and Nor (2011) respectively. Yet, electricity consumption is not a significant driver of OFDI (Banga, 2005). Technology capability of the home country could stimulate the domestic firms to compete in foreign markets and thus possess certain investment abroad. Both the number of patents and the volume of expenditure on research and development have a tangible impact as shown by Saad, Noor and Nor (2013), Ahmed, Draz & Yang (2018) and Das (2013), respectively. While not having a tangible impact on Chinese MNCs, the number of trademark applications indeed influence Indian MNCs (Tolentino, 2008).

The impact of the exchange rate is found to vary significantly from one study to another. The real exchange rate is negatively associated with OFDI, according to Kyrkilis and Pantelid (2003), Saad, Noor and Nor (2013), Wang (2017) and Ahmed, Draz & Yang (2018). By contrast, Kueh, Pua and Mansor (2009) prove the positive relation between both variables. Meanwhile, other research rejects the significant association between the real exchange rate and overseas investment (Tolentino, 2008; Concer, Tutolla & Margarido, 2012; Das, 2013). The exchange rate volatility is also not of significant importance to OFDI decisions (Tolentino, 2008).

Similarly, an institutional quality index is found to have contradicting impacts on overseas investment. Contrary to what is proved by Das (2013), Masron and Shahbudin (2010) and Wang (2017) conclude that quality of institutions is negatively related to OFDI. From another perspective, the number of strikes does not impact foreign investments of MNCs (Banga, 2005). Apart from the above, limited empirical evidence supports the influence of certain home country specifications on OFDI, including taxes and capital abundance. Contrary to what is concluded by other studies, Kueh, Pua and Mansor (2009) give empirical evidence to the role of capital abundance, captured by real interest rate, in

encouraging domestic firms to explore overseas investment opportunities. Banga (2005) proves that high corporate profit taxes could encourage firms to invest abroad.

Before concluding the review of previous research section, it remains important to underscore that previous studies often depend on panel data models to examine the impact of home country specifications on OFDI. Random effects model is used in case the number of cross-section units (i.e. country) is larger than the number of years in the sample (Banga, 2005; Das, 2013). By contrast, fixed effect model is estimated where the number of countries is less than the number of years included in the study (Niti & Vandana, 2013). Along with panel data models, other studies adopted time series model based on the availability of quarterly observations (Tolentino, 2008; Concer, Turolla & Margarido, 2012).

Table 4.6 in the Annexure summarises different variables tested in previous research to examine the influence of push drivers on OFDI coming from emerging economies, as well as the significance of relation to OFDI and the direction of relation to significant variables. A general observation about Table 4.6 is that different research often uses real variables to exclude the impact of inflationary pressures from the analysis. Moreover, all variables are often log transformed. The theoretical framework and previous research reflect the relevance of push drivers in encouraging EMNCs to invest abroad.

4.4 DRIVERS OF EGYPTIAN AND SOUTH AFRICAN MNCs

Given the limited research on EAMNCs, this section examines the influence of home country macroeconomic specifications on OFDI from South Africa and Egypt.

4.4.1 Methodology and data sources:

In line with literature review, and based on using annual data, this thesis employs a panel data model of South Africa and Egypt over a period of 34 years. This is to analyse the key push drivers of Egyptian and South African MNCs. Estimation of a panel data model is preferred over the use of two separate time series models for Egyptian and South African firms, owing to its advantages. Hsiao (2007) underlines that a panel data model has key advantages over a time series model. These include an accurate interference of model parameters, which in turn improves the efficiency of the estimates. Moreover, it controls the impact of omitted variables and uncovers the dynamic relation between economic variables.

The period selected for the analysis is 1980-2013. Owing to the unavailability of data prior to 1980, the above time span has been selected. The dependent variable is the outward

foreign investment flows from the two selected countries, taking into consideration that MNCs and OFDI are often used interchangeably by literature (Sauvant, Pradhan, Chatterjee & Harely, 2010).

Regarding the predictor variables, there could be a large number of macroeconomic variables affecting OFDI, as shown in the previous section. To categorise the different OFDI push drivers, three broad classifications have been proposed in previous studies. Firstly, UNCTAD (2006) classifies home country drivers into four main sets, namely: market and trade conditions, cost of production, local business conditions, and home government policies. The market and trade conditions refer to the scale and opportunities of the home market to expand, as well as the existence of trade barriers.

The second set reflects the cost of production factors, particularly labour. In addition to and associated with the above drivers, the quality of home country business conditions and adopting OFDI promotion policies may influence the internationalisation process of local firms. Aminian, Fung and Lin (2007), and Masron and Shahbudin (2010) adopt UNCTAD's classification of home country drivers while tracking determinants of OFDI involvement by some Asian countries. Similarly, Kayam (2009) emulates the same insight to test drivers of outbound investment involvement by developing and transition economies-based MNCs.

Secondly, Banga (2005) attributes the evolution of intra OFDI among developing markets to three sets of drivers, namely: trade, capability, and domestic economy related drivers. Trade-related drivers capture the interaction between trade (export, import and investment agreements) and OFDI. Capability related drivers reflect the fact that an economy cannot be involved in outward investments unless it enjoys certain competences or capabilities, including *inter alia*, technology, information, and capital. Domestic economy drivers relate mainly to cost and return on domestic investment. Saad, Noor and Nor (2011, 2013) emulate the same framework developed by Banga in 2005 to assess determinants of Malaysian OFDI.

The third classification is promoted by Niti and Vandana (2013). They divide determinants of OFDI from East, South and South East Asia into four main groups. These include market conditions, policy variables, economic variables, and production factors.

Given data unavailability, pertaining to policy variables considered by both the first and third categorisations, this thesis emulates Banga's classification of push drivers. Accordingly, home country drivers of Egyptian and South African MNCs are categorised into three main

sets, namely: trade, capability, and domestic economy related drivers. Based on the availability of data, this thesis focuses on examining the impact of six independent variables on the South African and Egyptian overseas investment.

In this regard, it is found to be difficult, due to data unavailability, to control the difference in the key economic sectors driving MNCs from each country in the estimated model. Consequently, the general form of the panel data model used in this thesis is given as follows (Banga, 2005; Saad, Noor & Nor, 2011; 2013):

$$\text{Log OFDI}_{it} = \log f [(\text{trade-related drivers})_{it}, (\text{capability-related drivers})_{it}, (\text{domestic drivers})_{it}] + \mu_{it}$$

Where:

i stands for Egypt and South Africa.

t stands for the time period (1980-2013).

μ = error term.

OFDI denotes OFDI flows from each of the two selected countries.

Trade-related drivers include trade openness as well as investment treaties.

Capability related drivers encompass technology capability and IFDI.

Domestic drivers comprise the actual and potential market sizes.

Each of the independent variables will be discussed in detail as follows:

a) Trade-related drivers:

Trade openness: Trade boom is likely to fuel OFDI. As export increases, firms obtain more accessibility to markets receiving their exports. Accordingly, uncertainties and risks associated with investment in such markets tend to diminish, which in turn motivates OFDI (Banga, 2005; Masron & Shahbudin, 2010; Saad, Noor & Nor, 2011 & 2013). In the same context, the Uppsala Model predicts that firms are likely to commence their foreign activities through low market commitment modes (such as export) owing to a lack of market knowledge. Later, and as companies acquire increasing levels of market knowledge through involvement in exports, they will commit more resources to their activities abroad (such as OFDI) (Johanson & Vahlne, 1977).

From another perspective, import may positively influence OFDI through the displacement effect. A higher flow of imports is associated with higher competition in the domestic market, which may reduce the market share of domestic firms. As a result, imports may encourage local firms to initiate their internationalisation process to obtain access to larger markets (Banga, 2005). Accordingly, it is expected to have a positive relation between trade openness and OFDI. Trade openness indicator is calculated as the percentage of export plus import to GDP.

Hypothesis a.1 can thus be expressed as: OFDI is positively associated with trade openness.

Investment treaties: in addition to the push power associated with trade openness, investment treaties may further enhance the probability of undertaking OFDI, particularly vertical investments in cases where they include rules of origin and local content requirements. Moreover, investment treaties may encourage OFDI as they mitigate risks associated with overseas investments (Banga, 2005). Similar findings have been found by Guerin (2011) and Bellak (2013). Accordingly, it may be important to test the existence of such a positive relation between investment treaties and the Egyptian and South African OFDI. This thesis uses the total number of bilateral and multilateral investment treaties signed by each country.

Hypothesis a.2 can thus be expressed as: OFDI is positively associated with investment treaties.

b) Capability related drivers:

Technological capability: Know-how and technology represent one of the main ownership-specific advantages that could encourage a firm to invest abroad to exploit its own advantages (Niti & Vandana, 2013). In the same context, Das (2013) argues that OFDI of a certain country may be affected by its technological achievements. This is owing to the fact that developing and emerging countries, which place greater focus on expanding their technological innovation base, are likely to benefit from the international technological spillover. Thus, they could augment their own specific advantages, as well as fuelling higher levels of OFDI. Tolentino (2008) proves that the national technological capacity of India granger causes its level of OFDI. Of the three variables used in literature to capture the technological capacity, this thesis will use the number of patents applied for by residents, owing to data limitation consideration.

Hypothesis b.1 can thus be expressed as: OFDI is positively associated with the number of patents.

Inward FDI: Inflow of foreign investments into the economy may encourage domestic firms to undertake outbound investment through two potential channels, namely technology spillover and displacement effect. Inward FDI may participate positively in upgrading technological standards of the domestic economy, which in turn could improve the efficiency and competitiveness of local firms. Therefore, inward FDI could be perceived a mechanism to acquire competences needed to invest abroad (Saad, Noor & Nor, 2013). In the same context, Poncet (2009) argues that the spillover of inward FDI is likely to deepen China's integration in the global value chains, or what is referred to as the global segmentation of production process. These changes will further drive new waves of internationalisation.

From another perspective, Kayam (2009) confirms that OFDI flows from developing and emerging countries tend to increase with the foreign competition in the domestic market, augmented by inward FDI. Previous research empirically prove the significant positive impact of inward FDI on encouraging overseas investments (Banga, 2005; Masron & Shahbudin, 2010; Saad, Noor & Nor, 2011 & 2013). Moreover, Daniels, Krug, and Trevino (2007) state that inward FDI may have provided an important stimulus for OFDI and the development of Transnational Corporations (TNCs) in Latin America. Therefore, it is expected to have a positive relation between inward FDI and OFDI.

Hypothesis b.2 can thus be expressed as: OFDI is positively associated with inward FDI.

c) Domestic drivers:

Actual market size: the Investment-Development Path theory anticipates that the home country's level of development will play a significant role in determining the magnitude as well as the targets of OFDI (as mentioned in Section 4.3.1). Moreover, according to the OLI Model, the size of the domestic economy reflects the ownership advantage and is, therefore, positively correlated with the overseas investment (Saad, Noor & Nor, 2013). Associated with its theoretical importance, the actual size of the economy has been proven to be one of the key dominant drivers of OFDI that is recognised in previous research (Kueh, Pua & Mansor, 2009, Kayam, 2009; Masron & Shahbudin, 2010; Saad, Noor & Nor, 2013; Niti &

Vandana, 2013). Most previous studies use real GDP as an approximation for the actual economy size.

Adopting different perspective, Bang (2005) assumes that actual market size could have a negative impact on OFDI. Small market size could act as a stimulus for domestic firms to invest abroad and therefore to increase their profits. It is so expected to have either positive or negative association between both the actual size of the domestic market and OFDI.

Hypothesis c.1 can thus be expressed as: OFDI is positively associated with the real GDP.

Hypothesis c.2 can thus be expressed as: OFDI is negatively associated with the real GDP.

Potential market size:

Along with the actual market size, Bang (2005) advocates examining the impact of the potential market size as a push factor for OFDI. Bang (2005) proposes using the growth rate of real GDP as an indicator of the potential market size. It is expected, according to Bang (2005), to have a negative association between the potential size of the domestic market and OFDI. This is because firms are assumed to seek overseas investment in case the domestic market is growing slowly.

Hypothesis c.3 can thus be expressed as: OFDI is negatively associated with the growth rate of real GDP.

Table 4.4 outlines the seven variables used in this chapter (dependent as well as independent) to track the relation between OFDI flow from Egypt and South Africa and their home country macroeconomic specifications. It also contains definitions and hypothesised relation to OFDI as well as the data sources. In line with literature, all variables are log transformed, with the exception of the number of investment treaties, as it contains many zero values.

Table 4.4: Variables used in the model, definitions, hypothesised signs and data sources

	Variable	Definition	Hypothesised relation with OFDI	Data source
1.	OFDI	Log of outward FDI flow	-----	UNCTAD
2.	TRAD	Log of exports plus imports as a percentage to GDP	+	World Bank
3.	BMIT	Number of bilateral and multilateral investment treaties	+	UNCTAD

	Variable	Definition	Hypothesised relation with OFDI	Data source
4.	PAT	Log of number of patents applied for by residents	+	World Bank
5.	IFDI	Log of inward FDI flow	+	World Bank
6.	GDP	Log of the real gross domestic product	+/-	World Bank
7.	GDPG	Log of the growth rate of real GDP	-	World Bank

Source: Author's own compilation.

To wrap up, the final equation of the panel model adopted in this chapter is given as follows:

$$\text{Log OFDI}_{it} = \log f [(\text{TRAD, BMIT})_{it}, (\text{PAT, IFDI})_{it}, (\text{GDP, GDPG})_{it}] + \mu_{it}$$

4.4.2 Empirical results:

As a first step, the variance inflation factor (VIF) is estimated to detect the existence of multicollinearity among the aforementioned independent variables, selected for the proposed panel model (i.e. trade, investment treaties, patents, inward FDI, GDP and GDP growth rate). Estimation of the VIF reflects that there is no multicollinearity problem as the tolerance indices of the six independent variables are greater than 0.1 (i.e. VIF is less than 10)²⁹, see Table 4.7 in the Annexure.

Stationarity of all used data series has been tested. By applying Im-Pesaran-Shin unit-root test, it was found that GDP data series was of level one, while the series of other variables were of level zero (i.e. stationary), see Table 4.8 in the Annexure. GDP data series was transformed by taking the first difference to become stationary.

As evident in literature, a panel data model could be fitted through various statistical models, namely, Fixed Effect (FE) or what is labelled as Least Square Dummy Variable model (LSDV), Pooled Ordinary Least Squares (POLS) model and Random Effect (RE). The FE model was preferred over the POLS based on the findings of the Wald test (F-test) which was found to be significant at less than 5% (Prob>F =0.000). It was so expected that panels (i.e. countries) are heterogeneous which drops one of the key assumptions of the POLS. Furthermore, no evidence of significant difference across panels (i.e. random effect) was

²⁹ According to Williams (2015), one should be concerned about the problem of multicollinearity only if any of the VIF values exceed 10 (or equivalently, tolerances of 0.10 or less).

detected according to the Breusch-Pagan Lagrange Multiplier test of random effect (prob> Chibar2 index of the test =1). Supporting the estimation of FE, Hausman test rejected the RE model (prob> Chibar2 index of the test =0.00).

Breusch-Pagan LM test of independence excluded the existence of cross-section dependence problem in the proposed FE model (Probability = 0.21, therefore, one could accept the null hypothesis cross-section independence). However, the residuals of the static FE model exhibited a degree of autocorrelation at a confidence level of 10%. The LM test for autocorrelation rejected the null hypothesis of no autocorrelation at 10% (test statistic 83.3, p-value 0.069). This indicates that the volume of South African and Egyptian outbound investment in a certain year is affected by its level in the previous year. In other words, South African and Egyptian OFDI flows have a dynamic nature.

This finding, the dynamic phenomenon of OFDI, comes in line with what is expected by some of the EMNCs evolution theories, particularly the IDP. Hence, a lagged endogenous variable is introduced to account for the fact South African and Egyptian OFDI decisions are part of a dynamic process, as proposed by Carstensen & Toubalb (2003). The aforementioned model is amended to read as follow:

$$\text{Log OFDI}_{it} = \beta \text{lag OFDI}_{it-1} + \alpha \log f[(\text{TRAD, BMIT})_{it}, (\text{PAT, IFDI})_{it}, (\text{GDP, GDPG})_{it}] + \mu_{it}$$

Where:

lag OFDI= Log OFDI_{it-1}.

β = reflects the persistence in the process of adjustment towards an equilibrium.

α = measures the short-run effect parameter (i.e. coefficient) of regersors on OFDI_{it} given OFDI_{it-1}. Long-term coefficient = short term coefficient /(1-parameter corresponding to the lagged variable), as mentioned by Carstensen & Toubal (2003)and Sabra (2015) .

In contrast to the least squares dummy variables (LSDV) estimator of the dynamic panel data model, the general method of moments (GMM) estimator of Arellano-Bover/Blundell-Bond (ABBB) is expected to be consistent³⁰ (Carstensen & Toubal, 2003; Sabra, 2015). This thesis, therefore, employed the ABBB method to estimate the dynamic model.

³⁰The consistency of the general method of moments (GMM) estimators of Arellano-Bover/Blundell-Bond (ABBB) results from addressing two main problems. First, it employs all possible lags of both dependent and

To assess the validity of the estimated dynamic model, it was tested for autocorrelation. This because the consistency of the GMM estimators rests on the absence of autocorrelation of the differenced disturbances (Carstensen & Toubal, 2003). Based on the Arellano and Bond test for autocorrelation, one could not reject the null hypothesis of zero autocorrelation in first-differenced errors at any conventional significance level. It was so concluded that ABBB method was appropriate to specify the aforementioned model. Findings were represented in Table 4.5.

Table 4.5: Results of the dynamic model

Variable	Short run parameters			Long run parameter*
	Coefficient	Standard error*	P> z	
Lag OFDI	0.49	0.051	0.000	-
TRAD	1.41	0.542	0.009	2.76
BMIT	-0.006	0.013	0.623	-0.01
PAT	0.52	0.028	0.000	1.02
IFDI	0.205	0.151	0.176	0.40
GDP	5.5	0.168	0.000	10.78
GDPG	-0.85	0.056	0.000	-1.67
Constant	-4.64	1.24	0.000	
Wald chi2(1)	6.77			
Prob > chi2	0.0093			
Arellano-Bond test for zero autocorrelation in first-differenced errors	Order	z	Prob > z	
	1	-1.3939	0.1634	
	2	.44183	0.6586	
	H0: no autocorrelation			

Source: Author's own calculation.

Note: Long term coefficient= short term coefficient/(1-parameter corresponding to the lagged variable)

* Standard errors are corrected for heteroscedasticity.

independent variables to generate orthogonality restrictions. Second, it uses a nonparametric estimator of the covariance matrix Carstensen & Toubal (2003).

Table 4.5 reflects that the level of outward foreign direct investment of South Africa and Egypt in a certain point of time depends on its level in the previous year, given the other regressors constant. Moreover, home country macroeconomic specifications are found to have a statistically significant influence on boosting OFDI of both countries.

Trade-related drivers

Trade openness (TRAD) is prominent in promoting multinational orientation of the Egyptian and South African MNCs. Accordingly, accelerating the integration of Egyptian and South African economies into the world economy would further encourage the global orientation of their own firms. Both exports and imports are expected to positively influence OFDI. As export increases, domestic firms would obtain more accessibility to foreign markets receiving their exports, which in turn diminishes uncertainties and risks associated with investment in those markets.

From another perspective, the import may also stimulate OFDI through the displacement effect. A higher flow of imports is associated with higher competition in the domestic market, which reduces the market share of domestic firms. As a result, imports may encourage local firms to initiate their internationalisation process to obtain access to larger markets. Most previous research proves the positive relation between trade and OFDI (Das, 2013; Kueh, Puah & Mansor, 2009).

Unlike trade, bilateral and multilateral investment treaties signed by Egyptian and South African governments (BMIT) do not have a significant impact on fuelling their OFDI. Concluding a similar finding, Masron and Shahbudin (2010) argue that investment treaties have no prominent impact on OFDI flow from some Asian countries. Bellak (2013) argues that the small degree of annual variation of the number of investment treaties signed by a certain country could represent one of the probable reasons for the inability to empirically observe the effect of investment treaties. Hence, holding investment agreements is not perceived to be the ideal course of actions to increase the volume of Egyptian and South African direct outbound investments.

Capability related drivers:

Apart from trade-related drivers, the number of patents (PAT) is found to significantly influence the intention of Egyptian and South African firms to invest abroad. According to Das (2013), the positive association between OFDI and PAT could be attributed to the fact that the more the country expands its technological innovation base the better they benefit from the international technological spillover which could augment their own specific advantages, as well as fuelling higher levels of OFDI. Likewise, Tolentino (2008) proves the positive association between the number of patents and OFDI.

From another perspective, inward foreign direct investment to Egyptian and South African economies has no significant impact on their OFDI flow. This finding comes in line with the results concluded by Bano & Tabbada (2015).

Domestic drivers:

Both actual and potential market sizes have been proven to be prominent push drivers of OFDI of Egypt and South Africa. Yet, this finding should be treated with caution as each of the two push drivers has a different impact on OFDI. Actual market size, captured by the real GDP, is proven to have a positive influence on OFDI as expected by many researchers (Kueh, Pua and Mansor, 2009; Masron & Shahbudin, 2010; Saad, Noor & Nor, 2013; Niti & Vandana, 2013). Consequently, expanding the gross domestic product is expected to improve the ownership advantage of the home country, which in turn could fuel the intention of domestic firms to invest abroad.

It is, however, found that the growth rate of real GDP, as an indicator of potential market size, is negatively associated with outbound investment decisions of both groups of firms. Accordingly, the high growth rate of GDP might suppress domestic firms from investing abroad. As mentioned by Banga (2005), the negative association between the growth rate of real GDP and OFDI may reflect, to certain extent, the significance of the market-seeking motivation of South African and Egyptian OFDI. Further analysis of host country drivers (i.e. pull drivers) may be required to validate this finding.

4.4.3 Limitations of the findings:

Before concluding this chapter, it is worth highlighting the main limitations of the previous results. While providing evidence for most of the hypotheses along with being in line with the key findings of previous research, aforementioned results have various limitations resulting from data shortage. First, this thesis found a difficulty to test the influence of policy variables on the cross-border investments of Egypt and South Africa. Second, and due to data limitation, it was difficult to control the key differences between the two groups of firms (i.e. economic sectors, listing in the stock market, and entry mode) in the estimated push driver model.

4.5 SUMMARY

Overall statistics exhibit that both South African and Egyptian MNCs grew remarkably, at a different pace during the period from 1990 to 2016. SAMNCs' total assets increased to over \$1 trillion in 2013 from \$756.6 billion in 2009. Moreover, from 1990 to 2016, OFDI stock held by South Africa grew nearly 11 fold. South Africa possessed \$172.8 billion OFDI stock in 2016, compared to \$15 billion in 1990. Likewise, EGMNCs' total assets escalated nearly threefold over the period from 2010 to 2013, to worth more than \$86 billion in 2013. Furthermore, Egypt's OFDI stock evolved nearly 44 fold from 1990 to 2016. Egypt held \$7.2 billion OFDI stock in 2016, compared to \$163 million in 1990.

Compared to that of their emerging peers, the figures tell a different story about the performance of South African and Egyptian MNCs. The figures support the assumption that both groups of firms were significantly losing ground on the EMNC landscape during 1990 to 2016. South Africa owned nearly 6 percent of the total OFDI stock held by emerging economies, in 2016, which represented less than a quarter of its share in the early nineties. Egypt's share of total OFDI flow and stock owned by emerging economies did not surpass 1 percent over the entire period from 1990 to 2016. OFDI performance indices of both South Africa and Egypt were often less than unity, indicating that they were still playing a smaller role in the global OFDI landscape than warranted by their economies.

From another perspective, the result of the empirical analysis, using a dynamic panel data model, shows that home macroeconomic specifications (i.e. trade openness, capability and domestic economy related drivers) could significantly influence the outward foreign direct

investment flow from South Africa and Egypt. Amongst the 6 push drivers tested in this chapter, 4 have been proven to be significant at a confidence level less than 5 percent.

OFDI flow from South Africa and Egypt has been greatly facilitated by trade openness. Consequently, integration of the South African and Egyptian economies into the world economy would increase their outbound investment. Despite its theoretically hypothesised positive impact on OFDI flows between countries, investment treaties, both bilateral and multilateral, are in no matter stimulate outbound investment decisions of both South African and Egyptian MNCs.

Accordingly, holding investment agreements is not perceived to be the ideal course of actions to increase the volume of Egyptian and South African cross-border direct investments. In line with literature review, expanding the technological innovation base of Egyptian and South African economies, captured by the total number of patents, could further fuel OFDI coming from South Africa and Egypt. In contrast, the increase in inward foreign direct investment flow to Egypt and South Africa is not necessarily reflected in a significant expansion in their overseas investment.

In addition to the abovementioned push driver, domestic economy related drivers are proven to be a significant stimulus in this regard. Both actual and potential market sizes could have an influence on outbound investment decisions of South African and Egyptian firms. It is, however, important to keep in mind the different direction of the relation between each of the two drivers and OFDI, which could give, to some extent, conflicting policy implications.

Having examined macroeconomic push drivers of South African and Egyptian outbound investment, it remains important to consider a number of research issues in the quest to draft the right OFDI promotion policies for both countries. Important among these is to examine the influence of the other group of motives related to the advantages prevailing in countries hosting South African and Egyptian investments, or what is labelled as pull drivers.

Chapter Five

Pull drivers of South African and Egyptian multinational corporations

5.1 INTRODUCTION

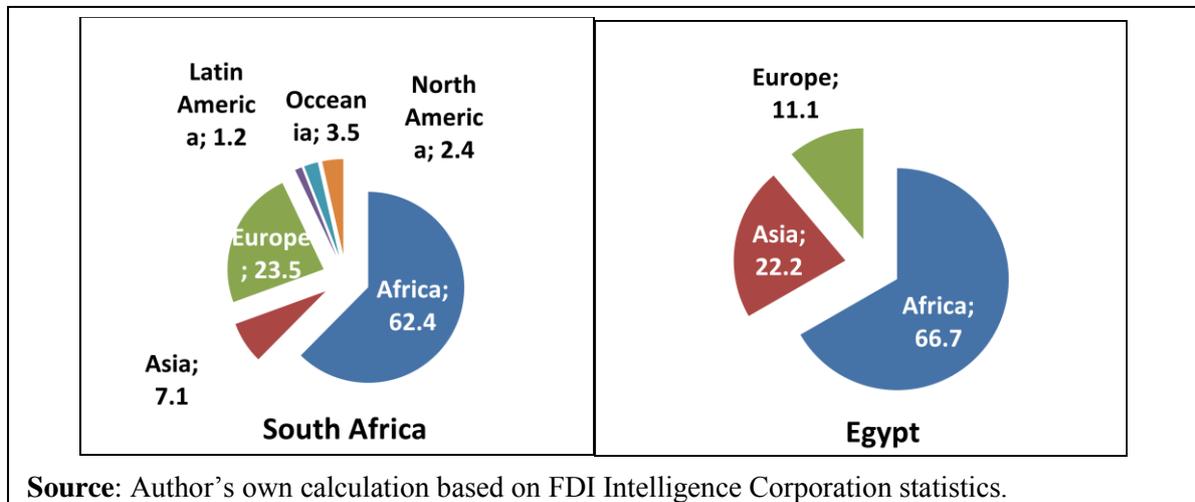
This chapter examines the foreign market selection of Egyptian and South African MNCs as case studies of emerging African MNCs along with the key pull drivers (host country specifications) affecting them. It is organised into three sections. The first section focuses on the foreign market selection of Egyptian and South African MNCs. The second section examines the theoretical framework and literature review of pull factor determinants of overseas investment of EMNCs. The final section considers the key pull factor drivers of Egyptian and South African MNCs.

5.2 FOREIGN MARKETS OF SOUTH AFRICAN AND EGYPTIAN MULTINATIONAL CORPORATIONS

Limited data are available regarding the geographical breakdown of foreign activities of Egyptian and South African MNCs. Nevertheless, the available records registered by the FDI Intelligence Corporation give an indication that South African and Egyptian firms show a preference to set their greenfield investment projects in nearby markets. In 2014, Africa was the most preferred destination for Egyptian and South African outbound greenfield investment projects. Africa hosted around 67 and 63 percent of greenfield investment projects involved in by Egyptian and South African MNCs respectively.

Apart from Africa, both groups of firms differ regarding the second preferred investment destination. While Asia came at the second spot for Egyptian firms, Europe is much more important to South African investors, as shown in Figure 5.1. Moreover, it is noticed that South African MNCs had managed to set up some new projects in North and Latin America and Oceania in 2014, as opposed to their Egyptian peers.

Figure 5.1: South African and Egyptian greenfield investment projects by hosting continent in 2014 (%)



Over the period from 2003 to 2014, the structure of foreign markets hosting South African and Egyptian greenfield investment projects witnessed dramatic changes in favour of Africa. While being the second top destination for Egyptian firms in 2003, Africa had overtaken Asia to be in the forefront in 2014, as seen in Figure 5.2. Likewise, Africa's share of South African greenfield investment projects scaled up significantly from 38 to 62 percent over the same period. Except for 2007, Africa was ranked as the first investment destination for South African firms, as shown in Figure 5.3.

Figure 5.2: Geographical breakdown of Egyptian greenfield investment projects (2003-2014) (%)

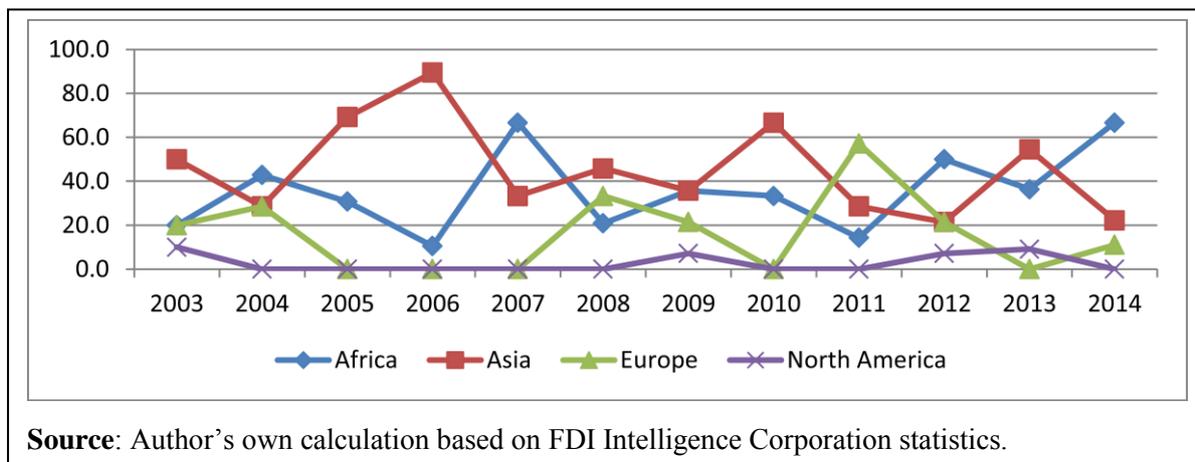
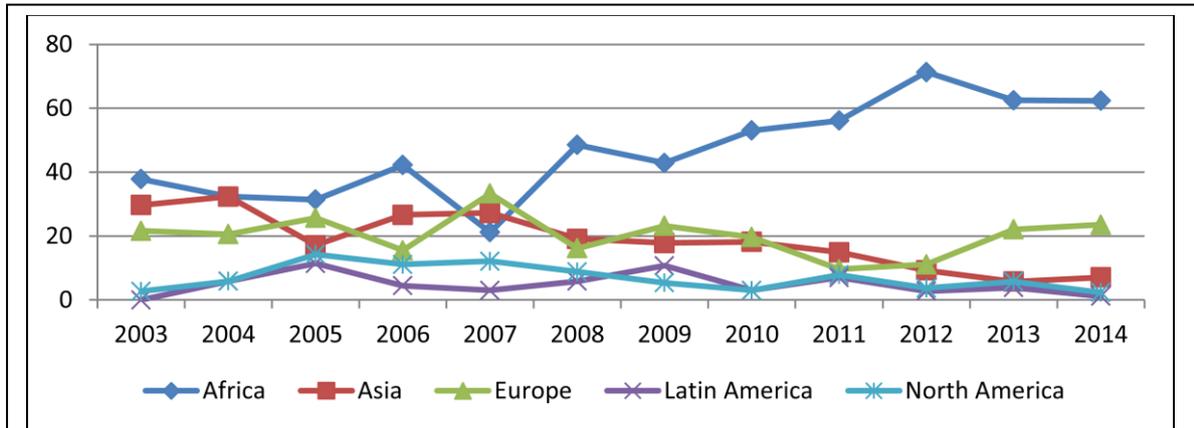


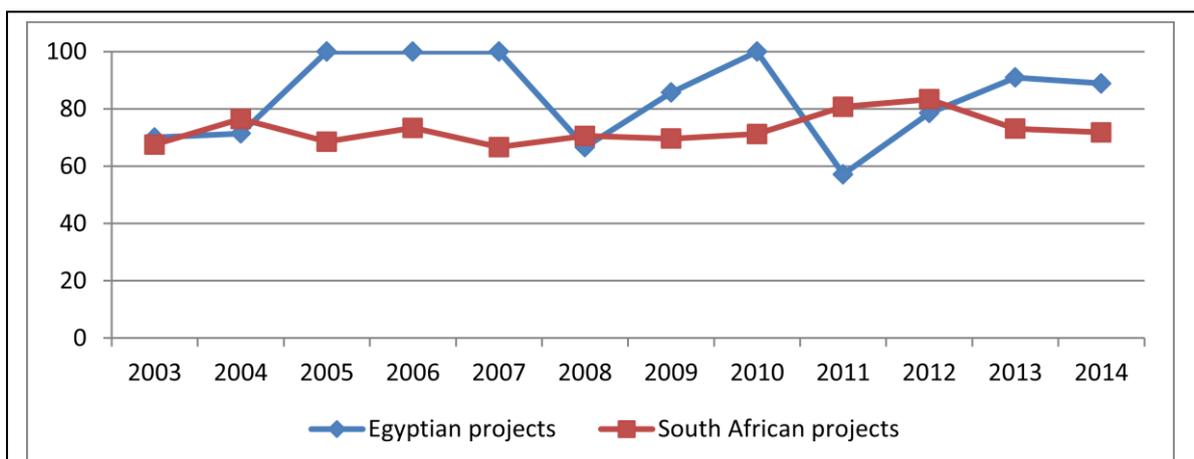
Figure 5.3: Geographical breakdown of South African greenfield investment projects (2003-2014) (%)



Source: Author’s own calculation based on FDI Intelligence Corporation statistics.

Associated and in line with the above, in 2014 it was found that the majority of South African and Egyptian greenfield investment projects are located in developing markets³¹. In 2014, developing markets hosted around 72 percent and 89 percent of such investments respectively. Equally important, the significance of this group of markets expanded, particularly for Egyptian firms over the period from 2003 to 2014. The developing markets’ share of Egyptian greenfield investment projects was growing twice as fast as its corresponding share of South African investments (see Figure 5.4).

Figure 5.4: Share of developing countries from total South African and Egyptian greenfield investment projects (2003-2014) (%)



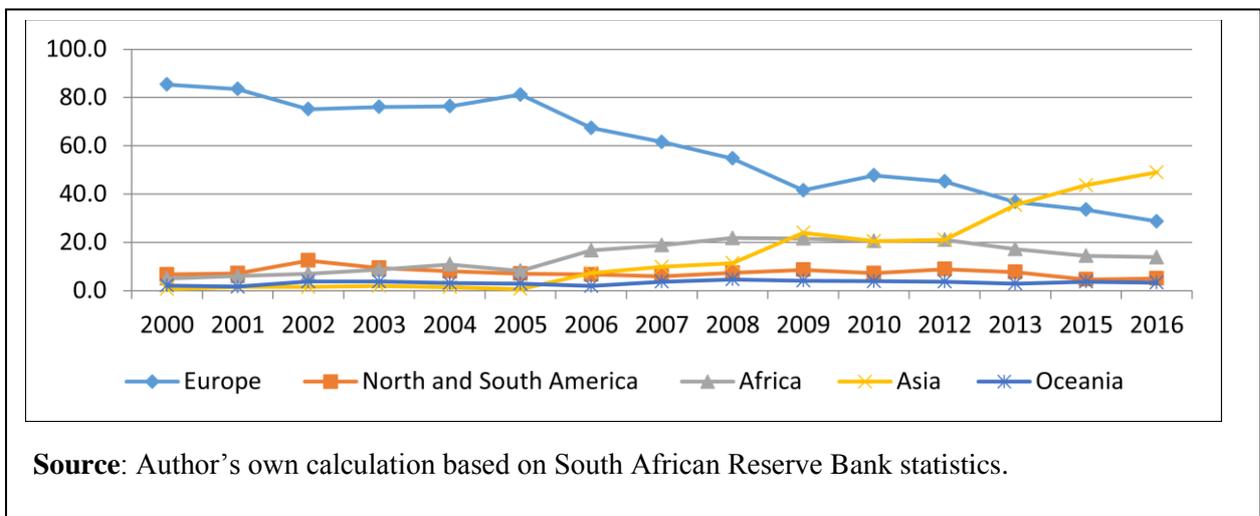
Source: Author’s own calculation based on FDI Intelligence Corporation statistics.

³¹ UNCTAD classification of developing and developed countries is adopted by this chapter.

From another perspective, the quarterly bulletins published by the South African Reserve underline that Asia was the most important investment destination for South African OFDI stock. It held around 49 percent of such investment, in 2016. At the second spot was Europe (28.7 percent), followed by Africa (14 percent). Oceania trailed the geographical structure of the South African overseas investment (3.3 percent), headed by Latin and North America (5.1 percent) in 2016.

In this regard, it is worth mentioning that the geographical breakdown of South African OFDI stock underwent a considerable change, over the period from 2000 to 2016. The significance of Africa and Asia, as an investment destination, grew at the expense of Europe. Africa's share doubled threefold over the same period. Likewise, but to greater extent, Asia's share, in 2016, increased 71 fold against its corresponding level in 2000. In turn, Europe was significantly losing ground as a preferred investment destination for South African corporations. Figure 5.5 demonstrates the geographical breakdown of South African OFDI.

Figure 5.5: Geographical breakdown of South African OFDI assets (2000-2016) (%)



In this regard, it might be appropriate to address the similarity between the foreign market structure of both South African and Egyptian MNCs and that of emerging markets-based MNCs. In 2010, the World Bank Report (2011) estimated that developing economies were receiving almost 54 percent of the total outbound investment engaged in by emerging markets-based MNCs, valued at \$550 billion. Meanwhile, it is noted that from 2003 to 2010, emerging markets-based MNCs tended to multiply their investments in developed markets three times faster than their own investment in developing markets. Accordingly, the

relevance of developed economies, as a preferred investment destination, increased considerably over time, as opposed to what was registered for Egypt and South Africa (World Bank, 2011)³².

5.3 THEORETICAL FRAMEWORK AND LITERATURE REVIEW

The main focus of this section will be on the pull drivers of emerging markets-based MNCs.

5.3. 1 Theoretical framework:

One of the most vibrant theories commonly used in literature is the Investment-Development Path (IDP) (Dunning, 1997; Buckley & Castro, 1998; Narula & Dunning, 2000; Fonseca, Mendonça & Passos, 2007; Mortensen, 2009; Narula & Guimon, 2010). The IDP, presented by Dunning in 1981, is perceived as a dynamic approach within the framework of the Eclectic Paradigm Model, also known as the Ownership, Location and Internationalization (OLI) Model³³, promoted by Dunning in 1976 (Buckley & Castro, 1998).

Based on the framework of the IDP, it is argued that there are two groups of pull drivers influencing OFDI, namely asset-exploitation and asset-augmentation. Asset-exploitation drivers include resources-, market- and efficiency-seeking. The second group (i.e. asset augmentation) relates to the desire of a firm to increase its assets. Moreover, it is worth mentioning that IDP recognises the impact of the home country's governmental policies on both outward and inward foreign direct investment (FDI) flows. Given the motive for outbound investment, literature identifies four different types of OFDI, namely resource-seeking, market-seeking, efficiency-seeking, and strategic asset-seeking.

³² As per literature review, most theories relevant to explaining the evolution of EMNCs predict that firms will probably favour working in nearby markets owing to what is referred to as psychological proximity factors. These factors refer to similarities in culture, language, traditions and political systems. Having explored neighbouring markets, firms can then proceed to invest in distant markets after acquiring the necessary competitive advantages. These advantages are pivotal for neutralising the threats resulting from investing in culturally and socially different markets (Johanson & Vahlne, 1977; Wai & Yeung, 2002; Aspelund, 2010; Laghzaoui, 2013).

³³ According to the OLI Model, multinationality is attributed to three main advantages, namely ownership, location and internalisation (Dunning, 1995). Ownership advantages are perceived to be the main engine for becoming involved in overseas value-added activities. Thus, a firm must possess certain advantages to be able to compete in the international arena. Location advantages relate to the market choice or the decision where a firm is going to locate its foreign activities. Internalisation advantages capture the different modalities (penetration modes) through which firms may arrange the creation and the exploitation of their core competencies based on the location advantages of different markets.

Owing to its dynamic nature, the IDP focuses on investigating how the significance of pull drivers could change over time, depending on the rate of economic development of the home country. The IDP identifies five stages of development, starting with a country as net FDI receiver, and ending in the maturity stage in which a country can attain noticeably high levels of both FDI flows, inward and outward (Narula & Dunning, 2000).

Resources-seeking motives are quite important in what is referred to as the first-stage IDP countries. Such countries usually do not hold any location advantages, except for abundance of natural resources. As each country develops and progresses on the IDP, the significance of the resources-seeking motive diminishes, since the marginal extraction cost tends to increase over time. Subsequently, new motives emerge, such as market- and efficiency-seeking motives, while economic development is improving. Market-seeking motives are significant where the local market offers tangible opportunities for achieving economies of scale. This occurs in countries existing in the last part of stage 1 and the beginning of stage 2 of the IDP.

Efficiency-seeking motives are relevant in countries existing in the latter part of stage 2 and the beginning of stage 3 of the IDP. In addition to the three aforementioned motives, firms might need to augment their existing assets through acquiring certain resources, such as patents and trademarks. This type of motive, strategic asset-seeking, is expected to occur in countries existing at the end of stage 3 and in the subsequent stages of the IDP. Narula and Dunning (2000) mention that both efficiency- and strategic asset-seeking motives are similar in the respect that they require a certain threshold of location advantages and both tend to be inspired by the process of globalisation.

In relation to location advantages highlighted by the IDP, Cuervo-Cazurra, Holan and Sanz (2014) argue that these advantages are expected to develop through the interaction of two types of what is called “co-evolutionary processes”, namely: emergent and guided. Within the emergent co-evolutionary process, the location advantage is created through agglomeration dynamics in both factor and product markets. On the contrary, the guided co-evolution of the location advantage is created via the process of infrastructure and institutions development. From another perspective, Alcácer, Cantwell and Piscitello (2016) assume that advances in communication and transportation technologies during the age of information have significantly changed the nature of competitive advantage of places.

Along with the IDP, various theories and frameworks have been developed by literature to interpret the evolution of EMNCs from the perspective of host country advantages. The Imbalance and Springboard Theory views OFDI as the launch pad or the springboard of MNCs coming from emerging countries. OFDI is, therefore, quite pivotal to a company lacking the competitive advantage as it enables firms to possess strategic assets, highly developed technology, know-how, trademarks, and competencies.

Accordingly, the competitive advantage can be an outcome of the involvement in the multinationality process, rather than being a prerequisite for initiating this process (Moon & Roehl, 2001; Luo & Tung, 2007; Balcet and Bruschi, 2010). This perspective is supported by the research run by Awate, Larsen and Mudambi (2015). They found that the headquarters of emerging economy multinational corporations get an access to the most updated technology through acquiring subsidiaries in the advanced economies. The internationalisation process is, therefore, triggered by innovation catch up motive.

Mathews (2006) explains the expansion of EMNCs by three factors: linkage, leverage and learning, or what he refers to as the Linkage, Leverage and Learning Theory. The linkage is conceived by EMNCs as a primary tool for mitigating the risk and the uncertainty in the international markets and for acquiring resources that are unavailable in the domestic market. Firms can construct various types of linkages with firms operating in the targeted foreign markets. These linkages can be established in various forms, such as strategic alliances, joint ventures, and engagement in the global value chains.

The leverage reflects the accessibility of external resources, as a direct result of establishing linkages between emerging firms and their foreign partners. Generally, firms are expected to target the most easily imitated and transferable foreign resources. The learning is the end result of repeating the application of the linkage and leveraging process.

Adopting a similar perspective, the Network Model assumes that firms tend to offset the unavailability of resources through building forward and backward networks with foreign firms that hold tangible experience in the targeted foreign markets. A network is simply defined as a set of inter-organisational relations, causing a firm to become dependent on its counterpart. It should be taken into consideration that building such relations or networks is effort and time-consuming, which constrains a firm's ability to easily interchange its counterparts (Johanson & Mattsson, 1988). In the same vein, Pananond and Giroud (2016)

argue that the internationalization of emerging MNCs is driven by the dynamic evolution in their industry networks.

Meyer and Peng (2016) underline the significance of what they called “the institution- based view“(IBV) in EMNCs research. According to their perspective, institutions could vary not only by geographic entities (home versus host country) but also across organisational fields, including among others: type of ownership, business groups and network relations. A difference in the institutional setting from one country to another could easily affect the cost of doing business abroad, and thus the locational choices of emerging economy multinational corporations.

Along with the political aspect of the institution, Cuervo-Cazurra (2016) expand this concept to include also economic (i.e. pro-market reforms and policies) and social (i.e. social violence) aspects. These aspects are expected to have a tangible impact on the internationalisation process of MNCs originated in emerging economies.

In addition to the above, foreign market advantages are assumed by the Born Global Theory to be one of the main drivers of the early global orientation of EMNCs. Foreign market advantages include favourable governmental regulations, the availability of foreign market information, market competition, export promotion programmes and profit opportunities. It should be underscored that this theory does not exclude the impact of firm advantages on the evolution of Born Global firms (Rasmussen & Madsen, 2002).

From another perspective, the Uppsala Model³⁴ assumes that a lack of foreign market knowledge can hinder firms from expanding their economic activities beyond the boundaries of their national economy. It, therefore, predicts that firms are likely to begin their foreign activities through low market commitment modes (such as export) due to a lack of market knowledge. Later, and as companies acquire increasing levels of market knowledge through involvement in exports, they will commit more resources to their activities abroad (such as OFDI) (Johanson & Vahlne, 1977).

³⁴ The core idea of the model of “Knowledge Development and Increasing Foreign Market Commitments”, widely known as the Uppsala model, is that the firm’s market knowledge base considerably influences the pace and the pattern of its multinationality. Learning by doing is the only mechanism to acquire market knowledge. Therefore, firms have to work in the domestic market for a certain period until acquiring the necessary knowledge. They can move thereafter to work in international markets.

Moreover, it is foreseen that firms may favour working in neighbouring markets owing to psychological proximity drivers, including culture, language, traditions and political systems. Such similarity is likely to mitigate the uncertainties related to investing abroad (Johanson & Vahlne, 1977).

5.3.2 Literature review:

Previous studies have tested a wide range of host country determinants to answer why EMNCs tend to invest abroad (UNCTAD, 2006; Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007; Alon, 2010; Kalotay & Sulstarova, 2010; Beule, 2010; Beule & Bulcke, 2012; Nunnenkamp, Maximiliano, Vadlamannati, & Waldkirch, 2012; Amal & Tomio, 2012; Trinca, 2013; Mughal, 2013; Elshamy, 2015, Luiz, Stringfellow & Jefthas, 2017). From a macroeconomic perspective, studies examine the impact of nearly seven host country specifications on OFDI.

These include market size (current and potential supply as well as demand), natural resources and assets endowment, the similarity between home and host country, integration into the global economy, the economic relation between home and host country and the quality of institutions. In conjunction with the above, nearly 44 variables have been used in the reviewed studies to test the relation between pull drivers and OFDI flow from emerging and developing countries.

Examining key pull factor drivers of the Chinese and Indian OFDI is found to be one of the main research questions addressed by previous research. Alon (2010) examined eleven determinants, including nominal GDP, the annual growth rate of nominal GDP, nominal GDP per capita, exports of agriculture, metals and fuels, research and development (R&D) expenditure, hosting home country expats, bilateral import and export flows, the geographical distance, economic openness and the exchange rate. Of the eleven studied drivers, only five are likely to influence the decision of Chinese firms to locate their investment in a specific market, namely GDP and GDP per capita, exports of agriculture, metals and fuels, economic openness and the geographical distance between Beijing and the host capital.

Addressing the same research question, Buckley, Clegg, Cross, Liu, Voss and Zheng (2007) conclude that GDP, cultural proximity, political risks, bilateral export, inflation and policy

liberalisation are the key pull drivers of Chinese OFDI. By contrary, neither the natural endowment (captured by the ratio of ores and metal exports to the total merchandise exports) nor the availability of strategic assets (measured by the total patents applicants) affect the foreign market structure of Chinese outbound investment. Furthermore, the geographical distance and openness to IFDI of the host country do not have a significant impact on Chinese investments.

In conjunction with the above, Beule (2010) examines the role of market size, natural resources endowment, strategic assets, institutional and economic environment and the geographical distance on attracting the cross-border M&As of India and China. The market determinant is captured by nominal GDP, nominal GDP per capita, economic openness and membership in economic groupings. Natural resources endowment is encapsulated by ores and metal exports as a percentage of the total merchandise exports.

The significance of strategic assets is examined by three proxies, namely: number of patents to GDP, expenditure on R&D to GDP, and tertiary school enrolment. To assess the quality of the institutional environment, three variables are used: political stability, the rule of law, and the control of corruption. The official exchange rate is used as a proxy for the economic environment. Except for GDP per capita, all variables are found to have significant influence.

Similarly, Beule and Bulcke (2012) focus on testing the impact of economic and institutional differences between home and host country on the cross-border greenfield investment projects owned by Indian and Chinese firms. A similarity in GDP, political stability, the rule of law, and the control of corruption have been proven to be key locational determinants. Comparable significant influence is exercised by the availability of oil, ores and metals, patents and trademarks. Also, trade openness and the geographical distance could clearly affect the foreign market selection of Indian and Chinese investors where greenfield investment projects are concerned.

Mughal (2013) shows that both the Indian Diaspora community and Indian exports to the host country are positively associated with the Indian overseas investment, while imports do not have such impact. Despite not influencing the overall Indian OFDI, the geographical distance between New Delhi and the host capital, and the bilateral investment treaties both

have a significant impact on Indian investment in specific regions. Furthermore, language and market size, as well as inflation have a positive impact on Indian investment abroad.

Nunnenkamp, Maximiliano, Vadlamannati, and Waldkirch (2012) acknowledge that India's OFDI is neither affected by resources-seeking motives (natural resources rent as a percentage of GDP) nor strategic assets (total patents/population). On the contrary, market-related drivers (nominal GDP and GDP growth rate) are likely to dominate the foreign location choices of Indian investors. Similar to the findings concluded by Mughal (2013), Indian diaspora is found to encourage the flow of investment from India to countries they live in.

Finally, they have proven that Indian investors are resilient to the weak institutions and economic instability prevailing in the host country. Elshamy (2015) found that market size (measured by GDP), inflation, natural resources (measured by ores and metal exports to merchandise exports) ownership endowment (total patents applications) and the political risk significantly affect the Chinese investment located in Egypt.

Apart from analysing locational determinants of Chinese and Indian outbound investment, Kalotay and Sulstarova (2010) test seven variables, namely: nominal GDP, the ratio of ores and metal exports to merchandise exports, the ratio of service sector to GDP, the geographical distance, the exchange rate, number of patents and membership in Commonwealth of Independent States (CIS). Only four variables, GDP, the ratio of ores and metal exports to merchandise exports, the ratio of the service sector to GDP and CIS membership are proven to have an influence on Russian investment abroad.

In line with the above, Trinca (2013) found that the foreign market selection of Russian MNCs is clearly influenced by geographical and political proximity of the host country to Russia (captured by the geographical distance, sharing common borders, being a member of the former Union of Soviet Socialist Republics) and by adopting favourable fiscal policies in the host country (tax haven). On the contrary, a difference in economic development (difference in GDP) does not influence Russian outbound investment.

From another perspective, Amal and Tomio (2012) investigate three sets of variables to define the key location determinants of Brazilian outbound investment. The first set encompasses nominal GDP, nominal GDP per capita, inflation, trade openness and the real

exchange rate. Except for nominal GDP per capita, all variables are proven to have a significant impact on Brazilian OFDI. The second set of variables includes the culture distance and geographical distance, which are found to be key drivers of Brazilian firms when choosing a certain market to invest in. The third and last set of variables is captured by the control of corruption, government effectiveness, political stability and the absence of violence and terrorism, the rule of law, regulatory quality, and voice and accountability. Unlike political stability and regulatory quality, other institutional variables are found to be significant determinants of Brazilian OFDI.

Examining the case study of one of the South African MNCs, Luiz, Stringfellow and Jefthas (2017) illustrate, based on a qualitative analysis, that institutional framework of the host country could significantly impact the foreign market selection of African corporations. At the inception of the internationalisation process, companies may prefer to invest in institutional environments similar to the home market to mitigate risks associated with investing abroad. They term this preference as institutional complementarity strategy.

Over time and through building their own capabilities, companies could expand their locational choices to do business in environments of institutional uncertainty, or what is labelled as institutional substitution strategy. Table 5.3 in the Annexure summarises different variables tested in previous research to examine the influence of pull drivers on OFDI coming from emerging and developing economies.

5.4 PULL DRIVERS OF EGYPTIAN AND SOUTH AFRICAN MNCs

This section examines the influence of host country macroeconomic specifications on OFDI from emerging African markets, with application to South Africa and Egypt.

5.4. 1 Methodology and data sources:

Due to data limitation, two separate annual datasets are compiled to test the main pull drivers of South African and Egyptian multinational corporations. The first dataset is drawn from the FDI Intelligence Corporation database. It only tracks the annual number of greenfield investment projects launched by South African and Egyptian companies during the period from 2003 to 2014. Accordingly, this dataset does not include any information regarding other forms of OFDI involvement by South African and Egyptian firms, particularly with

respect to M&As. As such, the dependent variable will be constructed through the annual number of greenfield investment projects rather than the value thereof³⁵.

The second dataset is compiled from the quarterly bulletins published by the South African Reserve Bank and contains data of the annual stock of South African OFDI by some selected countries. As such, the dependent variable is the annual volume of South African OFDI stock per country³⁶. It is not possible to compile a similar dataset for the annual stock of Egyptian OFDI based on national data sources³⁷.

Regarding the methodology, and given the nature of datasets compiled in this chapter, panel data models will be employed to assess host country macroeconomic drivers of Egyptian and South African MNCs. More specifically, this chapter fits different panel data models to account for the difference between the two compiled datasets, regarding the dependent variable. Concerning the independent variables, there could be a large number of macroeconomic variables affecting OFDI, as is evident in literature review. However, and based on the availability of data, this chapter focuses on examining the impact of 10 independent variables on South African and Egyptian overseas investments.

Based on literature review (Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007; Alon, 2010; Kalotay & Sulstarova, 2010; Beule, 2010; Beule & Bulcke, 2012), the panel data models are specified as follows:

$$\begin{aligned} \text{OFDI}_{mjit} = & \beta_{0it} + \beta_1 (\text{market-seeking})_{it} + \beta_2 (\text{resources-seeking})_{it} + \beta_3 (\text{asset-seeking})_{it} \\ & + \beta_4 (\text{integration into the global economy})_{it} + \beta_4 (\text{bilateral relation})_{it} \\ & + \beta_6 (\text{institutions})_{it} + \beta_7 (\text{proximity})_{it} + \beta_8 (\text{other drivers})_{it} + \mu_{it} \end{aligned}$$

³⁵ The first dataset comprises 12 years (2003-2014), 58 countries receiving South African greenfield projects, and 28 countries hosting Egyptian greenfield projects, for which it is possible to gather all the data needed to estimate the model. It is worth mentioning that the number of countries included in the analysis of each of South African and Egyptian greenfield investments represents more than half of the number of countries registered by the FDI Intelligence Corporation database as a destination for such investment coming from each country during the time span of this chapter. 100 countries have received South African greenfield investment projects compared to 49 countries hosting the corresponding Egyptian investment. In order to track the difference between Egyptian and South African firms, a separate regression is run for each group in order to compare results. Therefore, the dataset drawn from the FDI Intelligence Corporation database will be divided into two subsets.

³⁶ The second dataset comprises 12 years (2001-2013), and 17 countries, for which there is published annual data regarding the annual volume of OFDI stock possessed by South Africa in each of them. Those countries are found to host nearly half of the total stock of South African OFDI registered by the South African Reserve Bank in 2013.

³⁷ This is because none of the relevant Egyptian authorities publishes a detailed record of Egyptian MNCs.

Where:

m stands for the dataset used in the model estimation: the first dataset model and the second dataset model.

j = the home country:

- Egypt and South Africa in the first dataset model.
- South Africa in the second dataset model.

i = the host country.

t = the time period:

- 2003-2014 in the first dataset model.
- 2001-2013 in the second dataset model.

μ = error term

OFDI denotes:

- The number of greenfield projects involvement by Egypt or South Africa in the first dataset model.
- South African OFDI stock in the second dataset model.

Market-seeking driver includes the nominal gross domestic product.

Resources-seeking driver encompasses natural resources rent as percentage to GDP.

Asset-seeking driver includes the total number of trademarks application.

Integration into the global economy driver comprises trade openness.

The bilateral relation between host and home countries is captured by the home country export to the host country.

The institution is reflected by the rule of law index.

The similarity between host and home countries is captured by the geographical distance.

Other drivers include the service sector value added in GDP, inflation and the official exchange rate.

Each of the independent variables will be discussed in details as follows:

a) *Market-seeking driver:*

The Investment Development Path theory does expect that the host country's level of development plays a significant role in determining the magnitude as well as the targets of OFDI (as mentioned in Section 5.3.1). Associated with its theoretical importance, the economy size is proven to be one of the key dominant locational determinants of OFDI that

is recognised in previous research (Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007; Alon, 2010; Kalotay & Sulstarova, 2010; Beule, 2010; Beule & Bulcke, 2012). Furthermore, UNCTAD's global survey of developing and transition economies-based MNCs concludes that 51 percent of the surveyed corporations have referred to market-seeking as the most important motive for OFDI in most industries (UNCTAD: 2006). Most previous studies use nominal GDP as an approximation for the actual economy size.

Hypothesis a.1 affirms that: OFDI flow from Egypt and South Africa is positively associated with nominal GDP of the host country.

b) Resources-seeking driver:

Availability of natural resources could be one of the main pull factor drivers of OFDI, particularly in the least developing countries, as assumed by Dunning in the IDP Theory (Narula & Dunning, 2000). Most previous studies conclude that OFDI is likely to target countries with high natural resources endowment (Alon, 2010; Kalotay & Sulstarova, 2010; Beule, 2010; Beule & Bulcke, 2012; Elshamy, 2015). Four variables in literature have been used to capture resources endowment, namely the ratio of ores and metal exports to merchandise exports, volume of agriculture, metals and fuels export, oil exports to merchandise exports and natural resources rent as a percentage of GDP. Owing to data availability, this chapter will use natural resources rent as a percentage of GDP to capture resources endowment.

Hypothesis b.1 affirms that: OFDI flow from Egypt and South Africa is positively associated with natural resources endowment of the host country.

c) Asset-seeking driver:

As emerging multinational corporations might lack the competitive advantages, the availability of strategic assets, such as highly developed technology, know-how and trademarks could be perceived as a driver to attract such firms to set their investment in markets having the availability of the required assets (Luo & Tung, 2007). In conjunction with the above, Beule (2010) and Beule and Bulcke (2012) have statistically proven the positive impact of host country assets on attracting both cross-border mergers and acquisitions and greenfield investment of India and China. Of the different variables used to examine the influence of asset-seeking motive, this chapter employs the total number of trademarks.

Hypothesis c.1 affirms that: OFDI flow from Egypt and South Africa is positively associated with the host country's strategic asset.

d) Integration into the global economy driver:

There is empirical evidence that integration of the host country into the global economy is likely to fuel inward FDI (Alon, 2010; Beule, 2010; Amal & Tomio, 2012; Beule & Bulcke, 2012). The main reason for such positive correlation is the assumption that the majority of FDI projects are likely to target tradable sectors. As per literature, the variable trade openness is introduced to capture the degree of economic integration of the host country into the world economy. Trade openness is measured as the ratio of the host country's exports and imports over GDP.

Hypothesis d.1 affirms that: OFDI flow from Egypt and South Africa is positively associated with the host country's integration into the global economy.

e) Bilateral relation between home and host country drivers:

In line with what is assumed by the Uppsala Model, Mughal (2013) concludes that Indian exports are positively associated with Indian overseas investments. The same finding is proven by the research done by Buckley, Clegg, Cross, Liu, Voss and Zheng (2007) regarding the locational determinants of Chinese OFDI. Accordingly, the home country export to the host country will be introduced to account for the bilateral relation between home and host country.

Hypothesis e.1 affirms that: OFDI flow from Egypt and South Africa is positively associated with their export flow to the host country.

f) Quality of institutions:

Along with the classical factor endowment of the host country, institutions tend to be one of the main determinants of the locational decision of outbound investments of EMNCs. Institutions, particularly economic ones, profoundly affect business through various channels, including, among others, transaction cost, information availability, and uncertainty as well. Transaction cost and uncertainty tend to decline, as the institutions organising the economy are being developed (Bevan, Estrin & Meyer, 2004). Previous research has proven the significant impact of institutions of the host country on the market selection of OFDI (Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007; Amal & Tomio, 2012). Of the different

indicators used in literature, the quality of institutions will be captured by the rule of law indicator.

Hypothesis f.1 affirms that: OFDI flow from Egypt and South Africa is positively associated with the prevalence of the rule of law in the host country.

g) Proximity between home and host country driver:

Supporting the foreign market selection pattern perceived by the Uppsala Model, previous research find that firms often prefer to invest in neighbouring countries due to proximity between home and host country consideration (Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007; Alon, 2010; Amal & Tomio, 2012). One of the widely common measures of proximity between host and home country is the geographical distance between the two markets, which is proven in various research to have a significant negative impact on OFDI, as shown by Table 5.3.

Hypothesis g.1 affirms that: OFDI flow from Egypt and South Africa is negatively associated with the geographical distance to the host country.

h) Other drivers:

In addition to the above-mentioned drivers, this chapter intends to test the following determinants:

Inflation:

Foreign investors could perceive a higher inflation rate as a sign of business climate instability, particularly if the inflation rate is volatile and unpredictable. Setting up investment in such an unstable environment might become riskier. As such, a higher inflation rate could result in drawing of IFDI (Amal & Tomio, 2012). Buckley, Clegg, Cross, Liu, Voss and Zheng (2007) attribute the negative association to the fact that inflation makes long-term planning quite problematic, particularly when it comes to price setting and profit expectation. Conflicting findings have been concluded by previous research regarding the direction of the relation between the two variables. While Elshamy (2015) has proven the negative association between the two variables, others have found the opposite (Amal & Tomio, 2012, Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007; Mughal, 2013).

Hypothesis h.1 affirms that: OFDI flow from Egypt and South Africa is negatively associated with the host country inflation rate.

Exchange rate:

Amal and Tomio (2012) argue that the host country exchange rate might have two different effects on IFDI, depending on the nature of FDI. In the case of efficiency-seeking investment, an economy with appreciated domestic currency might become more attractive in order to reduce production costs. On the contrary, investors willing to conduct market-seeking projects may rather invest overseas where the domestic currency is depreciated, as such projects could yield higher profits. Beule (2010) has proven that the exchange rate has two different impacts on the cross-border acquisitions of India and China. The official exchange rate is used to test the impact of fluctuation in the host country's currency on outward investments of Egypt and South Africa.

Hypothesis h.2 affirms that: efficiency-seeking OFDI flow from Egypt and South Africa is positively associated with the host country exchange rate.

Hypothesis h.3 affirms that: market-seeking OFDI flow from Egypt and South Africa is negatively associated with the host country exchange rate.

Quality of services:

Kalotay and Sulstarova (2010) have proven that the quality of services in the host country is a significant driver of the Russian OFDI. The significance of such motive increases in downstream markets. As per literature review, the service sector value added as a percentage of GDP will be employed by this chapter to assess the influence of service sector quality on the Egyptian and South African outbound investment.

Hypothesis h.4 affirms that: OFDI flow from Egypt and South Africa is positively associated with the quality of the host country service sector.

Table 5.1 outlines the different variables used in this chapter (dependent as well as independent). In line with literature, different independent variables, where applicable, are measured in nominal terms as inflation is introduced in the analysis. Moreover, all variables are log transformed, with the exception of two variables: the rule of law and the number of greenfield investment projects, due to excessive negative values in the first variable and zero inflation in the second variable.

Table 5.1: Variables used in the model, definitions, data sources and hypothesised signs

	Variable	Definition	Hypothesised relation with OFDI	Data source
Dependent variables				
1.	OFDI (First dataset model)	Number of greenfield projects of South Africa and Egypt	-----	FDI Intelligence Corporation
2.	OFDI (Second dataset model)	Log of South African OFDI stock	-----	South African Reserve Bank
Independent variables				
3.	GDP	Log of nominal gross domestic product (GDP)	+	World Bank
4.	NAT	Log of natural resource rent as a percentage of GDP	+	World Bank
5.	TMAR	Log of total number of trademarks	+	World Bank
6.	OPN	Log of exports plus imports as a percentage to GDP	+	World Bank
7.	EX	Log of export of the home country to the host country	+	UNCTAD / South African Department of Trade and Industry
8.	RL	Rule of law index	+	World Bank
9.	GD	Log of the geographical distance between home and host capitals	-	Map distance calculator
10.	INF	Log of the inflation rate	-	World Bank
11.	EXCH	Log of the official exchange rate	+	World Bank
12.	SGDP	Log of the service sector value added as a percentage of GDP	+	World Bank

Source: Author's own compilation.

To wrap up, the final equation of panel data models tested in this chapter is given as follows:

$$\begin{aligned} \text{OFDI}_{mjit} = & \beta_{0it} + \beta_1 (\text{GDP})_{it} + \beta_2 (\text{NAT})_{it} + \beta_3 (\text{TMAR})_{it} + \beta_4 (\text{OPN})_{it} + \beta_5 (\text{EX})_{it} \\ & + \beta_6 (\text{RL})_{it} + \beta_7 (\text{GD})_{it} + \beta_8 (\text{INF})_{it} + \beta_8 (\text{EXCH})_{it} + \beta_8 (\text{SGDP})_{it} + \mu_{it} \end{aligned}$$

5.4.2 Empirical results:

As mentioned previously, this chapter fits different panel data models to account for the difference between the compiled two datasets, with regard to the dependent variables. As to fitting the model of South African OFDI stock, the variance inflation factor (VIF) is

estimated to detect the existence of multicollinearity among the aforementioned 10 independent variables. As their tolerance indices are less than 0.1 (i.e. equivalent VIF values are greater than 10)³⁸, there might be a strong linear correlation among GDP, GD, RL, EX and TMAR, as shown in Table 5.4 in the Annexure.

One of two strategies is used to address this problem as evident in literature. First, the Principle Component Analysis is deemed to be helpful to determine the principle variables (Niti & Vandana, 2013). Second, one could run more than one model to split the highly correlated variables (Amal & Tomio, 2012). This chapter advocates adopting the second strategy to avoid losing information as a result of dropping some of the independent variables. The importance of this strategy is increased by the fact that literature remains relatively sparse and in need of further development regarding the area of emerging African markets-based MNCs.

The pairwise correlation coefficients are thereby calculated to trace the nature of correlation among the five mentioned variables. Based on the finding exhibited in Table 5.5 in the Annexure, three models, denoted hereafter as Model 1.a, Model 1.b and Model 1.c, are, therefore, run separately to test the significance of each group of variables on South African OFDI stock. Re-estimation of the VIF for the three proposed models indicates that the multicollinearity problem is sorted out correctly (i.e. the tolerance indices of all variables used in the three models are greater than 0.1), as shown in Tables 5.6, 5.7 and 5.8 in the Annexure.

Stationarity of all used data series has been tested. It was found that the series of different variables were of level 1 (i.e. non-stationary); see Table 5.9 in the Annexure. Furthermore, the LM test for autocorrelation rejected the null hypothesis of no autocorrelation at any conventional significance level for all the three models. In such case, this chapter proceeds to specify a Generalized Least Square (GLS) model with AR (1) and correlated disturbance to adjust for the existence of both problems, namely non-stationarity and serial autocorrelation.

Regarding the estimation of GLS models, it is worth mentioning that the Fixed Effect (FE) model does not fit by default with some of the selected time-invariant independent variables,

³⁸ According to Williams (2015), one should worry about the problem of multicollinearity only if any of the VIF values exceed 10 (or equivalently, tolerances of 0.10 or less).

such as the geographical distance. The FE model assumes that time-invariant characteristics of panels (i.e. countries) may not influence the predictor variable. As the FE model is not an appropriate estimation method, this chapter has to choose one of two methods, namely the Random Effect (RE) and Pooled Ordinary Least Squares (POLS) models.

It has been found in previous literature that the RE model is the most common estimation technique (Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007; Amal & Tomio, 2012). In addition to the above, and to assure the fitness of the RE model, the Breusch-Pagan Lagrange Multiplier test of random effect is conducted. As $\text{prob} > \text{Chibar2}$ indices of the three Models (i.e. 1.a, 1.b and 1.c) are less than 5 percent, it is likely to reject the null hypothesis and thus validating the significance of the RE model, as reflected by Figure 5.6 in the Annexure. This conclusion is further supported by the finding of the Wald Chi2 test, as seen later in Table 5.2, representing the estimation results.

Apart from the above and in relation to fitting the models of South African and Egyptian greenfield investment projects, data series were tested for multicollinearity, stationarity and autocorrelation. A general observation about Tables 5.10 and 5.11, in the Annexure, is that, in both datasets, all independent variables are not strongly correlated to each other, and thus they could be tested simultaneously in one model, denoted hereafter as Model 2 and Model 3 for South African and Egyptian greenfield investment projects respectively.

Stationarity of all used data series has been tested. It was found that the series of different variables, in both datasets, were stationary (i.e. of level 0); see Tables 5.12 and 5.13 in the Annexure. Furthermore, the LM test for autocorrelation, for both models, accepted the null hypothesis of no autocorrelation at any conventional significance level (for Model 2: test statistic 1.35, p-value 0.24; and for Model 3: test statistic 0.67, p-value 0.43). The residuals are not so correlated.

Contrary to the first dataset models, count data panel models are fitting well with the second dataset models (i.e. Models 2 and 3), since they account for the special nature of the dependent variable (i.e. the number of Egyptian and South African greenfield investment projects). As a count variable, the dependent variable is characterised by the non-negativity and discreteness, resulting from including only positive and integer values. Of the different count data panel models, Negative Binomial (NB) panel data models are the most commonly

used technique to estimate count models, as it takes into consideration the over-dispersion and zero inflation of the dependent variable (Cameron & Trivedi, 1999; Beule, 2010).

Descriptive analysis of the total number of Egyptian and South African greenfield investment projects exhibits that the dependent variable is over-dispersed for both countries as the variance is greater than the mean, as seen in Table 5.14 in the Annexure. Moreover, one could gauge that the zero is excessive in the response variable, as it accounts for around 84 percent and 67 percent of the number of Egyptian and South African greenfield projects respectively, as shown in Figure 5.7 in the Annexure. Accordingly, the NB panel count model is the most appropriate estimation technique for the compiled dataset.

NB panel data models could be estimated by one of three techniques, namely: Random Effect (RE), Fixed Effects (FE) and Population Averaged (PA). As mentioned before, the FE model is excluded from the analysis as it does not control for time-invariant variables included in the models. The RE model is preferred over Population Average, as the latter assumes that there is no panel effect, therefore, the different groups are assumed to be relatively homogeneous. To double-check the fitness of the RENB (i.e. Random Effect Negative Binomial) model, the Wald Chi2 test is estimated (Reyna, 2007; Park, 2010).

Findings reflect that the RENB fits well with Model 2 in explaining South African greenfield investment projects. On the contrary, this conclusion is not supported for Egyptian greenfield investment projects captured by Model 3. As the prob > chi2 of the test = 0.21, the null hypothesis (i.e. all coefficients are simultaneously equal to zero) was not rejected. Re-estimation of the Wald Chi2 test was in favour of fitting the PANB model (i.e. Population Averaged Negative Binomial) rather than the RENB model to explain the key pull drivers of Egyptian greenfield investment projects (the prob > chi2 of the test = 0.018). Estimations of the five models are presented in Table 5.2.

Table 5.2: Pull factor determinants of OFDI of Egypt and South Africa

Country Variable	South Africa				Egypt
	Model 1.a	Model 1.b	Model 1.c	Model 2	Model 3
GDP	0.631 (0.211) ^{***} <u>0.003</u>	NI	NI	0.69 (0.36) [*] <u>0.056</u>	0.98 (0.40) ^{**} <u>0.014</u>
NAT	0.253 (0.156) <u>0.106</u>	0.221 (0.153) <u>0.154</u>	0.488 (0.181) ^{***} <u>0.007</u>	0.80 (0.26) ^{***} <u>0.002</u>	0.99 (0.50) ^{**} <u>0.046</u>

Country Variable	South Africa				Egypt
	Model 1.a	Model 1.b	Model 1.c	Model 2	Model 3
TAMR	NI	NI	-0.022 (0.280) <u>0.937</u>	0.88 (0.34)** <u>0.011</u>	-0.01 (0.04) <u>0.730</u>
OPN	1.655 (0.525)*** <u>0.002</u>	1.180 (0.504)** <u>0.019</u>	0.816 (0.610) <u>0.182</u>	1.14 (0.69)* <u>0.099</u>	1.37 (1.24) <u>0.271</u>
EX	NI	0.461 (0.148)*** <u>0.002</u>	NI	0.06 (0.13) <u>0.678</u>	0.09 (0.14) <u>0.525</u>
RL	-0.967 (0.306)*** <u>0.001</u>	NI	NI	0.36 (0.21)* <u>0.091</u>	0.03 (0.45) <u>0.954</u>
GD	NI	-3.003 (1.087)*** <u>0.006</u>	NI	-5.93 (1.20)*** <u>0.000</u>	-3.05 (1.06)*** <u>0.004</u>
INF	0.023 (0.110) <u>0.833</u>	0.030 (0.108) <u>0.760</u>	-0.042 (0.128) <u>0.739</u>	0.11 (0.18) <u>0.552</u>	0.24 (0.43) <u>0.567</u>
EXCH	-0.801 (0.424)* <u>0.059</u>	-1.148 (0.455)** <u>0.012</u>	-0.410 (0.413) <u>0.321</u>	0.00479 (0.0003681) <u>0.896</u>	0.19 (0.26) <u>0.481</u>
SGDP	7.40 (2.86)** <u>0.010</u>	9.592 (2.837)*** <u>0.001</u>	7.308 (2.757)*** <u>0.008</u>	0.04 (0.01)*** <u>0.003</u>	-2.95 (2.20) <u>0.179</u>
Constant	-18.96 (4.75)*** <u>0.000</u>	-8.367 (4.47)* <u>0.061</u>	-11.047 (4.926)** <u>0.025</u>	4.04 (5.06) <u>0.425</u>	-3.59 (7.80) <u>0.645</u>
Wald Chi2	34.45	31.73	13.03	70.92	21.47
Prob > chi2	0.00	0.00	0.071	0.00	0.018

Source: Author's own calculation.

Note: Values mentioned in each of the table cells are as follow: the estimated coefficient, the standard error (in parenthesis), and the probability value (underlined).

***, ** and * indicate that the coefficient is significant at 1, 5 and 10 percent, respectively.

NI means not included in the model due to being strongly linearly correlated with one or more other variables.

Market-seeking driver

The market size of the host country, captured by GDP, has a positive influence on the foreign market selection of Egyptian and South African greenfield projects. Similarly, the same conclusion is likely to be supported for South African OFDI stock. Accordingly, South African and Egyptian investments are assumed to target large economies. This finding is in line with previous research (Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007; Alon, 2010; Kalotay & Sulstarova, 2010; Beule, 2010; Beule & Bulcke, 2012). Moreover, it is further

supported by what is concluded by UNCTAD's global survey of developing and transition economies-based MNCs (UNCTAD, 2006).

In conjunction and associated with the above, the tangible influence of the host country market size, particularly on the foreign market selection of South African investment, could be further supported by considering the impact of other interrelated pull drivers. These include, most notably, trade openness, the service sector quality, export to the host country and the official exchange rate of the receiving destination.

Integration into the global economy

Except for Model 1.c, models produce robust results for the impact of trade openness on overall South African cross-border investments, including both greenfield investment projects and the total OFDI stock. Contrary to Egyptian investment, South African outbound investments seem to favour countries with higher levels of trade openness. As postulated before, improvement in trade openness means that the host market becomes more integrated into the global economy, which in turn expands the potential size of the host economy. Moreover, such positive correlation may be attributed to the fact that the majority of FDI projects are likely to target tradable sectors (Beule, 2010; Amal & Tomio, 2012; Beule & Bulcke, 2012).

Quality of the service sector:

The prominence of service sector quality, proven by all models relevant to South Africa, indicates that South African corporations are different from their Egyptian peers in a sense that they are interested in investing in the downstream value chain, which is relatively linked to market-seeking. Promoting a similar perspective, Kalotay and Sulstarova (2010) conclude that the quality of service sector has an influence on Russian investment abroad.

Bilateral relation between home and host country:

Despite being uncorrelated to Egyptian and South African greenfield investment projects, South African export to the host country has been proven to be a significant driver of South African total OFDI stock, which could be perceived as further evidence of the influential role of the host market on shaping the map of South African cross-border investment. The same finding is proven by the research done by Buckley, Clegg, Cross, Liu, Voss and Zheng

(2007) and Mughal, (2013) regarding the locational determinants of Chinese and OFDI respectively.

Host country exchange rate:

The host country's official exchange rate is proven in two models to have a significant negative influence over the South African total OFDI, while not affecting the corresponding South African and Egyptian greenfield investment projects. Amal and Tomio (2012) argue that the negative association between OFDI and the official exchange rate is likely to happen when investors are concerned with market-seeking motives. Investors willing to conduct market-seeking projects may invest in countries where the domestic currency is depreciated, as such projects could yield higher profits.

Resources-seeking driver:

Results provide evidence for the natural resources-seeking hypothesis, suggesting that South African and Egyptian greenfield investment projects are oriented to target countries with high natural resources endowment, as captured by the index of natural resources rent as a percentage of GDP. The same conclusion is likely to be supported by Model 1.c, with respect to South African OFDI stock. Most previous studies assume that the availability of natural resources is one of the main pull factor drivers of OFDI. Accordingly, they predict that countries rich in natural resources are more likely to attract FDI operating in natural resources-related sectors (Alon, 2010; Kalotay & Sulstarova, 2010).

Strategic asset-seeking driver:

Decisions of South African investors to set their greenfield projects in a certain market have been found to be driven by the availability of strategic assets in the host country. On the other hand, strategic assets do not exercise any significant influence over their corresponding total OFDI stock and Egyptian greenfield investment as well.

Almost half of the reviewed previous studies have admitted that strategic assets do not have a strong influence on the locational decisions of MNCs from emerging economies (Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007; Alon, 2010; Kalotay & Sulstarova, 2010). In addition to the empirical findings of previous research, only 14 percent of responses in

UNCTAD's global survey of developing and transition economies-based MNCs have referred to strategic asset-seeking as a motive for market selection (UNCTAD, 2006).

Proximity between home and host country:

As predicted by the Uppsala Model, different models estimated by this chapter exhibit that Egyptian and South African MNCs show a strong preference to invest in nearby countries, as measured by the geographical distance. This finding is in line with the fact that Africa hosted around 67 and 63 percent of greenfield investments project involvement by Egyptian and South African MNCs respectively, in 2014. The preferred foreign market entry mode of South African and Egyptian MNCs further supports this conclusion. Both groups of firm favour greenfield investment over mergers and acquisitions.

According to the World Bank (2011), this sort of investment, greenfield investment, is perceived to be the most reasonable entry mode for emerging multinational corporations seeking to establish a physical presence in developing markets, owing to proximity in political and regulatory frameworks between home and host country and lack of suitable acquisition targets. Similar findings are concluded by most previous studies (Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007; Alon, 2010; Amal & Tomio, 2012).

Quality of institutions:

Apropos the role of institutions, findings show that the rule of law affects the market selection decision of South African investors. Nevertheless, conflicting findings have been concluded by the different models, regarding the direction of the relation between the two variables. Despite being negatively associated with South African OFDI stock, the prevalence of the rule of law in the host country boosts South African greenfield investment projects.

Findings of previous research are likely to support the positive association between rule of law and OFDI (Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007; Amal & Tomio, 2012). Institutions, particularly economic ones, affect business through various channels, including, among others, transaction cost, information availability as well as uncertainty. As the rule of law improves, it is assumed that transaction cost and uncertainty tend to decline. On the

other side, it has been found that Egyptian investors do not pay tangible attention to the quality of institutions of the host country.

Inflation:

Contrary to the aforementioned pull drivers which have been found to affect either both South African and Egyptian investments or one of them, inflation is unlikely to influence the intention of both groups of investors while deciding on where to invest in. Likewise, Nunnenkamp, Maximiliano, Vadlamannati, and Waldkirch (2012) conclude that India's OFDI is not affected by inflation rate in host countries.

5.4.3 Limitations of the findings:

Before concluding this chapter, it is worth highlighting the main limitations of the previous results. While providing evidence for most of the hypotheses along with being in line with the key findings of previous research, the results herein have to be treated with caution. The models used in this chapter certainly have various limitations, resulting from data unavailability. In Models 1.a, 1.b, and 1.c, based on data drawn from the South African Reserve Bank, only a small number of South African investment hosting countries have been included in the analysis.

In Models 2 and 3, based on data drawn from the FDI Intelligence Corporation, the analysis is restricted to greenfield investment projects only, as the dataset does not include any information regarding other forms of OFDI involvement by South African and Egyptian firms, particularly pertaining to M&As. Moreover, owing to data limitation, it is not possible to include all countries hosting Egyptian and South African greenfield investment projects.

5.5 SUMMARY

South African and Egyptian MNCs show a preference to set their greenfield investments in nearby markets. In 2014, Africa was the most preferred destination for both groups of firms as it hosted around 63 and 67 percent of South African and Egyptian greenfield projects respectively. Equally important, developing markets hosted around 72 and 89 percent of their investments, in 2014. On the other hand, Asia was found to be the most important investment destination for South African OFDI stock, as it held around 49 percent of such investment in 2016. Unlike emerging markets-based MNCs, the overall significance of

Africa and developing markets tends to increase in the structure of foreign markets of South African and Egyptian firms from one year to another.

Despite data limitation, the empirical analysis generally gives evidence to most findings of previous research pertaining to the pull drivers of emerging markets-based MNCs. Except for inflation, all host country macroeconomic drivers tested in this chapter have been found to affect either both South African and Egyptian MNCs or one of them at confidence levels less than or equal to 10 percent.

Market-seeking motives are found to be one of the most influential drivers of the foreign market selection of both groups of firms, bearing in mind the tangible difference between the two groups in this regard. Along with the actual market size of the host country, trade openness, the service sector quality, export to the host country and the official exchange rate of the receiving destination are all significant pull drivers of South African investors, taking into consideration the fact that coefficients are not consistently significant in the different models estimated in this chapter.

Egyptian investors, on the other hand, are less likely to consider trade openness, the exchange rate and service sector quality while choosing their preferred foreign investment destinations. Moreover, Egyptian export to the host country in no manner stimulates Egyptian investment flow to such country. On the contrary, Egyptian investors are solely concerned with the actual market size, as captured by nominal GDP.

In addition to market-seeking, other pull drivers have been proven to influence the foreign market selection of South African and Egyptian MNCs. Results in this regard have confirmed the positive effect of the natural resources-seeking hypothesis, suggesting that South African and Egyptian greenfield investment projects are oriented to target countries rich in natural resources endowment.

Moreover, in line with what is expected by most theories, Egyptian and South African MNCs are showing a preference to invest in nearby countries. This concurs with the fact that, in 2014, Africa hosted around 67 and 63 percent of greenfield project involvement by Egyptian and South African MNCs respectively.

From another perspective, the strategic assets availability in the host country and the prevalence of rule of law are found to solely affect the South African MNCs, bearing in mind two main matters. Firstly, coefficients are not consistently significant in the different models estimated by the authors. Secondly, conflicting findings have been concluded by the different models regarding the direction of the relation between the rule of law and South African outbound investments.

Chapter Six

Conclusion and policy recommendations

As emerging multinational corporations tend to expand their global presence outstandingly, an increasing number of researchers have become more interested in examining such unfolding phenomenon. Yet, literature remains sparse and in need of further development regarding emerging African multinational corporations. This is because most of previous research, in particular, empirical one, have focused on firms based mainly in Asia, followed by Latin America. In view of the above, the main target of this thesis is to unveil the key salient features of emerging African MNCs, with application to Egyptian and South African MNCs. It examines the difference between emerging African MNCs and their emerging peers, regarding the performance, the industries in which EAMNCs are active, preferred market entry modes and foreign market choice. Moreover, it pays attention to examine the key push and pull drivers of EAMNCs.

6.1 KEY FINDINGS OF RESEARCH

In line with the research questions addressed by this thesis, the findings section is organized as follow:

6.1.1 Performance of emerging African MNCs and their status in the EMNCs landscape

Overall statistics indicate that both South African and Egyptian MNCs grown during the period from 1990 to 2016. However, both groups of firms differ from one another, particularly with regard to the magnitude of their outbound investments and the growth rate of such investments. Egyptian overseas investment experienced great leaps, compared to the corresponding South African investment.

While South African OFDI stock grown nearly 11 fold, the corresponding Egyptian investment scaled up 44 fold during the period from 1990 to 2016. Despite its roaring growth, Egyptian MNCs still lag behind their South African peers, regarding the magnitude of their outbound investment. South African FDI outflow (\$3.4 billion) was 16 times higher

than that of Egypt (\$0.21billion) in 2016. Similarly, South African OFDI stock (\$172.8 billion) was 24 fold higher than that of Egypt (\$7.2 billion) in the same year.

Compared to their emerging peers, the figures tell a different story of the performance of South African and Egyptian MNCs. They give support to the assumption that both groups of firms significantly lost ground on the EMNCs landscape during the period from 1990 to 2016. In 2016, South Africa owned nearly six percent of the total OFDI stock held by EMNCs, which represented less than a quarter of its share in the early nineties. Egypt's share of total OFDI flow and stock owned by emerging economies did not surpass one percent over the entire period from 1990 to 2016. OFDI Performance Indices of both South Africa and Egypt were often less than unity indicating that they were still playing a smaller role in the global OFDI landscape than their economies warrant.

6.1.2 Sector Breakdown of Emerging African MNCs

Similar to the top non-financial emerging MNCs, the mining and quarrying sector ranked first for South African MNCs, accounting for 16 percent of the total number of South African MNCs listed in the labour research service (LRS) database. On the contrary, the industrial sector was the most important non-financial sector for Egyptian MNCs, accounting for 22 percent of the total number of firms counted in this thesis. It is worth mentioning that the financial services sector dominated the structure of both South African and Egyptian MNCs when it comes to the total value of assets.

6.1.3 Ownership Structure of Emerging African MNCs

From another perspective, the private sector dominated, to different extent, in both South African and Egyptian MNCs. In 2013, it controlled around 96 and 80 percent of the total number of South African and Egyptian MNCs respectively. In line with private ownership dominance, it is found that most South African and Egyptian MNCs were listed on their national stock exchange markets. Data show that 96 percent of South African MNCs were listed on the Johannesburg Stock Exchange (JSE). In addition to the JSE, nearly 22 percent of South African MNCs were listed in foreign stock exchange markets. Apropos Egyptian MNCs, 87 percent of them were listed on the Cairo and Alexandria Stock Exchanges.

6.1.4 Preferred entry mode of emerging African MNCs

Similar to emerging multinational corporations, both South African and Egyptian MNCs show a preference to greenfield over M&As as foreign market entry mode. The average annual flow of greenfield investment possessed by South African MNCs was more than double their outbound M&As deals over the period from 1990 to 2016. Similarly, to lesser extent, average greenfield investments of Egyptian corporations was registered to be 1.3 times higher than their respective M&As over the same period.

6.1.5 Foreign markets of emerging African MNCs

When it comes to the foreign market selection, South African and Egyptian MNCs show an overall tendency, to set their greenfield investments in nearby markets. This pattern is found to be similar to that adopted by emerging MNCs and consistent with what is expected by various theories. In 2014, Africa was the most preferred greenfield investment destination for both groups of firms, hosting around 63 and 67 percent of their greenfield projects respectively. Equally important, developing markets hosted around 72 and 89 percent of South African and Egyptian greenfield investments respectively. Unlike emerging MNCs, the overall significance of Africa and developing markets tends to increase in the structure of foreign markets of South African and Egyptian greenfield investments from one year to another.

From another perspective, Asia was found to be the most important investment destination for South African OFDI stock, as it held around 49 percent of such investment in 2016. In the second spot was Europe (28.7 percent), followed by Africa (14 percent). Oceania trailed the geographical structure of the South African overseas investment (3.3 percent), headed by Latin and North America (5.1 percent) in 2016. Equally important to mention that the significance of Africa and Asia, as an investment destination for South African OFDI stock, had grown at the expense of Europe, over the period from 2000 to 2016.

6.1.6 Push drivers of emerging African MNCs

As for the key drivers of South African and Egyptian MNCs, findings proves that home macroeconomic specifications, or what is dubbed as push factor drivers, could significantly influence outward foreign direct investments from South Africa and Egypt. These drivers include trade openness, capability and domestic economy related drives. Amongst the six push drivers tested in this thesis, only four are proven to be significant at a confidence level

less than or equal 10 percent. OFDI flow from South Africa and Egypt has been greatly facilitated by trade openness. Thereby, integration of the South African and Egyptian economies into the world economy would increase their outbound investment. Nevertheless, bilateral and multilateral investment treaties signed by Egyptian and South African governments are in no manner boost their outbound investment.

The number of patents is found to significantly influence the intention of Egyptian and South African firms to invest abroad, contrary to inward foreign direct investment flow. The positive association between OFDI and the number of patents could be attributed to the fact that the more the country expand their technological innovation base the better they benefit from the international technological spillover, which could result in augmenting their own specific advantages, as well as fuelling higher levels of OFDI.

Actual and potential market sizes both have been proven to be prominent push drivers of OFDI of Egypt and South Africa. Yet, this finding should be treated with caution as each of the two push drivers has a different impact on OFDI. Actual market size, captured by real GDP, is found to have a positive influence on OFDI. It is, however, found that the growth rate of real GDP, as an indicator of potential market size, is negatively associated with outbound investment decisions of both groups of firms.

6.1.7 Pull drivers of emerging African MNCs

Along with the push drivers of South African and Egyptian cross-border investment, South African and Egyptian MNCs are also triggered by host country macroeconomic specifications, or what is labelled as pull factor drivers. Except for the inflation rate, all pull drivers tested in this thesis have been found to affect either both South African and Egyptian MNCs or one of them at confidence levels less than or equal to 10 percent. Market-seeking motives are found to be one of the most influential drivers in the decision of the foreign market selection of both groups of firms, bearing in mind the tangible difference between the two groups in this regard.

Along with the actual market size of the host country, trade openness, the service sector quality, export to the host country and the official exchange rate of the receiving destination are all significant pull drivers of South African investors, taking into consideration the fact that coefficients are not consistently significant in the different models estimated in this thesis. Egyptian investors, on the other hand, are less likely to consider trade openness, the

exchange rate and service sector quality while choosing their preferred foreign investment destinations. Moreover, Egyptian export to the host country in no manner stimulates Egyptian investment flow to such country. On the contrary, Egyptian investors are solely concerned with the actual market size, as captured by the nominal GDP.

In addition to market-seeking, other pull drivers have been proven to influence the foreign market selection of South African and Egyptian MNCs. Results in this regard have confirmed the positive effect of the natural resources-seeking hypothesis, suggesting that South African and Egyptian greenfield investment projects are oriented to target countries rich in natural resources endowment. Moreover, Egyptian and South African MNCs are showing a preference to invest in nearby countries. From another perspective, the strategic assets availability in the host country, as well as the prevalence of rule of law are found to solely affect the South African investments, while in no manner stimulating the Egyptian outbound investments.

From another perspective, the strategic assets availability in the host country and the prevalence of rule of law are found to solely affect the South African MNCs. Yet, this finding should be treated with caution, as coefficients are not consistently significant in the different models estimated in this thesis. Furthermore, the different models concluded conflicting findings regarding the direction of the association between rule of law and South African outbound investments.

6.2 LIMITATIONS OF RESEARCH

While providing important insights over the key salient features of emerging African multinational corporations and their major driving forces, aforementioned results should be treated with caution, due to data limitation. This concern is particularly evident in the available statistics of the geographical and sector structure of outbound investments possessed by Egypt and South Africa. Owing to using multiple data sources, the time span of the analysis may differ from one chapter to another and even from one section to another in the same chapter depending on the data source.

In line with the above and associated with, the examination of the push drivers of Egyptian and South African MNCs has various limitations resulting from data shortage. First, this thesis found a difficulty to test the influence of policy variables on the cross-border

investments of Egypt and South Africa. Furthermore, and due to data limitation, it was difficult to control the key differences between the two groups of firms (i.e. economic sectors, listing in the stock market and entry mode) in the estimated push driver model.

When it comes to the pull drivers of Egyptian and South African MNCS, results have various limitations. First, various databases have been used to examine the impact of host country specifications on the decisions of the foreign market selection taken by Egyptian and South African investors. The dependent variable, time span and the number of observations (i.e. host countries) might, therefore, vary from one model to another depending on the data source. Moreover, some models are estimated based on a small number of observations (i.e. those related to South African OFDI stock).

Last but not least, the analysis is restricted to greenfield projects only, as there is no available information regarding the other forms of outward foreign direct investment involvement by South African and Egyptian firms, particularly pertaining to mergers and acquisitions.

6.3 POLICY RECOMMENDATIONS

Given the key findings of this thesis, it is recommended to consider the following policy recommendations while drafting outward foreign direct investment promotion policies in Egypt and South Africa:

- A. Due to private sector dominance in the ownership structure of Egyptian and South African MNCs, it is recommended that outward foreign direct investment promotion policies should target mainly private sector owned companies. Of these companies, a priority should be attached to targeting those registered in the national stock exchange market of each country.
- B. Outward foreign direct investment promotion policies are recommended to target certain foreign markets. Selection of those markets is expected to be based on two main groups of drivers. First is geographical proximity. This is because South African and Egyptian MNCs both demonstrate an overall tendency, to set their greenfield investments in nearby markets, owing to the similarity in culture, traditions, economic, and political systems between home and host country. Second is the availability of certain host country advantages. These include above all: the market size, resources endowment, asset availability, trade openness, the service sector

quality, export to the host country, the official exchange rate of the receiving destination and quality of institutions. In this regard, policymakers should keep in mind that the impact of host country advantages varies remarkably between Egyptian and South African corporations.

- C. As evident in the estimated econometric models, holding investment agreements is not perceived to be the ideal course of actions to encourage Egyptian and South African firms to increase the volume of their direct investments in the targeted foreign markets. Instead, South African and Egyptian governments might examine the possibility of using other tools to strengthen investment relations and explore more investment opportunities, such as dispatching investment missions, hosting investment exhibitions and establishment of joint business councils. This is to enable South African and Egyptian corporations to explore foreign markets.
- D. Selection of sectors to be targeted by outward foreign direct investment promotion policies could rely on either the current structure of economic sectors of Egyptian and South African MNCs or the corresponding structure of emerging MNCs. Based on the first criterion, the financial sector is one of the most recommended sectors to be considered by Egyptian and South African policymakers. In addition, South Africa and Egypt might consider further supporting firms operating in mining and quarrying and industry sectors respectively. The significance of the mining and quarrying sector is increased when one considers that it is the fastest growing sector of emerging MNCs. As such, Egyptian government could examine the possibility of boosting the globalization orientation of its firms active in that sector to further improve its stance in the emerging MNCs landscape.
- E. Accelerating the integration of Egyptian and South African economies into the world economy, through trade, would further encourage the global orientation of their own firms. Both exports and imports are expected to positively influence OFDI. As export increases, domestic firms would obtain more accessibility to foreign markets receiving their exports, which in turn diminishes uncertainties and risks associated with investing in those markets. From another perspective, the import may also stimulate OFDI through the displacement effect. A higher flow of imports is associated with higher competition in the domestic market, which reduces the market share of

domestic firms. As a result, imports may encourage local firms to initiate their internationalisation process to obtain access to larger markets.

- F. Expanding the technological innovation base of Egyptian and South African economies could augment their firms' own specific advantages, and in return fuelling higher levels of OFDI. Therefore, governments should pay much more attention to the policies targeting upgrading the technological capacity and standards of the domestic economy.

Before concluding this section, it is important to keep in mind two main issues while considering the listed above policy recommendations. The first issue is the various limitations encountering this research, resulting from data unavailability (Section 6.2). It is so highly recommended to consider undertaking future research along with running firm surveys (to be discussed in details in Section 6.5). This is to further validate these policy recommendations and to compile the detailed information required for drafting the relevant action plans.

Second, the impact of these recommendations is expected to be more significant when they are applied together. In other words, discarding some of them may undermine the positive impact of outward foreign direct investment promotion policy. For instance, dispatching outbound investment missions does not necessarily encourage domestic firms to explore foreign business opportunities if they do not have the capacity to invest abroad either through greenfield or mergers and acquisitions.

6.4 LESSONS LEARNED

Along with the policy recommendations proposed by this thesis for Egyptian and South African policymakers, it is of great importance to conclude the lessons learned for policymakers from other emerging economies, particularly in Africa:

- A. The internationalization process of emerging MNCs is being triggered by not only host country advantages, but also home country specifications. That is why providing a conducive investment policy framework in the home country is expected to be in favour of initiating and boosting the global orientation of home country-based firms.

- B. Trade openness of the home economy is assumed to fuel domestic firms to go abroad and to undertake outbound investment decisions. Accordingly, a policymaker should not discard this aspect while drafting OFDI promotion policy.
- C. The geographical preference of foreign investment expansions is expected to be influenced by a number of drivers, including among others, geographical proximity and business environment similarity between home and host country. Accordingly, nearby foreign markets are assumed to be of high priority for both policymakers and domestic firms while exploring new investment opportunities to increase their cross-border investments.
- D. Bilateral and multilateral investment treaties and agreements are not necessarily the most effective policy action to be considered by policymakers to encourage domestic firms to invest in a certain market. They might examine the possibility of using other tools such as dispatching investment missions, hosting investment exhibitions and establishing joint business councils.
- E. Mining and quarrying sector is recommended to be targeted by outward foreign direct investment promotion policies as it is found be the fastest growing sectors for emerging MNCs.
- F. Most multinational corporations are assumed to be listed in the national stock exchange markets. Accordingly, outward foreign direct investment promotion policies could target those firms to increase outbound investment of the domestic economy.
- G. The preferred foreign market entry mode for emerging MNCs is expected to differ across the destinations receiving their foreign activities. Yet, the foreign expansion of emerging MNCs is likely to occur through greenfield investment rather than mergers and acquisitions. As such, OFDI promotion policies is expected to be in favour of supporting this type of cross-border investment.

6.5 FUTURE RESEARCH PROSPECTS

Having examining the key features and drivers of South African and Egyptian MNCs, a number of research questions remain important to be considered by future research. This is to consolidate the policy implications of the aforementioned findings and thus to help

policymakers in emerging African economies to draft the right combination of policies envisaging initiating and boosting the global orientation of their own firms.

Important among these is to examine the influence of other potential macroeconomic push drivers that have not been tested in this thesis due to data limitation. As they are proven in some research to be significant push drivers, future research might place focus on investigating the influence of human capital, infrastructure and other policy variables on overseas investment of South African and Egyptian firms.

In addition to the empirical analysis done by this thesis on the macroeconomic level, policymakers may need to further examine the influence of push drivers from a microeconomic perspective to control the difference among sectors. What makes this type of investigation more important is the fact that governments are likely to promote cross-border investment in specific sectors. Furthermore, future research could also consider conducting the same analysis on a firm level. In doing so, special surveys should be conducted to collect the detailed statistics required for such analysis.

Along with the above aspects, and associated with the pull drivers, future research is urged to address the current data limitation problem. This is to be done by expanding the analysis to include more countries, particularly those hosting Egyptian outbound investment. It is also important to gather data about the various types of foreign direct investment possessed by Egyptian and South African MNCs, especially mergers and acquisitions. This is to complete the picture regarding the main drivers shaping the map of cross-border investments from Egypt and South Africa.

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ANNEXURE**Table 2.4: Emerging market lists proposed by international organisations**

	Country	Bloomberg	FT⁽¹⁾	IIF⁽²⁾	IMF⁽³⁾	OECD⁽⁴⁾	S&P⁽⁵⁾	UNCTAD⁽⁶⁾	WB⁽⁷⁾
1.	Algeria								√
2.	<u>Argentina</u>		√	√	√	√		√	√
3.	Azerbaijan								√
4.	Bahamas								√
5.	Bahrain,		√						√
6.	Barbados								√
7.	Belarus								√
8.	<u>Brazil</u>	√	√	√	√	√	√	√	√
9.	Bulgaria			√	√				√
10.	<u>Chile</u>	√	√	√	√	√	√	√	√
11.	<u>China</u>	√	√	√	√	√	√	√	√
12.	<u>Colombia</u>	√	√	√		√	√		√
13.	Costa Rica								√
14.	Croatia								√
15.	<u>Czech Republic</u>	√	√	√		√	√		√
16.	Dominican								√
17.	Estonia				√				√
18.	<u>Egypt</u>	√	√	√		√	√		√
19.	Ecuador			√					√
20.	El Salvador								√
21.	Georgia								√
22.	Ghana								√
23.	Guatemala								√
24.	Emirates			√					√
25.	<u>Hungary</u>	√	√	√	√	√	√		√
26.	<u>India</u>	√	√	√	√	√	√		√
27.	<u>Indonesia</u>	√	√	√		√	√		√
28.	Jamaica								√
29.	Jordan,		√						√
30.	Kazakhstan								√
31.	Kenya								√
32.	Kuwait		√						√
33.	Latvia	√			√				√
34.	Lebanon			√					√
35.	Lithuania				√				√
36.	<u>Malaysia</u>	√	√	√	√	√	√	√	√
37.	<u>Mexico</u>	√	√	√	√	√	√	√	√
38.	Mongolia								√
39.	<u>Morocco</u>	√	√	√		√	√		√
40.	Nigeria			√					√
41.	Oman								√
42.	Pakistan		√		√	√			√

Emerging African multinational corporations: trends & determinants

	Country	Bloomberg	FT ⁽¹⁾	IIF ⁽²⁾	IMF ⁽³⁾	OECD ⁽⁴⁾	S&P ⁽⁵⁾	UNCTAD ⁽⁶⁾	WB ⁽⁷⁾
43.	<u>Peru</u>	√		√	√	√	√	√	√
44.	Panama	√							√
45.	<u>Philippines</u>	√	√	√	√	√	√		√
46.	<u>Poland</u>	√	√	√	√	√	√		√
47.	Qatar		√						√
48.	Romania		√	√	√				√
49.	<u>Russia</u>	√		√		√	√		√
50.	Saudi Arabia		√	√					√
51.	<u>South Africa</u>	√	√	√	√	√	√		√
52.	South Korea	√		√				√	√
53.	Singapore							√	√
54.	Sri Lanka								√
55.	<u>Thailand</u>		√	√	√	√	√	√	√
56.	Trinidad and Tobago								√
57.	<u>Turkey</u>	√	√	√	√		√		√
58.	Taiwan		√				√	√	
59.	Ukraine			√	√				√
60.	United Arab Emirates		√	√					√
61.	Venezuela			√	√	√			√
62.	Vietnam								√

Source: Author's own compilations

1) The Financial Times. (2) The Institute of International Finance. (3) The International Monetary Fund. (4) The Organisation of Economic Cooperation and Development. (5) Standard and Poor's. (6) The United Nations Conference for Trade and Development. (7) The World Bank

Table 2.5: Different emerging market lists used in literature

	Study	Data source	Emerging countries list
1.	Aybar & Thirunavukkarasu, 2005	UNCTAD	UNCTAD
2.	Contessi & El- Ghazaly, 2010		
3.	Sauvant, 2008		
4.	Andreff, 2002		
5.	Kumar, 2007	World Bank	IMF
6.	Groh & Wich, 2012	UNCTAD	IMF
7.	Hoskisson, Eden, Lau & Wright, 2000	World Bank	IFC definition for 1999, which included 51 countries.
8.	Kudina & Pitelis, 2014	UNCTAD	Modified UNCTAD definition of developing countries. They focused on developing countries receiving annual FDI inflow of more than 0.5 billion \$.
9.	Sauvant, Maschek & McAllister, 2009	UNCTAD	EMs comprise countries classified by UNCTAD as developing and transitional countries.
10.	Cortesi & Plantoni, 2011	UNCTAD	EMs comprise countries classified by UNCTAD as developing and transitional countries.
11.	Akbari, 2012	The Security Data Company (SDC) Platinum database provided by Thomson Reuters	Revised IMF list of emerging countries, using the human development index and growth rate. The proposed list included 27 countries.
12.	Andreff & Balcet, 2013	UNCTAD	Compiled a list of 19 countries that were commonly classified as emerging by different international organisations.
13.	Goldstein, Bonaglia & Mathews, 2006	Various sources	Case studies approach
14.	Goldstein & Pusterla, 2008	UNCTAD	EMs comprise countries classified by UNCTAD as developing and transitional countries.
15.	Deng, 2012	UNCTAD and the SDC Platinum database provided by Thomson	Thomson emerging countries list

	Study	Data source	Emerging countries list
		Reuters	
16.	Berrill & Mannella, 2012	FT G500 firms	Financial Times Stock Exchange (FTSE) and the Morgan Stanley Capital International (MSCI) lists of emerging market economies

Source: Author's own compilation.

Table 2.6: Comparison of the primary attributes of different EMNC theories

Item	First Category	Second Category	Third Category
Main theories	<ol style="list-style-type: none"> 1. Uppsala Model 2. Innovation Related Model 3. Entrepreneurial Approach 4. Resource -based Theory 	<ol style="list-style-type: none"> 1. Imbalance and Springboard Approach 2. Linkage, Leverage and Learning Theory 3. Network Model 	<ol style="list-style-type: none"> 1. Double Networking Approach 2. Born Global 3. Eclectic Paradigm Model 4. Investment-Development Path
Primary trigger of emerging MNCs	A Firm's competitive advantages or assets exploiting	Host country advantages or assets-seeking	Both firm and host country advantages or combining assets exploiting and seeking.
Determinants of global orientation of emerging MNCs	<ol style="list-style-type: none"> 1. Firm acquainted knowledge (Uppsala Model) 2. Adaptation with challenges pertaining to operating in foreign markets (Innovation Related Model) 3. Top management orientations (Entrepreneurial Approach) 4. Strategic resources (Resource-based Theory) 	<ol style="list-style-type: none"> 1. Lack of the competitive advantages (Imbalance and Springboard Approach) 2. Linkage, Leverage and Learning 3. Forward and backward networks (Network Model) 	<ol style="list-style-type: none"> 1. Internal and external networks (Double Networking Approach) 2. Firm, environment and decision-makers' characteristics (Born Global) 3. Ownership, location, and internalisation advantages (Eclectic Paradigm Model) 4. Assets exploiting and augmenting (Investment-Development Path)
Timing and pattern of multinationality	Multinationality process is expected to be slow and incremental. As a result, firms probably tend to work first in their domestic markets for a certain period of time until they have acquired the necessary competencies required for competition abroad. Hence, it is not expected that a firm initiates global orientation right from its inception.	According to both the Imbalances and Linkage Approaches, global orientation of emerging firm is expected to be accomplished by a higher pace than that expected by the Network Model, which perceives multinationality as a cumulative and time-consuming process.	Multinationality process is assumed to be incremental according to The Investment-Development Path, Double Networking and the Eclectic Paradigm. However, firms may initiate their global orientation right from its inception as mentioned by Born Global theory.

Emerging African multinational corporations: trends & determinants

Item	First Category	Second Category	Third Category
Foreign market choice (global vs. regional)	Firms may favour working firstly in neighbouring markets, then in far-reaching markets, according to the Uppsala and Innovation Related Models. While others models did not mention.	Not mentioned	According to Double Networking Model, a firm may target the acquisition of foreign subsidiaries in the domestic economy and companies abroad at a later stage.
Determinants of foreign market choice	<ol style="list-style-type: none"> 1. Psychological distance, such as cultural and linguistic differences (Uppsala and Innovation Related Models) 2. Top management orientations and (Entrepreneurial Approach) 3. Strategic resources (Resource-based Theory) 	<ol style="list-style-type: none"> 1. Existence of resources and assets. 2. The ability to construct different networks. 	<ol style="list-style-type: none"> 1. Existence of resources and assets and the ability to construct linkages (Double Networking Model) 2. Environment characteristics or advantages (Born Global). 3. Location advantages (Eclectic Paradigm Model). 4. Existence of targeted assets, including resources, markets, efficiency, strategic assets (Investment-Development Path).
Market penetration modes	According to the Uppsala Model, firms are assumed to begin their foreign activities through low market commitment modes such as occasional export orders due to risks and uncertainty. Later, they could commit higher resources to their activities abroad and commence investing overseas	Not mentioned	According to the Eclectic Paradigm Model, location and internalisation advantages determine the proper entry mode.

Source: Author's own compilation.

Table 2.7: Classification of different entry modes

Criterion	Author (S)	Categories	Entry modes
<p>A. Ownership by the entrant (none, partial, and full).</p> <p>B. Location of the entrant's operation in the host country (marketing - marketing and production)</p>	Varinder & Erramili, 2004	A. Direct and indirect exporting (non-ownership marketing)	Host country intermediaries
		B. Direct export (full ownership-marketing)	Company owned channel such as sales subsidiary
		C. Contractual modes (non-ownership-marketing and production)	A. Licensing B. Franchising
		D. Joint ventures (JVs) in production or marketing (partial ownership-marketing and production)	A. Majority (JV) B. 50/50 (JV) C. Minority (JV)
		E. Wholly owned subsidiary (full ownership-marketing and production)	A. Greenfield B. Acquisition
Extent of externalising and internalising	Hollensen, 2004; Mukundakumar, 2012	A. Export modes	A. Direct B. Indirect C. Cooperative
		B. Intermediate entry modes	A. Licensing B. Franchising C. Joint ventures D. Strategic alliances E. Contract manufacturing
		C. Hierarchical modes	A. Greenfields B. Acquisition
Ownership perspective	Peng, 2006	A. Non-equity modes	A. Export (direct-indirect) B. Contractual agreements (licensing, franchising, turnkey projects, R&D contracts and co-marketing)
		B. Equity modes	A. Joint ventures (minority, 50/50, and majority) B. Wholly owned subsidiaries (Greenfields and Acquisition)

Criterion	Author (S)	Categories	Entry modes
A. Ownership perspective B. Extent of externalising and internalising	Ovcina, 2010	A. Export modes (non-equity – full externalising).	A. Direct B. Indirect
		B. Intermediate modes (equity and non- equity – partial externalising)	A. Contractual (non-equity) B. Joint venture (equity)
		C. Hierarchical or investment modes (equity – full internalising)	A. Greenfields B. Acquisition
Control of MNC over foreign activities	Ulrich, Boyd & Hollensen, 2012	A. High control entry modes	A. Wholly owned subsidiaries B. Direct selling to original equipment manufacturers
		B. Intermediate control entry modes	A. Strategic alliance (SA) B. Joint ventures
		C. Low control modes	C. Direct exports D. Indirect exports

Source: Author's own compilation.

Table 4.6: Different push factor determinants considered by some of previous research*

Domain	Variables/ relation to outward FDI	Banga (2005)	Saad, Noor & Nor (2011)	Saad, Noor & Nor (2013)	Masron & Shahbudin (2010)	Das (2013)	Niti & Vandana (2013)	Concer, Turolla & Margarido (2012)	Tolentino (2008)	Kueh, Puah & Mansor (2009)	Kyrkilis & Pantelid (2003)	Wang 2017
Market size	Real GDP	X		+	+		+			+	X	
	Real GDP growth rate	X										
	Real GDP per capita		-			+			X			X
Inward FDI	Inward FDI flow	+	+		+							
	Inward FDI stock			+								
OFDI openness	Outward OFDI / GDP						+					
	Bilateral investment & trade agreement	+			X							
Trade	Exports/GDP	+	+	+	+							
	Imports/GDP	+										
	Exports + imports / GDP					+			X	+		+
	Exports + imports										-	
Human capital	Real output per employee	X	+	-	-				X			X
	Secondary enrolment ratio	+										
	Number of third- level education students										X	

Emerging African multinational corporations: trends & determinants

Domain	Variables/ relation to outward FDI	Banga (2005)	Saad, Noor & Nor (2011)	Saad, Noor & Nor (2013)	Masron & Shahbudin (2010)	Das (2013)	Niti & Vandana (2013)	Concer, Turolla & Margarido (2012)	Tolentino (2008)	Kueh, Puah & Mansor (2009)	Kyrkilis & Pantelid (2003)	Wang 2017
Capital abundance	Real domestic interest rate	X			X				X	+	X	+
Quality of infrastructure	Electricity consumption/ GDP	X										
	Transport and communication/ GDP	+										
	Primary energy consumption		-	X								
Taxes	Corporate profit tax	+										
Institutions	Number of strikes and layouts	X										
	Institutional quality index				-	+						
	Corruption perception index											-
Exchange rate	Real exchange rate			-		X		X	X	+	-	
	Exchange rate volatility								X			-
Technology capability	No. of Patents			-							+	X
	R&D expenditure					+						
	No. of								+			

Emerging African multinational corporations: trends & determinants

Domain	Variables/ relation to outward FDI	Banga (2005)	Saad, Noor & Nor (2011)	Saad, Noor & Nor (2013)	Masron & Shahbudin (2010)	Das (2013)	Niti & Vandana (2013)	Concer, Turolla & Margarido (2012)	Tolentino (2008)	Kueh, Puah & Mansor (2009)	Kyrkilis & Pantelid (2003)	Wang 2017
	trademark applications								(Only for India but insignific ant-cant for China)			
Inflation	Inflation rate											-

Source: Author's compilation.

*Note: X refers to insignificant relation between the mentioned variable and OFDI, while minus and plus signs denote negative and positive relations respectively.

Table 4.7: Variance inflation factor (VIF)

Variable	VIF	Tolerance
GDP	1.14	0.8793
GDPG	1.2	0.8346
BMIT	1.23	0.8113
IR	1.11	0.9008
PAT	1.37	0.7283
TRAD	1.55	0.6439
IFDI	1.14	0.8793
Mean VIF	1.27	

Source: Author's own calculation.

Table 4.8: Results of the Im-Pesaran-Shin unit-root test

Variable	P-value
OFDI	0.0015
GDP	0.3700
GDPG	0.0004
BMIT	0.0067
PAT	0.0875
TRAD	0.0886
IFDI	0.0466

Source: Author's own calculation.

Table 5.3: Different pull factor determinants considered in previous research *

Domain	Variables/ relation with outward FDI	Kalotay & Sulstarova (2010)	Amal & Tomio (2012)	Alon (2010)	Buckley, Clegg, Cross, Liu, Voss & Zheng (2007)	Beule (2010)	Beule & Bulcke (2012)	Mughal, (2013)	Nunnenkamp, Maximiliano, Vadlamannati, & Waldkirch (2012)	Trinc a (2013)	Elsham y (2015)
Market size	Nominal GDP	+	+	+	+	+	+	+	-/ X		+
	Nominal GDP per capita		X	-		X			X		
	Nominal GDP growth rate			X					+/ X		
Natural resources endowment	Ratio of ores and metal exports to merchandise exports	+			X	+	+				+
	Volume of agriculture, metals and fuels exports			+	X						
	Oil exports to merchandise exports						+				
	Natural resources rent as percentage of GDP								-/ X		
Assets endowment	Number of patents applications by residents	X					+				
	Total patents applications				X						+

Emerging African multinational corporations: trends & determinants

Domain	Variables/ relation with outward FDI	Kalotay & Sulstarova (2010)	Amal & Tomio (2012)	Alon (2010)	Buckley, Clegg, Cross, Liu, Voss & Zheng (2007)	Beule (2010)	Beule & Bulcke (2012)	Mughal, (2013)	Nunnenkamp, Maximiliano, Vadlamannati, & Waldkirch (2012)	Trinca (2013)	Elshamy (2015)
	Total patents applications as percentage to GDP					+					
	Total patents application/ population								+ / X		
	Total number of trade mark						+				
	Volume of expenditure on research and development			X							
	Expenditure on R&D as percentage of GDP					+					
	Tertiary school enrolment					+					
Similarity between host and home countries	Geographical distance	X	-	-	X	-	-	- / X	- / X	+	
	Geographical distance/population								- / X		
	Existence of the home country expats			X				+	+ / X		
	Cultural distance		+		+						
	Common language							+	+ / X		
	Common borders									+	
Income difference							-		X		

Emerging African multinational corporations: trends & determinants

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	between home and host country										
	Difference between home and host country regarding rule of law						+				
	Difference between home and host country regarding the control of corruption						+				
	Difference between home and host country regarding political stability						-				
Integration into the global economy	Trade openness		+	+		+	+		X		
	Openness to FDI				X				+ / X		
	Policy liberalisation				+						
Economic relation between host and home countries	Regional grouping membership	+				+				+	
	Home country export to host			X	+			+			
	Home country import from host country			X				X			
	Bilateral treaty for investment and double taxation							+ / X	+ / X		
Quality of	Control of		+			-			X		

Emerging African multinational corporations: trends & determinants

Domain	Variables/ relation with outward FDI	Kalotay & Sulstarova (2010)	Amal & Tomio (2012)	Alon (2010)	Buckley, Clegg, Cross, Liu, Voss & Zheng (2007)	Beule (2010)	Beule & Bulcke (2012)	Mughal, (2013)	Nunnenkamp, Maximiliano, Vadlamannati, & Waldkirch (2012)	Trinca (2013)	Elshamy (2015)
institutions	corruption										
	Government effectiveness		+								
	Political stability and the absence of violence and terrorism		X			-					+
	Political risk				+						
	Rule of law		+			+					
	Regularity quality		X								
	Voice and accountability		+								
Other factors	Ratio of service sector to GDP	+									
	Exchange rate	X		X	X	+/-					
	Real effective exchange rate		-								
	Inflation		+		+			+	X		-

Source: Author's compilation.

Note:

* X refers to insignificant relation between the mentioned variable and OFDI, while minus and plus signs denote negative and positive subsequent relations. It is worth mentioning that some previous research had run more than one model to determine whether the significance of pull factors varies across sectors and/or groups of host countries. That is why one may find two different signs for the same variable in some of the reviewed research.

Table 5.4: Variance inflation factor (VIF) of Model 1 (South African OFDI stock)

Variable	VIF	Tolerance
GDP	62.79	0.0159
NAT	7.52	0.133
OPN	8.51	0.1175
GD	34.61	0.0289
EX	10.34	0.0967
SGDP	8.13	0.123
INF	3	0.3337
RL	18.82	0.0531
EXCH	4.71	0.2123
TMAR	17.31	0.0578
Mean VIF 17.57		

Source: Author's own calculation.

Table 5.5: Pairwise correlation coefficients of correlated variables in Model 1 (South African OFDI stock)

	GDP	RL	EX	TMAR	GD
GDP	1				
RL	0.6	1			
EX	0.8	0.3	1		
TMAR	0.9	0.7	0.7	1	
GD	0.8	0.9	0.4	0.8	1

Source: Author's own calculation.

Table 5.6: Variance inflation factor (VIF) of Model 1.a (South African OFDI stock)

Variable	VIF	Tolerance
GDP	7.81	0.1281
NAT	3.47	0.2879
OPN	5.39	0.1856
SGDP	5.09	0.1966
INF	2.34	0.4279
RL	7.6	0.1316
EXCH	4.1	0.2439
Mean VIF 5.11		

Source: Author's own calculation

Table 5.7: Variance inflation factor (VIF) of Model 1.b (South African OFDI stock)

Variable	VIF	Tolerance
GD	7	0.1429
NAT	3.45	0.2899
OPN	3.25	0.3076
INF	2.1	0.4756
EXCH	3.15	0.3175
EX	2.78	0.3598
SGDP	5.35	0.1869
Mean VIF	3.87	

Source: Author's own calculation.

Table 5.8: Variance inflation factor (VIF) of Model 1.c (South African OFDI stock)

Variable	VIF	Tolerance
TMAR	7.94	0.126
NAT	6.96	0.1437
OPN	6.11	0.1637
INF	2.09	0.478
EXCH	2.23	0.4487
SGDP	6.99	0.143
Mean VIF	5.39	

Source: Author's own calculation.

Table 5.9 Results of the unit-root test for the South African OFDI stock dataset

Variable	P-value	
	Lag (0)	Lag (1)
FDI	1003	0.0000
GDP	0.1249	0.0374
NAT	0.2114	0.0006
OPN	0.1694	0.0850
EX	0.4522	0.0000
RL	0.6825	0.0002
TMAR	0.9729	0.0536

Variable	P-value	
	Lag (0)	Lag (1)
INF	0.3680	0.0000
EXCH	0.9886	0.0027
SGDP	0.4980	0.0017

Source: Author's own calculation.

Table 5.10 : Variance inflation factor (VIF) of Model 2 (South African greenfield investment projects)

Variable	VIF	Tolerance
GDP	6.13	0.1632
NAT	2.77	0.3605
OPN	1.6	0.6248
GD	1.79	0.5593
EX	1.31	0.7646
SGDP	3.33	0.2999
INF	1.58	0.6347
RL	2.93	0.3409
EXCH	1.39	0.7193
TMAR	5.43	0.1842
Mean VIF		2.83

Source: Author's own calculation .

Table 5.11 : Variance inflation factor (VIF) of Model 3 (Egyptian greenfield investment projects)

Variable	VIF	Tolerance
GDP	3.45	0.2895
NAT	4.55	0.2199
OPN	1.87	0.5339
GD	2.35	0.4258
EX	1.39	0.719
SGDP	4.09	0.2442
INF	1.85	0.5395
RL	4.68	0.2137
EXCH	2.29	0.4362
TMAR	1.48	0.6757
Mean VIF		2.80

Source: Author's own calculation.

Table 5.12: Results of the unit-root test for the South African greenfield investment projects dataset

Variable	P-value
FDI	0.0000
GDP	0.0000
NAT	0.0000
OPN	0.0000
EX	0.0000
RL	0.0000
TMAR	0.0000
INF	0.0000
EXCH	0.0000
SGDP	0.0000

Source: Author's own calculation.

Table 5.13 : Results of the unit-root test for the Egyptian greenfield investment projects dataset

Variable	P-value
FDI	0.0000
GDP	0.0000
NAT	0.0000
OPN	0.0000
EX	0.0000
RL	0.0000
TMAR	0.0000
INF	0.0000
EXCH	0.0000
SGDP	0.0000

Source: Author's own calculation.

Table 5.14 : Descriptive analysis of greenfield investment projects of Egypt and South Africa

Variable	Mean	Variance	Minimum	Maximum
Egyptian greenfield	0.22619	0.426297	0	7
South African greenfield	0.734195	2.215577	0	13

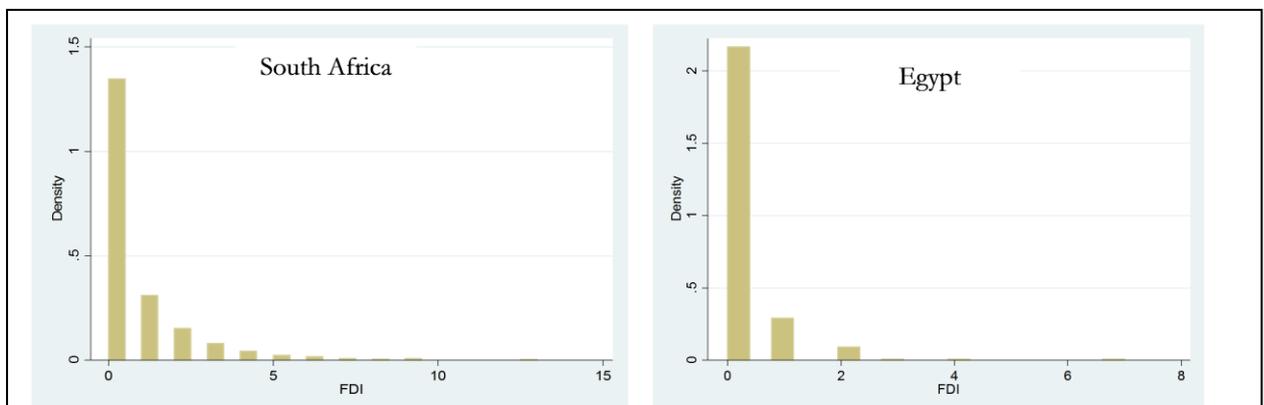
Source: Author's own calculation .

Figure 5.6: Breusch-Pagan Lagrange Multiplier test of random effect

Model 1.a	Model 1.b	Model 1.c
FDI[code,t] = Xb + u[code] + e[code,t]	FDI[code,t] = Xb + u[code] + e[code,t]	FDI [code,t] = Xb + u[code] + e[code,t]
Estimated results:	Estimated results:	Estimated results:
Var sd = sqrt(Var)	Var sd = sqrt(Var)	Var sd = sqrt(Var)
-----	-----	-----
FDI .6453201 .8033182	FDI .7468064 .8641796	FDI .7628862 .8734336
e .1009671 .3177532	e .1652715 .406536	e.1835044 .4283741
u .9619792 .9808054	u .9106941 .9543029	u .8222127 .9067594
Test: Var(u) = 0	Test: Var(u) = 0	Test: Var(u) = 0
chibar2(01) = 268.54	chibar2(01) = 449.75	chibar2(01) = 381.82
Prob > chibar2 = 0.0000	Prob > chibar2 = 0.0000	Prob > chibar2 = 0.0000

Source: Author's own calculation.

Figure 5.7: Histogram of South African and Egyptian greenfield investment projects



Source: Author's own calculation based on FDI Intelligence Corporation statistics.