VOLUME 21 NUMBER 1 APRIL 2012

TRANSNATIONAL CORPORATIONS

United Nations
New York and Geneva, 2012
United Nations Conference on Trade and Development
Division on Investment and Enterprise

Editorial statement

Transnational Corporations (formerly *The CTC Reporter*) is a refereed journal published three times a year by UNCTAD. In the past, the Programme on Transnational Corporations was carried out by the United Nations Centre on Transnational Corporations (1975–1992) and by the Transnational Corporations and Management Division of the United Nations Department of Economic and Social Development (1992–1993). The basic objective of this journal is to publish articles and research notes that provide insights into the economic, legal, social and cultural impacts of transnational corporations in an increasingly global economy and the policy implications that arise therefrom. It focuses especially on political and economic issues related to transnational corporations. In addition, *Transnational Corporations* features book reviews. The journal welcomes contributions from the academic community, policymakers and staff members of research institutions and international organizations. Guidelines for contributors are given at the end of this issue.

Home page: http://www.unctad.org/TNC

Subscriptions

A subscription to *Transnational Corporations* for one year is US$45 (single issues are US$20). See p. 107 for details of how to subscribe, or contact any distributor of United Nations publications. United Nations, Sales Section, Room DC2-853, 2 UN Plaza, New York, NY 10017, United States – tel.: 1 212 963 3552; fax: 1 212 963 3062; e-mail: publications@un.org; or Palais des Nations, 1211 Geneva 10, Switzerland – tel.: 41 22 917 1234; fax: 41 22 917 0123; e-mail: unpubli@unog.ch.

Note

The designations employed and the presentation of the material do not imply the expression of any opinion on the part of the United Nations concerning the legal status of any country, territory, city or area, or of authorities or concerning the delimination of its frontiers or boundaries.

This publication has not been formally edited.

Unless stated otherwise, all references to dollars ($) are to United States dollars.

ISBN 978-92-1-112862-8
eISBN 978-92-1-055951-5
ISSN 1014-9562

Printed in Switzerland

Transnational Corporations
Volume 21, Number 1, April 2012

Contents

PAPER SERIES

Commemorative papers on the work of John H. Dunning

The papers appearing in this series are published for commemorating the life and work of the late Professor John H. Dunning. They are based on presentations given at a Fellows' plenary in Valencia, Spain at the annual meeting of the European International Business Academy (EIBA) in December 2009, but they have been substantially revised for publication here.

Locational determinants of outward foreign direct Investment: an analysis of Chinese and Indian greenfield investments

Filip De Beule and Daniel Van Den Bulcke*

Few scholars have contributed more to our understanding of the locational factors that influence the choices made by TNCs than John Dunning. According to him, the astonishing growth of the Chinese economy and the opening up of India to the demands of the global market place "are reconfiguring the spatial landscape of economic activity". The present study examines the importance of country-level factors on the investment location choice of Chinese and Indian transnational corporations (TNCs). Instead of using macro-economic FDI flows or stocks -- as most other studies have done -- this study will analyse greenfield investment data of Chinese and Indian firms across the globe. While most former studies have used FDI data to measure the aggregate value-adding activity of transnational affiliates in host countries, recent research has shown that the use of FDI data is a biased measure of such investment activity. This research attempts to overcome those shortcomings by analysing FDI at the firm level.

1. Introduction

In John Dunning's posthumously published book, *New Challenges for International Business Research: Back to the Future,* more particularly at the beginning of a chapter about the changing locational determinants of the activities of transnational corporations (TNCs), he wrote: "The last two decades have witnessed a number of dramatic changes in the location of international business (IB) activity and of our understanding of its determinants. Globalization, technological advances, the emergence of several new players on the world economic stage, and a new focus on the role of institutions and belief systems in the resource allocation process have been the main triggers for change" (Dunning, 2010: 93). Few scholars have contributed more to our understanding of the locational factors that influence the choices made by TNCs, while at the same time urging his colleagues to focus on the spatial dimensions and drivers of competitiveness both for

* Filip De Beule is Assistant Professor at Lessius University College, Belgium. Daniel Van Den Bulcke is Professor of International Management and Development at the University of Antwerp, Belgium.

companies and countries. According to John Dunning, the astonishing growth of the Chinese economy and the opening up of India to the demands of the global market place “are reconfiguring the spatial landscape of economic activity”. In his retrospective thoughts on the occasion of the 2008 Decade Award of the Journal of International Business Studies, John Dunning listed “the emergence of so-called third-world TNCs – particularly those from Asia – as significant outward investors” (Dunning, 2009: 23) as one of the six far-reaching changes in the global economy that occurred since the 1990s. After a setback in the early 2000s, this movement regained strength – this time fuelled by the actions of Chinese and Indian firms.

Although most TNCs come from advanced countries, TNCs from emerging countries have made remarkable progress on the international investment scene in the last decade. Outward FDI from developing and emerging economies reached $328 billion in 2010, while six developing economies – including China and India – ranked among the top 20 investors (UNCTAD, 2011). In terms of destination, detailed data shows that sixty percent of the outward FDI flows from developing countries went into other developing countries, mostly in the form of greenfield investments (World Bank, 2011). UNCTAD’s World Investment Prospects Survey 2011–2013 (WIPS) confirmed that developing economies are becoming important investors, and that this trend is likely to continue in the near future (UNCTAD, 2011).

Although some (Rugman and Li, 2007) have questioned that TNCs from emerging economies possess (sufficient) ownership advantages to expand successfully abroad, it seems that more and more firms from these emerging markets have gradually accumulated sufficient technological and other capabilities – also known as firm-specific advantages – to do so (van Agtmael, 2007; Wells, 1983). As a