HOW OUTWARD FOREIGN INVESTMENT FROM EMERGING MARKETS AFFECTS ECONOMIC DEVELOPMENT AT HOME: USING THE ECLECTIC PARADIGM TO SYNTHESIZE TWO IB LITERATURES

ABSTRACT

Purpose – This paper uses the eclectic paradigm as a broad organizing framework to bring together two somewhat parallel IB literatures, one on the development effects of multinational enterprise activity and the other on the internationalization of emerging market multinationals (EMNEs). I do so to better understand how outward foreign investment shapes economic development in firms’ home countries.

Design/methodology/approach – Considering that the characteristics of foreign investment by EMNEs likely differ from that of their developed economy counterparts, and that such characteristics may have unique development consequences, I revisit one of IB’s overarching theories to rethink how ownership, location, and internalization advantages take shape and stimulate diverse development outcomes.

Findings – My narrative review and conceptual analysis indicate that the eclectic paradigm is a valuable framework that can be used to shed light on underexplored phenomena and thereby inform important policy debates. The analysis suggests that unique characteristics of EMNE investment simultaneously have positive and negative development consequences in their home countries.

Practical implications – I set out a research agenda that revolves around six propositions that separately relate three distinct characteristics of EMNE investment to two development outcomes, namely spillovers and direct effects on home-country employment. My propositions suggest that important policy dilemmas potentially apply, in that each of the three characteristics positively affects one of the aspects of development, but negatively the other.

Originality/value – My research agenda presents international business scholars with new opportunities to build on a history of policy-making impact, now geared towards resolving society’s grand challenge of underdevelopment.

Keywords: eclectic paradigm; economic development; emerging market multinationals; foreign investment; home country of MNEs; spillovers
INTRODUCTION

Multinational enterprises (MNE) potentially play an important role in the economic development of countries, whereby foreign direct investment (FDI) acts as the channel through which capital and knowledge may flow to new locations. MNE activity may be associated with a number of positive outcomes, including job creation, the dissemination of superior technologies, better education of the local workforce, and higher wages (Kolk, Kourula, & Pisani, 2017; Narula, 2014). As such, academics and policy makers have exhibited a great interest in the topic, resulting in a vast and relatively mature literature (for reviews, see Meyer & Sinani, 2009; Narula & Pinelli, 2018).

Yet, the research undertaken in this area has mainly approached it from two angles. First, scholars have overwhelmingly focused on the foreign investment undertaken by firms from developed economies. Second, attention predominantly went to the development impact of FDI in the host countries receiving the investment (Narula & Dunning, 2010; Dunning & Fortanier, 2007), with the notable exception of recent additions to the literature that consider the effect of MNEs’ outward FDI on the home countries from which they internationalize (Clougherty, Gugler, Sorgard, & Szücs, 2014; Driffield, Pereira, & Temouri, 2019). Even though it arguably is an excellent position to address both biases, the literature on the internationalization of emerging market multinational enterprises (EMNEs) has devoted little attention to the development consequences of these firms’ investments (Buckley, Doh, & Benischke, 2017; Hendriks, 2017). In countries such as China there has been great progress on sustainable development goals, given that millions of citizens were lifted out of poverty, but it remains unclear how outward foreign investment by Chinese MNEs contributed to, or in fact, contravened that progress.

Although they could benefit from each other’s insights, the literature on the development effects of MNE activity and the one on the internationalization of EMNEs have
not yet sufficiently grasped opportunities of cross-fertilization. New insights on the relationship between outward FDI and home-country economic development likely follow from a synthesis of both literatures. Similar to other syntheses of seemingly distinct literatures, I use the eclectic paradigm as a broad organizing framework to bring together two bodies of work that were largely developed in parallel (cf. Cantwell, 2014; Dunning, 2000, 2006). Considering that the characteristics of foreign investment by EMNEs likely differ from that of their developed economy counterparts, and that such characteristics may have unique development consequences, I aim to revisit one of IB’s overarching theories to rethink how ownership, location, and internalization advantages take shape and stimulate diverse development outcomes.

In using the OLI paradigm as an organizing framework to formulate propositions, I focus on three characteristics of EMNE investment that feature prominently in the literature describing their internationalization, namely the effect of home-country institutional voids, investment motives, and state-ownership (Hernandez & Guillen, 2018; Luo & Zhang, 2016). I set out a research agenda that revolves around six propositions that separately relate one of these three distinct characteristics of EMNE investment to two development outcomes, as I distinguish between direct employment effects following from foreign investment and spillover effects to other firms in the home economy (c.f., Li, Li, Lyles, & Liu, 2016; Castellani & Pieri, 2016). My propositions suggest that important policy dilemmas potentially apply, in that each of the three characteristics positively affects one of the aspects of development, but negatively the other.

My narrative review and conceptual analysis of the development impact of outward FDI on the home countries of EMNEs may shed light on an underexplored phenomenon and thereby inform important policy debates. That is, confirmatory findings for my propositions may present policy-makers with difficulties in crafting policy that best supports home-
country economic development, as increases in domestic employment may for example not weigh up to the negative spillovers that result from EMNEs’ OFDI. Insight into these trade-offs is of likely interest to scholars in the FDI-development domain, where future research may address the magnitude of such effects and establish whether the economic benefits of spillovers are greater than direct employment losses, or vice versa. The integration of two parallel IB literatures may not only benefit each of the strands by highlighting areas of cross-fertilization, it may also restore balance in discussions about EMNE activity wherein scholars tend to primarily focus on either the positive or the negative consequences of their behavior (e.g., Fiaschi, Giuliani, & Nieri, 2017; Chen & Johnson, 2015).

**OFDI AND DEVELOPMENT**

Even though seminal pieces such as the one by Blomström and Kokko (1998) and Reddaway’s (1968) report already addressed that foreign investment could bring about development gains in the home country as well as the host economy, scholars have only sparsely studied how the domestic environment is affected by MNEs’ outward investment (Dunning & Lundan, 2008a; Hejazi & Pauly, 2003; Mariotti, Mutinelli, & Piscitello, 2003). Several conceptual studies have argued that certain factors increase the likelihood of greater economic development, which can be defined as “the expansion of capacities that contribute to the advancement of society through the realization of individuals’, firms’ and communities’ potential” (Feldman, Hadjimichael, Lanahan, & Kemeny, 2016: 8). When outward investment leads MNEs to expand R&D activities at home, focus on high-value intermediates, or rely on business services that home-economy firms tailor to the investment, there is considerably more scope for a positive development impact (Blomström & Kokko, 1998; Hendriks, 2017). In that some of the development outcomes are the direct result of MNEs’ foreign investment, while others are seen more as side-effects, the literature
distinguishes between *direct effects* and *spillovers* when describing the link between MNE activity and development (Blomström & Kokko, 1998; Ghauri & Yamin, 2009).

Regarding the former type, such effects are comprised of all the consequences that are the direct result of MNEs’ foreign investment, and may include the employment generated by a firm, the higher or lower wages it offers, changes in employment conditions, or improvements to its own productivity. In more macro terms, direct effects also include short- as well as long-term balance-of-payment effects resulting from altered trends in importing and exporting. Potentially more promising are effects of the second kind, which materialize in the form of spillovers. Such spillovers have great development potential, as the first (positive) side-effects of investment could set off a multiplier effect that ultimately brings benefits to a greater number of firms. Described as “impacts on third parties not directly involved in an economic transaction” (Eden, 2009: 1065), spillovers may present themselves in different forms, whereby economists traditionally have focused on market price changes and industry structure. Most of IB scholars’ attention went to spillovers that materialize as the result of interactions between MNEs and local firms, to better study how such ‘third parties’ make use of the non-pecuniary resources that MNEs (un)intentionally provide. As such, scholars have looked at productivity spillovers (Bournakis, Papanastassiou, & Pitelis, 2019), or specifically focused on knowledge and technology spillovers (Feinberg & Majumdar, 2001; Singh, 2007; Driffield, Love, & Menghinello, 2010; Tian, 2007).

Linkages, as the connection between MNEs and local firms, represent the channels through which the latter potentially have access to superior knowledge, either in relation to processes, products or ways of organizing (Giroud & Scott-Kenell, 2009). Such linkages could be the result of buyer-supplier relationships, but are also formed when MNEs interact with competitors or peers in other industries. Linkages can therefore be divided in two categories, with some being horizontal and others vertical in nature. Moreover, scholars
further distinguish between forward and backward vertical linkages (Javorcik, 2004; Meyer, 2004; Driffield & Love, 2007; Anwar & Nguyen, 2011). That is, the buyer-supplier relationships in which MNEs source intermediate inputs are called backward linkages, whereas forward linkages form when such firms deliver their inputs to other firms down the value chain. Less studied, horizontal linkages are the connections that MNEs make with other firms in the local economy, other than through their buyer-supplier relationships (Altomonte & Pennings, 2009; Liu, Wang, & Wei, 2009). However, because of their nature, horizontal linkages seem less likely to be characterized by interactions that are frequent and profound, both necessary for local firms to learn and upgrade. Similarly important for these spillovers to take shape is that local firms have sufficient absorptive capacity (Eapen, 2012; Hamida & Gugler, 2009; Lorentzen, 2005). In other words, local firms need to have sufficiently strong capabilities that allow them to learn from foreign investors. When the accessed or received knowledge from investor firms cannot be successfully recombined and melded with existing resource bundles, local firms are typically unable to capitalize on development opportunities. The ones that do, however, are likely those firms with the closest ties to the investor MNE, such as immediate suppliers and distributors (Li, Xue, Truong, & Xiong, 2018; Liang, 2017).

Despite that most scholars’ attention went to understanding when and how direct effects and spillovers materialize in host countries, some evidence exists that specifically relates to the home countries from which MNEs internationalize. First, most studies looking into the direct effects of foreign investment activity in firms’ home countries have considered employment only (e.g., Driffield et al., 2019; Debaere, Lee, & Lee, 2010; Hong, Lee, & Makino, 2019). This may relate to the widespread interest in the phenomenon of offshoring, and more recently ‘reshoring’, as developed economy firms are observed to relocate certain value chain activities to different locations in their subsidiary network, thereby often shifting jobs abroad in the process (Doh, 2005; Delis, Driffield, & Temouri, 2019). Some firms, on
the other hand, are more likely to grow in scale when they invest abroad. That is, MNEs need to put mechanisms in place to coordinate foreign investments, which is typically done from their headquarters in the firm’s home country (Meyer & Benito, 2016). Especially if the network is comprised of multiple foreign subsidiaries, such coordination likely requires that more staff is hired at the home headquarters (Blomström, Fors, & Lipsey, 1997). Especially emerging market multinationals seem to have exhibited that behavior. For example, after a series of foreign investments, Chinese manufacturer Huawei expanded its home-based workforce by approximately 100,000 relatively skilled employees over the period 2005-2016 (Hendriks, 2017). In a similar vein, Brazilian meat processing firm JBS S.A. hired approximately 84,000 additional employees over the 2007-2010 period, of which nearly 72,000 were based in its home country, after a series of acquisitions (EMGP, 2010). Even when some manufacturing firms shift jobs overseas (Kravis & Lipsey, 1988), the net effect on domestic employment does not tend to be negative in most cases (Castellani, Mariotti, & Piscitello, 2008). Some scholars have started to test on a larger scale whether outward investment positively affects home-country employment (Driffield et al., 2019), but others have analyzed the firm’s entire home region, making it still difficult to distinguish between the jobs created by the MNE itself and other firms in its geographic proximity (Elia, Mariotti, & Piscitello, 2009; Li et al., 2016). Next to growing in size, the investor firm may also experience improvements in its own domestic productivity or domestic profitability as a result of foreign investment (Li, Li, & Shapiro, 2012; Bertrand & Capron, 2015; Rui, Cuervo-Cazurra, & Un, 2016), possibly leading them to pay higher wages (Maksimov, Wang, & Luo, 2017).

Second, in the context of the focal firm’s home country, *spillovers* may accrue to home-country partners such as suppliers and distributors (e.g., Wei, Liu, & Wang, 2008). That is, such partner firms could benefit from an increased amount of orders or the
opportunity to follow the focal firm and internationalize as well. When MNEs take back superior technologies or knowledge from their foreign ventures, outward investment may lead to productivity gains for other firms in their domestic economy, or improve their innovative output, but only when the technology gap is not too large (Li et al., 2016; Li, Strange, Ning, & Sutherland, 2016; Zhao, Liu, & Zhao, 2010). However, the few studies that have empirically addressed such spillovers show conflicting results. On the one hand, outward investment is shown to increase domestic productivity in the U.K. through technology-sourcing and efficiency-seeking investment (Driffield, Love, & Taylor, 2009). Others find hardly any evidence in support of domestic R&D spillovers from outward investment (Baconier, Ekholm, & Knarvik, 2001). In that strongly industrialized countries such as Sweden were picked to study these spillovers, it remains unknown whether findings are more convincing when a context such as that of an emerging economy is studied, where local firms have considerably more scope to benefit from foreign knowledge. That is, the internationalization of EMNEs is perhaps a more salient context in which to study the relationship between outward investment and home-country economic development, as their investment is coming from economies where substantial development progress can still be made (Hendriks, 2017). Moreover, it represents a setting where local firms typically face greater pressures to generate spillovers in their home country (Ramamurti, 2012; Wang, Hong, Kafouros, & Wright, 2012; Li et al., 2016).

THEORETICAL FRAMEWORK

To better understand how outward foreign investment shapes economic development in emerging economies, I bring together the IB-development and EMNE internationalization literatures. In search of an organizing framework that helps to derive theoretical expectations from such a synthesis, I draw on the eclectic paradigm for two reasons. First, the eclectic
paradigm has grown to serve as an envelope for multiple theories about MNE behavior and has already successfully brought together apparently disparate fields (Cantwell, 2014; Dunning, 2000). That is, scholars have already applied the eclectic paradigm in the past to bring together theories such as the dynamic capabilities perspective and received IB theory (Cantwell, 2014), and it was also used to bring insights from development studies into the realm of IB (Dunning, 2006; Dunning & Fortanier, 2007). There is considerable appeal in a paradigm that is characterized by comprehensiveness and maturity and that has stood the test of time (Eden & Dai, 2010). As described by Cantwell (2014: 2), “the eclectic paradigm distinguishes between influences on IB activities associated with ownership advantages (O), that is, the nationality of ownership of firms engaged in IB, internalization advantages (I) which affect the boundaries of the MNE, and location advantages (L) of the place(s) in which IB activities are sited”. The paradigm thereby acts as an envelope for different theories about MNE activity, by providing a framework that can be used to explain foreign investment motivations and various aspects of MNE behavior (Dunning, 2000). As such, it is possible to use the paradigm to find common ground between apparently distinct literatures that developed somewhat in parallel.

Second, the OLI framework can be used to identify distinct characteristics of EMNE investment which likely have an effect on home-country economic development (cf. Dunning, 2006). That is, the three types of advantages that are central to the paradigm collectively explain in a comprehensive way how IB activities are influenced and shaped. When thinking about these advantages separately, however, scholars are able to study different aspects of IB activity in more detail. Such an all-encompassing yet multifarious framework could thereby provide well-suited but comprehensive insights at the same time. As will be shown, the three types of advantages central to the eclectic paradigm map well onto three distinct characteristics of EMNE investment as certain advantages are more
relevant than others to explain distinct aspects of such firms’ behavior. Applying an OLI lens, I then analyze the characteristics of EMNE investment in terms of advantage types that are created and accessed. How those advantages take shape likely affects who benefits in the home country from outward foreign investment and by how much, so that my synthesis of the IB-development and EMNE internationalization literatures will allow for specific expectations about the size and type of development effects generated in firms’ home countries as the result of their outward investment.

**OLI and the internationalization of emerging market multinationals**

With its unique theories, the field of IB has been in a great position to study outward FDI by EMNEs (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Luo & Tung, 2007). Many different aspects of EMNE investment have been examined, followed by a vibrant discussion about the uniqueness of its characteristics (e.g., Cuervo-Cazurra, 2012; Ramamurti, 2012), which resulted in a vast literature that matured relatively fast over the last decade (see for reviews, Hernandez & Guillen, 2018; Paul & Benito, 2018; Luo & Zhang, 2016). Despite its relative maturity, this literature has not yet addressed the impact of EMNE investment on economic development, whether in the host market or at home (Buckley et al., 2017; Chen & Johnson, 2015). A good starting point is the eclectic paradigm with its consideration of O, L, and I advantages which tend to be different for EMNEs vis-à-vis their developed economy counterparts, and importantly, likely also shape how economic development consequences materialize in their respective home countries.

**Ownership advantages.** One stream of EMNE internationalization research has primarily focused its attention on O advantages and studied how developed they are before such firms venture out of their respective home countries (e.g., Williamson & Wan, 2018; Hennart,
Even before scholars expanded their views on what was to be considered an O advantage, early work on the topic already suggested that it is important to consider how firms are embedded in home-country networks to better understand the nature of such advantages (Cantwell, 2014; Eden & Dai, 2010). While some have advocated a much more simple view of what O advantages are (Narula, 2010), others have extended the analysis to firms’ home-country institutional environments, to understand how experiences with home-economy institutions translate into distinct advantages (Cantwell, Dunning, & Lundan, 2010; Dunning & Lundan, 2008b). Such a more inclusive understanding of what O advantages are could inform IB’s more recent thinking on home-country institutional voids, as the bundles firms build to deal with underdeveloped institutions at home could serve as O advantages that are embedded in the home market (cf. Cuervo-Cazurra & Genc, 2008). Ever since the term institutional voids was first coined by Khanna and Palepu (1997), scholars have aimed to better understand how firms deal with and respond to such voids (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017). Defined as “the failure of market-supporting and contract-enforcement institutions to efficiently facilitate exchange between firms” (Pinkham & Peng, 2017), institutional voids may present a firm with operational difficulties, but also with opportunities to develop capabilities that can be leveraged to similar settings (Khanna & Palepu, 2006). Given the institutional shortcomings in their respective home countries or regions within countries, some firms from emerging economies exhibit flexibility by taking over roles that are otherwise executed by the state or by other administrative bodies, so that they develop stronger non-market resource bundles (Cuervo-Cazurra & Genc, 2011). These bundles mean that EMNEs may transform an apparent disadvantage into an advantage when operating in countries characterized by similar or weaker institutions where they can outcompete their developed economy counterparts which do not possess similar skills (Cuervo-Cazurra & Genc, 2008; Khanna & Palepu, 2006). Closely related to this idea is the
concept of Oi advantages, or institutional ownership advantages, that can be distinguished from transactional (Ot) and asset-based (Oa) ownership advantages (Dunning & Lundan, 2008b; Lundan, 2010). As they “include the formal and informal institutions that govern the value-added processes within the firm, and between the firm and its stakeholders”, Oi advantages reflect a firm’s ability to manage the nonmarket interface, and can be a source of competitive advantage, for example through preferential political access (Lundan, 2010: 60).

Important for this analysis, Oi advantages likely also shape in what way development gains materialize in the home economy, in that they may be location-specific and likely not uniformly distributed among firms (cf. Dunning, 2006; Dunning & Lundan, 2008a). Research on firms’ response to institutional voids in their home country suggests that those that internationalize likely have the most developed non-market resource bundles, as they learn how to cope with institutional shortcomings, and at the same time, manage to expand outside their home economy (Cuervo-Cazurra & Genc, 2008, 2011). That is, in “emerging markets, the inability of the firm to manage the nonmarket relationships in a way that allows for it to carry out its value-adding activities may curtail expansion” (Lundan, 2010: 61). Given the inherent complexity associated with going to developed economies, EMNEs that successfully manage tend to do so have the strongest Oi advantages. However, it is also likely that the greater the institutional voids are in the home country or region within that country, the more location-specific these bundles become, as institutional dissimilarities widen. That is, Oi advantages are likely to be location-bound to a firm’s home country or to countries with a similar or less developed institutional framework (Khanna & Palepu, 2006; Cuervo & Cazurra, 2008). That relative boundedness of Oi advantages makes that the home country will typically be the most cost-efficient location from which to coordinate one or more foreign investments. One of the reasons is that firms experience a type of erosion of their home-based Oi advantages when they do not devote sufficient attention to keep up with the
continuous challenges of imperfect institutional environments. Firms that internationalize from environments characterized by relatively less sizeable institutional voids are likely to experience fewer difficulties in leveraging their O advantages to foreign locations as they are contested to a lesser extent by the institutional shortcomings of their home countries. In that their firms from countries with substantial voids find their home country to be the most cost-efficient location to coordinate foreign investments, they typically invest relatively more resources at home, thereby expanding the domestic employee base in support of their internationalization efforts. In other words, it is expected that:

**Proposition 1a:** Direct employment effects in an EMNE's home country are greater when it internationalizes from a country characterized by greater institutional voids.

EMNEs that internationalize from countries characterized by more sizeable institutional voids likely have experience coordinating informal networks or providing forums of exchange in the absence of authorities that otherwise take on such tasks (Khanna & Palepu, 2006). The greater such voids, it increasingly becomes likely that they provide opportunities for firms to concentrate more of these transaction-facilitating roles in single hands. That is, firms that already take on more such roles may leverage their dominant position by taking over other roles as well. For domestic spillovers, such a concentration is likely to entail that the focal investor firm appropriates a relatively larger share of the gains itself. That is, when power is not uniformly distributed and resides within the investing MNE, such a firm typically takes advantage of its experience with building Oi advantages to grasp opportunities at the expense of local firms such as suppliers and distributors at home (Blomström & Kokko, 1998). I therefore expect that:
Proposition 1b: Spillovers in an EMNE’s home country are less substantial when it internationalizes from a country characterized by greater institutional voids.

Location advantages. In a similar vein, the eclectic paradigm’s evolving views on the nature of L advantages provide particularly important insights when EMNEs’ investment motives are studied. The literature on EMNE internationalization has offered a new perspective on these motives, in that firms may escape suboptimal home environments, or alternatively, aim to catch up by strengthening their domestic capabilities (Cuervo-Cazurra, Narula, & Un, 2015; Awate, Larsen, & Mudambi, 2015; Gugler & Vanoli, 2015). IB studies have described the often remarkable internationalization patterns of EMNEs, different from the more gradual way in which developed economy firms seemed to internationalize (cf. Luo & Tung, 2007; Barkema & Drogendijk, 2007). Many EMNEs show a rather heavy reliance on acquisitions as the preferred mode of foreign entry, whereby they aim to access foreign technologies and knowledge, in order to catch up with developed economy rivals (Williamson & Raman, 2011; Luo & Tung, 2007). Their predominant investment motive therefore seems to be asset exploration rather than asset exploitation (Cuervo-Cazurra, Narula, & Un, 2015). These two motives are often distilled from a wider range of motives to contrast FDI “as the transfer of a firm’s proprietary assets across borders” in the case of asset exploitation, with FDI “as a means to acquire strategic assets (i.e., technology, marketing, and management expertise) available in a host country” in the event of asset exploration (Makino, Lau, & Yeh, 2002: 404). When EMNEs opt to internationalize in order to exploit their assets, they often venture into developing economies where their firm-specific advantages are put to use most effectively (Makino et al., 2002; Cuervo-Cazurra & Narula, 2015). The type of L advantages that are accessed in foreign countries in relation to asset-seeking or asset-exploiting investment likely shapes how that investment contributes to development at home. In that a
firm’s investment motive determines to a large extent what bundles of L advantages it taps into in a foreign country, and how mobile these bundles are, it also has important implications for the type of resources transferred back home, and the extent to which home-economy firms are involved in the investment project.

Whether firms internationalize to explore for assets or to exploit existing ones will mean that different types of L advantages are searched and accessed. EMNEs which engage in asset exploration typically aim to find complementary and relative mobile assets that can be used to strengthen domestic capabilities (Luo & Tung, 2007; Meyer, 2015; Peng, 2012). Often characterized by a relative lack of experience, most EMNEs will struggle to leverage their own resource bundles to new host country settings, and mainly aim to upgrade first (Narula, 2012; Ramamurti, 2012). Such EMNEs will therefore undertake foreign investment in search of L advantages owned by local firms, mostly knowledge-related assets that complement and transform home-based O advantages (Rugman, 2010; Cui, Meyer, & Hu, 2014; Hennart, 2012). This transformation is likely to positively impact domestic employment, as firms need to coordinate and support the process of melding host-economy L advantages with their own domestic resource bundles. As these processes are difficult for even the most advanced MNEs, they require substantial amounts of senior managers’ time and attention that distracts from other activities under their control (Rugman, Verbeke, & Nguyen, 2011; Verbeke & Kano, 2016). Additional staff will then likely be needed to keep performing such activities satisfactorily. Moreover, when melding is complete, firms may use their strengthened capabilities to expand domestically, which typically results in having a relatively larger employee base at home (Williamson & Raman, 2011). I therefore anticipate that:
Proposition 2a: When an EMNE conducts a foreign investment for reasons of asset exploration rather than asset exploitation, direct employment effects in its home country are greater.

When an EMNE conducts a foreign investment for reasons of asset exploitation, on the other hand, such a firm likely takes hold of more generic and easily accessible L advantages. That is, firms apply existing bundles of O advantages, in order to access a new customer base or a supply of natural resources (Makino et al., 2002), whereby they are not in search of amending those O advantages. For their activities up and down the value chain, firms thus do not explore for L advantages that are associated with privileged access to local networks, such as unique supplier and distributor ties which tend to be internalized within host-economy firms (Hennart, 2012). Accessing network-based L advantages that are strongly embedded in host environments would be a costly affair for firms that only seek to leverage their existing set of resource bundles and need to build new relationships from scratch (Buckley, 2009). Such firms then likely rely on their own network of home-country suppliers and distributors to substitute for those advantages. As these home-based partners receive an increased number of orders or may gain experience from exposure to internationalization, they likely benefit from the investor firm’s asset exploiting project. In other words:

Proposition 2b: When an EMNE conducts a foreign investment for reasons of asset exploitation rather than asset exploration, spillovers in its home country are greater.

Internalization advantages. Lastly, thinking about I advantages in the context of EMNE internationalization helps to better understand such firms’ preferences for market coordination or internal organization when investing abroad. Their degree of state-ownership
seems to be particularly relevant in our understanding of such preferences, as state-owned enterprises typically seem to rely to a lesser extent on market arrangements, also when venturing abroad (White, 2000; Cuervo-Cazurra et al., 2014). IB studies find that the internationalization of emerging economy firms is characterized by a relatively strong influence from the state, either in terms of direct ownership, or through greater pressures on private firms to adopt certain types of behavior (Wang et al., 2012; Luo, Xue, & Han, 2010). As a consequence, the phenomenon of EMNE internationalization has greatly revived IB scholars’ interest in the role of state-ownership (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014). In contrast to similar firms from developed economies, state-owned EMNEs stand out considering their need to deal with a greater number of administrative layers and complex approval procedures (Ralston, Terpstra-Tong, Terpstra, Wang, & Egri, 2008). Moreover, they tend to adopt the political agenda of their government (Cui & Jiang, 2012), rely on such measures as preferential credit and ministerial engagement (Buckley et al., 2007), but also typically face more opposition abroad, which forces them to adapt their internationalization strategies accordingly (Meyer, Ding, Li, & Zhang, 2014; Cuervo-Cazurra, 2018).

Importantly, these internalization decisions are likely to also affect in what form development effects materialize and how large such gains may be at home. State-owned enterprises, relative to private firms, may experience different thresholds at which I advantages outweigh the costs of internal organization, which corresponds with different boundaries of the firm (Buckley & Strange, 2011). In general, SOEs tend to internalize more to facilitate the achievement of certain political goals, comply with approval procedures dictated by the state, or because of their experience with more bureaucratic organizational structures (Ralston et al., 2008). When venturing abroad, state-owned firms are also likely to rely to a lesser extent on market arrangements than their private counterparts, largely for a
combination of three reasons. First, there may be reluctance in the host country towards foreign SOEs entering into such arrangements, especially those that are from countries with dissimilar political ideology (Cui & Jiang, 2012; Meyer et al., 2014). Second, considering the structures and procedures that most SOEs already have in place with stark resemblance of large-style bureaucracies, internal organization may be more efficient for such enterprises than for private firms. Third, SOEs more strongly prefer retaining control than private firms, in light of the political ambitions of the government that supports them, as such ambitions are better achieved when control is not ceded to the market (Cuervo-Cazurra et al., 2014). In that relative I advantages determine the boundaries of firms, SOEs are thus likely to be larger, more activity-heavy organizations than their private counterparts, especially when they operate internationally. In their quest to fulfill government-imposed targets or in efforts to improve legitimacy, SOEs most likely choose to perform domestically many of the back office and coordination activities needed to support these larger hierarchies. Relative to SOEs, private firms, on the other hand, are more likely to rely on market arrangements such as outsourcing contracts and will typically organize domestic activities in a leaner fashion, hoping to improve the efficiency of their existing employee base, for example through the reallocation of tasks and responsibilities. As such, I expect that:

Proposition 3a: When a foreign investment is conducted by a state-owned EMNE rather than a private firm, direct employment effects in its home country are greater.

By taking control of larger parts of the supply chain as they internalize relatively more when venturing abroad, SOEs likely also leave fewer opportunities for partner firms at home. SOEs’ preference for high-control modes of organizing, rather than market-based arrangements, likely means that such firms take over local suppliers and distributors more
readily than their private counterparts to remain in command of their supply chain. That way, SOEs could for example secure continued access to natural resources, which may be an important aim behind the undertaken foreign investment in line with the political goals of their home government. A vertically more integrated SOE will likely involve home-country partners such as suppliers to a lesser extent in their outward foreign investment projects than the private firms that typically rely more heavily on market-based arrangements. As a consequence, the benefits from outward foreign investment to other firms in the home economy may thus be more limited when that investment is conducted by an SOE in comparison to investments made by private firms. In other words, it is expected that:

Proposition 3b: When a foreign investment is conducted by a state-owned EMNE rather than a private firm, spillovers in its home country are less substantial.

DISCUSSION

Figure 1 summarizes and graphically presents the propositions of my framework, with which I aim to make several contributions to the IB literature. This literature is particularly rich in work that has addressed the conditions under which MNEs contribute to economic development by adopting a firm-level perspective (Kolk, 2016; Narula & Dunning, 2010; Meyer & Sinani, 2009). Often with a critical eye, IB scholars scrutinized findings that certainly not always hinted at a positive contribution (Oetzel & Doh, 2009; Kolk & Van Tulder, 2010; Narula & Pinelli, 2018). Considering that the manner in which development gains materialize is shaped by characteristics of the MNE and their interactions with local
firms, certain academic fields have been in a better position than others to study the phenomenon. It is therefore somewhat surprising that IB scholarship has not addressed the potential contribution of EMNEs to home- and host-country economic development (Buckley et al., 2017). That is, the literature on the development effects of IB activity and the one on EMNE internationalization were largely developed in parallel. A context where they come together more directly is one of home-country development, given the progress that most emerging economies can still make in terms of economic development. To bring the two literatures together, I relied on the eclectic paradigm as a broad organizing framework to arrive at propositions in relation to firms’ ownership, location and internalization advantages. In that it is used to derive new theoretical insights for understudied phenomena, the eclectic paradigm thereby continues to serve as an overarching framework for IB theories by bringing together seemingly disparate perspectives. Owing to its theoretical maturity, the paradigm offers tools that allow for a better understanding of MNE activity and the location of that activity. In a process of ever-growing theoretical sophistication, scholars have engaged in a lively debate about the nature of O advantages in particular (Eden & Dai, 2010; Narula, 2010). My specific focus on EMNEs allows for re-appreciation of Dunning’s classical work on the nationality of ownership, as O advantages can predominantly be seen as advantages of firms’ country-of-origin (Cantwell, 2014). That is, considering the importance of domestic ties in the emerging economy context, due attention is paid to firms’ home networks and the O advantages they can bring forth. Such attention is timely in light of IB’s current interest in the home countries of MNEs and efforts of its scholars to better understand how their internationalization is shaped by domestic environments (Hendriks, Slangen, & Heugens, 2018; Cuervo-Cazurra, Luo, Ramamurti, & Ang, 2018; Luo & Wang, 2012; Cuervo-Cazurra, 2011).
The IB-development literature could equally benefit from such a home-country focus. As this paper has set out in more detail, most of scholars’ attention has gone to studying the development effects of MNE activity in the countries in which they invest. Collectively, these endeavors have seen marked results, as they significantly shaped important policy debates on the virtue of FDI for economic development (Buckley, 2014). Although mixed evidence has waned scholars’ and policy makers’ enthusiasm about FDI-assisted development strategies (Narula, 2014; Narula & Pinelli, 2018), the outward investment that flows from emerging economies may have greater potential. That is, such investment could contribute to the economic progress that these countries are making; a premise that has largely gone unstudied in the IB literature (Buckley et al., 2017). As the IB-development literature has demonstrated, it is helpful to think in two categories of effects, namely spillovers and direct effects. To understand if and when these effects materialize in the wake of outward investment projects conducted by EMNEs, scholars may further benefit from considering such firms’ idiosyncrasies and the nature of advantages they generate, as suggested by my study.

The EMNE internationalization literature has looked at such idiosyncrasies in great detail and has grown rapidly in various sub areas, focusing on unique foreign location preferences (e.g., Kang & Jiang, 2012), entry mode decisions (e.g., Müller, Hendriks, & Slangen, 2017), the influence of the state (e.g., Hong, Wang, & Kafouros, 2015), and innovation activities (e.g., Govindarajan & Ramamurti, 2011; Piperopoulos, Wu, & Wang, 2018), to name but a few. At the same time, scholars examined whether EMNEs are truly different from developed economy counterparts, and whether traditional IB theories continue to hold (Cuervo-Cazurra, 2012; Hernandez & Guillen, 2018; Guillen & Garcia-Canal, 2009). Even if the jury is still out on the subject, such efforts have at least taught other fields how to best approach a new context or phenomenon and use it to test traditional theories (Cuervo-Cazurra, 2012; Wang, Hong, Kafouros, & Boateng, 2012; Hennart, 2012). As mentioned
above, one area that was left relatively unexplored relates to EMNEs’ impact on development (Buckley et al., 2017). The few recent studies that started to look into the topic have taken somewhat more extreme perspectives on the spectrum, either mainly focusing on positive (e.g., Hendriks, 2017; Chen & Johnson, 2015), or negative development consequences in relation to EMNE internationalization (e.g., Tashman, Marano, & Kostova, 2019; Fiaschi et al., 2017). This study’s framework may help to restore balance in that discussion, as the six propositions that were developed to give direction to that research endeavor suggest that there may be positive and negative development consequences associated with distinct characteristics of EMNE investment.

One of these propositions in particular may go somewhat against popular perceptions about institutional voids. That is, the idea that EMNEs internationalize in response to institutional voids is a relatively wide-held belief among IB scholars (e.g., Witt & Lewin, 2007). Proposition 1a suggests that firms’ emphasis on internationalization over domestic expansion should not necessarily have adverse consequences for the home country, as firms may actually grow employment at home. Representing just one proposition in my framework, it serves as an indication that the three literature strands, including the one on the contributions of the eclectic paradigm, continue to provide relevant and new insights to IB when applied to analyze the understudied phenomenon of home-country development, despite their relative maturity. Future research opportunities also relate to extending the (conceptual) analysis beyond Chinese MNEs in manufacturing industries, which primarily inspired this study. Scholars may then establish whether the same propositions apply and are supported when firms from other emerging economies and from the services industry are considered. In a similar vein, the propositions of this study most likely apply to EMNEs with a substantial amount of experience and fairly well-developed O advantages. Future research
may seek to establish if findings differ between more established firms and newcomer MNEs (cf. Narula, 2012; Oladottir, Hobdari, Papanastassiou, Pearce, & Sinani, 2012).

**MNE activity, economic development, and policy**

By amassing knowledge on the link between MNE activity and economic development IB scholars not only informed adjacent academic fields such as economic geography and development studies (e.g., Pavlinek & Zizalova, 2016; Giuliani & Macchi, 2014), they also left their mark on FDI-related policy-making. The long-standing relationship between IB scholars and the *United Nations Conference on Trade and Development* contributed in no small part to that influence, as it helped to channel insights and findings to policy makers in multilateral and national settings (Buckley, 2014). At the time of IB’s inception as a field, in a turbulent era just over half a decade ago, many countries had import substitution policies in place, before they were gradually replaced by FDI-assisted growth strategies that were supported by many scholars and policy makers (Pearce, 2017; Narula & Dunning, 2010). More recently, however, scholars have taken a more critical stance in light of findings that can be described as mixed at best (Narula & Driffield, 2012). That is, conditions need to be just right for foreign investment to positively affect development (Narula, 2014). For example, even though MNE activity may generate employment, it could simultaneously also contribute to inequality (Narula & Van der Straaten, 2019). The literature streams discussed in this paper each have had a significant influence on important policy debates, whether through recommendations in support of an FDI-assisted development strategy (Narula, 2014; Lim, 2005), or in the case of the OLI framework, through a better understanding of firms’ location preferences (Dunning, 2000).
Policy implications of this study

I have brought together the different strands in the IB literature to understand how home-country economic development is shaped by EMNEs’ outward investment activity. I have thereby set out a research agenda on the basis of three sets of two propositions each. Although these propositions have yet to be studied empirically, they potentially have important policy implications, too. That is, for all three sets of propositions, it can be observed that the identified feature of EMNE investment is predicted to have a positive effect on one aspect of development, but a negative effect on the other. For example, whereas propositions 1a and 1b suggest that the magnitude of institutional voids in a firm’s home country positively affects their domestic employment after a foreign investment is made, they also indicate a negative effect on spillovers in the home economy. In a similar vein, the second set of propositions suggests a positive direct employment effect and a negative effect on spillovers when EMNEs internationalize for reasons of asset exploration rather than asset exploitation. For the last set of propositions, I predict that outward investment by state-owned EMNEs will affect domestic employment more positively than investment by private firms, but also that domestic spillovers are likely to be greater when a foreign investment is conducted by the latter group of firms.

When IB scholars find support for these propositions as they carry out the suggested research agenda, such confirmatory findings may present policy-makers with difficulties in crafting policy that best supports home-country economic development. That is, policy-makers may need to take into account that important trade-offs apply when they attempt to nurture the home-country development effects of EMNEs’ outward investment. Researchers then have the important task to specifically address the magnitude of effects and establish whether the economic benefits of spillovers are greater than direct employment losses, or vice versa. Moreover, scholars are advised to study what types of spillovers are likely to
materialize, such as productivity or knowledge spillovers, and extend the (conceptual) analysis to other direct effects than those on home-country employment. In a similar vein, policy makers may not only be interested in the amount of jobs created through outward foreign investment projects, but also in the quality of these jobs, a sentiment captured by Sustainable Development Goal 8 on ‘decent work’ (Van Zanten & Van Tulder, 2018; Hendriks, 2017). More research, however, is needed to establish if job quality and quantity are at odds with one another, or alternatively, go hand in hand. Studying how outward foreign investment affects economic development in firms’ home economies, and suggesting measures aimed at tackling policy dilemmas, could prove to be a fruitful avenue for scholars to ensure that IB’s insights continue to be relevant for policy makers and can be used to help resolve society’s grand challenge of underdevelopment (Buckley et al., 2017; Witte & Dilyard, 2017).
REFERENCES


Figure 1. How characteristics of OFDI likely affect economic development in home countries of EMNEs.