THE GEOGRAPHY OF INTERNATIONAL STRATEGY

A MULTI -LEVEL FRAMEWORK

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The geography of international strategy

A multi-level framework

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Abstract

This article introduces a multi-level framework to structure and analyse FDI patterns. It is argued that three internationalisation strategies currently simultaneously shape the globalisation of Foreign Direct Investment (FDI): *classical internationalisation, emerging internationalisation and competitive internationalisation*. *De-internationalisation strategies* are emphasised to challenge the uni-dimensionality and irreversibility of globalisation. The article states that the rise of *competitive internationalisation* among countries with similar location conditions, in particular within the European Union and between the European Union and the United States, over the 1990s is most salient. Competitive internationalisation is driven by politically motivated Regional Integration Agreements (RIAs), triggering restructuring related intra-regional FDI and 'locational tournaments' between regions in the attraction of inward FDI. The framework is instrumental in positioning FDI-theories in their geographical context and place internationalisation strategies in an evolutionary perspective.

Keywords: globalisation, FDI, internationalisation strategies and multinational enterprises.

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Introduction

The 1990s have often been labelled as the decade of *globalisation*. Yet 'globalisation' as such is at best a poorly defined and a poorly understood phenomenon. *Scope (or stretching), intensity and interconnectedness* are the common words used to describe the *quantitative* and *qualitative* transformation of the world economy over the 1990s (Giddens, 1990; Mc Grew, 1992; Kobrin, 1997). It is exactly three words which have been the prime focus of the debate on globalisation within and across academic disciplines. For some globalisation is not new but is simply a process of 'bringing things back to an earlier stage at the beginning of the 20th century' (Hirst and Thompson, 1999). Others have gone so far as to deem nation states as superfluous (Reich, 1991) in a 'borderless world' (Ohmae, 1990). To these 'globalists' (Held *et. al.* 1999), the liberalisation of the world trade and investment is an irreversible trend. Some point to the evidence of more defensive and 'suboptimal' strategies of bloc-formation through *triadisation* or *regionalisation* (Ruigrok and van Tulder, 1995; Rugman, 2000). Still others analyse globalisation as a phenomenon that trickles-down to a *sub-national level*, suggesting that the global economy consists of a 'mosaic of sub-national regions' (Storper, 1997; Scott, 1998). Consequently, there are various rival concepts describing current 'globalisation'.

While the process of globalisation may be *facilitated* by the liberalisation policies of governments and developments in information and communication technology (ICT), there is general agreement that the main *carriers* of globalisation are multinational enterprises (MNEs). According to UNCTAD's latest World Investment Report, there are currently more than 63,000 parent firms controlling more than 690,000 foreign affiliates abroad. In 1999 these 63,000 parents controlled approximately $17.7 US trillion assets abroad, directly employing more than 40 million people, selling more than $13.6 trillion US, of which $3.2 trillion US is exported from their foreign affiliates to third countries (UNCTAD, 2000: xv-4). Through exports, intra-firm trade and international investment MNEs *define* the *scope, intensity and impact* of globalisation.

Based on several directions of FDI this article proposes a multi-level framework consisting of three different internationalisation strategies, which currently shape globalisation of foreign direct investment:

a) **Classical internationalisation;**
b) **Emerging internationalisation;**
c) **Competitive internationalisation;**

These three internationalisation strategies simultaneously, although not necessarily to the same extent, nor in a similar fashion, shape current globalisation. The framework is introduced in section one, while section two analyses the three strategies. It is demonstrated that in different periods different strategies prevail, contributing to the evolutionary character of the framework. The theoretical and policy applications of the framework are evaluated in the last section.

1. Defining the geographical extent of globalisation: international investments by MNEs

Since the mid 1980s the stock of worldwide foreign direct investment (FDI), both outward and inward, has grown at a considerable rate. Between 1982 and 1994, world FDI stock increased fourfold and doubled as a percentage of world GDP to 9 percent and increased its share in world output from 5 to 6 per cent over the same period (UNCTAD, 1997: xv). Through the midst of the 1990s FDI growth levels accelerated. FDI inflows increased by 27 percent over 1999 to a new record level of $865 billion, while outflows reached $800 billion, a growth of 16 per cent over 1999 (UNCTAD, 2000: 3-4). The growth of FDI is for a large part attributable to the growth of cross-border Mergers and acquisitions (M&As) over the last ten years (Cf. UNCTAD, 2000). "Although non-OECD countries have increased their share of cross-border mergers and acquisitions, they primarily involve OECD countries and firms" (OECD, 2000: 5). Especially European and US MNEs increasingly prefer M&As as an entry strategy, as opposed to greenfield investments[1]. M&As are considered as a fast way for firms to build up a locational portfolio and get access to foreign markets for natural resources, but especially for human capital and 'created assets'. Cross border (majority held) mergers and acquisitions increased by almost 35 per cent in 1999, reaching – according to UNCTAD estimates - $720 billion in over 6 000 deals (UNCTAD, 2000: 10). Whereas UNCTAD in 1997 concluded that between 55 and 60 percent of FDI flows over the period 1985-1995 was accounted for by mergers and acquisitions, others have emphasised that 90 % of FDI flows from and to the United States

[1] The top five countries for both inward and outward cross-border M&As are: the United States, United Kingdom, Germany, France and Canada (OECD, 2000: 11-13).

are in the form of M&As (Schenk, 1999). FDI, thus, for a large part takes place in the form of cross-border mergers and acquisitions.

Dunning (2000: 40) distinguishes four *directions* of FDI:

1. FDI by developed-country firms in developing countries;
2. FDI by developing-country firms in developed countries;
3. FDI by developed-country firms in other developed countries;
4. FDI by developing-country firms in other developing countries[2].

In terms of different levels of development between the source and destination of FDI, direction (1) and (2) can be qualified as *vertical FDI (both upward and downward)*, while direction (3) and (4) can be qualified as *horizontal FDI*.

As most countries are not involved on an equal basis, the *magnitude* of the distinguished directions of FDI stocks differs. The quantitative nature of global FDI stock must therefore first be assessed. However, the structural changes, which have been taking place throughout the 1990s - labelled as a process of globalisation - cannot be demonstrated by cross-temporal comparisons of quantitative FDI data alone. A more thorough qualitative analysis is needed to fully conceptualise current globalisation of FDI. Therefore it is argued that each direction of FDI is associated with a particular form of international strategy by MNEs, producing a multi level framework consisting of *three internationalisation strategies* driving current globalisation:

[2] The parameter in identifying these four directions of FDI is the level of development (as measured by GNP per head). This distinction between developing and developed countries is somewhat arbitrary and purely based on heuristic methods, rather than on sound theoretical reasoning. Differences among developed or developing countries may sometimes be larger than between the two groups.

a) **Classical internationalisation strategies** (or traditional internationalisation) from developed countries to developing countries (both transition and emerging economies). Exemplified as direction (1) or *downward FDI* above;

b) Emerging internationalisation strategies by MNEs originating in developing, transition or emerging market economies to developed countries. Exemplified as direction (2) or *upward FDI* above;

c) Competitive internationalisation strategies taking place between countries with similar levels of development and similar location conditions. Above identified as direction (3) and (4). It can thus take place among developed as well as developing countries, as well as *within* a political economic region (*intra-regional)* and *between* political economic defined regions (*inter-regional).* The concept of competitive internationalisation is closely intertwined with the rise of 'regionalism', evidenced in politically and economically motivated Regional Integration Agreements (RIAs), which include the European Union and NAFTA as examples of well developed and defined RIAs, but also less progressed RIAs like Mercosur in Latin America or ASEAN in South-East Asia[3].

Instrumentally, the following multi level framework of globalisation of Foreign Direct Investment is introduced:

[3] NAFTA stands for North American Free Trade Area, ASEAN for Association of Southeast Asian Nations and Mercosur for Mercado Común del Sur.

Put Figure 1 here

The 2x2 matrix in figure one is instrumental in quantifying and categorising different directions of FDI and relate this to specific geographical bound MNE strategies. Figure one shows that classical and competitive internationalisation strategies (both downward as horizontal in direction) take place among MNEs from developed countries, while emerging and competitive internationalisation strategies (both upward and horizontal in direction) take place among MNEs from developing (mainly emerging market) economies.

De-internationalisation strategies

The three internationalisation strategies identified above implicitly assume that internationalisation is a linear upward phenomenon towards continuous increasing levels of internationalisation. However, the rise of stocks of FDI over the 1990s has coincided with a rise in Foreign Direct Divestments (FDD), indicating that *de-internationalisation is an incremental part of the internationalisation processes* and that *internationalisation is not predetermined in its direction.* The share of FDD in world wide gross FDI (net FDI flows plus divestments) figures is substantial: for France for example this was 73 percent, for the United Kingdom 40 percent, while for the United States this was 17 percent in 1996 (Cf. UNCTAD, 1998: 143-145).

Similarly, at a micro level the internationalisation of the world's largest 200 core firms shows a volatile pattern of internationalisation. Increases in the degree of internationalisation of assets, sales and employment of a MNE in one year are offset with decreases in the next year (Cf. van Tulder, van den Berghe and Muller, 2001). Once a firm has internationalised, there is thus no inevitability about its continuance.

Benito (1997) defines FDD as "the dismantling of an ownership relation across national borders". A distinction can be made between forced (involuntary) and deliberate (voluntary) divestments. From a strategic firm perspective most FDD is deliberate i.e. the liquidation or sale of all or major parts of a firm's operations in another country.

Many reasons have been cited to explain why MNEs partly or completely divest their operations in a specific location (Cf. Benito, 1997; Boddewyn, 1985). One is the search for a better strategic fit between different divisions of MNEs. This often leads to di-vestments, thereby fuelling the (cross-border) M&A boom with possible another round of di-vestments if the M&As are unsuccessful. For instance, the last wave of global FDD was predicated by a strong growth of M&As in the 1960s and motivated by disappointing (performance) results of (cross-border) M&As. FDD was simply the 'spin off' of corporate *misfits*. Against this background, the current wave of cross- border M&As may be signalling future divestment strategies by MNEs, and hence rising FDD levels.

The next section *quantifies* and *analyses* the three identified internationalisation strategies. As FDI from developing countries is a more recent phenomenon the two internationalisation strategies originating in developing countries, emerging and competitive internationalisation, are first discussed. Next the focus will be on the growth of competitive internationalisation among the European Union and between the European Union and the United States as the main driver of current globalisation.

2.1. Internationalisation strategies originating in developing countries: emerging internationalisation and competitive internationalisation

The 1990s have witnessed the growth of FDI from developing countries. The outward stock of FDI from developing countries has grown from 2.6 % in 1980 to 9.5 % in 1998 (UNCTAD, 2000). While FDI from developing countries as a whole is by no means a new phenomenon (Cf. Wells, 1983; Lall, 1983)[4], the increased share of developing outward stock shows that many emerging markets (in especially South East Asia, but less so in Latin America), despite the Asian crisis, have been able to progress *from host to home countries of FDI* and MNEs. This for a large part reflects the maturing competitive advantage of their home economies. At a micro level this is evidenced by UNCTAD's list of Top 50 TNCs from developing countries[5]. Although, many of these Top 50 TNCs are still in an early phase of internationalisation, some have already grown to become 'well established' MNEs. For instance Daewoo and PDVSA have, due to their size of foreign

[4] As exemplified by the "Third wave of FDI from developing countries" led by Latin American MNEs (Chudnovsky and López, 2000). As the rise of FDI from developing countries is a topic on it's own, it goes beyond the scope of this paper to further elaborate this topic. For an overview of the literature see Yeung, (2000).
[5] Since 1999 UNCTAD has also published a classification of Top 25 TNCs from transition economies (UNCTAD, 1999: 89-94).

assets, progressed to the 'league' of Top 100 TNCs from developed countries (UNCTAD, 1999).

Table two distinguishes the two internationalisation strategies originating in two large regions of developing countries (South East Asian region, roughly ASEAN and Latin American region): emerging internationalisation of FDI from developing countries, and competitive internationalisation (through both intra- and interregional FDI). If the strict definition of *emerging internationalisation* is applied, not much of FDI from developing countries is *upward*; i.e. from developing to developed countries. For Latin America, it is still more than 50 % of total outward FDI, but for the Southeast Asian region is has declined to 9 % (see table 1 below).

The low share of upward FDI reflects the fact that Asian firms are only just beginning to internationalise (Fujita, *et. al.,* 1997). Therefore the literature on motives for emerging FDI is still limited, but some refer to the search for complementary assets, management know-how and expertise and, human capital by MNEs from developing countries (Cf. Moon and Roehl, 2001). As opposed to classical internationalisation strategies, emerging internationalisation is closely associated with "asset seeking" rather than "asset exploiting".

Put table 1 here

Far most of the outward FDI from emerging economies is directed to neighbouring regional developing markets and therefore has an intra-regional character. Table one shows that not only has competitive internationalisation among Asian and Latin American developing countries increased but that this is for a large part attributable to the growth of intra-regional FDI, as opposed to inter-regional FDI.

2.2 Internationalisation strategies originating in developed countries: classical internationalisation and competitive internationalisation

Classical internationalisation

While in the past it was common to view the MNE as part of the underdevelopment problem, in recent years the operations of MNEs are increasingly viewed as part of the solution. Despite this changing perception, developed countries remain the principal destination and source of FDI. Inward stock to developing countries has only marginally grown: from 26.2 % in 1980 to 29.8 % in 1998, with South East Asia, China and Latin America taking the bulk of inward FDI. Although FDI to developing countries is rising again, it remains difficult to identify a consistent pattern in *classical internationalisation strategies*, in contrast, FDI to developing countries is very volatile (Cf. UNCTAD, 1999).

These classical internationalisation strategies date back to the 19th century, when some MNEs initially internationalised (Cf. Jones, 1996), but predominated over the post war period, especially in the 1960 and 1970 until the late 1980s. It is in this post war period when most FDI theories were developed. This form of internationalisation is still very much associated with asset exploiting strategies (both natural resources and low wage labour) and for a large part takes place in the form of greenfield investments accompanied with a multi-domestic organisational structure of the MNE (Cf. Hamill, 1993). However, today classical internationalisation is increasingly driven by the privatisation and liberalisation of formerly state owned enterprises operating in the telecom and utility sector with foreign developed firms as acquirers (this is especially the case in Latin America). This has created a strong link between privatisation and liberalisation policies and the growth of inward FDI to some developing countries.

Competitive internationalisation among developed countries

As the bulk of FDI is located and originates in the developed world, some authors have concluded that *Triadization* better reflects the strategic reality of MNEs internationalisation trajectory than 'globalisation' (Cf. Ruigrok and van Tulder, 1995; UNCTAD, 1999: 22; Rugman, 2000). This qualification, however, neglects the ambivalent role of Japan in world investment as opposed to the size of its domestic economy.

Although the share of US outward FDI stocks has declined from 42.9 % in 1980 to 24.1 % in 1998, the EU position has increased sharply from 40 % in 1980 to 47.5 % in 1998. Together the EU and US make up for more than two thirds of the grand total in 1998. Inward stocks for the EU have remained fairly stable over the whole period and fluctuated around 36 %, while the US has become an attractive location for FDI: from 16.4 % in 1980 to 21.4 % in 1998. Consequently, most FDI remains in the European Union (EU) and North America (in particular the United States).

In contrast, Japan's role and contribution to world FDI stocks and flows is minimal as opposed to the size of its domestic economy. The share of FDI outward stock of Japan has grown from 3.8 % in 1980 to 11.2 % in 1990 and declined to 7.2% in 1998. Inward stock has been stable over the last 20 years at around 0.6%, and only in 1995 did it exceed the 1% level[6]. This misinterpretation of Japan as a large foreign investor can also be witnessed at a micro level. Some of the largest firms in the world originate in Japan. *However, large does not necessarily imply international.* Recent research has shown that of the world's 200 largest core companies, 60 are from Japan[7]. Among these 60 firms are large "well-established MNEs" (39 firms, e.g. Toyota, Sony and Mitsubishi), but also firms which have only recently began to internationalises in the second half of the 1990s (8 firms) and a group of domestic firms (10 firms) (Cf. van Tulder, van den Berghe and Muller, 2001). The degree of internationalisation, as measured by the Transnationality Index (TNi)[8] of Japan's well-established MNEs in 1998 is 39%. For well-established MNEs from the EU and the United States these averages are considerably higher (62% and 42% respectively) (Cf. UNCTAD, 2000). The declining role of Japan in the process of globalisation through FDI leads to the conclusion that *dyadisation* may be a better term then *triadisation* (Cf. Van Tulder, van den Berghe and Muller, 2001). Competitive internationalisation strategies for a large extent only take place within Europe and the United States (*the Diade*).

Competitive internationalisation between developed countries takes place in the form of *intra-regional FDI and inter-regional FDI.* The first category is most prevalent among MNEs originating in the EU member states and to a lesser extent between the NAFTA member states (US, Canada and Mexico). Inter-regional FDI takes place between the two integrating blocs on both sides of the Atlantic; between NAFTA and the European Union.

[6] The figures used to calculate the percentages of outward and inward stocks of FDI for the United States, European Union and Japan are taken from subsequent World Investment Reports. The tables are available upon request.

[7] These 200 core firms were selected from the Fortune Global 500, 1995 and include non-financial firms.

Put table 2 here

Table 2 documents the geographical distribution of outward FDI stocks of four EU member states: UK, France, Germany and The Netherlands (the latter included as an example of a small EU member state, but large recipient and source to FDI relative to the size of its economy: other examples are Sweden, Switzerland and Canada), and the United States. As regard to intra- and inter regional FDI the following observations are made:

- The UK has increased its outward FDI in the EU considerably, from 25.1 % in 1987 to 42 % in 1998 (table 2), while its outward stock in the United States has declined considerably.
- For France intra-EU FDI stocks grew at a fast rate, culminating in a high 63.7 % in 1991 after which it declined and stabilised around 49 % in 1997. Its outward stock in the United States (inter-regional) declined in the early 1990s, and recently climbed back to its initial level in 1987.
- Germany's outward FDI stocks fluctuate, but as of 1995 the small decline of intra-EU FDI stocks is attributable to Germany's increased stocks in Eastern Europe (in table 2: "other Europe"). However, outward stock in the United States was much lower in 1997 than in the late 1980s.

[8] The Transnationality index (TNi) was developed at UNCTAD and is calculated as the average of three ratios: (1) foreign assets/total assets (FA/TA), (2) foreign sales/total sales (FS/TS, (3) foreign

- For The Netherlands, intra-EU FDI is more volatile. In 1995, outward FDI stocks in the EU were at its peak. Outward stocks in the US declined from 33.9 per cent in 1987 to 26.3 per cent in 1997.
- US MNEs have diminished their outward stocks in the NAFTA region (intra-regional) at the expense of Canada but slightly increasing in Mexico. Although, inter-regional FDI to the whole of Europe has remained stable, the share of the EU has increased slowly from 40 per cent in 1987 to 43 per cent in 1997.

Table 2 reveals that for the three largest EU members states and one small EU member state, 42-52 per cent of their FDI stocks are located within the EU. The highest levels were reached in the early 1990s. If total Europe is taken into account, the shares are up to 60 % for France, Germany and the Netherlands, and 45 % for the UK (table 2).

In addition to intra-regional FDI, since the mid 1990s global FDI stocks and flows are characterised "…by an intensification of TNC-led link between the United States and the European Union, *each of them being the largest source of FDI for the other*, …" (UNCTAD, 1999: xxi)[9]. This TNC-led link is reflected in inter-regional and Transatlantic FDI flows[10], in which leading inward investing nations into the United States are also the largest recipients of FDI from the United States: e.g. the United Kingdom, France, Germany and the Netherlands (Cf. Buckley and Clegg, 1998). Table 2 indicates that for all these EU member states the United States is the second largest location for FDI. Vice versa, this pattern is similar for the United States towards the EU.

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employment/total employment (FE/TE).

[9] Some scholars have, with reference to a former historical period, written about "re-energizing the transatlantic connection" (Dunning, 1998). The Transatlantic Business Dialogue (TABD) is another reflection of the TNC dominated transatlantic link (Cf. Vernon, 1998).

Historically, this' *transatlanticism'* goes back to the early connection between the *United States and the United Kingdom*, which today is still well developed[11]. In the literature, this transatlantic connection is reflected in a long tradition of research, starting with Dunning (1958) on the post world war two expansion of US MNEs into the UK[12]. Historical, cultural and linguistic similarities shape this transatlantic connection between the United Kingdom and United States. Increasingly, however, many US MNEs prefer to directly internationalise to continental Europe, instead of using the UK as a 'stepping stone'. The motives for this are of a diverse nature. One could be that the monetary union and the high pound as opposed to the Euro, attracts a lot of 'export-led FDI' away from the UK towards the Euro member states of the EU[13]. Nevertheless, the findings of a recent Eurostat study in seven EU member states show that the United States was the largest foreign owner in terms of both value added and employment, ranking either first or second in every Member State studied[14] (Eurostat, 2001). Vice versa, many European MNEs are expanding the scope of their activities beyond the confines of the EU, especially after the completion of the Single European Market in 1992, towards the United States (Cf. Chesnais *et. al.*, 2000; van Tulder, van den Berghe and Muller, 2001). This *transatlantic European Union-United States* connection, which is still in a very

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[10] See also Buckley and Clegg (1998) on Atlantic foreign direct investment (AFDI).

[11] Research at the Wharton School, on the impact of foreign MNEs on the US economy, has recently demonstrated that the UK continues to dominate the list of top companies in terms of sales, employment and affiliates in the US. After which Japan and Germany play a major role. However, Japan's jump to replace Germany from second place is mostly attributable to Honda's "Strategy for the America's" (Gittelman *et. al.*, 2000: 3).

[12] Dunning (1958) marked the beginning of examining transatlantic expansion from the UK perspective, while Vernon in his HMEP project started analyzing the US perspective. Both have given rise to two broad schools of thought on international business: the so-called Reading school and Harvard Business School.

[13] This was one of the motivations behind the closing of the Rover factory by BMW earlier this year. Others were declining profitability and inefficiency due to the aging of the Rover factory.

[14] The countries studied were: Denmark, Spain, Ireland, the Netherlands, Finland, Sweden and the United Kingdom.

nascent stage, therefore succeeds a period of inward focus (intra-regionalisation) of both the United States and EU in the early to mid 1990s.

The role of cross-border mergers and acquisitions (M&As) in competitive internationalisation strategies

Cross-border M&As are a strong vehicle through which intra- and inter regional FDI take place. Over the last two years some of these giant cross-border M&A have been headline news (examples of Transatlantic M&As are Daimler-Chrysler and BP-Amoco in 1998, but also within Europe Rhône-Poulenc and Hoechst in 1999). The motives for these M&A are of diverse nature. Already, we have emphasized the (re) focus of many firms on their core competencies and products (disintegrating conglomerates) and striving to be a world market leader in a limited array of core products/services. This search for a better strategic fit initiates divestments among redundant divisions or complete subsidiaries, thereby triggering even more M&As. On the other hand, strategic management literature emphasises the importance of firm size (in terms of both stocks and assets) as a defence mechanism to take-overs ("buy or be bought" is an often heard phrase), thereby fuelling the M&A boom and placing the firm in a position of "strategic comfort" (Schenk, 1999). Within this context strategic motives, exchange of threats, competitive rivalry for securing world market shares and corporate independence prevail over sound economic reasoning[15].

[15] In this context, the acquisition of Chrysler by Daimler Benz in 1998 can best be interpreted as strategic signal towards General Motors, rather than a move towards greater efficiency. A phenomenon prevailing among many rival competitors in oligopolistic industries.

Most of the cross-border M&As can be classified as *horizontal* (between competing firms in the same industry) (Cf. UNCTAD, 2000)[16]. Consequently, these cross-border M&As have led to an increase in concentration levels in several industries: automobiles, petroleum and oil refining and pharmaceuticals (UNCTAD, 2000; OECD, 2000).

Regional Integration Agreements (RIAs) as drivers behind competitive internationalisation strategies

It has already been argued that competitive internationalisation strategies are closely intertwined with the rise of 'regionalism'[17], evidenced in politically and economically motivated *Regional Integration Agreements* (RIAs), which include the European Union and NAFTA as examples of well developed and defined RIAs, as well as Mercosur in Latin America or ASEAN in South-East Asia which are still in a more preliminary phase. While both NAFTA and the EU are different in character and extent, both aim to increase inward FDI and increase the competitiveness of the region. The completion of the Single European Market (SEM) in 1992 initiated a boom in both intra-regional as well as extra-regional inflows (UNCTAD, 1993). The prospects of the launching of the European Monetary Union (EMU) and the associated single currency has had little effects so far, but may well be felt after 2002, when the *Euro* will take effect (UNCTAD, 1999). As European integration proceeds market seeking investments and truncated miniature replica subsidiaries will give way to more rationalised efficiency related investments and more

[16] Other forms of M&As, according to UNCTAD (2000), are: vertical M&As (between companies in client-supplier or buyer-seller relationships) and conglomerate M&As (between companies in unrelated activities).

[17] Although the rapid growth of FDI over the last ten years has coincided with the intensification of politically and economically motivated regional integration agreements (RIAs), the relationship between

complex organisational structures of the MNE (Campbell, 1994; Pearce and Tavares, 1998). Similarly, Glegg and Greene (1998) and Chesnais and Sailleau (2000), argue that the early phases of European integration were much more associated with market seeking or tariff jumping FDI than the later phase. Cantwell (1994) has in this context argued that inter-regional FDI is still primarily of a market seeking nature while intra-regional FDI is much more associated with the locational separation of production from consumption.

Although the extent to which firm strategies and FDI are a response to political and macro economic RIAs is still part of a lively academic debate, evidence points in the direction that the maturing of the EU integration process over the last decade (through the SEM and EMU) has initiated efficiency and restructuring related intra-European FDI. Many American and European MNEs have increased their efficiency through the integration of assets, production and markets and created regional production networks, which have led to sequential investments as opposed to greenfield investments (Yannopoulos, 1990).

A second manifestation of regional integration is that it creates more transparency among location factors for international business (especially within the EU when in 2002 the Euro will take effect). This increased transparency creates a more competitive environment, with different locations, regions or countries competing for inward FDI. This has initiated fierce policy competition between states in the United States and between EU member states over the 1990s. This policy competition is not only at the national level (among countries of the EU and between the EU and US) but increasingly trickles down to a sub-national level among countries and between regions. The

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regional integration at the policy level and MNE strategies in response to this development is still in its explorative stages and beyond the scope of this study.

"shopping around" of MNEs and the "bidding competition" this has initiated, increasingly tends to resemble "location tournaments" (Cf. Vernon, 1998: 32-33)[18].

This regional policy competition takes place both among developed countries and developing countries and may be at the level of tax grants, incentives or at the level of specific policy arrangements to foreign investors[19].

Table 3 lists the main characteristics of the distinguished *forms and directions of internationalisation* discussed in this section.

Put table 3 here

[18] Other terms which have been coined in this respect are: "bidding wars" Rodríguez-Pose and Arbix (2001) and "beauty contests" (Scott, 1998).

Discussion

The multi level framework identified in this article facilitates the analyses of worldwide FDI flows in several ways. First of all, the framework is instrumental in structuring and quantifying the geography of globalisation of foreign direct investment (i.e. several directions of FDI). Second, by defining the nationality of the investing firm and the host country it is possible to form three typologies of MNE internationalisation strategies (i.e. motive, form and MNE structure) leading to a framework. Finally, the framework facilitates to set theories of FDI in their geographical and chronological context.

In the introduction *intensity and scope* were identified as the parameters of globalisation. Through the accelerated growth of FDI flows over the 1990s globalisation of international production intensified. However, this does not imply that all countries are involved on an equal basis. FDI for a large part takes place among develop countries, the EU and North America being the largest source and destination of FDI. Although the share of FDI to emerging and transition economies has risen sharply over the 1990s, the share of less developing countries (especially in Africa) in worldwide FDI flows remains marginal. Additionally, most FDI takes place within the home region of the country of origin of the MNE, and is particular intra-regional. Although, more recently, inter-regional FDI between EU and the United States is growing in importance.

While MNEs from developed countries have dominated the scene for the whole post-war period and further expanded their foreign operations over the last decade (through classical and competitive internationalisation strategies), the 1990s have also witnessed the rise of

[19] Mytelka (2000) describes the nature of these locational tournaments in the automobile and electronics industries within the EU and within the United States. While, Rodríguez-Pose and Arbix (2001) describe

MNEs from developing countries. The extent to which MNEs from developing (especially emerging) economies have been able to internationalise *upwards* towards developed countries remains, however, limited. In the early stages of their internationalisation trajectory MNEs from developing countries focused almost entirely on their home regions (intra-regional FDI) with only limited inter-regional FDI to other developing countries, as is the case between South-East Asia and Africa (Fujita, 1997).

The rise of stocks of FDI throughout the 1990s coincided with a rise in Foreign Direct Divestments (FDD), indicating that internationalisation is not predetermined in its direction. De-internationalisation is identified as an incremental part of internationalisation. It hinders globalisation from being predetermined in its direction and contests its *irreversibility*, as often put forth in static one end 'models' of globalisation.

The prevalent question whether globalisation implies regionalisation, internationalisation or triadisation, should be rephrased in terms of what the trends and dynamics shaping it to its current status are. In this context, current globalisation consists of several simultaneous directions and forms of FDI associated with specific internationalisation strategies. For the multinational enterprise, this implies that sometimes several strategies are followed simultaneously. Royal Ahold's recent divestments in Southeast Asia, its acquisitions in the US domestic market and expansion in South America are a combination of de-internationalisation, competitive internationalisation (through inter-regionalism) and classical internationalisation. As regards the outcome of this process it is argued that, due to the (temporary) limited role of Japan in worldwide FDI, globalisation and even *triadisation* overstretch the geographical context of FDI. Both at an aggregate and at a firm level three quarters of the investment activities are located in two regions (Europe

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the nature of this bidding competition in the automobile industry in Brazil.

and North America). Therefore *dyadisation* is identified as a more appropriate term to define the geography of globalisation through Foreign Direct Investment (Cf. Van Tulder, van den Berghe and Muller, 2001).

The multi-level framework identified above has also shown that *competitive internationalisation strategies* take place among developed as well as developing countries or more broadly between countries with similar location conditions (e.g. labour costs). For developed countries it was argued that the *maturing* of intra-regional investment within the EU and NAFTA and the competitive advantage of MNEs driving this process, has triggered inter-regionalisation processes between the EU and, especially the United States (Transatlantic internationalisation). Therefore, from a firm perspective the increased regional organisation of production may function as a 'stepping stone' towards further globalisation. As opposed to most OECD countries, developing countries internationalise primarily within their own region. Their internationalisation trajectories show a high degree of concentration in the home region, inter-regionalisation processes are (still) very limited. This 'South-South pattern' of FDI is in line with the 'investment-development path' theory (IDP) in which countries initially internationalise towards 'psychic' similar (neighbouring) countries (Cf. Narula, 1996). From an evolutionary perspective it is therefore possible to state that most developed countries are in stage two of competitive internationalisation, while developing countries are in stage one. Figure two represents the integration of this evolutionary perspective of globalisation of FDI in the earlier identified framework.

Put figure 2 here

In explaining FDI the direction of FDI matters (Cf. Moon and Roehl, 2001), therefore theories must be placed in their geographical context. Conventional FDI theories, mainly developed during the height of US international expansion, have often primarily focused on FDI from developed to developing countries motivated by cheap labour or natural resources (resource seeking) and mainly taking place in the form of greenfield investments with a multidomestic organisation structure, i.e. *classical internationalisation strategies*. Besides only explaining one quadrant of the multi-level framework, it is questionable whether theories developed to explain post war international expansion of mainly US corporations, are applicable to explain the other strategies and directions of internationalisation. While FDI from developing countries in other developing countries may be explained by a market seeking rationale, 'true' upward FDI is more difficult to explain with existing theories of FDI (Cf. Moon and Roehl, 2001). How do we, for instance, explain emerging FDI by MNEs from developing countries in the United States or the European Union from the perspective of FDI theories which depart from the asssumption that ownership advantages are a prerequisite for international expansion[20]? As emerging internationalisation strategies are best exemplified by the search of developing countries' MNEs for complementary assets or technology and management know-how this form of FDI is more associated with "strategic or created asset seeking" (e.g. human capital) motives, rather than traditional "asset exploiting" (e.g. low-wages) motives. In addition, the industrial organisation and strategic management theories of Graham (1978 and 1990) and Knickerbocker (1973) are better applicable for the analysis of the recent wave of transatlantic FDI, primarily in the form of cross-border M&As.

In order to distinguish and quantify the different directions in FDD, the muli-level framework of globalisation can also be applied to FDD flows. Hypothetically one may assume that, as most FDI takes place among developed countries in the form of cross-border M&As, the lion's share of FDD (as a spin-off of minor parts of an accomplished unsuccessful M&A) will also take place among the developed countries[21].

Figure four attempts to position existing theories in their geographical context.

Put figure 3 here

In addition to placing existing FDI theories in their geographical context, we must build upon existing theories in order to explain some of the less familiar trends and forms of FDI.

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[20] Moon and Roehl (2001) have qualified FDI of developing countries in developed countries *unconventional FDI*, thereby emphasising that a new framework of analyses is needed to explain this form of internationalisation.

[21] An anonymous reviewer suggested comparing the four-cell results for FDI with the four cell results for FDD as an interesting topic for future research.

Conclusion

This article has introduced a multi-level framework of globalisation which facilitates the analysis and categorisation of foreign direct investments and is instrumental in placing theories, which explain FDI in their geographical and historical context. Based on four directions of FDI, three internationalisation strategies by MNEs have been identified: *classical internationalisation, emerging internationalisation and competitive internationalisation*. The growth of foreign direct divestment (FDD) was accentuated to challenge the irreversibility of globalisation. Most salient is the growth of competitive internationalisation strategies, driven by RIAs among both developed as well as developing countries over the last decade.

The evolutionary character of the framework was exemplified by the fact that MNEs originating in developed countries had already gone through a phase of internationalisation after the second world war, as some had well before the 20th century. This form of internationalisation was labelled *classical internationalisation*. While classical internationalisation was previously associated with asset exploiting strategies (both natural resources as low wage labour), today it is increasingly triggered by the privatisation of formerly state owned enterprises in developing countries (in particular in Latin America). This dependence upon privatisation as a locational attractiveness for foreign (developed country) MNEs, not only poses challenges for governments when the limits of privatisation are reached, but may also lead to 'unsustainable FDI' in the form of asset stripping investments with limited spillover effects to the national economy. In addition, the selling of the 'crown jewels' to foreign MNEs may lead to an upsurge of national sentiments toward globalisation in general and eventually undermine the political basis necessary to support further integration of these economies in the world economy.

Although outward FDI from developing countries is still volatile, it is clear that as a specific form of FDI, it is *'here to stay'*. Nevertheless, the internationalisation strategies of MNEs from developing countries are still primarily intra-regional and very much concentrated in the home region as opposed to upward and inter-regional FDI. The limited role of upward FDI, to challenge rival competitors in industrialised countries, reflects the vulnerable competitive advantage of the economies in which these MNEs originate. Ultimately, this will pose challenges to the sustainability and duration of their foreign operations. This combination of limited upward FDI in the form of emerging international strategies, and the increased dependence of these countries upon the privatisation of formerly state-owned enterprises to attract inward FDI may prove to be a fragile and vulnerable development.

For developed countries, in particular in the European Union and North America, the challenge will be to tackle the negative impacts of regional integration, which has triggered (1) restructuring related intra-regional FDI and (2) locational tournaments between states and regions. Policy developments at a regional (in the case of the EU) and national level (in the case of the United States) may be needed.

While the surge in FDI for some EU countries like Germany and France reflects a catching-up process, other countries have a longer tradition of outward FDI (e.g. The Netherlands and the United Kingdom). The maturing of intra-regionalisation within the EU has led to some MNEs from various EU countries exploring the confines of a Transatlantic link between Europe and the United States. While this transatlantic link was historically the domain of British and American MNEs, increasingly continental European firms also play a key role in this process (examples are Royal Ahold from the Netherlands and Daimler Benz from Germany). This prevalent role of European MNEs in transatlantic investments may be signalling a future *European challenge*, as opposed to Servan-Schreiders 1967 book title “The American Challenge.” For these MNEs regionalisation has functioned as a ‘stepping-stone’ towards further internationalisation, giving them a strong platform from which to increase their international operations.

Increasingly, this transatlantic link is driven by cross-border M&As, characterised by exchange of threats and competitive rivalry for securing world market shares. At the competition policy level this has already created tensions between the European Union and the United States (exemplified by the rejection of the European Union of the merger between General Electric and Honeywell). In the long run these tensions may hinder the United States and the European Union from reaching agreements in multilateral investment and trade negotiations.

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List of tables and figures:

Figure 1. 2x2 Matrix of directions of FDI and associated MNE internationalisation strategy

	Developed countries	Developing countries
Developing Countries	Classical internationalisation composed of vertical downward FDI (Ad. 1)	Emerging internationalisation composed of vertical upward FDI (Ad. 2)
Developed countries	Competitive internationalisation composed of horizontal FDI (Ad. 3)	Competitive internationalisation composed of horizontal FDI (Ad. 4)

Table 1. Division of direction of outward FDI stocks in competitive (intra and inter) and emerging FDI for South, East, South-East Asia and Latin America. (percent)

South-East Asia (a)	1987	1997	Latin America (b)	1986	1992
Competitive	79.05	90.95	**Competitive**	31.91	49.66
Of which Intra	77.13	88.82	**of which Intra**	30.34	48.77
Of which Inter	1.91	2.13	**of which Inter**	1.57	0.89
Emerging	20.95	9.05	**Emerging**	68.09	50.34
Total	100	100	**Total**	100	100

Notes: (a) Includes: China, Hong Kong, (China), India , Malaysia, Pakistan, Philippines, Republic of Korea, Singapore, Taiwan Province of China and Thailand

(b) Includes: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

Source: based on UNCTAD, 1999 (24-26).

Table 2. Intra and inter regional FDI stocks by four EU member states and the United States (shares of total, in percent)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
UK											
Intra-regional	27,8%	25,0%	25,3%	28,8%	30,0%	30,1%	34,5%	37,9%	38,9%	45,0%	45,7%
of which EU (15)	25,1%	22,7%	23,0%	26,6%	27,7%	27,7%	32,5%	35,1%	37,0%	43,1%	42,7%
of which other Europe	2,8%	2,3%	2,3%	2,3%	2,3%	2,4%	2,0%	2,8%	1,8%	1,9%	3,0%
Inter-regional	43,0%	47,8%	47,8%	43,9%	41,9%	42,3%	39,2%	34,1%	34,5%	28,1%	31,3%
of which USA	36,6%	41,7%	42,1%	38,3%	36,6%	37,3%	34,6%	31,1%	31,9%	25,5%	28,3%
of which Canada	6,1%	5,7%	5,4%	5,2%	5,0%	4,6%	4,3%	2,8%	2,7%	2,3%	2,4%
of which Mexico	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,2%	0,2%	0,3%	0,6%
FRANCE											
Intra-regional	58,4%	62,1%	61,6%	66,5%	70,0%	64,8%	62,3%	63,5%	62,1%	54,5%	53,8%
of which EU (15)	46,7%	51,8%	54,4%	59,3%	63,7%	59,3%	56,3%	56,5%	54,8%	49,1%	49,6%
of which other Europe	11,7%	10,3%	7,2%	7,3%	6,3%	5,5%	6,0%	7,0%	7,4%	5,4%	4,1%
Inter-regional	26,4%	25,8%	28,8%	24,1%	21,9%	19,4%	21,3%	21,1%	21,0%	20,8%	25,9%
of which USA	24,3%	22,8%	24,6%	21,1%	19,5%	17,1%	18,5%	19,7%	19,5%	19,3%	24,4%
of which Canada	2,0%	2,7%	4,0%	2,8%	2,3%	2,1%	1,7%	1,2%	1,2%	1,1%	1,2%
of which Mexico	0,1%	0,2%	0,2%	0,2%	0,2%	0,2%	1,0%	0,3%	0,2%	0,4%	0,3%
GERMANY											
Intra-regional	52,6%	51,3%	54,1%	60,7%	63,0%	63,3%	61,6%	63,5%	65,6%	63,1%	61,8%
of which EU (15)	44,2%	43,8%	47,3%	53,2%	55,9%	56,2%	54,0%	55,6%	56,8%	54,3%	52,1%
of which other Europe	8,4%	7,6%	6,9%	7,4%	7,1%	7,1%	7,6%	8,0%	8,8%	8,8%	9,7%
Inter-regional	32,0%	34,2%	33,1%	28,6%	26,0%	25,4%	26,4%	23,6%	21,9%	23,8%	25,4%
of which USA	28,3%	30,0%	29,3%	24,6%	22,3%	21,9%	23,0%	21,0%	19,5%	21,5%	22,7%
of which Canada	3,2%	3,2%	3,0%	3,0%	2,7%	2,5%	2,3%	1,9%	1,7%	1,6%	1,7%
of which Mexico	0,4%	1,0%	0,9%	0,9%	1,0%	1,0%	1,1%	0,8%	0,6%	0,7%	1,0%
NETHERLANDS											
Intra-regional	49,9%	46,8%	49,5%	54,4%	55,0%	53,0%	52,1%	56,9%	57,7%	57,0%	55,4%
of which EU (15)	41,5%	38,6%	41,7%	45,7%	46,3%	43,2%	44,7%	48,5%	48,7%	47,4%	45,8%
of which other Europe	8,4%	8,2%	7,8%	8,7%	8,7%	9,8%	7,4%	8,4%	9,0%	9,7%	9,5%
Inter-regional	33,9%	35,4%	33,3%	29,3%	28,0%	29,9%	33,2%	28,1%	26,6%	27,1%	28,7%
of which USA	33,9%	35,4%	33,3%	29,3%	28,0%	29,9%	30,4%	25,7%	24,4%	24,4%	26,3%
of which Canada	n.a	n.a	n.a	n.a	n.a	n.a	2,5%	2,2%	2,1%	2,5%	2,2%
of which Mexico	n.a	n.a	n.a	n.a	n.a	n.a	0,4%	0,4%	0,4%	0,3%	0,1%
USA											
Intra-regional (into NAFTA)	19,9%	20,4%	18,9%	18,5%	17,8%	16,4%	15,1%	14,9%	14,4%	13,7%	13,9%
of which Canada	18,4%	18,7%	16,7%	16,1%	15,1%	13,7%	12,4%	12,1%	11,9%	11,3%	11,1%
of which Mexico	1,6%	1,7%	2,2%	2,4%	2,7%	2,7%	2,7%	2,8%	2,4%	2,4%	2,8%
Inter-regional (into Europe)	47,9%	46,8%	48,7%	49,6%	50,0%	49,1%	49,9%	48,5%	49,3%	49,0%	48,5%
of which EU (15)	40,2%	39,7%	42,2%	42,7%	43,5%	42,6%	43,3%	42,1%	43,1%	43,3%	43,0%
of which other Europe	7,7%	7,1%	6,5%	6,9%	6,5%	6,5%	6,5%	6,4%	6,2%	5,7%	5,6%

Source: OECD Foreign Direct Investment Yearbook, 1999

Table 3. Main characteristics of three internationalisation strategies

	Traditional	**Competitive**	**Emerging**
Direction	From developed to developing countries	Between and within regions /countries sharing similar location conditions (inter- and intra-regional)	From developing (emerging markets or transition economies) towards developed countries.
Examples (reflected in macro data)	Industrialized US and European MNEs.	Among EU member states. And between EU and US (or TRIAD). Between MERCOSUR and ASEAN.	From developing countries towards industrialized countries.
Examples (at micro level)	Traditional MNEs Shell, Ford, GM.	Daimler Chrysler and BP Amoco	Daewoo, PDVSA
Dominant period	Postwar period till mid 1980s	1990s………	1990s, but fragile (see Asian crisis).
Magnitude	Stabilizing	Rising	Rising with slight drawback
Drivers	OECD MNEs. First MNEs (colonial heritage)	Both OECD (services) and emerging market MNEs "Established conventional MNEs"	Emerging market and transition economies MNEs. "Beginners" MNEs in a nascent stage of internationalisation
Strategy	Defensive	Offensive and aggressive	Defensive
Main Form	Greenfield	M&As	Greenfield
Main Motive	Efficiency and asset exploiting (low wages) and market, but increasingly privatization-led	Market and strategic asset (human capital) seeking	Strategic asset (and market seeking). Educated and well-trained labor force.
Organizational structure of MNE	Multi domestic	Complex integration strategies and networks	Simple and multi domestic/stand alone

Figure 2. Evolutionary framework of internationalisation

	Developed countries	Developing countries
Vertical FDI	Traditional or classical internationalisation (downward)	Emerging internationalisation (upward)
Horizontal FDI	Comp.Internat. Phase II (intra + inter regionalisation)	Comp.Internat. Phase I (intra-regionalisation)

Figure 3: Positioning FDI theory in a geographical context

	Developed countries	Developing countries
Developing Countries	*Traditional FDI theories:* Buckley and Casson (1976) Rugman (1980) Dunning (1988)	*Traditional FDI theories:* Buckley and Casson (1976) Rugman (1986) Dunning (1988)
Developed countries	*Industrial organisation and strategic management theories:* Graham (1978, 1990) Knickerbocker (1973) Flowers (1976)	Wells (1983) Lall (1983) Moon and Roehl (2001)

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