Emerging southeast Asian and Taiwanese multinational Firms and their internationalization strategies

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Keywords
Emerging, southeast, Asian, Taiwanese, multinational, Firms, their, internationalization, strategies

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Emerging Southeast Asian and Taiwanese Multinational Firms and their Internationalization Strategies

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Emerging Southeast Asian and Taiwanese Multinational Firms and their Internationalization Strategies

Abstract. Empirical research on the internationalization strategies, processes and operations of Asian MNEs from countries at different levels of development is sparse. This paper examines and analyzes the internationalization strategies and characteristics of Southeast Asian and Taiwanese MNEs within the IDP (Investment Development Path) perspective. Primary data are drawn from 35 case studies of emerging MNEs from Singapore and Taiwan (representing NICs) and Malaysia and Thailand (representing fast developing countries). Findings indicate differences among the Southeast Asian and Taiwanese MNEs and provided some general support for the IDP. These differences, as well as those with other Asian and western MNEs, are examined and research propositions proposed. The empirical findings, limitations and implications for further research are discussed.

INTRODUCTION

Firms from Southeast Asian and other Asian countries had been internationalizing and multinationalizing their business activities and had emerged or are emerging as Asian multinational enterprises (World Bank, 1993). Research interest had begun to focus on these Asian enterprises and their direct investment activities (Yeung, 1994, 1997; Ulgado et al. 1994; Ting, 1985; Pangarkar, 1998; Li, 2003). While research on Asian multinational enterprises (MNEs) had grown, knowledge of the nature, dynamics, organization and operations of Asian MNEs is still limited. Research on MNEs from Southeast Asian countries is in its infancy. Extant research on MNEs had been largely based on western MNEs. Are these Asian MNEs really different from the western MNEs? Do Southeast Asian MNEs share the same attributes as those from other parts of Asia? Are differences in strategic traits of MNEs from different Asian countries due to differences in the levels of development in these countries (such as newly industrializing countries (NICs) and less developed countries (LDCs)) as predicted by the investment development path (IDP) thesis (Dunning, 1993)? Hoesel (1999) and Dunning et al. (1998) contended
that the MNEs from the Asian NICs constituted the second wave of FDI which differed from the first wave of the third world multinational enterprises (TWMNEs). Yet the precise nature of the strategic advantages of these firms was not clear and a considerable knowledge gap about them existed (Hoesel, 1999). Since comparative empirical research on MNEs originating from different Asian countries was limited (Luo, 1998; Sim & Ali, 2001), further research comparing MNEs from different Asian (particularly Southeast Asian) countries at varying levels of development is worthy of attention. The focus on Southeast Asian firms provides comparative data in a geographical area which had not receive much research attention in the past.

The aim of this paper is to contribute to this research area by presenting some comparative empirical research on the internationalization strategies and characteristics of emerging Asian MNEs from four countries at different levels of development and highlighting some areas for in-depth research. The countries included in this paper are Malaysia and Thailand, representing rapidly developing countries, and Singapore and Taiwan, representing the newly industrializing countries. Empirical data from the four countries are presented and used to analyze and compare their internationalization characteristics and strategies, and to examine their position in relation to the IDP from a firm-level or micro perspective. Data from this exploratory study will be used to develop propositions or hypotheses for testing in subsequent research to enhance knowledge in this area. Our empirical findings will be discussed in relation to prior research findings on MNEs from other Asian countries as well as developed countries. The next section covers the theoretical foundations of MNEs and their relevance to Asian MNEs, followed by research methodology, findings and discussion. Implications for further research are discussed.

THEORETICAL PERSPECTIVES
Theories and explanations on the internationalization (or expansion across national boundaries) of firms were largely based on western MNEs. Vernon’s (1966, 1979) product life cycle model, the Uppsala model (Johanson & Weidersheim-Paul, 1975;
Johanson & Vahlne, 1977) and the works of Dunning (1977, 1988, 1993, 1995) on his Eclectic paradigm and the Investment Development Path (IDP) (Dunning, 1981, 1986) were based largely on western multinationals. Research works that examined Third World (including Asian) multinationals included Dunning (1986), Aggarwal & Agmon (1990), Tolentino (1993), Dunning & Narula (1996), Lall (1996), Dunning, Hoesel & Narula (1998). Review of all these studies clearly indicated that further research examining MNEs from countries at different stages of development especially from Asia would enhance one’s understanding of how these Asian multinationals could be different from their Western counterparts (Lall, 1996).

Dunning's (1977, 1995, 1988, 1993) Eclectic Paradigm had been widely used as an explanation of international production. It stated that the extent and pattern of international production was determined by the configuration of three sets of advantages: a). ownership or firm-specific advantages, such as proprietary technology, products, expertise and skills, b). the internalization of these advantages across national boundaries to overcome market imperfections or failures, reduce transaction costs and maximize economic returns (Buckley & Casson, 1976), and c). locational advantages of host and home countries. These OLI variables explained why internationalization occurred but neglected the dynamic process of internationalization. The Investment Development Path, IDP, (Dunning (1981, 1986)) provided the Eclectic Paradigm with a dynamic dimension by relating the net outward investment of a country to its stage of economic development. At low level of economic development (stage 1), there was little inward or outward investments. As the country developed (stage 2), inward investment became attractive, particularly in import substitution projects. Some outward investment might take place, for example in neighbouring countries at lower stages of development. Most developing countries (including Malaysia and Thailand) with some outward investments were at this stage. With further economic development (stage 3), net inward investment declined while outward investment increased (relative to inward investment). Outward investment tended to increase, targeting countries at lower IDP stages to overcome cost disadvantages in labour intensive industries and also
to seek markets or strategic assets. The NICs (e.g., Taiwan and Korea) were said to be at this stage. At stage 4 of the IDP, net outward investment became positive with production being multinationalized. Most developed countries were at this stage. In the final stage 5, a convergence of outward and inward investment flows took place as the result of the shift from advantages based more on factor endowment to those based on internalizing international markets.

Research on Third World (including Asian) multinationals had given general support to the IDP concept (Dunning, 1986; Tolentino, 1993; Dunning & Narula, 1996; Lall, 1996). Dunning and Narula (1996) acknowledged that the specific IDP pattern of a country might vary depending on country factors, such as resource endowment, home market size, industrialization strategy, government policy and the organization of economic activities. Revisiting the Third World Multinational Enterprises, Dunning, Hoesel & Narula (1998) found that the second wave of TWMNEs was different from the first wave described by research in the early 1980s (e.g., Lall, 1983; Wells, 1983; Kumar & McLeod, 1981). While the first wave firms were from developing countries, the second wave consisted mainly of East Asian NICs. The MNEs from these countries had improved and augmented ownership advantages (e.g., innovatory capabilities) and made more strategic seeking FDI (for technology and marketing) in advanced industrial countries via higher equity and control modes (e.g., M&A). These outward investment activities were fostered by economic liberalization, greater export and international orientation and the supportive role of governments. The authors argued that the second wave was consistent with the IDP explanation (stage 3) and represented an intermediate stage between the first wave of TWMNEs and conventional (Western) MNEs. Differences in the pattern of the IDP between Taiwan and South Korea were also reported by the authors. While generally supporting the IDP concept, Lall (1996) stated that it should be extended and modified to take into account the different sub-patterns of countries. The IDP concept remained vague about the precise relationships between the underlying advantages (factors) and the pattern of inward and outward FDI or stage of IDP (Hoesel, 1999). The macro nature of most IDP studies would have contributed to
this knowledge gap. The precise nature of the ownership specific advantages of the Asian MNEs from NICs remained unclear and how different were they from MNEs from countries less developed than the NICs? More research is needed in this area. This research will examine at the micro or firm's level the characteristics of MNEs from two fast developing countries, Malaysia and Thailand, and two NICs, Singapore and Taiwan. The aim is to shed further light on these Asian (particularly, Southeast Asian) MNEs, particularly within the IDP perspective.

Another concept, similar to the IDP, related the internationalization of firms to the distinct patterns of national development based on the level of economic development, resource, size of domestic market and development path pursued (Tolentino, 2000; Cantwell, 1997). An earlier model for explaining the dynamic nature of international trade and investment was the Product Life Cycle model (Vernon (1966, 1979). This model hypothesized that new products were introduced and produced in developed or high income countries. With product maturity and standardization, the production location moved to less developed countries to take advantage of lower labour cost. This model had also been applied to TWMNEs (e.g., Wells, 1983, 1986) but had lost its appeal as innovations were originating from countries other than the home country in the MNE network. Also, the model did not apply to FDI which were resource-based, efficiency-seeking and strategic asset-seeking. However the Product Life Cycle was still useful in explaining MNEs from developing countries that invested in other less developed countries.

The dynamic process of internationalization of individual firms could be explained by the Uppsala model (Johanson & Weidersheim-Paul, 1975; Johanson & Vahlne, 1977). This model of gradual incremental steps to international business expansion was based on a series of incremental decisions, whose successive steps of increasingly higher commitments were based on knowledge acquisition and learning about the foreign market. The steps of foreign activities started with export to a country via independent representative/agent, followed by the establishment of sales subsidiary and eventually
production in the host country. The internationalization of the firm across many foreign markets was related to psychic distance (in terms of differences in language, education, business practices, culture and industrial development). Initial entry was to a foreign market that was closer in terms of psychic distance, followed by subsequent entries in markets with greater psychic distances. In terms of entry mode, the incremental expansion of market commitment meant that the initial entry was typically some form of low commitment mode (e.g., minority JV) and followed by progressively higher levels of commitment (e.g., majority JV and wholly owned subsidiary). Similarly, commitment in terms of the level of ownership in different markets was correlated with their psychic distance. The Uppsala model had received general support in empirical research (e.g., Welch & Loustarinen, 1986; Davidson, 1980, 1983; Erramilli, Srivastava, & Kim, 1999) and its largely intuitive nature and evolutionary learning perspective made it attractive as an explanatory model.

A related view in terms of learning was that TWMNEs built up their advantages through the accumulation of technology and skills. Lall (1983) viewed this in terms of the localization and adaptation of technology to suit local markets by TWMNEs. Tolentino (1993) emphasized the accumulation of technological competence in the expansion of firms from developing countries. This view was consistent with the resource-based view of building competitive advantage in strategic management. Pananond & Zeithaml (1998) found that the accumulation of knowledge and competence (particularly its knowledge of developing markets and not so much its technology) by the CP Group in Thailand was the key to its internationalization. Differences between the CP Group and Western MNEs were observed by Pananond & Zeithaml in their research. Mathews (2002, 2006) postulated that emerging firms could achieve accelerated internationalization via leverage of their contractual linkages with other foreign firms to acquire resources and learning new capabilities. He indicated that this explanation complemented the OLI framework and could be used to explain the rise of such latecomer firms which he dubbed as ‘Dragon multinationals’.
The above concepts and theories provided understanding and explanation of the internationalization of MNEs from NICs and developing countries. However by themselves, they were by no means complete explanation of MNEs, particularly Asian MNEs. The TWMNEs and Asian MNEs did exhibit characteristics, motivations and internationalization paths that varied from those of Western MNEs from developed countries. These were not fully explained by extant theories of MNEs. Li (2003) contended that extant MNEs theories needed to be modified and enhanced to explain all MNEs, including Asian MNEs.

**CONTEXTUAL PRESPECTIVES**

Western theories on internationalization had overlooked the active role played by the state and neglected the institutional or contextual perspective in the internationalization of Asian firms (Yeung, 1999; Zutshi & Gibbons, 1998). In the Asian and Southeast Asian context the state often played a direct and active role in the internationalization of its MNEs. For example, the Singapore government played a key and direct role in the promotion of outward FDI, particularly from the early 1990's in its regionalization programs (Pang, 1995; Tan, 1995; ESCAP/UNCTAD, 1997). The state assumed the role of entrepreneur by actively opening up overseas business opportunities and setting up institutional frameworks (e.g., growth triangles, industrial parks in foreign countries) for Singaporean firms to tap. Government linked corporations (GLCs) were used to push regionalization activities either on their own or in partnerships with other firms. In Malaysia, the government took a very active role in promoting the internationalization of Malaysian firms. Investment promotion missions abroad were organized and often lead by the Prime Minister. The government provided incentives including tax abatement in 1991 and subsequently full tax exemption in 1995 for income earned overseas and remitted back to Malaysia. An overseas investment guarantee programs was instituted. The government’s role could work the other way too. To mitigate the impact of the effects of the 1997 Asian financial crisis, the Malaysian government even "instructed" firms to defer non-essential overseas investment. In Thailand, the government (e.g., through the Board of Investment, BOI) provide tax and other
encouragement and support for both inward and outward FDI. In Taiwan, government policy had been to target strategic industries (e.g., computer information industry) and to encourage development and internationalization of Taiwanese industries. The Taiwan government did assist firms in their internationalization activities, but for political reasons imposed constraints on Taiwanese FDI to China. Restrictions on travel and direct investments (particularly by stock market listed companies) to China led many Taiwanese firms (including our sample firms) to invest in China via third countries. The government even initiated a "go south" policy in 1993 to encourage Taiwanese firms to diversify their investments away from China towards Southeast Asia. In the Asian context, the state had played a very active and direct role in promoting the internationalization of its national firms. This differed from the western context where the role of the state was benign and indirect.

Asian MNEs should be examined within the context of its institutional as well as socio-cultural embeddedness. While national cultural characteristics or differences were investigated and found to have influences on different aspects of internationalization in Western MNEs (e.g., Johanson & Vahlne, 1977; Kogut & Singh, 1988; Shane, 1994; Barkema & Vermeulen, 1997), these cultural factors were essential in explaining Asian internationalization. Asian (or more specifically Chinese) internationalization tended to be organized through social and ethnic networks. The "Spirit of Chinese Capitalism" (Redding, 1990) with its sets of values and beliefs underpinned the way Chinese business and cross border operations were conducted (Yeung & Olds, 2000). Personal relationships and networks (e.g., Chen, 1995; Hamilton, 1996; Luo, 2000) formed the basis of the internationalization of Chinese and Asian firms. Hence the internationalization of Asian MNEs needed to be seen in its contextual embeddedness (both institutional and cultural). It was imperative to combine these contextual perspectives with the economic perspective normally used to explain the internationalization of Western MNEs. This research had endeavoured to examine these characteristics and their role in the internationalization of Southeast Asian and
Taiwanese firms within the context of IDP and other explanations of MNEs and incorporate them into specific propositions for research.

Hence more empirical studies on Asian and Southeast Asian MNEs will be required to provide further data on the applicability of extant theories on the internationalization of MNEs from Asian countries at different levels of development. Hoesel (1999, p. 35) stated that "What is seriously lacking at present, are new empirical findings that will enable us to make theoretical statements and hypotheses more concrete". Towards this end, this paper provided further empirical data on four Southeast Asian countries at different development levels, namely, Singapore & Taiwan (both NICs) and Malaysia and Thailand (both fast developing economies). This paper has made an empirical contribution with such comparative data on a geographical area not adequately covered by existing research. Based on these exploratory findings, propositions and hypotheses will be developed for more rigorous research investigation.

**RESEARCH METHODOLGY**

A case study approach was utilized for this exploratory study. This approach was used to collect comprehensive and holistic data (Yin, 1994; Eisenhardt, 1989) about firms which had internationalized their operations over time. This will provide data for more extensive subsequent research and testing of propositions developed from this exploratory study. The focus here was on MNEs from the four Southeast Asian countries at different level of development in line with the stages of the IDP. The data was primarily drawn from field interviews with the CEOs or top executives responsible for the international operations of the firm at the home country. As our focus was on the internationalization and strategies of the parent firms, overseas subsidiaries were not interviewed. All interviews were transcribed, coded, checked and analyzed. In addition to interviews, annual reports, prospectus, presentation to security analysts and bankers, news releases and other publications were requested and collected from the firms visited. Data from other published sources, including published materials in business and professional periodicals, journals and internet web sites, were used to supplement
the primary material. This use of data from various sources will also allow us to cross check and verify data and to ensure validity. Case notes were prepared, tabulated and analyzed for each case firm. The evidence was examined case by case for replicative effects. Across-case analysis to detect similarities and differences were undertaken using various tabular displays (along the lines indicated by Miles & Huberman, 1994) of data by case firms, by country, by industry along such dimensions under study such as internationalization spread, timing, motives, entry strategies, networks, etc. These results were also compared with findings from published literature on Western and Asian MNEs.

This study draws on primary data from 35 case firms from Singapore (9 firms), Taiwan (6), Malaysia (12) and Thailand (8). These firms were from textile and apparel (12 firms), electronics and electrical (10), consumer products (4), financial services (2), and diversified (7). Textile and electronics were the two industries well represented in the sample and were among the most internationalized sectors in Southeast Asia and would have substantial number of firms that had overseas operations to allow us to study their internationalization. These firms had internationalization experience ranging from very recent to over 30 years. Most of these firms requested anonymity and confidentiality as a condition of participation and were accordingly disguised in the paper. The reluctance of firms to participate in the research was encountered by the researchers and is a common problem of research in Asian countries.

FINDINGS AND DISCUSSION
In this paper, only the general findings and patterns of internationalization, rather than the details of individual case firm, will be reported and discussed. This is to highlight the broad research questions and propositions raised for subsequent larger scale investigation, without being distracted by details of each specific firm. Some of these specific case findings have been reported elsewhere.
**Extent of Multinationalization**

Our case firms varied in size from small (US$26m in sales) to large (US$3b). Most of them were around US$300-500m in sales size. As expected from the IDP, the Singaporean and Taiwanese sample firms were generally larger than the Malaysian and Thai firms. Compared to Western MNEs from developed countries, our case firms were much smaller in size. They were representative of MNEs in general from Southeast Asia reported in the literature. In Asia, small and medium sized firms played a key role in internationalization. The prevalence of small and medium sized firms investing in China and Southeast Asia was a characteristic feature of Taiwan (Chen, Chen & Ku, 1995), Singapore (Lu & Zhu, 1995) and Malaysia's (Rogayah, 1999) FDI. For example, during 1986-91, about 90% of Taiwanese projects in Southeast Asia were undertaken by SME’s (Chen, 1998).

According to the IDP thesis, multinationalization would be greater at higher stages of the IDP. Our case firms had fewer overseas locations in terms of international spread than western MNEs. Only three firms in our sample had operations in many parts of the world. The other case firms tended to concentrate in the Asian region. For example, the Taiwanese and Singaporean textile firms had an average of four locations while the Malaysian and Thai firms had less than two. In electronics, only one Singaporean firm had worldwide operations. The rest of the Singaporean and Taiwanese electronics firms have about 2-5 locations. The Malaysian firm invested in China and Australia, while the Thai firm had no overseas production. In the other sectors represented in our sample, only one firm in Singapore and one in Malaysia had operations in many parts of the world, while the rest were confined to a few locations, mainly in Asia. The Thai firms in our sample were the least internationalized. In general, the Singaporean and Taiwanese firms (IDP stage 3) were more internationalized than the Malaysian and Thai firms (IDP stage 2), which seemed consistent with the IDP thesis. Our case firms while concentrating in the Asian region had begun to move to the developed countries. This was particularly so for our Singaporean and Taiwanese case firms with investments in the U.S and Europe to pursue strategic asset seeking motives. This was also observed
by Hoesel (1999) for second wave NIC investors. However this activity was observed in a few of our Malaysian firms in the electronics and diversified sectors as well. A majority of the diversified firms had made acquisitions in Australia and Europe for market reasons. It was interesting to note the early foray into Australia by our Malaysian electronics firm for strategic technology acquisition. But this was subsequently divested after two years of trial, probably indicating the lack of international experience for a firm at stage 2 of the IDP.

In general, the size of our case firms had a constraining effect on the geographical spread of their internationalization. With limited resources, such firms tended to extend their current products and technologies to nearby countries with similar economic and cultural environments. In addition these countries provided locational advantages for our sample firms. The choice of proximate country in the initial stages of internationalization was consistent with the internationalization processes of the Uppsala School (Johanson & Vahlne, 1977). This was also similar to patterns of internationalization by small and medium enterprises (SMEs) in western developed countries as well (Bilkey & Tesar, 1977; Cavusgil, 1980; Holmlund & Kock, 1998; Riel, 1998).

Our case study firms were generally late comers in internationalization. In the textile sector, the Singaporean and Taiwanese textile firms started early in foreign production in the mid 1960’s, but only stepped up overseas activities during the late 1980’s in other Asian countries. The Malaysian and Thai textile firms went overseas only in the early and mid 1990s. In electronics, the setting up of overseas manufacturing by our Singapore and Taiwanese firms came only in 1990s. The Malaysian electronics firm went to China in 1995 followed by an Australian acquisition in the same year. The bulk of the overseas acquisitions by our case firms in the diversified and other sectors occurred in the 1990s. The longitudinal spread of our case firms was reflective of Asian MNEs from developing countries in general, with firms from the NICs ahead of the lesser developed Asian countries, indicating some support for the IDP. The competitive
catch-up processes became very important for Asian MNEs and some might be able to leap frog stages in the internationalization process (Young, Huang & McDermott, 1996). Oh, Choi & Choi (1998) in their study of globalization of a Korean firm, Daewoo Motor Company, indicated that Asian MNEs must simultaneously pursue both technological built up and internationalization at the same time to compete effectively in the global market. Mathews (2002, 2006) postulated that late comer firms could be successful in globalization by learning and building capabilities quickly and successfully. Southeast Asian MNEs had been late comers in globalization. While our case firms had gone overseas since the 1960s, the big impetus for internationalization only occurred during the late 1980s and early 1990s, though they seemed to have moved rapidly since then in an attempt to acquire overseas manufacturing capabilities and other strategic assets, particularly in developed countries. This might also enhance their competitiveness at the same time. However this needed verification. Hence the specific proposition for further research:

- Emerging Southeast Asian MNEs that are latecomers can accelerate their growth and progress in the IDP by more rapid overseas expansion, particularly in more developed countries to augment their strategic assets.

**Competitive Advantages for Internationalization**

In general the competitive advantage of our case firms in the four countries was based on cost-based competencies and adaptation to markets. However there were differences by industrial sector and country. In the textile sector, low cost input largely for OEM manufacture underlay their internationalization advantage and strategy. Our large Singaporean firm had moved all its garments manufacturing overseas to capitalize on the cost and quota advantages offered by host countries and its Asian network. The largest Taiwanese textile firm in our sample, an integrated textile company, focused its competitive advantage in terms of using low cost production. It integrated backwards to ensure cheap and steady sources of raw materials, including several joint ventures to produce textile and related materials such as PTA (pure terephthalic acid), nylon fibre, polyesters and industrial gases and one in Canada to produce ethylene glycol as
feedstock for fibre. This firm had moved along the textile value chain to internalize its ownership advantage as well as to acquire technological knowledge from its foreign partners. In addition it invested in a joint-venture in Canada to produce feedstock (ethylene glycol) – a backward integrative motive to ensure raw materials supply. It also moved downstream in departmental stores in Taiwan. This move to greater vertical control of its value chain and to capitalize on internalization advantages was indicative of the move along the IDP and was found in the second wave Asian MNEs (Dunning, Hoesel & Narula, 1998). This was different from the Malaysian and Thai textile firms which did not seek to augment such competitive advantage, but relied on their OEM production, a reflection of its stage 2 in the IDP. In the consumer product sector, the firms in our sample relied on cost advantage and have moved vertically. For example, the Malaysian case firm started in flour milling and has grown organically to animal feeds, food products, oil processing and related business. It had a packaging plant (polypropylene bags) in Myanmar and a JV with the Australian Wheat Authority and local partner in Vietnam. The Singaporean case firm expanded into Sri Lanka and had since moved into agri-based businesses and retailing. It diversified into China with three JVs. In Singapore itself the firm has diversified into confectionery, franchising and food services. Both food firms in our sample have made integrative efforts as well as trying to create their own brand names (both necessary requirements to be in stage 3 of the IDP). The majority of our diversified firms in Singapore, Malaysia and Thailand and the financial services firms were largely opportunistic in nature, going overseas largely for market reasons. For example, two of the Malaysian conglomerates entered China to tap the huge China market and another two diversified firms make acquisitions in the UK market.

In electronics, our Singaporean and Taiwanese firm initially extended their OEM-base strategy of seeking low-cost manufacturing sites in Asia. They subsequently invested in the U.S and Europe for strategic reasons and to position themselves for the NAFTA and European markets. These locations also served as windows for new technology
acquisition in the U.S. and Europe. The Thai electronics was contended to remain as an OEM producer in Thailand. The Malaysian electronics firm went to China and Australia mainly for market and R&D reasons. Technology acquisition was its motive in the Australian investment, but this move was very much ahead of its time in internationalization and was disposed off two years later. Time and learning was probably required for such a move further along the IDP towards stage 3 for the Malaysian firm.

The internationalization of our Southeast Asian case firms as well as that of other Asian MNEs generally lay in their search for low-cost labour and market expansion. This differed from those of Western MNEs that were based on efficiency seeking motives of optimising their intangible assets and other ownership advantages. In the textile and electronics industries under study here, it could be argued that the motivation for the internationalization of the Asian firms resembled that of their western counterparts in their initial internationalization process as the product life cycle (Vernon 1966, 1979) and investment development path (Dunning 1993) theses would suggest. Both these theses pointed to the location based advantages (such as low cost and protectionist factors) as motivators of the international expansion of production in the textile and electronics industries. There were similarities in these location based motivators for Asian MNEs and Western MNEs during their early stages of internationalization as indicated by the IDP.

Southeast Asian and Taiwanese MNEs had different ownership specific advantages (e.g., adaptive technology, better market knowledge) that allowed them to compete with western MNEs in the developing economies. The ownership specific advantages required for these Asian MNEs to compete in the developed countries would be different. Were our sample firms developing these capabilities? The competitive advantage of our case firms in the textile industry was largely based on low cost input largely for OEM manufacture. In addition to using low cost production, the largest Taiwanese textile firm in our sample had integrated backwards and forward along the
textile value chain to internalize its ownership advantage as well as to acquire technological knowledge from its foreign partners. The Singaporean textile firm developed its extensive value chain in the Asian region to increase efficiency. This was different from the Malaysian and Thai textile firms which did not seek to augment such competitive advantages. The Taiwanese and Singaporean company diversified outside textile into other businesses and were turning into conglomerate multinationals, which would erode its original sources of competitive advantage as the firm moved away from its core competencies in the textile sector.

The internationalization advantage of our electronics case firms was initially based on strategies of OEM manufacturing. Initially they capitalized on domestic low cost and flexibility to supply components. However, the more progressive firms had moved to the more advanced countries to acquire market knowledge and strategic assets. The largest Singaporean electronics firm in our sample had since progressed beyond the OEM stage and relied on its technology and branded products. It had moved the most away from the low technology and cost-based Asian MNE model. In addition to its low cost production bases in Malaysia and China, its competitive advantages included its niche technology leadership, brand recognition, distribution network and product line-up. The firm deliberately moved to the U.S. to tap technology early. It had since developed a leadership position in audio-visual technology for PCs. About 80% of its turnover was from North America and Europe. This firm resembled Acer of Taiwan (Li, 1998) and other “dragon multinationals” (Mathews, 2006). Our Taiwanese case firms had spread beyond its Asian bases (Thailand and China) to Mexico and the U.K. The strategic positioning of the Mexican operation was to maximize its location advantages (cost and proximity to the U.S.). It was also done for strategic reasons, including keeping tap on and acquiring technology development in the U.S. and to cater to the NAFTA markets. The U.K. location provided both an entry into the European market and a European base for its technology monitoring and global logistics network.

The investments in the developed countries were to seek and accumulate new competitive capabilities and advantages. Our case firms were emphasizing R&D in
product development for own design manufacturing (ODM) and developing their own brand identity. One case firm had recently achieved some very innovative products in colour monitor and LCD displays which was recognized by the industry. Hence our progressive electronics firms were trying to extend its competitive ownership advantage beyond a low cost basis to one of greater differentiation based on innovation, distribution and reputation. This was a reflection of moving upwards in the IDP. On the other hand, our Malaysian electronics firm relied on its technical expertise to tailor electronics displays to host market requirements. The company was conscious of its need for R&D and acquired an Australian firm for its technology and used its China's venture to tap technology developed and tailored to the Chinese market. The Thai electronics firm still relied on its OEM contracts. Hence the Malaysian and Thai electronics firms were much less sophisticated than the Singaporean and Taiwanese firms and relied on cost and their skills to adapt existing technology to local market conditions. They probably needed to acquire further capabilities from developed countries to progress further in the IDP.

In the consumer products sector, integrative efforts along the value chain were made by our Singaporean and Malaysian case firms, but not by the Thai firm. In the financial services and diversified sector, our sample firms either adapted their current core competencies to serve the local market (e.g., in manufacturing and retail in China) or made use of their overseas acquisitions for market expansion reasons. Hence firms in these sectors still relied on cost and market adaptation for their advantage. It was doubtful whether they could be very competitive against western MNEs.

All our sample firms shared several basic competitive advantages and traits, though there were some variations, particularly by country and industrial sector. The majority of firms relied on advantages based on cost, responsiveness, and knowledge of the local market. Similar findings on other Asian MNEs had been reported by Luo (1999, 1998), Yeung (1994, 1997), Li (1994, 1998), and Chen (1998). Differences in their ownership advantages were detected among the sample firms from the four countries. In the
textile sector, while all firms relied on cost-based advantages, the Taiwanese and Singaporean firms were more internationalized and had moved towards greater vertical control of their value chain activities, particularly in an advanced country where technology intensive processes were required for large scale input manufacture. The Malaysian and Thai textile firms were largely confined to its cost-based OEM manufacture. Similarly in the electronics sector, the firms from NICs had upgraded to ODM, own brands and developing logistics networks (the transaction-type ownership advantages of Dunning, 1993) even in the developed countries. There was some preliminary indication that such FDI in developed countries could have a positive effect on the firm’s value (Aybar & Thirunavukkarasu, 2005). Our Malaysian and Thai firms were occupied with adaptation of technology for Asian markets. The characteristics of our Malaysian and Thai firms were generally consistent with the first wave (stage 2) of the IDP, while the Singaporean and Taiwanese firms were reflective of the second wave (stage 3). To become more competitive globally, our more forward looking case firms in stage 3 had moved to the developed countries to seek technology, strategic assets and markets, but their advantages were still different from those of more advanced western MNEs which were largely based on intangible assets (e.g., technological capabilities, organizational skills). Nevertheless they were augmenting their competitive advantages and moving towards resembling more like Western MNEs. However it also indicated that the conscious move to advanced countries was to seek and acquire additional ownership advantages, rather than to exploit existing ownership advantages as the basis of internationalization as postulated in OLI explanation. Mathews (2006) argued that dragon multinationals had internationalized in order to acquire strategic assets. Will this mechanism work for Southeast Asian MNEs from countries less developed than the NICs? How can this process really work for such firms? The above will need further substantiation and has led to the following proposition to prompt further research:

- Emerging Southeast Asian MNEs internationalize into developed countries to acquire new strategic assets and capabilities rather than internationalize relying on their current strategic assets and capabilities. Such Asian MNEs will be more competitive than those that have not internationalized in this manner.
Network Context
Ethnic networks were specifically not covered in the IDP thesis, but the role of such networks was critical in the growth of Southeast Asian and other Asian MNEs. The internationalization of our sample firms was strongly aided by their ethnic networks in the Asian region. All our case study firms reported using their ethnic and other networks in their foreign operations. For example, our largest Taiwanese textile firm went to Singapore based on ethnic connection in 1963 and had since developed an extensive ethnic network in Asia (Hong Kong, Philippines, Thailand, Malaysia, Indonesia & China) where it had operations. In addition, it subsequently went into four joint ventures with Western MNEs in its upstream integrative ventures to protect its sources of supply. The large Singaporean textile firm initially expanded overseas via its extended family network in the region and had capitalized on its network of ethnic associates in Asia to form an Asian grouping for all its businesses. The Malaysian textile firm was linked to a large network of suppliers and related businesses in Asian countries which it had closely associated with over a long period of time. The Thai firms were similarly linked to its network in Asia. Such networks were also utilized by our sample firms in the consumer products and diversified sectors. This was particularly evident in their expansion into China.

Similarly in the electronics firms in our sample, all had ethnic networks in Southeast Asia and China that they utilized for their overseas operations. For example, one of our Taiwanese firm set up a venture in Thailand as the result of association with a related Taiwanese partner in another venture (shoe manufacturing) that had operations there. Ethnic connection also facilitated its operations in China. Our Singaporean and Malaysian electronics firms had ethnic partners in other parts of Asia and an extensive network of Japanese and other suppliers. In the electronics firms in our sample, the use of strategic alliances (which involved both business and ethnic partners) was also prevalent. Our Taiwanese case firms had elaborate sub-contracting networks and built extensive global logistics networks and JIT hubs to ensure efficient and smooth supply
and distribution. It was apparent that our electronics firm had realized the need to build efficient global logistics and supply networks to complement the competitive advantage of their ethnic links and low-cost production. Hence a part of the network was not necessarily ethnic-based, but based on industry relationships, reflecting the capability of our sample firms to effectively combine the two. The presence of an elaborate global network of suppliers and sub-contractors as part of the electronics industry global OEM framework facilitated this. For example, our Taiwanese firm built up elaborate logistics networks in Europe. The Singaporean and Malaysian electronics firms in our sample made greater utilization of strategic alliances, licensing and partnerships with companies in technologically advanced countries.

The role and utilization of ethnic networks in our sample firms was not unlike that of other Asian MNEs reported in the literature (e.g., Yeung, 1997; Kao, 1993; Luo, 2000). These ethnic networks were characteristic features of Chinese businesses and their internationalization in Asia (East Asia Analytical Unit, 1995; Hamilton, 1996; Weidenbaum & Hughes, 1996). Cooperative activities in such networks were based on personal relationships (guanxi) that were usually ethnically linked. Their similar cultural attitudes and heritage fostered the development of trust and cooperative behaviour. These ethnic networks and ties provided knowledge and access to local markets, distribution systems, connections around local bureaucracy and business systems, as well as potential business partners and associates and even financing. In Southeast Asia, overseas Chinese, who shared common dialects with Taiwanese and Malaysian Chinese investors and Thai investors of Chinese ancestry (nearly all our case firms had some form of Chinese background), provided valuable links to form local networks for their businesses (Chen & Liu, 1998; Sim & Pandian, 2002, 2003). Yeung (1998) also illustrated that economic synergy was embedded in the complex business networks among the transnational enterprises from Malaysia and Singapore. Pananond (2004) indicated that network capabilities provided substantial competitive advantages for the expansion of Thai multinationals. Ethnic and cultural ties also resulted in the surge of Taiwanese and Southeast Asian investments and operations in China,
particularly in Fujian and Guangdong provinces (Lu & Zhu, 1995; Chia, 1996). Lin (1996) indicated that the average size of Taiwanese investments in China was much smaller than that in Southeast Asia because the ethnic network effectively facilitated easier entry by smaller firms. The attributes of manufacturing network structure had been empirically linked to the degree of internationalization in the Taiwanese electronics and textile industries (Fang & Hsiao, 1999). Chen (1999) found that manufacturing strategies of networks in the textile industry had enhanced the competitive determinants of flexibility, delivery and cost for the SMEs in Taiwan. The existence of such networks had been linked to the competitive advantage and performance of Asian firms (Park & Luo, 2001; Tsang, 1998; Lee, Tae & Wong, 2001). Such networks could be considered as strategic assets and sources of competitive advantage (Yeung & Tung, 1996). The networks allowed these firms to leverage their linkages and acquire technological and market knowledge to become more competitive (Hitt, Lee & Yucel, 2002; Ordonez de Pablos, 2005). However the explicit connection between such networks and competitive advantage and performance needed further clarification and research and will be covered in research propositions to be proposed later. As the above empirical research had focussed on Chinese firms, will this connection hold for firms in countries like Korea and Japan? These countries were non-Chinese but had Confucian origins. Guanxi concepts in Korea (inmak) and Japan (kankei) had subtle differences compared to those of the Chinese (Hitt, Lee & Yucel, 2002). For example, family ties were most important in the Chinese context and least important in the Japanese context, while Korean relationships emphasized geographical ties. Trust was most important in forming Japanese networks but less so in Chinese or Korean networks (Hitt, Lee & Yucel, 2002; Fukuyama, 1995). So will the impact of networks be the same for such contexts that are not Chinese but had Confucian origins? This needs further investigation.

In the textile and electronics industries (as well as other sectors), it could be argued that our sample firms and other Asian MNEs were no different from Western MNEs that had made use of extensive global networks, particularly. Organizational networks had been
quite extensively covered in the literature on organizational dynamics (e.g., Nohria & Eccles, 1992; Pfeffer & Salancik, 1978; Oliver, 1990). Such relationships were similar to the concept of social capital (Coleman, 1988; Fukuyama, 1995) that had recently gained popularity in the west. In a general sense, this concept had been defined as “the ability of people to work together for common purposes in groups and organizations” (Fukuyama, 1995, p.10). Social capital consisted essentially of relationships and network structure that could provide value (Adler & Kwon, 2002). Hence guanxi could be seen as a form of social capital and in that general sense not unique. Differences between guanxi and the more recent western concept of social capital and relationship network had been explored and discussed (Hitt, Lee & Yucel, 2002; Lee, Pae & Wong, 2001, Ordonez de Pablos, 2005). However, debate as to whether guanxi was unique to the Chinese persisted (Ordonez de Pablos, 2005). Guanxi type relationship might be universal. What could vary from culture context to culture context could be the type of particularistic ties and the intensity of application (Tsui & Farh, 1997; Park & Luo, 2001). While social capital is a relatively recent concept, guanxi relationships had been in use in Asian countries for a long time (Hitt, Lee & Yucal, 2002; Wee & Lan, 1998). Koka & Prescott (2002) indicated that a firm’s nationality was a key contingency factor in the relationship between social capital (in particular, its information dimension) and performance. Hence it would be instructive to study and clarify the specific impact of network relationships in different national and cultural contexts.

The global textile and electronics industries had well established patterns of networks of international OEM suppliers and contractors. Asian OEM suppliers, including our case firms, were usually part of this network (Ernst, 2000). Even in the internationalization literature on Western SMEs, recent attention had also shifted to using networks to examine and explain their internationalization (e.g., Chetty & Holm, 2000; Holmlund & Kock, 1998; Tavakoli & McKiernan, 1999; Johanson & Mattsson, 1988; Caviello & McAuley, 1999). Dunning (1988) had also indicated the need to include the influence of alliance network in MNE explanations. But these western networks were essentially of a business (commercial) nature and not linked to the social context. Networks of
Asian firms, including our sample case firms, were largely based on ethnic and cultural foundations, threading similar cultural values and attitudes in the pursuit of businesses. They were embedded in the social and cultural framework or context of these largely Chinese businesses. Nearly all our sample firms had some form of Chinese background. Hence the ethnic and social embeddedness of networks and relationships (guanxi) was a distinguishing feature of Chinese based Asian MNEs and not adequately covered by conventional explanations of MNEs. Our proposition was that such contexts should be explicitly taken into account, particularly in the IDP perspective. Further, it could be asked whether Asian MNEs, which were not Chinese or Confucian based, had and benefited from such ethnic networks. Would the same effects apply to Asian firms of Indian, Malay, Indonesian and other origins that were not Chinese or Confucian? The applicability of ethnic networks relationships in the internationalization of these firms should be investigated as existing empirical evidence is sparse. Based on the above discussion of networks, the following propositions for further research can be stated as:

- The greater the extent and depth of ethnic networks the greater the competitive advantage for Southeast Asian and other Asian firms in their internationalization strategy.
- Ethnic networks are more critical to and lead to greater internationalization of Asian firms than non-Asian (say, western) firms.
- Ethnic networks are more critical to and lead to greater internationalization of Chinese (or/and Confucian based) Asian firms than those that are not.

These basic propositions will permit the framing of specific research questions and hypotheses depending on the particular empirical or country context that a specific researcher wishes to investigate.

CONCLUSION

This paper made an empirical contribution with comparative data on the internationalization strategies of Asian firms from four countries at different levels of development, particularly on a geographical area not adequately covered by existing
research. The internationalization strategies of our Southeast Asian and Taiwanese case firms were founded on cost-based competencies and other location-based advantages, brought together by an extensive web of ethnic networks. Differences between our Singaporean, Taiwanese, Malaysian and Thai case firms were found and discussed. In general, the Singaporean and Taiwanese firms were more internationalized (at stage 3 of IDP) than the Malaysian and Thai firms (stage 2). These stage 3 firms had more developed and elaborate production capabilities and networks and greater ODM/OBM (own brand manufacturing) participation than the Malaysian and Thai firms. Of these, our Thai case firms were the least internationalized. Increasingly, these NIC firms were extending beyond their current competitive advantages to those that capitalized on differentiation benefits, such as technology, innovative product features and value. Our Singaporean and Taiwanese case study firms in the electronics sector were particularly active here. The more progressive sample firms were moving outside their Asian bases to North America and Europe. This was to position themselves strategically for new technologies and markets. The Malaysian and Thai case firms were less active in all these areas and indicated a lower level of internationalization and competitiveness. Hence they were more reflective of the first wave investors rather than the second wave of firms described by Dunning, Hoesel & Narula (1998). Emerging Southeast Asian MNEs need to pay particular attention to learning and accumulating new knowledge and expertise, particularly from developed countries to progress along the IDP. The need to develop and leverage new capabilities had become critical for Asian MNEs in an increasingly global market (Pananond & Zeithaml, 1998; Tsang, 1999; Mathews, 2006).

The trend towards differentiation strategies based on technological and other capabilities by our sample firms indicated a move towards the ownership (or firm) specific advantages specified by the Investment Development Path thesis. The findings here provided some support for the IDP and the IDP stages of our Southeast Asian countries and Taiwan. Whether the future strategies of our sample firms (and that of other Asian MNEs) will result in them resembling Western MNEs or evolve into some form of hybrid remained to be seen and warrant further research and discourse.
focussing on the propositions set out in this paper. There were other observable differences between our sample Asian firms and Western MNEs. In particular our findings indicated the key role ethnic network and relationships played in their internationalization. These elements had been neglected in conventional MNE theories. Hence our propositions for further research had been suggested. Our findings here reinforced the basic proposition that the social and institutional framework was a distinguishing feature of our firms, and probably other Asian MNEs, and needed to be verified by further empirical research. Yeung (2006) contended that some of these fundamental cultural traits will persist as Asian and ethnic Chinese businesses progressed in their development and growth in the global market.

This paper is an exploratory and broad examination and discussion of the internationalization characteristics and strategies of emerging Southeast Asian and Taiwanese MNEs. It had drawn on specifically from a study of 35 case studies in the four countries. The empirical base had been limited and the use of case studies method here had its shortcomings (e.g., in terms of sample size, generalizations, etc). Our research did not capture the operational strategies at the level of the subsidiary or JV. The findings were exploratory and formed the basis for research propositions presented for bigger scale investigation. As indicated there existed a wide empirical research gap on Southeast Asian and Taiwanese MNEs. These need to be filled to provide further evidence and answers to the issues raised in the paper. Further research on Asian MNEs from countries of different levels of economic development could fill some of these research gaps and provide a more comprehensive test of the IDP and other MNE theories. Other potential areas of research could include longitudinal studies of Asian MNEs to examine whether they will resemble Western MNEs as they evolve or become distinct hybrids, the impact of ethnic networks on the performance of Asian MNEs of both Chinese and non-Chinese origins (of different types), and the role of the state in internationalization strategies. Research into these and related areas would provide a better and more comprehensive understanding of Asian MNEs, as well as MNEs in general.
REFERENCES


