International FDI Patterns: Key dimensions and Outcomes

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Abstract
Foreign Direct Investment (FDI) and Multinational Enterprises (MNE's) have attracted increased interest from scholars in all over the world. The article analyzes with the use of a literature review the theoretical incentives concerning the choice of a firm to participate in international production. It highlights the key role of the new market form (internalization) and KIT (Knowledge, Information, Technology) advantages. Then tries to discover, with the use of a review from the 21st century empirical literature, the outcomes of the exploitation of these incentives for MNE's and Host Countries. The majority of the empirical studies for MNE's outcome refers to the scope they seek and indicates that there is a turn to the creation of regional KIT advantages vs. global KIT advantages of MNE's, the Merger and Acquisitions impact on FDI and the role of MNE's as a channel to exploit KIT advantages that exist in the host countries. On the other hand empirical studies reveal that more importance for host countries are intra and inter industry spillovers of MNE's KIT advantages, trade spillovers, but important is also the impact of MNE's culture that forces both host countries domestic market and government policies to be liberalized and open to competitiveness.

Keywords: FDI, MNE's, KIT advantages, New market form, Intra-industry spillovers.

JEL Classification: F2, F23

Introduction

Almost fifty years after the completion of Hymer's[1] doctoral dissertation in MIT (1960) on Foreign Direct Investments and Multinational Enterprises, both theoretical and empirical literature on these subjects have increased substantially: a phenomenon that imposes a need for a review in order to examine the key common facts that derive from the literature and propose some further research issues for the 21st century.

Even though Foreign Direct Investments and Multinational Enterprises that Hymer first introduced describe two different items, it is more than common to be used interchangeably in literature due to the fact that they are strongly related.

This relation is described from the analysis of the definitions that J.H. Dunning (1996, p. 3-5), one of the most referred scholars,

[1] Hymer's contribution is so-called "the starting point" (Safarian, 2003, p. 117) for the research on FDI & MNE's and as Calvet (1981, p. 43) defends "Hymer's contribution has remained unshaken".

presents for these two subjects. FDI has two specific characteristics: “(1) The investment is made outside the home country of the investing company, but inside the investing company. Control over the use of the resources transferred remains with the investor. (2) It consists of a ‘package’ of assets and intermediate products, such as capital, technology, managerial skills, access to markets and entrepreneurship”. On the other hand MNE’s have two distinctive features: “(1) they organize and coordinates multiple value-adding activities across national boundaries, (2) they internalize the cross-border markets for the intermediate products arising from these activities”. From the definitions it can be derived that FDI is a core component for an enterprise in order this to be named MNE.

Keeping in mind the two definitions of Dunning for FDI and MNE’s that will help us understand the following analysis, section one presents a historical theoretical literature review in which will be based the review of the empirical literature that penetrated the 21st century in the second section. In the last section conclusions (key common facts) will be drawn from the synthesis of both theoretical and empirical review and suggestions will be presented for further research issues.

Theoretical Literature Review

This review will try to enlighten the key common factors that exist in all major theoretical approaches, which will be presented according to their core analytical base: (i) Hymer’s approach is based on theory of industrial organization, (ii) internalization approach is based on theory for the nature of the firm (Coase, 1937), (iii) Product Life Cycle, (iv) Competitive Advantage, (v) Macroeconomic approach, (vi) Eclectic paradigm[2].

Hymer’s Approach

Hymer presented the first approach for a complete theory on International Production in his doctoral dissertation. His main contribution can be summarized in two sentences (Yamin, 2002, p. 89-108):

I. FDI can’t be explained as an international capital movement due to interest differentiation.
II. In order to explain FDI, we need firstly to explain why MNE’s find profitable to own a company in a foreign country.

These two sentences describe the failure of portfolio theory to explain FDI’s (Dunning, 1996, p. 69-70). The standpoint of this approach as Kindleberger (Calvet, 1981, p. 43), Hymer’s doctoral supervisor, said, was the imperfect competitive market where exist barriers of entry, information asymmetry, external economies etc. Keeping that in mind a firm should have an ownership advantage[3] in order to outweigh the disadvantages against the firms of the host country and create a structural market failure (Dunning, 1996, p. 69-

[2] There are many more theoretical considerations that someone can find in either Dunning (1996, ch. 4 & 6) or Cantwell (2002, p. 25-88). For research purposes in this work will be presented the most referred theoretical considerations.
[3] As Horaguchi & Toyne (1990, p. 487-494) suggest this advantage seems to be symmetrical with the “extensive and versatile internal managerial resources” that Penrose (1956, p. 225) claims in her work.

70). This approach was based probably to Bain's[4] ideas for barriers to competition on domestic markets that was extended internationally.

Hymer, in his French-language paper "The Large Multinational Corporation" on Reveue Economique in 1968 (1990, p. 8-31), tried to enrich his work and incorporate the Coasian (Coase, 1937, p. 386-405) approach of the firm, something that gives him the title of pioneer for "Internalization Approach" that will be examined in the next section. His paper was divided in four thematic sections. In first section (Hymer, 1990, p. 9-13) firm was examined as better tool against the market (under imperfect competition) due to the fact that could minimize the costs because liberalizes information and provides a structure where it could be traded freely. The next section (Hymer, 1990, p. 13-17) examined the role of the internationally unified organizational management that creates profit opportunities by exploiting firm's vast resources. The third section (Hymer, 1990, p. 17-23) referred to the reasons that drive a firm to expand with vertical integration internationally, which are market imperfections, market uncertainty in international raw materials markets, financial market imperfections and lack of information. In the last section (Hymer, 1990, p. 23-29) summarized the above work to that "direct investment in a foreign processing industry protects a firm against competition and helps it maximize the quasi-rents it earns owing to its technological advantages and product differentiation".

Concluding the reference to Hymer's[5] work, someone may support that his first approach was somehow partial because it did not refer to the common organizational structure of international production. In his follow up becomes obvious that he presented a complete theory for international production (meaning FDI & MNE's). Two were the key factors ownership advantage (that creates and probably created by imperfect competition) and common management (or as later on described Internalization that is more profitable than operating under imperfect competition).

The Internalization Approach

The common base or a starting point of work for one of the most predominant theoretical approaches is the work of Coase (1937, p. 386-405) for the deficiencies of neoclassical theory of trade and investment which creates opportunities for firms to keep in their organizational structure a market. A market with imperfect competition creates costs (Williamson, 1981, p. 1541) such as negotiating costs, costs of moral hazard and adverse selection, cost of broken contracts etc. (Dunning, 1996, p. 81). The firm can avoid such costs by internalize market transactions in order to be in line with its scope to maximize its wealth (McManus, 1972, p. 66-93) up to a point of course that the costs of organizing an extra transaction within the firm become equal to the costs of carrying out the same transaction by means of an exchange in the open market or the costs of organizing in another firm (Williamson, 1981, p. 1541).

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[4] Bain (Waldman & Jensen, 1998, p. 5-7) was a pioneer of Industrial Organization theory and presented the Structure – Conduct – Performance model to explain oligopolistic markets.

[5] Hymer in '70s turned his work to a Marxian analysis of international production, sample of this work can be find in Cohen et al (eds) "The Multinational Corporation: a radical approach" Cambridge University Press 1979.

This coasian approach extended to international production mostly by Buckley & Casson (1998, p. 539-561) even though a first hint was provided by McManus (1972, p. 66-93), who suggested, “an international firm chooses to operate foreign subsidiaries so as to maximize the sum of the values of the international activities under its control”. Buckley & Casson examined a research-intensive firm that it was better off by keeping internally a market and the only choice it had, was the location of its investment. This last choice is better explained with the question horizontal (target to make known its products in the new market) or vertical integration (target cheaper production)(Caves, 1996, p. 2-19).

Internalization approach is not a complete approach as it is based only in the malfunction of the market and does not pay attention to ownership advantages as Hymer suggested in his earlier work.

Product Life Cycle

Vernon (1993, p. 3-15), a distinguished professor of economics in Harvard University, based his ideas in the role of technology-innovation and cost in the production process. His approach described the cycle that a product has from the time of first introduction till the decline of its demand. For the first time technology earned a great respect due to the role that it has in the concern of the firms to be always competitive.

Product Life Cycle was presented with the use of stages, in the first stage the production of a new product in small scales begins near the R&D centers that developed technologically this product. The demand elasticity of this product is low and the firm tries to communicate the new product to buyers and suppliers, in order to measure its acceptance from the market. Then domestic demand increases and starts to become known in countries with similarities where the product is delivered through common trade. Next the competitors increase their production and of course competition against the first introducer and the product becomes standardized. The firm that firstly introduced the product starts to search for the minimization of the production cost and transfers part of the production to countries with low labor cost[6]. In the last stage the product becomes technologically “old” and the demand drops, so the introducer transfers all of its production to a country with low production cost and covers the low domestic demand with imports.

This approach even though it introduces an important factor, technology, to the analysis it does not provide information for the internalization factor.

Competitive Advantage

Departing from the trade theory of Heckscher-Ohlin-Samuelson (HOS) and their comparative advantage, Porter (1998, ch. 3) goes a step further and introduces the competitive advantage in a segment level. His work focuses on the role of home nation in the firms creation and sustain of a competitive advantage in global industries.

[6] Sweezy (1978, p. 102-103) from a Marxist point of view describes such investments in low-cost labor countries or countries rich in natural resources imperialistic with only scope as Lenin said to economically abuse these poor undeveloped countries.

Porter describes the determinants that can create a national advantage (sometimes called as “diamond”), starting from the question “why does a nation achieve international success in a particular industry?”. The answer referred in four broad attributes of a nation that shape the environment for the creation of competitive advantage in an industry cluster[7]. First are factor conditions necessary for a production line (human resources, physical resources, knowledge resources, capital resources and infrastructure), and then is the nature of home demand for the industry’s product or service (demand conditions). Third is the presence or absence in the nation of supplier industries and related industries that are internationally competitive and last are the conditions in the nation governing how companies are created, organized, and managed, and the nature of domestic rivalry. Each nation can create such an environment for a certain industry cluster that can empower it and turn it into an international competitive player.

This approach is not a complete one as it focuses to the technological (including information) advantage of a company that goes internationally and only how such an advantage can be gained.

Macroeconomic Approach to FDI

Kojima (1973, p. 1-23), one of the pioneer’s in this theoretical ground, examined two different types of FDI: trade-oriented (the Japanese style) and anti-trade-oriented (the American type) and attempted to identify their characteristics.

According to his work FDI[8] could be classified in five motives: (a) natural resource-oriented which is obviously trade-oriented, (b) labor-oriented investment which is also trade-oriented because it assists the reorganization of the international division of labor and harmonious trade growth between labor scarce and labor abundant countries, (c) market-oriented investment that is induced by trade-barriers in the host country is mostly trade-oriented, (d) market-oriented investment that is oligopolistic and is found in new manufacturing product industries (American mainly) and is anti-trade-oriented and (e) internationalizations of production and marketing, through vertical and horizontal integration, which is anti-trade oriented or not according to the comprise of an oligopolistic investment.

Japanese investments were mainly natural-resource seeking, a policy that named “development assistance for import” due to the lack of important resources in Japan like oil, gas, iron, coal etc. Another type of Japanese investments was labor-oriented especially in sectors that Japan started to loose its comparative advantage due to cheaper labor. The Japanese-style FDI was heading from a comparatively disadvantageous industry in the investing country to a potentially comparatively advantageous industry in the host country and harmfully promotes an upgrading of industrial structure in both sides and thus accelerates trade between the two countries.

[7] Papandreou (Papandreou & Bergsten, 1973, p. 455-457) says that the internationally increasing power of MNE’s describes a national broadcast of private funds (same description with Porter’s diamond) that can be labelled as imperialism.

[8] Kojima (1973, p. 3) says “FDI, that is, the transmission to the host country of a package of capital, managerial skill, and technical knowledge, is a potent agent of economic transformation and development”.

American investments were mainly from innovative (according to Product Life cycle model of Vernon) and oligopolistic (according to the approach of Hymer for imperfect competitive markets) industries something that categorized them as anti-trade oriented. This was the reason that they were not welcomed in developing countries because they did not promote North-South trade.

Macroeconomic approach based on more or less nationalistic motives, tends to limit its use in the trade effects of FDI in order to embrace cross-border transactions of intermediate products (Dunning, 1988, p. 9) even though it provides us a first categorization of the motives of FDI.

Eclectic Paradigm

Dunning (1996, p. 76-85), a well-known scholar and leader of the Reading School, tried to provide a synthesis of the most well known theories that presented above (Cantwell, 2002, p. 25-88) in order to provide an analytical framework that could be used for further empirical work (Markusen, 1995, p.173).

Starting point in his work were the deficiencies in the two core trade theories (Ricardo, HOS) in the rim of perfectly competitive markets. It raised two facts (Dunning, 1996, p. 76): (i) market discriminates between firms in their ability to gain and sustain control over property rights or to govern multiple and geographically dispersed value-added activities and (ii) the failure of intermediate product markets to transact goods and services at a lower net cost than those which a hierarchy might have to incur. Dunning named two important factors, first that firms have advantages that need to keep in order to succeed wealth maximization and secondly the non-existence of a market where someone can trade non-finished products (that are based in the previous advantages). These two factors seem to draw the complete work of Hymer both in his dissertation (Dunning, 1996, p. 69-70) and his article in Revue Economique (Hymer, 1990, p. 8-31). In order to explain the failure of the market of intermediate goods Dunning (1996, p. 78-79) provided three key facts: (i) Buyers and sellers do not enter the market with symmetrical information which give rise in opportunism, adverse selection, moral hazard (Williamson, 1981, p. 1537-1568), (ii) market cannot take account of the benefits and costs that arise as a result of a particular transaction, but which are external to that transaction and (iii) there is an inevitable tradeoff between the overall costs of a set of value-added activities and the opportunities they offer for synergistic economies(such is the case of internalization).

In order to provide an answer to all these deficiencies of the core trade theory for perfectly competitive markets, Dunning presented his eclectic paradigm (1996, p.79) that described the four conditions that should being satisfied in order a firm to participate in International Production. These conditions are:

I. The extent to which it possesses sustainable ownership-specific advantages (O advantage) vis-à-vis firms of other nationalities in their particular markets it serves or is contemplating serving. This advantage seems to be drawn from the “extensive and versatile internal managerial resources” that Penrose (1956, p. 225) claimed in her work as Dunning includes also “common governance of cross-border value added activities”.

II. If O advantage is satisfied the other condition is called market internalisation advantages (I advantage) that may reflect either the greater organizational efficiency of hierarchies or their ability to exercise monopoly power over the assets under their governance. Here Dunning tries to incorporate both the work of Buckley-Casson (1998, p. 539-562) and Hymer (Hymer, 1990, p. 8-31) that is based on the work of Coase (1937, p. 386-405) for the deficiencies of neoclassical theory of trade and investment.
III. The third condition is called location advantages (L advantage) and explores the extent to which the global interests of the firm are served by creating, or utilizing, its O advantage in a foreign location. L advantage can be found in either the work of Vernon (1993, p. 3-15) that the cost of production is the driving force to search for a new production location or the macroeconomic approach (Kojima, 1973, p. 1-23) that describes the reasons for choosing a specific location in order to transfer your production.
IV. The last condition is drawn from the theories of strategic management (Aharoni, 1966, ch.2) and examines the extent to which a firm believes that foreign production is consistent with its long-term management strategy.

A company that fulfills the above conditions according to Dunning takes the decision to participate in international production, even though this is a well established framework it seems to pay more attention on O advantage and less to the deficiencies of the market and the oligopolistic power that MNE's exercise in their competitors.

Results

From all the above theoretical literature review some common facts can be drawn that will be used in order to examine the empirical literature review in the next section.

The most acknowledged factor is the internalization (Hymer, 1990, p. 8-31) of market due to the imperfections (or transactions costs) in the free market that makes it more profitable for a firm to perform some transactions (that otherwise could be performed under the law of trade theory) internally. Market internalization establishes an intra-firm or intra-industry trade that otherwise could not be performed due to market imperfections. This **new form of market** has implications in both home and host country in terms of knowledge or technology transfer, welfare effects on labor, foreign exchange etc.

Except internalization the other acknowledged factor is the firm (MNE) advantage as Dunning (1996, p.79) and Penrose (1956, p. 225) describe its role. The essence of this firm advantage is complicated because it can be either technological [Vernon (1993, p. 3-15), Porter (1998, ch. 3)] or information (Williamson, 1981, p. 1537-1568) or knowledge capital as Markusen defends (1995, p. 169-189). All three approaches seem to be right as they describe different periods and different situations that refer to the actors that take part in the new form of market. So it is not far from true to say that this firm advantage can be named **KIT** (**knowledge, information, technology) advantage**. KIT advantage is the tradable factor in the new form of market and it is what the host countries [L advantage of Dunning, (1996, p. 79)] seem to need more and to look for.

The acknowledged factors of new market form (internalization) and KIT advantage (Knowledge, Information, Technology advantage) will be used to construct the empirical review in the next section.

Empirical Literature Review

After the review of the theoretical literature for FDI & MNE’s, this section will review and try to make a synthesis of the empirical literature that penetrated in the 21st century. The main source for empirical evidence will be the leading Journal of International Business Studies.

Driffield & Love (2007, p. 460-473) suggest that “two of the most important and most researched questions in international business are what determines foreign direct investment, and what effects FDI has on the economies of host countries”. This suggestion is not far from true as Dunning (1996, p. xv) in his intention to provide a schema for analyzing the role of MNE’s in the global economy concludes that the outcome steps to two legs, first is the welfare of MNE’s and second the welfare of countries (meaning mostly host countries).

Review will be separated in two subsections in the first will be presented the research for FDI determinants and secondly the research for the FDI effects on host countries.

Determinants for FDI

Even though the main purpose in this work is to present the empirical literature of the 21st century it would be mistake if it does not refer to the motives for foreign production that Dunning (1996, ch. 3) first provided and all the future researchers use. These motives will be used for the exploitation of empirical literature.

Dunning (1996, p. 56-61) identified four types of MNE activity:

I. Resource seekers are prompted to invest abroad to acquire particular and specific resources at a lower real cost than could be obtained in their home country. Their motivation is to make the investing enterprise more profitable and competitive in the markets it serves or intends to serve.
II. Market seekers invest in a particular country or region to supply goods or services to markets in these or in adjacent countries. Market seeking investment may be undertaken to sustain or protect existing markets or to exploit or promote new products.
III. Efficiency seekers intend to take advantage of different factor endowments, cultures, institutional arrangements, economic systems and policies, and market structures by concentrating production in a limited number of locations to supply multiple markets[9].
IV. Strategic assets seekers comprise those, which engage in FDI, usually by acquiring the assets of foreign corporations, to promote their long-term strategic objectives-especially that of sustaining or advancing their international competitiveness.

Resource seekers

In the 21st century FDI has changed and the idea that an MNE from a developed country invest in a Low Developed Country to exploit its

[9] Efficiency seekers are multidomestic companies in a global basis that try to create a global competitive advantage [as Porter described it in a national base (1998, ch. 3)]

resources is not so obvious[10]. According to World Investment Report of UNCTAD (2002, p.7) seventy percent (7/10) of FDI refers to investments from a developed to a developed country.

Chen et al (2004, 320-333) while searching for local linkages of FDI found that Taiwanese investors in US were active to pursuit local linkages because US offered more strategic and knowledge resources that cannot be obtained from the market. This finding fits to the statistics of UNCTAD and provides a new form of resource seekers, the one that search to acquire technological capabilities, management or marketing expertise or organizational skills (Dunning, 1996, p. 57). Singh (2007, 764-786) in accordance with Chen et al (2004, p. 320-333) discovered that in technologically advanced countries, subsidiaries of foreign MNE's gain significantly more than they contribute in terms of knowledge. In spite that most people fill that this is not desirable, Singh (2007, 764-786) suggested that is desirable in scenarios where it represents not unintended externalities but actual market transactions, for which domestic firms get compensated in the form of contractual payments, royalties or license fees. A more radical approach was that of van Pottelsberghe (2001, p. 490-497) that described inward FDI as a "Trojan Horse" that tries to take advantage of the technology base of the host country and as Altomonte et al (2001, p. 1-27) said MNE's by acquiring domestic firms try to exploit their comparative advantages and drive their competitors out of the market.

Is this motive the only for a resource seeker in the 21st century? The answer is obviously no, as literature unveils in the case of transition economies [Sgard (2001, p. 1-24), Janicki et al (2004, p. 505-509), Damijan (2005, p. 271-295), Vlysidis (2006, p. 153-154)]. In transition economies MNE's mostly from EU tried through the extensive privatization programs to gain access both to natural resources like copper, steel etc, and low-cost labor [slightly different is the case of US multinationals which are more likely to choose foreign locations with high wages (Flores et al, 2007, p. 1187-1210) most probably because most of their investments are in developed countries] in order to transfer part of their production there, which then re-imported back. This case, gave rise to the regionalization effects of FDI (Rugman et al, 2004, p. 3-18), where MNE's try to build regional clusters.

As an abridgement of resource seekers in the 21st century can be assumed that two are the main motives either to gain from the exploitation of domestic **KIT advantages** or to exploit public policies [privatization (Damijan, 2005, p. 271-295), market openness (Buckley et al, 2005, p. 3-31) etc] that provide access to resources. A more traditional case is that of Chinese outward FDI (Buckley et al, 2007, p. 499-518) that are predominantly natural resource seeking as a response to domestic economic imperatives.

Market seekers

The main target for investors in this category still is the market expansion and the most predominant cases are that of China and Central & Eastern European Countries (CEEC's). Buckley et al (2005, p. 3-31) found that after the openness of the Chinese market (1994 and on) the main motivation for FDI was market seeking and this will continue as long as the acceleration of Chinese economy continues. At the same time another market this of the former state owned economies

[10] This type of FDI fits more to PLC theory of Vernon (1993, p. 3-15).

in eastern Europe attracted large number of foreign direct investments that targeted their willing to consume [Sgard (2001, p. 1-24), Vlysidis (2006, p. 153-154)] or as Paul et al (2008, p. 249-266) said “US firms invest in transition economies to capture market share”. It becomes obvious that FDI is connected with market expansion in the 21st century, mostly in the cases that host countries are entering into the world market. Not in line with this result is FDI’s in the service sector (including banks) were the follow-the-client rule still works (Qian et al, 2007, p. 231-248), something that it is a defensive strategy in order to minimize the potential loss.

Another old motive is that of offsetting high trade costs by internalize a market (Hymer, 1990, p. 8-31), which changes from skipping tariffs and quotas to skipping logistics and transportation cost. Feinberg et al (2006, p. 1515-1558) concluded that in the case of MNE based trade between US and Canada improved logistics enable firms to better organize “convergent” production processes that involve frequent intra-firm transfers of goods, and reduces inventory-carrying costs. This is an important result for a global market where the cost of transportation increases day to day based on oil prices and firms can avoid that with FDI’s instead of trade.

A newly found motive is that of presence in the leading markets. One of the most known cases is that of LENOVO (formerly known as Legend) the Chinese PC producer that acquired a legendary American firm IBM. Liu (2007, p. 573-577) CEO of Legend Holdings Ltd described that in order to expand abroad they had to have “a strong presence in the world market”, which in that case indicated presence in US where the new company transferred its headquarters.

Summarizing the literature for market seekers it can be assumed that two are the most favorable motives either market expansion (mostly in cases of countries that now open their domestic markets to global competition) or presence in leading markets in order to gain recognition in the global competition, the other motives seem not to be of great importance.

Efficiency seekers

Dominant role in the literature for efficiency seekers has an article by Rugman et al (2004, p. 3-18) that referred to regional and global strategies of multinational enterprises. The main concept was that there are two policies one for home region and one global. In the first case MNE’s attempt to add value primarily by capitalizing on similarities across markets and on the second case MNE’s add value primarily by exploiting differences across nations and regions. As it is clear in the first case MNE’s target regional similarities in order to exploit them, such was the case in CEEC where FDI’s from EU accounted from 60% to 95% of total FDI (Lovino et al, 2002, p.7)[11]. Similar was the case in inward FDI in China (Buckley, 2007, p. 447-459) were nationality of ownership is crucial for FDI’s success. The second case was that of multidomestic MNE’s like NIKE (Rugman et al, 2004, p. 3-18) which try to exploit differences across nations (low cost labor and natural resources in South East Asia & China, expanded financial markets in US etc).

In this category two are the dominant motives either regional internalization or global internalization, the difference in these

[11] Driffield et al (2007, p. 460-473) find that efficiency seeking FDI can cause domestic productivity to decline.

motives is the search for common markets or a globalized competitive advantage.

Strategic Asset seekers
This category tries to capture the increasing volumes of global mergers and acquisitions that dominate the financial news whenever the take place. A leading example is the acquisition of IBM from LENOVO (Liu, 2007, p. 573-577), where except the presence in the dominant market of US that the Chinese wanted, the other motive was the advancing of Lenovo’s international competitiveness. The use of this motive is of modest use as it refers only to a small number of MNE’s, probably the Fortune 500.

Concluding Remarks
The outcome of the above analysis can be gathered in the above remarks:

I. Resource seekers
   - Exploitation of host country’s **KIT advantages**.
   - Exploitation of host country’s government policies for market transformation.
   - Seeking for labor with increased capabilities that ask for high wages (the case of US MNE’s).
   - Seeking for natural resources mostly from countries that are in an increased development process (the case of Chinese MNE’s).

II. Market seekers
   - Market expansion
   - Presence in leading markets in order to gain recognition in the global competition

III. Efficiency seekers
   - Regional internalization
   - Global internalization

IV. Strategic Asset seekers
   - Increasing volumes of global mergers and acquisitions in order to dominate globally.

FDI effects on host countries

In this section literature is vast and its categorization is quite difficult and at the same time important.

The most important category for all host countries is that of **KIT advantages spillovers from MNE’s to domestic firms**. Meyer (2004, p. 259-276) provided a vast analysis on positive and negative spillovers in which important role have the intra-industry spillovers either through demonstration effect (through the direct contact between local agents and an MNE operating at different levels of technology) or movement of employees (MNE’s build local human capital through training of local employees, who may move to local firms or start their own firm). The core subjects of these intra-industry spillovers are knowledge and technology; Narula et al (2004, p. 1-21) wrote “theoretically FDI provides to development a channel for capital, technology and knowledge”.

Singh (2007, 764-786) except the cost of outward spillovers through MNE’s found that knowledge is the key spillover from MNE’s to host countries, which implement FDI-friendly policies with the prospect to acquire modern technology and know-how [a suggestion on how to implement such policies from the point of view of the Irish miracle provides Ruane et al (2006, p. 1-41)]. Knowledge is the advantage that MNE’s in service industry try to exploit and of course transfer to their internationally split firms (Goerzen et al, 2007,p. 1149-1169).

The role of technology had an important role in the analysis of Keller et al (2005, p. 1-68) where the size of FDI technological spillovers has been estimated in 11% of productivity growth of US firms. Another analysis by Driffield et al (2007, p. 460-473) found that the gains from FDI motivated by strong technological advantage are higher, this can be found also in Vlysidis (2006, ch. 5) where the role of technology in the increase of industrial productivity is high.

Except knowledge and technology another important spillover is that of R&D, Wei et al (2006, p.544-557) found a positive relation in China’s manufacturing sector, which not only directly affects the productivity of the firm that conducts R&D but may also produce spillovers to other firms’ productivity.

In many works [Meyer, (2004, p. 259-276), Narula et al (2004, p. 1-21), Blomstrom et al (2003, p. 1-27), Kokko et al (2003, p. 1-27), Zhang, (2001, p. 175-185), Dikova et al (p. 1013-1033)] there is prerequisite for spillovers to happen, the absorptive capacity of the local market. Conditions in order to develop such capacity are: (i) well educated human capital, (ii) well organized domestic markets, (iii) protection of property rights, (iv) well organized financial system etc.

In another work that of Lall et al (2004, p. 1-24) a negative position was supported for the role of FDI spillovers. Even though they increase productivity and exports, they do not increase domestic competitiveness or industrial capacity, which ultimately determine economic growth in the long run.

It is clear that host countries look closely on intra-industry spillovers as it means transfer of knowledge, technology or information, which are critical components for a growing economy.

Another category is that of **inter-industry spillovers [**Meyer, (2004, p. 259-276)**].** MNE’s have the choice not to produce some components and to ask from local suppliers or subcontractors to provide these to them. Chen et al (2004, p. 320-333) found that larger MNE’s tend to pursue more local linkages because their resources are distinctive and inimitable.

This category could be seen as a subcategory of intra-industry spillovers but seems important mainly in host countries that are not so technologically advanced.

A quite not so well known category is that of **regional spillovers**. Del Sol et al (2007, p. 901-927) found that foreign affiliates of Chilean firms operating in Latin America were more profitable than similar local firms at the beginning due to competitive advantage that they had in the know-how of business strategy during economic liberalization.

In this category the key point is that regional MNE’s can easily transfer know-how in firms from countries with common environments.

An intuitive category is that of **spillovers on the domestic market**. Kwok et al (2006, p. 767-785) found that corruption is lower in countries with high flows of FDI in the past. They said that the introduction of new models of business practice in MNE subsidiaries could challenge the legitimacy of existing patterns and stimulate debates on better business practices, initiating a 'de-institutionalization' process.

This category seems to be important for countries with no or infant institutions that want to create a stable environment for growth.

A well-analyzed category is that of **spillovers in exporting trade of the host country**. Banga (2006, p. 558-568) found that FDI had a significant effect on the export intensity of industries in the non-traditional export sector and therefore has, to some extent, led to diversification of India's exports. Sgard (2001,p. 1-24) found that exporting foreign-owned firms carry much more benefits for the economy than inward looking ones. Parallel results found also in Vlysidis (2006, ch. 5) where FDI have positive effect on the host country exports.

Spillovers in exporting trade of host country is important mostly because as Banga shows in most of the cases refer to trade that previously was either low or did not exist.

A last very important category is that of **spillovers on government (or state) policies and strategies of the host country**. In the 90's a huge transformation took place in CEEC's and in China, these countries tried to re-enter the global markets and discover capitalism. MNE's seemed to have an important role in this transformation [Janicki et al (2004, p. 505-509), Damijan et al (2005, p.271-295) and Kaminski (2001, p. 1-43)] by asking from the governments stable privatization policies, radical economic-political-social reforms, consistency with international organizations rules (WTO, IMF, World Bank, EU), macroeconomic stability. This transformation gave boost to the inward FDI in some cases there was a help from increased public expenditure (Le et al, 2005, 45-49), mainly because this public expenditure was on needed infrastructure for development of competitive industries.

Spillovers on government policies and strategies together with spillovers on the market can create a new reinforced business environment that can have multiple positive effects in the economy of the host country.

From the literature review six seem to be the core economic (with a broad sense) effects on host countries (as we did not refer to effects on natural environment, social issues etc):

I. KIT advantages spillovers from MNE's to domestic firms
II. Inter-industry spillovers
III. Regional spillovers
IV. Spillovers on the domestic market
V. Spillovers in exporting trade of the host country
VI. Spillovers on government (or state) policies and strategies of the host country

Results

The above empirical literature review reveals the two key actors in the FDI game, on the one side are MNE's and on the other the host countries.

MNE's include, in their core strategy to succeed wealth maximization, FDI as a catalyst to provide them more resources, market expenditure, regional or global competitive advantages and entrance in the markets for strategic assets.

On the other hand host countries seek to increase their growth perspectives with the exploitation of KIT advantages that MNE's have (through intra or inter industry spillovers and regional spillovers) or with the participation in new form of market (spillovers in exporting trade and intra-industry trade). On the other hand the culture of MNE's (which can be thought as part of KIT advantages, particularly in the knowledge factor) forces both host countries domestic market and government policies to be liberalized and open to competitiveness.

Conclusions

This article has reviewed and discussed some of the main theoretical issues and the key empirical issues of the latest research, in an attempt to provide the key factors for the incentives of a firm to proceed in international production and the outcome that the two main actors, MNE's and host countries, in FDI look for, in order to draw some patterns of FDI.

Albeit that most of the theoretical issues refer to the '60s and '70s someone can always provide a new synthesis for the incentives of a firm to proceed in international production. Dunning (1996, p. 76-85) provides a vast synthesis of main theoretical approaches that does not have a core objective and this is what the synthesis in this article want to provide. The core objective here is the imperfections of competitive markets (Coase, 1937, p. 386-405) that force firms to create a **new form of market** (internalization) in order to trade products (**KIT advantages**) that cannot be traded or is to expensive to do so in the common markets.

These incentives are the force for firms to proceed in international production, where the latest empirical research is focused on the outcome that MNE's and host country seek from their exploitation.

As far as it concerns the outcome for MNE's it seems that the agenda changes and important role have the creation of regional KIT advantages vs. global KIT advantages of MNE's, the Merger and Acquisitions impact on FDI and the role of MNE's as a channel to exploit KIT advantages that exist in the host countries. A proposal for further research seem to be the role of the multidomestic MNE's (or the Global Enterprise) that is difficult to be explained with traditional models.

On the other hand the main focus is on the intra and inter industry spillovers of MNE's KIT advantages, which together with trade spillovers due to the creation of the new market form refer only to the economic effects. Important is also the impact of MNE's culture that forces both host countries domestic market and government policies to be liberalized and open to competitiveness. A proposal for further research seem to be the environmental effects of MNE's in accordance with the increasing concern for the future of earth or the social role of MNE’s with emphasis in Less Developed Countries.

Concluding this work it is important to say that the new market form and KIT advantages appear to be a well analyzing environment for the research in both theoretical and empirical literature.

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