European Journal of Accounting, Finance & Business

Volume **VI**/2018 ISSN 2344-102X
Issue (XVI) / **February** 2018 ISSN-L 2344-102X

EMERGING MARKET MULTINATIONALS: HOW LATECOMERS HAVE BECOME GLOBAL CHALLENGERS

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Abstract

The affirmation of multinational companies from emerging economies in the global economic area is often discussed as one of the significant trends in recent decades. Traditionally, literature on IB has developed a vein around the issue of multinational companies from developed economies. However, multinational companies from emerging economies offer a particular context that has imposed a paradigm shift and a refinement of approaches, which are also dictated by the specificities of developing economies. In this exploratory research, based on information provided by UNCTAD and Fortune Global 500 list, we aim to identify a series of trends and peculiarities in the corporate universe of developing economies. The analysis carried out leads to a series of conclusions regarding the dynamics and configuration of the world's most important multinational companies from developing economies. Although it is mainly an exploratory research, we appreciate that this approach leads to a deeper level of analysis, expanding the area of knowledge in the field, and creating a framework for new investigative perspectives.

Keyword: emerging market multinationals, latecomers, linkage, leverage, learning, state capitalism.

JEL Classification: F23

I. Introduction

The emergence and expansion of multinational companies from emerging economies (EMNCs) is retained in the literature as one of the remarkable developments in the global economy over the last decades. Reports from international organizations such

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Volume **VI**/2018 ISSN 2344-102X
Issue (XVI) / **February** 2018 ISSN-L 2344-102X

as UNCTAD World Investment Report, international rankings such as Fortune Global 500, FT 500, and studies of consultancy companies such as the Boston Consulting Group reflect the increasingly prominent presence of these companies (EMNCs) among the most important multinationals on the global stage. In the first postwar decades, the literature on international business does not anticipate such an evolution, most of the theories being almost exclusively focused on MNCs issues in developed economies; developing economies have been the focus of the analysis in the light of their role as host economies. The last decades of the 20th century have been defined by reconfigurations of the international business environment, one of them being the expansion of multinational companies from emerging economies; this trend has also been reflected in the literature through a special interest in this phenomenon. In our study, we aim to analyze a series of issues and specificities that shape the presence of multinational companies from emerging economies in the global business environment.

II. A brief theoretical background

In the postwar decades, the governments of many developing countries, inspired mostly by Raul Prebisch's thoughts on the development of Latin America countries, focused on policies aimed at reducing dependence on the foreign market, convinced that the opening of their economies would have been detrimental to their development needs. Uncontrolled population growth, lack of natural, financial and human resources, low productivity in agriculture and, last but not least, the military conflicts they have been involved in are factors that have kept most of the world's countries at lower levels of development (Kicsi, 2013). Traditionally, primary goods (agricultural goods such as sugar, coffee, cotton, ores and fuels) predominated in the export structure of most developing countries. Except for oil prices (influenced by OPEC through controlled supply changes) and gold (artificially controlled), other commodity prices recorded a downward trend in the second half of the 20th century, which led to a serious deterioration in terms of trade and difficulties in obtaining currency for import payments. Under these circumstances, many developing countries have decided that the development of the industrial sector is a better policy than focusing exclusively on agricultural production and that the most effective way to achieve this goal is to substitute imports with indigenous products using high levels of custom duties or non-tariff barriers (Krugman & Obstfeld, 2003).

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Issue (XVI) / **February** 2018 ISSN-L 2344-102X

During the 50s and 60s, this was the policy of most developing countries, initially started with protecting the final stages of industries, such as food processing or car assembly. With the exhaustion of the possibilities for replacing imported products, these countries have moved on to protect intermediate goods such as components, steel, etc. In many developing countries the substitution of imports has not exceeded a logical limit; more sophisticated products (such as computers, precision instruments, etc.) continued to be brought from foreign markets (Krugman & Obstfeld, 2003). Although this orientation has been criticized by many economists, skeptical about its real virtues and the ability of producers to survive in a business environment other than the protected one, it has been successful where it has been applied for a limited time and in sectors which showed a real potential comparative advantage. In many cases, as Goldstein (2007) points out, governments have created and have owned companies in such protected sectors; some of these have grown into new multinational companies (EMNCs). Moreover, today some of the most powerful multinationals come from those that not long ago have been the most protected markets (e.g. South Africa, China, India, etc.)

For many decades, the term "multinational" has described exclusively the expansion of American companies; in the ' 70s and ' 80s, the new emerging multinationals from developing economies were regarded as niche players and labeled as *third world multinationals*; at present, such companies, by the scale of their external operations, give rise to a new "great game" (Goldstein, 2007) and pose serious challenges to the global balance of economic power.

Some authors even insist that EMNCs (such as those from China, for example) can no longer be regarded as "apprentices" in the international arena, but rather as a new group of "emerging catch-uppers" (Marinov & Marinova, 2013), able to develop/enhance their competitive advantage through innovation (Herciu, 2015) by accessing new resources and knowledge or to exploit more efficiently their advantages by accessing the international business environment (Williamson, Ramamurti, Fleury & Fleury, 2013).

Traditionally, the acknowledged theoretical models (Johanson & Vahlne, 1977; Vernon, 1966; Dunning, 1988; Dunning, 2001) attempted to explain the emergence and expansion of multinational companies from developed economies. However, multinational companies from developing economies provide a particular context for refining and expanding this area of knowledge, especially if we consider that emerging economies, through their unique characteristics (such as, for example, a lower level of development, a less functional institutional framework, etc.) can influence the behavior of their companies in the process of internationalization (risk tolerance, motivation,

Volume **VI**/2018 ISSN 2344-102X
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and competitive strategies different from those of MNCs, etc.) (Kedia, Gaffney, & Clampit, 2012; Nolke, 2014). EMNCs are different due to some sort of comparative advantage derived from their *latecomers* status (they are low cost partners, they are not seen as a threat by multinational companies from developed economies, they have organizational flexibility, etc.) and the nature of the business environment in their countries of origin (preferential access to cheap labor, capital and support from governments) (Mathews, 2002; Mathews, 2006; Li, 2007).

Mathews (2002) emphasizes that the strategic position of latecomers differs from that of companies analyzed in traditional approaches; these companies have had to resort to an innovative approach that allows them an accelerated internationalization, namely the development of an international network structure and mergers and acquisition arrangements. On the basis of these findings, Mathews (2002) proposes the term *dragon multinational* to describe the internationalization of firms from the "Periphery" of the global economy (i.e. the areas outside the economic Triad, such as Brazil, China, India, etc.) and develops a conceptual framework specific to EMNCs, namely the LLL model (*link, leverage, learning*). *Linkage,* as an outward-oriented concept, reflects the ability of a company to expand into the international business environment by establishing inter-firm relationships. *Leverage* appears as a two-dimensional concept; on the one hand, it refers to the external orientation of a company in search of resources that can be found/identified in companies and institutions in the global economy with which it has to establish linkages, and, on the other hand, it refers to the internal orientation of a company in the process of improving the internal capabilities in which the firm engages after the acquisition of new resources. *Learning* reflects the improvement of the skills/competences resulting from the repeated application of the linkage and leverage strategies. Mathews (2017), examining retrospectively the validity and consistency of the model, concludes that although it does not describe each case of a new EMNC from China or India, the model still captures the most prominent features of companies from what was once described as *Periphery,* because it focuses on the key aspects of the catching-up strategies that these firms have used to gain competitive advantage in a hyper-competitive business environment. Dunning (2006), appreciating Mathews's contribution to refining the analytical framework on the emergence and expansion of multinational companies from developing economies, admits that the competitive advantage of EMNCs may differ from that of MNCs, so that the traditional MNCs paradigm - especially eclectic paradigm developed in the early 90s - can be completed with the LLL analysis.

The idea of the emergence of some latecomers in the global economy which, in order to succeed, must "exploit" the so-called attributes of underdevelopment (or bad development) and turn them into opportunities or even sources of power was, moreover, argued in more detail, with reference to some countries of the so-called "Periphery" of the 17th-18th centuries (Germany, Russia, etc.) by Alexander Gerschenkron (1962). He points out that in a significant number of historical cases, the industrialization processes of the less developed countries showed considerable differences with advanced countries not only in terms of development dynamics, but also on industrial/productive and organizational structures that have emanated from these processes. The latecomers in the industrialization process tend to develop different forms of capitalism, usually more coordinated and organized, driven by banks, families or the state, given their need to develop their own catching up mechanisms (Nolke, 2014).This thesis also responds to the debates on the emergence, expansion and specificities of *latecomers* or *late developers*, as they are labeled by McNally (2012), from emerging economies that have been in the position to conceive and develop innovative strategies and organizational structures that favor their expansion in the global business environment and allow them to compete with existing giants from developed economies.

III. A snapshot of the significance of EMNCs compared to MNCs reflected in the most well-known global rankings

Globalization is seen as the prominent trend of the current decades; however, there are still some issues that either were left in a subsidiary level of the analysis, or apparently showed little interest until recently. One of them, in Mathews's (2006) view, is the pressure exerted by the Periphery on the Center as companies and institutions from "peripheral" economies are increasingly dynamic in their efforts to exploit the benefits of globalization of the markets and to create global patterns of industrial development.

The dynamics of EMNCs is explained by Mathews (2006) through the action of two types of factors, namely push factors and pull factors, which have driven two waves. In the first wave, the success of EMNCs was due to the difficulties encountered in their countries of origin (e.g. market restrictions, export difficulties, etc.), but also the incentives that have sustained internationalization, both acting as push factors that led firms as standalone players (Kumar, 1982; Mathews, 2006). The second wave of EMNC's expansion is considered a phenomenon different from the first one because it was primarily modeled by the pull factors action that attracts businesses into global

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linkages/networks; these EMNCs appear as latecomers on the global arena and use these factors to accelerate their internationalization (Mathews, 2002; Mathews, 2006). This development is evident not only for the expansion of companies from BRICS (Burciu & Kicsi, 2018), but also for companies from other areas of the Periphery, South-East Asia being a leader in this respect.

Table 1- UNCTAD indicators of the ampleness of cross-borders operations

	world's 100 MNCs 1996	world's 100 MNCs 2017	Index of dynamics	world's 50 EMNCs 1996	world's 100 EMNCs 2016	Index of dynamics
Assets (mld USD)						
foreign	1808	9004	4.98	106	1886	17.79
total	4200	14495	3.45	457	6397	14.00
Foreign assets as a ratio to total assets (%)	**43.05**	**62.12**	1.44	**23.19**	**29.48**	1.27
Sales (mld USD)						
foreign	2149	5170	2.41	136	1559	11.46
total	4128	7964	1.93	337	3524	10.46
Foreign sales as a ratio to total sales (%)	**52.06**	**64.92**	1.25	**40.36**	**44.24**	1.10
Employment						
foreign	5939470	9757000	1.64	538767	4603000	8.54
total	11796300	16646000	1.41	1583558	12038000	7.60
Foreign employment as a ratio to total employment (%)	**50.35**	**58.61**	1.16	**34.02**	**38.24**	1.12
Average TNI (%)	**54**	**62**	1,15	**35**	**37**	1,06

Source: Calculated based on (United Nations Conference on Trade and Development, 1999), (United Nations Conference on Trade and Development, 2018)

At the global level, UNCTAD has launched The world's top 100 non-financial TNCs/MNEs ranked by foreign assets and Top 100 non-financial TNCs/MNEs from emerging and transition economies, ranked by foreign assets as two of the most well-known annual rankings of the major companies. The UNCTAD rankings are important

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because they capture a picture of the cross-borders operations, the main ranking criterion being the value of foreign assets. In order to capture the dynamics of the internationalization of the major companies ranked by UNCTAD, in the next table we summarize the indicators reflecting the ampleness of their foreign operations in 2016 as compared to 1996. A notable fact is that in 1990 the Top 100 non-financial TNCs looked like an "exclusive club" of companies from developed countries. 1996 is the year when the first companies from emerging economies entered the top 100 non-financial TNCs, namely Daewoo and Petroleos de Venezuela (UNCTAD, 2007). In 1999, in this ranking entered for the first time a Hong Kong company, namely Hutchinson Whampoa Ltd with a TNI of 38% (UNCTAD, 2001); in 2004, entered the first Chinese company, CITIC Group, has a TNI of 20.4% and 14 affiliates abroad of total 59 (UNCTAD, 2007). Brazil, Russia and India entered later the global top. Even though the world's top 100 non-financial TNCs/MNEs ranked by foreign assets is no longer an exclusive club, as was in 1990, only nine EMNCs are ranked in this top, so the analysis of the indicators reflected by the two rankings captures a comparative picture of EMNCs' dynamics over that of MNCs.

Table 2- Comparison of UNCTAD top MNCs and EMNCs with Fortune Global 500 (non-financial)

Variable	Fortune Global 500			World's top 100 MNCs			World's 50 EMNCs	World's 100 EMNCs	
	1997 (371 firms)	2017 (382 firms)	Index of dynamics	1997	2017	Index of dynamics	1997	2016	Index of dynamics
Total assets (mld USD)	9278	30891	3,33	4212	14495	3,44	453	6397	14,12
Total sales/revenues (mld USD)	8794	21198	2,41	3984	7964	2,00	306	3524	11,52
Total employment (thousand persons)	32185	56751	1,76	11621	16646	1,43	1737	12038	6,93

Source: Calculated based on (United Nations Conference on Trade and Development, 1999), (United Nations Conference on Trade and Development, 2018), ("Fortune Global 500 List", 2017)

A comparative analysis of the absolute values of the indicators shows a more modest performance of companies from emerging economies ranked by UNCTAD in the

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world's top 50, and then in the world's top 100 non-financial EMNCs from developing economies, than that of companies from the global ranking *(The World's top 100 non-financial MNEs ranked by foreign assets)*. However, the index of dynamics reflects a faster pace of internationalization in the case of companies from developing economies, the trend being evident for all the indicators reflecting the expansion of operations abroad.

Of all the international rankings, the Fortune Global 500 offers the most famous and oldest ranking of the major global companies. The comparison between the UNCTAD and the Fortune Global 500 rankings is more pertinent if it is done only for the non-financial sub-sequence; therefore, from the Fortune Global 500 List we have selected only companies operating in the non-financial sector.

In 2017, 72 of the 100 MNCs ranked by UNCTAD in *The world's top 100 non-financial MNEs ranked by foreign assets* are among the 382 non-financial companies listed in Fortune Global 500. The position of major multinational companies from emerging economies in Fortune Global 500 is more modest; thus, in the same year, only 32 of the 100 EMNCs ranked by UNCTAD in *The top 100 non-financial MNEs from developing and transition economies* are also listed in the Fortune Global 500. However, EMNCs appear to be more dynamic, even if the number of EMNCs ranked by UNCTAD in 1997 differs from that in 2016, which could be retained as a limit of the research. In order to capture an indicative of the EMNCs' global position, we have aggregated the two UNCTAD 2017 ranks and, for each industry, we have aggregated the main performance indicators (assets, sales and employment) reflecting the magnitude/concentration of the cross-borders operations of multinational companies. Also, using the algorithm for calculating the Transnationality Index agreed by UNCTAD, we have calculated a sectoral aggregate Transnationality Index. Last but not least, we have tried to establish a correlation between the sectoral classification used in the two UNCTAD rankings and the sectoral classification by technological intensity and knowledge intensity (according to NACE Rev. 2). The results are shown in Appendix 1. We could note that, from a sectoral view, the EMNCs begin to affirm their presence in some sectors that has been traditionally dominated by MNCs, such as knowledge intensive sectors. According to the World Bank (2018), emerging-market companies show a more obvious preference for mergers and acquisitions than for greenfield investments, especially in knowledge intensive industries. The key feature of these sectors is their overwhelming "dependence" on intangible assets that massively involves tacit and experiential knowledge in fields such as R & D, branding, or organizational software. Johanson & Vahlne (1977) argues that the ability to operate in foreign markets or in a particular host market is largely

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experiential, so tacit. Therefore, for companies with limited experience in the international market, access to such knowledge can be costly if it is purchased separately from its "owner", so they will most likely resort to mergers and acquisitions (Slangen & Hennart, 2007). This approach, as we have noted above, is part of their latecomers strategy in the catching up process described by Mathews (2002, 2007, 2017) through the LLL model. An important specificity of the EMNCs, highlighted frequently in the literature, is their close connections with their countries/governments of origin (Nolke, 2014; Musacchio & Lazzarini, 2014). The nature of the special relationship of these EMNCs with the governments of their countries of origin as well as the manner in which this relationship influences the cross-border activities of these corporations announce, in fact, a new wave of state capitalism or a "rearticulation of the state-capital nexus" (van Apeldoorn, de Graaff, & Overbeek, 2012). This new wave is characterized by the extensive and strategic use of FDI (both outward and inward) and extended support from the state as a major factor explaining the emergence and behavior of EMNCs (Nolke, 2014).

IV. Concluding remarks

In the postwar decades, the theoretical corpus on international business has crystallized around MNCs from developed economies. Developing countries have incited only from the perspective of their role as host economies. The fulminant expansion of multinational companies from emerging economies in recent decades has led to a paradigm shift, with EMNCs providing a special context for refining and expanding the scope of analysis, especially if we take into account that emerging economies, through their unique characteristics (for example, a lower level of development, a weak institutional framework, etc.), can influence the behavior of their companies in internationalization approaches (risk tolerance, competitive motivations and competitive strategies different from those of MNCs).

This exploratory research conducted by us on the basis of data provided by UNCTAD in *The top 100 non-financial MNEs from developing and transition economies* (2016), *The world's top 100 non-financial MNEs ranked by foreign assets* and the *Fortune Global 500 List* highlights a series of trends and peculiarities in the corporate universe of developing economies. Thus, although in absolute terms the performance of companies from emerging economies seems more modest, the index of dynamics reflect a more accelerated pace of internationalization in the case of companies

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from developing economies, the trend being evident for all indicators reflecting the expansion of cross-borders operations.

From a sectoral view, the trend of internationalization of companies from emerging economies is reflected in an uneven dynamics. EMNCs are beginning to impose their presence in traditionally MNCs-dominated sectors, such as knowledge intensive sectors, albeit with lower performances in terms of concentration of activities abroad, their preference being somewhat more evident for services, where they concentrate a larger share of their activities outside the home economic area.

Finally, our attention is retained by the special relationship of EMNCs with their home governments and the manner in which these relationships forges the cross-border activities of these corporations. A growing body of the literature discusses frequently about a new wave of state capitalism, based on consistent support from state and extensive and strategic use of FDI (both outward and inward).

Conclusions to which our analysis converges may be subject to limitations that although they include what we call *world-class multinationals*, the rankings developed by UNCTAD reflect only a sequence from the global corporate universe. Second, the indicators used to assess the expansion of operations abroad do not provide information either on the geographical expansion of companies or on the number of affiliates they have abroad. However, it is clear that these EMNCs are eloquent examples of latecomers who have "exploited" the inherent disadvantages of the last entrants in the global arena, turning them into sources of competitive advantage sufficiently significant to propel them as global challengers.

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European Journal of Accounting, Finance & Business

Volume **VI**/2018 ISSN 2344-102X
Issue (XVI) / **February** 2018 ISSN-L 2344-102X

Appendix 1- Sectoral concentration of foreing operations of MNCs and EMNCs in 2017

Industry		MNC/ EMNC	Assets		Sales		Employment		TNI
			Foreign (mil. USD)	Ratio of foreign assets to total assets (%)	Foreign (mil. USD)	Ratio of foreign sales to total sales (%)	Foreign	Ratio of foreign employment to total employment (%)	(%)
Knowledge intensive activities (high tech)	Aircraft	MNC	123 319	53	82 064	61	181 124	54	56
	Communications equipment	EMNC	96 148	28	226 866	78	251 541	51	52
		MNC	42 816	87	24 182	93	95 372	94	91
	Computer and Data Processing	EMNC	60 102	61	7 962	18	73 643	30	36
		MNC	312 381	41	187 233	54	448 844	56	51
	Computer Equipment	EMNC	63 596	63	93 260	69	226 871	77	70
		MNC	188 202	40	187 520	60	187 052	43	48
	Electronic components	EMNC	200 553	75	209 716	86	1 001 774	78	80
		MNC	49 918	41	50 218	80	51 350	50	57
	Pharmaceuticals	EMNC	56 339	72	19 252	80	51 547	83	79
		MNC	790 658	68	305 662	72	518 066	60	67
Knowledge intensive activities (medium high tech)	Chemicals and Allied Products	EMNC	75 116	27	78 744	52	131 232	42	40
		MNC	216 055	69	124 098	71	175 609	56	65
	Electric equipment	EMNC	6 085	18	35 446	67	37 238	50	45
		MNC	89 285	39	80 126	75	154 000	62	58
	Household Appliances	EMNC	5 766	57	7 141	40	42 858	57	52
	Industrial and Commercial Machinery	MNC	320 428	59	145 493	68	466 000	68	65
	Instruments and related products	MNC	95 902	96	22 971	77	87 432	96	90
	Motor Vehicles	EMNC	58 217	31	68 833	57	83 077	43	44
		MNC	1 414 818	56	1 197 073	78	1 651 593	58	64
	Other Transportation Equipment	EMNC	9 286	48	1 507	35	16 681	58	47

Industry		MNC/ EMNC	Assets		Sales		Employment		TNI
			Foreign (mil. USD)	Ratio of foreign assets to total assets (%)	Foreign (mil. USD)	Ratio of foreign sales to total sales (%)	Foreign	Ratio of foreign employment to total employment (%)	(%)
Knowledge intensive services	Health care services	EMNC	8 430	91	2 565	72	15 660	48	70
		MNC	49 275	77	22 682	59	188 542	69	69
	Real Estate	EMNC	6 152	46	1 428	52	14 608	97	65
Knowledge intensive services (high tech)	Telecommunications	EMNC	172 713	35	85 882	38	211 753	25	33
		MNC	824 272	70	253 578	55	574 616	57	61
Less Knowledge intensive services	Hotels and restaurants	EMNC	37 653	89	11 437	84	84 450	86	86
	Transport and storage	EMNC	149 391	53	68 027	53	322 120	56	54
		MNC	49 835	100	10 324	96	80 707	100	99
	Wholesale Trade	EMNC	71 060	31	40 146	46	237 625	41	40
		MNC	263 655	67	108 996	49	68 680	30	48
	E-Commerce	MNC	43 920	33	57 380	32	189 311	33	33
	Electricity, gas and water	EMNC	58 355	24	14 820	38	21 851	28	30
		MNC	624 426	50	223 345	55	343 674	52	52
	Retail Trade	EMNC	152 657	86	37 338	74	358 566	88	83
		MNC	65 525	31	122 814	24	858 190	36	31
Capital intensive	Mining, quarrying and petroleum	EMNC	281 272	14	267 385	34	164 200	7	19
		MNC	664 491	82	428 159	71	294 934	79	77
	Petroleum Refining and Related Industries	EMNC	37 837	10	116 519	31	71 992	8	16
		MNC	1 055 256	73	587 967	64	200 902	54	64
Labor intensive (medium low tech)	Metals and metal products	EMNC	284 968	84	82 115	43	147 747	29	52
		MNC	68 678	97	57 159	100	118 465	60	86
	Rubber and Miscellaneous Plastic Products	EMNC	6 803	73	4 875	80	13 848	73	75
		MNC	126 935	66	22 363	36	64 734	66	56

Industry		MNC/ EMNC	Assets		Sales		Employment		TNI
			Foreign (mil. USD)	Ratio of foreign assets to total assets (%)	Foreign (mil. USD)	Ratio of foreign sales to total sales (%)	Foreign	Ratio of foreign employment to total employment (%)	(%)
Labor intensive (low tech)	Stone, Clay, Glass, and Concrete Products	EMNC	25 473	88	10 708	80	30 604	73	80
		MNC	88 025	75	53 023	74	197 165	76	75
	Textiles, clothing and leather	EMNC	7 981	88	4 357	51	315 900	88	76
		MNC	56 840	65	44 390	90	115 669	80	78
	Tobacco	MNC	230 551	99	58 769	91	97 143	78	89
	Construction	EMNC	125 015	17	41 702	12	141 494	16	15
	Food & beverages	EMNC	132 857	51	125 573	51	506 720	41	48
		MNC	513 610	85	239 004	85	806 743	86	85

Source: Calculated based on (UNCTAD, 2018)