Comment on Dragon multinationals: New Players in 21st century Globalization

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I very much liked and appreciated this contribution. It is elegantly written, and I believe adds much to our understanding about the strategic and economic determinants of Third World Multinationals – particularly those from East Asia. I am also quite comfortable with Professor Mathew’s comments on, and criticisms of, my OLI framework; although I do not think he would be surprised if I contended that a great deal of what he writes is entirely consistent with at least my more recent writings.

In his paper, Professor Mathews takes (my version of) the OLI story up to 1995. In 1998, I wrote, together with Rajneesh Narula and Roger van Hoesel a chapter in a book edited by myself (Dunning, 1996). This chapter explicitly set out a two stage approach to the evolution of Third World MNEs. *Inter alia* this contribution acknowledged that such MNEs might be prompted to invest in more advanced countries to access or augment, rather than to exploit their ownership advantages. This we asserted was increasingly happening in the case of MNEs from East Asia and was in contrast to the first stage of their venturing abroad which was directed mainly to other parts of Asia and was primarily of the asset exploiting type.

Later writings (e.g. Dunning 2000) also accepted that the competitive advantages of Third World MNEs – which might be country as well as firm specific –
were very likely to be different from those of First World MNEs. Nevertheless I continued to argue that the former had to possess *some* unique and sustainable resources, capabilities or favoured access to markets, which, if they chose to engage in asset augmenting foreign direct investment, they might expect to protect or augment.

I still hold the position today and I think the current FDI strategies of Chinese and other Asian MNEs supports this approach – and one which, to my mind, is perfectly consistent to that of the framework set out by Professor Mathews. Chinese FDI is both asset *exploiting* and asset *augmenting*. Both the geography and industrial composition of the two kinds are likely to be very different, as are the ownership specific advantages of the investing firms. While the determinants of the former type of MNE activity are explained reasonably well by original concept of the eclectic paradigm, those of the latter fit better with the idea that, at least, some of the competitive advantages of firms *follow* rather than *lead* their internationalisation. But let me say that this proposition is no less applicable to explaining much of intra-Triad mergers and acquisitions of the 1990s. Many of these new initiatives were intended to add to the global competitiveness of the investing firms rather than to exploit their existing set of advantages. Neither does it conflict with the assertion that to engage in this kind of FDI the investing firm has to possess certain unique and at least some sustainable advantages. In the case of China such advantages might include the ability to generate funds to acquire or partially acquire a foreign company, and a favoured access to large markets across Chinese economic space.

I also agree with Professor Mathews that globalisation and advances in communication techniques are opening up a whole new set of opportunities for all types and sizes of firms, and that the learning experiences resulting from cross border
linkages, and the leverage which these give to the participating firms can be an important *raison d’etre* for outbound MNE related activity. Whether or not such gains are best appropriate by fdi or by contractual or more informal non-equity relationships is surely a question of what is the most effective modality for advancing the MNE’s goals.

I also accept that as traditionally perceived the OLI framework is static, and gives the impression there is no inter-connection between its various constituent parts. I first acknowledged this in Chapter 3 of my 1993 book (Dunning 1993). Since then, in other writings (e.g. Dunning 2000, 2006; Dunning and Narula, 2004) I have readily acknowledged that over time the various components of OLI may be closely linked to each other. Thus, in the context of Professor Mathew’s paper, the success or failure of locational choices by Asian MNEs in time t may well affect (*inter alia* through their learning experiences, tapping into institutions, and exploiting the benefits of global or regional integration), their ownership and internalisation advantages in time t + 1….n. Similarly, their success or failure in adding to their ownership advantages in time t might well affect their locational choices and modes of new entry or expanded activity in time t + 1….n.

This being so, I would submit that the contents of Table 2 of Professor Mathew’s paper, and particularly his LLL framework, complement and add to the richness of the OLI framework rather than replace it. I sense that Professor Mathews would be generous enough to accept this. Indeed, I would go even further in pointing to a further lacunae of the earlier versions of the eclectic paradigm which I have tried to put right in another recently published paper (Dunning, 2006). That is its lack of any institutional content. Perhaps Professor Mathews, when he has had the chance to

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1 And in chapter 4, I incorporated a strategic dimension into the framework of the OLI paragraph.
look at this most recent contribution, might consider incorporating this dimension into his LLL framework. Certainly the institutional capabilities of firms and the incentive structure and enforcement mechanisms of home and host countries are increasingly affecting the clustering, leveraging and learning aspects of MNE activity and particularly, I would suggest, that of Third World MNEs.

REFERENCES


