OUTWARD INTERNATIONALIZATION AND FDI: MOTIVES FOR MALAYSIAN MNES MOVING INTO CHINA

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ABSTRACT

Firms are pressured to operate globally to reap the benefits of other locations through foreign investment. This phenomenon occurs not only among multinational enterprises from developed countries but also younger multinational enterprises from developing countries. Various factors induce them to invest in foreign locations. This paper highlights the motives of multinationals from developing countries engaging in foreign locations and capitalizing on location to enhance their competitiveness. This study uses one Malaysian company's experiences to analyze the situation through a qualitative analysis. The results show that intense competition in the domestic and global market has forced firms to move out of their home country and relocate their production centers in China. China offers various factors that entice Malaysian MNEs to escalate their global expansion.

JEL: F2, F21, F23

KEYWORDS: International Factor Movement, International Investment, Multinational Firms, International Business

INTRODUCTION

Multinational enterprises (MNEs) from emerging countries engage in outward foreign direct investment (OFDI) all over the world. Outward investment from emerging countries in 2005 was USD 1.4 trillion, an increase of 300 percent since the last decade (UNCTAD, 2006). Outward investment has become an integral part of corporate growth strategies for multinational firms to sustain their competitiveness. Multinational enterprises (MNEs) from emerging countries are currently focusing on developing their cost efficiency and utilizing resources. Thus, investing abroad is an alternative way of expanding and improving efficiencies, primarily in managing the costs of operations. Emerging countries like Malaysia are surrounded by other countries that are also rapidly developing, like China and Vietnam. Proximity to high potential locations may trigger the local firms to exploit such advantages. New MNEs from emerging countries like Malaysia are presently extending their global reach to emerging and developed countries. Moving abroad is mandatory to cope with competitive market pressures.

Another central issue that is frequently a challenging problem for MNEs from emerging markets is deciding in which country to invest. Relevant queries involve questions such as which country is the best location, is the location strategic for the investment, how can the location benefit the firm, and finally can the investment location help to enhance the firm's capabilities and efficiencies. Malaysian firms are keen to expand to foreign locations as the local market is becoming more competitive. This is due to the fact that the Malaysian market is smaller than in other emerging countries and the local market is unsettled by intensifying competition from foreign firms in the country. Malaysia was a targeted foreign investment destination in the 1980s and 1990s. However, at the moment it has shifted its position from being an investment recipient to an investment contributor by increasingly engaging in outward investment. The economic significance of Malaysia's outward foreign direct investment is increasing; Malaysia was in 32nd position in the period of 2003-2005. More recently, Malaysia was in 11th position among 128 economies worldwide (UNCTAD, 2009). Inflow of foreign direct investments into Malaysia in 2010 amounted to USD9.2billion but Malaysia's outward direct investment in other economies abroad was much higher at USD14.2billion (Central Bank of Malaysia, 2010). Since 2004, several Malaysian companies have expanded their international operations vigorously through various investments abroad. Indeed some of firms were included in the Top 100 non-Financial Transnational Corporations. For instance, the top three Malaysian companies include PETRONAS which ranked second, YTL Corporation which ranked thirty-second and MISC which ranked forty-fifth (UNCTAD, 2006).

The internationalization literature widely discusses the motives for MNEs from developed countries selecting emerging countries as foreign investment destinations (Hymer, 1960;Dunning, 1998; Porter, 1986; Defever, 2006; Guillén & García-Canal, 2009). Nonetheless, unlike large and well established MNEs from developed countries such as the USA, UK, Japan and Germany, MNEs from emerging countries are smaller and less capable in terms of resources such as human and financial capital, technology, and skills. Despite this fact, there is increasing growth of outward investment from MNEs of emerging countries to foreign locations.

Studies have been conducted and several theories have been developed relating to internationalization and outward foreign direct investment. These theories include the eclectic paradigm, transaction cost theory and the Uppsala model based on the observation of western countries. Though these theories and models can be applied to MNEs from emerging countries, empirical evidence on them is limited. Most of the discussion about internationalization and foreign investment is centered on economic perspectives and evidence on these issues from the strategic management point of view is not extensive. A great deal of research has also been conducted on MNEs from developed countries investing in emerging countries.

Studies on MNEs of emerging countries investing in other emerging countries in the strategic management literature are somewhat inadequate. Thus, this study sheds light on these rising issues by examining how MNEs from emerging countries are involved in internationalizing through foreign investment in other emerging countries. It is worth noting that MNEs from emerging countries are aggressive in seeking new market and production centers abroad. MNEs from emerging countries are relatively young and lack of international experience and resources. For this reason, their decisions to expand in foreign locations is highly risky. Nonetheless, despite these facts some of them manage to achieve a remarkable growth in foreign locations. The desire to comprehend this phenomenon has triggered this study to explore further the activities of MNEs from emerging countries in terms of their internationalization to other emerging locations such as China.

This paper seeks to examine the reasons or motives for Malaysian MNEs' international expansion primarily to China, as one of the leading emerging countries in the world. This paper also analyzes the attributes that China possesses as an investment destination for many MNEs from various countries. Finally, this study evaluates the advantages that China offers as an investment location for foreign MNEs. This paper will firstly discuss internationalization and the motives of MNEs investing in foreign locations, and then the paper highlights the significance of China as a strategic choice as a foreign investment destination. Secondly the paper discusses how Eng Technology embarked on its internationalization through foreign direct investment, and finally the paper reveals the drivers and motives for the Malaysian firm's entry into China.

INTERNATIONALIZATION AND MOTIVES THEORIES

Hymer (1960) asserts that MNEs should have certain kinds of proprietary or ownership advantages that differentiate them from local firms. The economic conditions and ownership advantages that they have enables them to embark on investment in foreign locations. MNEs may engage in global expansion either vertically or horizontally. The crucial condition for engaging in vertical expansion is the presence of a comparative advantage in the foreign location that includes the cost associated with production factors such as capital, labor, or land (Guillén & García-Canal, 2009). Horizontal expansion arises when MNEs establish a delivery facility in a foreign location to exploit market opportunities without abandoning production in the home country. The decision to engage in horizontal expansion is motivated by forces such as protection barriers, high transportation costs, hostile currency exchange rate shifts, or requirements for local adaptation.

In developing ownership advantages, MNEs require a gradual and incremental growth in their international expansion. MNEs expanding abroad may start by entering a country that has socio-cultural similarities as elaborated in the Uppsala model (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul,1975). Firms typically embark upon foreign investment in countries that they can easily understand and then move to a distant market at a later stage, which is referred as psychic distance (Johanson & Vahlne, 1990). By doing so, firms are able to reduce market uncertainties and lower the risks of failure in the foreign markets. The ability of a firm to internationalize early and succeed in foreign markets is influenced by the internal capabilities of the firm (Autio et al., 2000; McDougall et al., 1994; Zahra et al., 2000). Internationalization is an innovative act, as it provokes the development or improvement of products and new methods for doing business (Casson, 2000; Dosi, 1988; Nelson & Winter, 1982). The resource based view (RBV) helps to explain how knowledge and internal capabilities are developed and leveraged by firms (Grant, 1996; Penrose, 1959; Wernerfelt, 1984). Differential endowment of resources is an important determinant of internal capabilities and performance (Barney, 1991; Grant, 1996).

MNEs typically internationalize through foreign investment for reasons and motives which include market seeking, efficiency seeking, knowledge seeking and strategic asset seeking (Dunning, 1998). Consistent with Dunning (1998), UNCTAD (2006) also reported that a firm's engagement in internationalization can be the result of a wide array of stimuli, which can be classified into market seeking, efficiency seeking, resource seeking and asset seeking. The theory of strategic asset seeking was developed from major contributions of theoretical developments published over the last fifty years, particularly in internationalization theory (Buckley, 1990; Buckley & Casson, 1976;Coase, 1937; Dunning, 2003; Penrose, 1959), the eclectic paradigm (Dunning, 2001) and the macroeconomic approaches (Kojima, 1982; Kojima & Ozawa, 1984). Most MNEs from emerging countries claim that one of the reasons for investing abroad is to access foreign markets or to gain proximity to potential clients, which comes under market seeking. Sales activities is another example of market seeking investments, while production involves efficiency seeking or knowledge seeking, research and development involves knowledge seeking, and corporate support such as headquarters and shared service functions involves strategic asset seeking.

Porter (1986) and Defever (2006) distinguish MNEs' involvement as either upstream activities, meaning firms that are involved in creating products or downstream activities which means firms that are involved in selling and servicing products. In upstream activities, MNEs typically engage in creating backward linkages into sources of raw materials and increase their opportunities in the relationship between the firm and the supplier of the raw material. On the other hand, in downstream activities, MNEs typically engage in forward linkages into foreign markets in order to reduce uncertainty and enhance the relationship between the firm and the distributor or agent in the foreign market. MNEs from emerging countries also normally look for global expansion as a way of managing the restrictions implemented by the home country government in the domestic market. In many emerging countries, restrictions such as licensing systems, quota allocations, and export restrictions put pressure on MNEs to grow extensively, thus pushing them to expand abroad (Lall, 1983; Wells, 1983). Furthermore, firms also realize the need to spread the risks by locating assets in different countries (Lecraw, 1977). This motivation is driven by the macroeconomic and political volatility attributes of many emerging countries, which expose the firms to the threat of government nationalization and confiscation (Wells, 1983).Consistent with Porter (1986) and Defever (2006), earlier findings on MNEs from emerging countries also emphasized buyer-supplier relationships as motives for a supplier establishing production facilities in a foreign country in which the buyer already had a presence (UNCTAD, 2006; Wells, 1983). In some cases, both the buyer and the supplier are home country firms that have followed each other abroad, while in others the buyer is a multinational from a developed country that asks its supplier in an emerging country to relocate either to its home country or to other countries (Guillén, 2005).

Scholars are also paying attention to the proprietary or firm-specific intangible assets of MNEs from emerging countries. They argue that these MNEs engage in FDI with the purpose of not only acquiring such assets but also exploiting existing ones. Global expansion for MNEs from emerging countries with the purpose of acquiring intangible assets, especially technology and brands, was not that significant in the 1970s and 1980s, but the situation has become more prevalent in the last two decades (UNCTAD, 2006). The liberalization of current accounts and currency exchange in many emerging countries has given more freedom for these MNEs to participate in acquisitions, which are very costly. Many poorly performing firms or divisions in developed countries, especially in the US and Europe, that possess brands and product technology that could improve the competitive position of MNEs from emerging countries have been exploited due to their superior or efficiency capabilities. Acquisitions have not been the only way to gain access to intangible assets. The evidence suggests that the acceleration in the international expansion of the MNEs from emerging countries has been supported by many international alliances aimed at gaining access to critical resources and skills that allow these firms to catch up with MNEs from developed countries. As argued above, these alliances and acquisitions have been critical for these firms to match the competitiveness of MNEs from developed countries. For this reason, the international expansion of MNEs from emerging countries runs in parallel with the process of upgrading their capabilities. Sometimes, however, capability upgrading precedes global expansion. This is the case, for instance, for some state-owned enterprises that undergo a restructuring process before internationalization and privatization (Cuervo & Villalonga, 2000). In other cases, the capability upgrading process can follow international expansion.

CHINA AS A STRATEGIC LOCATION

MNEs from emerging countries are increasingly seeking locations which offer the best economic and institutional facilities for their core competencies to be efficiently utilized. Foreign direct investment patterns and motives must also be examined over time, because factors favoring a MNE’s initial investment into a country could change, prompting it to move new investment elsewhere. Several strategic considerations could motivate the relocation, such as increased competitive intensity at the original location, a cost-reduction requirement which encourages the search for new low-cost production locations, or pressure to enter new markets in response to similar moves by a rival. In the Asia region, the transformation of China’s economy from a centrally planned to a market economy has changed the trends and patterns of investment among MNEs, particularly from emerging countries. Since the economic reform in 1979, foreign direct investment into China has increased dramatically. Inward FDI into China has grown at a compounded rate of 23.6 percent at the value of USD83 billion in 2007 (UNCTAD, 2009). MNEs from emerging countries are now turning their attention to this country, which offers an abundance of remunerative and rewarding resources. The increase of foreign direct investment in China has been attributed to various factors, including its market size, domestic market growth, slow transformation and integrated plan-driven and self-sufficient national economy that has moved smoothly into the global economy (Lardy, 1994; Naughton, 1995; OECD, 2002; Peng, 2003).MNEs from emerging countries, particularly from the East Asian region, view China as an investment location that offers abundant and cheap labor, plenty of raw materials, large and growing domestic markets, geographic proximity to Malaysia, special tax and other incentives and attractive development of export markets through preferential treatment. Most Malaysian firms are attracted by the low cost opportunities offered by China, which enable them to compete with industry rivals and maintain their competitiveness. These opportunities might not yet be viable in other locations in the region. The growth of investment in China has been growing rapidly following the close trade and government ties between the two countries. China has now become an important investment destination for Malaysian companies seeking to secure a market to complement their manufacturing operation. The above reasons also explain why China has become the second largest recipient of foreign direct investment (FDI) in the world (Pan, 2003). Foreign direct investment in China has been increasing since the early 1990s and it has become a catalyst for the country's economy.

The theories discussed earlier, which include internationalization and the eclectic paradigm (Buckley, 1990; Buckley and Casson, 1976; Penrose, 1959; Dunning, 2003; Dunning, 2001) are useful to understand the choice of location for foreign investment in and across China (Wu and Strange, 2000; Luo and Tan, 1997). Regulatory changes and reforms have improved the location-specific advantages of China (Zhang, 1994). A prominent example is the establishment of special economic zones in selected coastal areas in the mid 1980s. This and local-bound endowments have led to FDI being clustered in certain areas. Head and Ries (1996) find that Chinese policies that supported the development of infrastructure and an industry base are positive determinants of city attractiveness for future FDI, and so generate more inward investment (Cheng and Kwan, 2000; Fung, Iizaka and Parker, 2002; Zhang, 2001). In addition, other important factors for MNEs investing in China are determinants of economic development and prosperity (Broadman and Sun, 1997;Coughlin and Segev, 2000), levels of education (Broadman and Sun, 1997; Fung et al., 2002; Zhang, 2001), wage costs (Cheng and Wan, 2000; Coughlin and Segev, 2000), the institutional environment and support in Chinese provinces (Zhang, 2001), and the coastal proximity of the province (Coughlin and Segev, 2000; Wei, Liu, Parker and Vaidya, 1999). These determinants are generally acknowledged and are consistent with the insights gained from empirical and conceptual studies for other countries (Dunning, 2001; Dunning and Lundan, 2008). Kogut and Singh (1988) and Tallman (1988) bring to light country-specific factors which are the macro-level environmental characteristics of the source and host countries that are presumed to affect firms' investment activities. These country-specific factors were examined by Pan (2003) on China, including exchange rate, cost of borrowing, size of source country, reliance of source country on external trade, risk conditions in the host country, closeness between the source and host countries and management orientation of the host country. His findings affirm that China offers country-specific factors which include the size of the source country, reliance on external trade, and managerial orientation to foreign investors, so these factors are able to influence MNEs coming into the country. The risk condition of China and closeness to the host country are not supported in his study. Generally, firms have invested into China in order to tap the large domestic market.

Dunning (1992) claims that types of FDI and stages of progress in the investing and recipient countries have a significant influence on the decision 'where' to produce. One of the most important factors in foreign investment is the political stability of the recipient country. China is fortunately not only stable in its politics, but also offers other advantages that attract firms to move into the country. The rapid growth of its economy, socio-cultural factors, government incentives, demographic structure and the vast market in China are strong enough to attract foreign investment into the country. Based on the stock of inward FDI, China has become the leader among all the developing nations and second among the APEC nations (Graham & Wada, 2001). The majority of FDI in China has stemmed from developing Asia, excluding Japan. Yang and Lee (2002) argue that the persuasive reasons for entering into China's market are obviously because of the cheap labor, a huge market and the chance to make a significant reduction in operating costs. It is worthwhile to close plants in more expensive locations and relocate the production to China. Economists divide the contributing factors of China's rapid economic growth into two main categories: large-scale capital investment (financed by large domestic savings and foreign investment) and rapid productivity growth. These two factors appear to have gone together hand in hand (Hu and Khan, 1997). Based on the above two economic growth factors, China can be considered as a strong economic country. These characteristics have made China an attractive destination and become one of the pulling factors that entice investors from all over the world, including Malaysia, to establish their businesses. This is strongly evidenced by Chinese trade data that portrays China as in the top five trading partners in 2006, which include the European Union (EU), Hong Kong, the United States, Japan, and the ten nations of the Association of Southeast Asian Nations (ASEAN), including Malaysia.

As a country with a 1.3billion population, the largest population in the world, China is divided into many regional centers consisting of more than 50 ethnic groups. Therefore, the country is affluent with a variety of cultures, traditions and value systems which have a significant impact on the business operations in the country. For example, the cities of Shenyang (in the northeastern Liaoning Province), Nanjing (in the eastern Jiangsu Province), and Xian (in the northwestern Shanxi Province) are known as political and cultural centers, while the cities of Shanghai, Tianjin, Guangzhou, and Wuhan are popular as business destinations (Yang, 2002). Foreign investors in China are classified into three major groups; firstly, investors from Hong Kong and China, who are mostly Chinese and share a similar culture; second are investors from East Asian countries including Malaysia, which has close cultural ties with the country due to its geographic proximity and historical links; and thirdly are investors from Western countries. Malaysian MNEs are more comfortable in building trust and relationship with their Chinese counterparts. The unique concept of *guanxi* networks, which can cultivate close personal relationships with business associates to earn their respect, has become one of the attractions of doing business with Chinese people (Woo and Prud'homme, 1999).

METHODOLOGY

This study examined the internationalization and outward foreign investment of MNEs from emerging countries by using a case study approach on a private Malaysian MNE that has chosen China as its investment location. The firm is known as Eng Technology Co Limited, and it was chosen to provide insights on the motives of outward foreign investment into China. Data was qualitatively analyzed using a distinct inquiry process that explores social or human problems in a natural setting in order to gain an in-depth understanding. This method gives insights into the situation of interest, which may not be possible using other types of research. As qualitative data is extremely varied in nature and includes almost any information that can be captured that is not statistical in nature, this study gathered and compiled the progress and development of the firm chosen in its strategies when investing in China. Data was gathered through direct observation and a collection of written documents which included company reports, newspapers, magazines, books, websites, transcripts of conversations, annual reports, and others. The contents of these documents were read, classified and analyzed in order to access the findings. The secondary sources used were in the form of published works such as journal articles and books, and also conference proceedings.

ENG TECHNOLOGY INTERNATIONAL EXPANSION

Eng Technology Private Company Limited (Engtek) is a Malaysian MNE which has successfully expanded into China. Engtek Group is a local Malaysian firm involved in precision engineering and manufacturing. It started operations in 1974 in Penang and has grown to be amongst the top precision engineering and manufacturing supply chain players for the electronics industry in the Asia Pacific region. In 2008 the group revenue was USD153 million. The headquarters is in Penang, Malaysia, where the company is supported by strong financial and human resource management systems. A progressive installation of state-of-the-art machinery has enabled the company to maximize productivity, efficiency and overall capacity utilization to satisfy the demands of the industry and a unique international customer base. Engtek Group has thrived to become a regional manufacturing powerhouse, a world-class global supplier of Hard Disk Drive (HDD) components and cost-competitive manufacturer. Among the key customers for Engtek are Hitachi (HDD), Hitachi Metals (HDD), IBM, JVC, Min Aik, Minebea (HDD), Mitsumi, Nidec, Samsung, Sauer Danfoss, Seagate(HDD), TDK, SAE (HDD), Totoku (HDD), Western Digital (HDD) and White Rodgers.

Engtek has received numerous awards for its achievement in the industry (www.engtek.com). Among them are:1999 - Asiamoney's Poll: Best Small Managed Company in Malaysia, 2000 - HSBC 100: Asia's Leading Corporate Award, 2000 - Intel Supplier Recognition Award , 2001 - Distinguished Partner Award (from Fujitsu) , 2001 - Forbes Global: World's Best Small Company, 2001, 2003 & 2004 - Outstanding Supplier Award (from Maxtor) , 2002 - Best Local Vendor Award (in conjunction with the 30th Anniversary of the Electronics Industry in Penang) , 2007 - Copeland (Sidney) Appreciation Award, 2007 - Emerson Marquee Supplier Award, 2007 - Emerson - Thailand Supplier Award and 2008 - Emerson Marquee Supplier Award

The success of the Engtek Group can be attributed to a few key factors. The Malaysian government's effort to promote growth of small and medium enterprises in the country is the primary factor. Other key contributing factors include the various incentives granted to Engtek's operating subsidiaries in the country and the availability of a skilled management and operating workforce. Malaysia is also a cost-competitive location for the regional headquarters, with an investment environment that effectively supports its business activities, which include regional sales and distribution, engineering and applied development, value-added manufacturing and corporate finance functions.

The Engtek Group currently comprises seven key operating subsidiaries, of which three are based in Malaysia, and one each in the Philippines, China, Singapore and Thailand (Annual Report, 2009). Engtek produces about 10 million pieces of HDD from its operations in these four countries. The Group has annual sales in excess of USD80 million and its cumulative investments over the years have exceeded USD67 million (Annual Report, 2008). During the country's economic boom in the 1990s, Engtek started to embark aggressively on international expansion. In 1996, it established Engtek International Limited in Donggguan, China. The following year, the company set up Engtek Philippines Inc, an international-based facility in Laguna, Philippines. In 1998, the company entered Thailand by establishing Engtek Precision Co Ltd to manage its exporting operations. In three consecutive years, the business expanded into three foreign countries. In 2003, the company moved ahead with its international expansion when it acquired Singapore Altum Precision, the first regional acquisition made by the company. In 2006, Engtek (Thailand) was upgraded into a manufacturing subsidiary in the industrial park in Ayutthaya, Thailand. So far, the company has invested between USD10 million andUSD13 million for its venture in Thailand, which is seen as a strategic location due to its proximity to major clients like Western Digital and Seagate.

DRIVERS AND MOTIVES OF MALAYSIAN MNES IN CHINA

Engtek International Limited, the first offshore manufacturing plant, was established in Dongguan, China in 1996. The motive of its establishment was to explore potential markets, creating value for its international brand name and staying ahead of its competitors. It also aimed to gain benefits from the trend of globalization along with a national policy environment which is conducive to enterprise development. Dongguan was chosen due to several advantages including its location, government policy, demography, economy and technology. Dongguan is an important industrial city located in the Pearl River Delta, bordering the provincial capital of Guangzhou to the north, Huizhou to the northeast, Shenzhen to the south, and Foshan to the west of the People's Republic of China. The urban center of Dongguan is 50 km away from that of Guangzhou to its north, 90 km away from Shenzhen to its south, 47 sea miles away from Hong Kong and 48 sea miles from Macao by waterway.

The strategic location of Dongguan helped the firm's new offshore manufacturing plant gain a favorable geographic condition. The city has also placed an emphasis on investing in infrastructure to target more multinational corporations to become a region of technology. These geographic advantages contributed to lowering the costs of logistics and administration (MIDA News, 2007). Besides the location advantages, China's government policies were also attractive and persuaded Engtek to locate their investments in the country. The policies include preferential tax treatment, the freedom to import inputs, easy licensing procedures, as well as the removal of many unnecessary local costs, and provided options other than joint ventures to balance foreign exchange. The policies were also designed to promote backward linkages which require a foreign investor to purchase a certain amount of intermediate input from local suppliers. In addition, as a computer hard disk drive and semiconductor manufacturer, Engtek Group enjoyed encouraging support from China, as it corresponded with the country's FDI policy of promoting technology transfer. Additional tax exemptions are also granted to export-oriented joint ventures and those who employ advanced technologies. These progressive policies fit well with most requirements defined by Engtek Group before the final decision to invest was made.

The economic condition of the country also played an important role in attracting Engtek Group to invest in China. The economic reform from a centrally planned system to a more market-oriented economy has enabled China to be actively involved in international trade and increase the growth of the private sector's economy. The rapid economic growth is driven by China's large-scale capital investment which is financed by large domestic savings and foreign investment from its major foreign investors from countries like the United States, Japan and Taiwan. The rapid productivity growth started with the reform of China in 1979. In addition, the prices of numerous goods and services are significantly lower in China than in other countries. These benefits are golden opportunities for Engtek, so the firm has endeavored to capitalize them through its investment strategies.

Several factors propelled Engtek to engage in FDI into China. These factors can be categorized into two types, locational factors and firm factors. Locational factors are attractive in pulling a firm into China, while firm factors are pressures that push a firm to accelerate expansion abroad. China, and specifically Dongguan, offers various locational advantages, as highlighted by Dunning. China is endowed with high economic growth, tax exemptions and other government incentives, good infrastructure, easy access to the ports, cheaper raw materials and low labor costs. These factors are incredibly lucrative for Engtek in sustaining its competitiveness. At the same time, Engtek faced various challenges in the local market, which urged the company to find alternative strategies. The relocation of its key customers into China compelled the company to pursue them to secure its market. As most of the key customers were relocating their manufacturing plants in China, Engtek took a similar step. Hence, the firm went abroad earlier than it intended. At that period also, the costs of labor and materials were continuing to rise, which caused the firm to lose its competitiveness as a major supplier to the major customers.

Engtek China has expanded its output to produce more than three million pieces of actuators per month since 2008. Besides manufacturing actuators, the Dongguan facility also performs value-added assembly work for actuators to enhance their competitive edge. The number of actuator manufacturers in China is increasing thereby intensifying the competition. The Dongguan plant also manufactures hydraulic components for industrial product companies. Key customers for hydraulic components are in Europe and the US. While the Thai operations focus on HDD for laptops, and low-end desktop and mobile devices, the Chinese plant concentrates on high-end storage and desk top computers.

Globalization forces the firm to respond swiftly to the rapidly changing market place. Engtek embarked on outward foreign investment after experiencing valuable learning and capabilities-building with foreign MNEs in Malaysia such as Seagate, Fujitsu, Toshiba, Western Digital and other global players for a certain period of time, through various types of alliances. The knowledge accumulated in the diverse backward linkages with advanced global firms was harnessed in its outward foreign investment strategy in China. Having a manufacturing plant in China also enabled Engtek to establish a network with local suppliers. Local procurement offers lower production costs and allows greater specialization and flexibility; as a result, technologies and products can be adapted better to the local conditions. Hence, the firm considers the network or relationships with local suppliers as a critical factor for success, as they facilitate managing international operations. The Malaysian government under the Mahathir administration also recognized the importance of outward foreign investment, so various incentives were given to firms that were attempting to engage in foreign investment. Consequently, these factors become a driving force for the firm to invest in a foreign market and specifically into China. The above reasons pushed the firm to invest in China. Figure 1 summarizes the motives for Engtek to invest in China.

THEORETICAL AND MANAGERIAL IMPLICATIONS

The international expansion of Engtek can be described by internationalization theories and the eclectic paradigm. The international expansion of the firm into nearby countries like China fits into the Uppsala model, which describes how psychic distance plays a pivotal role in foreign expansion strategies. This strategy helps the firm reduce uncertainties and risks of failure in foreign markets. The firm's international expansion into China depicts its vertical and horizontal participation. China's comparative advantages as an investment destination indicate that Engtek experienced a vertical global expansion, while a horizontal global expansion can be seen when Engtek utilizes delivery facilities in China to exploit market opportunities. Engtek depicts an incremental process of internationalization, perhaps due to its capability as a medium-sized firm which relies heavily on transnational companies from developed countries as its key customers. Being in a business-to-business industry and a major supplier for global players, the dependency on major customers limits the firm's speed of international growth. Nevertheless, working closely with them through alliances and other formal relationships offered vast opportunities for Engtek to acquire knowledge. The learning process and experiences gained are significant in developing the firm's internal capabilities and exploiting the available tangible and intangible resources. Thus, the theory of the resource-based view can also help describe the international expansion of Engtek.

China is the most strategic location for Engtek obviously for the motivation of costs, which is referred to by Dunning as efficiency seeking. The costs of operations, raw material and labor are very much lower in China than Malaysia itself, so moving into this country is a necessity for the company. Maintaining product competitiveness through improved quality, technology and costs is the core reason for securing its market with the buyers. Engtek was also desperate to enter China, as it needed to be close to its customers, which indicates a market seeking motive. Proximity to customers or buyers enables the firm to satisfy the customers' need and accommodate to the changes required. Engtek is involved only in downstream activities, selling and servicing the customers. Therefore, it is crucial for the company to create backward linkages for sources of raw materials and forward linkages to protect the market and reduce uncertainties. In the quest for efficiency, the backward linkages have enabled Engtek to exploit its resources, such as human capital and technology, and to harness China's low cost factors, such as cheaper raw materials and labor. Having a business operation in China also enables the firm to avoid restrictions imposed by the China and Malaysia itself in the local market. The buyer-supplier relationship is the major motive for the firm to expand its international operations in China. Thus, the firm engages in both vertical and horizontal international expansion.

CONCLUSION

The emergence of China with abundant and low-cost resources has lured MNEs from emerging economies to engage in outward foreign investment. The advantages offered by the country have attracted firms from Malaysia and other parts of the world to be there to reap the benefits. Engtek, a medium-sized firm from an emerging country, has adopted a bold strategy in expanding its business operations into a foreign country. China is the first and largest country that the company has invested in due to the attractive package that the country offers. Despite its smaller size relative to typical MNEs, the firm has managed quite well its foreign direct investment in China and generated considerable revenue for the company. The internationalization of the firm is gradual due to the constraints of its financial and technological capabilities, yet the foreign investment is mandatory to maintain its close relationships with the major customers. Apparently, Engtek moved into China mainly for efficiency and market reasons. Efficiency seeking enabled the firm to lower its operating costs, thus creating its competitive advantage over rivals, while market seeking allowed it to be closer to its customers and serve them better. The downstream activities in which the firm has completely engaged require it to exploit the advantages of the investment location and harness its internal capabilities. Only by doing so can the firm learns further and enhance its capabilities in order to maintain its competitiveness in the industry. Overall, this case study depicts further evidence pertaining to the international expansion of MNEs from emerging countries like Malaysia. Internationalization models such as the Uppsala and Dunning motives correspond well with the phenomenon of the medium-sized firms from emerging countries.

Figure 1: Motives for Engtek's OFDI into China

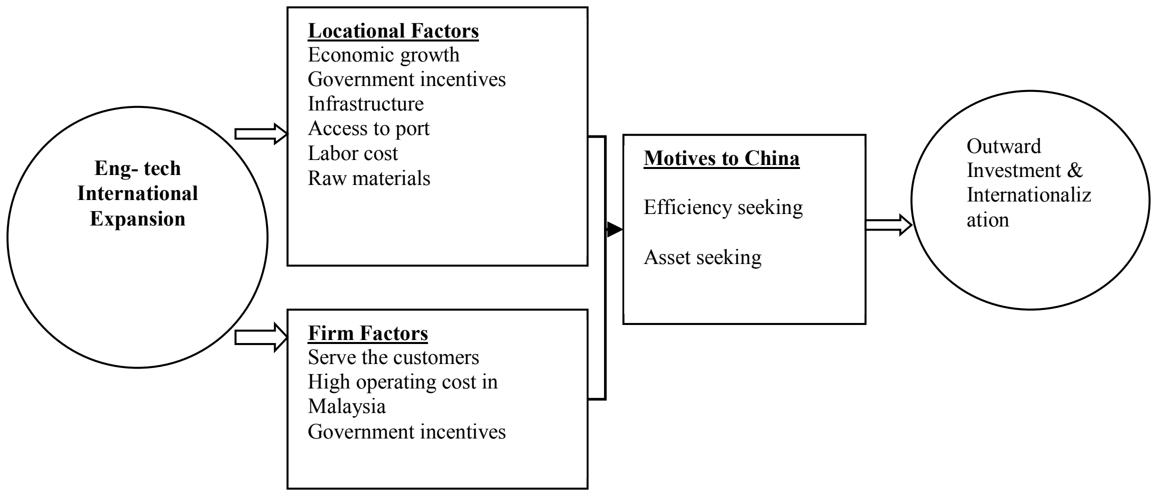

Figure 1portrays a framework for Engtek in its international expansion that has been inferred from the findings of the study. Engtek expanded to China based on two major factors: the locational advantages that China offers as a pull factor and the firm factors as a push factor that forced the firm to invest in China. Serving customers who had relocated their plants in China forced the firm to move close to them and cost-saving also triggered them to be in China.

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