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Caroline YEOH
Singapore Management University, carolineyeoh@smu.edu.sg

Wilfred Pow Ngee HOW
Singapore Management University, wilfred.how.2003@business.smu.edu.sg

Hong Hao CHONG
Singapore Management University, hhchong.2008@sis.smu.edu.sg

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Wilfred HOW
Singapore Management University

Caroline YEOH
Singapore Management University

CHONG Hong Hao
Singapore Management University

Corresponding Author:
Caroline Yeoh
Lee Kong Chian School of Business
Singapore Management University
50 Stamford Road
Singapore 178899

Tel: (65) 6828 0377
Fax: (65) 6828 0777
Email: carolineyeoh@smu.edu.sg

ABSTRACT

As internationalization becomes, increasingly, the chosen method of (ironically) competing for competitiveness among firms, new and rich frontiers for business come into ever-expanding demand. Among the foremost of these frontiers, the countries of the GCC represent both fertile ground and uncharted waters for internationalizing firms, with cultures as rich as their markets and sometimes byzantine yet fascinating socio-political forces presenting a plethora of challenges to erstwhile investing firms. As a culmination of our research into this region over past years, then, we examine in this paper, as a case study of sorts, the experiences of Singapore firms in the various countries of the GCC, extrapolate the lessons that can be derived thereof, and contemplate the implications for international businesses looking to expand into the Middle East.

Keywords: Primary research methods; internationalization theory; Middle East; Singapore; entry mode/entry strategy; adaptation to local contexts.

INTRODUCTION

Globalization and internationalization – watchwords the world over, with businesses of all sizes seeking rich new frontiers for their supply chains and operations. Few such frontiers come richer than those of the oil-rich Middle East, especially those of the relatively politically stable and business-friendly Gulf Co-operation Council, or GCC, countries, which include regional financial heavyweights Saudi Arabia and the United Arab Emirates (UAE) – a fact self-evident from the ballooning of foreign direct investment, or FDI, into the region in recent decades; even after heavy declines due to the financial shocks of recent years, FDI inflow into the GCC still sat at a very respectable US$39.8 billion in 2010, accounting for 60% of FDI inflows into the Arab world (UNCTAD, 2011). Accordingly, development in the region – physical, infrastructural, and economical – has been just as prodigious, development largely facilitated by foreign investment, but funded by the region's own deep coffers. Driven, popular knowledge claims, primarily by surges in oil prices and consumption in the late 1990s to early 2000s, the region saw increased focus on the development of infrastructure, tourism, and industrial and educational foundations, born from the realization that oil could not continue to be the main and only relevant revenue stream of the region (Abouchakra, et al, 2008). Thus, there existed a need to strongly promote the region, to overcome a measure of international ignorance owing to the tendency of the popular media to focus on the unstable elements of the Middle East, and exacerbated by the terrorism phenomenon. Thus, the plethora of mega-projects completed or undertaken across the region ranging from artificial islands in Dubai to relatively smaller, but still immense, construction initiatives that have served as the poster children for the development of the GCC economies; a disparate, but nonetheless pointed effort towards achieving a better future scenario for the region. At the same time, a distinct emphasis was placed upon establishing the foundation for future and self-sufficient forms of development, through efforts to improve on the region's technological base across a variety of fields and industries. Indeed, analysts conclude that the countries of the GCC are less interested in the actual funds being channeled into the region than they are in the attendant inflows of technological and technical knowledge and expertise. (Economist Intelligence Unit, 2011)

This mindset – one markedly different from that of most areas seeking inflows of FDI – is but one (albeit a major one) of many factors contributing towards the sometimes bewildering business environments of the GCC, environments which can seem a fundamentally different course to navigate than most are used to; one, indeed, riddled with unexpected currents, which more than one firm has run afoul of over the years, even before the financial debt crisis which sent shocks through the region, and the whole world. The oft marked influence of socio-political forces upon international business in general, and internationalizing firms in particular, is both well-proven and well-discussed, and has been a hallmark of our own research over the years; the GCC region, however, represents a confluence of the abovementioned socio-political influences with singularly unique business environments predicated far more on knowledge capital than physical capital, and furthermore one in which, depending on the industry, by no means lacks said physical capital – and, as such, can reach sometimes scales dizzying to some smaller companies with less experience in handling projects of sizeable scale; and all of which, socio-political influences and the flavour of business environments alike, can vary minutely but quite significantly across even different countries in this same geographical region. So unique a set of challenges, indeed, does this gestalt of factors and influences create, that established methods can find less than firm purchase upon the lands of this grand business frontier; and as such, the methodology that proves both the best and most applicable for learning to do business in the

GCC is, perhaps, simple learning through experience – whether one's own, or of other firms that have taken the plunge.

Thus, this paper: in which, representing a peak of our research over the past several years, we outline the experiences, challenges, outcomes, and lessons learnt from the internationalization efforts of firms from Singapore, a significant player in the increasingly influential Asian economy, into the GCC region. In the following section, we list a number of theoretical considerations with relevance to understanding the shape of business in this region. Thereafter, we discuss Asia and Singapore with relevance to internationalization and the GCC, followed by a country-by-country presentation of observations and extrapolations distilled from years of our interviews and case studies of Singapore firms in the GCC. Finally, we outline our conclusions as to pertinent lessons that can be drawn from the experiences of Singapore firms with respect to global strategies, choice of entry modes, and long-term planning for firms with an interest in exploring this rich Arabian frontier.

THEORETICAL CONSIDERATIONS

Holistically, Dunning's (1988, 2001) eclectic paradigm proffers an analytical framework in which to examine the patterns and extent of activities of firms engaged in value-added activities beyond their national boundaries. It seeks to explain the ability and willingness of firms to serve markets by delving into the reasons behind their choice of exploiting this advantage through foreign production rather than domestic production, exports or portfolio resource flows. The eclectic paradigm postulates that foreign investment will only occur if it is advantageous combine spatially transferable intermediate products in the home country, with at least some immobile factor endowments or other intermediate products in another country (Dunning, 1988, 2000). Specifically, the configuration of ownership-specific advantages (O), location-specific advantages (L) and internalization-incentive advantages (I) – the three types of advantages into which Dunning classifies the reasons for the behavior of firms – determines international production and its nature.

The framework goes on to assert that the importance of each advantage of the OLI triumvirate, and the relationships between them, varies across firms, industries and countries, and are context-specific; based on factors, including the firm's country of origin, and the country it seeks to invest in. What is common, however, is the appropriation of the O-advantages through the exploitation of firm-specific resources, and the simultaneous procurement of I-advantages through the diminution of transaction costs. Subsequent iterations drew attention to L(ocation)-advantages (Dunning, 1998; Jovanovic, 2003), and agglomeration benefits of knowledge spillovers (Krugman, 1991), transactional benefits of spatial proximity (Porter, 1998) and immobile clusters of complementary value-added activities (Markusen, 1996). As well, as firm's core competencies become increasingly knowledge-intensive, the location in which firms locate their production, organization and use of assets emerges as a critical competitive advantage (Dunning, 2000). MNEs continue to seek locations (economic and institutional facilities) that are best utilizing their core competencies.

On the firm level, especially with respect to SMEs, strategy-based theories come into play. Prahalad and Doz (1987), Bartlett and Ghoshal (1989), amongst others, proposed three forms of strategies; global, international and multinational, as well as the integrated transnational strategy.

In principle, for most enterprises, the internationalization process is embarked on with circumspection, involving risk minimization and strategic planning (UNIDO, 2006). During internationalization, some duties and tasks are centrally performed to reap the integration benefits, while others are performed locally to adapt to the local needs (McGee, et al., 2010) An enterprise may employ different levels of integration and adaptation in its foreign operations. Enterprises venture into markets that are more familiar and less risky, and commit minimal resources, to first gain experience before foraying deeper into relatively riskier business environments. Enterprises, depending on the conditions of the foreign countries and their level of resource commitment, employ different internationalization stratagems – which includes exporting, licensing, franchising, management contracts, turnkey operations, joint ventures as well as full ownership. Likewise, a stages model demonstrates that an enterprise's level of commitment in its internationalization stratagem is contingent on its stage of expansion. At the onset, the enterprise often seeks to reduce its risk; hence, it is not surprising that initially enterprises mostly just export core competencies (or its existing products) into new geographic markets (Delios, et al., 2010).

The abovementioned firm strategies, of course, are not always applicable in the face of local regulation; full ownership, for example, tends not to be an option in the GCC in many industries due to the existence of various degrees of ownership regulation. That aside, however, companies expanding operations into the GCC can and have employed a wide range of these strategies in their internationalization efforts, sometimes successful, sometimes not. The Singapore firms which we use as an example, in this paper, represent a microcosm of these varied efforts, while also, we note, displaying a particular preference for franchising, joint ventures, and management contracts; each, we note, a noted risk reduction strategy.

SINGAPORE AND THE GULF

Part of the story of the GCC's rise to prominence in business circles coincides with the growing importance of Asia in the world economy. In 1980, before the impetus towards regional development truly began, just 10% of the GCC's total trade volume was with Asia, with the vast majority of the remainder represented by trade with OECD countries, a trade figure dominated by oil exports. By 2009, however, Asia's share of the GCC's trade volume had swollen to 36%, and consistently demonstrates a much higher rate of growth in trade than with the OECD; so much so that, at current rates, it is projected that Asia will outstrip the OECD as the GCC's biggest trading partner within the decade. (Economist Intelligence Unit, 2011) While a good amount of this increased and increasing trade volume is, of course, accounted for by oil and gas exports to Asia, especially rapidly industrializing China, trade in consumer goods, industrial materials, and, perhaps most importantly, services and technology, are beginning to comprise a growing percentage of Asia-GCC trade.

While China and India's materiel demands continue to escalate trade statistics, however, other parts of Asia remain key trading partners for the GCC, as providers of technology, technical expertise, and other knowledge capital to the GCC, which as yet has a limited research & development base. The city-state of Singapore, unsurprisingly, is one of these key technology trading partners; a relationship boosted, in recent years, by the city-state's own focus on the GCC region for its internationalization efforts, with investment into the GCC region blooming six-fold from some $346.3 mil in 2005 to about $2 bil in 2009. Such internationalization efforts have historically been of critical importance for the city-state, due to small size and limited domestic demand, and as such tend to be an affair in which the country and its firms move as a unit; such has been the case in the GCC, with companies across a spectrum of sizes and industries making the move into the GCC, from the vanguard of generally larger-scaled government-linked companies (GLCs) such as CapitaLand, Changi Airports International, Jurong International, Keppel Corporation,SembCorp Industries and Surbana International, which tend to be involved in property and/or infrastructure development, to more diverse small-medium enterprises (SMEs) across a multitude of industries, such as consultancy services (DP Architects, RSP Architects and Design Studio), lifestyle and entertainment services (Cathay Cineplexes), food and beverage operations (BreadTalk, Fish and Co, IndoChine, Pastamania and Corona), retail-franchise arrangements (Charles & Keith, Osim, PrettyFit and Royal Sporting House), and healthcare services (Raffles Medical Group, Parkway Healthcare). (IE Singapore, 2007/2008).It is precisely this eclectic variety of firms and industries, across myriad sectors and scales, and dotting the entirety of the GCC, which provides a wealth of experience, from any number of perspectives, which, put together, provides a markedly more panoramic and multi-dimensional view of the GCC than any one case study may present. In the course of our research, we have collected a database of many of these perspectives, through a judicious mixed methodology of interviews, on-site and otherwise with company management; research into media reports and press releases; gleaning of data from Singapore oversight and support organizations; and on-site excursions into the GCC countries themselves. Here, we present a collation of these perspectives, arranged primarily by country and secondarily by significant divisions among Singapore firms engaged in those countries, in a format of conflated and distilled observations, discussions, and conclusions on each such distinct identifiable GCC economic zone.

Kuwait/Oman

We begin with a look at Kuwait and Oman, the two countries of the GCC that have relatively fewer (though still a gradually expanding number) of Singapore companies currently or previously engaged in operations, reflecting, more or less, the comparatively slower paces of development in these two countries as opposed to their neighbours in the GCC. Oman, having been facing depletion of oil resources since the late 1990s, has placed markedly more emphasis on diversification, but with less tendency towards attention-capturing mega-projects, focusing more efforts instead upon the steady establishment of industry (especially with regards to the country's abundant mineral resources) and a solid technological base, and thus found itself not a springboard for Singapore firms, but rather a location to expand into from other springboards in the region; a process slowed considerably by first the Dubai debt crisis, and later by following global financial shocks. (Indeed, Oman's industrial focus finds itself mainly in partnership with Japanese and German firms and institutions instead.) Singapore firms that do have a presence in Oman tend to be, accordingly, engaged in the industrial sector (especially maritime) or in IT and technology services; one such firm was offered a contract for various e-governance projects following said firm's success with said projects in Saudi Arabia, signifying, perhaps, a willingness on Oman's part to look towards firms currently engaged in and enjoying positive performance and reputation among its neighbours when selecting partners for larger-scale projects and government contracts. It can be inferred that stability and reliability, backed up by proven results, may be as much of an attractive factor to Oman as proficiency in the country's chosen areas of focus. Some disruption to business was observed pursuant to the Arab Spring in early 2011, but has since mostly passed, signaling some minor degree of political risk, but not a truly serious one.

Kuwait, on the other hand, as yet lags behind many other areas of the GCC in terms of competitiveness, with common complaints including rigid and business-unfriendly bureaucracy, limited foreign ownership, and heavy regulation, issues which appear to trickle down somewhat even to local businesses – one private sector Singapore firm engaged in the food & beverage industry recounts the breakdown of the firm's initial entry vehicle, a joint venture with a local partner, due to control disputes arising from a blend of bureaucratic obstacles and insufficiently clear contractual terms, leading to a retooling of operations in Kuwait under a franchise agreement, with the previous local partner as master franchisee. The country's five-year Development Plan means to address this, through a greater degree of development projects, including large-scale infrastructure projects meant to develop the country's power sector, among others, while attempting to attract FDI through public-private sector partnerships, which would necessary be, one would assume, accompanied by relaxing of regulations and bureaucracy for these projects and possibly beyond. At the time of writing, however, the progress of this plan seems uncertain, with the dissolving of the Kuwaiti parliament in the wake of the protests of late 2011; while, for firms already in Kuwait, it is largely business as usual, regulatory reform to heighten the country's competitiveness may yet be a while in coming.

Bahrain

One of the major financial hubs of the GCC region, and, indeed, the Middle East at large, the island nation of Bahrain attracted a good number of Singapore firms to its shores with the intention of establishing themselves in, at the time, the 'freest economy in the Middle East region', and then expanding from this gateway into the surrounding GCC economies and beyond.

In addition, a distinct attempt was made to tap into the technological and technical resources of Singapore firms, with invitations being extended to prominent Singapore firms (the majority of which were GLCs) for joint venture partnerships for various iconic and/or government-linked development projects; indeed, the experiences of two of these firms sheds much insight into prospective opportunities and threats of the Bahrain business environment. One of these firms, engaged in a wide range of IT services, found fair success in its Bahrain venture, when approached to develop intelligent building features for an iconic project; the successful completion of this venture led to opportunities and invitations to expand and diversify to Saudi Arabia, Qatar, and Oman in 2007-2008, clearly benefiting greatly from the regional push towards a knowledge economy. The firm, however, experienced a number of human resources issues in Bahrain, from the higher expenses and administrative delays associated with work visas for staff hailing from areas such as China, India, and the Philippines, pointing to possibly expensive complications on the part of any firm attempting to assemble a truly multinational staff as part of international strategy, as well as low availability of sufficiently skilled local hires with which to reinforce staff complements. The latter problem, we note, is one which this firm, and others, has grappled with in multiple countries across the GCC.

The other firm's experience, unfortunately, was arguably a less happy one. Invited to a joint venture for an iconic and immense property development, a confluence of factors including communication issues (due, partially, to a heavily Singaporean-weighted staff complement with few local hires), and, arguably, a perceived lack of commitment created internal conflicts that were eventually exacerbated by the Dubai debt crisis – pointing heavily towards the need to adapt to local conditions and maintain good communication with local partners and clients. The adaptability lesson, too, can be echoed by the experience of another Singapore firm, a private sector company in the hospitality industry, long involved in Bahrain and the UAE, which entered through management contracts with local land owners to build spa resorts, in methods unchanged from similar resorts across the world; methods which proved all too vulnerable to sudden financial shocks in a region not otherwise known as a resort destination, and which stirred small discords over business methods and the relatively removed risk proposition represented by management contracts into a sad degree of acrimony that eventually not only stopped the firm's expansion in its tracks, but even led to its retreat from some areas of the GCC.

As a final note, the operations of many Singapore firms in Bahrain are currently stalled, due to ongoing political instability in the island nation, probably the GCC nation most seriously affected by the Arab Spring, and look to remain so for the immediate future. Depending on the eventual shape of the resolution to ongoing instabilities, the business risk of the region associated with political forces may abate, or may become more of a deterrent to future foreign investors.

Qatar/Saudi Arabia

Geographically neighbours, it is unsurprising that many of the Singapore firms engaged in Qatar are also engaged in Saudi Arabia, despite the former's relatively liberal society and the latter's more conservative one; although, we note, the reverse is not always true, given Saudi Arabia's much larger land area compared to Qatar. Economically, too, these neighbours are very similar; both, for example, have recently undertaken large strides towards improving their business, regulatory, and cross-border trading environments, to the point where they are arguably the best placed GCC countries to capitalize on future FDI inflows. Qatar, additionally, is likely to receive a FDI boost due to its location for the 2022 World Cup, which will necessitate any number of projects leading up to it, and which should be a great draw for foreign firms and investors.

In terms of actually doing business within the two countries, however, the experience of Singapore companies begins to show that very distinctly different strategies are needed. Doing business in Qatar is relatively straightforward; in the experience of one Singapore GLC involved in the planning of industrial townships, a focus on teamwork and integrity appears to resonate with the locals, and communication and adaptation is reasonably easily achieved through the granting of a high degree of autonomy to regional offices; enough for said firm to enjoy a fairly positive reputation. This still applies in Saudi Arabia – but, owing to the rather distinctly different local profile and more conservative environment, a rather larger degree of adjustment can be necessary in some industries. A private sector retail firm, for example, found itself adopting a somewhat different business model in addition to its usual storefronts, as retail of their women's footwear lines had to be mostly performed through home visits, as women are discouraged from removing footwear in public in Saudi Arabia. A GLC involved in residential property development, rather more cautious than many of its fellows in terms of project choice, nonetheless ran afoul of an apparent disconnect between marketing goals and the actual ground situation; its residential development, ostensibly aimed at both local and expatriate customers, met with concerns among locals as to affordability, the sharing of lodgings with non-Muslims, and, apparently, a general antipathy among the Saudi population towards high-rise lodging in general, signaling insufficient understanding of local contexts, attitudes, and demands. The experience of another GLC in the same industry underlines the importance of communication and an understanding of the local context; despite a gamut of delays owing to the debt crisis and to later regulatory changes requiring an undermining of the local partner's interests that could have sparked ruinous conflict, calm and non-acrimonious discussion proved sufficient to resolve the issue, which the company credits to an investment in relationship management, a clear alignment of goals and outline of distinct roles prior to the incorporation of the joint venture, and cultural studies to better comprehend the business and social environments of Saudi Arabia. Clearly, understanding and adaptation are even more important in Saudi Arabia than they are in the other GCC countries; and, with the country's geographical location and size, the potential rewards of taking the effort to do so are immense.

United Arab Emirates (UAE)

Home to both financial stronghold Abu Dhabi and flashy development pioneer Dubai, the UAE has been one of the more aggressive hunters of sources of FDI, and, having sought Singapore firms just as much as the reverse, pays host to perhaps the largest concentration of Singapore firms in the GCC across the whole spectrum of industries, focused mainly in the abovementioned two major emirate-cities. Already one of the more cosmopolitan of the GCC countries, the high percentage of expatriates in the emirates (taken to an extreme in Dubai even in the present day, where expatriates clearly outnumber local Emirati citizens several times over) makes the UAE perhaps the least idiosyncratic of the GCC economies.

This is not, however, to say that adaptation to the local context is unnecessary. While many Singapore firms have done fairly well for themselves in the UAE, a recurring trend is observable among complications suffered in the course of operations in the UAE, right up past the debt crisis and to the current day; a private sector residential development firm in Dubai found itself beset by delays that eventually left them one step behind competitors; a painful result for luxury apartments, which suffer from higher inertia among buyers. While the delays were due to a variety of reasons, not insignificantly the debt crisis among them, a possible reason for the failure to anticipate and/or deal with these complications may have been a lack of management expertise; only the general manager of the joint venture was a previous employee of the firm, with the rest new hires, local and expatriate, and the extension of the same marketing proposition to both local and expatriate prospective buyers showed a distinct lack of understanding of the local environment and populace, culminating in general poor sales. Another firm in property development, a GLC this time, chose a strategy of aggressive engagement and chasing a high rate of expansion; while, however, at the same time taking a cautious approach towards exchanges of technology and information, even at points exacting payment for such technological exchange; a tactic not without precedent, but not likely to be popular among the general GCC populace, given especially given the general direction of the region.

For smaller enterprises, Dubai in particular can present an entirely different kind of challenge, due to distinct differences in the lifestyle and habits of the populace. A Singapore private sector food & beverage company found itself, despite entering Dubai on a franchise basis, needing to make a good number of modifications to its business model due to the existence of a completely different food culture in Dubai; where food & beverage outlets around the firm's price range operated not from restaurants, but from food courts, requiring more emphasis on speed of service rather than décor or service quality. Additionally – perhaps due to the climate, and perhaps due to general affluence – the Dubai population, in general, is less likely to randomly eat out and engage in the kind of restaurant browsing Singaporeans do, and instead have a tendency to order food deliveries; something that was a distinct challenge to develop in Dubai's maze of streets and frequent traffic jams.

CONCLUSIONS

While each country of the GCC has its own unique customs and idiosyncrasies (which companies intending to expand into should, we would advise, take note of, further research, and promote understanding of among staff), several points of recurring similarity stand out across the various country accounts. It is clear that the people of the GCC countries value a sense of commitment and reliability in their working relationships; and that this sense of commitment is best engendered by efforts at clear communication and understanding, both prior to and during the length of the working relationship. It is unsurprising that the majority of problems arising from such communication breakdowns among observed Singapore firms arose from firms engaged in joint ventures with local firms, with those engaged in management contracts falling afoul of this far less often; not only does the joint venture method necessitate a closer working relationship, it can also engender a bad habit, of sorts, of treating the partner firm as a buffer against local socio-political forces – a very easy way to lose touch with both one's partner firm, and the market as a whole. Finally, it behooves any company intending to have the local populace of any GCC country at large as potential clients to undertake serious and detailed studies of market conditions and the preferences of the local populace before, at least, creating any kind of marketing campaign, and at best before entering into a project at all.

It goes without saying, as well, that as events in Kuwait and Bahrain develop, great changes may be imminent in those countries, and perhaps even to others in the region. It is our intention to follow developments in these regions, and should it be possible, to obtain further data and conclusions from these countries if, and when, the operations of Singapore firms in those countries resume fully.

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