

**“FOREIGN DIRECT INVESTMENT
TOWARDS FAST GROWING ECONOMIES
IN THE GLOBAL CRISIS CONTEXT”**

AN ANALYSIS TO DECISION APPROACH APPLICATION

Jean Paul Lemaire,
ESCP Europe

Abstract

Foreign Direct Investments (FDI) towards Fast Growing Economies (FGE) address a double problematic, which relates,

- in the one hand, to the country attractiveness policy which local authorities can improve upon the basis of the local resources available,
- in the other, to the international development strategies of international corporations considering a possible foreign expansion, either in an horizontalization or in a verticalization perspective.

This paper develops an analysis-to-decision process from the foreign investor's point of view, through a specific author's model (“4 x i”),

- which positions, in a dynamic perspective, the FGEs which could be targeted,
- but, also, indicates the type of activities, the entry strategies which could be selected and which could evolve,

following the evolution of each considered FGE's positioning when some significant changes affect its environment.

The global mayhem provides a good occasion to assess this dynamic model, at least, on an hypothetical basis, in order to envisage its possible consequences for the attractiveness of some key FGE -for instance the BRICs-, as for foreign direct investors' choices *vis à vis* each of them.

Keywords: territory attractiveness, protectionism, foreign direct investment, incentives to internationalization, emerging countries, fast-growing economies liberating flows of trade and investment, country risk, global crisis.

Introduction:

The insertion accelerated during the past two decades of the emerging economies and, particularly, the fast-growing economies -more than 5% per year- in the flow of trade, and, particularly, international investments¹, underlining the growing involvement of these places in globalization. This evokes, however, paradoxical aspects, both in the attitude of the authorities of host countries in their involvement with foreign investors.

For local authorities, the desire to attract investment flows leans in favour of those deploying policies to upgrade the level of infrastructure and adjusting regulatory frameworks is not without restriction. If the primary purpose of these policies is to maximize the expected benefits both in terms of inflow of financial resources, job creation, technology transfer and upgrading of local managerial practices, they could bring nothing less than tangible limits susceptible to the contrary which may upset-even discourage- foreign investors. These policies proceed, in an oxymoron way,

- on the one hand, the will to protect local actors against stiff competition from the outside, which could lead to their exclusion from certain sectors with high growth potential, by forbidding them, in the future, the possibility to deploy their turn towards the outside,
- on the other hand, the willingness of the authorities to exercise tight control of strategic sectors -utilities, banking, natural resources, distribution, etc..- could even jeopardize, in the event of excessive control of foreign players, national sovereignty and, even, the direction of the economy they are exerting, in many cases, in a very prescriptive manner.

For foreign direct investors, eager, of course, to commit the necessary resources, these spaces, often newly opened, offering, no doubt, great opportunities also entail higher risks than those they face in other areas. The size and potential of many of them, natural resources -physical and human- that are available often at a very attractive cost, are incentives to expand with a view to winning market shares (« horizontalization ») or optimization of their international value chain (« verticalization »). These investors are nevertheless concerned,

- on the one hand, to minimize their exposure by limiting the assets -tangible and intangible- potentially subject locally to structural risks as well as cyclical, lowering, inter alia, at most, exit barriers, in other words, costs and losses they have to bear in the event of withdrawal,
- on the other hand, while retaining, in an increasingly dynamic context, the highest level of flexibility to be able, to benefit from immediate opportunities that arise or to respond most effectively to new constraints, likely to manifest.

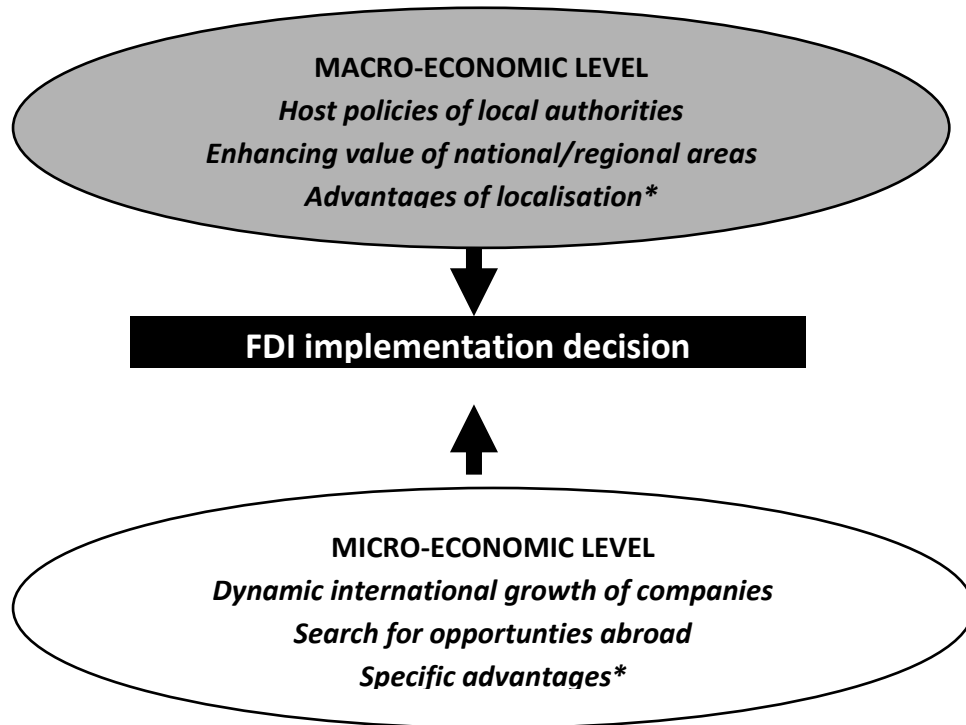
This double problem -local authorities, as foreign direct investors- did not always arise in other contexts identical to those facing emerging economies:

- it may, in fact, be put in the context of a structured opening, as required, including, the long process of accession to a global or regional organization that will lead, within geographic constraints, to an intensification of trade flows and international investments;
- it can, also, be raised, more brutally, by the occurrence of « conjunctural shocks », usually of an economic nature, a result of difficulties in controlling the effects of a very strong growth and its consequences in a limited area as, in a wider if not global scale; therefore it is no longer insertion, but reintegration of the economic space concerned in the flow of trade and international investments..

¹ The stock of outward FDI had almost doubled from 1980 to 1990 (Ramamurti 2004). In 2006, it exceeded 12,000 billion dollars of which 25% was in emerging markets and 75% in industrialized countries (the proportion was, respectively 20% and 80% in 1990). Pace of growth, despite some irregularity, has accelerated in recent years, FDI inflows have been a growing part of FDI for the third consecutive year, exceeding \$1300 billion, an increase of 38% compared to 2005 (UNCTAD, 2007).

For that reason has been given here, by way of illustration, two representative cases, one of each of the two contexts: Vietnam's accession to the WTO, for the first, after the Argentine crisis, for the second, according to one and then the other of those two fast-growing economies a process to analyze in parallel. Such an approach could, then, be extended to larger areas (e.g. BRIC) in the global crisis context.

LOCATION INCENTIVES



* Based on Dunning's OLI theory

The multiplicity of factors to be considered, such as different levels at which they are encouraged to take them into account in a structured manner,

- (1) starting from the external pressures of various kinds which are applied at the macro economic, supra national or national level, on every economic area in question,
- (2) leading to measuring their consecutive impact on the sectors, in particular, those most likely to attract foreign direct investors,
- (3) in order to determine the position of local authorities and those of foreign enterprises with regard to direct investments to prioritize.

1. The paradoxes facing the stakeholders of foreign direct investment:

Moving beyond traditional approaches to the international specialization, the development of foreign investment in emerging countries with high growth rates requires more specific approaches focusing on the new redistribution of production at the global level².

The field of international affairs interestingly, by its nature, the interaction between businesses and economic areas³, connects on the part of some as from the other, seeking competitive advantages symmetrical on the activities, resources and knowledge⁴:

² see Lemaire (2003) « Evolution de la réflexion sur l'internationalisation » Chapter 3, pp. 75-111.

³ Ricart et al. (2004)

- for the company, ownership and development abroad of a number of its activities –areas of strategic activity -keys, benefiting from the resources -financial, technical, managerial-enables them to be mobilized and allocated, making the best use of know-how- technological, marketing, organizational, ..- available to the organisation and which it should renew and expand,
- for economic areas, sets of allocations of tangible factors -space, natural resources, quality and cost of labour..- and intangible ones -political stability, market maturity, willingness and ability to opening of economic agents,..- attached thereto to promote the development of specific activities at the initiative of foreign investors.

As such, this interaction remains of the same nature,

- or is developed between companies originating from industrialized countries and economic areas in the same zone,
- or, even yet, it directs these companies towards zones of emerging economies,
- or, finally, it brings together businesses and economic areas under different zones.

It appears, however, that the paradoxes that emerge from the theory and practical situations -those that can be observed in both of the countries selected, for example- would be affirmed when enterprises and economic areas fall under different zones⁵- industrialized, for one set, emerging, for the others-.

The literature reflects in the broadest sense –of the international economy to international management -providing a diversity of approaches which already permits identifying a series of paradoxes both on the opening of economic areas as that of foreign direct investment, under the logic followed by the local authorities such as that adopted by the companies. They reveal, in addition, a significant and recent development from the incorporation of the geo-economic context of rapid growth, to give them character to change the traditional approaches of international investment which, so far, does not differentiate much, between them, the target zones -industrialized or emerging- for FDI.

1.1. The paradoxical aspects of current thinking regarding FDI:

The theoretical basis of this logic leading to the environmental analysis for decision-making and drawing the path of a convergence between foreign direct investors and local authorities can be driven⁶,

- on the one hand by currents of thought focused on the opening of economic zones,
 - those, firstly, that enhance their attractiveness: beyond the basics of international specialization represented by the combinations of inputs analysed by Hecksher, Ohlin and Samuelson, supplemented by Léontieff-, associating, in addition, the determining effects for investors to largely intangible factors, unique to the specific context of each economic area regarded, as spurs to identify Porter's « diamond⁷ » -,

⁴ The ARK model (*Activities, Resources, Knowledge*) developed by Enright connects these three dimensions in a symmetrical manner, on the one hand, for businesses, and on the other hand for economic areas (*ibid.* Ricart and al.).

⁵ Specifically chosen here are companies originating from industrialised zones moving towards economic spaces orientated towards economic areas belonging to emerging high growth zones. It is already possible to envisage other situations, involving « international champions » originating from high growth countries, considering establishing themselves in mature economies. See, in particular, the special issue of JIBS from December 2007 and that of Lemaire (2005 and 2007). BCG now publishes an annual study highlighting the growing role being taken by these new « international champions ».

⁶ *ibid.* Lemaire, 2003

⁷ Porter's « diamond » highlights the elements which, when present at a significant level of importance, favour the external competitiveness of certain countries –like Japan, which has served as a model for the author, without prejudice to the applications which may be made to other comparable economic areas, particularly in Asia- : beyond the basic factors, the quality of environment fabric, demand conditions and the intensity of local rivalry.

- those, then, who, conversely, legitimize new forms of protectionism, beyond the «protectionism education» intended, in particular, to preserve the « infant industries », to highlight, with Krugman, events of « strategic trade politics » that develops not only in the industrialized countries willing to maintain and develop global oligopolies in certain key sectors -such as aeronautics, pharmaceuticals and semi conductors,..- but also and, more and more, some countries which are growing rapidly whose precursors were, after Japan⁸, once, the « dragons » and « tigers » of South East Asia, before the most recent revival of the « BRIMCs⁹ » which can claim to imitate other countries with comparable growth rates even if their size is more modest;
- on the other hand, the current focus on the dynamics of the internationalization of businesses,
 - those who are, like Dunning, Kogut or Prahalad and Doz, on research by firms, outside their area of origin, of new business opportunities and / or inputs (resources, knowledge. .) they need or on the willingness of their leaders to maximize their value chain by deploying the best at a given time in a given international environment; with the saturation of Western markets, it should be underlined, it is also, more and more, outside of the industrialized zone¹⁰ that should be pursued for «relay of growth» essential to the expansion of companies that originate,
 - without, however, ignoring the currents that are attached -if not dissuade them from internationalising- at least, engaging in a trade-off between several possible locations¹¹, depending on the risk, but also, in light of their own elements -like cultural proximity¹² or language-, making them more or less easy to access some areas than others, offering them international deployment patterns and modes of entry to minimize their risk exposure, both within each local context approached as from the perspective of their entire deployment internationally.

1.2. The paradoxes of geo-economic contexts of FDI development:

As such, these different contributions highlighting the paradoxes of the attitude of local authorities as well as those foreign companies are likely to apply to both industrialized areas as well as emerging areas. Nevertheless, a number of factors are included, where the result can be measured through indicators published by various specialized agencies¹³ assessing the risk of each country: they include a wide variety of criteria which, inter alia, emphasize that the delay of emerging countries -even fast-growing ones- are recorded compared with the industrialized countries, but also the elements of attraction they present for investors. The differences between the two types of areas, in terms of the intensity and nature of risks, as the degree of attractiveness, can be significant, making the decision of implantation particularly difficult and, beyond that, the choice of a mode of presence and its development in the emerging areas of rapid growth.

⁸ See Akamatsu writings including « development in flight of wild geese » describing the conversion process, in some sectors, of an importing country of finished products and capital goods, to an exporting country of finished products and capital goods, thereby re-joining the circle of world leaders

⁹ Brazil, Russia, India, Mexico, China.

¹⁰ Arnold & Quelch, 1998

¹¹ see, notably, the CAGE model of Ghemawat CAGE (2001)

¹² the importance of psychic distance, which was originally highlighted by Johanson and Vahlne (1977) constitutes one of the axes used particularly for determining the choice of implantation at the enterprise level

¹³ among these include organisations of credit insurance covering the transactions and international investments (COFACE, DuCroire, ECGD, Hermès, SACE..), the credit rating agencies which measure country risk (for ex. Fitch), or even the specialized agencies in the approach to emerging countries for exporters and/or investors (for ex. North South Export)

Furthermore, the characteristics of these areas are beginning to be identified in finer manner¹⁴ in terms of the interest they generate on the part of companies from industrialized areas:

- in ceasing to be seen as areas of simple mismatch of maturity, thus the gap would be reduced naturally by adopting « Western style » patterns of development,
- but taking into account, the contrary, more precisely the specifics of their environment¹⁵, in other words, political realities, regulatory, economic, social and technological locally suggesting more suitable approaches, for instance, the « bottom of the Pyramid¹⁶ », has recently become a top priority for many Western companies looking to exploit the considerable potential it offers, especially, in the fast growing economies.

Finally, the capacity and speed of change in the environment of emerging countries constitutes another important factor for the evaluation and comparison between different assumptions of localisation for business decision makers,

- determining in their eyes an increase in the attractiveness of a country, where local authorities are determined to develop and improve in an accelerated manner the local structures - infrastructure, legal and regulatory framework, financial institutions, practices of economic agents.. - to support and sustain growth by promoting openness,
- or, conversely, its decline, when the strength of past practices, and even when setbacks caused by political instability or economics put in question -at least for a while- the progress made during prior periods; the occurrence of crises, consequences of imbalances involved with accelerated growth which are, in most cases, the cause of such reversals.

It is therefore necessary to take into account the approach of each foreign direct investment, both for the local authorities and for the foreign companies plans to consider or expand their settlements, an approach that combines all the elements conducive to achieving the most positive for both parties involved:

- for the authorities, to welcome foreign investment, by providing the licence or permit for implantation and giving favourable and reassuring conditions, in the short, medium and long term, without, however, abandoning the collective priorities and the benefits expected from the local economic actors,
- for the business venture capitalist, to most properly define the project to reconcile its own interests and that of the host country, as to mobilise its service of sufficient resources in the strategic perspective as in the most appropriate legal and economic framework.

2. The paths of convergence: of the environmental analysis to the decision of FDI location: the implementation of the PREST nationally

Reconciling the interests and contradictory expectations of the two types of stakeholders leads to highlighting the determinants of their attitude and then their implications at the various levels¹⁷ where they can be identified to achieve investment decisions which acceptable to both parties, developing a « funnel » approach, following the logic of the PREST model¹⁸, situated,

¹⁴ London & Hart (2004)

¹⁵ Meyer (2004)

¹⁶ in other words, the huge market of low income consumers; whoever is interested in consumers whose annual income in terms of purchasing power parity is less than \$1500 (Prahalad & Hart, 2002)

¹⁷ This approach to the environment at three different levels, « macro » -corresponding to countries where as a group more or less important of countries-, « meso » - focussing on one or more sectors - and « micro » -in this case focussing on actors operating in this or these sectors- (see, Lemaire, 2000) is shared by other actors who can retain more, for example, from the perspective of identifying factors influencing the performance of the company (Enright, 2000a and 2000b cited by Ricard et al. 2004).

¹⁸ The PREST model (Political-Regulatory, Economic and Social-Technological, see Lemaire, 1993, 1997, 2000), initially designed to identify the determinants of the strategic decision for a company operating in a

- firstly, at a macro-economic level, supra national or national, in order to identify the « external pressures », structural or cyclical, pertinent, at the same time, for local authorities and for foreign investors; both those that stimulating than those that hinder, delay or suspend the opening of the area in question, and thus affecting the achievement and sustainability of FDI;
- then, at a meso-economic level, multi-sectoral or sectoral, to evaluate the impact of these pressures on the different sectors, which will be more or less affected, positively or negatively, by these pressures according to their respective characteristics, in order to determine what sectoral or multi-sectoral « challenges », respectively, stakeholders will have to tackle,
- finally, at the micro-level of the actors -local authorities, on the one hand, foreign companies engaged in a process of investment, on the other hand- to select key sectors the best suited to host FDI, with the most appropriate entry modes, in determining the strategic « levers » most likely to facilitate the deployment and maximize the benefit of the various stakeholders involved.

The successive stages of this process will be implemented in parallel in the two selected economic areas¹⁹,

- on the one hand, Vietnam, as part of its gradual and reasoned opening, which led to its formal accession to the World Trade Organization in January 2007, « transition economies » heir to a centralized system of communist inspiration -to the image of Russia, China and, even, India- which, as these countries is resolutely engaged²⁰ in a progressive and structured process of accession to the World Trade Organization²¹,
- on the other hand, Argentina, in the process of reintegration into trade and investment flows as a result of the December 2001 crisis, participating, as opposed to, a long-lasting liberal system, but, due to the accumulation of fiscal and external deficits²², hit hard by a devaluation that provoked the sudden rupture of relations with its external economic partners and, therefore, faced with the need to rebuild and restore confidence, with its foreign partners, including investors²³.

2.1. The identification of « external pressures » to be taken into account by relevant stakeholders:

From the perspective of development of foreign investment in a specific economic area, analysis of the environment leads to the consideration of a number of factors of the national or supra national environment of the area considered capable of having a direct or indirect influence on the attitude of local authorities as that of foreign firms seeking to expand their direct investments in this area.

- These « external pressures » can just as likely have a favourable as unfavourable characteristic to the development of foreign direct investment, in the eyes of local authorities and/or the eyes to corporate decision makers.
- They may also include, depending on the situation, a cyclical or structural characteristic dominant, and determining, the effects more or less rapidly, more or less sustainable in certain sectors.
- While many of these pressures may, finally, be perceived in a similar way -positive or negative- by local authorities as by foreign companies, some can be variably viewed, in other words, positively by some, negatively by others.

geographical environment which is most often supra national (regional, continental, multi-continental, or global), is here envisaged in an interesting broader perspective, at the same time, businesses and local authorities in view of the decision of setting up foreign investment.

¹⁹ See the case « Vietnam, the WTO challenge » (Lemaire and Bui, 2008) and « Argentinean Promises » (Lemaire and Lopez, 2008)

²⁰ Russia is a special case, still subject to the influence of pressure groups linked to powerful sectoral interests (oil and gas) that have more to lose than to gain by joining the WTO (Dyker, 2006), compared to other emerging countries like Algeria, still in the antechamber of the WTO, are also subject to contradictory influences.

²¹ and, has even joined a regional economic union, ASEAN where it is the tenth country member

²² Apaix, 2003.

²³ Carrera et al, 2003.

For emerging economies with rapid growth rates, the same kinds of pressures will be reflected everywhere. They must, however, be considered given the particular situation of each, with its economic and political « fundamentals », as factors that affect it temporarily or permanently, not just to be assessed differently in relation to others, but also different from one period to another. They can thus provide a useful point of reference for the construction of a monitoring system adaptable for use in different contexts, such as those, significantly different from the two areas of application used, Vietnam and Argentina; on the condition, of course, being periodically updated to reflect the rapid transformations in the national and international environment.

2.1.1. The **political and regulatory pressures** constitute, particularly in these two emerging zones of high-growth, elements of the environment the most decisive for the direction of foreign investment flows.

- In the case of Vietnam, the structural pressures favourable to its opening, increasing the attractiveness of the country for foreign investors, of which there are many, even if their rise to power, in the early years of the accession process²⁴, may appear slow: with both the plan of opening as of the progressive upgrading of the legal and regulatory framework, of the fight against corruption, as the improvement of public infrastructure at the initiative of the public authorities. Without them the resumption of foreign investment, after an initial progression in a remarkably short time, would not have been possible²⁵. The resisters have long expressed through trade unions, the representatives of the centralized economy, that even business leaders of the new private sector do not feeling ready to face foreign competition²⁶.

<p><u>Structural pressures affecting (+/-) the opening of the location under consideration:</u></p> <ul style="list-style-type: none"> - National will and capacity to fit into a large, regional (ex. ASEAN, Mercosur), supra-regional or global group (WTO) - permanence of practices distort free competition (ex. corruption, systematic bias in favour of local actors) - nature of political relations and economic links with neighbouring countries, partnering countries and multi-governmental organisations.. 	<p><u>Cyclical pressures affecting (+/-)the opening of the location under consideration:</u></p> <ul style="list-style-type: none"> - stability of the political system as a team in power, continuity of economic policies initiated, - behaviour of political leaders (opportunism shown vis-à-vis foreign companies) - sensitivity to political tensions (cross-border, terrorism) and/or economically from the region or beyond..
<p><u>Structural pressures affecting (+/-) the framework of economic and legal infrastructure:</u></p> <ul style="list-style-type: none"> - measures of de/re-regulation designed to adapt the framework within which FDI is likely to develop, - measures of privatisation and restructuring of the public sector and/or previously nationalised industries, - adjustment policies of the major infrastructure sectors (transport, financial services, distribution..).. 	<p><u>Cyclical pressures affecting (+/-) the framework of economic and legal infrastructure:</u></p> <ul style="list-style-type: none"> - occurrence of natural disasters and climate change, - changes in the creditworthiness of the country vis-à-vis the international community and debt capacity / placement - resistance from pressure groups hostile to the projected development, strikes and social movements, inter-ethnic tensions, xenophobic outbreaks..

²⁴ after the expression at the highest level of commitment to openness, since the *Doi Moi* revolution, in 1986, and the filing of its candidacy for the WTO, a few years later, in 1995.

²⁵ in the early 90's, FDI had increased remarkably to reach an annual rate of 9 billion annually in 1996, which fell back down to 2 billion in 1999 (Lemaire and Bui, 2004).

²⁶ see Lemaire and Bui, 2008.

- In the case of Argentina²⁷, throughout the 90's seen as the « star pupil » of the IMF and the World Bank²⁸, political willingness to its opening and the liberal foundations of the political and economic system were not handed over because of concern, if not for their inability, as a first step, to rebuild a local economy in full recession, where the accumulated structural deficits could no longer justify parity²⁹, along with many foreign investors³⁰. Despite the strong recovery recorded since 2003, its disadvantage of governmental instability, which has long extended and the return to populist behaviour on the part of leaders of the country that have delayed the return to confidence vis-à-vis foreign companies some of which had served as scapegoats at the initiative of power³¹.

2.1.2. The **economic and social pressures**, figure equally prominently, in both countries, among the determinants of the attitude of local authorities as well as companies envisaging developing their investments locally.

- In the case of Vietnam, whose growth rate and purchasing power have experienced spectacular rates than were later reached by its big northern neighbour, the acceleration of growth was determined within a few years a significant progress of demand coupled with rapid social changes, albeit unevenly distributed between urban and rural areas, showing new expectations on the part of local consumers. Simultaneously, the local supply could rely on more attractive levels of competitiveness, in spite of low levels of training, a control still insufficient of management techniques, the infrastructure deficit still sensitive and the lengthy process of slow privatization of state enterprises; all elements in the process of rapid improvement, however, could be combined with the advantage of the change in export related to the dollarisation of the economy³² and the climate of security and social stability generally higher than that of its main neighbours.

²⁷ Bertone *et al.* 2003.

²⁸ After having, in particular, carried out the privatization of many businesses and public services to demonstrate its willingness to rebalance public finances and to liberalize the country's structures, while eliminating most of the barriers to financial flows between countries and the exterior and unilaterally establishing a fixed link between the peso and the dollar with a parity of 1 dollar-to-1 peso (the *currency board*). See Gabetta C., 2002, Krueger, 2002, Stiglitz, 2002.

²⁹ Rolland *et al.* 2003.

³⁰ In particular those who had invested heavily, such as European companies providing electricity, telecommunications and water treatment, which were heavily indebted to Western markets in hard currency and had found themselves also facing declining consumption, and, therefore, their income, and, most importantly, to honour repayment deadlines with hard currency incomes not indexed in the significantly depreciated local currency.

³¹ In response to the ban of increasing its fares, Suez announced, in September 2005, its withdrawal of Aguas Argentinas (the company in charge of sanitation and the distribution of water in the Greater Buenos Aires area); the government putting an end to its concession in March 2006 and transferring its assets to AySa, a newly created state-owned company, in following with a movement already under way for several months of recovery by the state of public service companies. Incidentally, Carrefour and Casino retailers were themselves accused by President Kirchner, in the context of a high-profile anti-inflation campaign, « pay attention to the Argentines portfolio ».

³² Schwartz, 2005.

<p><i>Structural pressures affecting (+/-) supply and demand in a quantitative way:</i></p> <ul style="list-style-type: none"> - growing population stimulating local demand and constituting a reservoir of cost-effective labour - rising purchasing power, rapid development of the middle class and reduction of the population living below the poverty line - increased availability and accessibility of resources from the soil and sub-soil, existence of large spaces available for activities. - Sensibility to currency fluctuations and changes in world prices of raw materials and commodities. 	<p><i>Cyclical pressures affecting (+/-) supply and demand in a quantitative way:</i></p> <ul style="list-style-type: none"> - « bottlenecks » in some sectors of production and inflationary pressures - a heightened sensitivity to the crises affecting the country –or remote- having established relations of exchange with the country - interruption of transfers between the country and abroad as a result of a sharp depreciation of the currency - abrupt withdrawal of the country’s foreign liquid assets and interruption of foreign financing for the benefit of local banks
<p><i>Structural pressures affecting (+/-) supply and demand in a qualitative way:</i></p> <ul style="list-style-type: none"> - changes in consumption patterns, higher levels of local and foreign consumer demand - higher sensitivity to respect for the environment and ethical production conditions - increase in education level and development of competencies among local staff 	<p><i>Cyclical pressures affecting (+/-) supply and demand in a qualitative way:</i></p> <ul style="list-style-type: none"> - influence of patterns and versatility of consumer tastes, preference for foreign products and services - loss of confidence of foreign partners in the country’s economy resulting from impromptus economic or political events (ex. bursting of the bubble of speculative real estate)

- With respect to Argentina, it was necessary to restore confidence in a disorganised economy³³ that had lost much of its productive structures, before the crisis, particularly in industry, considered inefficient compared to imported products³⁴. The use of the advantages of foreign exchange resulting from the depreciation of the peso has not, provided complete clean-up of the situation, especially as world market prices, especially for agro-food products, are significantly more attractive than the domestic market, creating a shortage endemic associated with inflationary pressures that do not include taxes for export to redirect the flow of goods and to give the authorities the means to redistribute the products of the recovery, given the substantive persistent social instability since the crisis.

³³ Tresca, 2004.

³⁴ A year after the initial crisis, industrial production had literally collapsed, accumulating a decline of over 13% on the setbacks –less significant, it is true- already recorded during the course of the four previous years. This was accompanied by a collapse of purchasing power, heightened unemployment and a dramatic increase of poverty. Inflation was experiencing a surge, wholesale prices rising 120% during the year due to the devaluation of the peso (the dollar trading then at 3.6 pesos). The trade balance accused, certainly, a surplus of nearly 14 billion dollars, but the price of a decrease of nearly 60% of imports (the level of exports itself decreasing by 6%). Meanwhile the level of foreign exchange reserves declined dramatically and the accounts of the State did not improve in a similar way, with a deficit of 3.1 billion pesos; in other words, totally isolated by the control of exchange rates, with capital movements completely paralysed, a colossal debt to repay, the country found itself in a « war economy »³⁴ situation, the result of IMF policies, which have appeared to much stigmatise the observers³⁴. It would take three years for the creditors of Argentina to understand within the framework of a new procedure for deciding on the liquidation of 75% of the debt.. (see Lemaire and Lopez, 2008)

2.1.3. **Technological pressures**, constitute, probably the category of environmental factors the least sensitive to economic developments, in contrast to the other two, even though, there also, the changes occur at a rapid pace, without, however, that the « shocks cyclical » might have actually taken place.

- What characterizes Vietnam is, above all, the considerable need for transfer of technology in all fields, technically if strictly speaking, but also managerial and organizational. The shift from a planned economic system, centralized and, more importantly, widely autarkic, to a liberal and open system emphasized -and not only at the institutional level, *see 2.1.1. above*- the deficiencies of infrastructure such as production structures and the need to upgrade that result. It depends on the capacity of the country to integrate into the international supply chain which is unavoidable for the development of its flow of imports and exports and the development of investments to be realised both from the perspective of horizontalisation as verticalisation. The development of information systems is, undoubtedly, an accelerator to learning, but it reaches only a small fraction of the population and productive entities, mostly in the cities, rendering the delay in the education system especially sensitive. Moreover, in spite of factories that proudly feature on their walls their ISO certification, compliance with the standards and the ability to certify their products and services is still very limited. Finally, as in many other Asian countries, industrial and intellectual property remains very little respected..
- On the other hand, Argentina is among the world leaders in the field of education, with an exceptional percentage of literacy and displaying an impressive level of higher education compared to its total population³⁵. As such its loss of control of a number of industrial sectors due more to the relatively small size of its domestic market as well as a certain lack of entrepreneurial spirit and the presence of world leaders in the fields where it could demonstrate its potential. But on this basis, its ability to acquire new technologies and to receive-if not promote- technology development activities which is already significantly done, as for the provision of dematerialised services at a distance, notably engineering.

Pressures affecting (+/-) the dissemination of technology:

- The existence of local competencies developed in a functioning educational system (or benefiting from effective external support), both in terms of production techniques as for the management and organisation
- Access and ability to benefit from the development of distribution systems (for ex. broadband Internet) and the intensification of information flows (existence of capacity for treatment)
- The ability to assimilate technology originating from exterior sources, to adapt and/or transform them in light of the constraints of their local or regional implementation
- The presence or potential of development of resources and structures of local R&D related to international research networks

³⁵ *“The traditional comparative advantage based on natural resources and low labour costs is diminishing in importance. Knowledge and skill become determinants of competitiveness. The big challenge to late comer countries is how to continuously improve their comparative advantage and dynamic competitiveness, created by human being in an integrated environment, under the impact of economic globalization... The overall target of Vietnam now is to successfully implement the transition and development. The first task is to transform the centrally-planned economy into a market economy with socialist orientation. The second is to transform the traditional peasant economy into a modern industrialized economy, moving from extensive to intensive development, with improved competitiveness and higher quality of economic growth.”* Prof. Dr. Do Hoai Nam, Director, National Center for Social Science & Humanity, « Opportunities and challenges for Vietnam in WTO accession », WTO forum, 2005, cited by Lemaire and Bui, 2008.

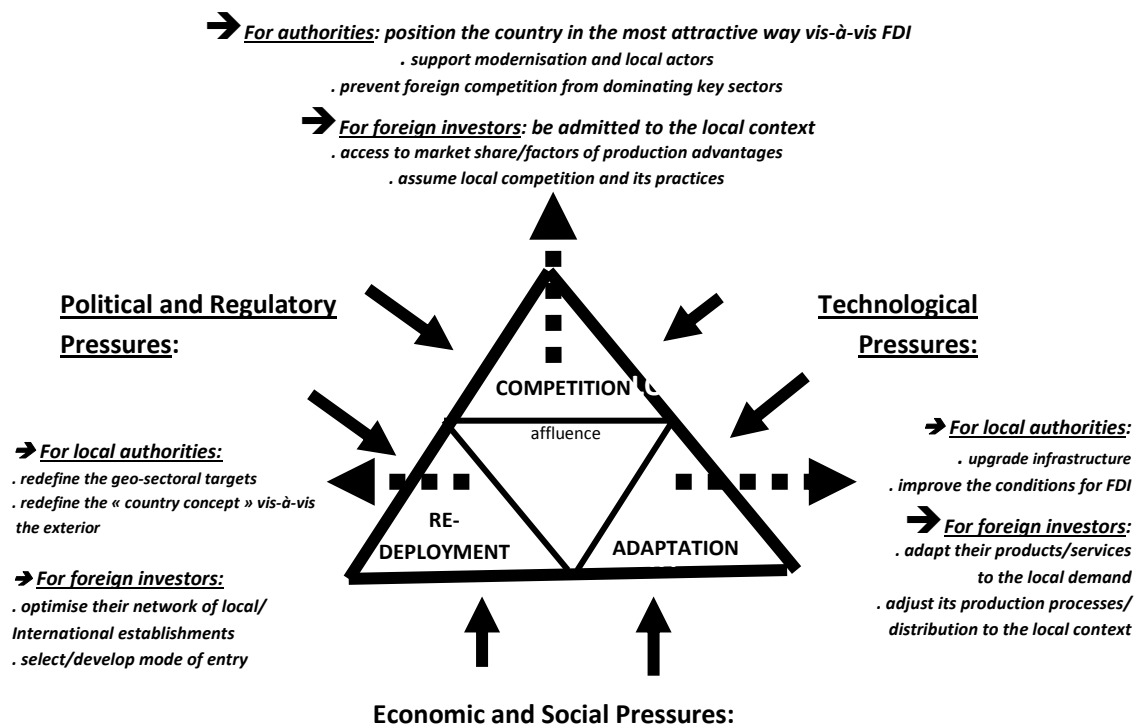
Pressures affecting (+/-) the upgrading of technology:

- The ability to assimilate and to achieve international standards of quality, environment and safety (see ISO standards)
- The ability to achieve compliance for local products and services with the most demanding certification systems (US and EU)
- Taking into account the infrastructure level (roads, telecommunications, energy supply, in water, port and airport facilities..) of the new production constraints and international logistics (control of the supply chain, just-in-time, traceability..)

The identification of all these pressures led local authorities as well as foreign firms to better appreciate the main challenges to assess in the context of an intensification of investment flows. Their respective analysis can provide the following largely converging conclusions:

- for these ones, it will place value on and, therefore, improve the factors of production facilities and maximize the competitive advantages that the country possesses, increasing its attractiveness on a general level, as for the others to capitalize in the most effective way on the areas where they can be particularly effective,
- taking into account the persistence of certain different priorities, which should be reconciled so that they aim, for these as for others, the major influence on the choices of location can not be decided jointly.

The challenges faced by local authorities as



2.2. The resulting « challenges » to be raised by local authorities and foreign firms in the perspective of intensified FDI :

Taking into account the different categories of external pressures, these challenges are based on a logic that impacts these, and the others,

- including, as a first step, taking into account the need to adapt and rapidly evolve local supply; emerging countries and, particularly, the fastest growing economies, in front of them, to monitor and maintain the pace of it, to demonstrate a high level of responsiveness; which is to be exercised, at the same time, by the authorities and by foreign companies,
- driving, then, the two parties to reconsider, permanently, in their respective areas of decision, activities such as geographical orientations to choose for better use of production factors, as well as improved opportunities that could be available in domestic space as well as abroad,
- with the goal, finally, of better confronting the local and international competition, in the domestic space as well as abroad, with structures increasingly better suited, in the face of other economic areas, as against other companies operating in similar sectors.

2.2.1. **The challenge of adaptation**, first of all, focuses on the supply of both parties stakeholders,

- with regard to local authorities, the adjustment is especially the upgrading of infrastructure which include both the politico-regulatory, public utilities or education, in an environment that should make it increasingly hospitable for foreign investors,
- with regard to foreign companies, adapting to local conditions of production as to the needs and expectations of domestic and international demand and locally produced services.

In relation to the respective context of each of the two economic areas identified, the challenge of adaptation which faces local authorities would seem, a priori, most difficult to face for Vietnam, given the many structural handicaps the country has to catch up on. The Argentine authorities have nevertheless, despite the cyclical nature of the crisis that the country has to overcome, to consider fundamental changes that must touch the very foundations of its economic system and, above all, the behaviour of economic agents.

The Vietnam had, as a priority, focussed on areas as diverse as regulation, public utilities and education, to promote the economic space. The nation was able and can count in this perspective on its impressive ability to mobilize its resources and act pragmatically to achieve significant results in a relatively short time by making rapid progress in these states of mind³⁶. This was demonstrated in its ability to overcome the long process of joining the WTO, with which it now figures as a model pupil, while being able to avail itself of a growth which, since 2003, has remained buoyant.

³⁶ “The traditional comparative advantage based on natural resources and low labour costs is diminishing in importance. Knowledge and skill become determinants of competitiveness. The big challenge to late comer countries is how to continuously improve their comparative advantage and dynamic competitiveness, created by human being in an integrated environment, under the impact of economic globalization... The overall target of Vietnam now is to successfully implement the transition and development. The first task is to transform the centrally-planned economy into a market economy with socialist orientation. The second is to transform the traditional peasant economy into a modern industrialized economy, moving from extensive to intensive development, with improved competitiveness and higher quality of economic growth.” Prof. Dr. Do Hoai Nam, Director, National Center for social Science & Humanity, « Opportunities and challenges for Vietnam in WTO accession », WTO forum, 2005, cited by Lemaire and Bui, 2008.

Argentina, on the other hand, despite the undeniable assets that it possesses, revealed after a period of remarkable recovery³⁷, that its structural weaknesses and attitudes of the past have not disappeared, as well as the maintenance from abroad of a large proportion of private assets, the weakness of national solidarity including reaping the benefits that the country gives with the under valuation of the national currency since its depreciation, the rise of inflation³⁸, the recurring character social unrest³⁹..

Accordingly, foreign companies have to take into account the very different constraints:

- in Vietnam: external pressures, such as the attitude of the authorities which enables them, - and, even encourages them- to enrol in a long-term approach to horizontalisation as well as verticalisation, including highly capital intensive activities, although many factors of instability and the still very dirigiste local authorities are a matter of concern, particularly in heavily regulated sectors, participants of national sovereignty, such as financial services⁴⁰;
- while in Argentina, in spite of these largely favourable fundamentals, this persistent instability, as well as the behaviour of government, leads to wait remaining very attentive facing the unpredictability of the political and social environment of the unpredictable steering of the economy⁴¹, taking advantage of the immediate benefits offered by the country- notably, excellent qualification/cost of the local workforce-, for activities requiring little capital, except for those that are turned resolutely towards external markets (verticalisation).

It is the combination of this double counting of external pressures, by the local authorities, on the one hand, and by foreign companies, on the other hand, to adjust their bids, which will suggest guidelines likely to be approved, both for the activities and for geographical locations to retain.

2.2.2. The challenge of redeployment, led, in effect, the stakeholders to review, respectively, their portfolio of activities and the structure of their supply chain and production as well as their portfolio of holdings, which,

- for local authorities, to reconsider the major sectoral guidelines of the country and/or its parts, and even to change their image by creating a true « concept » to be associated with⁴²,
- for foreign companies, to justify and upgrade their presence, on the one hand in terms of the local potential (opportunities, resources) and, on the other hand, compared to the internationally dynamic overview of the firm that commands continual improvements of its

³⁷ If one talks now after the « twenty horrible » (1982-2002), of the « three glorious » (2003-2005), it is perhaps a little early to estimate that this dark page of Argentine history is forever turned. The economic fundamentals, certainly, have improved considerably: growth, during these three years was 9% on average, the three major sectors of activity have advanced almost on parallel- at 11.9% for agriculture, 7.7% for industry, 8.3% for services-, and, significantly, the best performance being recorded in the construction sector with an increase of 20.4%; for its part, unemployment significantly decreased, to below 12% between 2004 and 2005 and even below that at 10% the following year, prompting a resumption of consumption promoted, moreover, by an increase in real wages close to 5% on average; exports increasing by 13.8% at fixed cost, in 2005, while the trade balance, although slightly bending, remained more than 12 billion dollars (see Trucy and Plante, 2006).

³⁸ The evolution of consumer prices translates to a decrease of 1.1% per annum on average in 2001, then an increase of 25.9% in 2002, to 13.4% in 2003, 4.4% in 2004, then rose again to 9.6% in 2005, but with underlying inflation already approaching 14% (source: Embassy of France in Argentina, Economic Mission).

³⁹ As evidenced by the difficulties to accept an increase in export taxes, intended, to avoid draining the domestic supply for the benefit of an external demand providing improved margins and to refloat the coffers of the State and support the most disadvantaged populations and sectors, as evidenced by the arm-wrestling which was started in March 2008 by President Kirchner with producers of agro-food products.

⁴⁰ Vu, 2005.

⁴¹ Peltier C., 2006.

⁴² Like China has been regarded as « the factory of the world », Brazil, as « the farm of the world », or India as the « back office » of the world; which does not mean that this image is only suffered and definitive: as in India which strives to position itself now as a « office of studies » or global « research centre », at least for certain sectors such as IT or generic pharmaceuticals.

deployment internationally to maximize its effectiveness (master the maximum of its constraints -cost, compliance with deadlines, risk reduction..-).

Regarding the choice of sectors, the benefits that the country has to develop as well as the handicaps that need to be dealt with, associated with efforts to adapt that the authorities have committed themselves to should be clear signals to foreign companies and allow them to position and insert in the most harmonious way possible.

- In Vietnam, all infrastructure sectors related to production (namely electricity, transport, telecommunications..) as well as services (financial services, postal..) now offer considerable opportunities for foreign players, despite a control and presence of the state which has been traditionally strong, as justified by the desire to preserve national sovereignty⁴³. These priorities are imposed and are associated with long-term prospects, even if, in parallel, investment can be encouraged to become involved in the internationalisation of the production processes of certain players anxious to take advantage of particularly favourable labour costs; which does not exclude heavy investment in consumer capital (for example, in electronics manufacturing).
- In Argentina, infrastructure sectors have experienced, on the contrary, a genuine reflux of foreign investors that the government had not supported during the crisis period and beyond. If, at the initiative of the foreign companies, the development of the assembly activities and automobile components⁴⁴, or supermarkets or even vineyards making extensive use of local resources at the cost of substantial investments continued after December 2001, that are mainly investments for consumers with little capital, without presenting any major barriers at the exit and value the excellent quality/price ratio of skilled labour in the country that have attracted the greatest attraction in a verticalisation perspective (cf. software design, research department).

Thus emerges the deployment or re-deployment sharply contrasted to the activities of these emerging countries with high growth in regards to the role of foreign firms responding to the attitudes and decisions of local authorities; which should, therefore, lead

- for the first of these two countries, to seek to meet the needs of local infrastructure before accelerating the production activities intended to serve international demand, in the meantime, in a longer time frame, to offer products and services in original sectors to give the greatest possible added-value to the most original and increasingly well controlled local competitive advantages,
- for the second, conversely, to limit the exposure of foreign investment to the local instability still poorly controlled by the authorities and at the mercy of political leaders; to avoid infrastructure sectors, and not to consider investment in consumer capital other than in the context of a well understood verticalisation⁴⁵, while retaining those who are as insensitive as possible to local demand, thus giving up only a little control to shifts in national policies; which amounts to combining the best access to the best local resources for services primarily

⁴³ Note, especially for financial services, that the issuing of currency -the right to print money- which falls under the control of banks, it is true of the central bank, constitutes, with the army and police one of three pillars of national sovereignty..

⁴⁴ Thus PSA has not hesitated to expand its assembly plant in the suburbs of Buenos Aires. Renault, it is true, preferred not to increase its local capacity preferring to develop other locations elsewhere in the Mercosur (see Lemaire and Lopez, 2008).

⁴⁵ Access to Mercosur can be for foreign direct investors an additional incentive to locate in Argentina, insofar as it offers, in a perspective of « enlarged horizontalisation » access to nearby markets multiplied by the report of the potential of the country.

aimed at foreign markets, with, if necessary, the participation of local investors, since capital is important to consider; provided, however, that they agree to engage..

But it is the competition and its evolution, which will make up -within the host country, admittedly- but, more importantly, abroad, in the main international markets as an additional decisive element of the decision of FDI location.

2.2.3. **The competitive challenge**, finally, supposed to measure internal and external actors, rival countries vis-à-vis international investors, as competing companies that could operate in the same sectors and the same target areas in the world, which require a high reactivity, equally,

- on the part of local authorities, to attract, more than other homologous countries, the investments are best suited to facilitate the development of their economy, while helping local businesses to succeed in their breakthrough abroad,
- on the part of foreign companies, to be accepted locally by all economic agents, and expand their market share both in the country, as quickly as possible, as well as abroad, to take advantage, of the attractive aspects of the local competitive advantages

The proper path to international openness changes rapidly in response to developing characteristics of the international environment, and, hence, that of the competition, to challenge, the permanent positions earned by players operating in an environment which is increasingly integrated, location must be in a dynamic way, subject to adjustments and permanent challenges.

- Thus, Vietnam, long neglected by international investors, has benefited, in addition to its determination to remove the remaining barriers hindering its entry to the WTO, the concern of many investors not overly concentrating their activities in China. Offering benefits comparable to those of its larger neighbour, the country has been able to encourage the establishment of certain stages of the production process of some foreign companies as part of their « verticalisation », without prejudice, however, to the emergence of real « bottlenecks » locally -for example, in the labour market, in which local talent, highly disputed, tend to practice upmanship-and mobility. Since, under the conquest and the development of their local market share (horizontalisation), foreign direct investors may have to bear the increasing competition from local players encouraged by government policies and, in extreme cases, be forced to withdraw⁴⁶.
- Argentina, in its case, faces increasing competition from its neighbours and partners in Mercosur, to attract investors, who, despite the cultural proximity it offers -to European investors, particularly- have returned from their infatuation with the great liberal period of the 90's, which for them has now caused many disappointments. The domestic competition, too, in areas where technology transfers are quickly assimilated and there is abundant local expertise, can be fierce⁴⁷ and calls into question the maintenance of the investor, especially if instability in domestic demand or regulatory framework reduces the expected profitability.

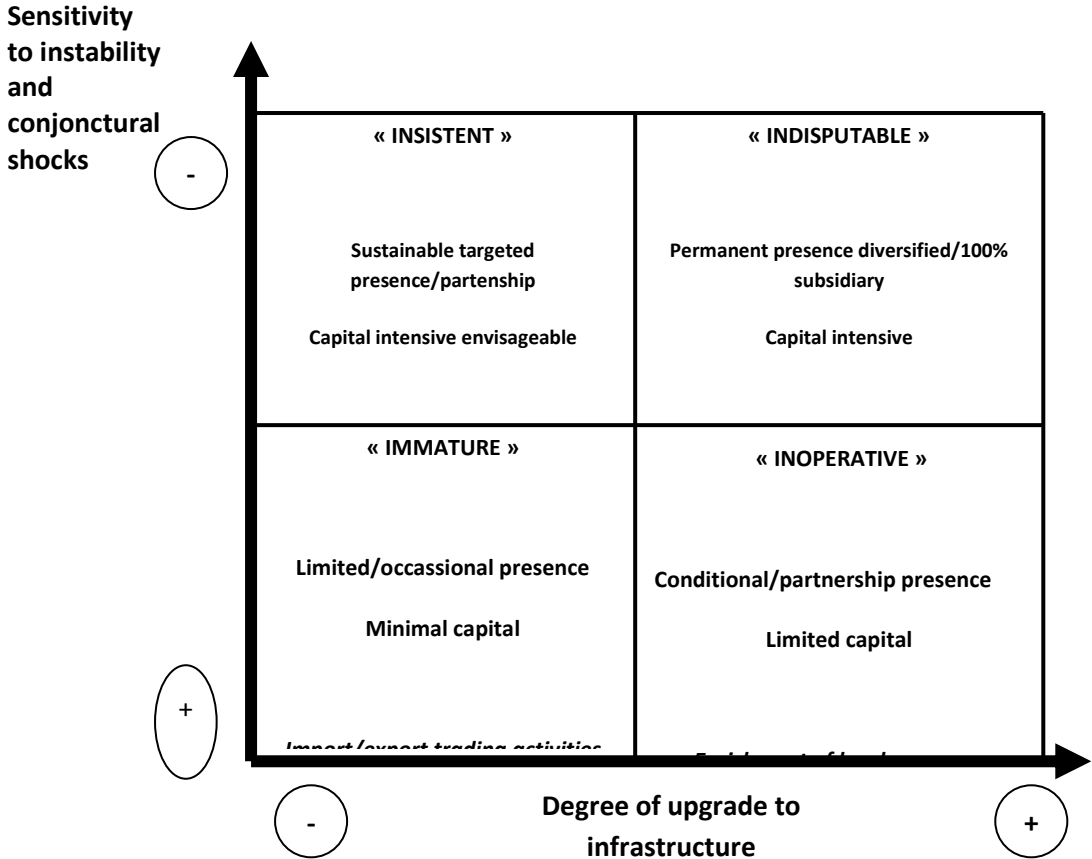
Ultimately, nothing is not earned in the context of emerging countries with high growth, neither for local authorities, nor for foreign companies; perhaps because the increasing openness of these economic areas occurs in a context of accelerated internationalization, making it constantly changing from environmental pressures, internal and external: opportunities and threats will evolve continuously making it difficult to control the situation, the respective interests of the parties and, therefore, the continuity of the commitments made.

⁴⁶ Bui and Lemaire, 2004.

⁴⁷ as in the domain of large-scale distribution (Hagemann, 2003).

This leads to propose, from this analysis and observation of the dynamic characteristics of these two areas of reference, a framework for decision-making that can be applied to FDI oriented to one as to the other and, possibly to others with comparable characteristics, that is to say those whose rapid growth is the main attraction in common vis-à-vis foreign companies.

Positioning of different groups of emerging countries with high growth as a function of the structural context and national cycles and the attitude of local authorities*vis-à-vis FDI :



Possible orientations of FDI to these different countries :

Targeted sectors and modes of entry

By combining elements of synthesis generated at successive levels of the PREST analysis and taking into account the concerns and observed attitudes of local authorities such as direct investors, this framework focuses on two axes:

- on the one hand, **the degree of upgrading infrastructure** envisaged in a broad sense (political regulatory, economic and social, technological), particularly through the work of local authorities, which will allow investors to specify the nature of their FDI, namely,
 - ° to identify priority sectors where local needs are felt and appreciated, simultaneously, reception conditions that could bring reservations to them,
 - ° determine in what perspective –horizontalisation and/or verticalisation- their local investment could be envisaged;
- on the other hand, **sensitivity to instability and economic crises** as well as the ability of the authorities to control and limit the scope and effect for economic agents -domestic and foreign-, which would allow investors to clarify their entry strategies, combining in an optimal way,
 - ° acceptable levels of capitalisation, to minimize the exposure of their investment to risk locally and internationally,
 - ° with the level of control and sharing of such risks as capital costs, in whether to envisage partnerships with local actors.

In such a context, in following the designation of the fastest growing economies, corresponding to each of the four quadrants of this framework, the two countries chosen can be positioned quite logically:

- Vietnam, which is characterized by a still limited level of infrastructure and by an appreciable economic and political stability, but local authorities led with great determination, could be included in the category of « Insistent », with the prospect of developing, ultimately, to the « Indisputable » group. What encourages foreign investors to become involved in the infrastructure sector (including streams to rehabilitate and upgrade, in the energy, tourism and food producing sectors, notably), however, as seems to be presently be the case, is that the authorities are opening their doors in an attractive way. This could be also envisaged for investment in sectors where demand is currently strong, along with the rising standard of living, particularly in urban areas (see automotive, two-wheelers, household equipment, consumer goods, modern distribution ..), with, however, the risk of local actors climbing to power with the support of the authorities..
- Argentina, benefiting from a level of infrastructure of reasonably good quality, in general, suffers, however, from chronic instability -affected more on the behaviour of political and economic actors than the instability of the external environment-, could be placed among « Uncertain ». Investors should instead move towards structurally exporting sectors (mining and primary processing, agro-food, or even value-added technology), where fluctuations in domestic demand would have relatively little impact. In other sectors, the prospects are more uncertain, at least as long as the guidance of local authorities remains unpredictable vis-à-vis investors; which is not binding, even in the medium and long term to consider other opportunities that this country offers.

CONCLUSION :

The fastest growing economies provide for international direct investors international with particularly attractive targets: development of domestic demand, such as rapid changes in their economic framework, combined with still limited labour costs, stimulate their interest even more when the investors' economies of origin no longer offer sufficient growth.

However, these opportunities are coupled to particular risks, associated, among other causes, to their shift towards maturity and growing instability affecting certain countries or regions more than others, while affecting all open economies, provided that, because of the lowering of barriers and wider dissemination of the market economy, the transmission of crises is becoming increasingly rapid and economic cycles are expected to be less and less differentiated.

Consequently, it appears even more difficult than in the past for foreign firms to take on the specific uncertainties of these unfamiliar economic areas and to select without too much risk of error in their countries for localisation. The analytical approach presented here seeks to facilitate the incorporation of the most external factors that could determine the attitude of local authorities as well as foreign direct investors. Beyond the challenges that these two groups have to face, it leads to a framework permitting the classification of the various emerging economies compared to each other and to suggest the types of investments and input modes that investors could prioritise, in relation to the policies developed by the authorities and the behaviour of local actors.

However, this overall approach, as tools for analysis and decision-making, are not only applied here to two fast-growing economies of average size -of course, very different from each another and comparable to many others. It should, however, ensure that other factors, foremost among them the size of the country (based on demographics, GNP, .. the main economic aggregates), its growth rate, its geographical location etc.. should not be introduced in such a decision « model » . In the same way, -and even beyond their sector of membership-, the characteristics of the business -quantitative (size and growth rate), and qualitative (international experience, national culture and technique, mode of governance ..)- could make for a symmetrical object of comparison, thus, this time, more of the company rather than the space to achieve economically, perhaps, a comparable result.

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