Multinational Companies from Emerging Economies Composition, Conceptualization & Direction in the Global Economy

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The rise of multinational corporations from emerging economies is a distinctive facet of the current globalization wave, with important implications for our understanding of the world economy, global business and international political economy. Andrea Goldstein shows that the need to compete internationally and acquire the necessary competencies and assets is the force that drives firms to invest abroad at an early stage of their history. In so far as emerging multinationals are embedded in dense political, social and ethnic networks, the history of multinational business offers valuable lessons for the present.

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Emergence of Emerging Multinationals

In July–August 2004 Ikegai was taken over, a new Thai restaurant opened in Singapore, and restaurants in the United States were recruiting foreigners. All such events should hardly raise an eyebrow – cross-border flows are a distinguishing feature of the contemporary global economy. What was unusual was that the first company, Japan's oldest lathe manufacturer, was rescued by China's Shanghai Electric; the eateries distinguish themselves by serving condoms instead of after-meal mints and funnelling all profits into AIDS education and environmental protection; and the restaurants sponsoring US entry visas for skilled waiters, arguing that *churrasco* skills are unavailable in the US job market, hailed from Brazil. Such deals are not confined to bankrupt companies and admittedly

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low-tech service sectors such as fast-food restaurants. The rise of Cemex as one of the world's largest producers of cement and of Embraer as the world's third-largest aircraft manufacturer, the acquisition of the IBM personal computer business by Lenovo of China or of some of the most prestigious hotel properties worldwide by Tata of India, and Chinese investments in the energy sector in Africa, Canada and Central Asia Western have made evident the increasing relevance of outward foreign direct investment (OFDI) flows from developing countries.

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The phenomenon is not completely new – indeed, the term "Third World multinationals" gained currency in the 1970s and 1980s – but its foundations have fundamentally changed. In today's global economy, multinational companies from emerging and developing economies (EMNCs) are no longer niche players; they operate on the basis of some form of competitive advantage. Neither conventional economic theories nor more modern theories of multinational enterprise would have predicted such an outcome. Theory says that capital should flow into poor countries, not out of them; or enterprises should become multinational primarily as a result of innovations made in the rich and high labour-cost countries, not in the emerging markets.

These and many other examples show that even when they lack the scale, the intellectual property portfolio, and the market power to push their own brands, EMNCs intend to use acquisitions to build global recognition and expand their innovation and manufacturing bases. Most policy-makers in the rich countries have overlooked the new multinationals, as have done most business managers from the traditional multinationals; only recently have the new firms posed threats – or sometimes opportunities – to rich countries. In sum, the ability to build distinctive and highly competitive corporate characteristics and resources, or to fund considerable financial arrangements in sophisticated markets, is no longer confined to "Northern" firms.

From Third World Multinationals …

A wave of research on Third-World multinationals (3WMNCs) appeared about twenty years ago. Many of the firms that attracted attention at the time had grown in response to the specific conditions of the era. Wells (1983) explores why firms based in developing countries chose to invest in branches, joint ventures, and wholly owned subsidiaries overseas rather than simply export goods or enter into licensing arrangements abroad. Drawing on the product-cycle model, his analysis emphasizes the ability of 3WMNCs to adapt existing process and product technologies (including second-hand

equipment), "de-scale" them, and produce at low costs with small production runs and inexpensive labour. For example, a number of developed skills are based on the special needs of protected markets, such as manufacturing reasonably efficiently at small scale or utilizing locally available inputs. They could then exploit those skills in other developing countries and compete effectively against multinationals from the rich countries whose skills were less adapted to the developing world. But they were competitive mostly in other protected markets and the firms thus posed only limited challenges to multinationals from rich countries. Lall (1983:261).) gives pride of place to proprietary advantage in industrial technology: 3WMNCs "may develop advantages in specialized products and processes only if the localization of technical change [...] affords scope for the development of proprietary technological assets."

Technology may be the main driver of international expansion if this expansion is to countries with a lower level of development and if firms gain the capacity to internationalize through a cumulative learning-by-doing process. A non-technological dimension is added to explain their success in penetrating new markets. These firms are willing to use non-traditional forms of investment (joint equity ventures, licensing, management agreements, turnkey operations) that both host governments and home-country authorities prefer – the former because of the expectation that more know-how will be transferred, the latter because the associated cash outflows abroad will be smaller.

Although such monographs and collections of country studies to some extent emphasized different factors, these early studies reported that international Third World firms operated in a wide range of industries and were by no means confined to either labour-intensive or mining sectors. And yet, albeit with nuances, the general belief has been that companies from non-industrial economies could hardly ever rise to become formidable global competitors (see especially Heenan & Keegan 1979). In particular, evidence for innovation-generating development activities was found to be very sparse (Wells 1983: 156). In his study of 3WMNCs in Mauritius and the Philippines, Busjeet (1980:61) made it clear that "external market and cost considerations were more important in the foreign investment decision than the desire to exploit the skills and resources of the firm".

... to Global Players Based in Emerging Economies

Following the widespread, albeit incomplete and at times flawed, process of economic reform and liberalization that the "South" has gone through since the late 1980s, EMNCs have learned at least some of the tricks of the global economy. Domestic trade liberalization has increased competition on hitherto protected markets, reduced margins at home, and pushed surviving firms into export expansion. Sometimes, firms in

developing countries have had to learn new business tricks well before they have become common in OECD markets – possibly the best example being the pro-market regulatory regimes in network industries that were introduced in Latin America during the late 1980s/ early 1990s, when in most industrial countries utilities were still largely state-owned monopolists. As a result, such firms found themselves at an advantage when competing with OECD firms on third markets. In other instances, EMNCs have created value by identifying and successfully exploiting opportunities that were opened up by operating in turbulent environments.

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Rather than conventional notions of corporate strategy, such as the imperative accurately to predict efficient combinations of position, resources, and competencies, EMNCs have mastered the art of experimenting with flexible solutions to respond to unexpected twists in the business environment. In this sense they have been able to turn what was *prima facie* a liability – unpredictable, when not missing, markets – into an asset (for instance, the reflex to build up slack resources as a valuable cushion against unforeseen crises). A few firms went abroad in an effort to build a vertically integrated business, just as firms from the rich countries have long done. In some cases, they sought raw materials; more often, they built downstream facilities in the richer countries to assemble or service their exports. Some of these foreign investors were precursors of a phenomenon that has grown in recent years.

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In addition, big business in developing countries has become an active player in the global alliance game that defines modern capitalism, first by setting up joint ventures in home markets, then expanding together into regional ones, and eventually, in some cases, buying out its OECD-based partners. Another phenomenon was rarer in the earlier days, but has probably grown in importance: like their competitors from richer countries, some of the new multinationals appear to see foreign investment as a way of learning new technologies and skills. Some businesses have also ridden the waves of paradigm changes: in electronic equipment, in particular, it was the analog-to-digital transition that gave Samsung and other Korean companies the opening they needed to compete with long-established rivals.

Theoretical Implications & the Need for New Research

An analysis of available data, in addition to pointing to the limitations that are intrinsic to all FDI figures and are

even more serious in the case of Southern home investors, has highlighted that some emerging economies have become relevant players in the global economy – and even more so in selected regional and national contexts – and that some EMNCs may by now claim the status of real "global players." The motivations for the corporate decision to internationalize via overseas investment are largely similar to those of OECD-based MNCs – to seek market access, resources, and capabilities – and justify the gamble of operating in foreign territories rather than exporting from the home country. Nonetheless, the international business environment has changed – product cycles are shorter, time-to-market imperatives faster, regionalism and economic liberalization processes more widespread, and network alliances of increasing importance – and firms are pushed to internationalize via direct investment much earlier in their lifecycle.

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Future work ought to move toward more explicit generalizations. How, specifically, do the phenomena described in these pages differ from what conventional theory (whatever that is) says about rich-country MNCs? Existing theories of international business – and in particular the versatile OLI paradigm – also serve for the analysis of EMNCs. In turn, research into EMNCs contributes to the development of international business studies, especially because firms from developing countries internationalize through FDI at an earlier stage in their life than their counterparts from industrial nations. If they do so, it is because they possess some dexterity in combining non-proprietary skills, even if they remain inherently different from the inimitable capabilities (say, a brand or a patent) traditionally associated with formidable global competitors. Possibly no firm better epitomizes the skills of EMNCs and the ability to use information and communications technologies and organizational dynamics, even in a mature sector such as cement, than Cemex.

A few of the old explanations of multinationals from emerging markets are still useful. There is probably some truth in the expectation that MNCs will differ depending on the income level of their home economies – in particular that EMNCs, instead of relying primarily on non-imitable technological advantages when expanding abroad, seek sources of advantage in their social capital and distribution capabilities. Nonetheless, the international expansion of new multinationals, and especially the large ones on which my book focuses, calls for new research to bridge the gap between the existing literature on business in emerging economies – which often portrays corporations as rent seekers that flourish as a result of privileged access to political, financial, and transactional resources – and the

increasing attention that scholars are devoting to dynamic capabilities as the basis for corporate success. Factors such as protecting proprietary processes and competitive advantages, "learning by competing" in high-income markets, following important customers, and the increasingly global nature of management (in terms of citizenship, education, recruitment, and professional background) all combine to explain the decision to invest abroad.

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In this sense, theories and research methodologies developed in international business research can provide new insights into the dynamics of EMNCs. In particular, they may help clarify the conditions under which EMNCs move from "exploiting" existing technologies to "explore" potentially superior ones and generate patterns of self-sustaining growth.

Will EMNCs begin to be much like other MNCs when their home countries become richer? Or, on the contrary, will certain distinguishing features (such as family and state ownership, as well as conglomerate structure) persist, either because they actually contribute to EMNCs' dynamic advantages or because institutional systems are characterized by a high degree of path dependency? Internationalization patterns are heterogeneous and the linkages between the political and institutional environment, on the one hand, and corporate trajectories, on the other, need to be explored in great depth. Naïve beliefs that globalization heralded the end of distance and geography have now given way to a much richer approach to understanding the inherently embedded and spatial nature of corporate competitiveness, as Goldstein (2008b) does for the Tata Group. Long-term evidence on the internationalization of Tata firms shows the relative importance of underlying factors driving the process: market access for exports, sourcing of raw materials, and horizontal or vertical integration. To some extent internationalization is changing the nature and corporate culture of Tata, with implications for some of the conglomerate's specific features, including the role played by Tata Sons and Tata Industries in coordinating financial and managerial activities and managing the Tata brand. On the other hand, Tata's strong emphasis on corporate social responsibility plays to its advantage in foreign markets, reassuring stakeholders that Tata is a responsible partner and should not be feared (as other EMNCs often are).

Some of the founding scholars of international business studies, such as Raymond Vernon, John Dunning, and Edith Penrose, "placed a high priority on evolutionary and historical perspectives and methodology" (Jones & Khanna 2006). This point has even greater heuristic pertinence in the case of MNCs

based in countries where, on account of weaker entrepreneurship, government institutions and policies, as well as ethnic characteristics, have been so crucial in influencing economic successes and failures. In this sense, the study of EMNCs is another building block toward a coherent history of big business in developing countries, in which traditional elements and watershed changes coexist and give rise to a hybrid form of capitalism that is both modern and more open. Insofar as economic and business theories alone are not sufficient for this endeavour, ideas and insights from history, political science, and the other social sciences – in brief, a true "political economy" – must be called upon. Moreover, culture also matters in international business, although the risk of self-reification must be studiously avoided.

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Policy Implications

Even more important, the new phenomena have important implications for policy-makers. What roles do – and should — government policies in the emerging markets play in encouraging or discouraging the new multinationals? Do the firms represent a loss of much-needed capital and management to their home countries? What, if any, gains compensate for the outflows? Are some of these companies pioneers, willing to invest in countries where other multinationals have feared to go? Firms from South Africa and China suggest that this may well be the case. If so, is this always a good thing for the emerging markets where they locate their subsidiaries? In the end, does it matter what country a multinational calls home? Can Indonesia, say, expect a better deal from a Chinese firm than from a European or U.S. investor when it needs an electric power plant? Should the United States care whether a British investor or an emerging market investor operates some of its ports or acquires one of its breweries? Managers of traditional multinationals must decide how they will react to the rise of these new international businesses: by simply ignoring them, as did many firms when Japanese competitors first appeared, or by viewing them as serious competitors to whose moves they must respond? For sure, some of the new multinationals will fail; but many will survive as serious competitors in a global market.

The interpenetration of business and political dynamics is obviously germane to the study of MNCs from their very origins. As summarized by Jones (2005:218), "from the [19th] century, governments were aware that national diplomatic influence and national economic influence were related". The accusations levelled at EMNCs these days of acting as instruments of the foreign policy ambitions of their home governments are therefore naïve, when they do not simply try to conceal deep-rooted protectionist reflexes. At the same time, there is no doubt that many

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EMNCs have closer ties with their governments than their OECD peers, often because they remain state-owned or state-controlled (this being the case in particular in oil and other natural resources). It would be unfortunate if government support and weak checks and balances on the part of other stakeholders led EMNCs to adopt sub-par behavioural and operational standards in low-income developing countries, especially in Africa. OFDI is a further form of engagement with the global economy and as such brings new forces to bear in the direction of better political and corporate governance.

The other side of the coin is that policymakers in emerging economies should not view the relocation of their firms to labour-abundant countries as a challenge. When the parent company carries out labour-intensive activities abroad, upgrading usually takes place in the (by now) relatively capital-abundant home country. In other words, to the extent that EMNCs invest overseas to optimize the use of their resources, corporate relocation of production through multinational activity is an additional instrument that emerging economies have to exploit their comparative advantage to the fullest. For this potential to fully materialize, the business environment at home must be conducive to resource accumulation and eventual internationalization. It is interesting to observe that the debate currently taking place in Korea – that can still be considered an emerging economy – concerning the *chaebols*' investments in China is strongly reminiscent of the controversy regarding restructuring and hollowing out that has been traditionally associated with MNCs in OECD countries.

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To advance this research agenda, scholars need to analyze the specific activities and capabilities of the firms involved, and the dynamic reconfiguration that links corporate strategies, FDI, and the broader social and environmental context. In particular, research must come to terms with the concept of heterogeneity across firms as the best way to extend existing models and make them more realistic but still theoretically sound. Standard economic models do not usually account for both the systematic heterogeneity observed in corporate competencies and the nuanced mechanisms governing the dynamics of interactions among agents (firms, governments, institutions). Bonaglia *et al.* (2007) and Bonaglia *et al.* (2008) investigate how Haier (China), Mabe (Mexico) and Arçelik (Turkey) emerged as multinationals in the large home appliances (so-called ''white goods'') industry. The recipe for the success of

these firms seems to lie in their ability to treat global competition as an opportunity to build capabilities, move into more profitable industry segments, and adopt strategies that turn latecomer status into a source of competitive advantage. At the same time, their experiences show that there are many strategies and trajectories for going global, consistent with a pluralistic conceptualization of globalization.

There can also be little doubt that soft factors (e.g., vision, ambition, commitment), microeconomic diversity, and institutional settings affect in non-trivial ways aggregate dynamics. Rather than considering only economic factors, an account of companies' internationalization trajectories needs to incoporate the formation and development of strategies, routines, objectives, and behaviours in specific social, cultural, and historical contexts. Efficient state-led, market-driven intervention has been the hallmark of Singapore's success story but the exportability of state credibility, systemic efficiencies and local advantages into alien contexts is a matter of academic and political controversy. Goldstein and Pananond (2008) scrutinize Singapore's experience with outward investment in order to objectively examine the role of Temasek and of the government-linked corporations (GLCs). The case of Temasek's investment in Thailand serves to reflect upon the economic and political impacts of the GLCs' global quest. We show that resistance to Singaporean acquisitions reflects a combination of factors, including a general turn towards ''economic nationalism,'' attempts by other governments to replicate the city-state's state-led modernisation, and Temasek's and GLCs' underestimation of the risks that are germane to their international strategy.

Global Financial & Economic Crisis

The hardcover edition of the book on which this paper is largely based was published in 2007; since then, the wind has kept blowing in the sails of EMNCs. It would be superfluous to list recent high-profile cases (although the acquisition by Tata Motors of two of the world's most prestigious car marquees deserves to be mentioned), suffice to highlight that investment by Chinese companies overseas more than tripled in the first half of 2008 from a year earlier. Indeed, the figures do not include spending by financial institutions, in a period that has seen Chinese banks and insurance companies, as well as sovereign wealth funds based in Asia and the Gulf, very active in picking the debris of the sub-prime crisis. EMNCs do not only act as predators – sometimes their success makes them succulent preys, as it was the case for Ranbaxy, India's largest pharmaceutical company, in which Japan's Daiichi Sankyo took a majority stake in June 2008.

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What has changed in this short period is the state of the global economy. In 2007 it seemed possible for global growth to continue at record levels, with

no inflation and no risk of protectionism. Nowadays, recession is almost a fact in many high-income countries and the word stagflation is popular again. Two years is seemingly a long time in global political economy and the frictions that accompany the ascent of EMNCs on to the world stage are illustrative of the new predicament. In particular, the recycling of global imbalances by sovereign wealth funds is causing second-thoughts in countries long accustomed to praising the liberal economic order. More generally, industrial countries seem unable to cope with the growing dynamism and influence of state capitalism from emerging and developing countries, be it in natural resources and infrastructure, or in high-tech industries and finance. No less important will be the effects on the architecture of global economic governance, where old, but simple, North-South divides are set to disappear gradually.

All this poses challenges and opportunities for India. Its business system shares some characteristics with that of other emerging economies – in particular, the importance of diversified business groups as a solution to institutional failures and infrastructure deficiencies – but is also distinctive – in particular, the role of the diaspora in connecting with product and factor markets and spreading information and best practices. With some exceptions (notably the infamous Mittal-Arcelor when the attempt by the Indian-born, but London-resident, steel tycoon to buy the European rival was received with scorn and badly-hidden contempt) Indian firms have been well received in their foreign forays. Indian authorities have reacted and a positive dynamics has been ignited, which can lead to more serene business-government relations and also to new reform initiatives in different policy areas.

Over the past few years, a few books have come out documenting the contemporary rise of outward investment from emerging and developing countries, although the topic remains insufficiently analyzed both empirically and theoretically. Many other initiatives are being organized, a welcome development, especially if it helps in making the debate on these issues less of a privilege of few deal-makers in business and government. Building a convincing case for open markets requires information and transparency.

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