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Emerging Multinationals: Some Theoretical and Empirical Considerations

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The phenomena of foreign direct investment (FDI) and multinational corporations (MNCs) have been in the centre of academic discussion for years. The first attempts by economists to analyse multinational corporations were the works of John Dunning, Raymond Vernon, and Stephen Hymer. The firm-specific advantages and ownership advantages developed since Hymer's seminal work and the ownership-location-internalization (OLI) paradigm proposed by Dunning are undoubtedly the most important contributions to international business theory, and they were extremely relevant in the time (Aharoni, 2015).

The major question often addressed to these first international business theories is whether they can still fully explain the new types of multinationals, as the sources and destinations of FDI have changed over time. We are now witnessing not only FDI from developed to developed countries (North-North FDI) and from developed to developing countries (North-South FDI) but also more active involvement of the developing countries in global FDI flows, which results in the intensification of South-South FDI and South-North FDI. As a matter of fact, these new sources and destinations of FDI historically received little attention from the academic society (Ramamutri, 2009). However, the growing role of developing countries in global FDI flows stipulates the necessity of a closer investigation of MNCs from these countries. In particular, this is relevant to the so-called emerging market multinationals that are actively participating in both global FDI and cross-border acquisitions around the globe.

Researchers investigating emerging multinationals aim to identify how companies compete with multinationals from developed countries and what ownership advantages they possess. The related literature is rather diverse, yet traditional business theories provide limited explanations regarding the behaviour of emerging multinationals. When addressing the above-mentioned questions, a crucial role is given to the home country and host country environments as it is considered that they stipulate the so-called country-specific advantages that play a predominant role in successful market entries by emerging multinationals. On the other hand, there are studies that underline the fact that emerging multinationals do, in fact, have competitive advantages that they absorb or build over time (Williamson et al., 2013; Panibratov, 2017).

Perhaps, no universal theory can fully explain the phenomenon of emerging multinationals, but it is important to understand the way(s) emerging multinationals learn to compete and to identify the differences and similarities in their behavioural patterns compared to those of MNCs from developed countries. In addition, various country, industry, and company case studies on MNCs from emerging economies can shed light on the common features that are typical of emerging multinationals. To address some of these issues, the KIER Joint Usage and Research Center launched a project entitled ‘International Comparison on Multinational Corporations and Structural Changes in the Global FDI Flows’ in 2017–2018 and organised an international conference on ‘Emerging Multinationals and the Historical Perspective’, which was held at the Kyoto Institute of Economic Research, Kyoto University, Japan on December 8–10, 2017.[1] The KIER Young Scholars Seminar on Comparative Economics and a Special Seminar on Emerging Multinationals by Dr Kalman Kalotay (UNCTAD) organised with support from the Kyoto University Research Coordination Alliance, European Association of Comparative Economic Studies, Japanese Association for Comparative Economic Studies, Japan Association for the Comparative Studies of Management, and KIER Foundation were an integral part of the Kyoto international conference.

The conference aimed to envisage the future prospects of transition and emerging economies by focusing on one of the most complex phenomena of globalisation, namely structural changes in the global FDI and the activity of MNCs. By analysing recent trends in global inward and outward FDI and behavioural patterns of MNCs, conference sessions revealed the multifaceted, complex nature of the historical, political, economic, and social relations of emerging economies with other countries in the world economy. In addition, marking the 100th Anniversary of the Russian Revolution, the conference aimed to reassess the role of transition economies in the world economy by utilising a historical perspective in identifying idiosyncrasies of their socio-economic development.

Thirteen presentations related to the KIER Joint Usage and Research Center Project entitled ‘International Comparison on Multinational Corporations and Structural Changes in the Global FDI Flows’ were delivered at the Kyoto international conference; three of the presentations are enclosed as full papers in the present journal volume. The Kyoto international conference has significantly contributed to the investigation of issues related to emerging multinationals. Below, let us summarise major conference contributions.

First, the papers presented at the conference covered theoretical and methodological issues, including the problem of identifying emerging multinationals, which was mentioned by Kalman Kalotay in the KIER Special Seminar on Comparative Economics. Dr Kalotay underlined the necessity of identifying both ‘emerging’ and ‘multinationals’ and provided interesting theoretical insights regarding the definition of each. He reported that there are 100,000 MNCs in the world and many of them are small firms coming from ‘emerging’ countries. Therefore, they are ‘emerging multinationals’. It is important, however, to correctly define emerging economies, and one way to do so is to apply the United Nations definition and add new EU member states and countries like Andorra, Bermuda, Liechtenstein, Monaco, San Marino, Faeroe Islands, Gibraltar, Greenland, Guernsey, and Jersey.

Another interesting finding was the necessity of further categorisation of emerging multinationals as there exist various sub-groups under this broad category, such as the post-transition multinationals mentioned by Magdolna Sass, offshore-type multinationals discussed by Satoshi Mizobata, and quasi-foreign and pseudo-foreign banks from emerging economies noted by Victor Gorshkov.

Second, the conference papers helped identify the main features of emerging multinationals, such as the significant role of the state and the tendency to have strong relations with offshore regions and tax havens. Identifying common features of emerging multinationals is beneficial for international comparative purposes.

In his keynote speech, Kalman Kalotay highlighted the fact that state-owned multinationals continue to play an important role in the world economy, and many of them are headquartered in emerging economies. As there are also many state-owned multinationals from developed economies, the phenomenon of state-owned multinationals raises concerns about the non-economic motivations of foreign expansion, even though there is no evidence of the linear growth of FDI in state-owned multinationals in the future. In the paper enclosed in this volume, Kalman Kalotay provides rather convincing empirical evidence of the relative importance of state-owned multinationals; despite a relatively small proportion of state-owned multinationals in the number of total world multinationals, their share of the number of total affiliates, announced greenfield projects, the world's 100 largest non-financial multinationals ranking, and the 100 largest non-financial multinationals of developing and transition economies is pronounced. The contribution of the paper to the literature on multinationals is confirmed by the challenges that state-owned multinationals pose for economic and business theories. For instance, as indicated by the author, resource-based theories should now consider the role of the state in providing external resources that can potentially be employed for the purpose of becoming a multinational. Additionally, the eclectic paradigm theory should extend discussions of the role of the home country environment and the home country government. In general, I completely agree with the author that research on state-owned multinationals should be conducted in a broader context of international comparison.

Xuanli Xie discussed how state ownership influences the performance of cross-border M&A initiated by Chinese multinationals and found that the effect of state ownership on performance is rather complex. M&A initiated by state-owned enterprises are significantly larger in transaction value, less valued by investors, and less likely to produce a worse financial performance. Such M&A deals are likely to receive government subsidies and promote economic growth. A more comprehensive understanding of the motives of cross-border investments conducted by state-owned enterprises is necessary.

Satoshi Mizobata's presentation on 'Offshore Multinationals and Anti-Offshores in Russia' concluded that Russian multinationals are state-driven and are closely connected with offshore regions and tax havens. In fact, it is possible to conclude that emerging multinationals from Russia are mostly represented by offshore types. Path-dependency is observed in the emergence of these multinationals, as the offshore issue dates to Soviet Union times. The impact of offshores and offshore-type multinationals on Russia's economy is unclear; tax evasion has eroded Russia's tax system while simultaneously strengthening the ‘governmentalisation’ of the Russian economic system. In addition, having the potential to transform economic institutions, Russia’s government anti-offshore policies are not yet bearing the expected results toward improving Russia’s investment climate.

Victor Gorshkov’s paper provided a comprehensive overview of the structure of the inward and outward Russian banking FDI and demonstrated that inward FDI is strongly correlated with outward FDI. Capital inflows and outflows in the banking sector are contaminated by offshore capital, which represents cases of the round-tripping of Russian FDI. In the case of inward FDI, the study found that financial sanctions have significantly impacted Russia’s banking sector; foreign investment in the banking sector has declined, the number of banks with foreign capital participation is decreasing, and their share in the total charter capital of the banking system is diminishing. Nevertheless, banks with foreign capital participation are not actively leaving Russia, even though many banks with offshore capital participation have been deprived of their licenses due to dubious transactions, money laundering, and mirror trading. As for outward banking FDI, the study concluded that only a marginal number of Russian banks, comprising large state-owned banks, banks closely related to natural resource-type Russian multinational corporations, and large private banks, have the capacity to expand their operations abroad. The geographical distribution of Russian banks remains unchanged with offshore financial centres, Europe, and the Commonwealth of Independent States being the traditional destinations of Russian outward banking FDI (Gorshkov, 2017).

Balance of payment issues in tax havens were also raised by Tomoki Hoshino, who analysed Panama’s foreign economic relations in both real and financial terms and concluded that Panama has a negative trade balance on goods because of weak manufacturing and a positive trade balance on services because Panama is an international logistic centre and a tax haven economy. The author also highlighted the fact that Panama serves as a global intermediary for numerous multinational corporations.

Third, the conference presented a variety of country and company cases necessary for international comparisons of emerging multinationals. Developed country multinationals were discussed by Kimihito Sakurai (United States) and Zoia Podoba (Japan), and European multinationals were examined by Sass Magdolna (Hungary, Poland, Czech Republic, and Slovenia) and Ichiro Iwasaki (new EU member countries). Satoshi Mizobata and Victor Gorshkov focused on Russian multinationals, and there were a few presentations devoted to multinational companies in the Asian region: Takuma Kobayashi (China), Yumiko Nakahara (Taiwan), and Suraj Gurung and Acharya Basu Dev (Nepal).

Kimihito Sakurai presented a paper entitled ‘Pulling Back Multinationals: Reflections on the Past U.S. Industrial Policies’ in which he introduced two conflicting images of manufacturing in the United States, namely a fabless way or iPhone-type manufacturing that prioritises innovation and design and can perhaps be regarded as the newest version of the American system of manufacturing and a manufacturing eco-system which assumes that to be innovative the R&D base and mother factories should be located in the United States. He focused on investigating the aims of Trump’s industrial policies and their impact on U.S. multinationals and provided evidence that these policies are calling some American multinationals back from Mexico.

Zoia Podoba's presentation was dedicated to the assessment of Japan's trade and FDI intensities with Russia at the beginning of the 21st century in comparison with major Northeast Asian countries. Her study found that Japan and Russia are not ideal partners in terms of trade and FDI intensity. Indices of trade and FDI intensities remain low in comparison with the ratio of other Northeast Asian countries.

Two conference participants focused the issues of European multinationals. Magdolna Sass aimed to analyse whether post-transition multinationals are different from developed country multinationals and presented a few cases of 'virtual indirect' investment, namely large multinationals privatised on the stock exchange with dispersed majority foreign ownership and no controlling owner, multinationals connected to round-tripping, and multinationals in which foreign financial investors represent a slight majority but are controlled by a local owner. Her findings are extremely interesting as she suggests that a new typology of post-transition multinationals should consider heritage in the form of state influence (ownership) and changes therein and whether an investor company existed in the pre-transition era. Considering heritage is important due to idiosyncrasies in the economic development of post-transition economies. Based on the new typology, Magdolna Sass identified four types of post-transition multinationals and presented relative company cases for each type. Ichiro Iwasaki, using a large original dataset of 86,537 companies, focused on the topic of firm survival in new EU member countries and found that 20.9% of firms failed by the end of 2015, suggesting that recent crises heavily damaged company management in Central and Eastern Europe. He also investigated differences and similarities in firm survivability and identified the features of companies that were likely to fail during the crisis period.

Takuma Kobayashi outlined recent trends and developments in China's outward FDI, focusing on the One Belt, One Road Initiative that can be viewed as a way to reduce the overcapacity problem in China. He concluded, however, that the One Belt, One Road initiative is likely to increase Chinese outward investments into countries participating in the initiative rather than reducing China's domestic overcapacity problem or narrowing disparities between coastal and inland areas of China.

Yumiko Nakahara depicted the features of Taiwanese multinationals by analysing strengths and weaknesses of Hon Hai, the largest multinational company in Taiwan. She concluded that Hon Hai has grown via its electric manufacturing services business and expanded by continuous cross-border M&A for the created asset; however, in the 21st century it seeks its own brand and is attempting to move toward vertical integration. Thus, the case of Hon Hai can be regarded as a new type of emerging multinational.

Basu Dev Acharya and Suraj Gurung analysed recent trends of inward FDI in the Nepalese economy and concluded that the Nepalese market is practically divided and monopolised by Indian and Chinese multinationals that have slowly started competing with each other, particularly in the energy and construction sectors. The authors also highlighted the fact that the motives of FDI in the Nepalese economy can be mostly explained by resource-seeking theories, and multinational companies generally prefer brownfield investment due to the low-quality institutional environment.

Needless to say, neither the project on emerging multinationals nor the Kyoto international conference organised as a part of it explained all issues related to emerging multinationals. That was not the project's ultimate goal. In fact, universal theories might not exist, and it is pointless to note the limitations of the extant international business theories in explaining emerging multinationals simply because these theories were not designed to tackle the phenomenon of emerging multinationals. However, it is the hope of the project and conference participants that the issues discussed and partially presented in the present volume can enhance other studies related to the field and generate new discussions on the topic. In particular, more research is needed on state ownership and offshore issues as these two features seem to be rather common for many emerging multinationals.

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Notes

[1] The conference was organised as a part of the two KIER Joint Usage and Research Centre Projects: 'International Comparison on Multinational Corporations and Structural Changes in the Global FDI Flows' and 'An Empirical and Historical Study of Stratification and Economic Disparity: Based on the Experiences of the Soviet Union and Russia'.

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