

International Political Economy of Chinese and Russian Multinationals

Takuma KOBAYASHI*

* *Matsuyama University, Japan; tkobayas@g.matsuyama-u.ac.jp*

The phenomena of foreign direct investment (FDI) and multinational corporations (MNCs) have been at the centre of academic discussion for years. The structure of both inward foreign direct investment (IFDI) and outward foreign direct investment (OFDI) has changed since the 2000s. According to World Investment Report 2016 (UNCTAD, 2016), the share of developed countries in total FDI increased in 2014 and 2015, while the growth of FDI in emerging and transition economies decelerated. However, in Russia, both IFDI and OFDI, which had seen a slowdown since 2014, showed a recovery trend. China's OFDI has also been consistently increasing and its volume surpassed that of IFDI in 2014. Hence, according to World Investment Report 2017, China and Russia were still the main capital exporting countries (UNCTAD, 2017). Moreover, recent years have seen an increase in the number of state-owned multinational enterprises. It is worth noticing that this number is relatively high in China and Russia.

In recent years, both China's and Russia's OFDIs have drawn attention towards inter-regional integration. The Belt and Road initiative (BRI) announced in 2013 is expected to not only expand international economic relationships but also solve domestic problems such as overcapacity and interregional disparities. Russia's government has again put up the slogan 'A Shift to the East' under economic sanction, to tackle the structural change of FDI and promote economic and investment cooperation with Asian countries. These economic strategies are expected to lead to the new international division of labour.

To address these issues, the KIER Joint Usage and Research Centre launched a project entitled 'International Political Economy of Chinese and Russian Multinationals' in 2018-2019 and organised an international conference on 'Civil Society, Firms, and Government in Post-Transition and Emerging Economies', at the Kyoto Institute of Economic Research, Kyoto University, Japan between 25th-27th January, 2019. We reported the project results on 27th January, which are summarised below.

To discuss OFDI by state-owned enterprises (SOE), we invited Prof. Xuanli Xie from Peking University, China, who made a presentation on Cross-Border M&A conducted by China's SOEs. M&As conducted by SOEs are less valued by investors and affect financial performance. However, such M&As have high transaction value and promote growth. Such effects are even stronger when managers also serve as government officials. Managers in SOEs often focus on different outcomes in cross-border M&As. While investors are concerned about whether these investments can lead to operating revenue and profit in particular, managers pay more attention to non-financial performance such as growth.

Prof. Victor Gorshkov discussed about financial multinational enterprises (MNEs) of North-East Asia. They have become significantly strong players in the international banking sector. Japanese financial MNEs are losing their position due to an increased competition from China in terms of revenue and assets. Chinese banks are gradually catching up by extensively expanding their geographical presence. However, the scope of their activities in Russia remains rather limited due to the problems with current credit portfolio structure of Asian banks.

Prof. Toyota's presentation focused on the increasing consumption and the growing interdependence of trade. Consumption in Asia has been increasing since 1990s. Global supply chain in Asia has been deepening with economic growth. Trade between countries with abundant resources and those with fewer resources has increased. Inequality in resource consumption has become more serious.

Prof. Fushita made a presentation on the initiatives of Russia and China for the development of Northeast Asia, which depend on the political interest of the people concerned. There is a possibility of friction between Russia's 'A Pivot to Asia' and China's BRI. BRI consists of two strategies, namely, 'Go Global' and 'Bring in'. 'Bring in' strategy in Northeast China competes with Russia's foreign policy for the same resources such as foreign investment, high technology etc. Since both the initiatives are new, it is premature to say if they can work together.

Prof. Natsume discussed about how and why multinationals in U.S. and China are competing and cooperating in the networking equipment and the smartphone business. For e.g., Huawei is working with Qualcomm Ltd. and Intel co. for development of next-generation 5G technologies. Though, Huawei's in-house chip-design unit is the seventh largest in the world, it still relies on imports from U.S. chip companies for components used in its telecom equipment. On the other hand, Apple does not have a competitive advantage in China in the smartphone business since Chinese enterprises have launched smartphones at a lower price than Apple. The Pearl River Delta in China has given birth to an array of domestic upstarts by marrying low-cost production and high-tech engineering. Huawei develops many of its own advanced technologies, while Chinese rivals use far more U.S. chips in their phones.

Prof. Nakahara mentioned about skilled migration to and from Taiwan. 'Brain circulation', the movement of returnees from developed countries contributed a lot towards the industrial development of Taiwan in the 1980s and 1990s. In the 21st century, however, there is little expectation of brain circulation and Taiwan is experiencing a shortage of skilled human resources in specific fields. In order to address this issue, the Taiwanese government has been proactively recruiting workers from various countries including developing countries such as China, India, Malaysia, and Vietnam. On the other hand, there is an outflow of human resources from Taiwan. A number of Chinese companies and universities are recruiting Taiwanese people and several of them have crossed the strait to work in China. There is an outflow of university graduates from Taiwan to other Asian countries as well.

My presentation examined the impact of China's OFDI in 'Belt and Road' (B&R) countries on two domestic problems: overcapacity in declining sector such as steel industry, and inter-regional disparities. Since the BRI was announced, China has been increasing investment in B&R countries. However, it is

too early to conclude if China has made a significant progress in reducing overcapacity and inter-regional disparities through OFDI, reasons being, (i) China's regional economic growth is dependent on domestic investment due to promotion competition between local officials, and (ii) Enterprises located in developed coastal areas of China tend to undertake more OFDI as enterprises in inland areas are inefficient and local governments rarely allow them to exit the market. Hence, firms in coastal areas will seize more investment opportunities in B&R countries.

The conference was very meaningful as we discussed topics from various viewpoints. Both presentations, Prof. Natsume's and mine, examined BRI, though the focal points were different. Prof. Natsume focused on its positive side, which is the development of China's Information and Communication Technology (ICT) enterprises. His research is novel as it suggests that China's ICT enterprises expanded to developed countries like US in order to get competitive advantage in the domestic market. On the other hand, I focused on the negative side, which is the difficulty of solving domestic problems of the declining industry.

The other presentations also mentioned about inter-regional integration. Prof. Fushita compared Russian and Chinese foreign policies. It is not easy for these two countries to coordinate initiatives with each other. Prof. Gorshkov pointed out the problems faced by multinational enterprises in Russia. Prof. Toyota's presentation implied that inter-regional integration promotes interdependency. This causes issues in one region to affect the rest of the world due to the inter-connected supply chains. Prof. Nakahara discussed how cultivating human exchange leads to improvement of technological capability, which is one of the most important requirements for sustainable development.

Lastly, production processes have become more fragmented and increased volume of trade and FDI has been changing the industrial structure of each country. There are various trade relations between China and B&R countries, for example, China and Southeast countries trade intermediate goods with each other while China imports natural resources from Central Asian countries and exports final goods. However, more research is required on the topics of changing industrial location, developing value chain and international division of labour.

Acknowledgement

This paper was prepared with the financial support of the KIER Joint Usage and Research Center Project 'International Political Economy of Chinese and Russian Multinationals' and KIER Foundation.

References

- UNCTAD (2016) *World Investment Report 2016: Investor Nationality: Policy Challenges*, New York and Geneva: United Nations.
- UNCTAD (2017) *World Investment Report 2017: Investment and the Digital Economy*, New York and Geneva: United Nations.