

**THE GLOBAL STRATEGY OF EMERGING MULTINATIONALS FROM CHINA**

**Mike W. Peng**  
 Provost's Distinguished Professor of Global Strategy  
 University of Texas at Dallas  
[www.mikepeng.com](http://www.mikepeng.com)  
[apjmpeng@gmail.com](mailto:apjmpeng@gmail.com)

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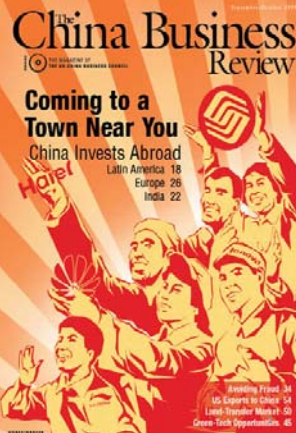



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**China goes global**



The significant outward foreign direct investment (OFDI) made by Chinese multinational enterprises (MNEs)

(keynote @ Harvard conference in Oct 2009)




**Comparative presence in Global Fortune 500: Chinese firms are clearly growing**



	2005	2006	2007	2008	2009
Brazil	4	5	5	6	7
Russia	5	4	5	8	6
India	6	6	7	7	8
China	20	24	29	37	46
BRIC	35	39	46	58	67
USA	170	162	153	140	139
EU	165	165	170	163	161
Japan	70	67	64	68	71

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Which of the following two cities has a larger number of Fortune Global 500 company headquarters (in 2009)?



- Beijing
- New York

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ANSWER (in 2009)

- Beijing (30)
- New York (19 in NYC + 3 more in suburbs)

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“Is China Inc. intent on buying the world? It sure looks that way”

**But, REALLY?**  
 In the same BW article (07/27/2009):  
 Total Chinese OFDI stock @ \$170 B is only 1/30<sup>th</sup> of US OFDI (1% of world total)




Media sensation continues (11/11-19/2010)

The math simply doesn't add up if 1% of global OFDI can "buy up" the world

The Economist  
Cuban communism: beginning of the end?  
US employment goes from bad to worse  
Dr Evil, the commodity speculator  
Ireland under siege  
Keith Richards, management guru

Buying up the world  
The coming wave of Chinese takeovers

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The Beijing Consensus (Ramo, 2004)

versus

The Washington Consensus (allegedly broken thanks to the 2008 crisis)

THE BEIJING CONSENSUS  
JOSHUA COOPER RAMO

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International

The Economist June 12th 2010

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The "China on steroids" literature (a term coined by David Lampton— Jacques, 2009)

Foreign Policy paper by Robert Fogel (\$123 trillion—2010)

But, 10 yrs ago . . .

WHEN CHINA RULES THE WORLD  
THE END OF THE WESTERN WORLD AND THE BIRTH OF A NEW GLOBAL ORDER  
MARTIN JACQUES

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The "China on the verge of collapse" literature (Chang, 2001)

Despite the provocative title, this book is not alone

THE COMING COLLAPSE OF CHINA  
GORDON C. CHANG

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As recently as in 2007, China was viewed as "so broken"

(thanks to toy recalls, endemic corruption, and spreading eco-crisis)

BusinessWeek  
DANGEROUS PRODUCTS | ENDEMIC CORRUPTION | SPREADING ECO-CRISIS  
Can China Be Fixed?  
PAGE 28

What happened to the “Japan on steroids” literature (*Japan as No. 1*—1979)?

Did Japan “take over” America (circa 1989)?



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My advice: Here is a better way to view the complex relationship: The **ODD COUPLE** (the G2) who have to work (sleep!) together

The most important relationship today and tomorrow



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**OUTLINE: A series of *unique* impact on research and practice**

- The previously underappreciated role played by the domestic governments of MNEs
- The challenge of going abroad in the absence of significantly superior managerial and technological resources
- The rapid adoption of (often high-profile) acquisitions as a mode of entry

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**(1) *Positive* role of the Chinese government**

- *Home* country government: A neglected topic:
  - Most research focuses on *host* country governments
- *Positive* role of the Chinese government
  - “Go outside” / “go global” policy
  - Supporting Chinese MNEs with real cash/loans
- Interesting links between inbound FDI-friendly policies and outbound FDI
  - Guangdong generates 20% of Chinese OFDI

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***Negative* role of the Chinese government**

- China invests more in British Virgin Islands (\$6.6B in FDI stock) than in the UK (\$0.95B)—7 times (!)
- BVI, in turn, invests more in China than the UK
- BVI also beats the US as a recipient of Chinese OFDI and an originator of Chinese IFDI
- Why? An *escape* from harsh home country institutional environments

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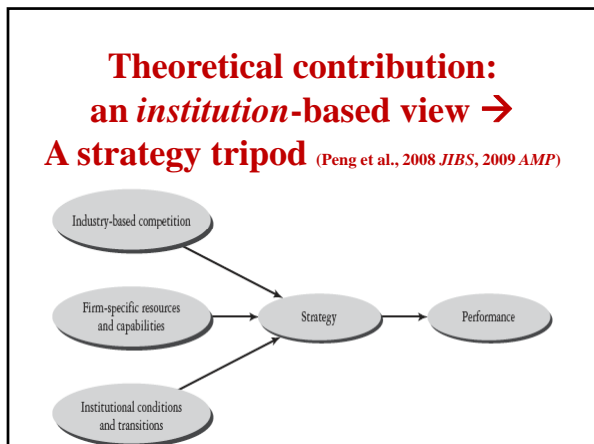
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**How does China research contribute to the global literature?**

- An emphasis on institutions as rules of the game
- In this case, an emphasis on the role of domestic governments at various (central and provincial) levels

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**(2) Going abroad without superior managerial and tech resources**

- A puzzle under the current theory (derived from MNEs from developed economies)
- Dragon multinationals: Mathews (2006, *APJM*)
- An LLL framework (as opposed to OLI)
  - Linkage
  - Leverage
  - Learning

**But progress is fast: Patents in 2008**

- Which company filed the largest number of patents in the world?
- Not your usual suspects!
- It is Huawei (defendant of the Cisco vs Huawei case for alleged intellectual property violation)

**Table 11.3. Top Ten Patent Applicant Companies**

	Patent applicant companies	Number of applications		Patent applicant companies	Number of applications
1	Huawei (China)	1,737	6	Siemens (Germany)	1,089
2	Panasonic (Japan)	1,729	7	Nokia (Finland)	1,005
3	Philips (Netherlands)	1,551	8	L.G Electronics (South Korea)	992
4	Toyota (Japan)	1,364	9	Ericsson (Sweden)	984
5	Robert Bosch (Germany)	1,273	10	Fujitsu (Japan)	983

[Source] Data extracted from World Intellectual Property Organization, 2009. Top 50 PCT applicants in 2008. Geneva: WIPO (www.wipo.int). The number of applications refers to international patent filings under WIPO's Patent Cooperation Treaty (PCT) during 2008.

**CASE: Huawei**

- US headquarters on Independence Pkwy, Richardson, Texas
- Cisco vs. Huawei (2003-2004)
- If you lost a job @ Nortel, find a new job @ Huawei!

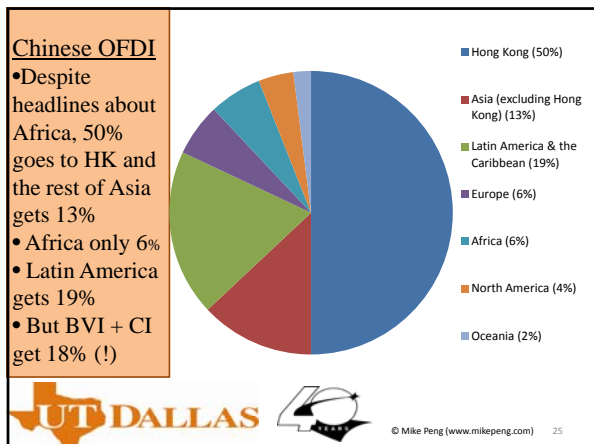


**Tech resources are on the rise**

- In 2008, China filed the 6th largest number of patents in the world (US/China difference in #: 9 times)
- In 2004, China the 14th (US/China difference: 27 times)
- In 2008, China had the highest annual growth in patent filing—tied with Korea—@ 12% (US growth rate: -1%)

**Managerial resources are still clearly lacking**

- Not your average manager: China has plenty
- Internationally experienced, confident, and capable managers comfortable interacting with locals: How many does China have?
  - They are all busy studying my books ☺
- A question from my Chinese EMBA's: What? We can't talk to our competitors? Why?!
- Regional distribution shows signs of weakness



**(3) Rapid adoption of (often high-profile) acquisitions as entry mode**

- Typical evolution of entry modes: Exports → JVs/alliances → greenfields and/or acquisitions
- Most non-Chinese MNEs in China have followed this progression (they are the sources of learning and observation of Chinese MNEs)
- But, emerging Chinese MNEs: Buy, buy, buy

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**Acquisition targets**

- Tech and financial services firms in the United States
- Brands in Europe
- Resources in Australia, Africa, and Latin America

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**How the world sees China**

- Historical racism, modern prejudice
- Chinese arrogance (+ ignorance) does not help
- Chinese firms eyeing US banking and oil assets: No way!
- Chinese bid for Rio Tinto: No, thanks!

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**Playing hardball?**  
Tires (2009)  
Google (2010)  
Currency (2010)


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### Will Chinese OFDI-based M&As do better than global average? *Unlikely!*

- Preacquisition: Overpayment in bidding
  - National pride: “Takeover nationalism” (Hope et al., 2009)
  - Managerial hubris and poor corporate governance
- Postacquisition: Integration
- Case study: TCL/Thomson
- Large sample study: Chinese investors have very little confidence in listed companies’ OFDI/M&As (Chen & Young, 2010 *APJM*)

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### A challenge in post-acquisition integration



“As you know, some details of the new merger have yet to be resolved.”

### How to play the cards?

Briefing China and US trade The Economist May 19th 2010



UT 

### The danger of protectionism between the G-2: Destroying global confidence

FIGURE 8.1 DOWN THE TUBE: CONTRACTION OF WORLD TRADE DURING THE GREAT DEPRESSION (1929-1933, MILLIONS \$)



Source: C. Kindleberger, 1973, *The World in Depression* (p. 170), Berkeley: University of California Press.

*The Economist* editor added the word “mad” at the last minute

Trade wars are *lose-lose* (the mutual self-interest of the world’s largest importer and exporter lies in harmonious trade relationships)



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### Trade and investment are more than economic, they serve to preserve world peace

- Buyers and sellers are not likely to kill each other
  - When the US cut off oil sales to Japan (in protest of Japanese aggression in China), Japan attacked Pearl Harbor
- The Dell theory of world peace (Thomas Friedman)
- Chinese SOEs are not so scary after all, America now has plenty of GSEs (government-sponsored enterprises led by Government Motors [GM])

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### Advice to policymakers

- Nationalistic sentiments are understandable
  - Losing Chrysler and Anheuser-Busch hurts
- But the Chinese are not going to take over the “world,” much less to take over America
  - Chinese OFDI is only 1% of the global total
  - Of which 4% comes to North America and 19% comes to South America (but, remember, 18% goes to BVI and CI)
- US MNEs have been doing their own M&As
- Chinese outbound FDI necessitates no additional, specific legislation (Globerman & Shapiro, 2009 *APJM*)



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*Fortune* (05/24/2010):  
“In states like TX, SC,  
and NV, China is  
building factories  
and—lo and  
behold!—creating  
American jobs”

When Chinese deal  
failed, HUMMER had  
to be *liquidated*



### China’s real-assets OFDI is healthy and mutually beneficial

- If China doesn’t export capital, too much money stays at home → inflation
- If China exports capital but only buys US T-bills → Even higher US national debt (and dependence on China)
- If China exports capital and acquires US companies (real assets) → US corporate asset prices go up and jobs are created



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### What if Congress has its wish, the yuan appreciates?

- All of us in the US will face high consumer prices
- Wal-Mart is China’s 8<sup>th</sup> largest trading partner
  - On which side will America’s largest company be lobbying?
- Not likely to add a million US manufacturing jobs
  - Why Amazon Kindle cannot be made in the US?
- Both China and Hong Kong engage in fixed exchange rate policy—known as currency management (or “manipulation” per Congress)
  - But HK is the world’s “most liberal” economy



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### Advice to managers

- Master the rules of the game
- Learn from Japanese MNEs, which had a rocky start in the US in the 1980s
  - Understand the difference between the Federal level and the state/local level
  - Avoid high-profile acquisitions
  - Have THICK skin (endurance), stick around
  - Attention span in Washington and in the media is short
  - Nobody is concerned about Japanese FDI in the US now, which supports 600,000 jobs (#1 automaker)



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### Advice to managers

- Strengthen your own resources and capabilities
- Skipping the usual, progressive steps of FDI and jumping into (especially high-profile) acquisitions are like gambling—good luck!
- How about have some US *private equity* groups as your alliance/acquisition partners?
  - Help reduce liability of foreignness
- In M&As, do not overpay, avoid a bidding war, focus on integration



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### Advice to researchers

- The rise of China will provoke/renew interest in antidumping and antitrust—major institution-based issues that have been ignored by researchers
  - *Journal of International Business Studies* (1970-2005): Only 1 paper has “dumping” in title and abstract
  - *Strategic Management Journal* (1980-2008): Only 1 paper has “antitrust” in its title and 1 more in abstract
- Just like China-based IJV research has greatly enriched the global literature, OFDI research will significantly contribute to the institution-based view




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### Advice to researchers

- The new (or final?) frontier for the growth of the (Chinese) firm (Peng & Heath, 1996 *AMR*)
  - Generic growth
  - Interorganizational alliances (such as JVs)
  - Mergers and acquisitions (my 1996 article said *not* feasible—was I wrong or what?)
- We do not even have a sufficient understanding of Chinese *domestic* M&As, much less about *international* M&As undertaken by Chinese MNEs




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- The first comparative study on M&As in China and the United States (Lin, Peng, Yang, & Sun, 2009 *SMJ*)
- Chinese (domestic) M&As indeed are different from US (domestic) M&As

Strategic Management Journal  
June 2009, Vol. 30, No. 6, pp. 517-532  
Published online 2009 in Wiley InterScience (www.interscience.wiley.com). DOI: 10.1002/smj.777  
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#### HOW DO NETWORKS AND LEARNING DRIVE M&As? AN INSTITUTIONAL COMPARISON BETWEEN CHINA AND THE UNITED STATES



SHANG-CHUN LIN, MIKE W. PENG, YAN-YANG YANG, and SHUN-YU SUN  
School of Management, University of Texas at Dallas, Richardson, Texas, U.S.A.  
Department of Management, City University of Hong Kong, Kowloon, Hong Kong

What do networks and learning drive M&As in different institutional environments? This article looks at the impact of institutional pressure and social embeddedness, learning, and social networks on the domestic M&As in China and the United States. Specifically, we consider how do learning drive embedded in network relations and network in institutional development, and compare and contrast their operations between the United States and China. Our findings show that there is a social embeddedness learning and network in the United States. More importantly, the impact of social learning and network on the United States M&As is stronger than that in China. Copyright © 2009 John Wiley & Sons, Ltd.

**INTRODUCTION**

... (text continues) ...

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### Institutions behind M&As: Comparing China and the US

(Lin, Peng, Yang, & Sun, 2009, *SMJ*)



- Same theoretical framework, same industry, same period
- Different institution-based predictions and findings
- In the US, centrally located firms in an alliance network can enjoy the benefits of high centrality and do not need to acquire alliance partners (consistent with Burt)
- In China, centrally located firms, to derive benefits from their high centrality, need to more aggressively acquire alliance partners (*contrary* to the predictions from Burt)

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### CONCLUSION: Is China unique or is it a member of the global family?

- The raging debate on Chinese exceptionalism
- Do we need a Chinese theory of management?
  - If so, China being so big, do we need a *Shanghainese* theory of management? (A *Scottish* theory too?)
- Why do we use the word *guanxi* in English now?
  - #1 Chinese business word penetrating the English language—What are the top 3 non-business words?

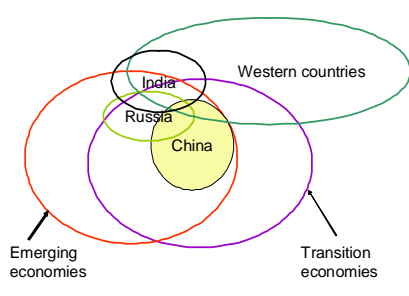





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China is a member of the global family

Scholars need to *act local, think global*

(Peng, 2005 *APJM*; Li & Peng, 2008 *APJM*)



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