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
apjmpeng@gmail.com

MANAGEMENT RESEARCH FORUM
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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

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<th>2005</th>
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<td>Russia</td>
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<td>India</td>
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<td>China</td>
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<td>71</td>
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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

“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 1/30th of US OFDI (1% of world total)

ANSWER (in 2009)

- Beijing (30)
- New York (19 in NYC + 3 more in suburbs)
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 Beijing Consensus (Ramo, 2004) versus The Washington Consensus (allegedly broken thanks to the 2008 crisis)


The “China on the verge of collapse” literature (Chang, 2001) Despite the provocative title, this book is not alone.

As recently as in 2007, China was viewed as “so broken” (thanks to toy recalls, endemic corruption, and spreading eco-crisis)
What happened to the “Japan on steroids” literature (Japan as No. 1—1979)? Did Japan “take over” America (circa 1989)?

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.

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

(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

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

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
Theoretical contribution: an institution-based view
A strategy tripod (Peng et al., 2008 JIBS, 2009 AMP)

(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

<table>
<thead>
<tr>
<th>Patent applicant companies</th>
<th>Number of applications in 2008</th>
<th>Patent applicant companies</th>
<th>Number of applications in 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Huawei (China)</td>
<td>4,100</td>
<td>Siemens (Germany)</td>
<td>2,688</td>
</tr>
<tr>
<td>Panasonic (Japan)</td>
<td>3,910</td>
<td>Nokia (Finland)</td>
<td>1,988</td>
</tr>
<tr>
<td>Philips (Netherlands)</td>
<td>3,553</td>
<td>LG Electronics (South Korea)</td>
<td>1,254</td>
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<tr>
<td>Toyota (Japan)</td>
<td>3,304</td>
<td>Fujitsu (Japan)</td>
<td>1,076</td>
</tr>
<tr>
<td>Robert Bosch (Germany)</td>
<td>2,973</td>
<td>Toshiba (Japan)</td>
<td>945</td>
</tr>
</tbody>
</table>


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—at 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 EMBAs: What? We can’t talk to our competitors? Why?!
• Regional distribution shows signs of weakness
Chinese OFDI

• Despite headlines about Africa, 50% goes to HK and the rest of Asia gets 13%
  • Africa only 6%
  • Latin America gets 19%
  • But BVI + CI get 18% (!)

(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

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!

Acquisition targets

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

A challenge in post-acquisition integration

How to play the cards?

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)

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

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])
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)

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

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 8th 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

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)

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
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

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

• 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

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)

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 Shanghai not 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?