EMERGING MULTINATIONALS FROM CHINA

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RECENT RESEARCH
(1) S. Globerman, M. W. Peng, & D. Shapiro, 2011, Corporate governance and Asian companies, Asia Pacific Journal of Management.
China goes global
The significant outward foreign direct investment (OFDI) made by Chinese multinational enterprises (MNEs)
(keynote @ Harvard conference in Oct 2009)

QUIZ 1
Which of the following two cities has a larger number of Fortune Global 500 company headquarters?

• Beijing
• New York
QUIZ 1 ANSWER

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

QUIZ 2

• Which emerging economy of the BRIC group has the largest amount of outward foreign direct investment (OFDI) stock?
  – A: Brazil
  – B: Russia
  – C: India
  – D: China
QUIZ 2 ANSWER

• Which emerging economy of the BRIC group has the largest amount of outward foreign direct investment (OFDI) stock?
  – A: Brazil #3
  – B: Russia #1
  – C: India #4
  – D: China #2

BW (7/27/2009) “Is China Inc. intent on buying the world? It sure looks that way”

But, REALLY?
Total Chinese OFDI stock @ $170 B is only 1/30th of US OFDI (1% of world total)
[Now about 1/12th of US and 1.7% 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.

Fortune (10/28/2009)

The new (Western) media norm becomes a myth, which takes on a life of its own.
The Beijing Consensus (Ramo, 2004) versus The Washington Consensus (allegedly broken thanks to the 2008 crisis)
The “China on steroids” literature (a term coined by David Lampton)

Jacques (2009) →
But, 10 yrs ago . . .

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.

The best (and most profound) recent China book I’d recommend: Kissinger: On China (2011)

“Conflict is a choice, not a necessity”
David Shambaugh (2013) key point:

China is a partial power, not a comprehensive power.

My extension:
Chinese MNEs are partially strong and partially weak

Emerging multinationals from China: Three (relatively) unique aspects

• 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
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 the British Virgin Islands in FDI stock than in the UK—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
My field research @ BVI (population 21,000)

Top OFDI recipients from China & top IFDI originating economies investing in China

• Hong Kong (#1)
• British Virgin Islands (#2)
• Cayman Islands (#3 OFDI, #8 IFDI)
• A plausible hypothesis: Capital round-tripping
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)
China is *not* that unique

- QUIZ:
- The top 1 OFDI recipient countries from multinationals from Brazil, Russia, and India?
- The top 1 IFDI originating countries investing into Brazil, Russia, and India?
- Toward an institutional *weakness*-based theory of FDI (Hoskisson et al., 2013, *JMS*; Peng & Parente, 2012, *RAE*)

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
CASE: Huawei
- US headquarters in Plano, Texas
- US Congressional report alleged it to be a potential “national security threat” (2012)

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, 67% goes to HK and the rest of Asia gets 9%
  • Africa only 6%
  • Latin America gets 13%
  • But BVI + CI get 12% (!)

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
Acquisition targets

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

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!
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

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

How to play the cards?
Edward Steinfeld (2010): China is playing our (Western/capitalist) game, which fortifies incumbents’ advantage

(How much $ does China make assembling iPhone?)

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 $)

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)

Trade and investment are more than economic, they serve to preserve world peace—the ultimate CSR

• 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)
Advice to policymakers

• Chinese are not going to take over the world
  • Chinese OFDI is only 1.7% of the global total
  • Of which 4% comes to North America and 13% comes to South America (but, remember, of which 12% goes to BVI and CI)
• Canada’s “net benefit” test: CNOOC/Nexen $15B deal in 2013—pragmatic nationalism
• Chinese outbound FDI necessitates no additional, specific legislation (Globerman & Shapiro, 2009 APJM)
  • The right policy toward China’s FDI: “YES, UNLESS”

Still punching below its weight

• Of all countries holding FDI stock in the US, China holds a trivial 0.1%
  • UK (20%), Japan (12%), Germany (12%)
  • China’s OFDI in the US “still plays in the same league as New Zealand and Austria” (Asia Society study, 2011)
  • Until 2009, inward FDI from China was so tiny that it was recorded in official US statistics as a rounding error.
• Every Chinese citizen: only $180 OFDI stock
  • Every American citizen: $13,500
  • Global average: $2,900
"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
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?
• Hong Kong engages in fixed exchange rate policy, but China no longer does—China has a “managed float” exchange rate policy (is it “manipulation”?)
  • 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
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 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)
  • M&As (P&H 1996 said not feasible—was I wrong or what?)
• We do not have enough understanding on Chinese domestic M&As, much less about international M&As undertaken by Chinese MNEs
  • Chinese MNEs only closed 47% of deals
  • Indian MNEs 67% (Sun et al., 2012 JWB)

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?)
• We do need to develop an institution-based theory of MNE/FDI leveraging the story of these emerging multinationals from BRIC (EE in general)
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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