

BUSINESS TRENDS

Week 06: The rise of the emerging-market multinationals: A new type of company?

Learning Outcome

At the end of the session, the student will be able to explain the rise of Emerging-Market Multinational and provide examples of them in the current global economy.





GLOBAL TURNIGN POINTS
FOR BUSINESS AND SOCIETY

EMERGING MARKET MULTINATIONALS

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The Multinational Enterprise

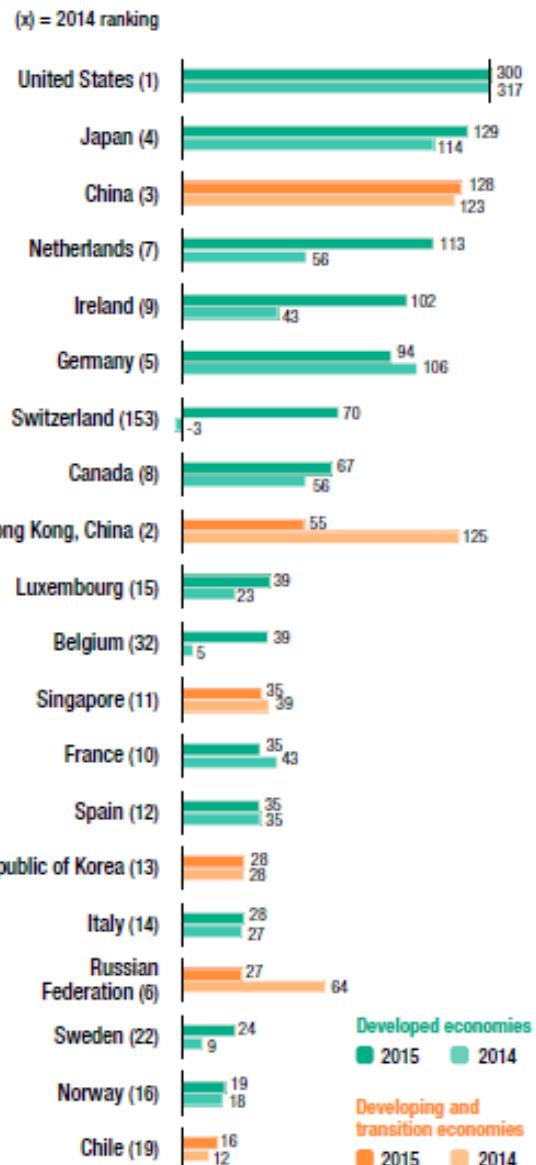
A firm with 'operations' in at least two different countries:

- Sales subsidiaries.
- Manufacturing plants.
- R&D labs.
- Design centers.
- Service centers.
- Etc.

How Important are MNEs?

- There are 104,000 MNEs in the world.
- They control about a 790K subsidiaries.
- They account for 9% of global value added (i.e. GDP).
- 71% of all MNEs are based in rich countries.
- *We know very little about the other 29%.*
- The sales of the 500 largest MNEs represent 25% of world product, and 50% of world trade.
- MNEs receive 80% of all payments for technology royalties and fees.

Figure I.6. FDI outflows, top 20 home economies, 2014 and 2015 (Billions of dollars)



How Important are MNEs from Emerging Markets (EMs)?



- EMs:
 - 57% of global GDP.
 - 66% of foreign exchange reserves.
- EM MNEs
 - 31% Fortune G500.
 - 29% of 103,786 MNEs in the world.
 - 28% of new FDI outflows during 2014.
 - 19% of cross-border acquisitions during 2014.
 - 24% of FDI stock as of the end of 2014.
 - 120 EM MNEs among top 1000 R&D spenders.

Relevance of the Topic

- Emerging MNEs often came of age in the wake of processes of economic reform and privatization.
- Emerging MNEs are frequently part of a (family-owned) business group.
- Some Emerging MNEs are state-owned.
- Some emerging MNEs have become technology leaders.

Historical Waves: Countries of Origin



- 19th century: Britain, France, Belgium.
- Second industrial revolution: Germany, Sweden, Switzerland, Holland, Italy.
- From the 1920s: United States (plus all the others).
- Natural resources: Canada, Australia.
- 1950s onwards: Argentina, Brazil, Mexico.
- 1970s and 80s: Japan.
- 1980s and 90s: Upper-middle-income economies: Spain, Ireland, Portugal, South Korea or Taiwan.

Historical Waves: Countries of Origin



- 1990s onwards:
 - Emerging economies: Argentina, Brazil, Mexico, Chile, Turkey, China, India, Indonesia, Thailand, Egypt.
 - Oil-rich countries like the United Arab Emirates, Nigeria, Russia or Venezuela.

Stocks of Foreign Direct Investment

Country	\$ billion		% of GDP	
	1990	2013	1990	2013
China	4.5	613.6	1.1	6.6
Hong Kong	11.9	1,352.4	15.5	490.4
Taiwan	30.4	245.9	18.4	50.2
India	0.1	119.8	0.0	6.2
Singapore	7.8	497.9	21.2	174.9
South Korea	2.3	219.1	0.9	17.9
Malaysia	0.8	134.0	1.7	43.2
Argentina	6.1	34.1	4.3	7.0
Brazil	41.0	293.3	9.4	13.0
Chile	0.2	101.9	0.5	36.5
Colombia	0.4	39.0	1.0	10.2
Mexico	2.7	143.9	1.0	11.4
Peru	0.1	4.1	0.4	1.9
Venezuela	1.2	22.9	2.6	5.9
Russia	...	501.2	...	23.4
Turkey	1.2	32.8	0.6	4.0
UAE	0.1	63.2	0.0	16.1
Egypt	0.2	6.6	0.4	2.7
South Africa	15.0	95.8	13.4	27.2
Ireland	14.9	502.9	31.2	229.4
Spain	15.7	643.2	3.0	47.4
USA	731.8	6,349.5	12.6	37.5
France	112.4	1,637.1	9.0	59.7
Germany	151.6	1,710.3	8.8	47.1
Italy	60.2	598.4	5.3	28.9
Holland	106.9	1,071.8	35.9	134.4
United Kingdom	229.3	1,884.8	23.1	74.4
Japan	201.4	992.9	6.7	20.1
Developed countries	1948.6	20,765	11.1	47.0
Emerging and developing countries	145.2	5,549	4.1	18.6
World total	2086.8	26,314	9.9	35.6

Source: *World
Investment
Report (2014)*.

The Fortune Global 500



Country	Number of Companies:						
	2008	2009	2010	2011	2012	2013	2014
China	29	46	61	73	89	95	98
South Korea	15	10	14	13	14	17	17
India	7	8	8	8	8	8	7
Russia	5	6	7	7	7	8	5
Taiwan	6	8	8	8	6	5	8
Brazil	5	7	7	7	8	7	7
Mexico	5	2	3	3	3	3	3
Singapore	1	2	2	2	2	2	2
Indonesia	0	0	0	0	0	2	2
Malaysia	1	1	1	1	1	1	1
Poland	1	1	1	1	1	1	1
Saudi Arabia	1	1	1	1	1	1	1
Thailand	1	1	1	1	1	1	1
Turkey	1	1	1	1	1	1	1
Colombia	0	0	1	1	1	1	1
Venezuela	0	0	1	1	1	1	1
Chile	0	0	0	0	0	1	1
Total Emerging	78	94	117	128	145	155	157

Source: Fortune magazine.

FORTUNE

Firm	Country	Industry	Global Market Position
Arcor	Argentina	Confectionery	#1 candy manufacturer
Bimbo	Mexico	Food processing	#1 in bread
JBS	Brazil	Food processing	#1 in meat
Modelo	Mexico	Beverages	#1 import beer brand
Vale	Brazil	Mining	#3
Tenaris	Argentina	Steel	#1 in seamless tubes
Bharat Forge	India	Metals	#2 in forgings
Cemex	Mexico	Cement	#1 in ready-mix concrete
Haier	China	Household appliances	#1 in white goods
Braskem	Brazil	Bioplastics	#1
BYD	China	Batteries	#1 in Ni-Cd batteries
Acer	Taiwan	Personal computers	#2
Lenovo	China	Personal computers	#4
Samsung Electronics	S Korea	Consumer electronics	#1 in chips & LCDs, #2 in phones
Embraer	Brazil	Aircraft	#1 in regional jets
Cosan	Brazil	Energy	#1 in biofuels
Tata Communications	India	Telecom operator	#1 wholesale voice carrier

Acquisitions: Selected Examples



Firm	Home	Target	Country	Year	Amount \$bn
Lenovo	China	IBM's PC business	U.S.	2005	1.75
Orascom	Egypt	Wind	Italy	2005	15.00
Tenaris	Argentina	Maverick Tube	U.S.	2006	3.20
CNOOC	China	OML 130	Nigeria	2006	4.60
DP World	Dubai	P&O	Britain	2006	7.00
Gerdau	Brazil	Chaparral Steel	U.S.	2007	4.10
Tata Steel	India	Corus Group	Britain	2007	11.80
Cemex	Mexico	Rinker	Australia	2007	16.50
SABIC	S. Arabia	GE Plastics	U.S.	2007	11.60
Acer	Taiwan	Gateway	U.S.	2007	0.71
Tata Motors	India	Jaguar & Land Rover	Britain	2007	2.30
Ind&Comm Bank	China	Standard Bank Group	S. Africa	2008	5.62
Bhartin Airtel	India	Zain Africa	Nigeria	2010	10.70
Sinopec	China	Repsol YPF Brasil	Brazil	2010	7.10
Sinopec	China	Petrogal Brasil	Brazil	2012	4.80
Sberbank	Russia	Denizbank	Turkey	2012	3.90



“Thanks to the Embraer 190, combined with our narrow-body fleet, we can enjoy the benefits of wider market coverage and develop greater business opportunities, while offering the same level of comfort to our passengers.”

—Niki Lauda, founder of NIKI.

Seattle PI September 29, 2009.



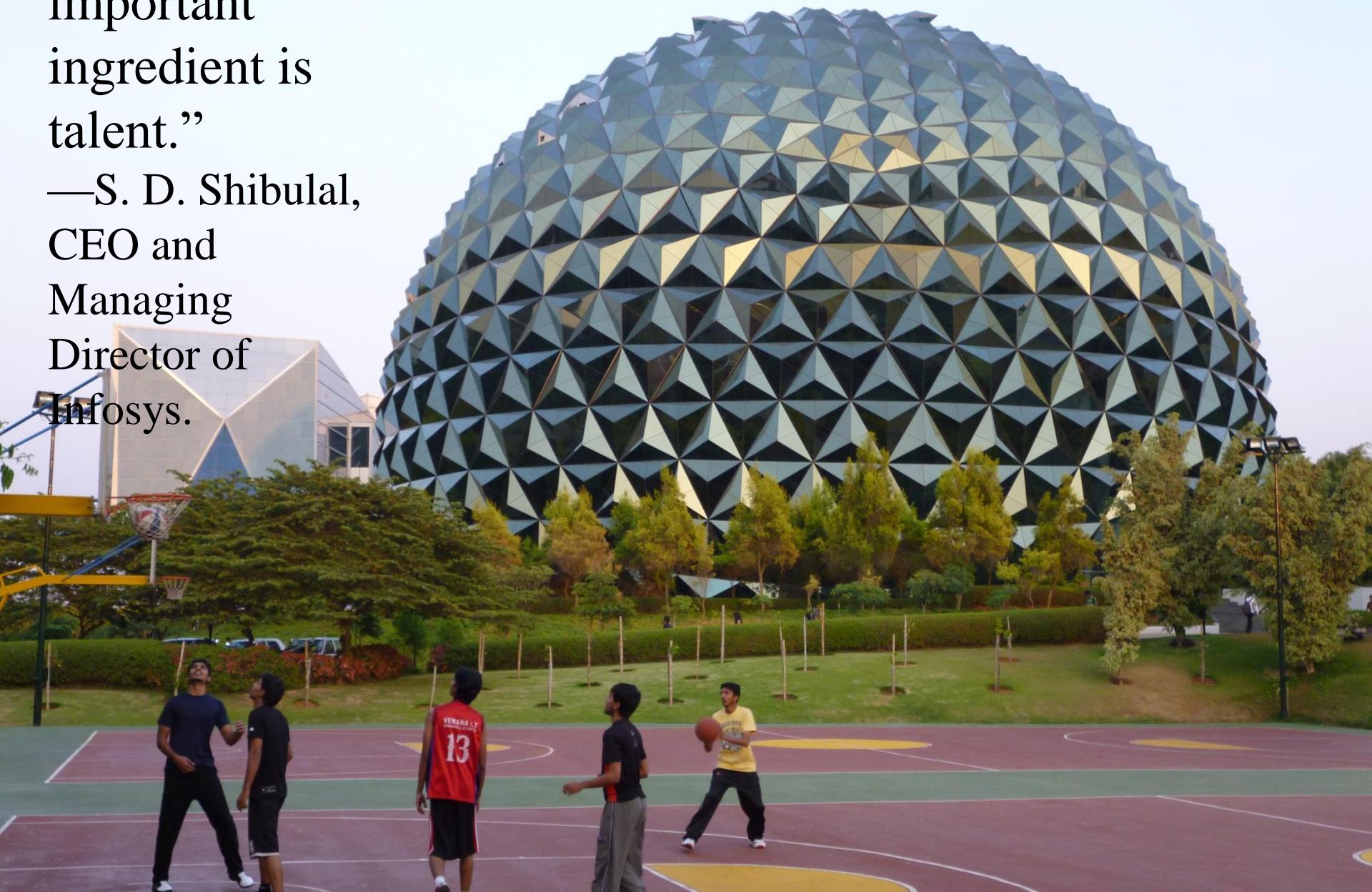
“Short term is expansion, to deeply understand our clients, [our] consumers, and our competitors, and to develop a local talent [pool]. Medium term is to continue growing and expand as a national brand. In the long term we see China as one of the primary sources of growth for Bimbo Group, as well as a source of innovation and talent to other opportunities.”

—Jorge Zárate, CEO of Bimbo China.

Photo from *The New Yorker*.

“The most
important
ingredient is
talent.”

—S. D. Shibulal,
CEO and
Managing
Director of
Infosys.





In 1985, 76 refrigerators made by the factory were found defective. Director Zhang Ruimin ordered the workers responsible for the defects to smash the refrigerators with a sledgehammer. *Courtesy Haier Group*

Source: Jeannie Jinsheng Yi and Shawn Xian Ye, *The Haier Way* (Paramus, NJ: Homa & Sekey Books, 2003).

Haier's Niche Thinking



Washing machine / vegetable rinser.

Compact refrigerator.

Wine coolers.



“When I look across the major appliance categories seen [Haier] have any perceivable position.”

—Whirlpool’s David L. Swift, head of the North American Region, 2006.



“The marketing of Corona has been brilliant, whereas the marketing of Heineken has become schizophrenic. Corona Extra’s association with the tropics and being drunk with a lime are indelible images that work.”

—Philip Van Munching in *Beer Blast*.

Arcor's Scale



The largest candy factory in the world, Arroyito, Argentina. According to *Business Week*, “the sprawling, 78,000-square-meter facility is a model of efficiency.” Kevin Kotecki, President of Brach’s, concurs: “Quite frankly, they have the capacity and technology to do things we can’t.”

Acer's Stan Shih



- “Global expansion entails facing various challenges and requires making choices all the time. For a company pursuing sustainable growth, all kinds of risks will follow, like a shadow. But if you don’t take risks, what you create can be quite limited.”
- Shih “described the current political situation in Taiwan as chaotic,” adding that “he didn’t have time to complain.” Instead, the diplomatic cable publicized by WikiLeaks says that “he views political uncertainty as one of the limitations of the business environment he has to operate in.”

Orascom's Attitude



“If you come from a risky destination, then the risk is relative. I remember when I went to Algeria, and they told me they were killing people there, and there are some bombs, and I said, ‘This is everyday news in my part of the world, so what’s the big deal?’”

—Naguib Sawiris





TEMARIS CEO PAOLO ROCCA STANDS
WITH THE MODEL OF A TUBULAR
STRING USED IN OIL AND GAS WELLS.

“We keep profitability
in mind over
expansion.”

—Paolo Rocca, CEO
of Tenaris. *NYSE
Magazine* (November
—December 2005).

BYD

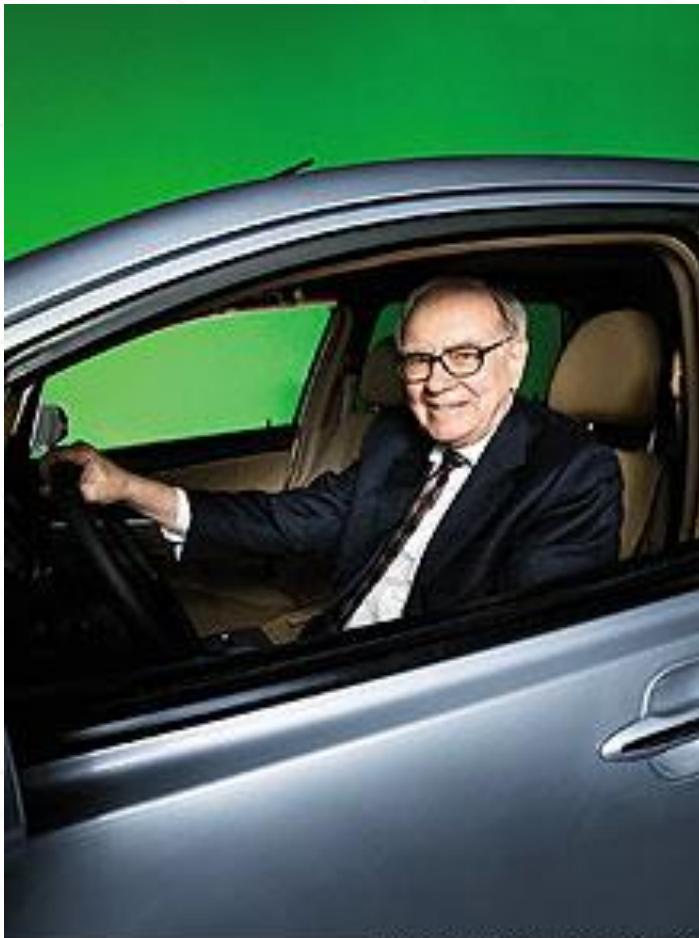
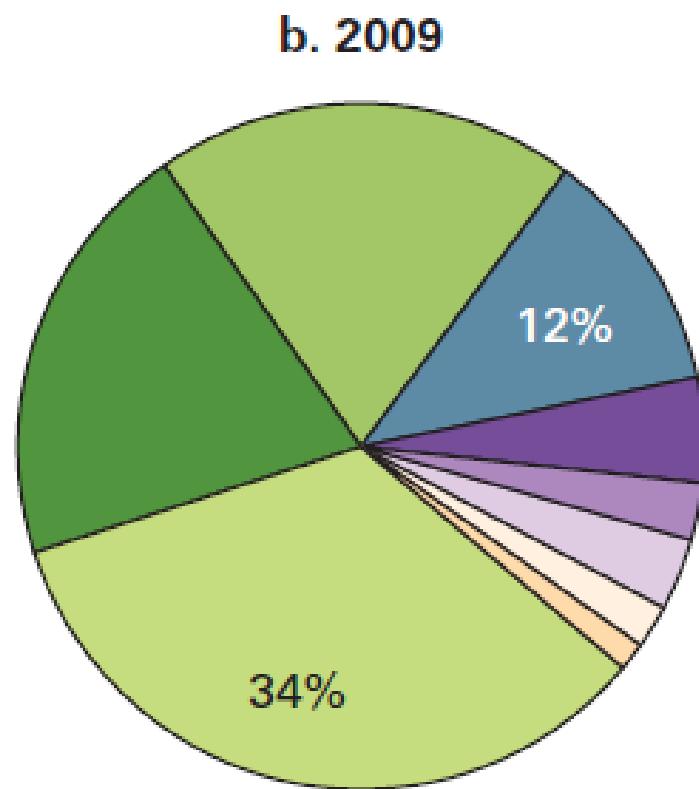
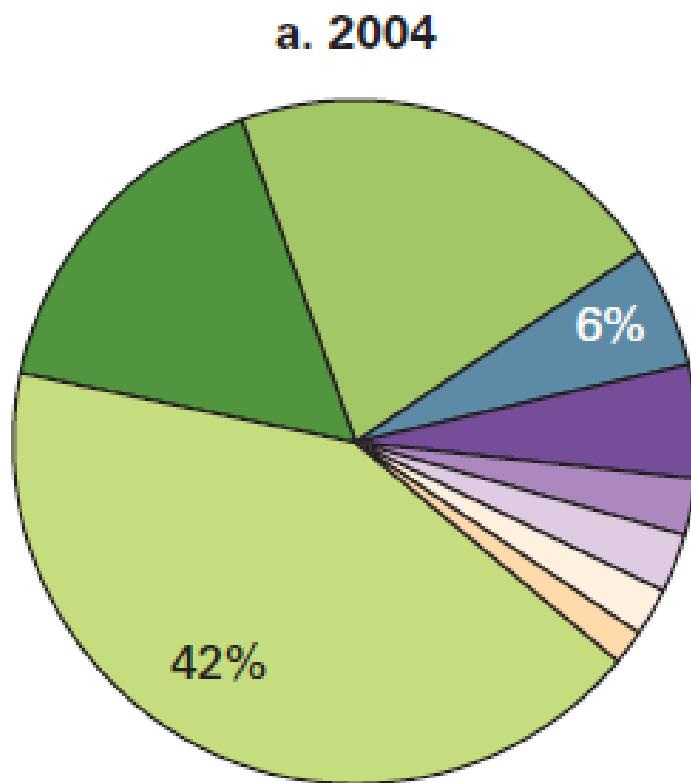


PHOTO: DAVID YELLEN

Warren Buffett with BYD's E6. The car came straight to Omaha from the Detroit auto show. *Fortune* (April 13, 2009).

BYD “has a shot at becoming the world’s largest automaker, primarily by selling electric cars, as well as a leader in the fast-growing solar power industry.”

FIGURE 2.4 Geographic distribution of the top 1,000 firms by R&D spending

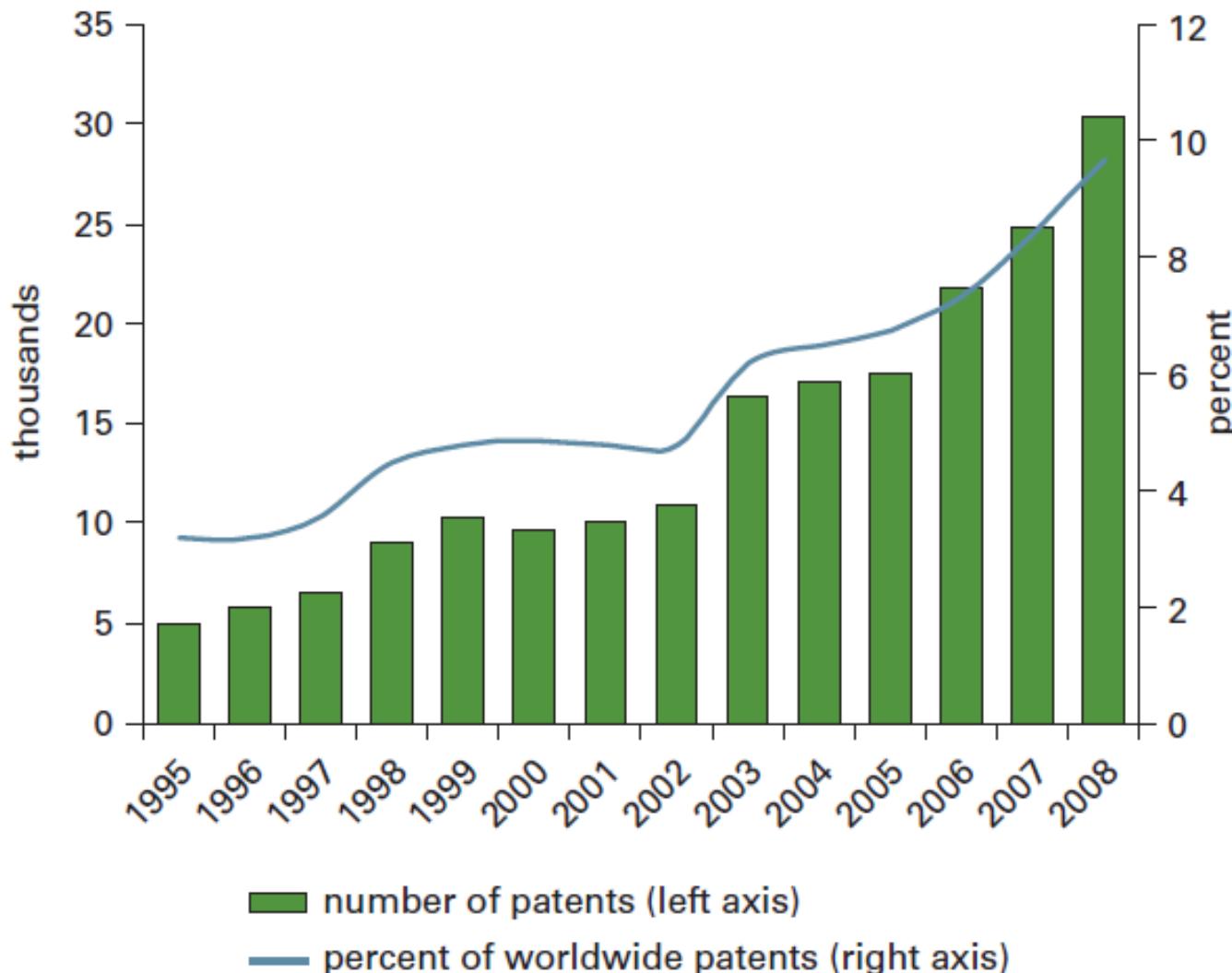


■ euro area ■ Japan ■ EM ■ United Kingdom ■ Switzerland
■ other developed ■ Sweden ■ Denmark ■ United States

Source: U.K. Department for Business, Innovation, and Skills 2005, 2010.

Source: *Multipolarity: The New Global Economy* (The World Bank, 2011).

FIGURE 2.5 Cross-border patents granted worldwide to residents of emerging economies, 1995–2008



Source: World Bank staff estimates based on World Intellectual Property Organization (WIPO).

Source: *Multipolarity: The New Global Economy* (The World Bank, 2011).