# CHINESE MULTINATIONALS GOING GLOBAL

Lecture 9

Multinational Corporations: Theory and Practice

Winter term 2023/24

Strategic Leadership and Global Management
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# GUIDELINE

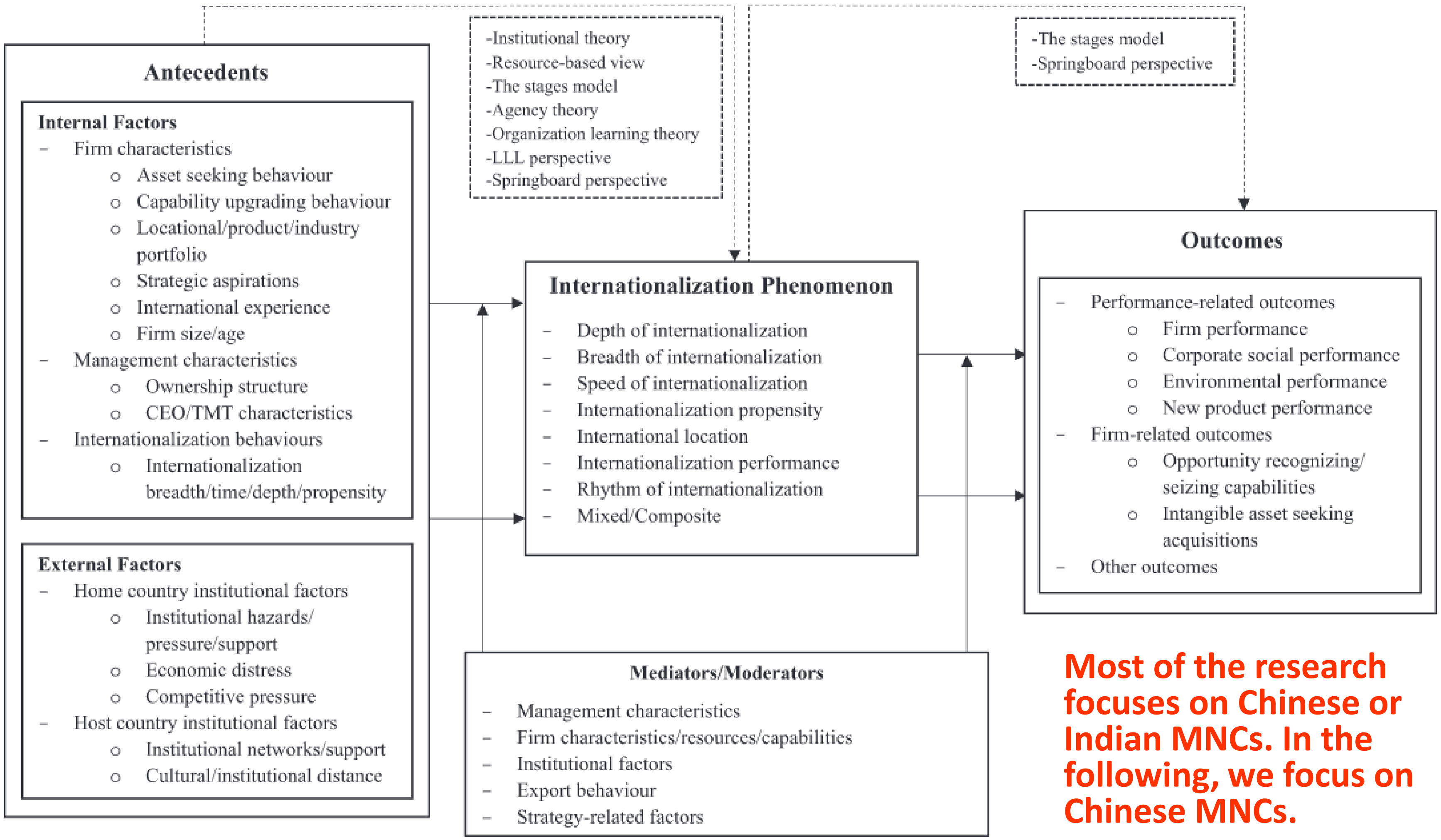
So far, we have implicitly always assumed that the FDI flows go from the developed to the developing nations. But the more developing nations grow and close the technology gap to the developed nations, the more we can also expect that the stream goes into the opposite direction. While embedding this proposition in a broader Emerging-markets MNC (EMNC) perspective, my further elaboration has a special eye on China, a country whose economy has – as we all know – in the past decade grown much faster than almost all other economies in the world. How do the Chinese outward FDI flows look like? Can we indeed now speak of "Chinese MNCs" similar to those we have got to know in the course as examples of western MNCs? What explains their investment behavior and their internal structure and culture? How does the recent trend of de-globalization and decoupling impact the investment patterns of Chinese firms? The following slides provide very first answers to these questions.

I start with a brief overview on research on EMNCs (slide 3 with an exemplary elaboration of the speed-of-internationalization argument in its core-box; see slide 4) and proceed then with outlining some Chinese peculiarities including the country's international political ambitions, thereby also mentioning the so-called "Belt and Road Initiative" that we came across already when we discussed the African challenge in lecture 5 (slide 6). Moving to the company level, slide 7 illustrates the international expansion of telecommunication/mobile phone giant Huawei, and slides 8-9 proceed with showing a list of the Chinese top 10 multinational acting companies as well as an overview of the top Chinese automotive companies ready to enter the western world. Then slides 10-12 show both the global Chinese FDI activities over time and the most recent FDI activities within Europe and, more specifically, in Germany (If you are interested in data, follow the link on slide 12, offering you some opportunities to start your own explorations!) In sum one can say that, measured in terms of revenue, Chinese companies have climbed up to global rankings and are all included in the Global Fortune 500 list 2022. Nevertheless, only Huawei has made it into the Interbrand top global brands by value in 2022. Of specific interest is the strong recent focus on the transport business, especially battery production. And it has to be recognized that recently the investment activities have flawed due to security concerns not only, but also in Germany (see the examples on slides 13-14). In line with this, the German government has developed a "China strategy" that defines what is expected from German companies when they are going to be engaged in business with China (slide 15).

Given all these facts, the question arises whether Chinese MNCs are really "multinationals" in the sense of our previous theorizing about this type of corporations. Slides 16-17 provide 10 indications why they may not. Slide 18 outlines, perhaps with a less skeptical undertone and certainly not covering all the aspects mentioned in the previous two slides, 4 variables for explaining the behavior of Chinese multinationals. And slide 19 presents a research framework that may help to formulate theoretical hypotheses regarding the determinants of Chinese firms' internationalization behavior, the process of internationalization, as well is its performance implications. Some of the relationships have been already investigated in extant empirical research, others may indicate avenues for more studies in the future. However, note that this framework mirrors research on western MNCs; the questions remains open whether we would need a distinct "Chinese" theory of the MNC. On the other hand, the theoretical landscape as we know it from the extent literature is on the move; there *are* attempts to develop a better understanding of Chinese and other developing countries' MNCs. One example is the so-called "Springboard" perspective. Slides 20-21 outline key points of this approach and provide a comparison to other theoretical perspectives brought forward in the IB literature.

# GENERAL CONTEXT & STARTING POINT: EMERGING MARKET MNCS

- In 2018, almost 40 % of outward FDI came from emerg-ing economies
- Evidence that EMNCs need specific explana-tions different from those for MNCs from developed countries
- A framework helps to summarize extant research




**Most of the research focuses on Chinese or Indian MNCs. In the following, we focus on Chinese MNCs.**

Source: Bıçakcıoğlu-Peynirci, N. (2023) Internationalization of emerging market multinational enterprises: A systematic literature review and future directions. *Journal of Business Research* 164, 114002 (p. 10)



**Note:** LLL stands for „Linkage-Leverage-Learning“

# AN EXAMPLE FOR NEEDING DEVIATING EXPLANATIONS

| Internationalization process | Speed of internationalization | Sequence of internationalization | Modes of entry |
|---|---|---|---|
| Stages model (Uppsala school) | Gradual | Psychically close countries first, then psychically distant countries | Low commitment modes first; then, based on experience, high-commitment modes |
| Chinese MNEs (and EMNEs generally) | Rapid | Psychically distant countries entered sooner than expected | High-commitment modes (e.g., M&A) used earlier than expected |

Source. Ramamurti, R., & Hilleman, J. (2018) What is “Chinese“ about Chinese multinationals? *Journal of Business Studies* 49, 34-48 (p. 37)

# WHAT IS SPECIAL ABOUT CHINA AS A HOME COUNTRY FOR MNCS?

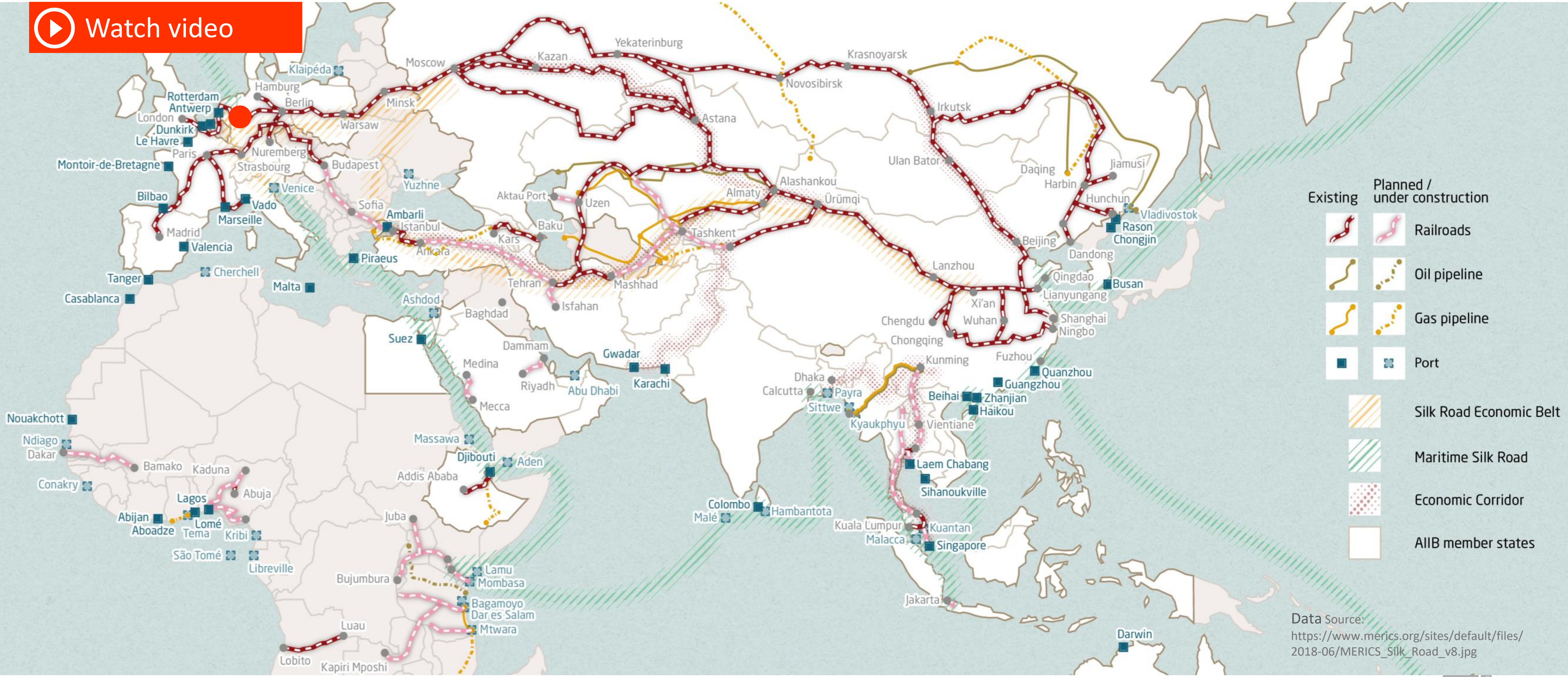
- Companies instrumental for achieving political goals, in line with a “realist“ (as opposed to a “liberal” or “constructivist”) worldview
- “Dual circulation“ strategy: Global integration and domestic self-sufficiency in parallel
- Unitary national industrial strategy, announced through five-year plans: Setting targets and providing incentives for home companies, protecting them against foreign firms
- Industrial development by direct funding for industry, government procurement, government R&D support, development of China-specific standards, recruitment of overseas talent, and the legal and extralegal acquisition of foreign technology
- Mixed economy with state-owned giants and (nominally) private firms, many of them being “little giants“ comparable to German Mittelstand firms (“Hidden Champions”), controlled inter alia via within-company communist party cells

| Objectives | Motivation |
|---|---|
| Grow GDP | GDP is a key source of power in international politics |
| Increase global presence and prestige | Increase China's soft power that can be used to influence other nations |
| Weaken US strategic threat | Secure China by stabilizing or controlling continental hinterland and maritime buffer zone |
| Develop multiple trade routes | Reduce chokepoints for Chinese trade, especially energy imports (“Malacca Dilemma”) |
| Increase naval reach to protect Chinese shipments | Counter the risk of harassment or blockade by opposing powers |
| Divide potential opposing blocs, e.g., ASEAN and EU | Maintain China’s weight in world politics by preventing balancing coalitions |
| Build an alternative world institutional order | US-led order is perceived as biased against China |

Sources: Teece, D. (2022) A wider-aperture lens for global strategic management: The multinational enterprise in a bifurcated global economy. *Global Strategy Journal* 12, 488-519;
Lewin, A.Y./Witt, M.A. (2022) China’s Belt and Road Initiative and international business: The overlooked centrality of politics. *Journal of International Business* Policy 5, 266–275

# GLOBAL INTEGRATION: THE BELT AND ROAD INITIATIVE

Watch video




Data Source: https://www.merics.org/sites/default/files/2018-06/MERICS_Silk_Road_v8.jpg

# MNCS: LENOVO WAS THE FORERUNNER AND OTHERS FOLLOWED …

## HUAWEI GLOBAL ACTIVITIES IN TELECOMMUNICATION SECTOR


Direct investment in $M

Construction contracts in $M

Troubled transactions in $M

Data Source: https://www.aei.org/china-global-investment-tracker/

# TOP 10 CHINESE MNCs BY REVENUE

## (FORTUNE GLOBAL 500 RANKS, 2022. Numbers in parentheses indicate UNCTAD‘s Top 100 MNC ranking by foreign assets)

1 State Grid

$M 530,009

Global 500 Rank 3 (86)

2 China National Petroleum

$M 483,019

Global 500 Rank 4 (18)

3 Sinopec Group

$M 471,154

Global 500 Rank 5 (35)

4 China State Construction Engineering

$M 305,885

Global 500 Rank 9

5 Industrial & Commercial Bank of China

$M 209,000

Global 500 Rank 22

6 China Construction Bank

$M 200,434

Global 500 Rank 24

7 Ping An Insurance

$M 199,629

Global 500 Rank 25

8 Agricultural Bank of China

$M 181,412

Global 500 Rank 28

9 Sinochem Holdings

$M 172,260

Global 500 Rank 31 (23)

10 China Railway Engineering Group

$166,552

Global 500 Rank 34

...

33 Huawei Investment & Holding

$M 98,725.40

Global 500 Rank 96 (31)

Interbrand Rank 86
Brand Value $M 6,634

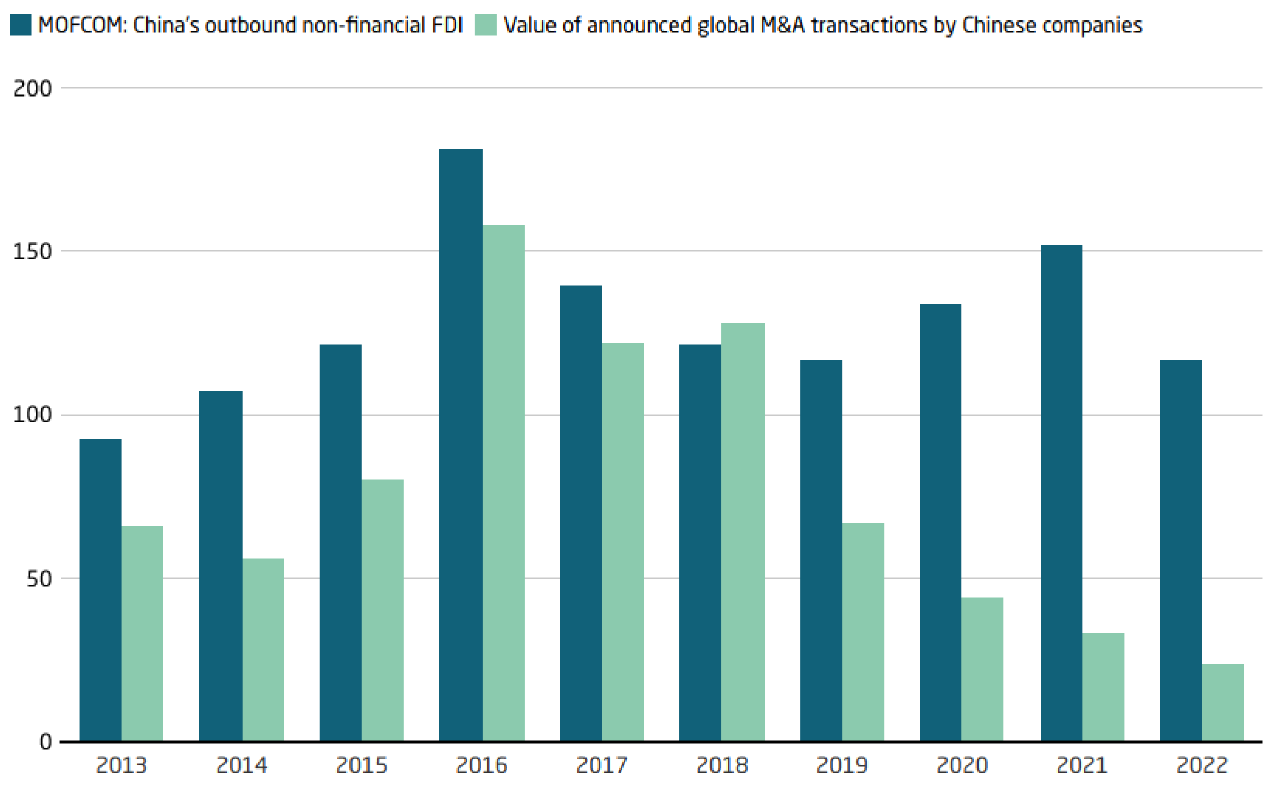
Data Sources: https://fortune.com/global500/2022/, Ranked by revenues; UNCTAD World Investment Report 2022


## AUTOMOTIVE INDUSTRY

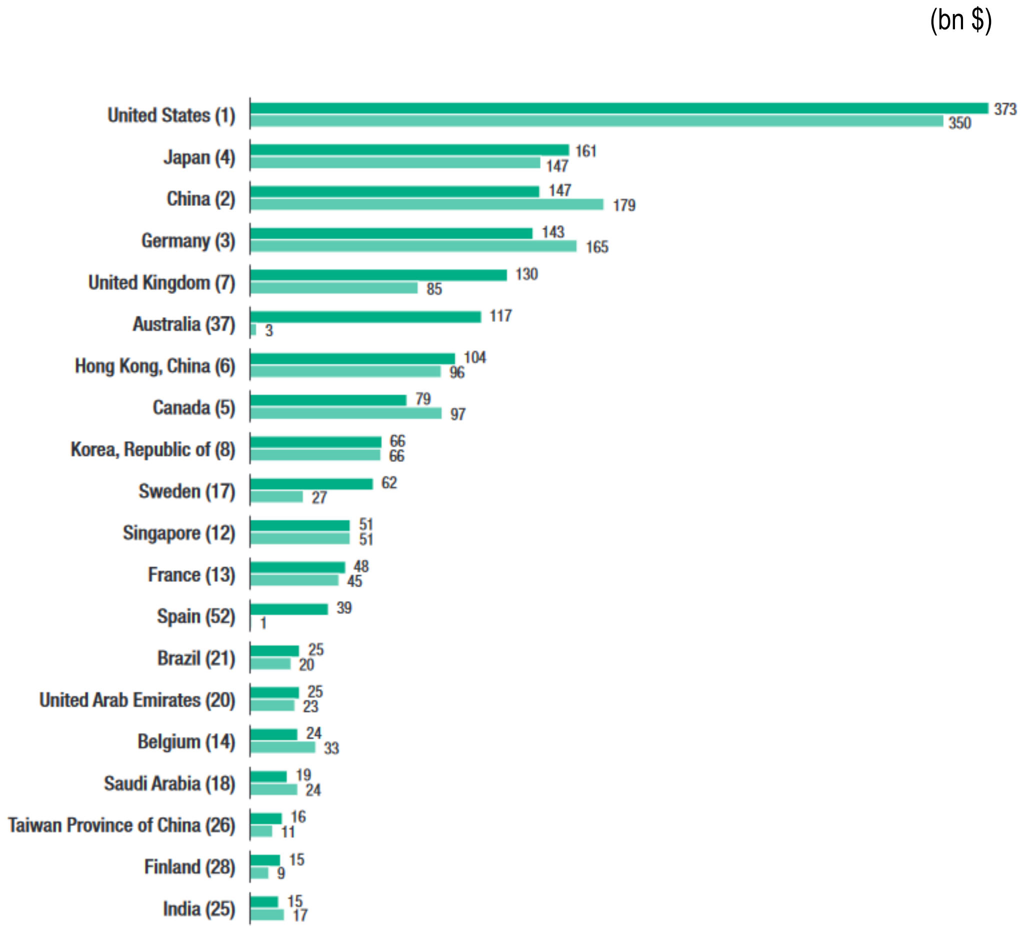
Source: https://www.motor1.com/news/588376/nine-chinese-automakers-ready-conquer-world/

# CHINESE GLOBAL OUTWARD FDI FLOWS

**Volumes, 2013-2022** (Data for 2022 are preliminary)

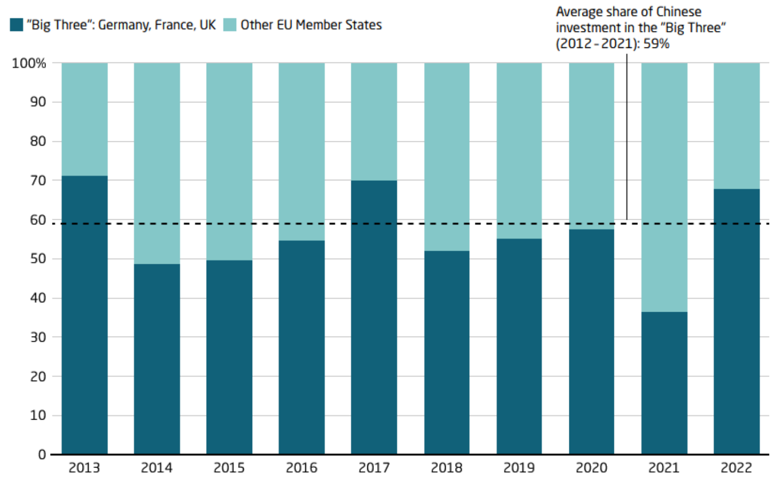


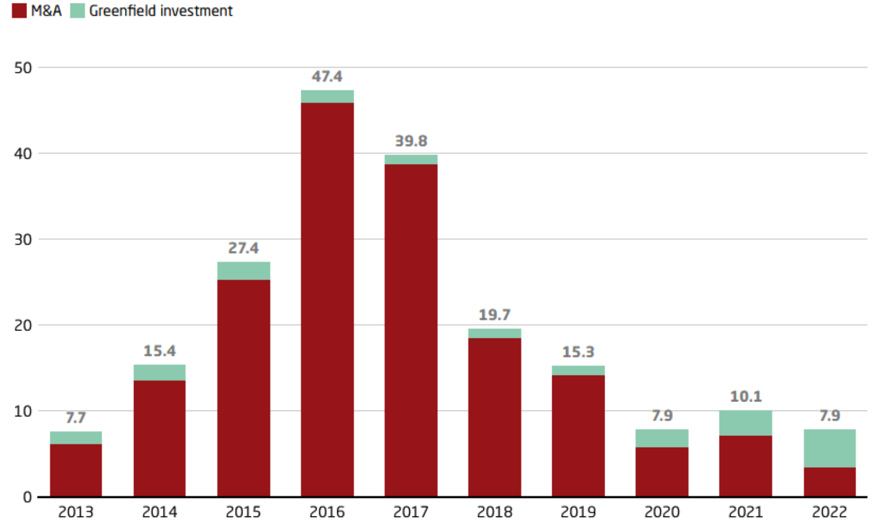

**Top 20 home economies**, 2022 and 2021




Sources: https://merics.org/en/report/ev-battery-investments-cushion-drop-decade-low-chinese-fdi-europe-2022-update; UNCTAD: World Investment Report 2023, p. 17

# CHINESE INVESTMENTS IN EUROPE: OLD AND NEW PATTERNS




## Greenfield projects dominate Chinese investment in Europe

Top ten investments by value, in EUR million

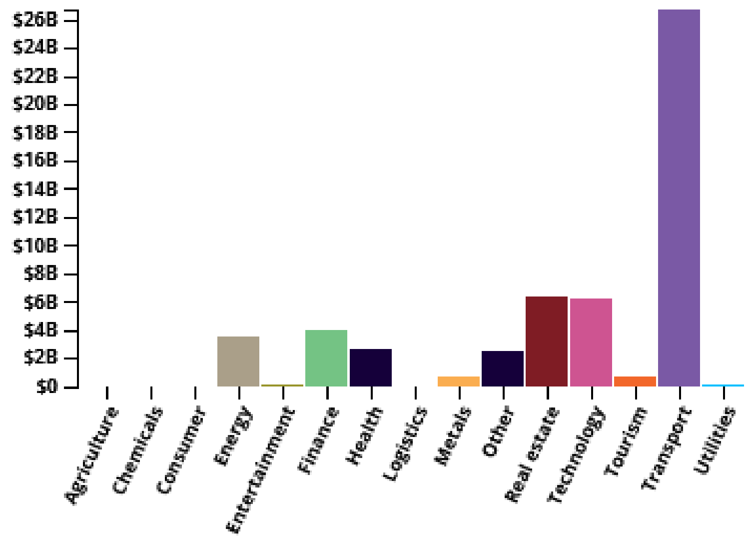
| TYPE | ANNOUNCED DATE | CHINESE INVESTOR | INVESTMENT | COUNTRY | SECTOR | VALUE |
|---|---|---|---|---|---|---|
| **GFI** | August 12, 2022 | CATL | Battery plant | HU | Automotive | 7,600 |
| **GFI** | May 24, 2017 | Zhejiang Geely Holding Group | Group Lotus | UK | Automotive | 2,600 |
| **GFI** | June 28, 2021 | Envision AESC | Battery plant | FR | Automotive | 2,000 |
| **GFI** | November 17, 2020 | SVolt Energy Technology Co. | Battery plant | DE | Automotive | 2,000 |
| **GFI** | June 6, 2018 | CATL | Battery plant | DE | Automotive | 2,000 |
| **M&A** | January 17, 2022 | Tencent | Sumo Digital | UK | Entertainment, media and education | 1,260 |
| **M&A** | July 1, 2021 | Wallaby Medical | phenox GmbH | DE | Health, pharma and biotech | 539 |
| **GFI** | May 15, 2021 | Envision AESC | Battery plant | UK | Automotive | 450 |
| **GFI** | August 6, 2020 | Bytedance (Tiktok) | Data center | IR | ICT | 420 |
| **M&A** | November 17, 2021 | China Three Gorges (CTG) | Wind farm portfolio (181 MW) | ES | Energy | 349 |

Source: https://merics.org/en/report/ev-battery-investments-cushion-drop-decade-low-chinese-fdi-europe-2022-update

# CHINESE INVESTMENT ACTIVITIES IN GERMANY, 2005-2023

DOWNLOAD THE DATASET

RESET SECTOR




| Year | Month | Investor or Builder | Sector | Country | Amount | Type |
|---|---|---|---|---|---|---|
| 2023 | February | Svolt | Transport | Germany | 2090M | Investment |
| 2021 | December | Contemporary Amperex Tech | Transport | Germany | 1770M | Investment |
| 2020 | March | Tencent | Transport | Germany | 100M | Investment |
| 2019 | December | Beijing Auto (BAIC) | Transport | Germany | 2750M | Investment |
| 2019 | July | Beijing Auto (BAIC) | Transport | Germany | 2750M | Investment |
| 2019 | July | China North Industries (Norinco) | Transport | Germany | 130M | Investment |
| 2018 | December | Contemporary Amperex Tech | Transport | Germany | 280M | Investment |
| 2018 | June | Beijing Auto (BAIC) | Transport | Germany | 710M | Investment |
| 2018 | May | Ningbo Jifeng | Transport | Germany | 450M | Investment |
| 2018 | February | Zhejiang Geely | Transport | Germany | 9030M | Investment |

Source: American Enterprise Institute; https://www.aei.org/china-global-investment-tracker/ See here for interactive map and expensive data set

**BUSINESS | GERMANY**

# Germany inks deal with China's COSCO on Hamburg port

Arthur Sullivan

05/11/2023

**The scale of Germany's economic reliance on China is a source of increasing angst. Yet despite tensions, the government has approved a controversial deal that sees Chinese company COSCO acquire a portion of Hamburg port.**


The German government has given final approval to a controversial deal that will see the Chinese shipping company COSCO take a minority stake in a container terminal at Hamburg port.

Last month it was announced that Chancellor Olaf Scholz's three-party coalition government was revisiting a decision made in October 2022 to give the go-ahead to the deal. The review came when it emerged that the Tollerort container terminal had been classified as critical German infrastructure earlier in 2023 by Germany's national cyber security agency, the BSI.

However, on Wednesday, chief government spokesperson Steffen Hebestreit said the government was sticking to the October decision, which caps COSCO's stake in the Tollerort terminal at 24.99%. That compromise had been reached following intense opposition to the deal from the Greens and the Free Democrats (FDP), coalition partners of Scholz's Social Democrats (SPD).

The Tollerort terminal is owned by the Hamburg port logistics company HHLA. The company says the deal will make Hamburg port a preferred destination for COSCO and help secure jobs. It also said the agreement would strengthen Hamburg's national and international importance as a logistics location.

Close to one-third of the goods handled at the port already come from or go to China. China has been Germany's biggest trade partner for the past seven years, with the value of trade between the countries rising to a record €298 billion ($320 billion) in 2022.

Source:https://www.dw.com/en/germany-inks-deal-with-chinas-cosco-on-hamburg-port/a-65586131

POLITICS | **GERMANY**

# Germany halts Chinese buyouts of semiconductor firms

11/09/2022

**The German government has blocked the sale of two semiconductor companies, including the Dortmund-based Elmos. Core components in computers and more, many leading semiconductor manufacturers are in Asia.**


Germany's Cabinet on Wednesday agreed to halt the sale of two German semiconductor companies to purchasers ultimately funded by China, according to German Economy Minister Robert Habeck.

"We must look very closely at company takeovers when it relates to important infrastructure or when there is a danger that the technology would flow to buyers from non-EU countries," Habeck said.

One of the companies, Dortmund-based Elmos, had told investors on Monday that it understood that its sale would likely be halted. Swedish company Silex Microsystems AB was planning to purchase Elmos; it is a subsidiary of Chinese company Sai Microelectronics.

German business publication *Handelsblatt* had also reported that the takeover of Bavarian company ERS Electronic by a Chinese investor would likely be stopped. The report did not identify the purchaser.

Green Party politician Habeck on Wednesday confirmed that two takeovers were affected but said he could not provide details on the second company because commercial confidentiality applied.

https://www.dw.com/en/germany-halts-chinese-buyouts-of-semiconductor-firms/a-63693350

# THE GERMAN CHINA-STRATEGY (JULY 2023)

"The Federal Government is not seeking to engage in any decoupling with China. We want to preserve our close economic ties with the country. However, we want to become less dependent in critical sectors in order to reduce the risks they entail. The pandemic revealed our dependencies, e. g. in the field of medical technology and medicinal products. There are also critical dependencies in other important sectors, such as rare earths and preliminary products that we need for the energy transition, and China has exploited other countries' dependencies in the past. The situation in the Taiwan Strait shows how vulnerable supply chains are, particularly as regards semiconductors. (p. 25)

Companies must take geopolitical risks sufficiently into account in their decision-making. The costs of concentration risks must be more strongly internalised on the part of companies so that state funds do not have to be tapped into in the event of a geopolitical crisis. We are therefore working to use market economy instruments to change the incentive structure for German companies in order to make removing unilateral dependencies more attractive.

…

The Federal Government expects companies, in the context of existing risk management processes, to keep a close eye on relevant China-related developments, data and risks. We will hold confidential discussions with companies that are particularly exposed to China regarding their China-related risk analyses with a view to identifying concentration risks in good time. The Federal Government will consult on whether existing instruments should be further developed. (pp. 38-39)"

Source: https://www.auswaertiges-amt.de/blob/2608580/49d50fecc479304c3da2e2079c55e106/china-strategie-en-data.pdf

# ARE CHINESE MNCs REALLY MULTINATIONAL? (1)

(1) Not really global—very few firms possess global production, marketing, distribution, R&D, or HR

(2) Fundamental weakness is few multilingual and multicultural managers—Chinese firms require 75,000 global managers between 2013 and 2020.

(3) National corporate culture and business practices—interpersonal over institutional relationships, short-term profit oriented, state-owned

(4) Poor global brand presence, mostly unknown (cf. top 10 MNCs on slide 8)

(5) Going global by mergers and acquisitions—quick means of acquiring technology, sales network, and established brand names. Nevertheless, 90% of 300 M&A between 2008 and 2010 not successful. *(However, recall that recently Chinese MNCs preferred greenfield investments.)*

Source: https://www.brookings.edu/articles/are-chinas-multinational-corporations-really-multinational/

# ARE CHINESE MNCs REALLY MULTINATIONAL? (2)

(1) Pent-up cash and search for investment outside China in saturated domestic markets—maximize profits quickly, rather than produce steady revenue.

(2) Extremely hierarchical organizational structures and culture—stress discipline and conformity, creates climate of risk aversion rather than encouraging innovations and initiatives.

(3) Chinese firms train workers for precise skill and job—few flexible personnel policies or self-improvement.

(4) Difficulties in adapting to foreign legal, regulatory, tax, and political environments—few firms have in-house legal counsel. Western politicians become suspicious of Chinese investments.

(5) Reciprocity problem—mismatches of expectations between Chinese and non-Chinese multinationals.

Source: https://www.brookings.edu/articles/are-chinas-multinational-corporations-really-multinational/

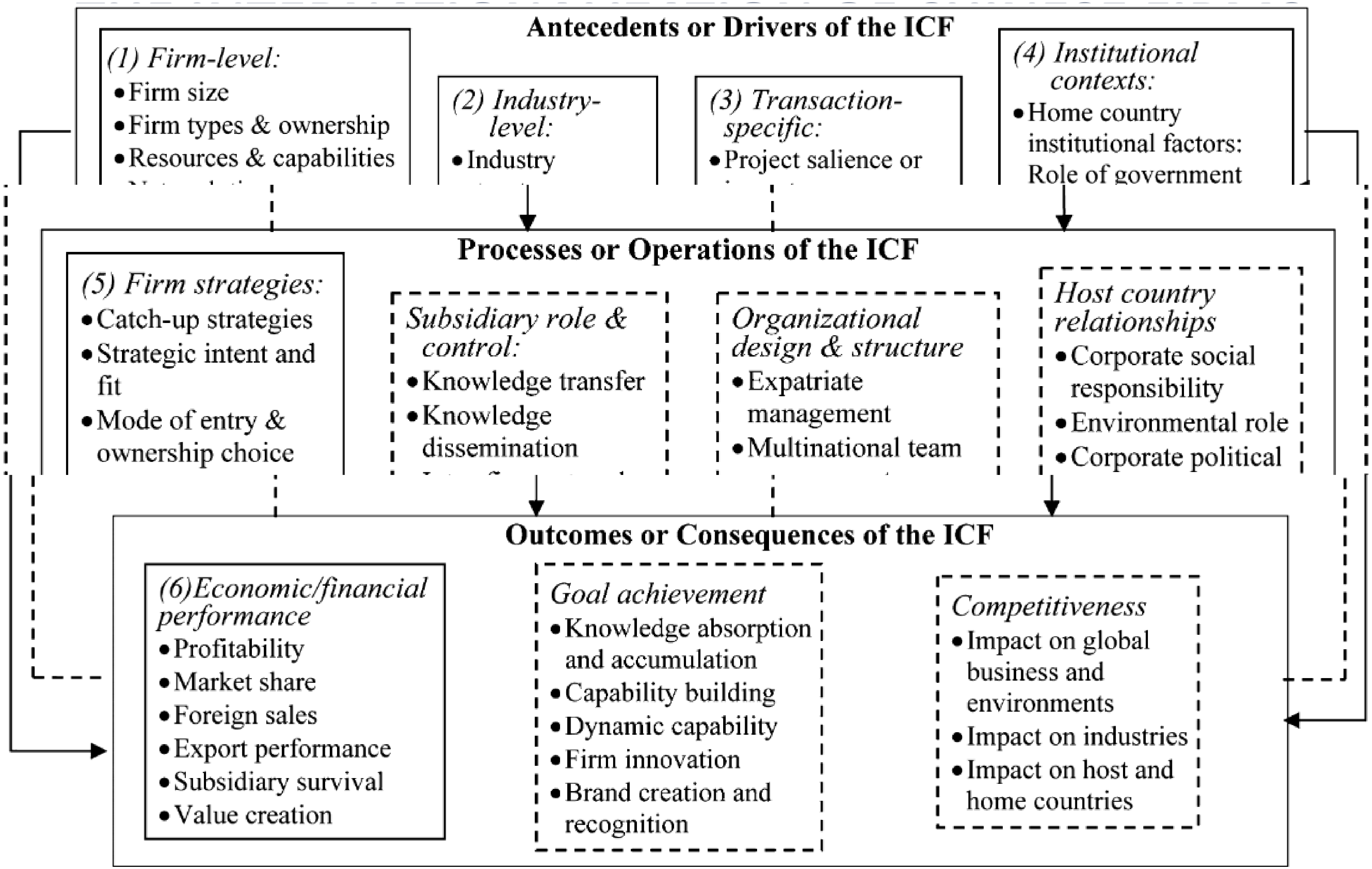
# SO WHAT EXPLAINS CHINESE MNCs?

## FOUR EXPLAINING VARIABLES

| Variable | Definition | Implications for internationalization |
|---|---|---|
| Stage of evolution as an MNE | How far a firm has evolved from being a domestic firm with international operations (infant MNE), to one with a growing array of FSAs, significant overseas presence and production (adolescent MNEs), to one with global presence and many non-location-bound FSAs (mature MNE) | • Affects MNE's dependence on home market and home CSAs, and the extent of FSAs, including how location-bound they are.<br>• Affects geographic footprint, extent of strategic asset-seeking internationalization, and extent of exports versus overseas production (see Table 3 for more details) |
| Global context for internationalization | Costs and risks of internationalization, based on ease of access to international trade, capital, FDI, talent and knowledge flows, and degree of de-verticalization of industries | • Affects speed of internationalization, extent of OFDI into developed countries, and use of M&As |
| Government-created advantages (GCAs) | *Direct* channel includes using financial and non-financial SOEs to achieve economic goals;<br>*Indirect* channel includes:<br>• Accelerating macroeconomic growth to create economic heft in global economy<br>• Creating an internationally competitive platform for production of goods/services<br>• Industrial targeting to create national champions in key industries | • Affects goals of internationalization, risk attitude, and prospect for government-to-government deals (using SOEs)<br>• Affects local firms' bargaining power vis-à-vis foreign firms and governments<br>• Affects motivation for "going out to bring in"<br>• Gives national champions preferential access to markets, capital, foreign acquisitions, etc. |
| Leapfrogging advantage | Turning lateness of entry into a competitive advantage through:<br>• Labor-cost arbitrage strategies<br>• Leapfrogging to newest technology and scale in smokestack industries<br>• Leapfrogging to newest platforms in sunrise industries | • Local firms start as OEMs and then internationalize<br>• Local firms become global consolidators of smokestack industries, including through M&As<br>• In some cases, local firms become global first-movers in sunrise industries |

*Note*: CMNE = Chinese MNEs; EMNEs = emerging-market MNEs; FSA = firm-specific advantage; CSA = country-specific advantage; OEM = original equipment maker.

Source. Ramamurti, R., & Hilleman, J. (2018) What is "Chinese" about Chinese multinationals*? Journal of Business Studies* 49, 34-48 (p. 38)




Source: Deng, P. (2012) The Internationalization of Chinese Firms: A Critical Review and Future Research. International Journal of Management Research 14 (4), 408-427

# BACK TO THE BROADER EMNC CONTEXT: SUMMARIZING THEORETICAL PERSPECTIVES …

| Springboard perspective (SP) | Linkage–leverage–learning framework (LLL) | Ownership (but unique) advantage logic (OA) | Institutional arbitrage logic (IA) |
|---|---|---|---|
| Key points | | | |
| SP focuses on the logic that EMNEs systematically and recursively use international expansion as a springboard to achieve multiple strategic goals such as acquire strategic assets, compensate for their disadvantages, exploit unique strengths, and cope with home institutions<br>Home market exploitation and global competitiveness catchup motivate them to acquire strategic assets and to springboard | The 1st "L" draws attention to how Asian MNEs (e.g., from Singapore, Hong Kong, Taiwan, and South Korea) overcame resource deficiencies by accessing superior external resources via linkage (partnerships). The 2nd "L" refers to the ways that links with incumbents can be leveraged. The 3rd "L" refers to the learning resulting from repeated application of linkage and leverage processes (see Mathews, 2002, 2006)<br>LLL focuses on very large Asian firms from newly industrialized economies | EMNEs have ownership advantages before going global yet these advantages may differ from AMNEs, such as deep understanding of customer needs, operating in difficult environment, low-cost ability, right feature-price mix (Dunning, Kim, & Park, 2008; Ramamurti, 2009; Rugman, 2009)<br>These advantages are context-specific, reflecting home country or country-of-origin conditions (Narula, 2012; Ramamurti, 2012) | Escapism or exit view: EMNEs go global to distance themselves from or avoid weak institutional environments at home (Boisot & Meyer, 2008; Witt & Lewin, 2007; Yamakawa, Peng, & Deeds, 2008). It is especially so when they invest in advanced markets where property rights are better protected<br>Exploitation view: EMNEs are adept at competing in other developing countries with weak institutions because they are accustomed to, and knowledgeable in handing, such hardship and uncertainty. They are superior in surviving in such conditions (Cuervo-Cazurra & Genc, 2008) |

Source: Luo, Y., Tung, R.L. (2018) A general theory of springboard MNEs. *Journal of International Business Studies* 49, 129–152 (p. 135)

# … AND COMPARING THE SPRINGBOARD PERSPECTIVE WITH ESTABLISHED IB THEORIES

| Springboard perspective (SP) | OLI paradigm (OLI) | Internationalization process theory (IPT) | Internalization theory (IT) | RBV/dynamic capability (RBV and DCT) |
|---|---|---|---|---|
| Major arguments | | | | |
| EMNEs use int'l expansion as a springboard to acquire strategic resources, reduce home institutional constraints, overcome laggard disadvantages, and compensate for their weaknesses via a series of aggressive measures like M&As<br>SP explicates unique traits, motives, strategies, fostering or constraining factors, and risks and challenges involving springboard behavior | OLI (O) emphasizes possession of proprietary or ownership-specific resources, market power, or monopolistic advantage as the prerequisite for going global<br>OLI (I) suggests that internalization serves as a unified, integrated intrafirm governance structure due either to no external market or to deficiency and imperfection of such market for intermediate products needed by MNEs<br>OLI (L) argues that MNEs locate manufacturing activities in countries that are the most advantageous for cost (e.g., labor) and revenue (e.g., market demand) considerations | The Uppsala model sees int'l expansion as a process involving a series of incremental steps, assuming that lack of knowledge and experience is a big obstacle to this expansion<br>Incrementally and farsightedly accumulated knowledge and experience on country-specific market, practices, and environment increases the firm's local commitment and reduces uncertainty<br>The firm enters and furthers new markets via progressively greater psychic distance. Commitment increases as both experiential and objective knowledge increase | Internalization unfolds via a unified, integrated intra-MNE governance structure, which is even more critical when market is inefficient<br>Firms choose the least cost location for each activity they perform, and they grow by internalizing markets up to the point where the benefits of further internalization are outweighed by the costs<br>MNEs internalize the market in knowledge within the firm. Proprietary knowledge flows within the firm are superior<br>New IT focuses on the dynamics of int'l governance, whereby value creation hinges on successful knowledge recombination and governance choices | The fundamental principle of RBV is that the basis for a competitive advantage of the firm lies primarily in the development of the bundle of resources that are valuable, rare, inimitable, and non-substitutable. Such resources should be heterogeneous in nature and not perfectly mobile<br>DCT addresses a firm's ability to build, integrate, and reconfigure competencies to cope with rapidly changing environments. It underscores internal processes, routines, and practices for coordination, integration, learning, adaptation, and reconfiguration<br>Dynamic capability requires a strong base of established capability and an ability to efficiently deploy, evolutionarily reconfigure, and continuously upgrade them |

Source: Luo & Tung (2018), p. 138