

EMERGING MARKET MULTINATIONALS: May 2014 OPPORTUNITY OR THREAT FOR EUROPE?

Policy Brief of COST Action IS0905
The Emergence of Southern Multinationals and their Impact on Europe



Recommendations

1. The European Union (EU) must adjust to the changing global balance in terms of a different set of competitive forces ('Shifting Wealth'), especially to challenges from emerging market multinationals.
2. In the context of indebtedness of member state economies and given the will to promote re-industrialization of these economies, investments from emerging market multinationals are key.
3. Given the fundamental importance of the home country state for emerging market multinationals, it is unrealistic to demand a hands off-approach, but there are legitimate concerns with regard to the protection of intellectual property rights and market access that have to be addressed in investment agreements.
4. Based on the changed distribution of power after the Lisbon Treaty, the European Parliament should become more active in the field of investment policies, in particular to safeguard core pillars of the European social model.

COST Action IS O905 The Emergence of Southern Multinationals and their Impact on Europe: Objectives

Traditionally FDI flowed from advanced developed economies into developed and developing countries. More recently FDI patterns exhibit new trends. Outward bound FDI from emerging markets has begun to increase significantly and has grown at a faster pace than FDI from the advanced developed world. This Action developed an international research network to study the impact of this new phenomenon for Europe and its stakeholders. Researchers from 24 European countries contributed to the COST Action from

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5. EU member states should have more leeway in developing specific promotional policies at the sector level to attract innovative Foreign Direct Investment (FDI) from emerging market multinationals. So, EU competition and state aid policies need modification.
6. The EU should engage in training programmes (similar to ERASMUS) for managers from emerging markets to ensure that positive impact of investments in the EU are realized.
7. Eurostat should collect more comprehensive data on FDI from emerging market multinationals and its effects, based on cooperation with the OECD, UNCTAD and statistical offices in emerging markets.

2010 to 2014.

The main objectives of this COST Action were: 1. To develop an enhanced capacity for scholarly analysis of the emergence of emerging market multinationals to establish and test empirically their impact on Europe and its stakeholders; 2. To assess existing EU-wide and country policies in relation to this phenomenon and; 3. To make policy recommendations for Europe.

COST Action Setup

Organizational overview

The COST Action was chaired by Louis Brennan (Trinity College, Dublin, Ireland). Marjan Svetlicic (Slovenia) served as vice-chair.

The core of its research was organized around four working groups:

1. Integrated Data (coordinated by Françoise Hay and Christian Milleli, France)
2. Drivers and Motivators (coordinated by Jagjit Singh Srani, United Kingdom)
3. Impacts on Europe (coordinated by Lucia Piscitello, Stefano Elia (both Italy) Per Heum and Armando José Garcia Pires (both Norway))

The Data Deficit

Report by Working Group 1

Country-level statistics within national statistical offices lag behind business intelligence. There is a rising gap between business intelligence in terms of quality of data and speed of updating, which is used in corporate strategies, and the quality of data supporting economic policies either at country or EU levels.

The current solution to overcome this difficulty in accessing financial and other information at the company level is to turn to private data providers such as Bureau Van Dijk, Reuters or Financial Times. Data access was originally designed for companies making access expensive.

The quality of private provider data is variable and requires a systematic screening when one wants to draw robust conclusions. Furthermore, the situation is deteriorating as numerous European universities are undergoing deep cuts to their research budgets. Scholars are unable to afford such access.

In light of our individual and collective experience, along with an exchange of views with experts from EUROSTAT, UNCTAD and OECD, we can advance some practical recommendations.



Lenovo is well-known for the acquisition of the IBM personal computer division. More recently it acquired Medion AG, a German consumer electronics company, IBM's low-end server business and Google Inc's Motorola Mobility handset business. As of 2014, the Chinese company is the world's largest PC producer.

4. Policy Implications (coordinated by Daniel Diaz Fuentes (Spain) and Andreas Nölke (Germany))

The working groups were complemented by short-term scientific missions (coordination: Andreas Nölke), training schools (Daniel van den Bulcke and Filip Debeule, Belgium), dissemination activities (Ruth Rios-Morales, Switzerland) and bi-annual management committee meetings (secretary: Carlos Cunha, Portugal).

First, data related to multinational firms (from emerging markets) operating in Europe should be opened to scholars at the central level (Eurostat, Luxembourg). By considering the supra-national dimension, scholars may bypass the tricky aspects of different privacy requirements still in force at the national level. By so doing, the EU could align with the US Bureau of Economic Analysis (BEA).

Moreover, scholars involved in EU-financed research programmes should benefit from extended access to Eurostat data and from collaborating with Eurostat staff on technical and scientific aspects.

Second, it is important to make EU level policy-makers aware of the importance of issues related to emerging markets and their investments (activities, number of jobs created, exports etc.); so as to enjoy better data as a prerequisite for informed analysis and policy making.

Third, EUROSTAT should systematically include in the surveys or questionnaires it implements items related to firms from emerging markets and their investments. Disaggregated data according to country origin are of major interest insofar as companies from emerging economies are still very diverse. (See Appendix 1).

Recent EU acquisitions by Southern Multinationals

Acquirer	Target	Host Country	Sector	Value
India				
Tata	Corus	Netherlands	Steel	€9.5bn
Tata	Lotus/Range Rover	UK	Auto	€1.3bn
China				
Cheung Kong	UK Power Networks	UK	Utilities	€9.1bn
Cheung Kong	Northumbrian Water	UK	Utilities	€3.5bn
Mexico				
Carso	Austria Telekom	Austria	Telecom	€4.0bn
Pemex	Repsol	Spain	Energy	€3.1bn



Brazilian Vale today ranks among the three largest mining companies in the world.

Drivers of emerging market multinational entry into the EU

Report by Working Group 2

Regarding the drivers and motivations of emerging market multinational (EMNCs) entry into the EU, the following developments should inform EU policy considerations;

1. EMNCs integration into global value chains through EU acquisitions and alliances

Case study data suggests EMNCs are acquiring EU firms to enhance their R&D capability, production technologies and capacity in Europe to more effectively serve regional demand. Their assessment of value contrasts the traditional value chain model with manufacturing based investments seen as providing additional product functionality and quality, including access to EU customers, often through brand acquisition.

However, tactical investments can be short term with manufacturing ultimately moving out of the EU. Policy-makers should differentiate between those long term investments that enrich the EU's supply base, from predatory moves that seek to transfer out activities.

2. Changing patterns in Innovation and Technology developments

EMNCs often exhibit different innovation patterns with more incremental product innovations, an appetite to invest in production processes, and business models that exploit home-country low cost labour. Policy makers should recognize that the competitive innovation environment will challenge established firms whilst enriching

Strategies of EMNCs: Focus or Diversity?

While several European firms after the global economic crisis focused their operation, product and market portfolio, emerging market multinationals (EMNCs) remained or became even more diversified. Even first time internationalizing enterprises start their international operation by rapid market and product portfolio diversification, in contrast to dominant sequential European internationalization patterns. EMNCs face more demanding home country environments (such as instability of institutions, resource limitations or weaker intellectual property and branding) that may translate into their advantage resulting in greater flexibility, more complex strategies, motivation to work with strategic partners, changing business models and organizational structures. European firms should be aware of these features when cooperating with EMNCs competitors and strategic partners.

Drivers from page 3 continued

competition.

3. EMNCs response to current re-shoring activities of Developed Country MNCs

EU re-shoring trends in manufacturing production and services will provide entry points for EMNCs in Europe. However, this may result in the decline of EMNCs in their home countries as MNCs re-shore in favour of EU-located suppliers. Policies that support re-shoring will have greatest impact where proximity to markets and technology encourage localisation strategies.

4. Product and Sectoral considerations

EMNCs' competitive advantages vary significantly according to sector, being most favorable where low cost labour and scale enable economic supply. Policy-makers should consider where national strategic assets, such as infrastructure, defence, or supply security considerations require European safeguards.

5. Financial and Political drivers

EMNCs that are considered national flagships in their home country, particularly state-owned enterprises may, by their very scale and nature, possess competitive capabilities that promise global reach. However, their favorable home market conditions may provide EMNCs with advantages that might fall outside traditional EU competition norms.

6. EMNCs impact on changing industry structures

The massive growth in EMNCs contract manufacturing activity in the supply of intermediate goods, (in electronics for example), has driven high-levels of interdependency within global supply chains.

Although this has driven production costs down, it has also resulted in new supply risks and vulnerabilities in global supply chains. Policy-makers should consider carefully the supply security issues in these more globalised supply chains and consider whether economic and societal impacts of supply disruption require policy interventions, such as dual or local



KOC

– Turkish multinationals typically are diversified industrial groups.

The Koc holding is among the 200 largest global companies.

Impact on EU economies

Report by Working Group 3

Our research has highlighted the need to redefine the concept of “Competitive advantages of EMNCs”: EMNCs possess advantages, but these differ from those of advanced MNCs and are mostly connected to the home country. Policy-makers would benefit from understanding that the original competitive advantages driving EMNCs investments are based mainly on their country-specific advantages (e.g. natural resources for Brazil and Russia and human capital for China and India). As a result, policies can take into account the differences both within EMNCs and between EMNCs and advanced MNCs in order to be effective.

Moreover, the fast internationalization of EMNCs, based on Mergers and Acquisitions (M&A) and vertical integration (especially in advanced countries), is driven by a strategy of reverse technology transfer aimed at climbing the value chain and developing new competitive advantages. This is important for EU policy. EMNCs are thereby climbing the value chain by acquiring high-tech firms, potentially becoming future competitors of European companies. Policy-makers can monitor these acquisitions through an investment agency and ensure the knowledge embedded in the target company is kept also locally through legal instruments (e.g. through patenting activity in the European Patent Office).

WG3 demonstrated that target firms in advanced countries benefit from EMNCs’ tangible rather intangible assets, since while EMNCs rely on weak intangible assets, target firms gain access to low-cost production facilities and to the capillary distribution channels of EMNCs. However, this positive effect arises only when EMNCs are experienced, i.e. when

Given the competitive implications of emerging market multinationals for established European firms and their significance for Europe’s growth, employment and innovation, it is surprising that, so far, Horizon 2020 has not included any calls on this topic. The implications of emerging market multinationals for Europe and its firms deserves attention in future H2020 research calls.

they have already undertaken previous M&A in advanced countries. Hence, host-country governments should set up policies that attract not just experienced EMNCs (as generic experience is not always useful), but EMNCs with the type of experience that is linked to the current investment priorities. Alternatively, they can assist less experienced EMNCs to gain local knowledge before completing the takeover in the host country. Long-run policies could also be set up to decrease the cultural distance between advanced and emerging markets and to allow future EMNCs’ managers to become acquainted with the EU’s mode of business operation (e.g. extension of the “Erasmus Plus” program to emerging countries).

WG3 showed that EMNCs’ can both create/save employment (e.g. through greenfield investment or acquisitions of companies that are close to bankrupt) but also destroy jobs (e.g. through delocalization of labor intensive activities in home countries). Furthermore, some EMNCs-like developed MNCs – are involved in capital evasion through offshore banks and the use of subsidiaries located in low tax states. Policy-makers should be aware of possible employment and displacement effects arising from EMNCs by minimizing these risks through an intensive monitoring activity of the investment agency.

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Policy Options: A Common EU Investment Policy?

Pros

- The EU is a stronger block to negotiate with Russia, India, China or Brazil.
- The EU can open services, procurements and business opportunities for European multinationals abroad.

Contra

- Member states lose power to block or shape inward FID.
- Current EU industrial policy is out of step with global trends. EU liberal policy makes EU firms over vulnerable.

For more information see:

<https://www.tcd.ie/iis/emerging-multinationals/> and brennaml@tcd.ie

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Football Focus: Major Acquisitions and Stakes in European Teams by Southern Investors

Investor	Home Country	European target company	Host Country	Share	Amount	Year
Carlos Slim (Carso Group)	México	Real Oviedo	Spain	32%	€3M	2012
Qatar Sports Investments	Qatar	Paris Saint-Germain	France	70% 4	€595.5M	2011
Royal Emirates Group	UAE	Getafe SP, Madrid	Spain	100%	€90M	2011
Hasan Abdullah Mohamed Ismaik	UAE	TSV Munich von 1860	Germany	49%	€18M	2011
Dmitry Rybolovlev	Russia	AS Monaco	France	66%	€146M	2011
Sheikh Abdullah bin Nassser Al-Thani	Qatar	Malaga CF	Spain	100%	€36M	2010
Sheikh Mansour Bin Zayed Al Nahyan	UAE	Manchester City Football Club	UK	100%	€700M	2008
Roman Abramovitch	Russia	FC Chelsea	UK	100%	€2B	2003

Sources: from Thomson Reuters and economic news

Appendix 1: Summary of EM Multinationals in Europe

	Entry mode	Target EU countries	Key sectors	Motivation	Location Advantages	Ownership Advantages
TURKEY	Brownfield	TMNCs in advanced markets such as Germany, France, Italy	Household electronics, banking, intermediate goods, ceramics and glass, shipping	Strategic asset seeking	Economies of scale and scope in home and host markets; geographical proximity, low psychic distance	Cash, exploiting managerial knowhow and technology in developing country markets
		TMNCs in Emerging European and CIS markets	Food and beverages, banking, intermediate goods, household electronics, telecommunications, Ceramics and glass	Market-seeking and efficiency seeking		
	Greenfield	TMNCs in transition markets such as Bulgaria and Romania	Construction, real estate, financial services, ceramics and glass	Mostly market-seeking and efficiency-seeking, to a lesser extent natural resource seeking	Privatization activities and access to EU funds allocated for infrastructure investments in host economies; cheap and skilled labour in home countries	Managerial knowhow and expertise, technology, flexibility to do business in the institutional environment of emerging markets
RUSSIA	Greenfield	Germany, and Austria	Gas supply	Mostly market-seeking	Country specific advantages such as political support and natural resources	Scale advantages
	Brownfield	Germany and Netherlands	Pipeline, refinery, steel plants	Market-seeking strategic-asset seeking, and efficiency seeking	Country specific advantages such as political support and natural resources	Scale advantages
CHINA	Greenfield and brownfield	Industrialized countries: U. Kingdom France Germany	Shipping (up to 2008) Equipment Automobile	Strategic assets seeking (technologies, brands, niches) Market seeking (new consumers & sale networks)	Technologies, expertise Demanding consumers Good infrastructures Opportunities of purchase (good value for money)	Cash Support of the state Technology transfers from IFDI Large market Strong growth Capacity to innovate & re-innovate
INDIA	Greenfield	Largest European economies (UK, Germany, France, Italy) Central and Oriental Economies	IT-enabled services	Market-seeking	Geographical proximity to customers	Managerial expertise, particular in offshoring and outsourcing tasks

	Acquisitions	Largest European economies	Automotive, Equipment, Banking	Strategic assets-seeking, Efficiency-seeking	Economies of scale and scope	Cash
UAE	Acquisitions and portfolio investments	Industrialized countries United Kingdom Germany	Transport Leisure (football) Real estate Finance Energy	Efficiency seeking Profitability Expertise	Opportunities of acquisitions, especially since the euro debt crisis	Cash in hands
QATAR	Acquisitions and portfolio investments	United Kingdom France	Finance Hotels Real estate	Efficiency seeking Profitability in short term Expertise	Opportunities of acquisitions, especially since the euro debt crisis	Cash in hands
BRAZIL	Acquisitions	Latin America; Europe, Spain, Portugal, United Kingdom	Natural resources, Food,	Market-seeking Be positioned in the long run	Technologies, expertise Demanding consumers Good	Cash in hands Support of the state Trained in unstable markets
	Greenfields	Portugal, Spain, United Kingdom	Food, aircraft, metals	Market-seeking and efficiency-seeking	Logistics, provide cheap to European Common Market Supply Chains High Standard Qualification Human Resources and Brands	Capacity to innovate & re-innovate Cultural proximity Support of family & State
MEXICO	Acquisitions	USA; Europe: Spain, France, United Kingdom	Building, Food & beverages,	Market seeking (new consumers & sale networks)	Technologies, expertise Demanding consumers Institutional and law stability	Cultural proximity Family property and direct management Own resources
	Greenfields	USA; Europe: Spain, Poland, France	Beverages, building, automotive	Market-seeking and efficiency-seeking Strategic assets seeking (technologies)	Cheap and skilled labor in home countries Institutional and law stability	Low loan/debt ratios Large market Strong growth Capacity to innovate & re-innovate
	Portfolio investments	Spain, Italy	Real State, Banking, Natural Resources	Profitability in short term	Especially since the euro debt crisis	Low prices of the assets. Trained in unstable markets