

**Foreign Direct Investment from
Emerging Markets: The Challenges
Ahead**

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Edited by

**Karl P. Sauvant, with Wolfgang A. Maschek
and Geraldine McAllister**

FOREIGN DIRECT INVESTMENT FROM EMERGING MARKETS: THE CHALLENGES AHEAD

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Foreword

Foreign direct investment (FDI) is no longer an activity exclusively undertaken by firms from developed countries. The growth of multinational enterprises (MNEs) from emerging markets has begun to focus attention around the world on the role of these new players.

The rise of outward investment from emerging markets has contributed to the growth in FDI globally. In 1980, global FDI outflows totaled US\$52 billion; emerging markets accounted for only 6% of this figure. By 2007, global FDI outflows approached US\$2 trillion, and emerging markets accounted for over 15% (or US\$300 billion) of the total.

The first conference in the Five-Diamond Conference cycle in April 2008 at Columbia University, *Thinking Outward: Global Players from Emerging Markets*, dealt with a range of issues related to the key players in this process - firms, home countries and host countries:

- *Firms*: Like their counterparts from developed countries, emerging market MNEs seek to develop a portfolio of locational assets as a source of their international competitiveness. What drives their transnationalization process and what strategies are such firms pursuing to maximize their efforts to deliver goods and services to foreign markets through direct investment? In particular, what internal and external obstacles do firms face and what support do they receive from their home country governments?
- *Home countries*: Most emerging market governments restrict outward FDI and, in any event, often have no clear policy in this area (contrasting sharply with inward FDI where virtually all countries have an enabling framework in place and investment promotion agencies seeking to attract investment). A few emerging markets, however, have not only liberalized their outward FDI frameworks, but have put in place a coherent policy framework; some of them actually promote outward FDI in the interest of competitiveness of their firms and the performance of their economies (e.g. China's "Go Global" policy). What experiences have emerging markets and developed countries had in developing their outward FDI policies? What lessons can be learned from these experiences to plan the sequencing of such policies for governments of emerging markets wanting to help their firms by allowing outward FDI?
- *Host countries*: Global players from emerging markets are creating tension in host countries (particularly in the case of cross-border mergers and acquisitions), in both developed and developing regions. What do such reactions mean for the transnationalization of emerging market firms? What influence do such reactions have on the policies of emerging markets?

These issues are also addressed in the present volume.

The financial crisis of 2008 and the ensuing economic recession will undoubtedly impact foreign direct investment. In 2008, global FDI inflows declined by almost 15%, to US\$1.7 trillion, and high further declines are anticipated in 2009. While many argue that emerging markets are better able to weather this economic storm than they were ten years ago, and that overall their economies are faring better than those of advanced countries, the reality is that, as banks and investors retrench, and governments seek to finance budget and current account deficits, access to capital will prove challenging. While the precise effects are yet to be determined, there is no question that this adds to the challenges facing the key players in the outward FDI process. This volume touches on these additional challenges, and a number of the original chapters have been updated in light of the changed economic reality. Ultimately, however, many of the challenges that were identified prior to the current crisis remain relevant, and will remain relevant, even if the crisis has changed the order of priority.

This Conference volume offers important information and analysis for all those involved or interested in outward FDI from emerging markets, whether they are corporate executives, academics or government officials. The experiences of, and lessons from, specific markets will no doubt prove instructive for others. It is important to acknowledge that this is a relatively new field, as reflected in the scarcity of data in some areas as well as in some chapters. This, of course, presents its own set of challenges, but challenges that a number of chapter authors in this volume have chosen to grapple with, and which MNEs and governments must deal with on a regular basis.

This volume is of critical importance to Columbia University, Fundação Dom Cabral, Fudan University, and the Indian School of Business, as it helps to equip the leaders of tomorrow with the skills necessary effectively to address and overcome the challenges they face in the globalizing world economy.

New York, April 2009

Emerson de Almeida, Lu
Xiongwen, Ajit Rangnekar
and David Schizer

Preface

The spread of multinational enterprises outward from emerging markets is an increasingly important phenomenon. This volume shows that we are just beginning to come to grips with the most important analytical and policy issues that affect the world community.

What are the basic data surrounding emerging market multinationals? What sectors and home countries exhibit fastest growth? What are the most important rankings for emerging market multinationals? Where are there signs of slowing? Might the phenomenon of global investment from developed as well as developing countries even be overstated, as most companies retain a regional focus?

Are multinationals from emerging market countries driven by similar motivations to OECD multinationals, or do they pursue different distinctive rationales? Do we need a new theory to understand the dynamics of international investment on the part of emerging market multinationals, or do their actions fit within sub-categories of well-understood theory?

Do international investors from China, India, Russia, Brazil, South Africa – and elsewhere – behave like each other, or are there identifiable home country patterns of action? Does home country government ownership make a difference? Within the major categories of foreign direct investment (FDI) – FDI in the extractive sector, FDI in infrastructure, FDI in agribusiness, FDI in manufacturing, FDI in services – do emerging market multinationals resemble their counterparts from the developed world? Is there convergence among privately owned international investors, or not?

Do emerging market multinationals convey special advantages or benefits when they enter host countries, whether developed or developing? Or, might they bring noticeable disadvantages or dangers? Do they show the same kinds of core competencies and competitive advantages as developed country multinationals, or are their firm-specific capabilities different? Are emerging country multinationals open to closer relations with host country authorities, communities, and non-governmental organizations? Or, as UNCTAD warns, do they carry the potential to undermine hard-won global standards, and lead a race-to-the-bottom in corporate governance?

What are appropriate home developing country policy approaches to outward investors? Should they promote outward investment, guide it, or inhibit it? Can developing country policies toward outward investors learn from – or should they mimic – developed country policies toward outward investment?

How should developed countries react to inward investment by emerging market multinationals? What constitutes developed country “protectionism?” What constitutes legitimate developed country concern about national security? Are some developed country responses (e.g. EU toward Gazprom of Russia) more justifiable than other developed country responses (e.g. US toward CNOOC of China)?

These are just some of the important questions that arise. This conference volume introduces the dilemmas, the controversies, the disputes – and many of the opposing points of view. The reader cannot fail to be drawn into the heart of many of the most important issues surrounding the spread of global players from emerging markets.

Theodore H. Moran

Marcus Wallenberg Professor of International Business and Finance
Georgetown University
Non-Resident Senior Fellow, Peterson Institute of International Economics