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# The Implications for Europe of the emergence of Southern Multinationals

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# Background

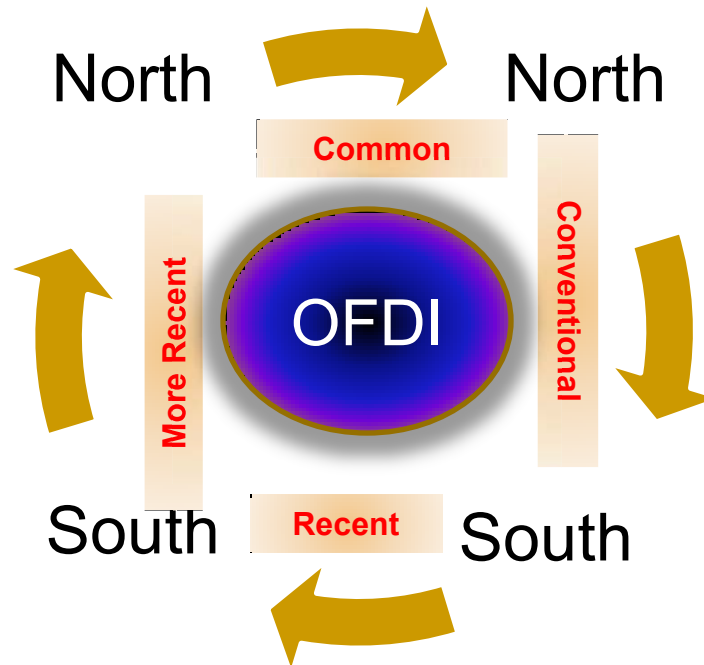
Traditionally Foreign Direct Investment (FDI) has flowed from advanced developed economies into developed and developing countries.

More recently, a new trend has emerged in the pattern of FDI.

Outward bound FDI from emerging economies has begun to increase significantly and has been growing at a faster pace than FDI from the advanced developed world, reaching a record high in 2013.

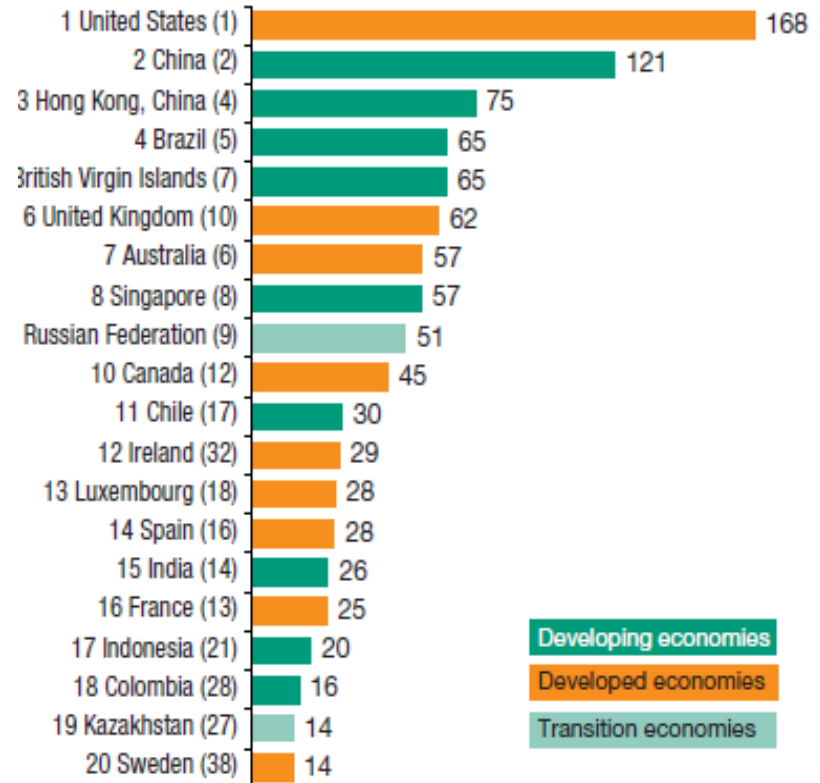
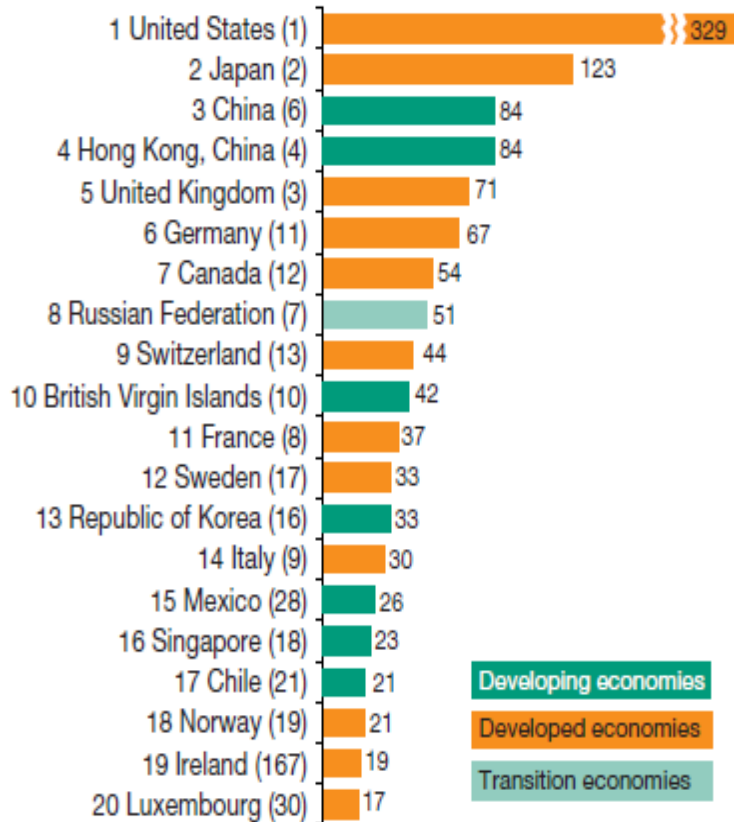
# Southern Multinationals

OFDI from developing countries to developed countries



North: Developed countries  
South: Developing countries

# Top Investor and Host Economies (UNCTAD)



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# Background

Unsurprisingly, the emergence of MNCs from emerging economies raises a wide range of challenges and opportunities for scholars, business professionals, and policymakers alike.

Explaining the rather sudden rise of these companies has become a major concern among scholars in recent years.

In that respect, I proposed and chaired from 2010 to 2014 an EU COST Action which encompassed a 26 nation research network addressing Southern Multinationals and their impact on Europe and its stakeholders.

This address provides an overview of the COST Action and considers the policy implications for Europe of this phenomenon that were derived by this four year international and interdisciplinary research collaboration network.

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## Research implications arising from this phenomenon :

- Innovative research in both its comparative dimension and its methodology (drawing on contextual, multi-perspective and multi-level research) required.
  - Concerted **international comparative research** that will increase and deepen our knowledge of this growing investment in the EU and its impact across the countries of Europe required.
  - Research on the emergence of this FDI in the EU which bridges **different fields of enquiry** offers the prospect of greatly improved insights and understanding.
  - Since consideration of the internationalisation strategies of emerging Multinationals and their relationship to those of traditional MNEs should extend beyond home country factors to encompass in addition industry, firm, individual and temporal considerations, **multi-level research** is required.
  - **In depth firm-level analyses** are required to elaborate and clarify the motivation pattern of investment by Southern Multinationals into Europe, their competitiveness and their impact.
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# More generally... the research and policy needs .....

- Addressing a data deficit in terms of the emergence of OFDI from the large emerging economies in the EU and its impact.
  - Exploring the completeness of existing theories in explaining the emergence of this form of FDI into the EU.
  - Determining the relative importance of factors that limit investment from these economies.
  - Provide insights, guidelines and recommendations to policy makers and stakeholders around this growing phenomenon.
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# COST – European Cooperation in Science and Technology

- COST is an intergovernmental European framework for international cooperation between national research activities.
- COST creates scientific networks ('COST Actions') and enables scientists and industry representatives to collaborate in a wide spectrum of activities in research and technology.
- COST does not fund research itself but provides a platform for European scientists to cooperate on a particular project and exchange expertise. These projects are called "Actions".



# What does COST provide?

- Each COST Action is a network centred around national research projects in fields that are of interest to at least five COST countries.
- COST provides the Action with financial support for joint activities such as conferences, short-term scientific exchanges and publications.
- COST Actions are located by topic into one of COST's scientific domains – this Action was located in the Individuals, Societies, Cultures and Health (ISCH) domain– specifically IS0905
- A Memorandum of Understanding (MOU) provides the formal basis of an Action and the COST countries wishing to take part in the Action must undertake to sign it.
- An Action starts when at least five COST member states have signed the MOU and it runs for an average of four years.
- This Action's MOU is available at:
- [http://w3.cost.eu/fileadmin/domain\\_files/ISCH/Action\\_IS0905/mou/IS0905-e.pdf](http://w3.cost.eu/fileadmin/domain_files/ISCH/Action_IS0905/mou/IS0905-e.pdf)

## **COST Process:**

- ❑ “Open Call” with collection dates
  - ❑ Membership is open to all countries within 12 months of Action approval
  - ❑ After that, approval of MC is required
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# COST and its Neighbours



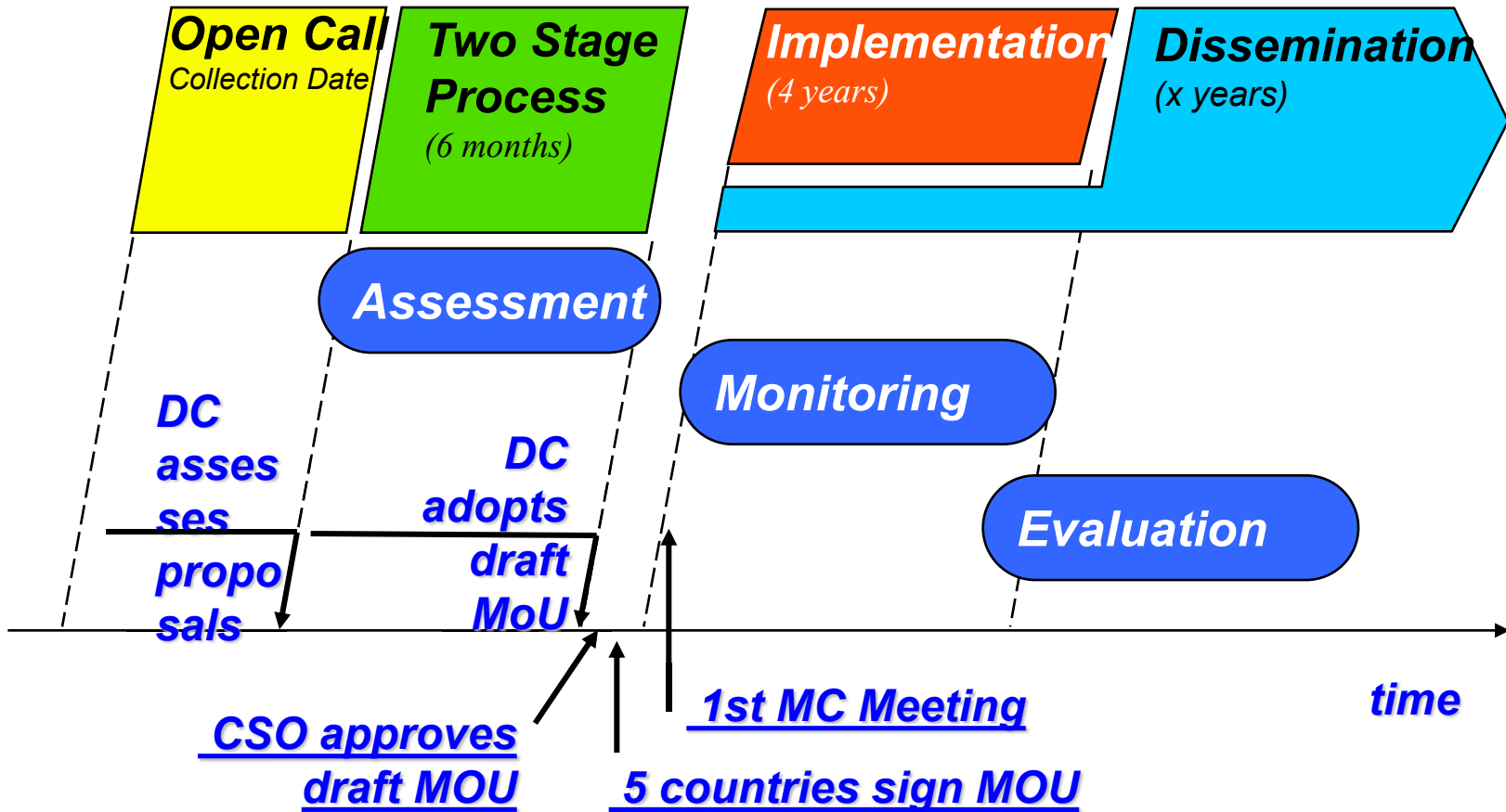
COST  
Countries



COST Neighbouring  
Countries



# COST Action Life Cycle



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# What is funded?

- Science management meetings
  - Scientific conferences, workshops and seminars
  - Short-Term Scientific Missions
  - Training Schools
  - Dissemination
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# Management Committees (MCs)

- Supervises and coordinates the implementation of the Action
  - Provides decisions as the only “legal basis“ for expenditures
  - Is composed of:
    - Maximum 2 representatives of each Party (they ensure the scientific coordination at national level)
    - One representative of any non-COST institution admitted to participate
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## Tasks of the Management Committees (MCs)

- Managing the **Action's budget**
  - Submitting the annual **Work and Budget Plan**:
    - Submitted by the Chair on behalf of the MC
    - Preliminary Financial Report to be submitted
    - Final Financial Report to be submitted at a later stage
    - Audit Committee to certify the expenditures by the Grant Holder to be in line with the MC decisions
  - Submitting the **Progress Reports** within a given deadline
  - Contributing to the Domain's **Annual Progress Conference**
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## Working Groups (WGs)

- A small number of researchers working together per WG
  - MC members or other researchers from the parties
  - Invited experts
  - Members from non-COST institutions
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## Short-Term Scientific Missions

- Promote exchange within an Action's scientific objectives.
  - Allow a researcher (especially early-stage) to go to an institution in another COST country to foster cooperation
  - Duration of the mission: from 5 days up to 3 months
  - Grant: normally up to 2.500 EUR
  - **Special STSMs for Early Stage Researchers** (< PhD+8 years): up to 6 months with a grant of up to 3500 EUR
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## **COST IS0905:**

- **Title:** The Emergence of Southern Multinationals and their Impact on Europe
  - **Main objective:** The main objectives of this Action were to develop an enhanced capacity for scholarly analysis of the emergence of Southern Multinationals to establish and test empirically their impact on Europe and its stakeholders; to assess existing EU wide and country policies in relation to this phenomenon and make policy recommendations.
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# COST ACTION

- This Action entailed an international research network that focused on the impact of the emergence of Southern Multinationals for Europe and its stakeholders.
- The Action built on an earlier ESF exploratory workshop on this topic.
- The network originated from the interest of 13 COST Member States (BE,, CH,, DE,, DK,, ES,, FR,, HU,, NL,, SE, SII,, TR, UK), had involved participation from developing/emerging economies (Brazil, China and Russia) and the Action and was proposed by the School of Business at Trinity College, Dublin, Ireland.
- Action encompassed representatives of 26 countries as well as a host of experts from countries around the world encompassing four Working Groups

# Participations: 24 COST Member Countries and 2 COST Near Neighbour Countries

Country	Date	Status
<u>Belgium</u>	22/03/2010	Confirmed
<u>Bosnia and Herzegovina</u>	17/08/2010	Confirmed
<u>Croatia</u>	21/06/2010	Confirmed
<u>Denmark</u>	11/06/2010	Confirmed
<u>Finland</u>	10/01/2014	Confirmed
<u>France</u>	09/02/2010	Confirmed
<u>Germany</u>	21/01/2010	Confirmed
<u>Hungary</u>	22/02/2010	Confirmed
<u>Iceland</u>	22/11/2010	Confirmed
<u>Ireland</u>	21/01/2010	Confirmed
<u>Israel</u>	02/08/2010	Confirmed
<u>Italy</u>	23/04/2010	Confirmed
<u>Netherlands</u>	23/04/2010	Confirmed
<u>Norway</u>	16/03/2010	Confirmed
<u>Poland</u>	03/10/2011	Confirmed
<u>Portugal</u>	10/02/2010	Confirmed
<u>Romania</u>	22/02/2010	Confirmed
<u>Serbia</u>	07/11/2011	Confirmed
<u>Slovenia</u>	02/08/2010	Confirmed
<u>Spain</u>	21/01/2010	Confirmed
<u>Sweden</u>	13/06/2012	Confirmed
<u>Switzerland</u>	21/01/2010	Confirmed
<u>Turkey</u>	20/07/2010	Confirmed
<u>United Kingdom</u>	21/01/2010	Confirmed

Institution Name	Country
American University of Cairo	Egypt
Institute of World Economy and International Relations	Russian Federation

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# COST ACTION – cont'd

- The Action was intended to be inter-disciplinary and to draw on scholars and young researchers including PhD students from the Social Sciences and to
- Implement a research agenda that would be of value to all stakeholders and policy makers in Europe

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# WHY COST?

- Individual country researchers can pursue aspects of this topic in their own areas of expertise and related to their own country environments, but the effective exploration of this topic required a holistic approach that can only be enabled by a well supported network.
- Need for concerted international comparative research that will increase and deepen our knowledge of the emerging trends and their impact across countries.

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# WHY COST? – cont'd

- COST enables participating researchers to formalise their interactions in a structured and efficient way such that already national research can be leveraged further and that synergies can be achieved through networking existing research projects.
- By virtue of its “a la carte” principle, COST allows the addition of researchers and experts that can enhance our understanding of the phenomenon under study.
- The openness of COST to an interdisciplinary approach and the mechanisms that it encompasses to enable that approach are ideal for this topic.

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# Why this Action?

- Need for a greater understanding around Southern Multinationals and their impact, and for theory development and new models.
- Opportunity to increase synergies with respect to theories, methodologies (quantitative and qualitative), databases, and to advance systematically beyond national and conceptually disconnected research to provide an international comparative orientation.



# Why this Action? – cont'd

- Offered the prospect of innovation in both its comparative dimension (there is no similarly broad-ranging analysis of the impact of Southern Multinationals on Europe) and its methodology (drawing on contextual, multi-perspective and multi-level research).
- Brought together scholars from various disciplinary backgrounds (economics, international business, management, political science) of different methodological persuasions and with different thematic and geographical expertise and thus enables significant inter-disciplinary collaboration

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# Goals of the Action

- Enhance capacity
- Build robust and sustainable structures of networking
- Facilitate knowledge transfer
- Engage early stage researchers and enhance their mobility

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# Objectives of the Action

- Quantify the changing trends in FDI particularly as they relate to the emergence of increasing flows from emerging economies
- Clarify the nature of FDI from emerging economies in terms of the sources of such investment and the sectors from which it is emanating

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# Objectives of the Action – cont'd

- Gain an understanding of the expanding international activities of firms from emerging economies and newly industrialised countries (NIC) to include:
  - The influences and motives driving these firms to invest beyond their borders and in particular into Europe.
  - The patterns and modes of outward foreign direct investment.
  - Their unique competitive strategies for expanding overseas and the particular challenges that they are likely to face
- Evaluate the impact of Southern Multinationals on Europe
- Estimate the future nature, pace and magnitude of this emerging phenomenon

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## So focus was on....

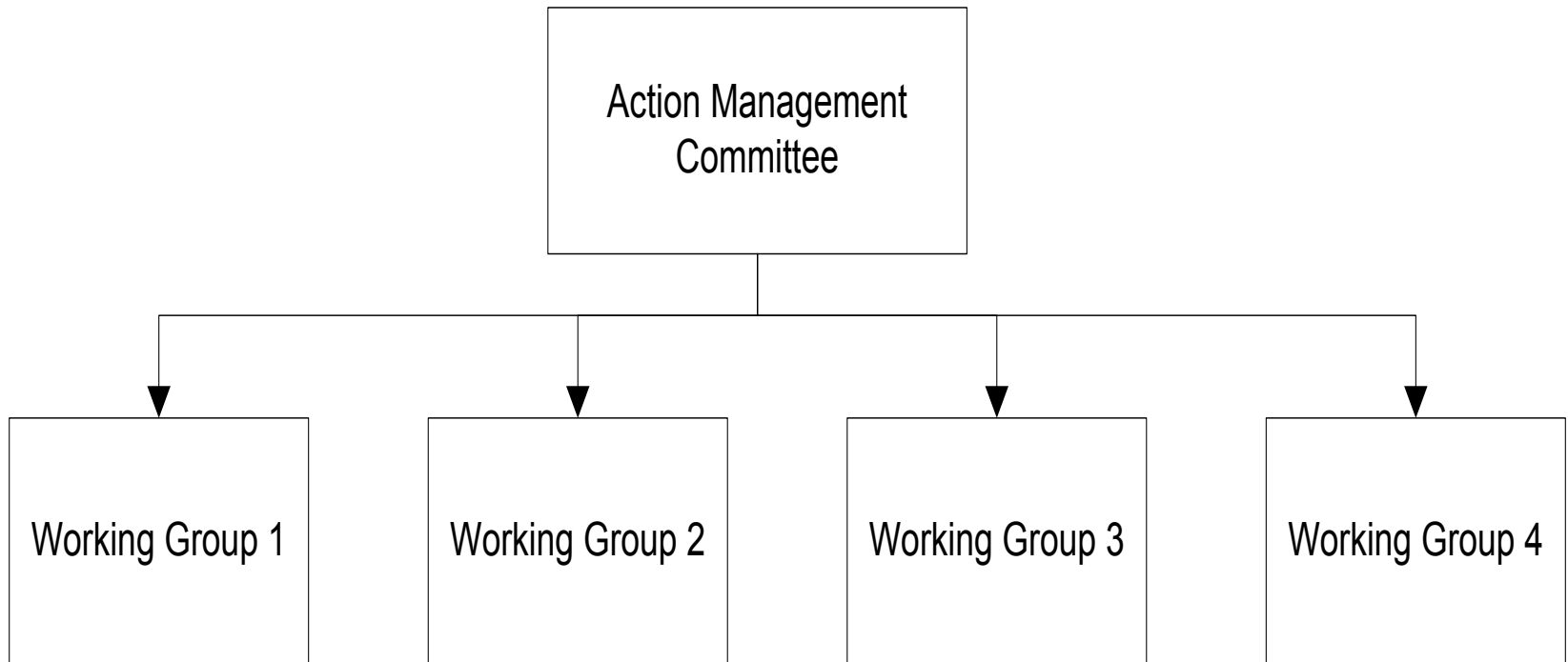
- Description and analysis of existing trends and trajectories for Southern Multinationals;
  - Analysis of Southern Multinationals originating from different regions;
  - Assessment of Southern multinationals in terms of their strategy and processes;
  - Evaluation of initial impacts of Southern Multinationals on Europe;
  - Exploration of issues and challenges for policy makers and stakeholder communities;
  - Challenges that the phenomenon poses for researchers in terms of theory and empirics
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# With resulting outputs in terms of

- Description (Quantitative and Qualitative) of emerging sources of growth in FDI;
  - Insights into the drivers of the emerging areas of FDI;
  - Identification of the opportunities and challenges for Europe deriving from this phenomenon;
  - Stimulation of ideas around both national and European policy responses.
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# Structure and Organisation



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# Working Groups

WG1: Description of emerging sources of growth in FDI via assembly of a systematic database on Southern Multinationals and their activities in Europe

WG2: Provision of insight into the drivers of the emerging areas of FDI via the development of a comprehensive explanation addressing the emergence of Southern Multinationals



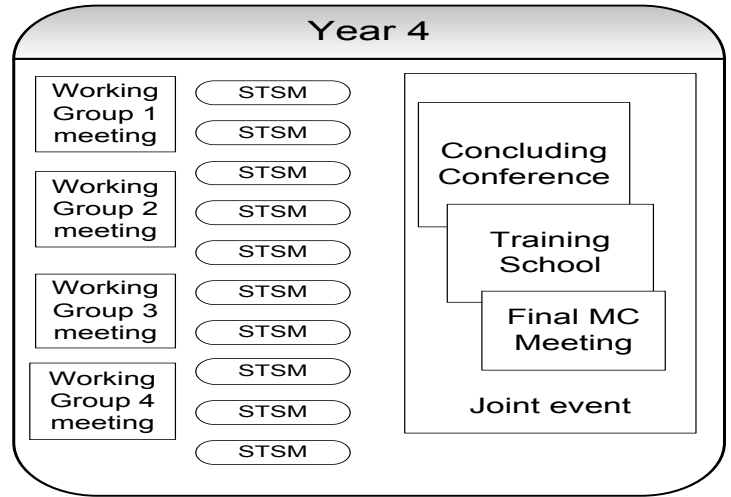
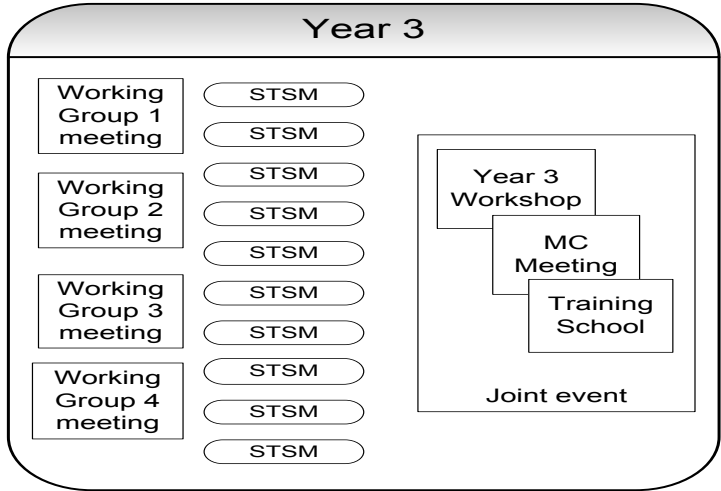
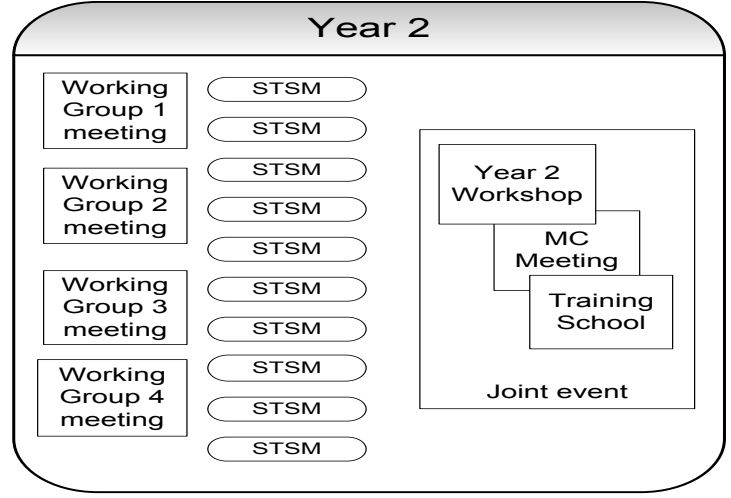
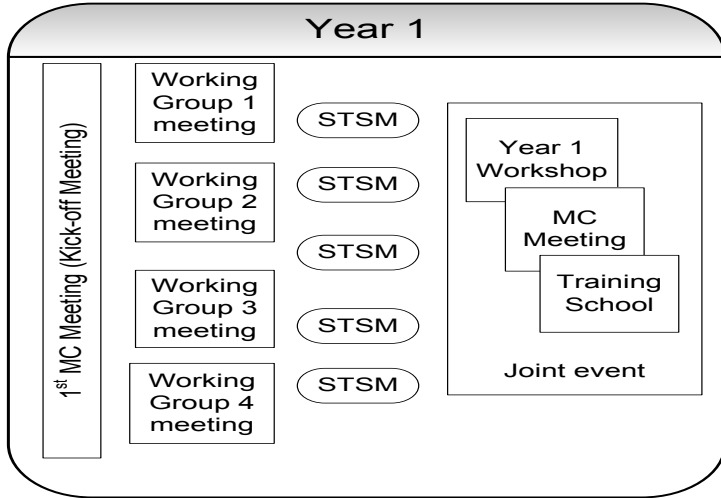
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# Working Groups – cont'd

WG3: Identification of the opportunities and challenges for Europe from this phenomenon via clarification of the effects that Southern Multinationals have on host economies in which they operate to include the particular challenges that they face and their impact on Europe

WG4: Stimulation of ideas around both national and European policy responses via identification of those areas where challenges and opportunities arise from the emergence of Southern Multinationals for governments, industry sectors, firms and labour unions, with a view to providing policy suggestions and practice recommendations for these various stakeholder communities.

# Key Activities within the Action



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# Benefits of Action

- Advancement of empirical knowledge, enhancing research excellence and collaboration in Europe and improving policy and practice on the part of European stakeholders
- Enhancement of the skill-set of next-generation scholars
- Legacy impact in creating robust frameworks of analysis to facilitate future scientific enquiry into the topic of Southern Multinationals and making these practically applicable for the work of policy makers in relevant institutions and policy areas

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# Benefits of Action – cont'd

- Knowledge transfer via developing practitioner's reports, organizing open workshops and a conference and bringing policy makers and practitioners together in an international environment
- Development of expertise that of benefit to European policy makers and stakeholders in general
- Promotion of the development of early stage researchers

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# Already some Key Outputs

- E.g. “The Emergence of Southern Multinationals; Their Impact on Europe”, edited by L. Brennan, Palgrave Macmillan, 2011.
  - “The Impact of the Global Financial Crisis on the Presence of Chinese and Indian Firms in Europe” Françoise Hay, Christian Milelli and Yunnan Shi, Sussex Academic Press, 2011.
  - “Multinational Corporations from Emerging Markets State Capitalism 3.0”, edited by Andreas Nolke, Palgrave Macmillan, 2014.
  - And special journal issue of *Critical Perspectives in International Business*
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# Recommendations from Action

(the rest of this presentation draws on COST Action IS0905 Policy Brief)

- 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.
  - 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.**
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# Recommendations from Action – cont'd

- 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.
- 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**.

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# Recommendations from Action – cont'd

- 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.
  - 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.
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# Recommendations from Action – cont'd

- **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
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# Some practical recommendations on the data deficit...

- **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.**
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## Some practical recommendations on the data deficit...cont'd

- 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.); **better data is a prerequisite for informed analysis and policy making.**
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## Some practical recommendations on the data deficit...cont'd

- 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.
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# Drivers of emerging market multinational entry into the EU

- Regarding the drivers and motivations of emerging market multinational (EMNCs) entry into the EU, the following developments should inform EU policy considerations;
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# *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.
  - 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.
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## *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 competition.**
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### *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.
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## *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.
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## *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.**
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## *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 sourcing.
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# Strategies of EMNCs

- 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.
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# Impact on EU economies

- 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.
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# Impact on EU economies

- 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).
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# Impact on EU economies

- Target firms in advanced countries benefit from EMNCs' tangible rather than intangible assets. **Target firms can 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 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).
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# Impact on EU economies

- 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.
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## And finally...

- 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
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# Getting Involved in future Actions...

- Contact your national COST Coordinator
- List of national COST Coordinators available at: <http://www.cost.eu/>
- This Action's website: <http://www.tcd.ie/iis/emerging-multinationals/> and at [http://www.cost.eu/domains\\_actions/isch/Actions/IS0905](http://www.cost.eu/domains_actions/isch/Actions/IS0905)

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THANK YOU

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