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Foreword: Impacts of Emerging Economies and Firms on International Business

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The rise of emerging markets has not only made them more attractive for inward foreign direct investment (FDI) (they account now for more than half of global inward FDI flows) but allowed firms in these countries to become competitive enough to become important players in the global outward FDI market. Unsurprisingly, firms from Brazil, Russia, India, and China (the BRICs countries) play a key role in this process. While this is not a new phenomenon, as a number of firms from emerging markets have long invested abroad, it is only in the past decade that firms based in these economies have become significant outward investors: in 2011, over 30,000 multinational enterprises (MNEs—firms controlling assets abroad) based in emerging markets invested $430 billion abroad, slightly more than a quarter of world FDI outflows. The stock of this investment now amounts to nearly $4 trillion—a substantial amount.

Because most MNEs from emerging markets are ‘new kids on the block’, they face a number of challenges. To begin with, since many of them lack the experience of establishing and managing integrated international production networks, they need to function on a steep learning curve to meet the internationalization challenge in terms of entering foreign markets, operating in these markets, and prospering in them. Executing mergers and acquisitions (M&As) successfully—for many firms the principal entry mode—is particularly difficult, as even experienced MNEs frequently fail in this respect: Daimler Benz’s unsuccessful acquisition of Chrysler is a case in point. Overcoming the liability of foreignness abroad is also difficult, as the gap between the operating environment in many emerging markets and that in many host countries (especially developed ones, in which more and more non-natural resource FDI is taking place) is particularly large. Finally, foreign firms need to be good corporate citizens in their host countries and they need to become insiders. This requires all sorts of actions (some of them involving corporate social responsibility) with which emerging market MNEs typically are not familiar. All this implies that the executives and staff of emerging market MNEs require a massive amount of training and they need to accumulate experience rapidly.

Next, emerging market MNEs need to meet the host country challenge. The regulatory environment in a number of (especially developed) host countries is becoming less welcoming, especially when it comes to inward M&As in sensitive industries or involves national champions. A few emerging markets suffer in this respect from the liability of the home country, as a number of
countries regard some inward FDI from such countries as China, Russia, and some Arab countries (especially when it takes the form of M&As) with suspicion, primarily for political reasons. Moreover, when state-controlled entities based in emerging markets (be they state-owned enterprises or sovereign wealth funds) undertake M&As abroad, these are sometimes, rightly or wrongly, seen to pursue interests other than commercial ones and to benefit from all sorts of advantages. To what extent this is the case and, indeed, differs from the situation of state-controlled entities and private firms headquartered in developed countries is difficult to say. But it does raise the question of 'competitive neutrality' in the global outward FDI market, an issue that is likely to get more attention in the future. The upshot of this perception is that M&As by emerging market firms are receiving more regulatory attention in a number of countries (similar to Japanese firms in the 1980s) as part of the process of integrating these new players into the world economy. This implies that emerging market MNEs, when expanding abroad through M&As, need to be extra careful when preparing their moves, and they need to learn how to navigate the corridors of power in important capitals.

Finally, there is the home country challenge. A few emerging market firms are lucky in that they benefit, like their competitors headquartered in developed countries, from a regulatory framework that not only allows outward FDI but also encourages it in various ways. (Firms in most emerging markets, however, do not enjoy this advantage.) This notwithstanding, given the relative inexperience of many emerging market MNEs, the governments of their home countries have a particular responsibility to keep an eye on the manner in which outward FDI takes place. Most notably, firms need to be reminded that, for host countries, FDI is merely a tool to advance their development; hence, this investment needs to contribute as much as possible to their host countries' economic, social, and environmental development, and it needs to take place on the basis of fair governance mechanisms (for example, in the case of contracts)—in other words, it has to be sustainable FDI. If not, the rise of emerging market FDI may well suffer a backlash in the years to come.

All of these challenges can be overcome. But they need determined action and good will on the part of all concerned. In the end, and as in the case of Japanese and Korean MNEs before them, emerging market firms will cease to be the new kids on the block. They will become regular players in the global FDI market, benefitting from their outward investments in terms of their own corporate competitiveness and contributing to the development of their host countries.

The rise of FDI from emerging markets (and especially the BRICs) is reshaping the global FDI market and raises a range of issues. This, in turn, requires considerable empirical in-depth research to increase our understanding of what drives outward FDI from emerging markets, how it differs from such
investment from developed countries, what the implications are for corporate managers, and, above all, what the policy implications are for host and home countries. Much of this research, by necessity, needs to start with country, sectoral, and firm studies, in order to build the empirical evidence we need to arrive at broader conclusions; and, of course, the focus needs to be on the leading home countries, especially the BRICs as a key group of emerging markets. This volume does precisely that—and it therefore makes an important contribution to our understanding of the rise and impact of emerging market multinational enterprises.

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