

BRICS Multinationals: From "Niche Players" to World Players

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Abstract

The global business environment has become a space that allows many companies to exceed their limits; the dynamic internationalization of businesses, the expansion of companies from emerging economies, and especially of those from BRICS economies, the presence of multinational companies owned by the state are just some of the trends that shape the global business environment today.

In this study, based on the data synthesized by UNCTAD in the Top 100 non-financial MNEs from developing and transition economies, we aim to conduct a two-way analysis of the expansion of companies from the BRICS economies in the international business environment. A research direction leads to the regional level, and another direction focuses on the sectoral level. The analysis carried out leads to a series of conclusions on the dynamics and configuration of the world's most important multinational companies from the BRICS economies.

Key words: emerging multinationals, regional transnationalization, sectoral transnationalization, state owned multinationals

J.E.L. classification: F23

1. Introduction

Today, multinational corporations are economic actors whose presence cannot be overlooked when we analyze the nowadays global business environment; the expansion of these companies contributes to the internationalization of production and services, shaping significantly the current world economy (Burciu et. al, 2010). As Drucker notes (2004, p. 25), today there is only one economy and one market, so global competitiveness has become a necessity for companies regardless of whether they produce or sell only on a local or regional market.

A vast body of research explains the expansion of companies in the global economic area mainly through influences felt in the spectrum of economic and social development, especially in the host countries, but also from the perspective of the factors that shape the decision and the tendency of internationalization. Moreover, the UNCTAD studies outline a perspective on the universe of multinational corporations, especially through the empirical evidence from UNCTAD rankings (*The World's Top 100 non-financial MNEs, ranked by foreign assets* and *The top 100 non-financial MNEs from developing and transition economies, ranked by foreign assets*). In our study, we aim to interpret the empirical evidences on EMNCs (*emerging multinational companies*) originating in the BRICS economies synthesized in the *Top 100 non-financial TNCs/MNEs from developing and transition economies, ranked by foreign assets*.

2. Theoretical background. *Third World Multinationals: what's in these words?*

A growing body of literature converges to consensus when it assigns to Hymer (1976), by his thesis, the first systematic analysis of the expansion of firms beyond national borders (Dunning, 2001; Ietto-Gillies, 1992; Ietto-Gillies, 2005; Ietto-Gillies, 2014). According to Hymer, the areas of scientific concern over the activity of companies across national borders have diversified most

theories trying to explain the motivations of internationalization, expansion strategies, the reasons why some countries become hosts or "mothers" (or both) for companies etc. In this respect, we note a number of notable contributions by Raymond Vernon (Vernon, 1966; Vernon, 1977; Vernon, 1998), P. Buckley & M. Casson (Buckley & Casson, 1976) (Buckley & Casson, 2002), Grazia Ietto-Gillies (Ietto-Gillies, 1992) (Ietto-Gillies, 2005) (Ietto-Gillies, 2014) and, last but not least, John Dunning (Dunning, 1998; Dunning, 2001; Dunning & Lundan, 2008).

Most theories have tackled almost exclusively the issues of MNCs from developed economies, while developing economies were studied only as receptors, respectively as host economies. In the last decades of the twentieth century, however, among the obvious reconfigurations in the international business environment, the expansion of multinational companies from emerging economies and especially those originating in the BRICS economies is noticeable. The imports substitution policies implemented by many developing countries governments in the postwar decades, with the ambitious goal of protecting domestic producers and stimulating economic growth (Malik, Aggarwal, & Professor, 2012; Kicsi, 2013) was viewed with some reserve by many economists susceptible to its real virtues and the ability of these producers to survive in a different business environment than in a protected one. However, in many cases, as Goldstein points out (2007), some of the firms grown on such protected markets (some of which are even created and owned by governments) have turned into new MNCs. Although in 70s and 80s these EMNCs were frequently described by the term *Third World multinationals*, in the global economy of today, these companies have left in the past their status of "niche players" with which they entered the global market and have become important competitors especially in certain industries although with less performance than MNCs from developing countries. For example, in some sectors such as construction and steel multinational companies from emerging countries gained important positions in the world economy and operate with certain forms of competitive advantage (, 2007). MNCs from emerging economies (such as China, for example) can no longer be regarded as "apprentices" in the international arena, but rather as a new group of "emerging catch-uppers" (Marinov & Marinova, 2013; Williamson, Ramamurti, Fleury, & Fleury, 2013) capable to develop or reinforce their competitive advantage through innovation (Herciu, 2015) and by accessing new resources and knowledge or exploiting more effectively their advantages in the international business environment. Furthermore, some authors, such as Rob van Tulder (in Sauvant, Maschek, & McAllister, 2010, pg. 61-74), advocate the idea of a distinct theoretical approach to explain the emergence and expansion of multinational companies from the BRICS economies. Thus, he proposes a quite heterodox Goldstein approach, based on identifying some idiosyncratic elements in internationalization strategies of BRICS companies and their relationship with the policies developed by the governments of their economies of origin. Van Tulder identifies a number of issues for reflection and reevaluation, namely, the relationship with the governments of the countries of origin, the importance of market power in the domestic markets, the reappraisal of the impact of economic size and its relationship with political power (which, in van Tulden's point of view, requires specific research/studies on EMNCs from the BRICS economies), the reappraisal of the general theory of firms and also a refinement of explanations on BRICS specific.

3. BRICS multinationals as global players

The universe of multinational companies has experienced a significant expansion in the post-war decades that has reconfigured the international business environment. In addition to increasing the number of companies that have expanded their operations abroad, the transition to a "pluralist" system is worthy of note (Gilpin, 2004; Micklethwait & Wooldridge, 2005). Thus, if during the 60s and 70s internationalization was mainly an appanage of US companies, since the early' 80s European and Asian companies have become important players in the international business environment. Moreover, as we illustrated in Table 1, alongside the companies with their origins in developed economies, in the world arena it began to feel the presence, also initially with some "shyness", of companies from developing economies.

Table no. 1. Distribution of parent companies and affiliates of MNCs by country *

Year	Parent corporations (located in)			Foreign affiliates (located in)		
	Beginning of the 90s	2010	Index of dynamics	Beginning of the 90s	2010	Index of dynamics
Developed economies	30900	73144	236,71%	73400	373612	509,01%
Developing economies	3800	30209	794,97%	62900	512531	814,83%
BRICS	1700	20260	1191,76%	32614	454263	1392,85%
Brazil	566	243	42,93%	7110	4547	63,95%
Russian Federation (former CIS)	68	116	170,59%	3900	2139	54,85%
India	187	1078	576,47%	926	2033	219,55%
China	379	12000	3166,23%	15966	434248	2719,83%
(Hong Kong)	500	6592	1318,40%	2828	10621	375,57%
South Africa	-	231	-	1884**	675	35,83%
World total	35000	103786	296,53%	147200	892114	606,06%

Source: Calculated after (UNCTAD, 1993), (UNCTAD, 2011), (Kicsi & Burciu, 2018)

* Note: The situation presented in the table has some limitations derived mainly from discrepancies that occur between countries in data reporting and collection (for example: some countries do not communicate data on MNCs and affiliates operating on their territory, others only report data on affiliates whose sales and number of employees exceed certain limits, etc.) (UNCTAD, 1993).

** 1978

The four major emerging economies (Brazil, Russia, India, China), joined later by South Africa, already known as the BRICS economies, have become emblematic for the modern concept of globalization, they being viewed as potential major economic actors of the 21st century (Collins, 2013). For example, UNCTAD (2018) estimates that, in 2015, BRICS's outward flows of foreign direct investment amounted to almost \$ 190 billion, representing about 11% of the world total (compared with only 3.76% in 1992). These evidences reflect, among other things, the emergence and expansion of BRICS companies in the global arena; the data presented in the table above reflects the more pronounced trend of expanding business abroad for companies from developing economies and especially for companies from BRICS economies. The Index of dynamics reflects the fact that the number of BRICS companies that have expanded their business across their country's borders has increased about 12 times, far exceeding the world average but also the performance of companies from developed countries. As a matter of fact, the BRICS economy group is credited as one of the driving forces that have fueled the emergence and expansion of FDI flows from emerging economies (Sauvant et al., 2010). Sauvant et al. (2010), (Collins, 2013) and others believe that the most significant reconfiguration in the top 500 largest companies in the world is the widespread presence of companies originating in emerging economies such as the BRICS group. MNCs from emerging economies are internationalizing faster than their competitors from developed economies. Collins (2013) believes that this trend reflects, on the one hand, the considerable capital held by the EMNCs from BRICS and, on the other hand, the dynamic nature of these companies that are internationalizing at an early stage in their existence.

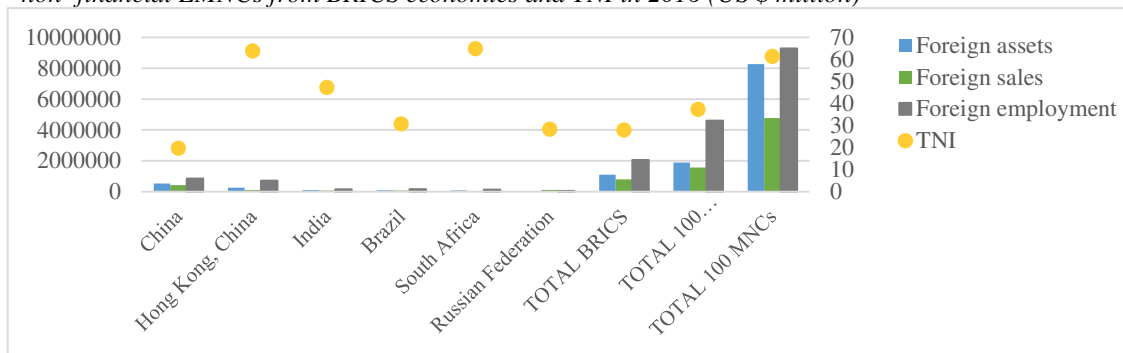
Worthy to mention is the fact that in 1990, the *Top 100 non-financial TNCs* was an "exclusive club" of companies from developed economies. 1996 is the year when the first emerging economies entered the top 100 non-financial TNCs, respectively Daewoo and Petroleos de Venezuela (UNCTAD, 2007). In 1999, a Hong Kong-based company, Hutchinson Whampoa Ltd, first entered this top with a TNI of 38% (UNCTAD, 2001); in 2004, the first company from China, CITIC Group (having a TNI of 20.4% and 14 affiliates abroad out of 59 total) entered this top (UNCTAD, 2006). Brazil, Russia and India entered later the global top.

4. Setting the context: regional and sectoral frame

To outline a regional and sectoral perspective, based on the information provided by *Top 100 non-financial MNEs from developing and transition economies* (2016), we have calculated a regional and sectoral concentration of foreign assets and the regional and sectoral

Transnationalization Index. The indicators reflecting the concentration of activities abroad (Figure no. 1) leads to the conclusion that EMNCs from BRICS accumulate about 58% of foreign assets held by all 100 companies in the top 100 non-financial MNEs from developing and transition economies and only about 13% of the assets held abroad by companies included in the global top 100. However, the level of internationalization of BRICS companies reflected by TNI at regional level (28%) is below the average of the top 100 EMNCs (37%) and well below the average internationalization level of companies in global top (61%).

Figure no. 1. Concentration of foreign assets, foreign sales and foreign employment of non-financial EMNCs from BRICS economies and TNI in 2016 (US \$ million)



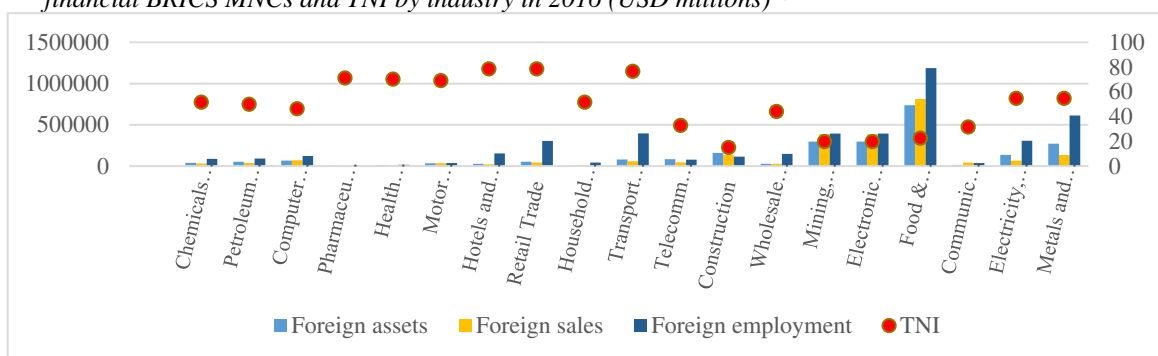
Source: Processed after UNCTAD (2018)

EMNCs from China (without Hong Kong), although having the highest value of foreign assets compared to other BRICS companies, still have the lowest level of internationalization. The most internationalized are South African companies, followed by those from Hong Kong and India. Multinational companies from developing economies of BRICS have penetrated into sectors dominated traditionally by industrialized countries, although their performances are still modest in terms of the value of their foreign assets. In many cases, they tend to retain much of their operations in their home economy, especially in *low-tech industries* (UNCTAD, 2017).

The analysis of the foreign assets and the level of internationalization leads to the conclusion that the trend of sectoral internationalization is neither constant nor uniform. It seems that some sectors

(e.g. agriculture, forestry, & fishing; construction; health care services; hotels and restaurants; other transportation equipment; real estate; rubber and miscellaneous plastic products) have become an area of affirmation primarily for companies from developing economies. As regards the EMNCs from BRICS, as reflect the data synthesized in Figure 2, their presence is visible in traditional sectors but with lower performance in terms of concentration of their activities abroad (petroleum, metals and metal products, chemicals, etc.), their preference being somewhat more evident for the services, where they concentrate a larger part of their activities outside the economic area of origin.

Figure no. 2. Concentration of foreign assets, foreign sales and foreign employment of non-financial BRICS MNCs and TNI by industry in 2016 (USD millions) *



Source: Processed after UNCTAD (2018)

Another visible trend in the universe of multinational corporations both globally and in the BRICS economies, is the presence of multinational companies in which governments have different rates of participation; UNCTAD (2017) estimates the existence of about 1,500 such multinational companies that hold more than 86,000 affiliates abroad, accounting for about 1.5% of the total MNCs and 10% of global affiliates. A notable feature is that, although parent companies (headquarters) are globally dispersed, they are located mostly in developing economies; China is the most important parent economy of such companies. If we condense our analysis only to the top 100 companies ranked by UNCTAD (2017), we notice that in the top 100 non-financial MNCs are ranked 15 state-owned multinational corporations (noted by us SO-MNCs), of which 11 are located in developed countries, especially Europe, and 4 are located in developing economies (China, Brazil and Malaysia); they operate mainly in services (e.g. electricity, gas and water; telecommunications), but also in manufacturing (e.g. aircraft; petroleum refining and related industries; motor vehicles). In the top 100 non-financial MNEs from emerging and transition economies, the presence of multinational corporations with state participation (noted by us SO-EMNCs) is broader (more than 20); they have a massive presence in the extractive industry (e.g. mining, quarrying and petroleum), construction, telecommunication and others. However, the scale at which SO-EMNCs have expanded their businesses abroad is lower than that at which SO-MNCs operate. Also, in SO-EMNCs, state participation is much higher, with Chinese companies reaching up to 100% (UNCTAD, 2017), while in SO-MNCs the state's participation is limited to golden share or goes up to no more than 30%.

4. Conclusions

Based on the *Top 100 non-financial MNEs from developing and transition economies ranked by foreign assets* (2016) our analysis highlights a series of trends in the universe of multinational corporations from developing economies and especially from BRICS economies. Thus, although the overall ranking of TNI shows an increasing interest in expanding business outside home economies, the level of internationalization of BRICS companies reflected by TNI at the regional level remains below the average of the top 100 EMNCs and far below the average level of internationalization of the global top 100 companies. From a sectoral perspective, the trend of internationalization of companies from BRICS economies is reflected in an uneven dynamics. Their presence is quite visible in traditional sectors but with more modest performance in terms of concentration of their activities abroad (petroleum, metals and metal products, chemicals, etc.); their preferences are somewhat more evident in the services, where they concentrate a larger part of their activities outside the economic space of origin. Last but not least, we note the presence of multinational corporations with state participation; differences are evident in the scale at which the companies from emerging economies of BRICS have expanded their business abroad compared to the international operating scale of the companies from developed economies, but also in the sectors in which they operate.

The conclusions reached by our analysis may be subject to limitations, first of all, that although they include what we call *world-class multinationals*, the rankings developed by UNCTAD reflect only partially the corporate universe, and therefore any generalization requires caution. Secondly, TNI does not provide information on the geographical expansion of companies or the number of affiliates they have abroad, hence the question: *Are the multinational companies from the BRICS economies truly global players?* Although it is mainly an exploratory research, we believe that the analysis we have carried out leads to a deeper level of understanding, expanding the area of knowledge in the field and, at the same time, creates a framework for new directions of theoretical reflection and empirical research.

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