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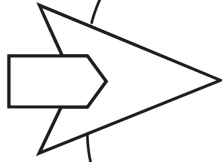

THE GLOBAL STRATEGY OF EMERGING MULTINATIONALS FROM CHINA

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The global strategy of multinational enterprises (MNEs) from China started to emerge recently. While sizable components of their strategy and behavior are consistent with what we observe of MNEs from other countries, Chinese MNEs are characterized by three relatively unique aspects: (1) the previously underappreciated role played by the home country governments of MNEs as an institutional force, (2) the challenge of going abroad in the absence of significantly superior technological and managerial resources, and (3) the rapid adoption of (often high-profile) acquisitions as a primary mode of entry. Overall, this article argues that these three relatively unique aspects of emerging multinationals from China will have significant ramifications for future theory building and empirical efforts of the global strategy research community. Copyright © 2012 Strategic Management Society.

INTRODUCTION

The global strategy of multinational enterprises (MNEs) from China started to emerge in the beginning of the 2000s. Chinese MNEs' share on the Fortune Global 500 list expanded from zero in 1990 to 61 firms in 2010. From 2005 to 2010, Chinese MNEs represent the only group—relative to MNEs from other BRIC countries (Brazil, Russia, and India), the United States, the European Union, and Japan—showing a significant increase on the Fortune Global 500 list (see Table 1).

What drives the international expansion strategy of Chinese MNEs? Can existing theories on MNEs and foreign direct investment (FDI) account for this new breed of MNEs (Dunning and Lundan, 2008; Gammeltoft, Barnard, and Madhok, 2010; Luo and Tung, 2007; Yang *et al*., 2009)? Or do we need to develop new theories to better capture this new phenomenon (Child and Rodrigues, 2005; Guillen and Garcia-Canal, 2009; Mathews, 2006; Peng, Bhagat, and Chang, 2010; Ramamurti and Singh, 2009)? This article addresses these questions. While sizable components of the strategy and behavior of Chinese MNEs are consistent with what we observe of MNEs from other countries, the arrival of Chinese MNEs on the global scene has created a series of relatively unique impact on research and practice (Buckley *et al*., 2007; Morck, Yeung, and Zhao, 2008; Peng, 2011; Peng *et al*., 2010). This article focuses on three relatively unique aspects of such emerging multinationals. I argue that global strategy researchers need to pay more attention to: (1) the previously underappreciated role played by the *home country* governments of MNEs as an institutional force; (2) the challenge of going abroad in the *absence* of significantly superior technological and managerial

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Table 1. BRIC, U.S., EU, and Japanese multinationals in Global Fortune 500

	2005	2006	2007	2008	2009	2010
Brazil	4	5	5	6	7	7
Russia	5	4	5	8	6	7
India	6	6	7	7	8	8
China	20	24	29	37	46	61
BRIC	35	39	46	58	67	83
U.S.	170	162	153	140	139	133
EU	165	165	170	163	161	148
Japan	70	67	64	68	71	68

resources; and (3) the *rapid* adoption of (often high-profile) acquisitions as a primary mode of market entry.

Before proceeding, it is important to note that: (1) my goal is not to claim or prove that the Chinese approach to global strategy is entirely unique—it is *relatively* unique; (2) for future theory-building purposes, the Chinese case is an appropriate setting to discuss anomalies to the traditional theories of globalization due to the significant increase of China's outward foreign direct investment (OFDI); and (3) implications drawn from the Chinese case are relevant not just for policymakers and practitioners in China, but also for policymakers and practitioners in host countries, both in emerging and developed economies. Overall, this article argues that a better understanding of these new MNEs will have significant ramifications for future theory building and empirical efforts of the global strategy research community. In particular, large dividends may lie ahead for research on the institution-based view, the resource-based view, market entries, mergers and acquisitions (M&As), and corporate governance.

THE ROLE OF HOME COUNTRY GOVERNMENTS

The role of *host country* governments has attracted significant research attention (Khoury and Peng, 2011; Meyer *et al*., 2009). What is generally ignored in the recent literature is the role of *home country* governments of the MNEs undertaking OFDI. This is because up to now, most MNE/FDI research has focused on FDI made by MNEs from developed economies, and 'market-supporting institutions such as pro-OFDI policies by Western governments are now taken for granted and almost "invisible" ' (Peng, Wang, and Jiang, 2008: 927). From an institution-based view, since MNEs are affected by the 'rules of the game' *both* at home and abroad, the role of home country governments of the MNEs obviously cannot be ignored (Peng *et al*., 2008: 927). As recently as in the 1960s and the 1970s, the U.S. and U.K. governments restricted OFDI (De Buele and Van Den Bulcke, 2010). Yet, there is hardly any recent research attention devoted to the role of home country governments of MNEs.

The rise of Chinese MNEs has necessitated our attention on the role of home country governments, thus enriching the institution-based view (Cui and Jiang, 2010; Peng *et al*., 2009). As an institutional force, the Chinese government has played both a positive and a negative role behind China's OFDI. Until the mid-1990s, the Chinese government, in an effort to conserve foreign exchange, had severely restricted OFDI. It started to play a more positive role by being more supportive of OFDI starting in the late 1990s (Luo, Xue, and Han, 2010: 79). Starting in the early 2000s, the Chinese government has used a series of policy tools such as low-interest financing, favorable exchange rates, reduced taxation, and subsidized insurance for expatriates to facilitate OFDI. Clearly, a large number of Chinese firms have responded to these institutional incentives and ventured abroad.

However, the Chinese government has also played a negative role behind some OFDI from China (Cui and Jiang, 2010). In terms of the destinations of China's OFDI, Hong Kong, Cayman Islands, and British Virgin Islands (BVI) routinely occupy the top three positions (Lau and Bruton, 2008; Morck *et al*., 2008). To put things in perspective, Chinese MNEs invest more in the Cayman Islands and BVI than they invest in the United States and Great Britain. The Cayman Islands and BVI, in turn, invest more in China than the United States and Great Britain invest in China. The only way to explain these puzzling FDI patterns is capital round-tripping. In other words, some Chinese MNEs invest in these 'tax havens' to transform themselves into 'foreign domiciled' companies, and then they can invest in China as *foreign* investors to take advantage of tax and other concessions back home. Hong Kong has long served such a role. But as China's control over Hong Kong gradually intensifies, some Chinese MNEs find it necessary to go through the trouble of going to locations as far as the Caribbean to avoid being discriminated against at home as domestic firms (Witt

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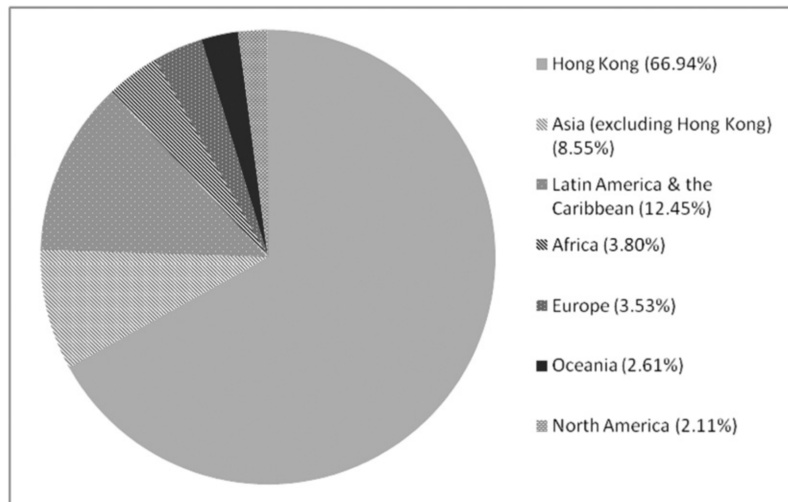

Figure 1. Regional distribution of China's outward foreign direct investment stock
Source: Adapted from Ministry of Commerce (MOFCOM). 2010. *2009 Statistical Bulletin of China's Outward Foreign Direct Investment*. MOFCOM: Beijing. Data refer to 2009. Total OFDI stock from China was $246 billion as of 2009.

and Lewin, 2007; Yamakawa, Peng, and Deeds, 2008). This pattern of China's OFDI speaks volumes about the negative role played by the Chinese government in terms of its discrimination against certain domestic firms, especially nonstate-owned ones (Ahlstrom, Chen, and Yeh, 2010; Huang, 2003).

GOING ABROAD WITHOUT SUPERIOR RESOURCES

Popularized as the ownership-location-internalization (OLI) framework, the standard explanation of FDI is that MNEs possess and leverage superior technological and managerial resources that enable them to enter new markets. However, the emergence of Chinese MNEs creates a puzzle that challenges some of this conventional wisdom.[1] Although these emerging multinationals, like their old-line counterparts from developed economies, hunt for lucrative locations and internalize transactions (conforming to the L and I parts of the OLI framework), they typically do not own better technology and their management capabilities are usually not world class (Barnard, 2010). In other words, a big chunk of the O part seems to be missing (Gammeltoft *et al*., 2010; Mathews, 2006).

For example, in semiconductor wafer factories, Chinese technologies are 'at least two generations behind those of Taiwan, the United States, Japan, and South Korea' (*BusinessWeek*, 2009: 42). In internal combustion engines, Chinese automakers are still '10 to 20 years' behind leading firms (Tao, 2011: 293). In terms of managerial resources, Chinese MNEs lack English-speaking, internationally savvy managers comfortable interacting with local managers, employees, and politicians in host countries. For example, the first Chinese manager interviewed in *Fortune*'s (2010: 87) cover story about China's OFDI in the United States—who was featured with a half-page photo—had to speak to the *Fortune* reporter through an interpreter. Many Chinese executives are ignorant of the 'rules of the game' overseas. When lecturing in China, I have found many executives are not aware that when entering the United States they cannot talk to competitors and discuss pricing—otherwise they could go to jail for antitrust violations. The fact that these executives are on the verge of leading their firms overseas suggests that managers at Chinese MNEs have a long way to go before they are able to master international norms and regulations, some of which are very different from their familiar 'rules of the game' at home.

Anecdotes aside, the regional distribution of China's OFDI stock shows that Chinese MNEs are not comfortable competing globally (Peng, 2012; Peng, Sun, and Blevins, 2011). Figure 1 illustrates that despite media headlines about China's OFDI in Africa, only 4 percent went to Africa. Hong Kong commanded a lion's share of 66 percent and the rest of Asia received another 9 percent. Of the 12 percent that went to Latin America and the Caribbean, the Cayman Islands and BVI absorbed 11 percent.

[1] Such a puzzle can also arise from some Western MNEs, which may struggle to overcome their home country disadvantages, as represented by the 'metanational' firms discussed by Doz, Santos, and Williamson (2001).

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China's OFDI in the more competitive, developed economies of Europe (4%), North America (2%), and Oceania (3%) was relatively insignificant. The special case of tax havens (the Cayman Islands and BVI) aside, these data suggest that Chinese MNEs are not very global and are very regional—centered on Asia indeed (Rugman, 2005).[2]

Given their weaknesses in technology and management know-how, how can we make sense of these emerging multinationals? One interesting new framework is the linkage, leverage, and learning (LLL) framework (Mathews, 2006). Linkage refers to emerging MNEs' ability to identify and bridge gaps. At home, Chinese firms are widely known to engage in extensive networking—remember the term *guanxi*?—in search of new opportunities and better performance (Peng and Luo, 2000). Their quest overseas can be viewed as an extension of their linkage efforts.

Leverage refers to emerging MNEs' ability to take advantage of their unique capabilities, which may not be at the cutting edge, but may nevertheless possess *comparative* advantage relative to the capabilities of their global competitors (Sun *et al*., 2012). For example, although Chinese mobile phone makers may not have world-class technologies or brands such as those possessed by Motorola, Nokia, and Samsung, some Chinese firms' capabilities in rapid imitation and creative packaging (such as leather skin phones) have enabled them to win certain markets overseas (Peng, 2011: 368).

Finally, learning is probably the most unusual aspect among the motives behind the internationalization push of many Chinese MNEs. Instead of the 'I will tell you what to do' mentality typical of old-line MNEs from developed economies, many emerging MNEs openly profess that they go abroad to learn. This is a new area of organizational learning that has not been extensively studied by researchers, who have traditionally studied how local firms learn from foreign entrants such as MNEs.

To be sure, OLI and LLL frameworks overlap a great deal (Mathews, 2006). So the debate boils down to whether the differences are fundamental, which would justify a new theory such as LLL, or just a matter of degree, in which case OLI would be just fine to accommodate the new MNEs (Dunning and Lundan, 2008; Gammeltoft *et al*., 2010). From a resource-based view, linkage, leverage, and learning may represent the most valuable, rare, and hard to imitate organizational capabilities possessed by some Chinese MNEs, thus necessitating our attention.

ACQUISITIONS AS THE PREFERRED MODE OF ENTRY

Acquisitions are not Chinese MNEs' only mode of entry; other modes such as exports are also used (Gao *et al*., 2010). But acquisitions are clearly a primary mode of entry (Sun *et al*., 2012). Why are Chinese MNEs so fond of acquisitions? Three reasons emerge. The first is the urgency for fast market entry, especially in the areas of natural resources (Deng, 2009). The second is to acquire existing world-class brands, such as IBM's PC brand or Volvo. This overcomes a major weakness in Chinese MNEs' capabilities: weak branding prowess. While the first two reasons have been noted by the literature, I believe that there is a third, less talked about but clearly evident reason: managerial hubris and empire building. It is well known that executive compensation is a function of the size and complexity of the firm. Yet, many large Chinese MNEs are still state-owned enterprises (SOEs) and SOEs historically feature egalitarianism in their compensation structure. *The Economist* (2010: 4) reports that the head of Industrial and Commerce Bank of China (ICBC), the world's *largest* bank by market value, 'received just under $134,000 in 2009, a couple of decimal places shy of his Western counterparts.' Demanding significant pay raises is against the norm within the SOE bureaucracy. Yet, by significantly expanding the size and complexity of the firm via large-scale acquisitions, a stronger case can be made to enhance executive compensation. This, perhaps, is one of the reasons behind ICBC's $5.5 billion acquisition of 20 percent of equity of South Africa's Standard Bank in 2007—China's largest-ever OFDI deal at that time.

Another question is: given that globally as many as 70 percent of the M&As fail (Peng, 2011: 397), will Chinese OFDI-based acquisitions do better than global average? Since China's OFDI is a new

[2] Being regional is not necessarily a sign of weakness (Rugman, 2005). MNEs with a more global spread do not necessarily outperform MNEs with a more regional focus (Qian *et al*., 2010). While Chinese MNEs may not possess superior technologies or managerial skills relative to their Western peers, Chinese MNEs may nevertheless be 'street smart' after surviving the institutional voids at home (Khanna and Palepu, 2010; Morck *et al*., 2008). Such capabilities may be very appropriate for managing regional (as opposed to global) operations. I thank both reviewers for raising this interesting point.

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phenomenon, its long-run performance is not available now. However, the limited evidence suggests that the performance of Chinese overseas acquisitions is unlikely to be better than the global average. Acquisitions have two phases: pre-acquisition and post-acquisition. During the pre-acquisition phase, overpayment in bidding is the biggest problem. Hope, Thomas, and Vyas (2011) find that acquiring firms from emerging economies such as China (relative to those from developed economies) have a systematic tendency to bid higher in order to acquire assets in developed economies. Hope *et al*. (2011: 131) attribute this to national pride—'an indication that national, social, or political considerations could influence decision making of individual decision makers (business owners or managers), either rationally or irrationally.' The fact that when bidding for the same targets rival bidders from developed economies back off but emerging multinationals keep increasing the offering price is indicative of potentially severe managerial hubris (some of which may be coated by national pride). It is also indicative of poor corporate governance—the lack of mechanisms to control executives and pull back. Clearly, overpayment can result in a 'winner's curse' in auctions. Most of the announcements of these (typically high-profile) overseas acquisitions end up *destroying* shareholder value, because Chinese investors themselves have little confidence in these MNEs' ability to effectively manage acquisitions (Chen and Young, 2010).[3]

Announcing high-profile deals is one thing, but completing them is another matter. Chinese MNEs have particularly poor records in completing the overseas acquisition deals they announce (Zhang, Zhou, and Ebbers, forthcoming). From 2000 to 2008, only less than half (47%) of the overseas acquisitions announced by Chinese MNEs were completed, which compares unfavorably to Indian MNEs' 67 percent completion rate (Sun *et al*., 2012). Chinese MNEs' lack of ability and experience in due diligence and financing is one reason, but another reason is the political backlash and resistance they encounter, especially in developed economies (Globerman and Shapiro, 2009). The 2005 failure of China National Offshore Oil Corporation's (CNOOC's) bid for Unocal in the United States and the 2009 failure of Chinalco's bid for Rio Tinto's assets in Australia are but two high-profile examples.

Even assuming successful completion, integration is a leading challenge during the post-acquisition phase. This is a worldwide challenge (Peng, 2011) and not necessarily a Chinese problem *per se*. However, the lack of internationally savvy managerial talents at Chinese MNEs (discussed earlier) gives us little confidence that these firms will do a better job integrating acquired targets and generating value. Five years after TCL acquired France's Thomson in 2004, TCL's chairman admitted that TCL lacked managerial capabilities to successfully integrate Thomson and had to suffer huge losses.

In general, acquirers from China have often taken the 'high road' to acquisitions, in which acquirers deliberately allow acquired target companies to retain autonomy, keep the top management intact, and then gradually encourage interaction between the two sides (Birkinshaw, Bresman, and Nobel, 2010). In contrast, the 'low road' to acquisitions would be for acquirers to act quickly to impose their systems and rules on acquired target companies (Birkinshaw *et al*., 2010). Although the 'high road' sounds noble, this is a reflection of these acquirers' lack of international management experience and capabilities—this is part of one L (learning) in the LLL framework (Mathews, 2006) discussed earlier. However, in the case of TCL's acquisition of Thomson, although all of Thomson's French and international executives were invited to stay after the acquisition, most of them left after two to three years. Unfortunately, after the departure of international talents, TCL's Chinese executives did not learn enough. TCL ended up changing CEOs four times in its first four years after the acquisition, significantly contributing to its post-acquisition turmoil. In another high-profile case, Lenovo also did not learn enough and failed to leverage its acquisition of IBM's PC division to attain global market leadership. Recently, it scaled back its global ambitions and focused more on China markets.

DISCUSSION

Contributions and research implications

This article contributes to the literature by highlighting three relatively unique aspects of the global strategy of emerging multinationals from China.

[3] Chen and Young's (2010) findings of the value-destroying impact of Chinese MNEs' announcements of overseas acquisitions on shareholder value are corroborated by Aybar and Ficici's (2009) similar findings, based on a larger, more global sample of MNEs from a variety of emerging economies.

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For researchers, large dividends may lie ahead in at least five areas: (1) the institution-based view, (2) the resource-based view, (3) market entries, (4) M&As, and (5) corporate governance.

First, the institution-based view has historically been enriched by research focusing on emerging economies (Khoury and Peng, 2011; Li and Peng, 2008; Meyer *et al*., 2009; Peng, 2003; Peng *et al*., 2008, 2009). But that China literature primarily deals with domestic firms in China and MNEs competing in China. Now, research efforts probing into the rise of Chinese MNEs active in overseas markets will further enrich the development of the institution-based view (Child and Rodrigues, 2005). Work on the role played by home country governments opens a line of inquiry previously missing in global strategy research (Sun, 2010). The most recent development in the institution-based view is North's idea of 'open access,' defined as equal access to competition in economic and political arenas supported by rules of the game (North, Wallis, and Weingast, 2009). Leveraging the 'open access' logic, the global strategy field can gain significant mileage by working on (1) how the Chinese government can ensure open access for both SOEs and non-SOEs in their competition for resources that facilitate OFDI, and (2) how host country governments can ensure open access for Chinese and non-Chinese firms competing in their jurisdictions (Sun, 2010).

Second, novel frameworks such as LLL can propel the resource-based view to new heights. For example, at a time when the U.S. economy is not doing well and numerous U.S. jobs are being jettisoned by domestic companies, what unique and special capabilities do some Chinese MNEs have when they come to manufacture products in the United States (*Fortune*, 2010)? Unlocking this puzzle will not only enhance our understanding of this topic *per se*, but will likely contribute to the further development of the resource-based view (Mathews, 2006).

Third, the literature on market entries needs to be expanded to account for the antecedents and consequences of decisively favoring M&As as opposed to other entry modes. On the one hand, one can argue that in the absence of gradually expanding involvement overseas, Chinese MNEs have given up the possible benefits of a real options approach. On the other hand, evidence on the benefits of a real options approach is not conclusive (Tong, Reuer, and Peng, 2008). Studies on the performance of Chinese MNEs' overseas market entries are rare. Whether their performance would have been better if they had used a more gradual, real options-based approach remains to be seen in future research.

Fourth, M&A research can benefit from probing into cross-border M&As undertaken by emerging multinationals (Sun *et al*., 2012; Zhang *et al*., forthcoming). Why is there so much 'shock and awe' associated with such M&As (culminating in a 'China on steroids' literature such as Jacques's (2009) book, *When China Rules the World*, featuring an unsubstantiated view that Chinese MNEs are 'taking over the world')?[4] Media hoopla aside, I believe this is, in part, because we in the global strategy research community have not done enough research to inform the public debate about the nature of such cross-border M&As (Peng, 2006). In fact, we have not done much research on *domestic* M&As in China and other emerging economies either (Yang, Sun, Lin, and Peng, 2011).[5]

In the first study comparing domestic M&As in China and the United States, Lin *et al*. (2009) find that acquisition behaviors are indeed different. Using the same theoretical framework and sampling the same industry during the same period, Lin *et al*. (2009) report that in the United States, centrally located firms in an alliance network can enjoy the benefits of high centrality and do not need to acquire alliance partners—this finding is consistent with the predictions made from standard network theory (Burt, 1992; Yang, Lin, and Peng, 2011). However, in China, centrally located firms, to derive benefits from their high centrality, need to more aggressively and more quickly acquire alliance partners—this finding is *opposite* to standard predictions. Lin *et al*. (2009) speculate that due to the dynamic, fast-moving institutional transitions unfolding in China, any competitive advantage associated with high centrality is likely to erode very rapidly, prompting centrally located firms to quickly acquire alliance partners. Spilling over to their overseas acquisitions, Chinese MNEs may also be interested in

[4] The characterization of this literature as 'China on steroids' comes from Lampton (2010: 7).

[5] In the first paper in the management literature on the growth of the firm in emerging economies, Peng and Heath (1996) argue that M&As are not feasible and, thus, not relevant for researchers and that research attention should be devoted to generic growth and interorganizational relationships such as alliances. This argument made sense at that time, and this paper has gone on to become one of the most cited papers in this literature. However, as Peng and Heath's (1996) lead author, I have to admit now that in retrospect, the prediction that M&As do not deserve serious research attention is clearly wrong.

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aggressively and quickly acquiring target firms—out of fear that any competitive advantage associated with the acquisition moves may erode rapidly if they do not act quickly. While this is one plausible explanation of the high propensity to use acquisitions to enter overseas markets, clearly, more research is needed to probe into this propensity to engage in M&As (Yang, Lin, and Peng, 2011; Yang, Sun, Lin, and Peng, 2011).

Another M&A topic that has not been investigated in the context of China's OFDI is M&A failure and abandonment (Zhang *et al*., forthcoming). This topic warrants our attention because less than half of overseas M&A deals announced by Chinese MNEs are completed (Sun *et al*., 2012). In general, global strategy researchers have conducted numerous studies on *completed* acquisitions. In contrast, there is very little research on *abandoned* acquisitions.

The fifth topic that will yield large dividends is corporate governance (Globerman, Peng, and Shapiro, 2011; Young *et al*., 2008). As alluded to earlier, aggressive (and—according to some—reckless) acquisitions may be indicative of managerial hubris and poor corporate governance. Chen and Young (2010) have gone one step further by labeling such behavior 'expropriation' of minority shareholders. Given that most large Chinese MNEs are SOEs, whose interests these SOEs and their managers represent when undertaking overseas expansion will be fascinating areas for future research. A simplistic view that SOEs and their managers are 'soldiers' for 'China Inc.,' executing orders from Beijing is not substantiated by facts on the ground (Peng and Xiao, 2011). Because of internal factions and competition, SOEs have become more competitive and exhibit more diverse strategies. In fact, how to maintain control is a constant headache for Beijing (Peng and Xiao, 2011). From a corporate governance standpoint, how these diverse and complicated relationships play out, in the context of these MNEs' overseas drive, will remain a fascinating new research agenda in the future.

A fair question concerns how the Chinese government is *fundamentally* different from other home country governments of MNEs. For example, if the Chinese government just offers low-interest loans for international expansion, how is it different from the main bank in a Japanese *keiretsu* and the import-export banks of many other countries? The answer is that the Chinese government does not 'just' offer low-interest loans. While most MNEs from Japan and other countries are private firms, most large Chinese MNEs are SOEs. Thus, the Chinese government offers far more comprehensive support packages, and has stronger control over these firms' strategies. Another question is: if the Chinese government is creating distortion that leads to capital flight to the Cayman Islands and BVI, how is it different from the loopholes in the U.S. tax law that lead to so many special purpose entities by American multinationals? The answer boils down to the magnitude of degree. Despite the numerous U.S. special purpose entities in the Cayman Islands and BVI, presumably for tax haven purposes, these countries appear neither on the top five recipient countries of U.S. OFDI nor on the top five countries making IFDI in the United States. These countries are routinely among the top five for both OFDI from China and IFDI in China.

Lastly, it is important to note that the characteristics for Chinese MNEs identified are *relatively,* but not absolutely, unique. To some extent, MNEs from other emerging economies also share some of these characteristics. For example, Kalotay and Sulstarova (2010) report that OFDI made by Russian MNEs is also influenced by home country policies. Barnard (2010) and Tan and Meyer (2010) document the lack of strong firm capabilities among MNEs from South Africa and Taiwan, respectively. Gubbi *et al*. (2010) find that Indian MNEs are also fond of undertaking acquisitions overseas. Clearly, new theories on these emerging multinationals will need to isolate them as one group vis-à-vis old-line multinationals from developed economies. At the same time, they will need to differentiate MNEs from one country, such as China, from MNEs from other emerging economies (Li and Peng, 2008; Sun *et al*., 2012).

Implications for policymakers and practitioners

For policymakers in China, the implications are twofold. First, they need to strengthen their positive role behind OFDI, by sharing state-controlled resources with both SOEs and non-SOEs. Given the suspicion of political motives behind some SOEs' OFDI, the Chinese government's one-sided support of SOEs—at the expense of unmet needs of non-SOEs—will only backfire. Second, Chinese policymakers need to minimize their negative role. Unequal treatment between domestic and foreign firms has driven some Chinese firms abroad, and removal of such unequal treatment (technically abolished as of 2008) may reduce some capital round-tripping. Further, the Chinese government still has to

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approve all OFDI deals. From the standpoint of a seller of a company in a host country, a bid from a Chinese MNE, which is subject to approval by the Chinese government, represents another layer of uncertainty.

Policymakers in host countries need to embrace pragmatic nationalism as opposed to being influenced by the 'China on steroids' literature, which is typically not substantiated by data (Peng, 2012).[6] Pragmatic nationalism refers to 'considering both the pros and cons of FDI and approving FDI only when its benefits outweigh its costs' (Peng, 2011: 193). Despite media hoopla, data suggest that at present, Chinese OFDI represents only approximately 1 percent of the global OFDI total, of which 2 percent has come to North America (roughly 0.5% to Canada and 1.5% to the United States). Ranking 12th in the world, China is not even among the top 10 originating countries of OFDI (Peng, 2011: 183). Such a relatively tiny sum of OFDI simply does not allow Chinese MNEs to 'take over the world' (Peng, 2012; Peng *et al*., 2011). An exhaustive review of the pros and cons of Chinese FDI in the United States by an American expert and a Canadian expert notes:

> 'It seems feckless on the part of U.S. policymakers to stigmatize Chinese investment in the United States based upon imprecise and likely exaggerated estimates of the relevant costs and risks of that investment' (Globerman and Shapiro, 2009: 180).

Globerman and Shapiro (2009) proceed to advise U.S. policymakers that Chinese OFDI necessitates no additional, specific legislation. At a time when U.S. unemployment is high, global FDI volume is down, but 'companies from China are spending billions to build factories in the U.S.—and creating new jobs for American workers' (*Fortune*, 2010: 84), maintaining a welcoming investment climate is clearly beneficial to the host country. This holds true not only for the United States, but also for other host countries in developed and emerging economies alike.

Practitioners from China need to master the 'rules of the game' overseas. They can learn from their Japanese colleagues, whose OFDI had a rocky start in the United States (and elsewhere) in the 1980s. Over time, Japanese MNEs have persisted and become an indispensable part of the host country economy. The key is to *thicken* one's skin, an attribute most Chinese claim to lack. The more serious point is endurance in the face of resistance. They should also take a page from U.S., European, and Japanese executives who came to China in the 1980s, when whether China should allow these 'capitalists' and 'imperialists' to make money was part of the national debate. Over time, such a debate disappeared in China and foreign MNEs, thanks to their 'thick skin,' are now a legitimate part of China's economic landscape. One last implication for Chinese practitioners concerns acquisitions. Here the standard advice from textbooks applies: do not overpay, avoid a bidding war, and focus on integration (Peng, 2011). In addition, given that high-profile acquisitions are often torpedoed by politicized processes, it is advisable to go after *low*-profile acquisitions, which are routinely approved in host countries.

Non-Chinese practitioners dealing with Chinese MNEs can take comfort in knowing that relative to Japanese and Korean MNEs, Chinese MNEs are more likely to appoint host country nationals as managers. This may be due to the lack of international talents among their ranks or due to the more open-minded nature of some Chinese MNEs. The upshot is the same: more managerial jobs for locals. These jobs are not necessarily limited to those in the Chinese subsidiaries and may also include consulting, financing, legal, and training jobs outside these firms.

On the competitive dimension, practitioners at local firms competing with the newly arrived Chinese subsidiaries need to be aware that Chinese MNEs intend to stay for the long haul (*Fortune*, 2010). In other words, they are willing to absorb short-term losses for quite a while. Once Chinese subsidiaries start producing locally, a favorite weapon used by incumbent firms against the arrival of low-cost made-in-China goods (antidumping duties) will become irrelevant. Therefore, the advice for competitors of Chinese firms in host countries is to get the cost down and prepare to fight—or be prepared to collaborate.

CONCLUSION

This article has focused on the three relatively unique aspects associated with the global strategy of

[6] United Nations data suggest that OFDI stock from Russia is far more than that from China (Kalotay and Sulstarova, 2010). Yet, there is hardly any literature on 'Russia on steroids' to 'take over the world.'

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emerging multinationals from China. At this point, it is neither clear whether existing theories can adequately account for this new phenomenon, nor evident that we need entirely new theories. What is clear is that future theory building and empirical efforts in this area will feature *both* change and continuity in the global strategy literature.

In conclusion, given both the strengths and weaknesses of these emerging multinationals, I suggest that a sensible approach is not to view them as scary, fire-breathing 'dragons' on the verge of taking over the world—they are far from being capable of doing that. To be sure, host country governments, firms, and the public need to be serious in dealing with this previously unknown breed of organizations on the global scene. Therefore, a useful metaphor is to view these emerging multinationals as fast, strong 'horses' unleashed by the forces of globalization in the twenty-first century.

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