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BRICs’ multinational companies:

Strategies of outward foreign direct investment from Brazil, Russia, India and China

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The paper presents the final outcome of a comparative research conducted over years:

Andreff W. (2002), The New Multinational Corporations from Transition Countries, *Economic Systems*, 26 (4), 371-379.

Andreff W. (2003a), The Newly Emerging TNCs from Economies in Transition: A Comparison with Third World Outward FDI, *Transnational Corporations*, 12 (2), 73-118.

Andreff W. (2014), Outward foreign direct investment by Brazilian and Indian multinational companies: comparison with Russian-Chinese multinationals, in S. Balashova & V. Matyushok, eds., *The Trajectory of Growth and Structural Transformation of the World Economy Amid International Instability*, People's Friendship University of Russia, Moscow, 252-297.

Andreff W. (2015), Maturing Strategies of Russian Multinational Companies: Comparison with Chinese Multinationals, in D. Dyker, ed., *Foreign Investment*, in The World Scientific Reference on *Globalisation in Eurasia and the Pacific Rim: Investment, Innovation, Energy, Migration and Development*, Volume 1, London: Imperial College Press/World Scientific, forthcoming.

Andreff W. (2015), Outward foreign direct investment from BRICs countries: comparing strategies of Brazilian, Russian, Indian and Chinese multinational companies, *European Journal of Comparative Economics* (submitted to).

Andreff W. and Balcet G. (2013), Emerging Countries' Multinational Companies Investing in Developed Countries: At Odds with the HOS Paradigm?, *European Journal of Comparative Economics*, 10 (1), 3-26.

Since the underlying papers are very long, but OFDI from the four BRIC countries is studied with exactly the same methodology, the presentation is going to stick to a summarised comparison of the major results through a series of tables...

... after briefly presenting the common background theoretical framework.

Theoretical framework

Pull factors : (or attractiveness factors) that attract and drive inward OFDI in a host country; differentiate host countries and are explanatory variables for the OFDI geographical distribution from the standpoint of a home country.

Push factors: are home country-specific related to home market and domestic industrial structure, drivers for a home country substituting OFDI to domestic Investment, and are explanatory variables of OFDI industrial distribution.

In Dunning' IDP model, on the OFDI side, push factors are more significant in the first two stages, pull factors are determinant in the last fourth and fifth stages, while both interplay in the third stage (emerging countries).

Successful econometric testing of push variables in explaining OFDI from developing and transition economies in the 1990s when they were in the IDP second stage – net FDI importer with swifter inward FDI than OFDI (Andreff, 2003).

Table 1: Emergence of the BRICs multinational companies

	India	Brazil	China	Russia
Year of emergence	1962 (or 1955)	1975	1979	1994
First host countries	neighbour LDCs	neighbour LDCs	neighbour LDCs	"close abroad"
OFDI in DCs	late 1970s	early 1990s	early 2000s	early 2000s
Advantage	first mover	dom. deregulation	LLL model	late comer
Starts booming in	after 1991	after mid-1990s	early 1990s	1999

Table 2: From the golden early 2000s to muddling through the crisis

OFDI stock from		Brazil	India	Russia	China*
Mutiplied by		2.5	16	13	3.5
from 2000 to 2007					
Growth rate in	2008	24.9	110.0	-20.5	54.4
	2009	-2.8	25.0	22.7	55.2
	2010	14.8	19.7	74.2	29.6
	2011	12.0	20.4	-16.5	14.1
	2012	14.9	6.2	14.1	39.1
	2013	26.0	1.4	21.3	20.5
OFDI stock/GDP	1999	1.4	0.1	2.3	2.5
	2011	9.0	6.0	19.5	5.0
Outward/inward FDI stock					
	1999	7.4	6.5	51.9	8.4
	2011	30.3	55.2	79.2	51.4
Foreign investor's rank	2012	18th	23rd	15th	12th

* mainland, without Hong Kong

Source: UNCTAD

Table 3: Specificities of BRICs multinational companies

	Brazil's MNCs	Russia's MNCs	India's MNCs	China's MNCs
Type of MNCs	Global players & small/medium sized MNCs	Transparent Independants & Non-transparent Patriots	Conglomerates Family groups	State-owned & few private MNCs
Privileged mode of entry	transborder M&A	transborder M&A	transborder M&A	transborder M&A
Strategy	1/ market seeking 2/ resource seeking 3/ asset seeking	1/ market seeking 2/ resource seeking 3/ asset seeking	1/ market seeking 2/ efficiency seeking 3/ asset seeking 4/ resource seeking	1/ asset seeking 2/ market seeking 3/ resource seeking 4/ efficiency seeking
Round tripping OFDI	less significant	significant	less significant	very significant
Proportion of SOEs OFDI	negligible	significant	less significant	very significant
Privatisation's MNCs	significant	very significant	less significant	very few
Home monopolies	significant	very significant	less significant	significant
Governance transparency	low	very low	rather good	very low

Table 4: Geographical orientation of BRICs OFDI

	Brazilian OFDI	Russian OFDI	Indian OFDI	Chinese OFDI
Major host countries (ranking)	1/ Tax havens	1/ Tax havens	1/ Asia	1/ Tax havens
	2/ USA	2/ Developed	2/ Tax havens	2/ Developed
	3/ Europe	3/ Close abroad	3/ Europe	3/ Asia Pacific
	4/ Latin America	4/ Former CMEA	4/ USA	4/ Africa
	5/ Africa	5/ Developing	5/ Middle East	5/ Latin America
First five hosts in 2011-12	1/ Austria	1/ Cyprus	1/ Singapore	1/ Hong Kong
	2/ Cayman Islands	2/ Netherlands	2/ Mauritius	2/ Virgn Islands
	3/ Netherlands	3/ Virgin Islands	3/ Netherlands	3/ Cayman Islands
	4/ Virgin Islands	4/ Switzerland	4/ USA	4/ Australia
	5/ USA	5/ Luxembourg	5/ UAE	5/ Singapore

Table 5: Industrial distribution of BRICs' OFDI (2010-11)

	Brazilian OFDI	Russian OFDI	Indian OFDI	Chinese OFDI
First ranked industries	1/ Finance insurance	1/ Petroleum, gas	1/ Finance	1/ Services
	2/ Services to Co.	2/ Metallurgy	2/ Manufacturing	2/ Banking
	3/ Mining, quarrying	3/ Chemicals	3/ Services	3/ Mining
	4/ Petroleum, gas	4/ Banking finance	4/ Trade	4/ Trade
	5/ Food, beverage	5/ New technologies	5/ Primary sector	5/ Transport

Authors	Models
Push factors model	Brazil
Carvalho, 2009	$NOI_{pc} = \alpha + \beta_1 GNI_{pcap} + \beta_2 GNI_{pcap}^2 + \mu$
Pull factors models	Brazil
Amal & Tomio, 2012	$OFDI = f(GDP_i, GDP_i/POP_i, INF_i, RER_i, TRD_i, CD_i, GD_i, CC_i, GE_i, PS_i, RLi, RQi, VAI)$
	Russia
Kalotay & Sulstarova, 2010	$FDIMA_{rh} = a + b.GDP_h + c.GDP_r + d.NR_h + e.SER_h + f.DIST_{rh} + g.\tau_{rh} + i.CIS + j.PAT_h + u_h$
	India
Anwar, Hasse and Rabbi, 2008)	$Log Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \mu$
Rajan, 2009	$Ln(FDI_{ijt}) = \beta_0 + \beta_1 ln(GDP_{it}) + \beta_2 ln(GDP_{jt}) + \beta_3 ln(DIST_{ij}) + \beta_4 X_{ijt} + \eta_i + \lambda_t + v_{ijt}$
Hattari & Rajan, 2010	$Ln(FDI_{ijt}) = \beta_0 + \beta_1 ln(GDP_{it}) + \beta_2 ln(GDP_{jt}) + \beta_3 LANG_{ijt} + \beta_4 COLONY_{ijt} + \beta_5 DIST_{ij} + \beta_6 X_{ijt} + \mu_j + \lambda_t + v_{ijt}$
Nunnenkamp, Sosa Andrés, Vadlamannati & Waldkirch, 2012	$FDI_{it} = \alpha + \beta X_{it} + \gamma X_i + \delta_t + \theta_i + \varepsilon_{it}$
	China
Buckley, Clegg, Cross, Voss, Rhodes & Zheng, 2008	$OFDI = a.GDP_h + b.OIL_h + c.PATENT_h + d.TD94 + e.BITH + f.ACBIT + g.DTTh + i.ACDDT + j.WTO_h + k.CPh + l.DISH + m.RISK_h + n.PPP_h + o.ERATE_h + p.INF_h + q.EXP_h + r.IMP_h + s.INFDI_h + u_h$

6. The major determinants of BRICs' OFDI

Push factors

Developing and transition economies in the 1990s: GDP/capita, technological level, industrial structure of the home economy (Andreff, 2003).

Brazil (above table): economic development, GDP/capita (IDP model).

Pull factors (in host countries):

Brazilian OFDI: GDP, GDP/capita, inflation, real exchange rate, trade, cultural & geographical distance, macro-governance quality (Kaufman index).

Russian OFDI: GDP i & j , natural resources, services/GDP, distance, exchange rate, registered patents, CIS member (cultural proximity).

Indian OFDI: GDP, GDP/capita, real exchange rate, distance, inflation, R&D/GDP, trade, energy production, common language, former colonial relationships (Commonwealth), Indian diaspora.

Chinese OFDI: GDP, oil-gas exports to China, patents, liberalisation of Chinese foreign exchange (1994), bilateral investment treaties, no-double taxation treaties, WTO membership, cultural proximity, distance, political risk, exchange rate, inflation, trade, market openness.

Table 6: BRIC's multinationals and the home country state

<p>"China Incorporated" state promotion of OFDI/MNCs</p>	<p>MNCS instrumental to Russia's economic and foreign policies</p>	<p>India: government policies toward OFDI</p>	<p>Brazilian economic policies affecting OFDI</p>
<p>Go global policy since 1999 Layers of administration support... to OFDI and 'national champions' Required government approval Lax credit (soft budget constraint) ... with foreign exchange reserves 84% of OFDI: stated-owned Government and Party control Bad governance and corruption</p>	<p>Copy China & 'national champions' Creeping re-nationalisation (2000s) Putin/Medvedev calls (2007-08) No OFDI clear promotion policy MNCS used as foreign soft power</p>	<p>Liberalisation policy 1991 Indian MNCs' LLL approach OFDI automatic approval Access K markets liberalised 2011: disinvestment allowed without approval</p>	<p>No policy targeting OFDI Special line of credit to OFDI 2008: sovereign fund /TM&As Privatisation drive & MNCs Appreciation of real (1990s)</p>

Table 21: Similarities and differences between Brazilian, Indian, Russian and Chinese multinationals

OFDI features and strategies of MNCS from:	Brazil	India	Russia	China
Market-seeking strategy	++	++	++	++
Resource-seeking strategy	++	+	++	++
Efficiency-seeking strategy	--	-	--	--
Asset-seeking strategy	-	+	++	++
Global strategy (being on the brink of)	--	+	--	--
Transborder mergers & acquisitions	++	++	++	++
Round tripping OFDI	-	-	+	++
Capital flight OFDI	--	--	+	--
Preliminary LLL role of inward FDI	++	++	--	+
Privileging close markets for OFDI	++	++	++	++
OFDI in developed countries' markets	++	++	+	+
OFDI in Latin America	++	--	--	+
OFDI in Africa	-	++	+	++
FDI in other BRICs	--	++	--	++

Proportion of SOEs among big MNCs	--	-	+	++
MNCs originating in the privatisation drive	+	-	+	--
Monopoly/dominant oligopoly in home market	+	-	++	+
State appointment of SOEs/MNCs managers	-	-	++	++
MNC corporate governance transparency	-	+	--	--
State (government) support to OFDI	-	-	+	++
Institutional (state) OFDI promotion	--	-	--	+
State interference/control in OFDI	-	-	++	+
Informal institutions, corruption, networks	+	-	++	++
National pride and state ideology	-	-	+	++
OFDI in the primary sector (oil, mining, etc.)	+	+	++	+
OFDI in the manufacturing industry	-	++	+	+
OFDI in the tertiary sector	+	++	+	++
State foreign reserve accumulation	+	+	+	++
Exchange rate appreciation	+	-	0	+

(++) + = (very) strong or significant

0 = absent

-- = weak or of secondary importance