Conclusion

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The aim of this book has been to better understand the extent, nature and roots of the competitive advantage of emerging market multinational enterprises (EMNEs) and, in particular, the ways in which their internationalisation is contributing to the enhancement of that competitive advantage. To do so we examined three, inter-related factors that might potentially help EMNEs build competitive advantage: innovation, value-chain configuration and cross-border mergers and acquisitions (M&A); we compared and contrasted the experience of firms from each of the BRIC countries (Brazil, Russia, India and China). We now step back to draw some conclusions from this analysis.

We begin with some general observations about the way innovation, value-chain configuration and cross-border M&A appear to interact to create competitive advantage for EMNEs. Our aim is to provide a framework that will help to bring together the various strands of our analysis and provide an appropriate context for the interpretation of our findings. With this integrated framework in mind, we offer generalisations about the competitive advantages of EMNEs observed from the evidence in the earlier chapters. In doing so, we show how some of the puzzles that the behaviour of EMNEs has posed for international business theorists might be resolved. We also discuss whether findings from our BRIC sample might apply to the next rung of emerging economies. Finally, we look at the implications for managers of the appearance of EMNEs as global competitors (both for managers within incumbent competitors and the EMNEs themselves) and for policy makers in governments.

Towards an integrated view of EMNEs’ competitive advantage

The behaviours and experiences of EMNEs drawn from the BRIC countries with diverse factor endowments, institutional contexts and histories will inevitably be heterogeneous. None the less, one over-arching
pattern stands out amid all the variation: for the majority of EMNEs we studied, internationalisation is as much about accessing new resources and knowledge to enable them to extend their competitive advantage, as it is a route to exploiting existing advantages over a larger set of markets. In other words, for most EMNEs, learning is an equally important goal of internationalisation as market exploitation. In many cases the learning potential of internationalisation is, at least initially, the more important goal. This is in sharp contrast to the development path of traditional developed market multinational enterprises (DMNEs) who went abroad primarily with the aim of exploiting homespun competitive advantage (Doz et al., 2001). As we will see, this significant difference between EMNEs and DMNEs in their internationalisation goals has important implications for both theory and practice.

Viewed in this context, the three potential sources of EMNEs’ competitive advantage we have studied in the book – innovation, value-chain configuration and cross-border M&A – closely interact to facilitate the process of learning and to transform that learning into new capabilities that can then be exploited for competitive advantage both in their home market and in foreign markets. The capacity for innovation embodies a whole set of competences (or capabilities).1 It is much more than the capability for research and development (R&D). The capacity for profitable innovation in an international context involves not only the development of novel and valuable products, processes and technologies, but also the operational capability to deliver that improved value in practice and to align the innovation and the value chain underpinning it to foreign market environments. To gain competitive advantage, meanwhile, some of these aspects of innovation must be achieved more effectively or efficiently than rival incumbents. Broadly defined in this way, the capacity for profitable innovation may require improvements in both operational competences (those associated with managing any given set of assets and resources; Teece, 2009: 55) and dynamic capabilities (the capacity to renew an organisation’s competences so as to maintain an appropriate fit with a changing business environment; Teece et al., 1997).

By expanding its international reach a firm has the opportunity to access new knowledge that can be used as a raw material for profitable

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1 For our purposes here we use the terms ‘competences’ and ‘capabilities’ as synonymous and interchangeable, following Helfat et al. (2007: 121).
innovation (Santos et al., 2004). Many examples of EMNEs improving the competitive advantage through this process of knowledge acquisition have been documented in Part I of this book that focused on innovation within EMNEs headquartered in the BRIC countries.

At the same time, the second potential driver of EMNEs’ competitive advantage we studied, value-chain configuration, can also contribute to the capacity for profitable innovation as defined above. By internationalising its activities, a firm has the opportunity to configure and coordinate its value chain to improve its operational competences and to deliver more value (e.g. through higher quality or more responsive service) at equal or lower cost. New value-chain configurations can also provide new opportunities for learning at the operational level (Nelson and Winter, 1982; Johanson and Vahlne, 1977). Thus value-chain configuration can be an important contributor to profitable innovation; it is not only a way of relocating activities so as to reduce costs by tapping into cheaper factors of production, such as low-cost labour. Again as we explore in more detail below, one of the interesting aspects of EMNEs’ internationalisation is that many of the EMNEs we studied have arguably placed greater emphasis on configuring the value chains so as to accelerate learning and improve their capacity for innovation, broadly defined, than many of their DMNE cousins. One reason may be that because many DMNEs are headquartered in high-cost countries and have well developed innovation capabilities at home, their value-chain configuration tends to be more focused on achieving cost reductions than on harnessing the potential for learning and innovation.

The third driver of EMNEs’ competitive advantage examined in this book, cross-border M&A, also has the potential to enhance a firm’s capacity for profitable innovation. The acquisition of a firm in a foreign market can be a way of accessing new knowledge and capabilities that can fuel innovation. It can also enable a firm to rapidly reconfigure its value chain in ways that improves its operational capabilities so as to deliver more value to its customers. Overseas M&A can also allow a firm to directly reconfigure its value chain by providing, for example, ‘ready-made’ R&D facilities or marketing units in new locations – operations that can be used to assist it in delivering innovation to the market. To achieve the benefits, of course, it will need to be integrated into the firm’s global operations in an appropriate way. And in order to make an ongoing contribution to sustaining
competitive advantage in the longer run, the acquired competences will need to be managed so as to maintain their vitality.

The enhancement of a firm’s competitive advantage through these interactions is summarised and illustrated in Figure C.1. A firm’s initial competitive advantage can be enhanced through innovation based on its competences. Internationalisation, meanwhile, can involve the reconfiguration of a firm’s value chain. By providing access to new competences, this may lead either directly to enhanced competitive advantage or enhance it indirectly, by fuelling innovation. The goal of reconfiguring a firm’s international value chain can also lead it to undertake cross-border M&A activity. Likewise cross-border M&A can improve a firm’s competitive advantage both by directly contributing new competences and by stimulating profitable innovation through new learning. Cross-border M&A may itself also create new opportunities for reconfiguring the firm’s value chain.

Of course a firm may also internationalise in order to exploit its competitive advantage. This may involve entering new markets (in turn stimulating innovation), re-configuring its value-chain and undertaking cross-border M&A. The process of exploitation, therefore, may itself contribute to the enhancement of competitive advantage through the cycle depicted in Figure C.1.

Using this framework we can look to synthesise the findings presented in earlier chapters of this book to provide a more integrated
perspective on the role internationalisation has played in allowing EMNEs to develop new sources of their competitive advantage. In particular it allows us to focus on how the internationalisation of EMNEs is providing them with access to new learning opportunities and expanded capability sets, as well as access to new environments that enable them to better exploit their existing capabilities (many of which have been developed by leveraging country-specific advantages in their home markets).

**EMNEs’ internationalisation and competitive advantage**

EMNEs typically gain competitive advantage in two ways: the first is by doing the things necessary to build a strong business in the home market, which often involves innovations in processes, products and business models to better serve local customers; the other is by enhancing those competitive advantages through the learning and knowledge transfer that occurs when they internationalise their value chain or make foreign acquisitions. In other words, internationalisation itself can enhance their competitive advantage at home and abroad. We begin with the first half of this process, looking at how innovation contributes to the competitive advantage of EMNEs, and then turn to the question of how those advantages are enhanced by internationalisation.

**Innovation and competitive advantage**

Breakthrough innovation, often based on cutting-edge technology, is at the heart of the competitive advantage of many DMNEs (Bartlett and Ghoshal, 1986). Existing evidence suggests this is not the case for most EMNEs, because typically they are late-movers in their industries and technologically backward (Keyhani and Madhok, 2012). The evidence in the book broadly confirms this finding. However, innovation of other kinds, consistent with their late-mover status and home-market conditions, is still at the heart of the competitive advantage of EMNEs.

*Product innovation,* to the extent EMNEs do it, largely consists of adapting existing products and know-how to the special needs of their home markets or to novel uses. Their distinctive capability, compared to developed-country firms, is a superior insight into customer needs, which allows them to optimise product features and price to fit the purchasing power of customers and the harsh conditions under which products are sold and used in emerging economies.
As the preceding chapters show, a few EMNEs have managed over time to reach the technological frontiers of their industry. In these cases – such as Huawei of China in telecoms, Embraer of Brazil in regional jets and Dr Reddy’s of India in pharmaceuticals – EMNEs are introducing new products in direct competition with the new products of DMNEs. In other cases – such as Suzlon of India in wind energy or Tencent of China in instant messaging platforms – the firms are first-movers in emerging industries, even if their technical capabilities have sometimes been built through the acquisition of developed-country firms, not through in-house R&D.

Closely related to product innovation is the capability of EMNEs in process innovation, which allows them to lower costs dramatically to meet the low price points necessary to serve mass markets at home or to operate in the price-conscious, turbulent business environment found in many developing countries. And while they may not possess cutting-edge technology, EMNEs have adequate absorptive capacity to modify existing technologies to lower costs dramatically or to add and subtract product features (Wells, 1983). As Tidd et al. (2001: 5) have noted, ‘being able to make something no one else can, or to do so in ways which are better than anyone else, is a powerful source of advantage’.

A third kind of innovation prevalent among EMNEs is business model innovation, in which an existing product or service is produced, sold, financed and serviced in wholly new ways, with costs, risks and profits generated in ways that may not have been seen in developed countries. This may sound like an extreme case of process innovation, which it is, if ‘process’ is taken very broadly to mean every aspect of how something is made, sold, financed, delivered or maintained. Chinese firms, such as Tencent, Brazilian firms such as Gerdau and AmBev and Indian firms such as Bharti Airtel and SKS Microfinance, have revolutionised their respective industries through new business models.

Our studies uncovered several examples of all three types of innovation by EMNEs, but process innovations seem to be the most common source of competitive advantage for EMNEs. This sets them apart from other local competitors that lack the absorptive capacity, capital, scale, brands and local distribution to invest in extensive process innovations. It also sets them apart from DMNEs, which often have considerable difficulty modifying products developed for the ‘Triad’ markets of the US, the EU and Japan to suit the peculiar needs of emerging economies.
The key point is that the competitive advantage of EMNEs is not just based on low costs, nor is their low cost based solely on the home country’s low factor costs, particularly labour costs. Rather their competitive advantage comes from using cost and other locational advantages in innovative ways to create better value-for-money offerings (dubbed ‘cost innovation’ by Zeng and Williamson, 2007), higher efficiencies and, sometimes, new sources of value. Leveraging this experience, the EMNEs in the vanguard of internationalisation are also beginning to undertake more traditional technological innovation as well – a process that has begun to narrow the technological gap between EMNEs and DMNEs.

Certainly, the scope of innovation by EMNEs varied across the BRICs. China and India appeared to be bubbling with entrepreneurship and, in China’s case, this seemed to be somewhat true even in state-owned enterprises (SOEs). Much of the innovation in these countries was targeted at consumers at the middle or the base of the economic pyramid, because of the large size of their poor populations, compared to middle-income Brazil or Russia.

In Brazil, process innovations occurred mainly in manufacturing and natural resource industries, e.g. in deep-sea oil exploration or gasohol (low ethanol blends) production. Companies such as Vale and Petrobras not only developed new techniques for resource extraction, their technical knowledge allowed them to pursue opportunities for exploring new mineral or oil and gas fields abroad. Similar achievements were recorded by Brazilian agribusiness firms working in concert with national research institutes.

In Russia, the competitive advantage of local firms relied more heavily on close ties to politicians and privileged access to natural resources or finance than on innovation. The giant oil and gas firms were either SOEs, such as Gazprom and Rosneft, or privatized entities bought by investors with close ties to government (e.g. Lukoil). Likewise, giant MNEs in steel (Severstal, Evraz) and non-ferrous metals (Norilsk Nickel, Basic Elements) resulted from the privatisation of SOEs and their subsequent expansion. Together, these resource-based MNEs accounted for 72 per cent of the foreign assets of the top twenty Russian MNEs in 2008 (IMEMO-VCC, 2009: 15). Innovation seemed to suffer in Russia from institutional weaknesses, despite state subsidies and repeated calls by the country’s leaders for more innovation.
DMNEs appear to face significant barriers to engaging in the kinds of innovation that are the forte of many EMNEs, because DMNEs are geared to develop new products based on cutting-edge technology, at high price points and with high margins. They have difficulty deviating from that business model, which has served them well in the past (Govindarajan, 2012). Their organisational culture, standard operating procedures, incentives and mind-set are at odds with the needs of frugal innovation or business model innovation. Power in these firms also lies in the hands of managers based in developed countries, making it difficult for emerging-market subsidiaries to change the organisation’s strategy or culture.

Innovations of all three types – product, process and business model – had value beyond an EMNE’s home country. Products that fit the needs of one emerging market also appealed to customers in other emerging markets. In addition, lowering costs drastically through process innovation had value even in developed countries, where it could applied to low-income consumers or the growing number of financially strapped middle-class consumers. Occasionally, an innovation developed for emerging markets could appeal to more than a narrow sliver of the market in developed countries, resulting in ‘reverse innovation’ (Govindarajan and Ramamurti, 2011).

These innovations provided the impetus for many EMNEs to internationalise. That impulse was sometimes reinforced by government policy and strategy (China), by the desire of top management to spur the organisation to new heights (Brazil) or by the sheen that internationalisation added to an organisation’s reputation and image (Brazil, India). Regardless of the motivation, however, internationalisation itself enhanced the competitive advantages of EMNEs, including their innovation capability, and it is to this feedback process that we turn next.

Enhancing competitive advantage through value-chain reconfiguration

The idea of value-chain configuration (VCC) as a competitive advantage probably originated in studies of the Japanese keiretsu (the Japanese term for a set of companies with interlocking business relationships) and was later formalised by Porter (1985). That approach led eventually to the view that VCC creates competitive advantage through the spatial disaggregation of value creation by placing each activity of the value chain at the place where it can be performed best.
DMNEs have taken significant advantage of these opportunities for reconfiguring their value chains. In many cases this involved moving lower-value operations (such as simple assembly) to lower cost countries and sales and distribution activities into locations with large and growing local markets. Over time DMNEs refined their value-chain configurations to take advantage of differences in resource and knowledge endowments, dispersing many parts of the value chain from procurement through to design, marketing and support services. Key innovation activities were perhaps the one exception; many companies still kept these firmly located in the home country even after other activities had become widely dispersed around the globe.

There are a number of reasons to expect the VCCs chosen by EMNEs to differ significantly from these common patterns adopted by DMNEs. The first, and perhaps the most obvious, reason is that it will generally not be economic for EMNEs to move the bulk of their labour-intensive operations (such as processing and assembly) away from an already-rich natural-resource or low-cost home country.

Second, EMNEs typically lack the well-developed managerial processes and experience to enable them to efficiently manage a value chain where activities are highly dispersed. DMNEs equipped with these management and coordination capabilities are likely to opt to disperse their value chains even where the gains in terms of lower costs or improved access to local resources are relatively small. But EMNEs facing their paucity of these capabilities will only incur the extra strains of coordination that would be incurred by dispersing their value chains where the potential pay-offs are relatively high. This could be the case where EMNEs were able to obtain resources and capabilities critical to underpin their international competitiveness that would otherwise not be available to them. In fact, early studies of the VCCs of EMNEs (e.g. Mathews, 2006) suggested that this is the case: EMNEs tended to locate activities abroad mainly in order to access resources and capabilities that were scarce or unavailable in their home countries. This observation was confirmed by the studies of the BRIC multinationals in this book: their VCCs tended to be driven by the need to fill critical resource gaps or access knowledge or learning opportunities overseas. Their preference is to retain the bulk of the operations they have already mastered (often manufacturing, for example) in their home countries so as to maintain the cost and scale advantages they enjoy there.
Conclusion

Third, because the EMNEs are mostly late-movers to internationalisation, the current snapshots of the VCCs we observe may reflect an immature stage on the path to a different future VCC. For many DMNEs, by contrast, we may be observing a mature VCC developed over decades. To the extent that we are observing different stages in the cycle of development of different firms’ VCCs, therefore, any variations (such as maintaining core operations at home) may reflect timing rather than differences in their choices about what VCC is optimal in the long run.

Fourth, the VCC chosen by a firm will depend on the length of the value chain it chooses to operate. As Katkalo and Medvedev pointed out in Chapter 6, some EMNEs seek to be ‘value-chain builders’ of fairly complete chains, while others choose to focus on a few activities that can slot in the value chains controlled by others (‘value-chain joiners’).

The evidence in Part II of this book, summarised and structured in the commentaries by Cuervo-Cazurra and Srai, suggests that many of these different influences on EMNEs VCCs are at work. In some cases the resulting VCCs do make a significant contribution to the competitive advantage of EMNEs. In the case of Brazilian firms, the role of overseas activities in the VCC included obtaining access to foreign technology and customer knowledge and using overseas distribution subsidiaries to improve the route to market for Brazilian products. Brazilian firms also used their VCC to implement a strategy of backward vertical integration with the aim of controlling inputs of natural resources. Presumably this was aimed at increasing competitive advantage by reducing transactions costs and improving the stability of the supply chain. In a few cases Brazilian firms sought to use their overseas subsidiaries to help them build their brands overseas or to improve their access to international finance.

In the case of Russian high technology firms, the VCC involving overseas subsidiaries was primarily aimed at accessing customer intelligence. In the case of Russian firms that sought to be value-chain builders, including important firms in the energy sector, the main role of overseas subsidiaries was to improve the distribution of products and energy overseas. In the case of Russian value-chain builders the main role of overseas subsidiaries was to cement partnerships with others involved in the international value chain of which they were a part.
The impact of Indian EMNEs’ VCCs on their competitive advantage varied by industry. In the case of information technology (IT) firms, mainly those providing IT services to overseas customers, the main purposes of their overseas subsidiaries were to capture information about customer requirements and to provide local service capability to complement their global delivery model where the bulk of activities were undertaken in India. In the case of the pharmaceutical sector, overseas subsidiaries provided capacity for innovation as well as a way of sidestepping regulatory restrictions by manufacturing locally in the customers’ countries. In developing markets local manufacturing subsidiaries could also provide some cost advantages. In developed markets the other major role of local subsidiaries was to provide local marketing and distribution support.

Chinese EMNEs most commonly established overseas subsidiaries in order to access new technology and design capabilities that were absent or in short supply in China and could be linked to highly efficient manufacturing operations in China to improve the level of quality and value added of products supplied both to the domestic and international markets. In some cases Chinese MNEs also used their overseas subsidiaries to assist in gathering customer intelligence and brand building. Other evidence (Williamson and Raman, 2011) suggests that in industries such as steel and aluminium, Chinese firms established overseas subsidiaries to perform extraction and transport of raw materials in order to gain the benefits of vertical integration, including lower transactions costs and security of supply.

In summary, the evidence assembled in this book suggests that:

- in the natural resource industries, EMNEs have tended to try to increase their competitive advantage through vertical integration, expanding abroad both downstream and upstream, creating long value chains;
- in the services industries EMNEs tend to expand horizontally across different geographic markets to exploit their home-based advantages, maintaining short value chains; with limited additional roles of foreign subsidiaries in accessing customer intelligence and providing local service support;
- in other industries where the primary goal of international expansion is ‘market seeking’, the emphasis is mostly on winning business
in other emerging markets and the role of overseas subsidiaries is to support local marketing and distribution;
- the role of subsidiaries in developed markets is primarily to access new capabilities, including technology and design skills that can be used to strengthen the international competitiveness of EMNEs.

Our overall conclusion, therefore, is that EMNEs configure their global value chains first and foremost as a way of using their international subsidiaries to improve their access to new capabilities, knowledge and customers rather than to optimise efficiency and improve the cost competitiveness of their value chains. In fact, rather than disaggregating the value chain and relocating activities within low-cost countries (as is the dominant pattern for DMNEs), the overseas subsidiaries of EMNEs often duplicate activities already undertaken at home with the aim of accessing new additional capabilities and knowledge to strengthen their overall competitiveness. In natural resources industries, meanwhile, the configuration of EMNEs’ value chains tends to be driven by the objectives of security of supply, potentially increased market power and growth aspirations, rather than efficiency per se.

Enhancing competitive advantage through cross-border M&A
Cross-border acquisitions are playing an increasingly important role in the international development of many EMNEs. Consistent with the integrative framework presented earlier, a primary role of cross-border M&A by EMNEs revealed by the evidence in this book is to provide access to new capabilities, resources and knowledge that will assist in accelerating and improving innovation and adjusting the firms’ VCCs in ways that will enhance their competitiveness in both the domestic and international markets. In fact, cross-border M&A deals involving pure technology or R&D outfits seem to be particularly attractive to many EMNEs (especially those from China). This is because they provide access to existing intellectual property or R&D capacity without the burden of large and uncompetitive manufacturing or service capacity that is likely to lead to complex restructuring and associated shutdowns and redundancies that EMNEs are generally ill-equipped to undertake, especially in unfamiliar developed economies. Relatively unencumbered technology and R&D acquisitions mean that the people, knowledge and capabilities acquired can be nurtured through
additional investment, and their day-to-day activities left to operate relatively independently, with only broad direction and the establishment of sufficient links back to the parent company necessary to ensure that the knowledge and capabilities they generate are transferred back home. In fewer cases, the assets and capabilities acquired and repatriated also include under-utilised brand assets and marketing capabilities. This strategy has been pursued most strongly by Chinese MNEs, but has also been adopted by Indian, Brazilian and Russian MNEs and predominantly involves acquisitions of companies based in developed economies.

In industries where the technology is relatively mature and customer needs tend to be well defined (sometimes referred to as ‘sunset industries’) such as steel, petrochemicals and even business process outsourcing, EMNEs tend to use cross-border M&A to promote global industry consolidation. This helps them to reap greater economies of scale and scope, gives them the opportunity to transfer and leverage FSAs developed in their home markets where these industries enjoy a favourable environment and remain dynamic and potentially to increase their market power. Interestingly, cross-border M&A in these industries also allow EMNEs to acquire capabilities and knowledge that have been ‘orphaned’ by the decline of volume product in these industries in developed markets and to redeploy these assets (be they physical plants that are dismantled and relocated or technicians or intellectual property that can be transferred) in their vibrant home-market operations or in other emerging markets. Brazilian, Chinese and Indian MNEs most commonly adopt this strategy.

In other cases the role of cross-border M&A is primarily to allow the EMNEs to enhance its competitive advantage by pursuing a strategy of vertical integration. In resource-based industries this type of M&A tends to be used as a tool to create long value chains designed to achieve increased market power, control of distribution and access to customer intelligence as well as to reduce transactions costs and promote security of the supply chain. In industries where EMNEs’ goal is to participate in a more limited range of activities (short value chains) the primary roles of acquisitions are to secure access to customer intelligence or accelerate the building of capacity to provide local distribution or service.

The primary attraction of M&A as a tool for achieving any of these goals appears to be speed. As latecomers, many EMNEs see themselves
in ‘catch-up mode’ with a limited window of opportunity to close the gap with global incumbents. The opportunity to use M&A as a route to accessing assets (especially intangibles) that are slow and costly to build or are in scarce supply is therefore alluring. If successfully integrated, they allow the acquirer to gain speedy access to people, knowledge and capabilities that would otherwise be slow and difficult to assemble, and/or a way to rapidly reconfigure the firm’s value chain. Speed is particularly attractive to EMNEs who generally operate in fast-changing markets both at home and in other developing markets that are often their key targets in which to win market share.

The extent to which EMNEs are using cross-border M&A as a tool to achieve improved competitive advantage in these ways varies by country of origin. As the commentaries by Collinson and Sarathy in Part III of this book demonstrated, the factors behind these differences include stimuli and support from some governments, the lack of support from other governments, the strong cash position of some late-movers, the evolution of exchange rates, the role of diasporas and the political and regulatory barriers EMNE acquirers from some countries face in foreign markets. At the same time, EMNEs seem to show preference for cross-border acquisitions where cultural distance is low or, if the capabilities they require are only available in unfamiliar or culturally dissimilar environments, where they can use ethnic diasporas to help bridge the gap.

**Generalisations and theoretical implications**

We turn next to some generalisations about the competitive advantages of EMNEs, including how those are shaped by the home country context, how they are different from the competitive advantages of DMNEs and the managerial challenges of enhancing advantages through internationalisation. Throughout, we keep an eye out for areas in which EMNEs appear to differ from DMNEs, because such dissimilarities can point us to the limitations of existing theory, which is based largely on studies of DMNEs.

**Country-level variables**

We begin by considering country-level factors that affect the competitive advantage of EMNEs.
Country of origin and competitive advantage: differences among the BRICs

A recurring question in the literature is whether the nationality of MNEs matters. Some have argued that the behaviour of multinationals transcends their national origin (Wilkins, 1986, quoting Vernon on p. 202; Rugman, 2009), while others have argued the opposite (e.g. Mathews, 2002; Luo and Tung 2007). Indeed, the booming literature on EMNEs rests on the premise that these firms are different because they hail from emerging economies. Our view is closer to the latter position, but with an important caveat: country of origin is only one contextual factor shaping the internationalisation of EMNEs and, analytically, its effect must be disentangled from that of other contextual variables that also matter (Ramamurti, 2012). With this caveat in mind, we consider the evidence in this volume about how the home country affects the competitive advantage of EMNEs, looking for commonalities as well as differences across the BRICs.

The most obvious commonality among the BRICs is economic size; after all, these are the four largest emerging economies. But even on this variable, it should be noted that China’s gross domestic product (GDP) is greater than that of the other three combined; by 2011 China was the only one to have reached the upper ranks of the G6 economies.

A second commonality among the BRICs is their technological and industrial heritage. All four countries have a long history of technical capabilities. Before the industrial revolution, China and India were the world’s top two industrial economies, and over the decades Brazil gained substantial technical capabilities through catch-up efforts, especially in the natural resources and basic inputs industries (Fleury and Fleury, 2011). Russia was a military superpower, and two of the other three BRIC countries were also nuclear powers. Today, all four also have educational institutions that produce first-rate technical and scientific talent.

On several other variables, however, the BRICs are a heterogeneous group (a diversity mirrored in the different research designs adopted by the chapters in these book). Brazil and Russia, for instance, have large endowments of natural resources, with huge exportable surpluses, unlike China and India, which are huge net importers of natural resources. China and India have populations six to eight times those of Brazil or Russia. A similar disparity exists in the size of their labour forces and wages, although the disparity in wages has been narrowing,
because of wage escalation in the last few years in China and India. Finally, the BRICs differ significantly in the ability of their governments to lead and manage economic development, with the Chinese government being head and shoulders above the rest on this dimension.

All this is simply another way of saying that the country-specific advantages (CSAs) of the BRICs have both similarities and differences, which in turn influences the competitive advantage of their EMNEs and the generic internationalisation strategies (Ramamurti and Singh, 2009a: 410–16) they follow.

In all four countries, the large and fast-growing home market has helped local firms develop products optimised for the local market, which provided the basis for international expansion into other emerging economies, particularly within the region (e.g. Chinese firms in white goods, Brazilian firms in processed food, meat, steel and metal-mechanical engineering, Russian firms in telecoms and Indian firms in transportation equipment and pharmaceuticals). The countries’ technical and industrial heritage has meant there were local firms with the absorptive capacity to master, adapt and integrate imported technologies. Coupled with a large home market, EMNEs from the BRICs have also produced many ‘global consolidators’ in mature industries, such as steel, cement, autos, chemicals, white goods, beverages and processed foods.

Differences among the BRICs, meanwhile, account for differences in the industries in which EMNEs operate in each country and their motivations for internationalisation. Thus, for example, the Russian economy is dominated by the natural resource sector, which has not only meant that the largest Russian MNEs belong to this sector but that the emergence of MNEs in other sectors has probably been stifled, for instance, by the impact of resource-based exports on the strength of the rouble (Panibratov, 2012). China and India, with their voracious appetite for resources, have seen some of their largest EMNEs go abroad in search of natural resources, rather than downstream in search of markets. In all four countries, however, ‘natural resource vertical integrators’ are among the largest EMNEs.

On the other hand, low-income China and India have been more attractive locations than middle-income Brazil or Russia for labour-intensive, low-skill activities. China and India have therefore spawned ‘low-cost partners’ that have internationalised over time to become MNEs in their own right. Much of the initial investment in low-end
assembly work in China was made by Hong Kong and Taiwanese firms rather than local firms, as a result of which those firms seized a big part of the opportunity for labour-cost arbitrage (e.g. Foxconn and Acer from Taiwan, or Early Light from Hong Kong). To be sure, Chinese firms do so as well, for example Galanz in microwaves and Lenovo in PCs. But because such labour arbitrage can be replicated by competing firms, it offers limited scope for underpinning sustainable profits. This fact has led Chinese and Indian firms both to innovate and to search for new competences and knowledge abroad in an attempt to counter downward pressure in their margins. Labour-cost arbitrage in low-skilled work, by contrast, had less scope in middle-income Brazil and Russia. But there was some potential for labour arbitrage in higher skill work, such as engineering, design or software development. This led to a different industry focus and possibly more emphasis on the potential of internationalisation as a way to exploit these advantages, so that the chapters in this volume identified a number of EMNEs in such medium-skilled activities in both countries.

Country of origin and competitive advantage: similarities among the BRICs

Even though the BRICs are different from one another, as a group they are all still quite different from developed countries. This means that EMNEs from the BRICs are likely to share some common differences with DMNEs, notwithstanding their internal differences.

One such common difference is that, compared to incumbent DMNEs, EMNEs are in the early stages of evolution as multinational enterprises (Ramamurti, 2009a: 419–22). Therefore, their competitive advantages are likely to be more heavily influenced by their home-country CSAs, such as the endowment of natural resources, low-cost labour or sizeable home markets. Other home-market characteristics, such as the need to offer potential customers exceptional value-for-money to unlock mainstream demand, or the need to cope with dispersed potential customers, undeveloped hard and soft infrastructure, archaic distribution networks or volatile government policy, encourage EMNEs to find innovative solutions for these challenges. In the process, they create distinctive competitive advantages, or firm-specific advantages (FSAs), that can underpin internationalisation.

Second, because EMNEs from the BRICs share the common feature of being late-comers to globalisation and internationalisation, they are
faced with entrenched multinational incumbents in many global markets that have accumulated large stocks on knowledge and other intangible assets. In order to compete, therefore, we can expect them to view internationalisation more as a means of accessing new competences and learning opportunities than was the case for DMNEs, which generally ventured abroad in search of new markets or low-cost production sites.

Third, given that the BRICs are lower cost locations than most developed countries (especially in the case of China and India), EMNEs from these countries have less incentive than DMNEs to relocate core production or service operations to other countries. Of course as wages and salaries rise in the BRICs because of rapid economic growth, they too will look for alternative locations at which to perform some core activities – witness the movement of call centre work by Indian IT-service firms from India to the Philippines.

**Role of government**

Government played an important but variable role across the BRICs in enhancing the competitiveness of local firms. In China, the government is generally competent and helped modernise the country’s infrastructure, strengthen educational facilities, create special economic zones and pursue industrial policies effectively. In none of the other countries was the government nearly as capable. In Brazil, the initial reluctance to support internationalisation shifted, after 2005, to an ambiguous and controversial programme to pick national champions (Fleury and Fleury, 2011). In Russia, the government was powerful and arbitrary, and quite capable of expropriating private firms or their profits at will. In India, the government was widely seen as inept. In both India and Russia, part of the motivation for internationalisation by local firms was ‘system escape’, that is, the desire to flee the country’s unattractive business environment.

The role of the government also varied in terms of the extent of state ownership of key firms. China is probably at the high end of the spectrum, with SOEs controlled by the central government being among the largest firms in the country. In Russia, some of the large firms in the oil and gas sector were SOEs, while in Brazil and India the largest MNEs were mostly privately owned (although in Brazil, some of the largest are privatised SOEs).
In Rugman’s CSA–FSA framework (Rugman, 2009), CSAs include natural endowments such as land, natural resources, labour, location, climate and so on, and FSAs consist of firm-level assets and capabilities that contribute to competitive advantage. To this scheme, it is helpful to add a third category of advantages that might be labelled ‘government-specific advantages’ (GSAs), which captures the quality of government-created assets and the quality of governance, reflected in the competency of policy makers to fashion and implement effective policies, including industrial targeting (see Figure C.2).

**Firm-level variables**

We turn next to firm-level factors that appear to affect the competitive advantage of EMNEs.

**Intangible assets of EMNEs**

Among the puzzles EMNEs pose to international business theorists is the notion that they appear to be multinationals without ‘ownership advantages’, but this view is based on the flawed assumption that their ownership advantages must be the same as those of DMNEs, e.g. the possession of proprietary technology or global brands (Ramamurti, 2012). The theoretical argument about when MNEs will exist does not require firms to possess these specific FSAs; it only requires them to possess intangible assets whose exploitation in other countries is best done through hierarchy (that is, through internalisation by the firm) rather than arm’s-length market transaction (Dunning, 1988; Buckley
and Casson, 1976). Therefore, the question is, do EMNEs possess any valuable intangible assets that might form the basis for internationalisation? Framed this way, our studies show that EMNEs do indeed possess many valuable intangible assets, and their internationalisation does not depend only on country-specific advantages (as asserted by Rugman, 2009).

We have discussed two examples of such intangible assets – the capacity to innovate and the capacity to configure and manage the value chain across multiple countries, including the home country. Innovation by EMNEs involves reinventing existing products, processes and business models, though not necessarily the development of entirely new products based on cutting-edge technologies (as with DMNEs). This innovation capability is based on deep insights into emerging-market customers, and how best to satisfy those needs at the right price points. Gathering, analysing and making sense of all the underlying information requires intangible assets, such as the capability to hire the right people, gain the right intelligence and develop the right products for emerging markets. Similarly, process innovation requires capabilities in technology absorption, process optimisation to suit local factor costs and so on. The mainstream literature takes an overly narrow view of innovation, measuring it only in terms of a firm’s R&D-intensity or the size of its patent portfolio.

The same is true of value-chain optimisation, which requires, first and foremost, knowing how to leverage the low-cost talent and resources of emerging economies, where EMNEs usually have the largest share of their workforce and assets. Developed country firms often struggle to operate effectively in the unpredictable, unstable environment of emerging economies, whereas EMNEs, having grown up in that environment, are adept at doing so; this is a non-trivial capability. In addition, EMNEs have had to learn how to leverage suppliers and knowledge abroad, including in advanced countries.

The thirst for learning
Our studies offer several interesting findings about the role of knowledge and learning in EMNEs. The earlier discussion about FSAs made one such point, namely, that one must not underestimate the tacit knowledge and know-how required to execute the unglamorous aspects of the value chain, such as manufacturing or assembling products. Stan Shih’s famous ‘smiling curve’ (Bartlett and Ghoshal, 2000)
may give the wrong impression that manufacturing, which is viewed as a low value-adding stage, does not require tacit knowledge or intangible assets. We believe that intangible assets and tacit knowledge exist in all stages of the value chain.

Moreover, we believe that EMNEs can and do move up the smiling curve to higher value-added activities over time, even if they began as ‘low-cost partners’ of DMNEs (Ramamurti, 2009a), e.g. Indian software companies. EMNEs aspire to control more stages of the value chain, including upstream research/innovation and downstream branding/marketing, although their ability to do so may depend on their relative position in the governance of the value chain. In the natural resources sector, Brazilian and Russian firms have integrated backwards to find additional supplies, or forwards to control downstream stages of the value chain. As already discussed, a popular method for EMNEs to get into other stages of the value chain has been cross-border mergers and acquisitions.

A second point is that EMNEs are not content to sit still with their existing stock of knowledge and capabilities, but are looking to build on it. The simple low-cost assembler becomes also a low-cost designer and perhaps later a low-cost innovator. In earlier research, there is reference to the original equipment manufacturer (OEM) growing into the original design manufacturer (ODM), and eventually becoming a full-fledged original brand manufacturer (OBM) (Amsden and Chu, 2003). In other words, EMNEs may start with low-end manufacturing but over time acquire capabilities in design and innovation. There appear to be compelling advantages in co-locating manufacturing, design and innovation, not just with one another but also in the most dynamic markets. EMNEs are obvious actors for bringing the manufacturing–design–innovation nexus to emerging markets, which were the hottest markets in the 2000s for many products. As EMNEs migrate up in the value curve, developed countries are apt to find that their own economies are being ‘hollowed out’.

A third point about knowledge and learning highlighted by our studies is that EMNEs may be better learners than DMNEs. One reason for this is that EMNEs are painfully aware that they are late-movers in their industries and cannot live off their technological lead and cutting-edge products. Ever since their home countries embarked on economic reforms in the 1990s, EMNEs have lived with the fear of being overrun by DMNEs with strong brands and superior products in
their home markets. As a result, unlike DMNEs, EMNEs have felt weak and vulnerable, with strong incentives to reduce the technology and knowledge gap with DMNEs.

A fourth point gleaned from our studies is that EMNEs know quite well the gaps in knowledge and intangible assets that they need to plug through learning, imitation or M&A in advanced countries. In terms of the exploitation–exploration framework proposed by March (1991), it has been suggested that EMNEs often internationalise with the intent of exploring for new knowledge and acquiring new capabilities rather than exploiting existing capabilities. We agree with this general characterisation, with some caveats to follow, but we believe that ‘exploration’ is too open-ended a term to capture what EMNEs do when they venture abroad, because in fact they go in search of very specific capabilities that are missing in their capability portfolios. Late-movers have the advantage of being able to learn from the experience of first-movers, whereas first-movers must live with greater uncertainties about new and untested technologies or new and unproven customer needs.

A new dispersion of knowledge, capabilities and markets
Another important difference between DMNEs and EMNEs is the geographical distribution of their core capabilities and their principal markets. DMNEs typically began with a technological lead of some sort in the home market, which was exploited later in foreign markets. Core technological competencies continued to be based at home (or in the home region), which was often also the single most important market (or region) for the DMNE. As foreign markets grew in importance, the DMNE had to learn about those markets and integrate that market knowledge with technical knowledge residing at home. Over time, mature DMNEs began to do even some of their R&D in other countries (Kuemmerle, 1997; Cantwell and Mudambi, 2005). On the other hand, EMNEs tried to reduce their technological gap with DMNEs by acquiring companies in developed countries. The result is that the most advanced knowledge resources of EMNEs (people, labs, relations with the technical community) are in far-away developed countries, while their most important markets are closer to home. This spatial distribution of resources and functional capabilities is not only different from that of most DMNEs, but we suspect it may also be harder to integrate far-flung R&D with home markets than it is to exploit home-based
R&D in far-flung markets. Further research is needed to understand more deeply the managerial implications of this hypothesised difference and how EMNEs are coping with the resulting challenges.

Replacement of incumbents in mature industries

The ‘global consolidator’ strategy is pursued by EMNEs in industries that have matured in developed countries but are booming in emerging economies, e.g. cement, steel, chemicals, paper, processed food, beverages and so on (Ramamurti and Singh, 2009a: 140–6). In these cases, assets and capabilities are often atrophying in the developed world, because firms are in a downward spiral with declining local demand, legacy liabilities and uncompetitive cost structures, while the capabilities potentially have great value in emerging markets, where demand is expanding and moving upscale. EMNEs seem to play an important role in leveraging capabilities that have been ‘orphaned’ in developed countries by applying them in emerging markets, through the acquisition of firms, people or assets in developed countries. EMNEs are likely to find that their main rivals for these assets are EMNEs from other emerging economies. The reason for this, presumably, is that EMNEs can generate more value with those capabilities than developed-country firms, because of their ability to apply the capability to high-growth emerging markets. Firms in these industries in developed countries are often not well placed to seize these opportunities in emerging markets, because local firms enjoy first-mover advantages in the emerging market and can be hard to acquire because of impediments that range from regulatory restrictions through to lack of transparency and the desire of family owners to maintain control.

In fact, it may prove easier for EMNEs to transfer codifiable technological capabilities and process know-how acquired abroad back to their home countries than it is for DMNEs to acquire and internalise the more tacit and messy knowledge they would require to successfully expand in emerging and developing country markets. This raises the possibility that EMNEs could pursue a two-stage strategy (termed the ‘double handspring’ by Williamson and Raman in Chapter 12). First, EMNEs acquire foreign technology, know-how and the services of experienced staff and deploy these in their home market to strengthen their competitive advantage and build a strong position at home. In a second stage, they could then use this home-base position as a newly powerful platform to capture share in the global market.
Beyond the BRICs

As the largest of the emerging economies, the BRICs understandably have been singled out for study by us and others, but a broader group of countries has also attracted attention in recent years. This includes the ‘CIVETS’, which stands for Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa (Economic Intelligence Unit, 2009; HSBC, 2010), or the ‘N-11’, which consists of all of the CIVETS except Colombia and South Africa, plus Bangladesh, Iran, Mexico, Nigeria, Pakistan, Philippines and South Korea (Goldman Sachs Asset Management, 2005). To what extent would findings from our BRIC sample apply to these or other emerging economies?

The answer follows from our earlier discussion of the effect of home country on the competitive advantage and internationalisation strategy of EMNEs. Despite the heterogeneity among emerging economies, some features are likely to be common to all EMNEs. Drawing on the earlier discussion, it can be hypothesised that EMNEs from the CIVETS or N-11 will share the following features with their BRIC cousins but not with their DMNE predecessors:

- the competitive advantages (FSAs) of EMNEs will be shaped by home-country CSAs, which will cast a longer shadow on their competitive advantage than is the case with mature DMNEs, which already tap into the locational advantages of many countries;
- those competitive advantages will rarely be based on cutting-edge technology or global brands but rather on innovation that involves product adaptation, process improvisation and novel business models. To the extent that the CIVETS or N-11 offer substantive CSAs, we would predict that EMNEs will start to emerge from those countries in increasing numbers and significance. The idiosyncratic advantages of these EMNEs will almost certainly differ from those of multinationals from developed countries. For example, several ‘multilatinas’ from Spanish-speaking Latin America have developed distinctive advantages in environmentally sustainable processes, including Costa Rica in coffee, Colombia in coffee and flowers, and Chile in fruit, salmon and wine;

2 It is curious that Goldman Sachs included South Korea in this set, given that it was one of the earliest to embrace globalisation and whose largest MNEs could be regarded as mature MNEs.
EMNEs from the CIVETS, N-11 or other emerging economies will internationalise at a faster pace than DMNEs did at the same stage of evolution but not unlike today’s early-stage multinationals in developed countries, which are also internationalising in a world that is flatter and more integrated;

- as latecomers, learning and the acquisition of intangible assets, such as technology and brands, will be a more important motivation behind their internationalisation than is the case with established DMNEs;
- the evolution of their VCCs will likewise resemble that of the BRIC MNEs, with core production operations remaining at home, and technology or R&D activities undertaken abroad, often in developed countries;
- given their motivation to catch up with DMNEs, and their propensity to be strong in mature (or sunset) industries, EMNEs are likely to resort extensively to cross-border M&A, often in developed countries.

At the same time, MNEs based in the CIVETS or N-11 will differ from one another based on their home-country context, just as EMNEs from the BRICs differ from one another. For instance:

- those from countries with exportable surpluses of natural resources (e.g. South Africa, Nigeria, Indonesia), will find themselves integrating forwards to secure downstream markets, and those from countries with resource deficits (e.g. Egypt, South Korea) will integrate backwards to secure resources abroad;
- those from countries with large home markets (e.g. Mexico, Turkey) will use that to gain scale in mature industries, first at home and then globally (e.g. Cemex in cement, SABMiller in beverages, or Koç in Turkey);
- those from countries with large pools of low-cost labour (e.g. Philippines, Vietnam and Indonesia) will begin as low-cost partners of Western firms, and then become multinational themselves, as firms from China or India have done. However, if for any reason local firms are slow to seize these opportunities, the vacuum may be filled by EMNEs from other emerging economies (such as Taiwan, South Korea, China or India).

One dimension on which the BRIC sample is clearly unrepresentative of all emerging markets is the size of the home economy, because even
the smallest of the BRICs would be a giant compared to most emerging economies. Therefore, our study cannot shed light on the kinds of MNEs that small and medium emerging economies will spawn. We would only add that small economies in the developed world, such as Canada, Israel, Netherlands and Switzerland, have produced several important MNEs, as have South Korea and Taiwan, among the ‘newly industrialised countries’ (NICs). It is therefore entirely likely that some small emerging economies, including those smaller than the CIVETS or N-11, will also produce home-grown MNEs. No evidence from our project supports or contradicts this prediction, but it is a promising topic for further research.

Managerial and policy implications

Our findings in this book concerning the competitive advantages of EMNEs and their evolution have a number of more general implications for managers and policy makers. Perhaps the most over-arching message is that EMNEs and their likely impacts on global competition and the geographic configuration of activities should not be underestimated. EMNEs are rapidly becoming an important force in shaping the global economic landscape. Yet the power of their competitive advantages is easily overlooked. One reason is that their advantages tend to be different from those of established DMNEs. Rather than strong brands or technologically leading edge products, EMNEs’ competitive advantages tend to lie in process capabilities, unconventional types of innovation and new business models (particularly those that help EMNEs deliver unmatched value for money to mass-market customers). Another reason why EMNEs are sometimes underestimated is that many of their relative strengths lie in dealing with volatile environments, limited infrastructure and ‘institutional voids’ (Khanna and Palepu, 2005) that characterise many of the world’s high-growth, emerging and developing markets rather than the environments of mature economies that are widely viewed as more sophisticated. As we look to the future, however, the capabilities to win the competitive battles in emerging markets may be precisely those that are required to succeed in the next round of global competition. This suggests that to succeed in the future incumbent multinationals may need to focus more attention on building some of the skills and capabilities enjoyed by EMNEs to complement their own portfolios of advantages. Rather
than simply a question of EMNEs playing a game of ‘catch-up’, maybe a race between EMNEs and DMNEs to equip themselves to thrive in new global competitive landscape of tomorrow has begun.

Another implication from the analysis in this book is that the emphasis we observed EMNEs place on using internationalisation as a way to access new, complementary capabilities and as a route to learning relative to incumbent DMNEs suggests that the current gaps between the technologies and capabilities available to EMNEs and DMNEs may well close more quickly than many observers assume. Moreover, many of the leading EMNEs we examined in this study are extending their VCCs abroad and using cross-border M&A not only to catch up with DMNEs, but also to access complementary capabilities, knowledge and resources to fuel their innovation engines. While there is still a wide gulf in experience and organisational maturity between most EMNEs and DMNEs, therefore, managers of DMNEs need to be alert to the growing possibility of innovative and potentially disruptive competition from EMNEs in global markets. As EMNEs gain experience and expand their capability bases this new, disruptive competition will not be confined to low-end segments and low-value added activities; EMNEs will increasingly compete by adding value to their offerings.

In parallel, our findings suggest that as EMNEs develop their capabilities, they are increasingly competing for greater control of the global value chains. Historically many EMNEs focused on particular stages of the global value chain (such as low-cost assembly operations). Some EMNEs will continue to concentrate in a limited number of value-generating steps, operating as ‘value-chain joiners’ and seeking to compete by achieving greater scale and efficiency. But a significant number of the EMNEs from the BRIC countries we studied are moving to become ‘value-chain creators’, seeking to control the global value chain for their products and services. In some cases this shift is achieved by integrating forward from a strong resource base to gain control of value-added activities in processing, distribution and marketing. In other cases, EMNEs are using strong positions in their large domestic markets, and their associated economies of scale, as a base for which to extend their own value chains overseas. For managers of DMNEs this means that competition from EMNEs will not simply be for particular activities; increasingly DMNEs will need to compete with alternative global value chains constructed by EMNEs and designed to leverage their own innovations and capabilities.
Likewise, our findings suggest that some EMNEs have distinctive advantages and managerial mind-sets that help them drive consolidation of existing value chains in industries that are considered ‘mature’ in developed economies (such as steel making and bulk chemicals). While these industries are seen as being in decline in developed markets, they remain growth industries in emerging economies. Our findings suggest that this encourages the management of EMNEs to see greater potential in these industries, including opportunities to deploy the process capabilities developed at home to drive up productivity and share economies of scale, as well as a greater willingness to invest in restructuring and renewal. EMNEs are also acquiring and accessing pockets of capabilities and technology ‘orphaned’ by the decline of production capacity in these industries that they can use to complement and extend the capabilities they have built in their operations at home and in other emerging markets. Managers in developed economies should therefore expect increasing competition from EMNEs in these industries as they deploy these ‘contrarian’ approaches and gain the scale and scope benefits by driving further global industry consolidation.

Our findings also suggest a number of implications for policy makers. There is a clear trend towards increased foreign direct investment (FDI) by EMNEs. Although this varies by country of origin, EMNEs from the BRICs together are investing right along the value chain from natural resources, through production, technology and R&D, distribution and brand building. This FDI spans different modes from greenfield establishment of subsidiaries through joint ventures and partnerships to cross-border M&A. As FDI by EMNEs continues to rise in importance, regulatory and political issues will inevitably arise by virtue of the fact that EMNEs are headquartered in countries with different institutional contexts from those of many of the recipient countries. Among these differences are the degree of state ownership (China and Russia being particular examples), levels of transparency and disclosure requirements, and the degree of development and effectiveness of ‘soft infrastructure’, such as legal and regulatory systems. Such differences arise most starkly when EMNEs invest in developed economies – a trend that we can expect to continue in view of the important role these investments play in EMNEs’ strategies to build competitive advantage. Policy makers will need to develop ways of resolving these tensions if they are to avoid costly frictions and lost opportunities as EMNEs continue to globalise.
More generally, as EMNEs become a more powerful force in the global economy, policy makers will need to decide how and where EMNEs fit into their national economic strategies. In some emerging and developing economies this raises issues of perceived over-dependence and potentially excessive market power of EMNEs in national economies – especially in the case of EMNEs from large economies with access to deep pockets and considerable resources. Policy makers in developed economies, meanwhile, will need to adapt to the on-going shift of EMNEs to higher value-added activities, greater control of global value chains, and an increasing role as potential investors and acquirers of existing businesses. Some national governments will see these developments as an opportunity and welcome EMNEs as potential job creators. Singapore, for example, is actively promoting itself as an attractive location from which Asian EMNEs can run their international networks, and London is seeking to position itself as a key node for Chinese banks in the growing market in off-shore renminbi transactions. Other countries, meanwhile, have welcomed EMNEs, especially global consolidators from Brazil and India, to assist in restructuring industries that have faced excess capacity and declining fortunes.

Elsewhere, politicians and policy makers may perceive the continued rise of EMNEs as a threat both to established competitors headquartered in their countries and to employment and wage levels of the local citizens. They may attack what they regard as unfair competition and artificial subsidies provided by governments in EMNEs’ home countries. As we have seen in this book, governments do adopt policies that directly and indirectly support the expansion of their home-grown EMNEs (as well as sometimes hindering them). But it is also clear from our findings that successful EMNEs have built real and distinctive competitive advantages and seem set to continue to strengthen these advantages in the future. Policy makers in host and home countries, as well as in organisations concerned with international governance, need to recognise and adjust to these new realities. Host country policies and international governance will need to adapt to the rising importance of EMNEs alongside DMNEs in the global economic system. Meanwhile, governments in emerging economies will need to consider policies that promote the role of EMNEs in national development and enhance their international competitive advantage.