EMERGING MARKETS GLOBAL PLAYERS REPORT COMPARISON

Brazil

China

South Africa

Hong Kong, Sept 29th, 2017
Columbia Center for Sustainable Investment - CCSI

Columbia Center on Sustainable Investment

A JOINT CENTER OF COLUMBIA LAW SCHOOL
AND THE EARTH INSTITUTE, COLUMBIA UNIVERSITY

- *The Columbia Center on Sustainable Investment (CCSI), a joint center of Columbia Law School and the Earth Institute at Columbia University, is the only university-based applied research center and forum dedicated to the study, practice and discussion of sustainable international investment.*

Columbia's Earth Institute blends research in the physical and social sciences, education and practical solutions to help guide the world onto a path toward sustainability.

SCIENCE + COLLABORATION + EDUCATION = SUSTAINABILITY

Emerging Market Global Players (EMGP)

- The Emerging Market Global Players (EMGP) project, a collaborative effort led by CCSI
- Brings together researchers on FDI from leading institutions in emerging markets to gather original data Identify the top multinationals from each of a number of emerging markets and gather detailed
- Discuss issues, including the underlying policy context influencing outward investment from those emerging markets and the impact of the MNEs on sustainable development.

Authors

- Henri Bezuidenhout
  - North-West University : South Africa
  - Henri.Bezuidenhout@nwu.ac.za

- Hsia Hua Sheng
  - Fundação Getulio Vargas : Brazil
  - hsia.sheng@fgv.br

- Cui Xinjian
  - Central University of Finance and Economics (CUFE) : China
  - xinjiancui@cufe.edu.cn

- Jose Marcos Carrerra
  - Fundação Getulio Vargas : Brazil
  - josemarcoscj@gmail.com

- Jacob Janse Van Rensburg
  - North-West University : South Africa
  - vanrensburg.jacob@gmail.com

Objective

- This report aims to synthetize and to compare the results of the Emerging Markets Global Players (EMGP) reports of Brazil, China and South Africa, the largest Emerging Markets from Latin America, Asia and Africa respectively

- This analysis can provide useful insights regarding the profile of the largest non-financial multinational enterprises (NFMNEs) from Emerging Markets

- Unfortunately, we do not have access to the Chinese result in 2015, therefore we are comparing the Chinese figures of 2013 with the Brazilian and with the South African ones of 2015

Theoretical Background

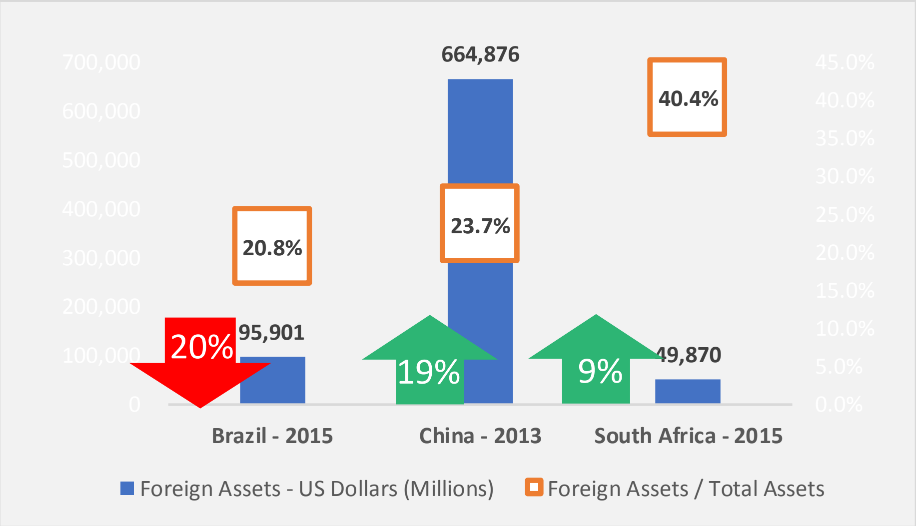
- Dunning OLI Theory
  - Ownership, Location & Internalization

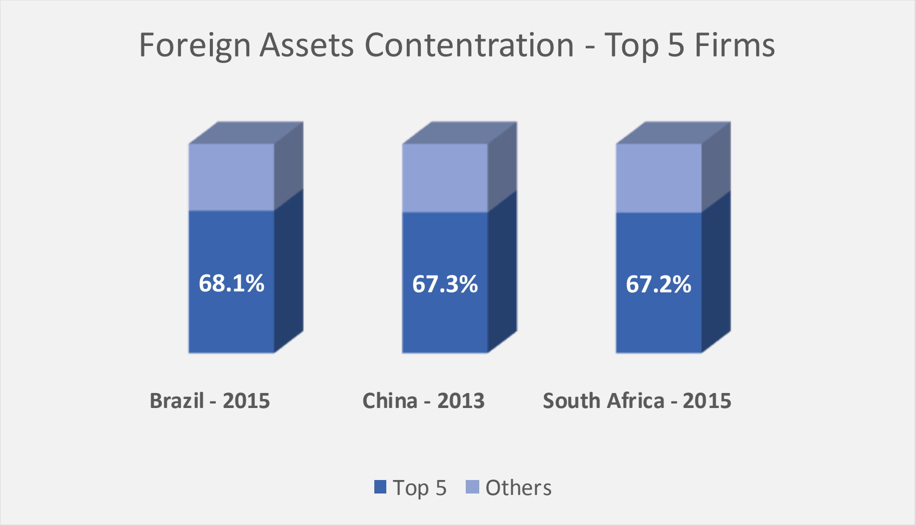
- FDI Drivers
  - Market Seeking
  - Resource Seeking
  - Efficiency Seeking
  - Strategic Asset Seeking

- This Area is where we still need real inputs!

Foreign Assets

In absolute figures, we can say that the top 20 Chinese NFMNEs are larger and have a higher volume of assets abroad. In relative terms, on average the top 20 Chinese NFMNEs are less internationalized.

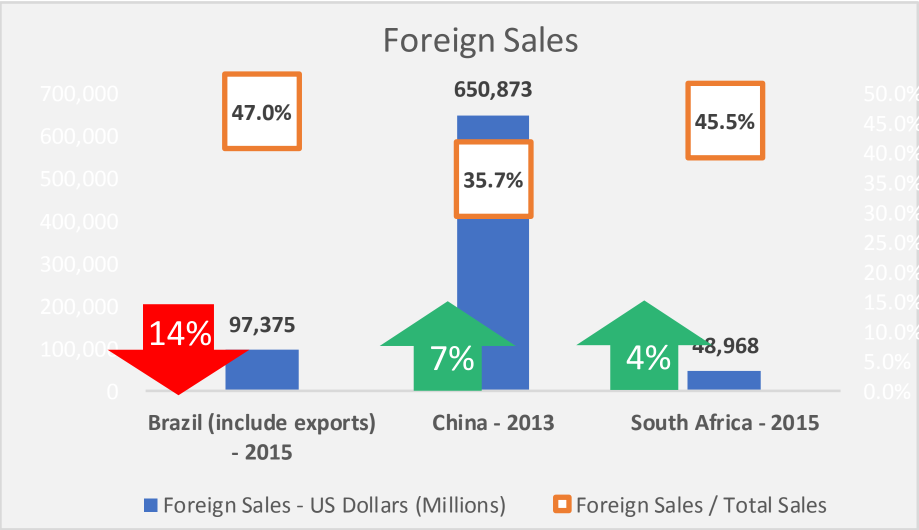


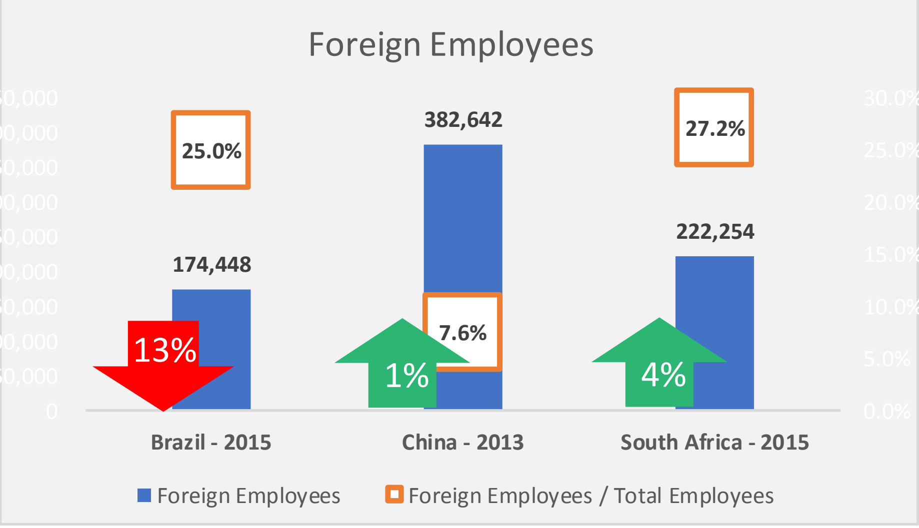


- The top Chinese NFMNEs were larger and had a higher presence abroad in comparison to their counterparts from other emerging markets (15 out of the top 20 Chinese NFMNEs were ranked among the Fortune Global 500 in 2013)
- Brazil and China have a larger internal market in comparison to South Africa, and many of the outputs of their companies are targeted to their domestic clients
- There was a concentration of foreign assets in the top-5 firms
- The foreign assets of the Chinese and of the top 20 South African NFMNEs have been expanded in recent years
- Brazilian NFMNEs, unlikely, decreased in size in 2015 in a scenario of economic and political crises

Foreign Sales and Foreign Employees

The same pattern observed previously regarding the foreign assets can also be observed in foreign sales and foreign employees.

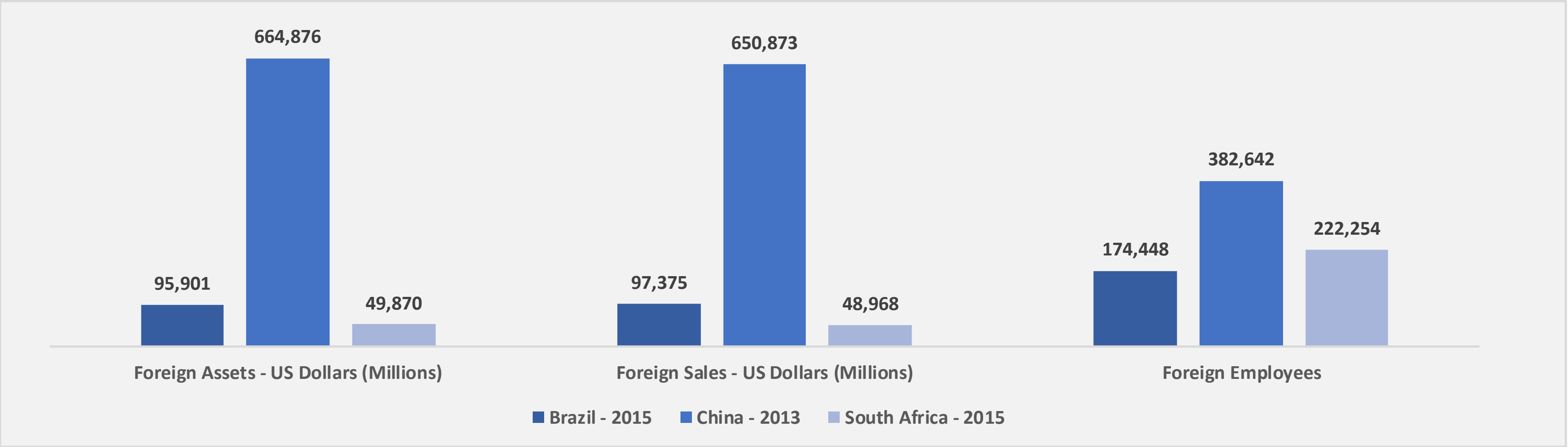


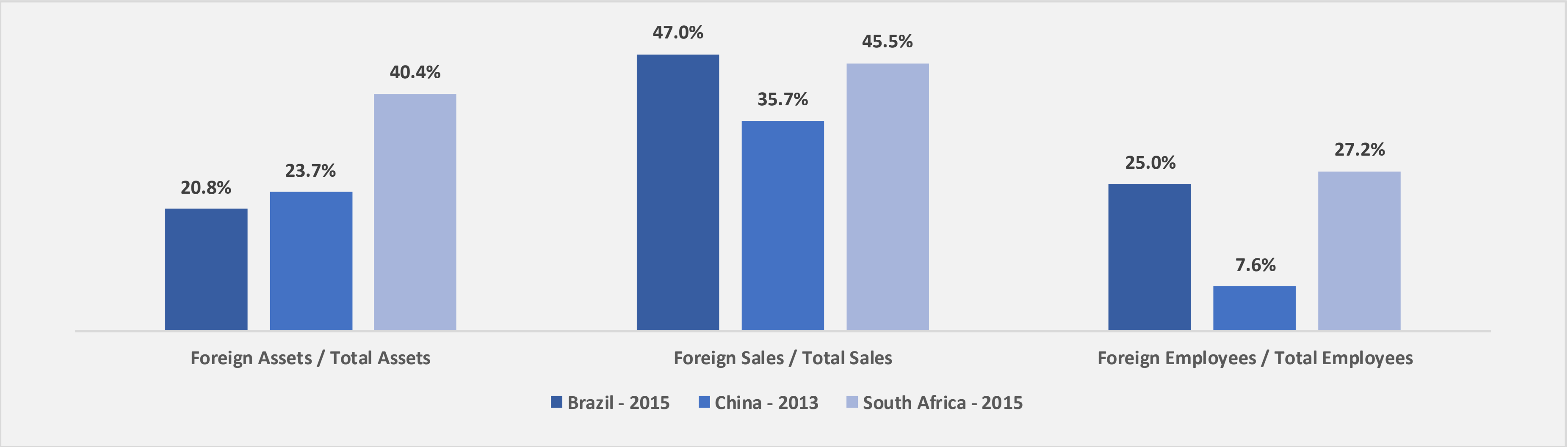


- The foreign sales and foreign employees of the top 20 Chinese NFMNEs also exceed by far the foreign sales and foreign employees of the top 20 Brazilian and of the South African NFMNEs
- The proportion of foreign sales was larger than the percentage of asset abroad for all the three countries
- The same trend observed in foreign assets growth is also observed when we look at foreign sales and foreign employees
- The foreign revenues and foreign employment of the top 20 Chinese and of the South African NFMNEs have been expanding in recent years
- In the opposite direction, the foreign sales and foreign employment of the top 20 Brazilian NFMNEs decreased in 2015

Foreign Assets, Foreign Sales and Foreign Employees Consolidated

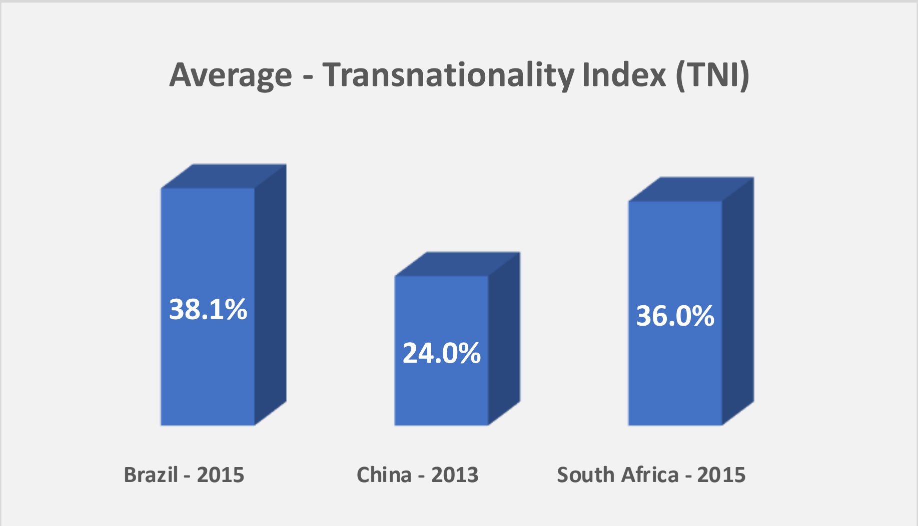
In absolute figures, we can say that the top 20 Chinese NFMNEs are larger and have a higher presence abroad. However, in relative terms, on average the top 20 Chinese NFMNEs are less internationalized



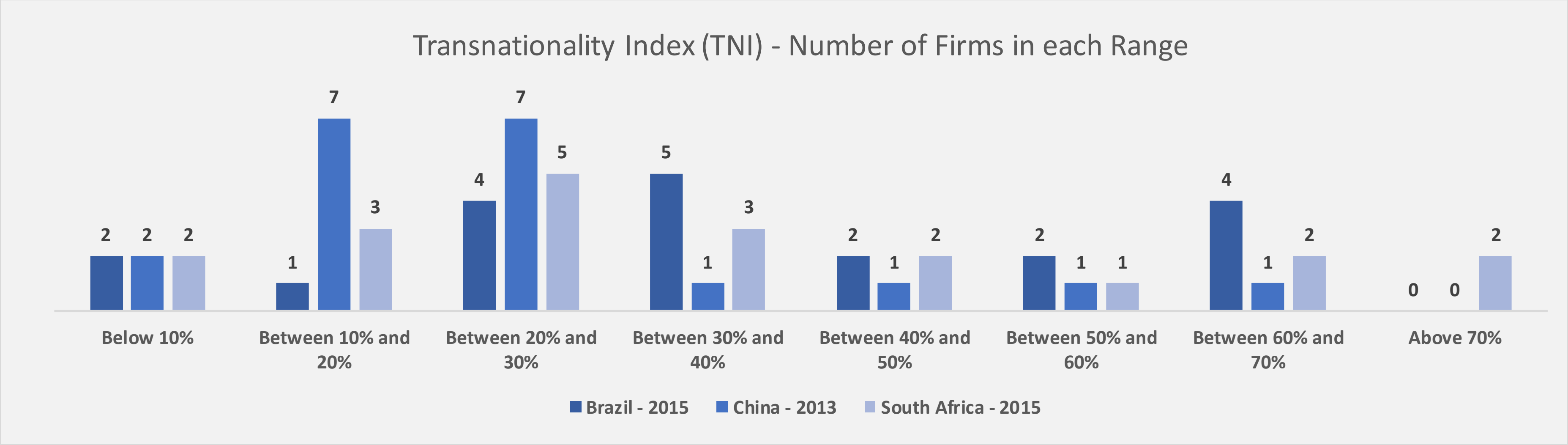


Transnationality Index (TNI)

The average TNI of the top 20 Brazilian NFMNEs was the largest among the three counties, followed by the average of the South African NFMNEs and by the average of the Chinese NFMNEs.

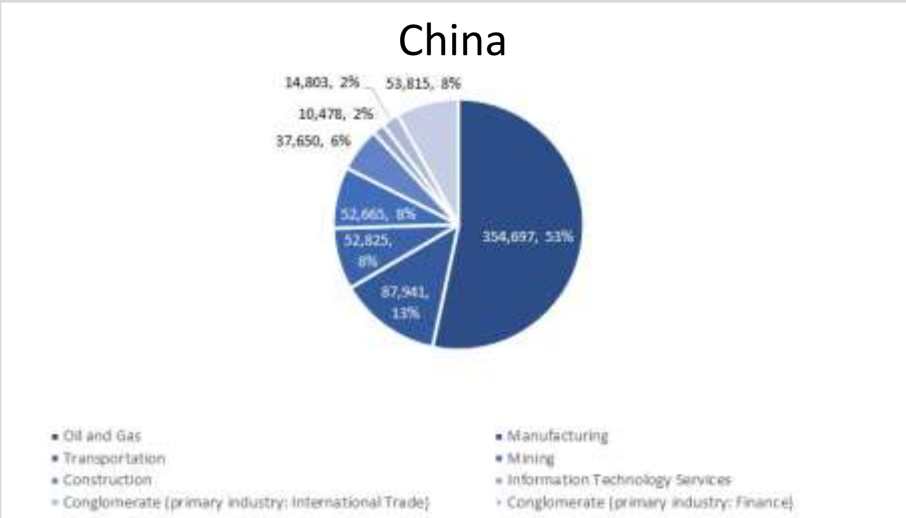


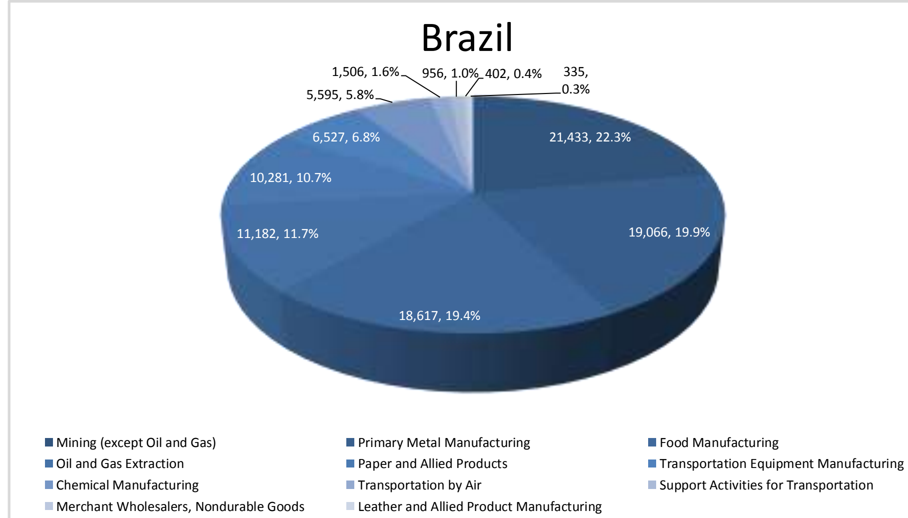
- The average TNI of the top 20 Brazilian NFMNEs was the largest among the three counties (38%), followed by the average of the South African NFMNEs (36%) and by the average of the Chinese NFMNEs (24%)
- The Chinese NFMNEs' TNI in 2013 was influenced by the low proportion of foreign employees

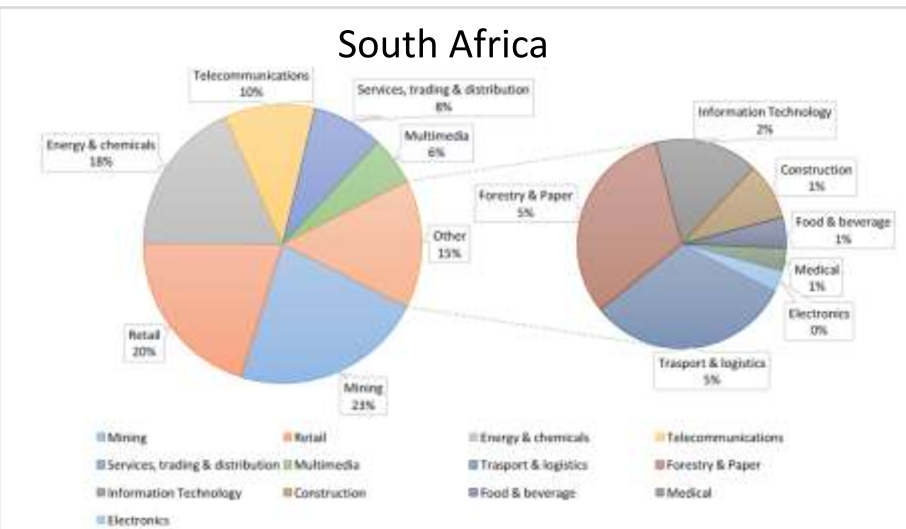


Main Industries

The extractive industries (mining, and oil and gas) concentrates the foreign assets the in all three countries.







- In China, the top 3 NFMNEs in 2013 were from the oil and gas industry (53.3% of foreign assets), and 6 out of the top 20 in 2013 were from the extractive industries
- In Brazil, the mining, and oil and gas industries accounted for 34% of foreign assets in 2015
- In South Africa, 4 firms from the mining industry (three out of four from gold mining industry) accounted for 23% of foreign assets

Main Industries – Natural Heritage

In China and in Brazil, besides the extractive industries, the manufacturing NFMNEs were also representative. In South Africa, the retail industry was also significant.

- According to the Chinese EMGP report, regarding natural resources the Chinese NFMNEs focused primarily on the oil and iron extraction industries
  - Both raw materials were perceived by the Chinese government to be crucial for domestic natural resource security.
- Brazil is a country rich in natural resources, and has large areas suitable for agriculture and livestock
- According to the South African EMGP report, the country has a large quantity of natural resources such as gold, platinum, iron, uranium and petroleum amongst others, and therefore firms with interest and expertise in these areas
- In China and in Brazil, besides the extractive industries, the manufacturing NFMNEs were also representative
  - In Brazil, we can highlight the primary metal and food manufacturing industries as relevant in terms of foreign assets
- In South Africa, the retail industry was also significant regarding assets abroad, with 4 firms accounting for 20% of the foreign asset-share of the top 20 South African NFMNEs

Geographical Distribution

The top NFMNEs from China, Brazil and South Africa have a high presence in neighboring countries. This fact may be explained by the geographical, institutional and cultural proximity to surrounding regions.

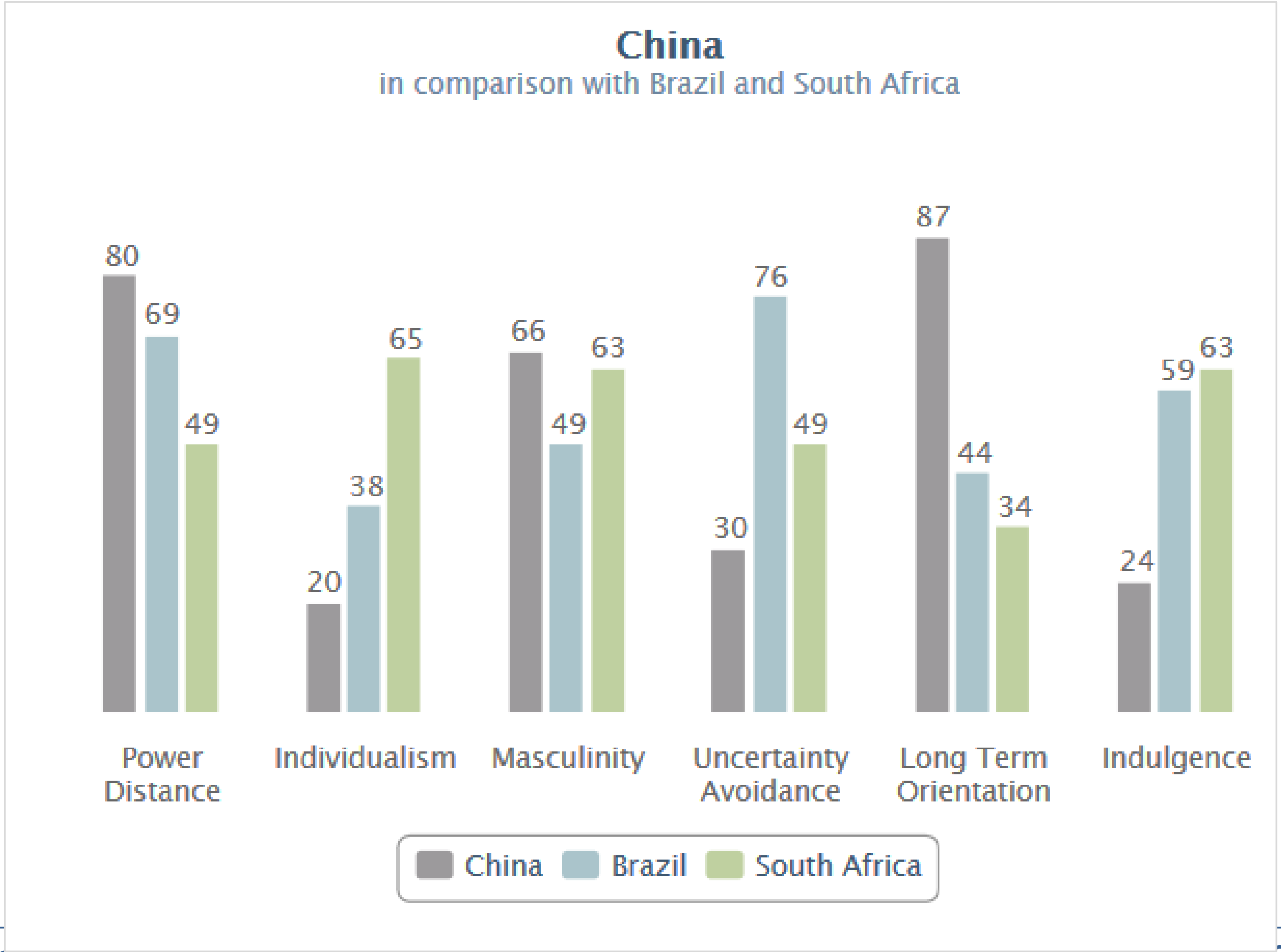
- **China**
  - In 2013, more than 53% of the foreign subsidiaries were located in other Asian countries (18% in Africa, 11% in Europe, 8% in Latin America, 5% in North America and 4% in Oceania)
- **Brazil**
  - Almost all of the companies (17 out of the top 20 firms) have operations in at least one Latin American country outside of Brazil
  - The foreign countries in which the greatest number of the top 20 Brazilian NFMNEs had operations (a plant, a commercial subsidiary, a business office, a distribution center, or a research center) in 2015 were: (1) United States – 17 out of the top 20 firms; (2) Argentina – 14 out of the top 20 firms; (3) China – 11 out of the top 20 firms; (4) Chile, Mexico, and United Kingdom – 9 out of the top 20 firms
- **South Africa**
  - 38% of all foreign affiliates controlled by the top 20 South African NFMNEs were in Sub-Saharan Africa, followed by Europe with 19% and East Asia and the Pacific with 12% of all foreign affiliates

Drivers of Outward FDI

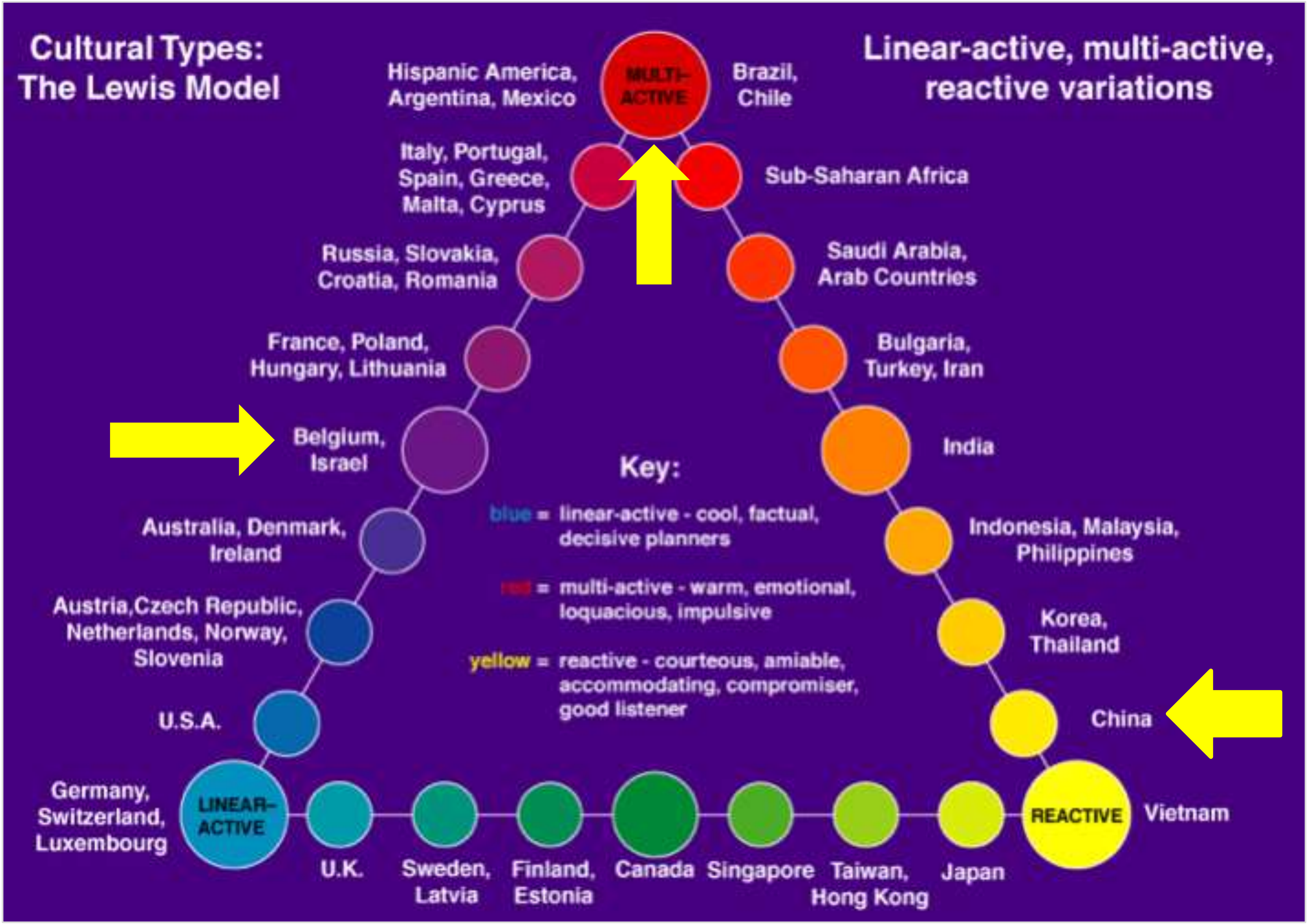
Market seeking was pointed of the main driver for investing abroad for the top Brazilian and South African NFMNEs in 2015. For the top Chinese NFMNEs the main driver was the seek for natural resources

- Market seeking was pointed of the main driver for investing abroad for the top Brazilian and South African NFMNEs in 2015
  - Expand into new markets was indicated as the second main driver of outward FDI for the top Chinese NFMNEs in 2013
- This could help to explain why the top NFMNEs of these countries have a high presence in neighboring areas.
  - Expanding to regions that are culturally and demographically similar to the domestic market can be an efficient strategy when a company is trying to get into new markets abroad
- For the top 20 Chinese NFMNEs the main driver of OFDI was the seek for natural resources, which is part of a national development agenda aimed at sustaining the Chinese economic growth.
  - "China is a large country with a large population and a relatively low amount of resources per capita, such as energy and other natural resources. As such, in order to fuel its rapid economic development, China has been a net importer of resources" (p. 8)

Cultural Orientation



Cultural Orientation



Cultural Orientation

ESTIMATES OF CULTURAL VALUE ORIENTATIONS

GLOBAL CLUSTERS	COLLECT	POWER DIST	UNCERT AVOID	COMPET	LONG TERM	CONTEXT	DOING
Nordic Europe Denmark, Finland, Norway, Sweden, etc.	M	L	L	L	L	L	L
Anglo Australia, Canada, Ireland, New Zealand, U.S., etc.	L	L	L	M	L	L	H
Germanic Europe Austria, Belgium, Germany, Netherlands, Switzerland, etc.	M	L	M	M	L	L	H
Eastern Europe Albania, Bulgaria, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, etc.	M[1]	M	L	M	L	M	L
Latin Europe Italy, France, Portugal, Spain, etc.	M	M	H	M	M	M	L
Latin America ***Argentina, Bolivia, Brazil, Chile, Columbia, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Venezuela, etc.***	H[2]	H	H	M	L	M	L
Confucian Asia ***China, Hong Kong, Japan, Singapore, South Korea, Taiwan, etc.***	H	M	M[3]	M	H	H	M[4]
Southern Asia India, Indonesia, Malaysia, Philippines, Thailand, etc.	H	H	M	M	M	H	L
Sub-Sahara Africa ***Ghana, Kenya, Namibia, Nigeria, Zambia, Zimbabwe, etc***.	H	M	M	M	L	H	L
Arab Algeria, Bahrain, Egypt, Iraq, Iran, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, Turkey, U.A.E., Yemen, etc.	H	H	M	M	L	H	L

Low (L): 1-33 **Medium (M): 34-66** **High (H): 67-100**

CEO and Top Management

The top management of the top 20 Brazilian, Chinese, and South African NFMNEs was mainly male and primarily rooted in local cultural and educational backgrounds.

- **China**
  - Only 1 non-Chinese top manager among all the top 20 Chinese NFMNEs in 2013 at Zhejiang Geely Holding Group, that is a private enterprise with no state ownership
  - However, according to the Chinese EMGP report, there was a larger number of foreigners on corporate boards of foreign subsidiaries of the top Chinese NFMNEs

- **Brazil**
  - All CEOs of the top 20 Brazilian NFMNEs were male Brazilian nationals and each of them obtained a university-level degree in Brazil
  - However, 10 of them reported holding either a graduate degree or some sort of professional training from an institution outside of Brazil, typically from the United States, France or Switzerland
  - Only 6 out of the top 20 Brazilian NFMNEs had at least one female board member, and none had more than 2 in 2015
  - 6 of the top 20 Brazilian NFMNEs had foreign nationals on their board of directors in 2015, with the highest number being three, most of them representing foreign shareholders

- **South Africa**
  - In South Africa, the women were also under-represented
  - The board members of the top 20 South African NFMNEs were predominantly men, and there was no woman as CEO
  - The vast majority of the top 20 South African NFMNEs' board members were South African nationals. However, 4 of the top 20 South African NFMNEs had foreign CEOs in 2015 (3 British and 1 Canadian)

Ownership

Partial and fully state-owned enterprises (SOEs) seem to be a constant in all three countries.

- **China**
  - 18 out of the top 20 NFMNEs were fully SOEs in 2013
  - 1 company had 98.44% of government equity stake
  - 1 firm had no government equity investment
  - "Chinese public policies toward outward foreign direct investment (OFDI) have seen a gradual liberalization, moving from government policies of restricting OFDI, to enabling OFDI, to facilitating OFDI, and today, to encouraging OFDI" (p.11)

- **Brazil**
  - The Brazilian government both directly and indirectly owned more than five percent of the voting shares in 10 out of the top 20 NFMNEs in 2015
  - According to Hennart, Sheng and Carrera (2016), while the Chinese government has a clear policy to promote OFDI, Latin American government policies of support to internationalization are more ambiguous, and the state influence on domestic firms more tenuous
  - In Brazil, the state ownership is in general partial, and the government's equity stakes are generally indirectly held by the state development bank and the pension funds of SOEs (or ex-SOEs)

- **South Africa**
  - 16 of the top 20 NFMNEs were partially publicly owned in 2015
  - "Although the South African Government has very little direct influence over MNEs (as direct influence is primarily established only through the affiliation of board members even when a government equity stake is present), the overall consensus from the firms' point of view is that having a positive relationship with the government is important to their business" (p. 14)
  - Five of the top 20 South African NFMNEs reported having a board member who was currently affiliated with a political and/or governmental agency in 2015

Listing and Head Office Location

Almost all top 20 NFMNEs from Brazil, China and South Africa were listed on the local stock exchange, and many of them are also listed abroad. The head office location of most of these NFMNEs were located in the most social and economic developed, and populous areas of each country

- **Listing**
  - Almost all top 20 NFMNEs from Brazil, China and South Africa were listed on the local stock exchange
  - In China 19 out of the top 20 NFMNEs were listed on the Shanghai Stock Exchange in 2013
  - In Brazil and in South Africa, all top 20 NFMNEs were listed on the local stock exchange in 2015, the São Paulo Stock Exchange and the Johannesburg Stock Exchange respectively

- **Foreign Stock Exchange Listing**
  - In 2013 eighteen out of the top 20 Chinese NFMNEs were listed on the Hong Kong Stock Exchange, and 5 of that companies were also listed on the New York Stock Exchange (NYSE)
  - In Brazil, 15 of the top 20 NFMNEs on the NYSE in 2015
  - 4 out the top 20 South African NFMNEs were also listed on the NYSE in 2015

- **Head Office Location**
  - The head office location of most of the top 20 NFMNEs from China, Brazil and South Africa were located in the most social and economic developed, and populous areas of each country
  - Among the top 20 Chinese NFMNEs, 17 were headquartered in Beijing in 2013. The head offices of 13 of the top 20 Brazilian NFMNEs were located in São Paulo in 2015. And 17 of the top 20 South African NFMNEs' head offices were situated in Johannesburg, the South Africa's commercial hub.

Conclusion

- We conclude that a pattern exist in these firms in terms of industry sectors, regionalism and national bias. South Africa has a large number of multinationals for its size and is the most diversified. Due to Chinese and Brazilian legislation we also conclude that these firms have entered the global market to seek larger markets and were not crowded out of their local markets by foreign players.

Comments and contributions

Comments and Contributions