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Internationalization patterns of BRICS Multinational Enterprises MNEs: how differ from other emerging markets?

Patrones de internacionalización de las empresas multinacionales BRICS EMN: ¿en qué se diferencian de otros mercados emergentes?

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ABSTRACT:
In the article, based on UNCTAD data, the authors conduct a comparative analysis of the internationalization patterns of multinationals from BRICS, developed countries and other emerging markets reflected in TNIs. At the regional level, they found a significant difference between the internationalization patters of BRICS multinationals and other groups of countries with emerging markets. Despite this, the authors observed a trend toward convergence of internationalization patterns between companies from developed and other emerging markets, which may be further applied to BRICS.
Keywords: BRICS, multinationals, EMNEs, DMNEs, Transnationality Index

RESUMEN:
En el artículo, basado en datos de la UNCTAD, los autores realizan un análisis comparativo de los patrones de internacionalización de las multinacionales de BRICS, países desarrollados y otros mercados emergentes reflejados en las TNI. A nivel regional, encontraron una diferencia significativa entre los patrones de internacionalización de las multinacionales BRICS y otros grupos de países con mercados emergentes. A pesar de esto, los autores observaron una tendencia hacia la convergencia de los patrones de internacionalización entre las empresas de los mercados desarrollados y otros mercados emergentes, que pueden aplicarse aún más a los BRICS.
Palabras clave: BRICS, multinacionales, EMNEs, DMNEs, Índice de transnacionalidad

1. Introduction

The abbreviation “BRICs” arose from the assumption that the countries of the group would become the most profitable for investment - the “building blocks” of the global economy of the future. In 2011, the BRICS countries, including Brazil, Russia, India, China, and South Africa, began to work on a broad agenda as an intergovernmental organization.

According to the prediction, the BRICS countries are steadily increasing their presence in the global economy, and in 2018 their share in the world GDP reached 24%, and in the global FDI inflow - 20%. In 2019, the Fortune Global 500 already includes 138 corporations from BRICS, which is almost a third of its total number, compared, with their total absence in the 1980s and only five in 1995. In 2019, Forbes Global 2000 includes 362 BRICS-based companies (251 from China, 57 from India, 22 from Russia, 20 from Brazil and 12 from South Africa); that is almost one fifth of this rating, which is less than the Fortune 500, but also significant and indicates a high level of capital concentration in BRICS multinationals. Over the past 10-15 years, BRICS companies have significantly expanded their presence among the world's largest high-tech companies. So, among the 40 leading IT companies of the UNCTAD list in 2017, there were already six BRICS firms, and among the Forbes-100 Digital companies in 2018, there were 17 BRICS-based corporations.

The success of businesses from BRICS could shine even brighter if to consider BRICS-originated firms that moved their HQs to tax-friendly countries to circumvent bureaucratic obstacles in their economies. They either register the main company in "tax heavens", or receive this status for their subsidiaries, while the actual activities are not transferred to such jurisdictions (Progunova 2018). For example, according to Forbes, the world's largest steel producer, ArcelorMittal, originally from India, is now based in Luxembourg; Russian giants Veon, X5 Retail Group and Yandex – in Netherlands, and Kaspersky Lab - in London. Thus, the performance indicators of these companies are added to the country of registration, reducing the statistics of the BRICS countries.

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2. Methodology

2.1. Research questions

In 2019, ten companies from the BRICS countries were included in the UNCTAD world’s TOP-100 non-financial MNEs list, ranked by foreign assets. This is a relatively modest result with a 10% share of BRICS in the UNCTAD list compared to Fortune and Forbes ratings with 1/3 shares in the ranking by revenues and 1/5 by the integrated indicator of sales, profits, assets and market value, respectively.

2.2. Theoretical background and approach

Over the past few decades, growing internationalization of EMNEs have generated a research discourse in the field of International Business (IB), which was called Cuervo-Casurra's “Goldilocks Debate” (2012). The author divided all schools of internationalization into three groups: “cold”, “hot” and “just right” schools. The “cold” school of thought believes that the internationalization process of EMNEs is similar to that of DMNEs. Thus, they can be explained by the current internationalization theories (the Uppsala Model, the Eclectic Theory, the International Product Life Cycle Model, and the Network Model) (Dunning, Kim, and Park 2008; Rugman 2010). The “hot” school believes that the internationalization ways of companies from emerging markets are completely different from those from developed countries (Parthasarathy, Momaya and Jha 2017), and new theories must be proposed to fit the internationalization patterns of EMNEs (Gammeltoft, Barnard and Madhok 2010; Hennart 2012). The third concept of “just right” lies somewhere between two extremes and advocates expanding existing theories. The real challenge is to identify which aspects of existing theories can fit into the context of internationalizing EMNEs and which are not (Ramamurti 2012).

Over the past few years, a number of studies on the internationalization of firms from emerging markets have been conducted and some general differences in the internationalization patterns between DMNEs and EMNEs have been identified. For instance, EMNEs have more diverse motives for internationalization. They are usually motivated by a comprehensive mix of internal and external factors (Zamberi 2014) and influenced by other firms in their network or value chains (Pananond 2015). They are more likely to enter the foreign market in the early stages due to limited resources in their home economies; their internationalization strategies are largely shaped by the constraints that EMNEs faces in domestic and foreign markets (Amoah 2018). EMNEs are more comfortable entering other emerging markets because they are used to working in a business environment with similar institutional gaps (Kim 2017). Most of the empirical studies were conducted based on companies from India, Malaysia, Pakistan, Brazil, China, Russia, etc.

However, EMNEs are heterogeneous in their international strategies, since they come from countries with different economic and political conditions, use different strategies in different markets; therefore, their results are hardly conclusive (Amoah 2018). Specifically, Quan He and Xishen Cao (2019) in their study of investment networks between 50 developing countries along the "Belt and Road" regions revealed outstanding imbalance of their investment network structure. They found that economic development level, geographical distance, and bilateral trade were the main factors affecting the formation process of this investment pattern.

Furthermore, some authors, such as Rob van Tulder (2016), advocate a distinct theoretical approach to explain the performance of BRICS-based multinationals. He highlights several unique elements in the internationalization strategies of BRICS companies, in particular, their relationship with home country policies, the power of their domestic markets, the impact of the size of their economies, which require specific attention. He calls for the reassessment of the general theory of firms and explanations on BRICS specific. According to Tulder et al. (2016), from a managerial prospective, in the coming age of a new generation of multinationals, it is important to understand what distinguishes BRICS companies from other (emerging market) multinationals?

In this regard, studies of companies originating from relatively homogeneous groups of countries with emerging markets, such as the newly industrialized countries (NICs) of Asia and NICs of Latin America, countries of Eastern Europe and Central Asia, BRICS countries, etc., can serve as a more suitable approach to obtain systemic results and make adjustments to the theory of internationalization.

2.3. Research method

To compare the patterns of internationalization of companies, the Transnationality Index (TNI) is usually used. The index is calculated as an unweighted average of three ratios: foreign assets, sales and employment to total assets, sales and employment, respectively. Two TOP-100 lists of non-financial companies, ranked by foreign assets, are published by UNCTAD annually in the World Investment Reports (WIR): the world's TOP-100 MNEs and the TOP-100 MNEs from developing and transition economies with TNIs calculated for each company. Some authors (Aurel & Rozalia 2018) compared BRICS companies with these two lists directly and got mix results.

For the purposes of this study, we will conduct some manipulations with the TOP-100 lists. First of all, we assume that the 100 MNEs from developing and transition economies includes companies from emerging markets. Indeed, only firms from the NICs of Asia and Latin America, the OPEC and BRICS managed to get into this list. With this assumption, we can compare the internationalization patterns of DMNEs and EMNEs. Secondly, for the purity of this analysis, we will exclude companies from emerging markets from the world TOP-100, whose presence in this list is constantly growing. Thus, the TOP-100 in WIR 2019 includes already ten companies from emerging markets. Thirdly and finally, we remove BRICS-based companies from the EMNEs list. Now we can analyze the differences in internationalization patterns between DMNEs, EMNEs and BRICS multinationals. We use data from WIR19 as a basis for comparative analysis. For emerging markets, the latest available data refer to 2017, in which 43 companies from

BRICS entered the EMNEs list. To get comparable results, we also analyze 43 companies from each list of DMNEs and EMNEs.

This research method has some limitations. The two TOP-100 lists cannot be considered a fully representative sample for analysis. In addition, TNI loses its exclusivity with digitalization of the economy, since the international “footprint” of IT firms differs from classic MNEs with a balanced ratio of foreign assets and sales. Digital giants earn an average of 73% of their income abroad, with only 41% of their foreign assets (WIR 2017). But even with the limitations, this research method allows to draw important conclusions.

3. Results

3.1. General internationalization trends

The average internationalization level of the world 100 leading multinational enterprises (MNEs) has been declining since its peak in 2011 from 66% to 58% in 2018 (table 1). In the short term, this can be explained by several factors: the emergence of new Chinese entries with huge domestic operations, a series of M&A that have pushed activity in home markets, and a general decrease in global FDI flows in recent years, that is usually parallel to the dynamics of TNI. Previously, average TNI also declined under the influence of crises, but it was a short-term decline of a year or two.

Table 1

TNIs of the world’s TOP-100 MNEs and TOP-100 MNEs from developing and transition economies, %

TNIs	**The world’s TOP-100 MNEs**					**The TOP-100 MNEs from developing and transition economies**			
Variable	2014	2015	2016	2017	2018	2014	2015	2016	2017
Assets	64	62	62	62	60	29	29	27	27
Sales	67	64	64	65	60	50	48	43	43
Employment	60	57	57	58	55	36	34	35	34
TNI	**64**	**61**	**61**	**62**	**58**	**38**	**37**	**35**	**35**

Source: extracted from WIR17, WIR18 and WIR19.

In the long run, the trend towards the return of capital to countries of origin begins to be traced due to the increase in the cost of production of goods in the so-called “factory countries”, the global policy of deoffshorization, as well as in the context of an escalation of protectionism and trade wars. For example, after China announced $75 billion in import tariffs on American goods, President Donald Trump called on US companies to find alternatives to manufacturing in China, including “bring your companies home”. Besides, the rationale for the internationalization of MNEs has changed over the years. The emphasis has gradually shifted from resources and efficiency seeking investments to market, innovation and strategic-oriented FDI. For companies from developed countries, this may mean “returning home,” but for EMNEs, directions and motives can be more diverse, as mentioned above.

The average level of internationalization of the TOP-100 MNEs from developing and transition economies is about 35%, which is almost half lower than in the world's TOP-100, and it has also slightly decreased over the past five years (table 1). In terms of foreign assets, the difference is even bigger: 62% versus 27%. Relatively young companies from emerging markets are having difficulty competing in the volume of foreign assets with "heavyweights" from developed countries, some of which began their journey into the world market at the beginning of the last century or earlier.

3.2. Internationalization patterns of DMNEs, EMNEs and BRICS multinationals

When we compare TNIs of the leading DMNEs (63.62%), the EMNEs without BRICS (58.68%) and the BRICS multinationals (22.91%), the picture changes (table 2). After we excluded BRICS companies from the list of emerging markets, the average EMNEs index rose significantly and approached the DMNEs indicator. At the same time, the average internationalization level of multinationals from BRICS is 2.5 times lower than in the EMNEs without BRICS, and almost 3 times low than in the DMNEs.

Table 2
TNIs of 43 TOP DMNEs, EMNEs and
BRICS-based companies in 2017, %

TNIs	**43 largest DMNEs**	**43 largest EMNEs (exclude BRICS)**	**43 largest MNEs from BRICS**
Assets	65,91	43,94	20,48
Sales	64,24	67,25	32,35
Employment	60,72	64,84	15,91
TNIs	**63,62**	**58,68**	**22,91**

Source: calculated by author based on WIR19 Annexes 19 and 20

Regarding the comparability of the ratios between foreign assets, sales and employees, companies from developed countries have balanced ratios at an average of 60-65%. The group of other emerging markets has maximum sales abroad of about 67% and a significantly lower share of foreign assets - 44%. BRICS multinationals sell 32% of their products abroad, have 20.5% of foreign assets and use only 16% of foreign workers.

Based on the table 2, we can conclude that with an increase in the level of economic development of countries, the patterns of internationalization of companies originating from these countries are converging.

3.3. Internationalization patterns of multinationals from the BRICS and other groups of countries from emerging markets?

Multinationals from the Asian NICs have the highest level of internationalization among emerging markets with an average TNI level of about 60% (Table 3). This can be explained by the higher level of economic development and the smaller size of their economies in general, which encourages their companies to participate in international supply chains. Thus, in the highly developed city-state of Singapore, TNI is 73.6%, and in the less developed and relatively large country of the Philippines, only 21.7%. The average TNI of OPEC-based companies is around 50%, which is closer to the DMNEs than to the BRICS. Which once again confirms the thesis of the convergence of patterns of internationalization of companies as the level of economic development of their countries of origin increases.

Table 3
TNIs of Groups of Countries with
Emerging Markets in 2017

BRICS, 43 companies		Other EMNEs (exclude BRICS), 43 companies					
Country, number of companies	TNI	NIC of Asia		NICs of Latin America		OPEC	
		Country (number of companies)	TNI	Countries, (number of companies)	TNI	Countries, (number of companies)	TNI
China (25)	18,48	Hong Kong (11)	62,87	Mexico (4)	55,50	UAE (3)	48,03
India (6)	42,76	South Korea (6)	45,02	Argentina (1)	79,4	Saudi Arabia (1)	36,7
Brazil (5)	32,15	Singapore (6)	73,60			Qatar (1)	77,6
South Africa (5)	65,93	Taiwan (5)	71,92				
Russia (2)	30,27	Malaysia (5)	58,42				
		Philippines (1)	21,7				
43 companies	**22,91**	**33 companies**	**60,00**	**5 companies**	**56,89**	**5 companies**	**50,37**

Source: calculated by author based on WIR19 Annexes 20.

The fundamental factor influencing the formation of these regional patterns of internationalization is that the BRICS and NICs countries belong to different “waves” of industrialization and subsequent internationalization, based on different levels of economic development. The "wave" of NICs began to rise from the 70s, and for BRICS countries - from the 80-90s of the XX century, with some features for each country. Russia was industrialized earlier; South Africa entered the foreign investment market earlier than other BRICS countries since the 60s of the XX century; and Brazil is simultaneously a member of the BRICS group and one of the Latin American NICs. In addition, all the BRICS countries have large domestic markets for production, consumption and employment, which lowers the Transnationality Index of BRICS companies.

Among the leading BRICS multinationals, one fourth of companies specialize in the fuel and energy complex and the mining industry (WIR19). If compared with the same list a decade ago, the most noticeable difference is the emergence of high-tech companies - Legend, Lenovo, Infosys, Tencent and Huawei, as well as the dominance of Chinese companies that have made a giant leap. In general, the key BRICS multinationals cover a wide range of industries - from food to telecommunications. The scope of foreign activities of individual companies varies greatly. For example, the TNI of Brazilian mining giant Petroleo Brasiliero is only 4.7%; while the TNI of South African MTN Group (communications) is about 75%. Our analysis of patterns of internationalization by sector did not reveal uniform trends for the considered groups of countries. This is mainly due to industry specialization and company specifics. For example, the TNI of most oil and gas giants from BRICS does not exceed an average of 20%. At the same time, the TNI of Russian private Lukoil is 41.5%.

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4. Conclusions

Over the past decade, the trend towards the return of capital to countries of origin has become noticeable, which is more connected with DMNEs, while for EMNEs the directions and motives may be more diverse. Despite the difficulties for relatively young companies from emerging markets to compete with “heavyweights” from developed countries in foreign assets, levels of internationalization tend to converge with an average TNI of 63.6% for TOP DMNEs and 58.7% for TOP EMNEs (without BRICS) for last available data.

Multinationals from BRICS accumulate about 46,4% of foreign assets held by TOP-100 non-financial MNEs from developing and transition economies, but only about 20,5% of their assets held abroad. The level of internationalization of BRICS companies reflected by TNI at regional level is 22,9% that 2,5 times below the average of the TOP EMNEs (without BRICS) and almost 3 time below the average of TOP DMNEs. The largest difference is observed in the share of employment abroad: 15.9% in the BRICS multinationals compared with 60.7% in DMNEs (almost 4 times lower) and 64.8% in EMNEs (more than 4 times).

The review of the main groups of countries with emerging markets confirmed our assumptions and the results of other studies that the key factors affecting the internationalization patterns of companies are the level of economic development and industrialization of their countries of origin, the size of their economies, the strength of their domestic markets, their relationship with home country policies, industry specialization, company specifics and some others.

Taking into the consideration the convergence trend, we support the “just right” school, which believes that existing theories can fit into the context of internationalization of EMNEs with some adjustments in accordance with the new realities of digitalization of the economy and knowledge-seeking trends in foreign investments.

How quickly the internationalization patterns of BRICS multinationals will converge with DMNEs and EMNEs trends is the subject of some other (Goyal & Chopra 2017) and future studies.

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