

The New Global Challengers and the Competition Paradigm: Where Does the World Stand Today?

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**THE NEW GLOBAL CHALLENGERS AND THE COMPETITION PARADIGM:
WHERE DOES THE WORLD STAND TODAY?**

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Abstract

Emerging countries are changing world competition dynamics on a scale never witnessed before. Also, the international economic system and the supporting institutions are under pressure. We are in the midst of profound changes in the way business is conducted across borders, and finding a path for sustainable development remains a critical issue. The paper first looks at the positioning of multinational corporations (MNCs) from emerging countries in the world arena. Then, it considers the new paradigm of global competition and the way it affects trade relations. Last, it reflects upon the challenges ahead in the multipolar economy of the 21st Century.

INTRODUCTION

The nature of international trade has evolved from a focus on developed countries to a more complex web of relations based on the importance of emerging economies and global supply chains. As a consequence of this new pattern of trade and investment relations, competitors from emerging countries are redefining the rules of the game. Global value chains (GVCs) driven by MNCs of developed and emerging countries are playing a key role in competition dynamics and the repositioning of key industries to optimize both business processes and value. Meanwhile, defining better rules of trade relations and the need to achieve sustainable economic development are issues difficult to tackle in the pursuit of global competition.

The paper is organized as follows. First, I will reflect on the way the new global challengers (BCG, 2009a) compete for market shares and join the rank of global leaders in the positioning of industries worldwide. This will provide some insight about opportunities and threats in the global economy. The array of issues leaders of competing industries should address will also be discussed. Second, I will focus on policy issues induced by this new competitive landscape, by analyzing the current phase of globalization. Finally, I will reflect upon new areas of research that global leaders and policy-makers will have to consider in the wake of global restructuring.

THE NEW GLOBAL CHALLENGERS: WHO ARE THEY, WHERE ARE THEY FROM, AND WHAT LIES AHEAD?

Over the next several decades it is expected that the economies of the BRIC (Brazil, Russia, India and China) will be the drivers of global growth, displacing the role previously played by the United States and Europe. Today, three of the largest four economies in the world (China, Japan and India) are in Asia. Exports from emerging markets have been strong despite the financial and economic crisis of 2008-2009. According to numerous reports, the global economy is fast approaching the point where emerging markets will represent one-half of global GDP and three-quarters of global growth (McKinsey 2009; BCG 2010). A new global middle-class of some 2

billion new consumers in emerging market economies will be the driver of economic global growth (Goldman Sachs, 2008). Therefore, for the first time in the post cold-war era and in the history of industrial development, what goes on in emerging markets is critical to the direction of world trade and global growth.

It is difficult within the frontiers of international trade theory to fully grasp the magnitude of what lies ahead of us, and question remains about the adequacy of theoretical models of international trade to reflect today's competition paradigm. As a consequence of the importance of GVCs, the nature of international trade has evolved from a focus on national competitive advantage to a more complex approach that includes functional integration based on firm-to-firm relationships, knowledge building and information sharing. MNCs increasingly seek global knowledge and global markets for innovation, as a means of acquiring a competitive edge. They rearrange global production networks and value chains in order to replace higher-cost inputs with lower-cost inputs. Whether outsourcing and offshoring are due to labour shortage or high wages, optimizing the global value chain has become the competitive quest of MNCs worldwide. In that process, a trend toward the implementation of global or regional supply chain networks has supplanted national supply chains.

Also, new BRIC economies are redefining trade and power relations (Lévy, 2006). Trade liberalization has facilitated greater participation by China in international production networks and deeper integration with its trading partners, especially in Asia. China has become the world's economic powerhouse, and India and other emerging countries are playing an increasing role in outsourcing and offshoring activities. The integration of these countries into the global economy challenges the competitive advantage of developed countries. It forces their companies to move into new activities in which they can excel and better perform. Current theories of economic growth (Aghion and Howitt, 1998; Krueger and Lindahl, 2001, etc.) stress that industrialized countries will achieve their best in the world competition only through investment in human capital and knowledge-creation. However it is only a matter of time before China and other major emerging countries, moving further up the value chain, develop innovative capabilities, and pose further challenges to regional players from Europe and North America.

Data from the Boston Consulting Group (BCG, 2009a), Fortune (*Fortune Global 500*, 2009) and UNCTAD (2008 and 2009) provide some insight into the phenomena of the growth of ‘the global challengers.’ From 2006 to 2008, the number of firms based in Brazil, China, India and Russia on the *Fortune Global 500* list more than quadrupled, from 15 to 62. In 2007, the Asian region dominated the list of the largest developing country MNCs, with 78 firms, followed by 11 each from Africa and Latin America. In 2008, MNCs from emerging countries continued to make inroads, with China, India, Mexico and Russia accounting for 29, seven, five and five firms respectively in the list of *Fortune Global 500*. Less than 10 years ago, only one firm from each country was included in the ranking. In 2009, new global challengers represent a diverse group. They are based in 14 emerging countries: Argentina, Brazil, Chile, China, Hungary, India, Indonesia, Kuwait, Malaysia, Mexico, Russia, Thailand, Turkey, and the United Arab Emirates (see, Table 1: BCG 2009a, p.14). Some of them have their headquarters in Hong Kong, London, and Singapore. Once more, China dominates the list with 36 companies, followed by India (20), Brazil (14), Mexico (7), and Russia (6). Given China’s vast holding of foreign exchange reserves, its need for material resources and its desire to embrace globalization, this trend is likely to continue.

The paths that challengers have taken to contend for leadership have been diverse. However, common characteristics include: (1) early cost advantages, as a result of their location in emerging economies; (2) the ambition and determination to aim for global leadership, and; (3) a willingness to reach outside for rapid growth. Consistent with Porter’s theory (1985), many challengers have secured success in their home or export markets, by mastering their sources of competitive advantage before globalizing their operations. The challengers also have the ability to hire and train at lower cost than competitors, an asset to competitive positioning in global markets. The Information and Technology (IT) sector in India is an illustration of that pattern. In India, the founders of companies, or other individuals, have been instrumental in developing the company from the early stages, and play a valuable role in the expansion of the firm worldwide. In contrast, in China, the government owns most of the China-based challengers of the BCG list.

Emerging MNCs often use acquisitions as a path to global leadership. This is particularly the case in the natural resources and metallurgy sectors, as well as in services. The way the companies

manage acquisitions is critical to their success. Tata Group from India relies on buying businesses with solid management teams already in place. It also minimizes interference in company operations by applying the concept of acting local while thinking global. This approach has allowed Tata Group to grow into the largest emerging country-based diversified conglomerate in the world. In the same vein, Lenovo Group (China) and Tata Steel (India) have embraced the benefits of having international management teams by integrating talent from acquired companies into their top positions. Some companies make acquisitions in order to gain access to technology. For example, in order to access the latest technologies in wind power and expand its base of talented engineers, Suzlon Energy (India) bought Repower Systems, Germany's third-largest wind-turbine manufacturer.

Although the target regions for the challengers' outbound M&A operations vary widely, Europe is the destination of choice for challengers based in India and Russia. Chinese acquisitions abroad have been more geographically diverse, with respectively 26 percent in North America (United States and Canada) and Europe. The rest is widely distributed among the world (BCG 2009a: 20). As an example, Lenovo is based in China, but its manufacturing plants network encompasses Europe, North America, South America and Asia. The preferred model of acquisition deals is purchasing minority stakes rather than obtaining full control of acquired companies. From a production viewpoint, the challengers aim at optimizing their supply chains in order to reduce cost variability and risks of disruption. Also, they are improving their productivity by investments in new technologies and by reducing or better allocating their labour resources. As a result, the challengers are competing head to head with MNCs from industrialized countries and are already joining the ranks of global leaders in their industries: for example, Tata Tea has become the second producer of tea worldwide.

Challengers are altering the global competitive landscape. Tata Motors' Nano cars (an entry-level car sold at \$ 2,500 on the Indian market) represent a threat to automotive MNCs competing in emerging markets. So far, none of the automotive challengers has become a world-leading passenger-vehicle original equipment manufacturing (OEM) in terms of market share. But recent acquisitions, such as Tata's acquisitions of Jaguar and Land Rover, and Geely's purchase of Volvo, will likely change the picture. Many challengers have developed valuable niches within

automotive component manufacturing. Marcopolo of Brazil is among the top manufacturers of bus bodies and components. In 1977, Sabo, a family-owned Brazilian firm became one of GM's world-class supplier. In 1994, its acquisition of Taco, a German producer, contributed to the firm's internationalization process in Europe, the United States and Australia. Wanxiang Group of China has become the leader in universal-joint bearings, whereas Bharat Forge (India) has acquired a similar position in chassis components. Embraer (Brazil) has reached the top position worldwide in regional jets. Minth from China is a leader in automotive trim and components and has made acquisitions in Germany and the US. And the list goes on in other industries: Reliance Industries of India leads in polyester fibre and Tata Chemicals is among the top producers of soda ash worldwide.

As demonstrated by Mathews (2006), large multinationals from the Asia-Pacific region, such as Acer, Hyundai, Huawei and Singapore Airlines, have become important global players. These firms have adapted organizational forms best suited to their needs, including networking and decentralized structures. It is worth noticing that these prominent positions of emerging MNCs have been achieved in a short period of time, and most likely this is only the beginning of a new trend. As an example, Suntech Power (China), a solar company, was still home-market based in 2004, with sales of US\$85 million. Propelled by low production costs in its home country and a focus on innovation, the company grew rapidly and reached US\$1.3 billion in worldwide sales three years later. Global challengers do not rely only on access to low-cost labour pools. They have the means to hire and train at lower costs than their competitors. Companies such as Wipro and Infosys Technologies (India) offer nonfinancial incentives, such as training and development opportunities, in order to attract and retain talent. Also, offshore service providers in emerging markets may soon find niches to exploit in developed markets. As pointed out by Fleury and Fleury (2009: 349): "Manufacturing is top priority in the launch of late-movers' internationalization process, but it acquires a supporting role once this entry stage has been completed."

Studies of emerging MNCs from Asia, Latin America, and Central and Eastern Europe, tend to support the idea that their international expansion runs in parallel with a capability upgrading process to reduce their competitiveness gap (see The Banker, 2008; Costin and Herken, 2006;

Goldstein, 2009; Li Sun, 2009; Wiechozek, 2009; and Vaatanen, Podmetina and Pillania, 2009). Emerging MNCs' FDI is motivated by exploiting opportunities perceived abroad and –a recent trend– by capability enhancement goals.

A high profitability ratio has played an important role in the overseas expansion strategies of firms from emerging countries. Before the financial crisis of 2008, the challengers' revenues grew at an impressive rate of 29 percent per year from 2005 to 2007. Likewise, in 2007, the 100 challengers had an average operating profit of 17 percent compared to the 14 percent average operating profit of the S&P 500 companies. Most global challengers have been characterized by the ability to move beyond their home markets, to acquire learning capabilities, and to adapt their business models to the new realities of world trade. By the same token, established MNC competitors are seeking market shares in their lucrative markets. Therefore, the competitive paradigm and the comparative advantages of nations have shifted to a new global dimension where newcomers from emerging countries are redefining the rules of the game.

The automotive industry, which is undergoing global restructuring, represents one example among others of changing patterns of trade and investment localization strategies. By 2014, BRIC countries together will provide approximately 30 percent of global automotive sales (BCG, 2010: 6). Automotive companies must be present in each of these markets, and sell vehicles adapted to the needs of local consumers. Penetration strategies must reflect the characteristics of individual markets. China needs to be the cornerstone of global strategic choices of MNCs. The country presents the highest levels of localization, given the vast size of its current and potential market. Brazil follows closely behind China, due to foreign OEMs having been long-established in the country. India lags behind China and Brazil in the degree of foreign auto companies' localization, mostly because of its relatively small market size and specific requirements for industry participants. India's significant barriers to market entry and Indian consumers' demands for very-low-cost cars tend to benefit local companies such as Tata. Russia has the lowest level of localization among BRIC countries. While automotive sales in China surged by 40 percent in 2009, and grew strongly in Brazil and India, sales in Russia dropped by 50 percent (BCG, 2010: 16). Automotive companies' strategic approaches to the BRIC markets must be based on a

systematic analysis of markets' opportunities and threats. Companies cannot succeed in BRIC countries by offering one-size-fits-all products, processes or approaches.

Considerable research about the uniqueness of emerging countries MNCs is taking place. Today going global is a prerequisite for all firms in search of international competitiveness, and as pointed out by Luo and Rui (2009), the analysis has to focus on how emerging countries MNCs succeed globally. The authors propose a perspective based on organizational 'ambidexterity', or pursuing simultaneous fulfillment of different objectives (see Duncan, 1976). Four dimensions are involved in that process: co-orientation, co-competence, co-opetition and co-evolution. First, emerging MNCs simultaneously seek short-time survival and long-term growth by acquiring assets such as intellectual property or organizational experience (co-orientation). Second, they utilize market-based and network-based capabilities as they operate globally (co-competence). Third, they simultaneously compete and cooperate with their competitors and home and host country government (co-opetition). Last, they simultaneously reply and actively influence the external environment they face in both home and host countries (co-evolution).

With regards to the first dimension (co-orientation), it appears that emerging MNCs deploy and leverage their existing ownership-specific advantage (Dunning, 1980), such as cost-effective mass-production capabilities to foster short-term survival and profitability. They develop these capabilities through OEM arrangements and joint ventures in their home country, as I previously illustrated in the automobile sector. International expansion allows securing new capabilities through acquisitions of foreign companies or global strategic alliances. Wipro and Infosys of India adopted that strategy in the IT sector. Moving to the second dimension, relational competence is helpful in dealing with bureaucracy and obtaining institutional support overseas. It allows forging global cooperative alliances with some leading MNCs of developed countries. Huawei Technologies of China, involved with a lawsuit from Cisco about intellectual property rights infringement, signed a joint-venture agreement with 3Com, an American firm. 3Com contributed to increasing Huawei's bargaining power in settling the lawsuit with Cisco in July 2003 (see Li Sun, 2009: 141-143). The third dimension of co-opetition combines the advantage of both competition and cooperation, by developing win-win scenarios. Many emerging MNCs have transformed former global rivals into alliance partners in a given segment of the value chain. As

pointed out by Luo and Riu (2009: 55), Ranbaxy of India cooperates with GlaxoSmithKline, Merck, and Terumo (Japan) in a wide range of drug production areas, but competes with these firms in other products or areas in which it operates alone. Co-evolution completes the process by allowing the firm to comply with a government regulation, for instance. This is the case of Cemex of Mexico working with the United Kingdom government by publishing sustainable development reports since 2007.

The integrated view of ambidexterity is useful to comprehend the way MNCs behave in pursuing and acquiring a sustainable advantage, in an arena of worldwide competition. That being said, uncertainty and risks in conducting business abroad have reached new frontiers (World Economic Forum, 2010a), and today global leaders are facing unprecedented challenges. They must be constantly aware of the risks their business models are exposed to. These risks come in many shapes and sizes. In particular, a higher level of systemic risk has resulted from the strong globalization impulses of the last two decades. Through global supply chains, localized economic disturbances are rapidly becoming global. Today, every player in the global economy, whether they are banks (suffering from the contagion effect), manufacturers, suppliers, service providers, or transport and shipping companies are subject to increased risk volatility. Raw material prices, exchange rates, socio-economic and the regulatory environment are among risks putting tremendous pressure on core levers of competitive advantage of MNCs. Global governance gaps are adding another dimension to the problem.

Newly arising global challengers from emerging countries are making us reflect on the viability and sustainability of current business models and established strategies to tackle both the competitive threat they pose on established positions, and penetration of their home markets. Increased turbulence in the global environment makes market competition less predictable. For supply chain managers, emphasis has to be put on identifying risk factors in supplier relations. They must know how rapidly the basis of comparative advantage is changing in their industry. They have to track those changes and adapt to them. Another concern is financial solvency, particularly following the recent economic downturn. Moreover, affiliates and companies that do not adhere to governmental regulations or do not comply with the firm's technical standards or meet its quality requirements are a threat to the firm's competitive position. While some business

sectors may adapt sooner than others, all MNCs will be eventually concerned as the competitive landscape is reconfigured.

Ramamurti and Singh (2009) consider the competitive advantages of MNCs of a whole range of emerging countries, their internationalization strategies and their impact on global competition. The authors' research supports existing analysis, but the issue of whether emerging countries are the drivers of changes, or an outcome the changes happening in the global economy, remains to be settled. What is clear is that a tectonic shift is taking place, and that emerging MNCs are for the time being developing their global strategies in a competitive environment largely dominated by industrialized countries' MNCs. At the same time, emerging countries are both markets for products of industrialized countries MNCs, and locations for the worldwide reconfiguration of their activities. In the near future, trade dependencies between economies of emerging countries and others in the West—particularly between the United States and China and between the European Union and China—will be a key competitive issue. Likewise, the strategies of MNCs of industrialized and emerging countries will affect the globalization process. Therefore, MNCs are both an agent of change and a consequence of the fourth wave of globalization (see section below).

Another characteristic of today's globalization process is that sustainability is fast becoming a major trend in the way business is conducted around the world, and will gain increasing importance as a source of competitive advantage. It can be expected that value shifts prompted by business and public policy decisions around sustainability will add another dimension to consumer and market perceptions of companies (Conference Board, 2010). This will shape competitive positions across sectors, industries, countries and regions. To acquire a competitive edge, the focus will have to be, for leaders of MNCs, on more rapid-response supply chains that are well coordinated and demand-oriented, and in line with the globalization characteristics and sustainability trends. As pointed out by the Boston Consulting Group (BCG, 2009b), three attributes are essential for survival in a changing environment: readiness (anticipation of trends), responsiveness (agility to adapt), and resilience (robustness and novelty to adapt). Let us now consider the current wave of globalization and the way it impacts global governance.

GLOBALIZATION AND GLOBAL GOVERNANCE IN A NEW COMPETITIVE ENVIRONMENT

Globalization patterns provide useful insights in mapping the competitive advantages of countries and firms. In order to better capture current characteristics of trade, let us briefly describe the different waves of globalization. The first phase of globalization covers the 1870-1914 period. Industrial capitalism started in England with the Industrial Revolution, and extended to continental Europe and North America. It was followed by a retreat to nationalism from 1914 to 1945 (First World War, economic depression of 1929, and Second World War). The second phase of globalization encompasses 1945 until the mid-1980s, a period characterized by the relatively stable functioning of the Bretton Woods Institutions: the World Bank, the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT), in the early 1970s. During that phase, trade in goods and services increased at a rapid pace. The third phase of globalization has been fuelled since the mid-1980s by greater openness to trade and by a great expansion of FDI, itself driven by the global expansion of MNCs' operations. The fall of the Berlin Wall in 1989 also deeply influenced the economic globalization process. It fuelled the worldwide liberalization of markets through countries' greater openness to trade and investment. Many indicators were in place at that time to define this turning point in the evolution of globalization: economic, financial, political, technological and regional.

The advent of the current phase of globalization can be traced to the new millennium. Key attribute of 'the fourth phase of globalization' is the increasing expansion by MNCs of GVCs operations within host countries across the globe, both to serve local markets and to establish supply chains for home and third country markets (Lévy, 2009). The concept of the value chain was articulated comprehensively as a key element of firm strategy by Michael Porter (1985), and critical work in the study of the value chain was conducted by authors such as Kaplinsky (2000). The following definition of a value chain provided by Gereffi, Humphrey and Sturgeon (2006) has been widely acknowledged: "The value chain describes the full range of activities to bring a product from its conception to its end use and 'beyond'. This includes activities such as design, production, marketing, distribution and support to the final consumer." Today, a trend toward the implementation of increasingly global or regional supply chain networks has supplanted national production supply chains (see Section 1). Moreover, the last decade has seen a strong increase in

offshoring of business processes: call centers, software development, back office financial services, and so forth.

GVCs represent a new innovative organizational model for MNCs. The global value chain is divided into three components. The OEMs (previously discussed in the automotive sector) control the brand and undertake product development design, engineering and R&D. They are customers for contract manufacturers who perform manufacturing and logistics services for them. Then, warehousing, distribution and adaptation to other markets are carried out to other markets through a mix of ownership and location policies. Supply chain management allows MNCs to optimize their internal competences in interacting with foreign partners, suppliers and customers, in order to bring products to market efficiently. However, as a result of opening each element of the value chain to competition and potential loss of intellectual property, products and services that are currently regarded as among the most innovative can end up as commodities that can be produced anywhere and by many firms. For instance, India raised its presence in the world economy by developing global outsourcing linkages in information and computer technology. MNCs such as Cisco, General Electric, Intel and Microsoft also expanded their operations in the country. Although many of the operations undertaken there have been standardised and commodity-like, new trends are emerging, including higher value activities. For example, in 2010 General Electric located an R&D centre in Bangalore, the 'Silicon Valley' of India.

In 'the fourth phase of globalization', outsourcing and offshoring of activities are giving way to a new division of activities in the manufacturing and service sectors where countries such as China and India are making substantial inroads. Theoretically, China's emergence in world trade can be seen as the regional driver of 'the fourth phase of globalization.' From a regional viewpoint, according to Funabashi (2008), the world's economic center of gravity is shifting to the Asia-Pacific region. In 2006, intraregional trade made up 58 per cent of the total trade in Asia, compared with 42 per cent for the North American Free Trade Agreement (NAFTA) and 65 per cent for the European Union (EU). In 1990, emerging countries of Asia contributed less than 14% of world GDP (in PPP terms), yet by 2006, Asia's share of world income had grown to nearly 24% (Asian Development Bank, 2009).

Trade liberalization has facilitated greater participation of China in international production networks and deeper integration with its trading partners, especially in Asia. Firms from Hong Kong, Taipei, Japan, South Korea and other Asian economies have relocated their labour-intensive industries to the mainland, while firms from the United States and Europe operating in Asian Newly Industrialized Economies (NIEs) have moved operations to China. Consequently, a triangular trade pattern has emerged with Japan and other NIEs exporting capital and sophisticated intermediate goods such as parts and components to less developed countries like China, which then process them for exports destined to the United States, Europe and often back to Asian NIEs. China became the third largest exporter in the world in 2004 and in 2008 became the largest, overtaking Germany. China's surge has altered the other Asian countries' specializations and has influenced regional integration. China's total trade with the Association of Southeast Asian Nations (ASEAN) countries exceeded that of the United States in 2007, a feat realized for the first time since the ASEAN was established in 1967. Furthermore, China is now the largest trading partner of Australia, Japan, South-Korea and the second largest trading partner of India. It has concluded a bilateral free-trade agreement with New Zealand in 2009 and is negotiating another one with Australia, among others.

Ongoing changes in production patterns of foreign-based MNCs that are the largest importers and exporters in China, explain recent developments in the country's trade patterns. Over time, China has shifted from a focus on manufacturing exports of low value-added (clothing, textiles, footwear and toys) to exports of more value-added (electronics, machinery and transports). Although many of these exports have been produced by foreign-owned rather than Chinese firms, products of Chinese firms are becoming more competitive in world markets. Accelerated foreign inflows after the 2001 World Trade Organization (WTO) entry, have also put China on the map as a major destination country. By 2004, China became the third largest recipient of FDI after the United States and the United Kingdom. Today, China's attractiveness as a destination of choice of FDI, along with some other emerging countries (India, Brazil and others), is due in large part to its huge domestic market, low labour costs, and relatively open FDI policies (World Economic Forum, 2010b). It is therefore a matter of time before China advances up the technology ladder and becomes linked to worldwide production chains in other countries.

The expansion of Chinese exports and FDI is a structural phenomenon. Policy has played a key role in that process, with long-term economic priorities having been highlighted in the 11th five-year plan of 2006 covering the period 2006-2010. The plan reflects the government's commitment to focus strongly on the quality of economic growth through raising technological standards and value-added in production, while paying attention to equity issues. In order to further encourage Chinese firms to go overseas and to focus on inward investment, the China Council for International Investment Promotion (CCIIP) has been established in July 2006.

As long as China was not integrated into the world economy, it had little impact on the path of global trade and globalization. However, given its huge population and economic potential, things were bound to change. As pointed out by Das (2008: 46): 'China's potential catching up with the United States may be considered a tectonic geo-economic and geopolitical occurrence.' In other words, the emergence of China as a powerhouse economy is unprecedented in its ramifications for the global economy, and it can only be compared to the United Kingdom during the Industrial Revolution or the United States after the Second World-War. The production structure of China dominated by low-cost production has evolved into a multi-track production structure allowing gains to be made across the whole spectrum of the production chain. Also, in making internationalization decisions, a global mindset guides the strategic moves.

These changing patterns of investment are being seen as far as afield as Eastern Europe. Today, there is a systematic growth in the share of FDI from Asia in the countries of Central and Eastern Europe. Japanese and Korean companies have been the main investors so far, but China is catching up, as is India. Chinese MNCs are making inroads in many parts of the world, including Latin America, Africa, and Europe. After the financial and economic crisis, China's economic presence increased in many resource-endowed regions, such as Africa, the Caribbean, Latin America, the Middle East, and Central and South Asia. As China has evolved to an important player in the global economy, its influence on regionalization and globalization patterns has increased. Leaders of developed countries and firms have to design strategies to react to the impact of China's rapid growth. Adjustments are required of both policy-makers and managers of MNCs.

Let us now briefly consider India's growth pattern, and how it relates to the last phase of globalization. As it is the case with China, India's performance has improved significantly since it started liberalizing and opening to the world economy in the 1990s. We noted earlier that some industries, notably in the IT sector, have become highly competitive. From a manufacturing standpoint, labour costs are a source of strong competitive advantage. India's revealed comparative advantage (RCA) is in many of the same labour and resource-intensive manufacturing sectors as China (Dougherty *et al.*, 2008). However, given the relatively small size of most manufacturing firms (90% of firms employ only a few people); gains in productivity arising from scale economies are low, so far. India's manufacturing sector has not been as dynamic as it could have been for a number of reasons. Bureaucracy and regulation appear as a prime source of concern in business surveys and is reflected in investment climate reports (UNCTAD, 2009).

The regulatory environment varies across the 21 states, which can lead to strong differences in the way affairs are conducted across them. Moreover, estimates by the OECD of the productivity performance of private and public firms indicate a clear advantage for private ownership in India (Dougherty *et al.*, 2008). Firms consider the specific aspects of local investment climate in choosing locations, among them the cost of business regulation, the cost of corruption and how intrusively government regulations are enforced, but other factors such as infrastructure are also important. According to projections, India's economy will continue to benefit from ongoing infrastructure spending (The Conference Board of Canada, 2010), but institutional reforms will be important.

The integration of Indonesia into the global economy is less documented than that of China or India, but worth considering. Its growth over the past decade has averaged around 5 percent per year. Indonesia's trade pattern in goods is dominated by energy (in 2006, energy-related products accounted for 29% of exports and 37% of imports). Manufacturing also plays an important role in the pattern of goods trade. Exports to Japan, Indonesia's largest market, are concentrated in energy and mining products. The origin of imports has changed considerably over the 1998-2008 period, with Singapore replacing Japan as the largest single origin of imports. China has also increased its share, moving from 4% to 11%. It is worth mentioning that with the exception of Australia, OECD countries such as Germany, the U.K. and the U.S. have lost import shares during that time.

Patterns of revealed comparative advantages have been shifting: traditionally competitive industries such as textiles, garments and wool are losing in world markets, while other industries such as chemicals and motor vehicles have emerged as international competitors. Indonesia's motor vehicle industry is also emerging. Although it is still small, the sector is showing increasing signs of competitiveness and is the fastest growing export sector. Trade integration with ASEAN countries and other countries in the region is deepening. However, many impediments to Indonesia's external competitiveness remain. Corruption, infrastructure bottlenecks, domestic trade barriers and restrictive product market regulation as well as stringent employment protection legislation and policy uncertainty are threatening factors to the competitiveness of Indonesian industries (OECD, 2008). Indonesia's sizeable geographic distance from the major centers of economic activity may hinder its competitive edge. The country has strong positions in some products and markets, but it needs to further move up the value chain and better exploit its endowments, by upgrading its technologies.

Russia is a growing "emerging" country. It has demonstrated a strong internationalization trend, since the liberalization of economy and trade in the 1990s. However, Vaatanen, Podmetina and Pillania (2009: 162) remind us that more studies are required to better capture Russian emerging MNCs, an under-researched phenomenon. What appears from their research is that state-owned companies are the most international (18% having international operations, and primarily in the energy and material sectors), followed by new companies (13% having international operations), and privatized companies (only 9% having international operations). The integration of Russian companies into world markets has been beneficial in terms of higher profitability and labour productivity, particularly for the new companies.

Although, they are not moving at the same pace in their internal and external markets, the global challengers from emerging countries are inducing a radical transformation of the traditional business models, as illustrated in the previous section. Today, challengers from China, India, Russia and other emerging countries are seeking resources and talent everywhere. Their greater advantage for the time being is low cost production systems, but they also train talented people and move quickly to acquire knowledge and know-how worldwide. Within that configuration of trade and investments patterns, the question of the governance of the new business models in the world

competitive arena is an important issue. In the last section below, I emphasize the need for implementing strong ethics requirements in all areas of business, and for enabling national and international institutions to deal with equity and governance issues. The question of global risk (systemic or else) will also have to be carefully apprehended.

MOVING AHEAD IN THE WAKE OF GLOBAL RESTRUCTURING

While addressing the topics of globalization of business and corporate governance, Buckley (2009: 137)) underlines two issues: the first is the existence of unpriced externalities imposing costs (e.g., pollution) on the local economy and environment. The second is the remoteness of production and service activities from their ultimate owners and controllers (e.g., shareholders). From a macro-perspective, Ocampo (2010: 15) reminds us that the heart of the disappointment with current globalization is the deficit in governance, and that “the road to better global economic global governance is long and rocky since the current system reflects the greater influence exerted by the more powerful states and global corporations.” In the economic area, high financial volatility and a broad regulatory deficit have resulted in a sequence of national and international financial crises, and most recently in a global financial crisis unprecedented since the Great Depression. It has been fuelled since the mid 1980s by monetary deregulation and technological change that have greatly increased international financial flows and the speed of transmission of shocks from one country to another. In the environmental area, there is a lack of effective action to face the unprecedented challenges posed by climate change and the destruction of biodiversity.

Difficulties in concluding multilateral trade negotiations and implementing effective measures of global financial accountability, along with the current slowdown in economic activity, underline important phenomena: (1) the configuration of trade and investment patterns is changing, both in terms of dollar value and countries’ positioning and role in the fourth phase of globalization; (2) capitalism, at the core of the globalization process, has reached a turning point (in particular since the global financial and economic crises); and (3), corporate social responsibility, environmental sustainability, and bridging the gap between the haves and the haves-not are issues that require immediate attention. As rightly put by the World Economic Forum (2009: 152): “What has been

missing from the debate on globalization and global competitiveness is a focus on both their moral impact and ethical connotations for public administration.”

Key issues and policy changes must be addressed. First, international trade negotiations and the governance of international institutions must reflect today’s reality of the importance of newcomers (such as China) to the globalization process. Emerging markets have become key players on the global economic scene, but they need to gain prominence at the macro-institutional level for globalization to be sustainable. The WTO, the World Bank, the IMF, the G-7 meetings, and organizations such as OECD, must offer membership to these new global players and engage them in their decision-making process. The G-8 and the G-20 meetings (November 2008 and April 2009) were steps toward that goal.

Second, the development gap in the globalization process must be addressed. The United Nations Conference on the World Financial and Economic Crisis and its Impact on Development (June 2009) acknowledged the need for reform. However, although making globalization fair has become an important focus of research, the trade and sustainable development nexus of the fourth stage of globalization is still unbalanced. Some countries, the rapidly developing economies of Asia along with Russia and to a varying extent those of Latin America, are integrating into the global economy and making inroads. The World Bank estimates (2008) indicate that the number of people falling below the new poverty line of \$US 1.25 per day fell from 1.8 billion in 1990 to 1.4 billion by 2005. Between 1990 and 2005, more than half a billion people in Asia were lifted out of extreme poverty, but that still leaves over 900 million people in absolute poverty. Several countries are still marginalized, in particular in Sub-Saharan Africa.

Third, MNCs must engage further in corporate social responsibility, in all their activities along the GVC, and make ethics a priority in their business models. Stakeholders increasingly hold MNCs accountable for the practices of their partners throughout the entire value chain (such as labour, human rights and environmental practices of their suppliers). Likewise, MNCs are expected to contribute to the economic development of countries they are doing business with. Also, supply chains reshape international trade and have a role to play in explaining the transmission of shocks (unemployment, environmental externalities, and so forth). Responsibility for current and past

actions, as well as proper evaluation of future impacts of activities of MNCs must be embedded in a set of corporate policies. Demand for greater transparency is also on the rise. In the same vein, attention must be paid by world leaders to ethics (role of nation states and institutions), when responding to problems brought out by the globalization process. One area underlined in recent submissions is the need to put in place proper regulation of the financial system. Excessive risk-taking and other factors which contributed to the crisis must be prevented; but, as pointed out previously, facing shared global challenges requires institutions fit for that purpose. They have to be efficient, accountable and of sufficient scale and scope to deliver global public goods (Overseas Development Institute, 2009). Global institutions are particularly ill-equipped today to deal with globalization problems, and the gap between the real economy and the financial sphere is widening.

The multilateral institutions of the GATT (1947-1994) and of the WTO (which came into effect on January 1, 1995) were established to facilitate fair trade among partner countries. Along with the World Bank and the IMF, these multilateral institutions provided policy makers with a framework facilitating global trade until the beginning of the 1970s (fixed-exchange rates period). As stated by Rodrik (2008): “This regime was superseded in the 1980s and 1990s by an agenda of deeper liberalization and economic integration.” These institutions have been the object of numerous critiques, particularly since the 1999 Seattle WTO meeting which was marked by the peak of the anti-globalization movement. In July 2006, the negotiations of the Doha Round of Development came to a dead end and subsequent efforts to conclude it have failed. In its present form, the WTO is ill-equipped to deal with the increased number of members (particularly from the developing world) and the numerous issues at stake, from agriculture, to property rights, or green tariffs against members that do not take action on climate change. As a result, bilateral and regional agreements are being pursued by the main global players, with some of these arrangements covering more areas than does the WTO. Also, more recent economic integration agreements involve countries on different continents (such as the Australia-U.S. Free Trade Agreement which came into effect on January 1, 2005). For many countries, joining a trade bloc or signing a bilateral agreement means that their access to important markets will be preserved and that their competitiveness abroad will not be undermined.

The WTO framework must come to grips with the need to better represent the interests of developing and emerging countries, and must better reflect the diversity of interests of the member countries. This is quite a challenge, given that such an important trader as China joined the WTO only in 2001, and did not participate in making the rules of the organization. On the one hand, one can question whether China is willing to facilitate the negotiation process in such a context; on the other hand, as an emerging global economic player and global investor, one can argue that China has a key role to play in reviving the multilateral system. By the same token, governance of the IMF and the World Bank has to reflect the way countries like China are integrating the global financial markets. International financial institutions have to be better equipped to deal with the uncertainty and volatility of financial markets. Finally, the issues of the environment have to be addressed in a proper forum. So far, no international organization has been mandated to do so.

CONCLUSION

The paper discussed paradigm shifts at play in the global economy. What stands out is the far-reaching intensity of the current phase of globalization, whether in terms of global competitiveness, positioning of emerging countries, GVCs, structural changes, systemic issues, or global risks. Emerging countries are becoming key players of the global economic, environmental and financial spheres. Emerging MNCs are joining the worldwide race for competitiveness and talent. These paradigm shifts influence the way business is conducted across borders.

Today, MNCs of all countries must adapt their strategies to new trade patterns and increasing consumers' expectations of ethical-oriented business models. A restructuring of international and national institutions is also long due, to better reflect the realities and challenges of the 21st Century. Responding to deficits in governance (at the institutional and corporate levels) by designing new organizational structures, implementing required legislation, and working on compulsory mechanisms, is the way forward.

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TABLE 1: The 2009 BCG New Global Challengers (includes 19 new entrants: marked with *)

Argentina: Tenaris

Brazil: Camargo Correa Group*, Coteminas, Embraer, Gerdau, JBS-Friboi, Marcopolo, Natura, Odebrecht Group, Perdigao, Petrobras, Sadia, Vale, Votorantim Group, WEG

Chile: CSAV, Falabella*

China: Aluminium Corporation of China (Chalco), Baosteel Group, BYD Group, Chery Automotive, China Communications Construction Company (CCCC), China International Marine Containers Group (CIMC), China Minmetals, China Mobile, China National Chemical Corporation (ChemChina)*, China National Offshore Oil Corporation (CNOOC), China National

Petroleum Corporation (CNPC), China Petroleum & Chemical Corporation (Sinopec), China Shipbuilding Industry Corporation (CSIC), China Shipping Group, COFCO, Cosco Group, Dalian Machine Tool Group (DMTG)*, FAW Group, Galanz Group, Gree Electric Appliances, Haier, Hisense Group, Huawei Technologies, Johnson Electric, Lenovo Group, Li & Fung Group, Midea Group, Shanghai Automotive Industry Corporation (SAIC), Sinochem, Sinomach (China National Machinery Industry Corporation), Sinosteel*, Suntech Power*, Techtronic Industries, VTech Holdings, Wanxiang Group, ZTE

Hungary: Gedeon Richter*

India: Bajaj Auto, Bharat Forge, Crompton Greaves, Dr. Reddy's Laboratories, Hindalco Industries, Infosys Technologies, Larsen & Toubro, Mahindra & Mahindra, Reliance Industries, Suzlon Energy, Tata Chemicals*, Tata Communications, Tata Consultancy Services (TCS), Tata Motors, Tata Steel, Tata Tea, United Spirits*, Vedanta Resources*, Videocon Industries, Wipro

Indonesia: Indofood Sukses Makmur, Wilmar International* (is headquartered in Singapore)

Kuwait: Agility*

Malaysia: MISC Berhad, Petronas

Mexico: America Movil, Cemex, Femsa, Gruma, Grupo Bimbo, Mexichem*, Nampak

Russia: Basic Element, Evraz Group*, Gazprom, Lukoil, Severstal, Sistema*

Thailand: Charoen Pokphand Group, Thai Union Frozen Products

Turkey: Koç Holding, Sabancı Holding

United Arab Emirates: Dubai World*, Emaar Properties*, Emirates Airline*, Etisalat*