

Will China's Multinationals Succeed Globally or Regionally?

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Basic theory suggests that multinational enterprises (MNEs) succeed when they develop knowledge-based capabilities, often called firm-specific advantages (FSAs). In China's case its large MNEs have few such knowledge based FSAs. Instead, they are building scale economies based on China's country-specific advantages (CSAs) in relatively cheap labor and natural resources. Thus, China's MNEs will likely become knowledge seekers as they go abroad, not knowledge takers. Unlike Western MNEs who transfer knowledge and technology through their FSAs, China's MNEs will lack such FSAs for some years to come. While China's MNEs will have difficulty in sustaining their initial forays abroad, it is likely that they will expand intra-regionally rather than globally and in a similar manner to other large multinationals.

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Introduction

China is home to a set of large firms which can now be classified as multinational enterprises (MNEs). An MNE is defined as a firm with some foreign sales and some foreign production, where the latter takes place in a wholly-owned foreign subsidiary (Rugman, 1981, 2006). In the list of the world's largest 500 companies, ranked by sales for 2001, Rugman (2005) found that there were 11 Chinese MNEs. In 2004, there were 16 Chinese firms in the list of the world's largest 500. These large MNEs are discussed here as the basic set of firms which will determine the success of China in developing MNEs.

The literature in international business analyzes the growth and foreign expansion phase of MNEs. The starting point of this theory of the MNE, (Rugman, 1981, 1996), is the proposition that an MNE goes abroad to further expand on its firm-specific advantage (FSA). The FSAs are proprietary to the firm, and they can be technology based, knowledge based, or they can reflect managerial and/or marketing skills (Rugman and Verbeke, 2003). However, there need to be more than economies of scale in the case of China's MNEs, as such scale advantages reflect a country factor available to all firms, rather than being an FSA. Further, the large MNEs often serve as 'flagship' firms at the hub of large business networks where key suppliers, distributors, and businesses in the non-government infrastructure all come together in a cluster to help promote foreign sales (Rugman and D'Cruz, 2000). Again, such cluster advantages reflect knowledge-based FSAs. Are these FSAs being developed by Chinese MNEs or are they simply building on country factors?

In addition to the focus of this paper upon analysis of the FSAs of Chinese MNEs, we will embed the paper within the context of research on globalization and regionalization. Contrary to the previous simplistic viewpoint that economic integration has been occurring globally, it has been shown by Rugman (2000) that the world's trade and foreign direct investment take place predominately within the broad triad regions of the EU, North America, and Asia Pacific. Using firm-level data Rugman (2005) confirms that of the world's largest 500 firms only nine are truly global, whereas the vast majority of them are home-region oriented. Across the 380 firms (out of the 500) for which data on geographic sales and assets are available, the average ratio of intra-regional sales is 72%, see Rugman and Verbeke (2004).