



Emerging Market Multinationals and Innovation

Roberta Rabelotti

Università di Pavia & University of Aalborg

GRIPS - January 28th 2019

Recent areas of research

- Emerging market multinationals and their investments in developed countries: JoEG 2019 & 2014; EPS 2016; CER 2015 & 2013; WD 2016; IBR 2014;
- Global Value Chains: WD 2019; JoDR 2018; WD 2011, ODS 2008;
- Technological catch up:
 - in the wine industry: RP 2017 & 2010; CJoE 2012; WD 2010;
 - in green technologies: working in progress (co-editor of ICC special issue)
- Clusters: EG 2013; EPS 2013 & 2009; RS 2011.

ROBERTARABELLOTTI.IT

ROBERTA RABELLOTTI

Professor of Economics

HOME ABOUT PRESENTATIONS PUBLICATIONS MEDIA GRANTS



I'm an economist. My areas of expertise are the economics of innovation; economic development and regional economics.

I am Professor of Economics in the [Department of Political and Social Sciences](#) at the [Università di Pavia](#) in Italy. I also hold a position as [Assigned Professor](#) at the [University of Aalborg](#), Denmark, where I am associated with the [IKE](#) (Innovation, Knowledge and Economic Dynamics) Research Group (Department of Business and

PRESENTATIONS

Chinese Outward Foreign Direct Investments and Innovation

18 - 01 - 2019



Outward Foreign Direct Investments from Emerging Market Multinationals and Innovation

On 18th January I gave a seminar at [IDE-JETRO](#), where I am visiting fellow. Before on the 8th of November I gave a lecture at Corporate Innovation Day in the [Sino-Danish Center](#) in Beijing. [Here](#) you can

PUBLICATIONS

Chinese and Indian MNEs' shopping spree in advanced countries. How good it is for their innovative output?

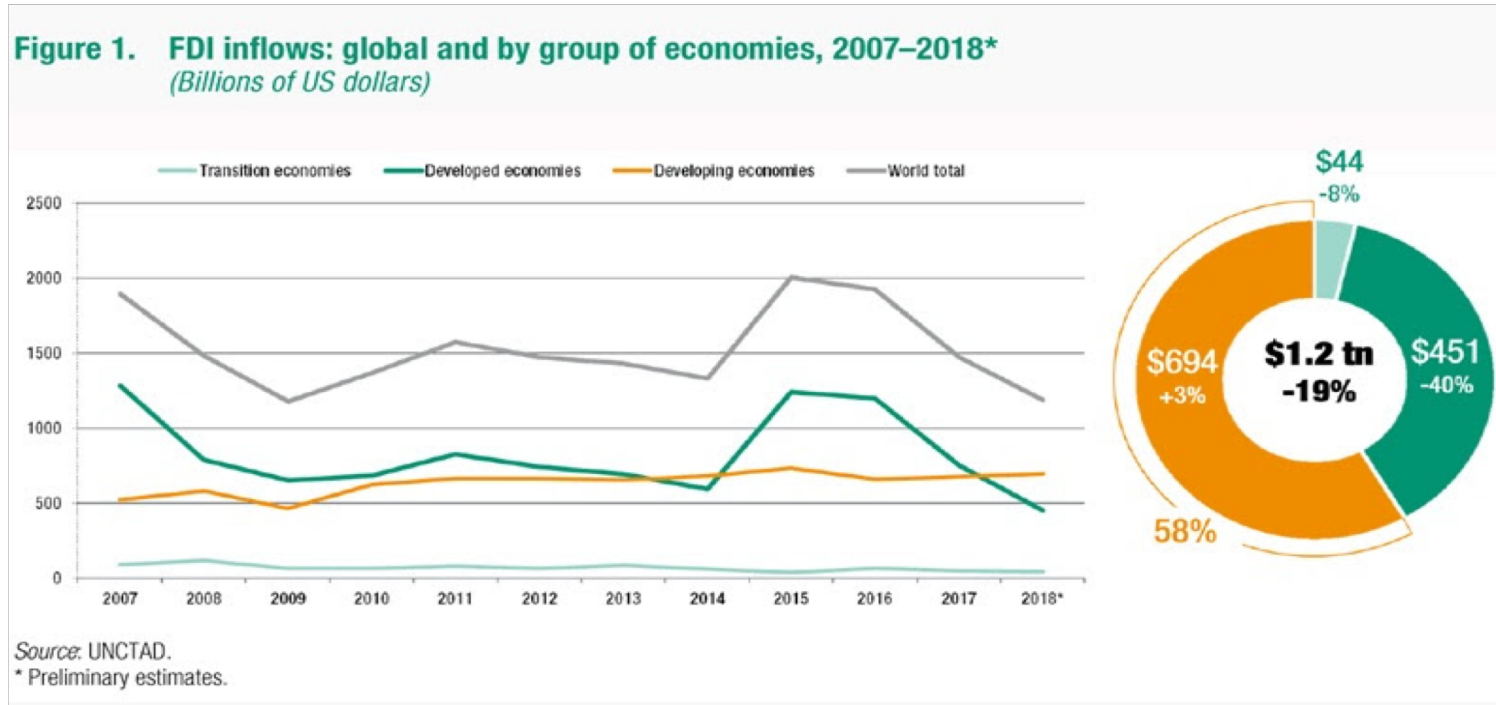
16 - 11 - 2018



Chinese and Indian MNEs' shopping spree in advanced countries. How good it is for their innovative output?

Chinese and Indian multinationals are continuously expanding their operations in Europe and the USA through cross-border acquisitions (CBAs), with the aim of tapping

Emerging Market Multinationals (EMNEs) come to the fore



- According to UNCTAD (2018), from 2000 to 2017 FDI outward stock from emerging countries have increased by 10 times (from \$690 to \$6898 bl) and those from China by 53 times (from \$28 to 1482 bl);
- By 2025, emerging regions are expected to be home to almost 230 companies in the Fortune Global 500, up from 85 in 2010.

EMNEs strategic asset seeking investments

- An important motivation for EMNEs internationalization in advanced countries is the access to knowledge;
- In advanced countries EMNEs undertake **exploration (rather than exploitation) investments** aimed at enhancing capabilities for improving their long-term global competitiveness and catching up with the incumbent global leaders (Dunning, 1993; Meyer, 2015).

Two research questions

1. EMNEs location strategies:

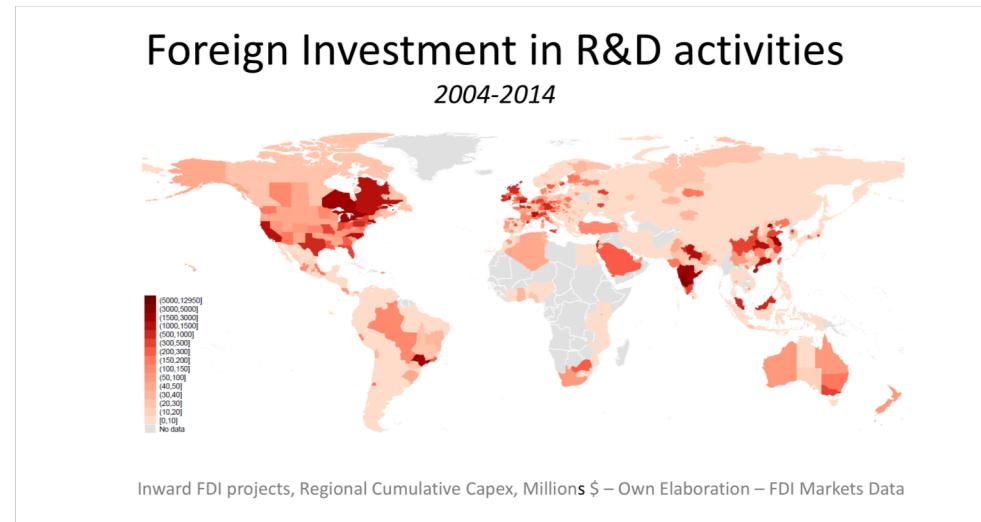
What are the main driving factors of EMNEs strategic asset seeking investments in developed countries?

2. Impact of EMNEs strategic asset seeking investments on their innovation capacity

Do EMNEs really benefit from their investments in advanced countries in terms of their innovative capacity?

1. On EMNEs location strategies and GVCs

- (E)MNEs locate abroad a large variety of activities, involving different degrees of local embeddedness;
- (E)MNEs activities are placed in the locations offering the best characteristics for each specific activity.



Fitting location factors with activity characteristics: where EMNEs do locate their innovative activities?

(Crescenzi, Pietrobelli & Rabelotti, 2016)

- What are the characteristics of the host economies that matter the most to EMNEs' strategic asset seeking investments?
- Are EMNEs' local attraction factors and spatial behaviours different from those of AMNEs?
- Do EMNEs primarily target countries or specific regions/subnational units in their search for strategic assets?
 - 19,444 greenfield investments (between 2003 and 2008) from the entire world into the EU25 countries, geocoded at NUTS2 level (Source: FDI Markets) and disaggregated in 5 activities: Headquarters, Innovative Activities, Commercial Activities, Production, Logistic and Distribution.

Investment location drivers

1) Regional Innovation Capacity

- **Patent Intensity;**
- **Social Filter** measuring structural pre-conditions to establish well functioning regional systems of innovation (Crescenzi & Rodriguez Pose, 2011);

2) FDI Regional Agglomeration:

- total pre-existing investments;
- total investments in the same sector;
- total investments in the same functions;

3) Market size;

4) Labour market indicators.

Findings in a nutshell

- When they are conducting abroad innovative activities, EMNEs are attracted to EU regions with **high technological capabilities measured by patent per capita**;
- **Large cultural and cognitive distance** makes it difficult for EMNEs to ‘de-code’ the nuances of ‘soft factors’, measured by the Social Filter, in European cities and regions;
- **EMNEs locate where there are other multinationals active in the same activity** to maximize what they can learn from proximity to similar companies;
- Policy-makers should support the development of ‘**institutional bridges**’ able to facilitate EMNEs in their understanding of ‘soft’ innovation drivers, enabling and accelerating their ‘insidership’;
- Better understanding the behavior of EMNEs would allow local policymakers to **minimize predatory investment strategies, attracting investments keen to contribute to local economic development.**

2. On the impact of EMNEs acquisitions in advanced countries

**Chinese and Indian MNEs' shopping spree in advanced countries.
How good it is for their innovative output?**

(Amendolagine, Giuliani, Martinelli & Rabelotti, JoEG 2019)

- **Do EMNEs benefit in terms of their innovative output from investing in innovative target firms and regions?**
- **What makes a positive innovation impact more likely?**
- **What are the factors moderating this impact?**
- 466 cross-border acquisitions (CBAs) accomplished by 301 Chinese and Indian medium to high-tech firms in Europe (EU28) and the U.S. (2003–2011).

What are EMNEs' key targets?

Individual firms'
technological knowledge
and expertise



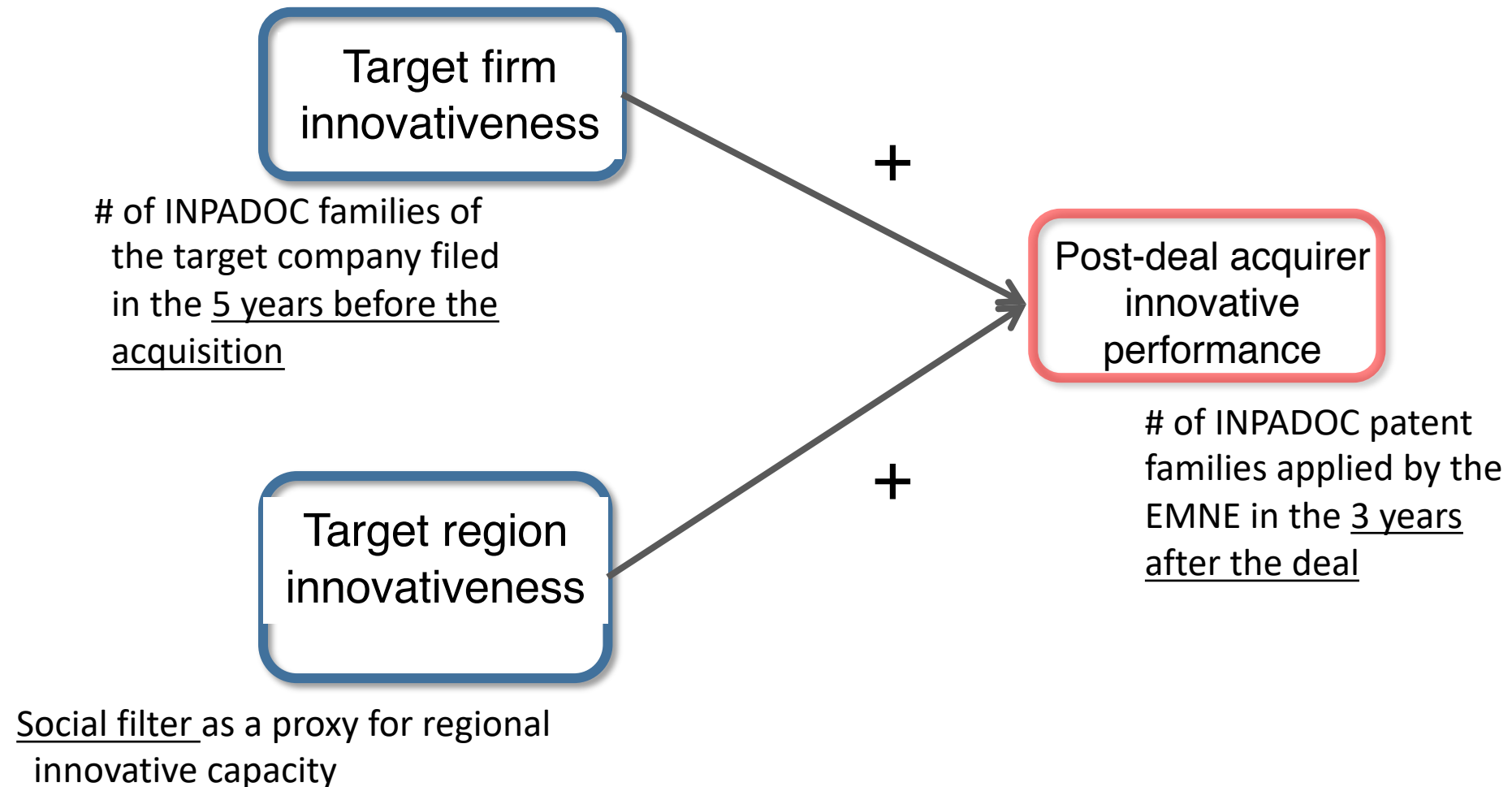
Specific regions/clusters to tap into
local knowledge and networks



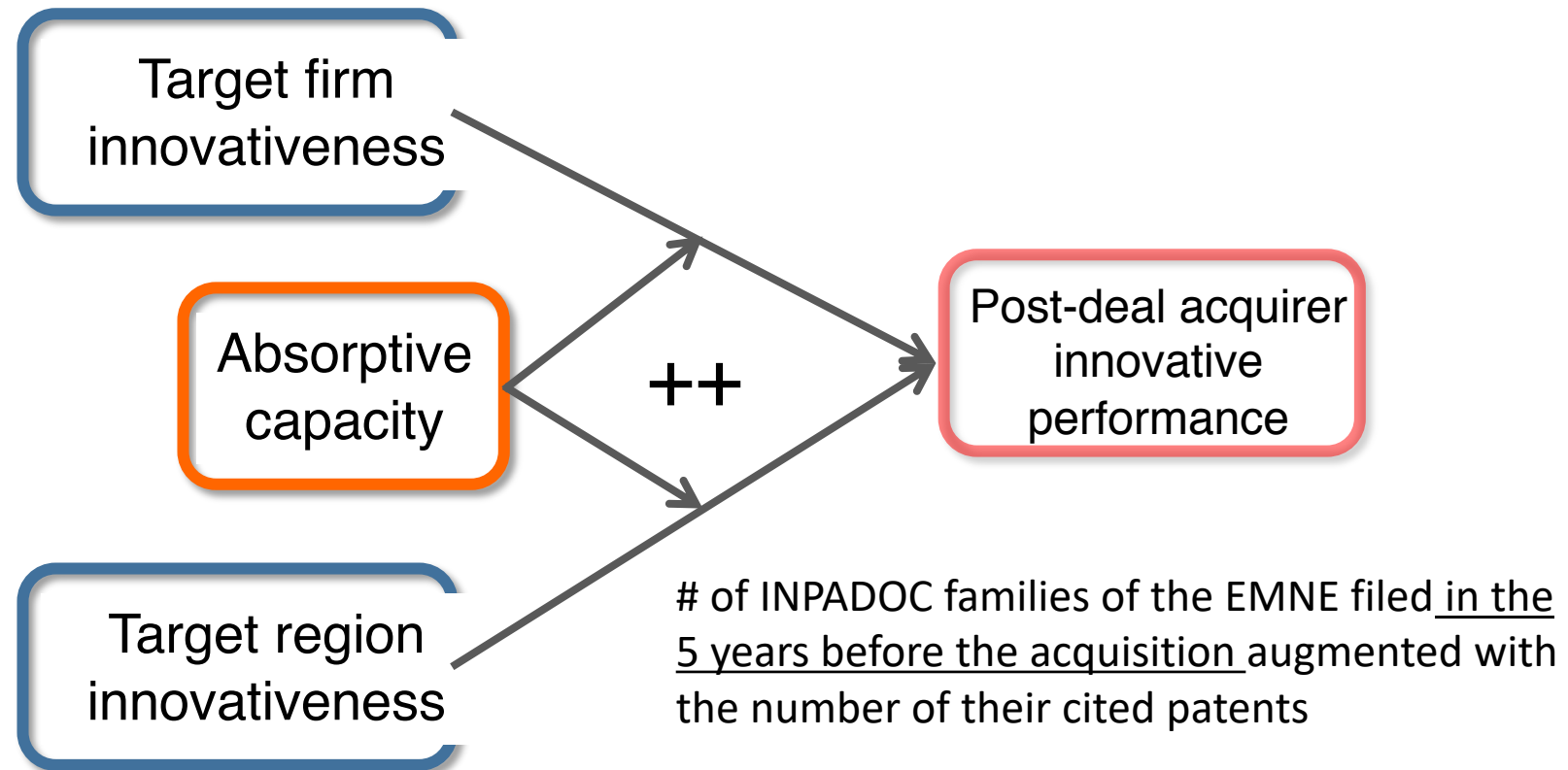
EMNEs face two challenges

- **Absorptive capacity:**
 - To identify useful knowledge and to learn and successfully accommodate innovation and learning routines with those of the acquired firm;
 - To take advantage of the 'local buzz';
- **Status/Reputation:**
 - Liability of emergingness (Madhok and Kayhani, 2012)
 - Negative stigma jeopardizing EMNEs legitimacy (Hansen et al., 2016)

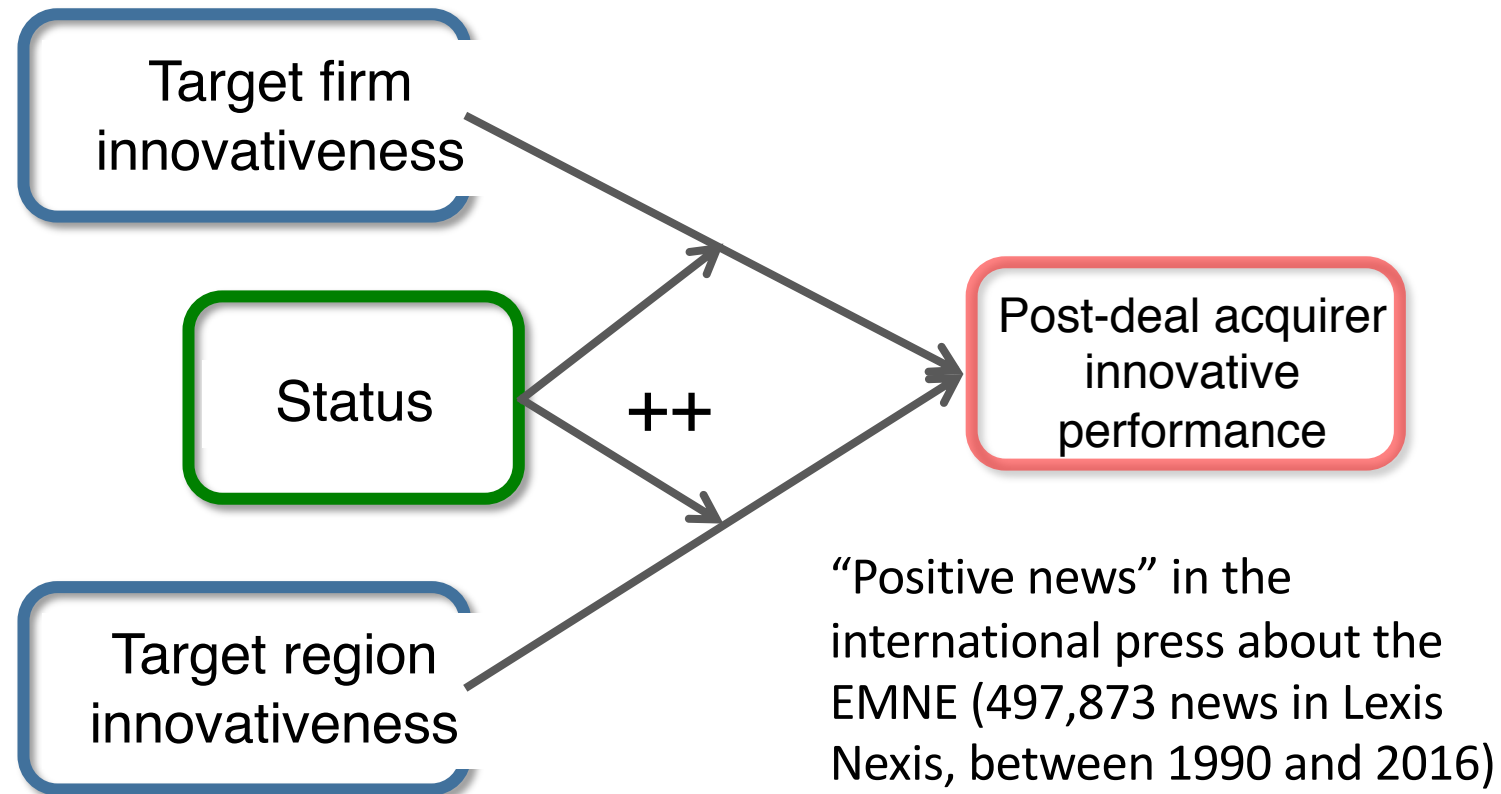
Baseline hypotheses



EMNEs' absorptive capacity



EMNEs' status



Main findings

On target firm innovativeness

- **H_{B1} Not supported** (Negative and significant);
 - **HP1 & 3:** The negative relationship between the innovativeness of the target firm and the EMNE post-deal innovative output is *less negative* the stronger the knowledge base of the EMNE prior to the deal and the higher the EMNE status.

On target region innovativeness

- **H_{B2} Supported** (Positive and significant);
 - **HP2 & 4:** EMNE predicted innovative output is *more positive* the stronger the EMNE knowledge base and the *higher* the EMNE status.

Learning through acquisitions is not for everyone

- **Acquisitions are not a quick fix** for EMNEs' lack of technological capabilities at home;
- Target firms may resist to knowledge transfer, creating barriers to EMNEs' attempts to absorb and appropriate relevant knowledge:
 - **this resistance is moderated by a strong knowledge base (expected) and high status (additional mechanism);**
- EMNEs are able to benefit from locating in innovative regions, characterized by an ecosystem facilitating innovation and knowledge circulation (measured by the Social Filter):
 - but tapping into regional knowledge is not a trivial issue for EMNEs with low status.

Final takeaways

- EMNEs are more interested into local/regional than country characteristics;
- It is not the industry specialization but the type of activity undertaken which matters for deciding where to invest;
- EMNEs have not the same culture and strategies than AMNEs;
- EMNEs' innovation capacity increasingly depends on their networking activity, through which they can access very diverse knowledge;
- EMNEs are not a homogeneous group of firms, all suffering from country-of-origin skepticism and liability of emergingness, but there are (absorptive capacity and status) differences influencing their learning processes in the host economies.

Policy implications

- EMNEs' heterogeneity call for more sophisticated national, regional and local investment policies, which should evolve from the attraction of *'inward FDI no matter what'* to more diversified and place-sensitive policies;
- In recipient countries, local policy makers need to know more about the relationships between local and international knowledge networks (in particular those involving EMNEs) and about how these networks may help to promote or impede local innovation and economic development;
- In emerging countries, policy-makers need to develop and strengthen policies oriented to technological, managerial capability building for enabling EMNEs to benefit from distant knowledge.

Issues for further research

- Factors allowing or hindering EMNEs to become insiders in local innovation ecosystems?
- Sources of knowledge and pathways for reverse knowledge:
 - Learning mechanisms: learning from customers, from co-operation, from labor mobility?
 - Disseminating and integrating mechanisms of new knowledge within EMNEs?
- Entry modes: How different entry modes (acquisitions vs joint ventures vs greenfield investments) influence knowledge learning and capabilities' accumulation? What does drive the entry mode choice: at firm and host country/region level?
- Reverse knowledge transfer on home regional innovation systems: mechanisms and contingent factors?

Thank you

robertarabellotti.it

roberta.rabellotti@unipv.it