




The Growth of Chinese Multinationals

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The Growth of Chinese Multinationals

Abstract

The growth of Chinese multinationals has become a fascinating component within the larger literature on the growth of firms in and out of emerging economies. Leveraging the latest and most-comprehensive data, Casanova and Miroux's (2024) research enables us to evaluate the validity of predictions made by Peng and Heath (1996), Rugman and Li (2007), and Peng (2012). Overall, the growth of Chinese multinationals reported by Casanova and Miroux has not supported earlier predictions, but has increasingly supported more recent predictions. Casanova and Miroux's research therefore has made significant contributions by providing much-needed empirical checks for the claims made by earlier scholars, thus revealing both the strengths and weaknesses of this rapidly evolving literature.

Keywords: Chinese multinationals, emerging economies, growth, predictions

El creixement de les multinacionals xineses

Resum

El creixement de les multinacionals xineses s'ha convertit en un component fascinant dins de la literatura més àmplia sobre el creixement de les empreses dins i fora de les economies emergents. Aprofitant les dades més recents i exhaustives, la investigació de Casanova i Miroux (2024) ens permet avaluar la validesa de les prediccions fetes per Peng i Heath (1996), Rugman i Li (2007) i Peng (2012). En general, el creixement de les multinacionals xineses informat per Casanova i Miroux no ha donat suport a prediccions anteriors, però ha donat suport cada vegada més a prediccions més recents. Per tant, la investigació de Casanova i Miroux ha fet contribucions significatives proporcionant comprovacions empíriques molt necessàries per a les afirmacions fetes pels investigadors anteriors, revelant així tant els punts forts com els punts febles d'aquesta literatura en ràpida evolució.

Paraules clau: multinacionals xineses, economies emergents, creixement, prediccions

El crecimiento de las multinacionales chinas

Resumen

El crecimiento de las multinacionales chinas se ha convertido en un componente fascinante dentro de la literatura más amplia sobre el crecimiento de las empresas dentro y fuera de las economías emergentes. Aprovechando los datos más recientes y completos, la investigación de Casanova y Miroux (2024) nos permite evaluar la validez de las predicciones hechas por Peng y Heath (1996), Rugman y Li (2007) y Peng (2012). En general, el crecimiento de las multinacionales chinas informado por Casanova y Miroux no ha respaldado las predicciones anteriores, pero sí ha respaldado cada vez más las predicciones más recientes. Por lo tanto, la investigación de Casanova y Miroux ha hecho contribuciones significativas al proporcionar comprobaciones empíricas muy necesarias para las afirmaciones hechas por académicos anteriores, revelando así tanto las fortalezas como las debilidades de esta literatura en rápida evolución.

Palabras clave: multinacionales chinas, economías emergentes, crecimiento, predicciones

中国跨国公司的成长

摘要

在关于新兴经济体的内外部企业成长的大量文献中，中国跨国公司的成长已成为引人关注的部分。Casanova 和 Miroux (2024) 的研究利用最新和最全面的数据，使我们能够评估 Peng 和 Heath (1996)、Rugman 和 Li (2007) 以及 Peng (2012) 所做预测的有效性。根据 Casanova 和 Miroux 的报告，总体而言中国跨国公司的成长并没有支持早期的预测，但是越来越支持近期的预测。因此 Casanova 和 Miroux 的研究做出了重大贡献，为早期学者的主张提供了急需的实证检验，从而揭示了这一快速发展文献领域的优势和劣势。

关键词: 中国跨国公司，新兴经济体，增长，预测

Introduction

The growth of Chinese multinationals is an important component of the broader literature on the growth of firms in and out of emerging economies (EE). In 1996, I had the pleasure of publishing the first article in this genre: “The growth of the firm in planned economies in transition: Institutions, organizations, and strategic choice” (Peng and Heath 1996). After 20 years, this expanding literature was more recently reviewed in “The growth of the firm in (and out of) emerging economies” by Peng, Lebedev, Vlas, Wang, and Shay (2018).

Among scholars investigating the growth of Chinese multinationals, Lourdes Casanova and Anne Miroux—with their consistent focus and unwavering passion—stand out. The recent article on which I am commenting (Casanova and Miroux 2024) is but the most recent contribution building on a stream of earlier works, including *Emerging Markets Report 2020* (Casanova and Miroux 2020a) and *Emerging Markets Report 2022* (Casanova and Miroux 2022) as well as *The Era of Chinese Multinationals* (Casanova and Miroux 2020b). Instead of dissecting the article—as a traditional discussant would do—I have decided to leverage this recent work as well as their earlier research to address an important but previously unaddressed question: How does the growth of Chinese multinationals reported by Casanova and Miroux support or refute earlier predictions about their growth?

Specifically, I draw on predictions published in the last three decades: Peng and Heath (1996) about the growth of Chinese firms in general, and Rugman and Li (2007) and Peng (2012) about the growth of Chinese multinationals. Overall, Casanova and Miroux’s (2024) most recent work contributes to the literature by enabling us to evaluate the validity of predictions made earlier, thus revealing both

the strengths and weaknesses of the research on the growth of Chinese multinationals.

Evaluating Predictions Made by Peng and Heath (1996)

Written at an early time (the early 1990s) when the term “EE” had not caught on, Peng and Heath (1996) used “planned economies in transition” and made two predictions. Their most influential claim was that in terms of the three primary modes of firm growth—generic, acquisitive, and network-based growth—network-based growth would be a predominant strategy (Peng and Heath 1996, 517). While this is indeed supported by substantial research (Peng et al. 2018), Casanova and Miroux (2024) do not report such findings. Such nonfindings may be due to the fact that their work, focusing on more macro aspects of MNE growth, have not collected firm-level network data—their research design cannot test this prediction.

Peng and Heath (1996, 492) also predicted that neither generic expansion nor acquisitions, two traditional strategies for growth found in the West, are viable. Casanova and Miroux (2024) can refute such a prediction. Instead, they find that some Chinese multinationals have been growing by generic expansion, and that some others by acquisitions (Casanova and Miroux 2024, Figure 10). Understanding why Peng and Heath’s (1996) prediction regarding organic and acquisitive growth is refuted is interesting. Peng and Heath (1996) argued that a lack of capable managers and other crucial resources makes organic growth not viable. Peng and Heath (1996) also complained about a lack of functioning strategic factor markets that would make acquisitive growth challenging, if not impossible. There is no doubt that mergers and acquisitions (M&As)—both in and out of China—have been growing by leaps and bounds

(Lebedev et al. 2015). Clearly, strategic factor markets, despite imperfections, seem to function in China and (when Chinese acquirers go abroad) outside of China.

When Peng and Heath (1996) started their research in the early 1990s, Chinese multinationals hardly existed, and domestic M&As within China barely started. The two institutional conditions of lacking capable managers and lacking strategic factor markets were largely accurate in “planned economies in transition” (per their title), resulting in their reasoning that two of the major modes of growth—organic and acquisitive—would be difficult. After rapid development since the 1990s, today’s China is obviously different from that China three decades ago. Today’s China is blessed by more capable managers and strengthening strategic factor markets for M&As, thus facilitating a great deal of organic growth and acquisitive growth—as reported by Casanova and Miroux (2024). In summary, the most-recent and most-comprehensive data on Chinese multinationals reported by Casanova and Miroux (2024) generally do not support Peng and Heath’s (1996) earlier claims on the growth of firms in China (and other EEs), which admittedly were not made with Chinese multinationals in mind.

Evaluating Predictions Made by Rugman and Li (2007)

A decade after the publication of Peng and Heath (1996), Rugman and Li (2007) published what I believe to be the first focused article on Chinese multinationals. They outlined two predictions. First, Rugman and Li (2007) predicted that “unlike Western MNEs who transfer knowledge and technology through their firm-specific advantages (FSAs), China’s MNEs will lack such FSAs for some years to

come” (Rugman and Li 2007, 333). They speculated that “the Chinese firms in the world’s largest 500 are mainly state owned and often lack strong incentives to develop their FSAs due to government protection and control” (Rugman and Li 2007, 337). This prediction has been refuted by Casanova and Miroux’s (2024) findings.

While Casanova and Miroux indeed find that many Chinese multinationals in the Fortune Global 500 are state owned, many of them have nevertheless become leaders globally. Examples include the top five Chinese firms: one firm (State Grid) in the utility industry, two firms (CNPC and SINOPEC) in the oil and gas industry, and two firms in the construction industry (China State Construction Engineering Corp. and China Communication Construction Group) (Casanova and Miroux 2024, Table 2). While these firms have not become household names, it would be difficult to argue that they become what they are without any FSAs. As reported by Casanova and Miroux (2024), other Chinese firms have become better known household names, such as Baidu, Huawei, Tencent, and TikTok. Similarly, in the absence of FSAs, it will be difficult to understand the success of these firms.

Second, in terms of geographic spread, Rugman and Li (2007, 333) predicted that Chinese MNEs “will expand intraregionally rather than globally.” Specifically, “their primary geographic focus will be within the Asia Pacific region. The Chinese MNEs are highly unlikely to become global” (Rugman and Li 2007, 341). The evidence found by Casanova and Miroux (2004) is mixed. On the supportive side, they report that “seven of the top 20 destinations (based on the number of firms that have a subsidiary or affiliate in the host country) are in Asia-Pacific: Australia, India, Indonesia, Japan, Malaysia, Singapore, and Thailand” (Casanova and Miroux

2024, Table 4 and Figure 10). On the nonsupportive side, Casanova and Miroux (2024) find Chinese multinationals' "very significant presence in the United States[...]. They also are very much present in the European Union[...], Brazil and Mexico also see a significant presence of Chinese firms[...]. Finally, in Africa, Chinese firms are present in virtually all countries." Casanova and Miroux (2024) comment that Chinese firms' international expansion is "noticeable for its global reach." In terms of geographic spread, Chinese multinationals are *both* regional and global. In summary, some of Rugman and Li's (2007) predictions are supported by Casanova and Miroux (2024), and some are not supported.

Evaluating Predictions Made by Peng (2012)

One and a half decade after Peng and Heath (1996) and five years after Rugman and Li (2007), I published my first focused article on Chinese multinationals (Peng 2012). Based on largely anecdotal data, I identified three relatively unique patterns of Chinese multinationals, which can be positioned as predictions. (1) Chinese multinationals are strongly influenced by the home-country government. (2) They face "the challenge of going abroad in the absence of significantly superior technological and managerial resources." (3) They are noted by "the rapid adoption of (often high profile) acquisitions as a primary mode of market entry" (Peng 2012, 97–98).

In terms of the first prediction, Casanova and Miroux (2024) mention the corrective actions undertaken by the Chinese government to temper the acquisition fervor of Chinese multinationals. Their earlier work clearly

documented the support of the home-country government (Casanova and Miroux 2020a, and 2020b). This is notable in the area of the Belt and Road Initiative (Li et al. 2021). Overall, their work supports the first prediction.

On the second prediction, Casanova and Miroux (2024) report a number of ways of how the challenge of initially lacking significantly superior technological and managerial resources can be overcome. Notably, Chinese firms have now become global leaders in digital payments and electric vehicles. Overall, Chinese firms "have gradually evolved from copycats to innovators, shifting towards value-added activities and deploying their innovation capabilities across a variety of sectors" (Casanova and Miroux 2024). Therefore, I interpret these findings as largely supportive of Peng's (2012) second prediction.

The third prediction is supported by Casanova and Miroux (2024), who report "the dramatic surge of outbound M&As in 2015–2017." In addition, they capture the substantial fall of the outbound M&A value since its peak in 2016 (Casanova and Miroux 2024, Figure 7). In 2022 (the most recent year for which full-year data are available), the value of outbound M&As undertaken by Chinese multinationals "barely reached the level of the mid 2000s." Overall, all three predictions made by Peng (2012) have been supported by Casanova and Miroux (2024).

Contributions

The growth of Chinese firms—or more broadly, EE firms—has been a fascinating research area since the 1990s (Peng, 2023; Peng and Heath 1996; Peng et al. 2018). The contributions of Casanova and Miroux (2024) and their earlier works are manifold. One contribution of which I am particularly fond is that their work has

enabled us—in a more-systematic and larger-sample way—to evaluate the claims made by earlier scholars regarding the growth of Chinese firms.

Spread over three decades, predictions made in the three earlier articles have performed differently, and their validity—when using Casanova and Miroux's (2024) research as empirical checks—have been improving. Specifically, Peng and Heath's (1996) predictions have been largely unsupported, Rugman and Li's (2007) have been half refuted and half reported, and Peng's (2012) have been mostly supported. By providing much-needed empirical checks for earlier predictions, Casanova and Miroux's (2024) research thus helps reveal both the strengths and weaknesses of this rapidly evolving literature.

The strengths of this literature on the growth of Chinese firms stem from scholars' consistent focus with one eye on the mainstream (Western/non-EE/non-China-specific) literature and another eye on the Chinese realities. Such endeavors to link theory with context has been a great hallmark of EE research (Kostova and Hult 2016). The weaknesses of this literature are (1) that the growth of Chinese multinationals has often deviated from what standard (often Western) theory would suggest, and (2) that scholars, especially those pioneering ones attempting to predict the future course of such growth, inevitably have to speculate. Not surprisingly, predictions made by Peng and Heath (1996), written at a time during which Chinese multinationals hardly existed, are not well supported by Casanova and Miroux's (2024) research that only focuses on multinationals. In the same spirit, Rugman and Li (2007) was armed only with Rugman's earlier research on non-Chinese multinationals. At that time, although Chinese multinationals started to become active, no systematic

academic research about them existed. Rugman and Li (2007) endeavored to generalize from non-Chinese findings as a basis to predict the future growth of Chinese multinationals. Not surprisingly, some of their predictions are hits and some are misses. Published five years later than Rugman and Li (2007), Peng (2012) benefitted from the existence of a small literature on Chinese multinationals. Although this literature was largely anecdotally based, its very existence helped Peng (2012) to solidly identify the relatively unique aspects as a basis for his predictions. Interestingly, the predictions in Peng (2012)—hopefully sixteen years smarter and wiser than those in Peng and Heath (1996)—have been mostly supported by Casanova and Miroux (2024).

In summary, Casanova and Miroux's contributions have provided much needed empirical checks to evaluate the claims made by the earlier literature. As a longitudinal process, Chinese multinationals will continue to grow and evolve—sometimes predictably and sometimes unpredictably (Li et al. 2022; Luo 2022; Meyer et al. 2023; Peng et al. 2023). In conclusion, if Casanova and Miroux's research has taught us one lesson, it is that our learning about the growth of Chinese multinationals—or more broadly, about the growth of EE firms—is not likely to stop anytime soon.

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