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Bachelor thesis:
The new competitors: A study of EMNCs in developed markets

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Abstract

The new competition, the EMNCs from the developing parts of our world are companies that have finally managed to get the rightful attention. Some argue that their occurrence is something that will drive the world forward for decades to come while others point them out as a threat to the living standards of the mature Western markets.

Our focus, when writing about these competitors has been on their internalization and the strategies when choosing to expand abroad to developed countries. Besides from this we have gathered a lot of information about the subject in general and the theories mentioned about why EMNCs do expand the way they do. By comparing our research results with the general theories we have tried to see if the earlier theories are still up to date and if there is something new worth mentioning.

The results of our thesis showed that many of the theories mentioned by other authors about the subject are still relevant when comparing with the chosen EMNCs that we wrote about.

In addition, differences between the EMNCs in the two chosen industries, steel and telecommunication, have been identified. The use of for instance Joint Ventures is much more common in the telecommunication industry than in the steel industry. Acquisitions and mergers on the other hand seem to be the more common way of doing business in the steel industry that generally is in need of consolidation.

Acknowledgments

We would first of all like to head off and express our sincerest gratitude to our tutor Inge Ivarsson. During the course of time he has accompanied us with information on where we can find different facts about the chosen subject. He has also made sure that we have stayed on the right track by giving advices when it comes to delimitating our work. Besides from this it is worth adding that he has been a support when needed.

John A. Mathews, the author of the book “Dragon Multinationals” should be given a big credit. We were honoured that a well-known writer like him chose to give his opinion about the subject and the given questions to him.

List of abbreviations

AM	-	*America Móvil*
BRIC	-	*Brazil, Russia, India & China*
CSA	-	*Country-Specific Advantage*
EM	-	*Emerging Markets*
EMNC	-	*Emerging Multinational Corporation*
FDI	-	*Foreign Direct Investment*
FSA	-	*Firm-Specific Advantage*
JV	-	*Joint Ventures*
M&A	-	*Mergers & Acquisition*
MNC	-	*Multinational Corporation*
NPL	-	*Non Performing Loan*
OEM	-	*Original Equipment Manufacturer*
OFDI	-	*Outward Foreign Direct Investment*
SBQ	-	*Special Bar Quality*

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1. Introduction

1.1 Background

In the first decade of the new millennia a shift has been visible in the global economy, a shift in which the developing countries have taken over the leading role as the global engines that drive the economy forwards. This sudden growth of emerging countries has been possible thanks due to the big amount of foreign direct investment (FDI) received from the multinational corporations (MNCs) of the developed countries. It is with the massive infusion of capital, technology, marketing connections and managerial expertise that the developing countries have managed to economically transform themselves and experience the growth that has occurred over the last two decades (Aykut & Goldstein, 2006).

This has proven itself in the rise of EMNCs over the last two decades. In an edition in the magazine Fortune on the headquarter locations of the top 500 companies in the world showed that 61 of them were stationed outside the Triad (the North Atlantic and Japan) and Oceania. This was a substantial rise in comparison with 1988 when the number was only 26. (Aykut & Goldstein, 2006).

The first research about EMNCs began some 30 years ago when the first wave of overseas expansion made by companies from a few countries developing countries took place (Lecraw, 1977; Lall, 1983; Wells, 1983). This first group included Argentina, Brazil, Hong Kong (China), India, Republic of Korea, Singapore and Taiwan (Province of China). Later on by the end of the 1980s the number of countries increased to include also countries like Chile, China, Egypt, Malaysia, Mexico, Russian Federation, South Africa, Thailand and Turkey (Aykut & Goldstein, 2006). As of 2003 the OFDI (Outward Foreign Direct Investment) of the developing countries had surpassed the OFDI from the developed countries (Aykut & Goldstein, 2006).

The increased growth of OFDI from the developing countries has been one thing to take into consideration when speaking about EMNCs. The other one, more interesting one, has been the flow, where does the OFDI go, to which countries and continents? When speaking about MNCs the trend has always been north-south. These pattern flows have been confirmed by some theories for instance the eclectic paradigm (OLI). However they have proved themselves to be inadequate when speaking about the EMNCs. The EMNCs seem to follow patterns different from those for MNCs and therefore impose as an interesting subject.

1.2 Problematization

The problem lies in the theories that try to explain the expansion abroad. Most of the them serve to explain why MNCs from developed countries expand, what forces them, which pull and push factors exist and what the benefits of expanding abroad are. However these theories do not apply to the EMNCs and their strategies. The differences in the strategies between MNCs and EMNCs lie in the historical, political and cultural backgrounds of the EMNCs. Therefore new theories are needed to give an adequate picture of their expansions.

1.3 Purpose and research question

The purpose of this thesis is to compare the chosen theories with the expanding strategies undertaken by EMNCs. With this we hope to see if we can notice any differences between the industries in regard to the chosen theories as well as between the selected companies.

The expansion of EMNCs to developed countries has created a higher need to grasp their underlying motives in order to understand why they choose to expand to developed countries. It is therefore important that the MNCs of the developed countries are prepared for what awaits them from these new foreign competitors.

Research Question

- Compare the chosen theories with the expanding strategies undertaken by the EMNCs.
- Which differences exist between the expansion strategies of the EMNCs in the Steel industry and those in the Telecommunication industry in regard to the chosen theories?

1.4 Delimitation

Our goal would have obviously been to give the reader a broad as possible understanding of EMNCs and their expansions into developed countries, but in order to do this we would have been forced to look more or less into every industry. Due to the limitations given to us of size and time we narrowed it down to two chosen industries, the Steel industry and the Telecommunication industry.

The reason why we chose the Steel industry is because it contained a high degree of EMNCs that are top leaders in this industry. In addition they originate from the largest emerging countries, the BRIC countries (Brazil, Russia, India, China).

The reason why we chose the Telecommunication industry is because of its specific characteristics when it comes to modes of entry and how this fairly new industry functions in terms of LLL. In addition some of the companies in this industry have their origins in countries that lie in continents rarely mentioned when talking about emerging countries, for instance Orascom from Egypt, Africa. By having selected these two industries we consider to have covered the global reach of emerging countries as much as possible.

When choosing the different companies for our practical examples, we focused on the companies that would best describe diverse sides of the strategies used both in terms of home-base and in the case of differences in international approaches. The explanations of the chosen companies within the two industries are explained below.

The Steel companies

- **BaoSteel** was chosen as the representative for China. The choice of BaoSteel was not obvious because China contains a huge number of Steel companies that are some of the most eminent in the industry. Because of their non-expansion strategy we decided that BaoSteel would function as a unique example in the Steel industry.

- **Severstal**, with its ambitions to serve the industry with high value products while on the other hand having a strongly pro-acquisition CEO felt as the best Russian representative in this thesis.

- **Gerdau** was chosen as the Brazilian flag barrier in this thesis. The reason was that they differ from the other Steel companies in that sense that they operate mainly with small mills and do it very successfully.

- **Tata Steel**, the Indian giant whose strength lie in its cost leadership was added as the last member. After having struggled early in the 1990s with inefficiency problems this Indian giant has in the last 5-10 years turned their attention towards acquisitions of steel companies from developed countries.

The Telecommunication industry

- **America Móvil (AM)** was chosen partly because of its Latin American origin, but mostly due to their modes of entry. Their expansion through strategic acquisitions in which they take advantage of the acquired companies' problems embodies one specific mode of entry used by EMNCs.

- **Huawei**, the largest Chinese company within the telecommunication industry is perhaps the best example of how LLL can work for a company from the EMs. Today they function as a benchmark and a role model for new firms in the industry with global aspirations.

- **Orascom**. In order to give a broad picture of the presence of EMNCs in the global markets we felt the need of an African representative. Orascom was long the African success story but have been experiencing some turbulent times in recent years. Their aggressive expansion strategy also represent a way of going global not represented elsewhere in our examples.

- **ZTE**. With China being the most prominent player of the developing countries, we felt obligated to show differences and similarities of the two largest Chinese companies to fully understand the complexity of Chinese MNCs.

Limitations were made in the choice of theories. The reason behind this is because we wanted to take the theories that we felt best suited the EMNCs when trying to explain their expansion to the developed countries.

The theories of selection, FSA/CSA (Firm Specific Advantage/Country Specific Advantage) and the LLL (Linkage/Leverage/Learning) theory will be covered and later intervened with the expansion strategies of the EMNCs in the analysis.

Our main theory can be found within the theory of OLI and in its framework FSA/CSA. In this framework one can identify several differences in addition to several similarities between the companies. Later on in the thesis, we aim to use the FSA/CSA matrix to map the companies looked upon. We feel that the FSA/CSA theory is the one that best helps to describe the global expansion of EMNCs.

The LLL will serve to explain the transfer of technology, know-how and managerial expertise to the firms of the developing countries. This new theory represents the new research conducted about the subject.

2. Theories

Because our two main theories both stem from the eclectic theory, we will first start off with an explanation of that framework. Detailed descriptions of its expansions, the FSA/CSA matrix and the LLL will then act as the foundation upon which our analysis will derive from.

2.1 OLI Paradigm/The eclectic theory

The OLI theory was developed by John H. Dunning. This theory was presented for the first time in a lecture at the Nobel event of 1976 (Pedersen, 2003). It explains the international movements of companies based on four aspects:

- **The function of the markets:** According to Dunning the differential rates of return between countries is one of the reasons for FDI (Pedersen, 2003).

- **Market imperfections:** Through FDI companies can avoid trade barriers such as high tariffs.

- **Firm behaviour:** Various financial transactions can be used to explain firm/investment behaviour e.g. cash-flow, expenditure on R&D etc.

- **Departure conditions in the host country:** These include things like political instability, social unrest, incentive systems etc. (Pedersen, 2003)

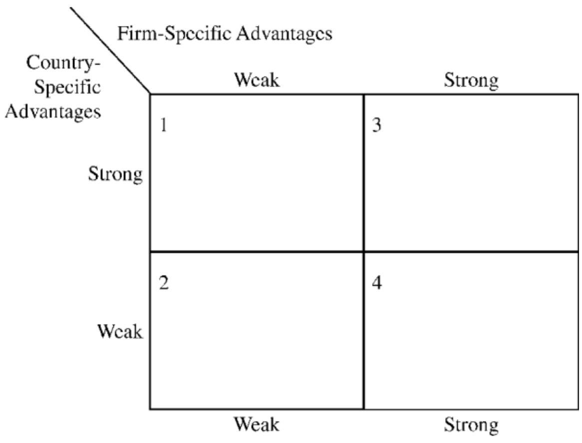
The OLI should be seen as a framework which decision makers in companies can use in order to make decisions whether or not to internationalize. The first thing they must look at is if they have **ownership advantages** over foreign competition. Such advantages could be a firm-specific resource or capability that puts the firm ahead and can be used when entering a new market to gain a superior position (Brakman & Garretsen, 2008).

The second is called **location advantages**. It focuses where on the foreign market the MNCs choose to locate (Neary, 2008). It says that, all things equal, if getting customers in another market is worth the cost of entrance, the company should enter that market (Brakman & Garretsen, 2008).

Third but not least is the **Internalization advantages.** It deals with the fact that what the company has done in one country when it comes to integration and structure of the company is scalable. Therefore the firms should look into how they can integrate foreign subsidiaries or offices into the domestic structure (Brakman & Garretsen, 2008).

2.2 FSA/CSA matrix

Figure: 2.1: The FSA/CSA matrix



Source: This is developed from the analysis of Chapter 8 in Rugman (1981, 2006)

The FSA/CSA theory is an extension of the OLI theory mentioned above. In Rugman´s research when trying to explain the nature, performance and strategies of MNCs when doing international business, a two basic matrix with two building blocks was created (Ramamurti & Singh, 2009).

In the context of the FSA/CSA theory the general assumption behind why a MNC expands is because of its **firm-specific advantages (FSA)** and **country-specific advantages (CSA)**.

FSAs can be technology based, knowledge based or they can reflect managerial and/or marketing skills. (Ramamurti & Singh). Examples of FSAs include financial structure, market knowledge and adequate management (Wang & Wu, 2009).

The **country-specific advantages (CSA)** are unique to the business in each country. CSAs can be a strong labour force, richness in natural resources (forests, minerals etc.) and cultural factors (Rugman, 2007).

In the matrix square above we have four quadrants. **Quadrant 1** consists of companies that are generally cost leadership ones. They are generally resource based and/or mature, internationally oriented who produce a commodity-type product. Their competitive strength lies in the CSAs of location and energy costs. **Quadrant 2** consists of companies who have no FSAs or CSAs. These companies are inefficient and or preparing to exit or restructure. Companies in **quadrant 4** are companies with a strong brand and have FSAs in marketing and customization. The companies that lie in **quadrant 3** can choose to follow any of the strategies listed above because of the strength of both their FSAs and CSAs. (Ramamurti & Singh, 2009).

2.3 The LLL theory

The use of Mathew´s LLL framework can be of great applicability when covering the different forces and movements present in the global economy. Rather than looking at what a company has, it focuses upon what they can gain and accomplish through the LLL process explained below.

Linkage, Leverage and Learning

The LLL is a framework for describing how a multinational firm can go global and how the firm can acquire advantages by being multinational rather than national.

Linkage - To start with, a company should use the abundance of opportunities to make connections with important developed companies in their field. This is how they gain access to knowledge in the first place (Mathews, 2006). This access enables a catch-up process. It has been done thousands of times and one company that has been very successful over the last decades is Haier who at the early stages of their globalization teamed up with Liebherr (Funding Universe, 2011)

Leverage – A company can use the linkage to access technology and make sure that a technological transfer takes place (Mathews, 2002). In its first form this is often done by licenses and/or OEM (Original Equipment Manufacturer) contract by later getting more advanced technology by e.g. sending engineers abroad.

Learning – Through repeated use of linkage and learning a company learns and hence catches- up with more advanced competition (Mathews, 2002).

The LLL can be used as an alternative to the OLI framework which is excellent in providing the advantages of going global but fails to capture the new multinationals most important advantage; the latecomer effect. By being late they gain several advantages such as not having to repeat early mistakes or having to invest in infrastructure or R&D at such a high cost as the early movers had to. The best application however can be to use OLI and LLL together to map all the advantages of being multinational (Mathews, 2002).

3. Methodology

To begin with, we wanted to establish a view of how the phenomenon of EMNCs has emerged. How it was earlier and how it is today. In order to achieve this we commenced with a literature-based research were we found several books of great interest. One of them stood out and earns to be mentioned separately here; 'Dragon Multinational' by John Mathews gave us a solid background of this new occurrence. Since the book caught our interest we contacted the author with some questions. Pr. Mathews was very helpful and also assisted us in the writing of this thesis by providing us with interesting articles regarding specific companies that we have looked upon, e.g. Huawei and ZTE.

Another source of information that has proven to be of great importance for us is the annual World Investment Report. Especially that of 2006, WIR: FDI from Developing and Transition Economies: Implications for Development. This provided us with statistics of the south-north and south-south investments which also created a better base for our future research. It also made us realise some of the limitations that comes with statistics from some of the countries in developing parts of the world. In some cases the info proved to be overvalued and the opposite in others.

3.1 Method for the Steel Industry

We started off with first gathering information about the Steel companies. This was mainly made through the web where several articles and interviews given by the CEOs were being constantly read and gathered. Some of them, for instance those by Dhawan & Roy or Khrennikov would later on during our writing process prove themselves to be more valuable than we could have hoped. They gave us and hopefully the reader a better understanding into how the CEOs of these companies think when it comes to the strategy of their companies, the future of them and the future of the steel industry.

Other information, like for instance different facts, stats and background on these companies were more or less entirely taken from the different companies official websites. Some information about them and their background was taken from the book "Emerging Multinationals from Emerging Countries". The information about the Steel industry itself was taken from mainly two websites, economywatch.com and worldsteel.org. Economywatch gave us the general information about what Steel is and in which industries it is mainly used while the information about the sizes of the companies and which place they were ranked were taken from Worldsteel.

The gathered information about the countries came from well known authors who were born in them and knew the subject very well like for instance Panibratov and Satyanand. Others like for instance Morrison and Watkins who wrote about China and India contributed equally much as Panibratov and Satyanand despite the fact that they were not from China and India.

A big credit should also go to the book of Ramamurti and Singh (Emerging multinationals from emerging countries" because some parts of that book proved themselves to be more then valuable, namely thinking about Gerdau that had its own part in the chapter about Brazilian multinationals. The book also contributed with valuable information about the part that the Russian government has played.

As earlier mentioned we noticed how the interviews became the most important part of our research and way of describing the companies and the way they think when expanding. The fact that the gathered interviews were from the years before, during and after the financial crisis of 2008 showed us and hopefully the reader as well how the financial crisis has affected the strategic thinking of the companies leaders and their future plans for expanding abroad.

3.2 Method for the Telecommunication Industry

In order to gather information about the Telecom industry we have mostly focused upon articles and interviews in order to get an up-to-date view of the situation today. In choosing the different companies we wanted to give examples of different strategies and also how companies from different countries tackled the internationalization process.

The master thesis; 'Globalization strategies of Chinese Companies' by Kevin W.B by Jiang from the University of Stockholm has served us with interesting facts about the global actions of Huawei and ZTE and also helped us with our delimitations.

The main website used in gathering information about the telecom industry has been Telecoms.com which provided us with plenty of interesting articles regarding most of the companies looked upon and perhaps more importantly, it served as a gateway for finding interviews with leaders of the different companies. As was the case with the steel industry, this gave us a far better understanding of the global moves of the companies and enabled us to go deeper, not only looking at what happened but also why it happened.

4. Empirical research

With the theories having been explained above, the base is set to conduct the empirical research. We will start off with a brief background about the emergence of EMNCs. This will be followed with country profiles in which we aim to give the reader an even stronger understanding of the case examples. In the country profiles we look into the recent modern history, the role of the state and the OFDI dispersion of the host countries. The chapter will be finalized with the two case industries where the purpose is to show the different expansion approaches from the business cases. This will be done by observing eight companies from six countries.

4.1 Background

The political influence from its government, the intense rivalry between several competitors in the same industry and the insufficient demand in the domestic market saw Japanese companies being the first EMNCs in the post war era to internationalize (Porter, 1990).

Today more reasons apply and the globalization of companies from emerging markets (EMs) occurs more often. Companies from EM account now for an estimated ¼ of the total number of MNCs in the world. (WIR, 2006)

One way of measuring the growing importance of EMNCs is looking at the FDI from developing countries over time. The World Investment Report covers this field thoroughly and presents data that show several periods of rapid expansion of FDI from EM since the seventies (WIR, 2006). Even though these periods are interesting the discussion will focus on the last two decades where much stronger periods of increased FDI have been present. The data from these decades are also more reliable than those of earlier years. The data used from 1990 and onwards is more precise but it can also suffer from limitations and be underestimated in some areas and overestimated in others (WIR, 2006).

Since 2000, South-North transactions have shown fast growth. This can be seen as a sign of a growing need amongst EMNCs to acquire strategic-assets in developed countries. When looking at the top 25 acquisitions by EMNCs from developing countries 18 of the 25 largest were conducted after 2000, verifying an increased occurrence of large transactions from EMNC. Most of which has been takeovers of MNCs from developed countries (WIR, 2006).

By far, the most important region of the developing world has been Asia, whose share of the total stock of FDI from developing countries was 23% in 1980 and has increased in importance ever since. In the late eighties the outflow of FDI from developing countries was driven by the international expansion of Asian MNC's which resulted in Asia's share increasing to 46% in 1990. The success continued with the exception of a small dip during the Asian crisis. In 2005 it peaked with 62% of all the outgoing FDI from developing countries being from Asia (WIR, 2006). Of the top 25 deals earlier mentioned, 60% of them were conducted by Asian EMNCs.

4.2 Country Profiles

4.2.1 Brazil

<u>Brazil's modern political and economic history</u>

Before jumping off and writing about OFDI and the role of the state it is vital to first look at the effects FDI from MNCs has had on Brazil and its companies and at the same time how it has affected the political and economic development during its course.

FDI from MNCs originating from developed countries began entering Brazil after WWII. The motive for choosing Brazil was that the products had already seen their best-before date expire on the domestic market while still being demanded for on the immature Brazilian (Bresser, 1978). However this became problematical with the choice of the Brazilian government to impose an import substitution policy which made exports impossible. These new barriers that limited finished products heading off to Brazil forced the MNCs instead to start their own production facilities in Brazil. Choosing to produce goods in Brazil proved to have a positive effect because it made it possible to integrate the country with the production networks of the MNCs and therefore result in increased technological learning (Bresser, 1978)

In 1964 Brazil saw the military seize control. They started immediately with implementing a patriotic project called "sovereignty and security". During its being, a couple of local firms mainly in the construction industry and in engineering service experienced a huge growth which resulted in them looking for new contracts abroad (Fleury, 2010).

For 20 years one constant problem plagued the economy, a problem that the military had problems with solving, namely inflation. Their efforts of trying to do anything about it only worsened the economy with an increase of expenses and misuse of resources being some of the bi-effects (Melo, 2009). Other efforts unrelated to inflation were those promoting Brazilian export in the 1980s. This just worsened the image of Brazil because of their low quality products (Fleury, 2010).

In 1984 the military withdrew and a civilian government took place. What awaited the newly elected government was an inflation rate of 224 %. All possible programs were launched in order to prevent the inflation rate from further growing but nothing seemed to help. By 1989 the monthly inflation rate was at 84.32 % (Fleury, 2010)

The inflation problems started to diminish in the early 1990s. By the end of the year 1992 the annual inflation rate figured 1,158 % (Canuto; Rabelo; Silveira, 1997). With the inflation problems finally being under control the government set out new economic policy plans and institutional changes that would reorganize the Brazilian productive sector: Liberalization in foreign affairs when it came to finance and commerce, further integration with the Mercosur countries, implementation of the “Plano Real” of 1994 that had so successfully kept the inflation rates low and steady and the increased privatization of Brazilian state-owned companies (Canuto; Rabelo; Silveira, 1997).

The changes in the 1990s have resulted in several positive effects: The country´s economy has become stabilized by obtaining the inflation low. This has enabled Brazil attractive for new foreign investments. The privatization programs have allowed the formerly state-owned companies to gain even more capital and together with the technological know-how transfer during the import-substitution era have made them prepared for competition both home and abroad.

The role of the State

The Brazilian state has a leading role in spurring its MNCs to internationalize. In order to make this possible incentives for domestic mergers have been pushed upon Brazilian MNCs. Worth mentioning is also BNDES, Brazil’s national bank which has acted as a credit loaner for Brazilian MNCs when choosing to go globally (Finchelstein, 2009).

OFDI from Brazil

Brazilian OFDI in year 2009 to different parts of the world was as following:

- **70 %** of all OFDI went to the **Americas**. Surprisingly the biggest receiver of Brazilian FDI in this part of the world is probably the last country one would think of, namely the Cayman Islands. The Cayman Islands receive 25 % of the FDI that goes to the Americas. The reason behind is that the Cayman Islands are a tax haven. Therefore it is not surprising that the British Virgin Islands come in second place with 19 % and the Bahamas in third with 17 % (BACEN, 2008). The biggest receiver not to be a tax haven is USA which comes in fourth place with 16 %.

- **29 %** of all OFDI went to **Europe**. Here the biggest two receivers were Spain and Denmark, both received 21 % each. After them came Luxemburg with 15 %, the Netherlands 10 %, Hungary 7 % etc. (BACEN, 2008).

- **1 %** of the remaining OFDI went to Asia, Africa and Oceania altogether. Here the biggest receivers were China and Japan in Asia while the biggest receiver in Africa was Angola, a former Portuguese colony (BACEN, 2008).

When overlooking the geographical distribution of Brazilian OFDI, a couple of things become worth commenting. One is the geographical distribution of Brazilian OFDI over time. When comparing Brazilian OFDI in 2009 with facts from Brazilian OFDI in 2001 (not shown in this thesis) a couple of geographical shifts look apparent. For instance OFDI to the Americas has fallen from 86 % to 70 %. Although the number has fallen in the Americas it has risen for some countries within it like for instance USA. USA has seen Brazilian FDI increase from 1.4 US billion to 9.1 US billion (BACEN, 2008). Europe on the other hand has seen Brazilian FDI increase from 12 % to 29 %. The increase in Europe has been the highest amongst Spain and Denmark. Spain saw its increase rise from 1.6 US billion to 5.0 US billion. Denmark on the other hand felt an even steeper rise from 0.01 US billion to 5 US billion (BACEN, 2008).

4.2.2 Russia

<u>Russia`s modern political and economic history</u>

Throughout the most part of the 21th century Russia was a communist republic within the Soviet Union. With the collapse of the Soviet Union Russia moved towards becoming a market-economy. The switch to becoming a market-economy did not go that smoothly as maybe planned. In the first years after the fall there existed a turbulent period where many of the state- owned companies under its then president Boris Jeltsin went into the hands of a few business entrepreneurs (Ramamurti & Singh). These entrepreneurs who would later go under the name of oligarchs managed during the privatization era with the help of government connections buy of the most important Russian state-owned companies for prices exceedingly below their market values. (Ramamurti & Singh, 2009).

In 2000 when Vladimir Putin took the office things started changing. Putin instantly decreased the power and influence the oligarchs enjoyed. This became even more visible at the start of his second term in 2004 (Ramamurti & Singh, 2009). Many of the oligarchs were forced to sell parts of their holdings to the state, sometimes all of them. An example of the state taking power away from the oligarchs can be exampled with the case of Rosneft. Rosneft was a little state owned company but became the biggest one in the country when the government put the CEO and other executives of back then the biggest oil company in Russia, Yukos at trial. When Yukos folded down the company´s assets were auctioned out and eventually ended up in the hands of Rosneft (Ramamurti & Singh, 2009).

During the remainder of Putin's second term the role of the state became ever more increased when it came to some "strategic" companies and industries. This increasing role of the state in the Russian economy and on its MNCs is something we embark on in the section below.

The role of the State

As mentioned above the role of the state under Putin's second term became more firm. During it the government selected forty industrial sectors being believed as important for the country´s future and security (Ramamurti & Singh, 2009). This has corresponded in such way that the government main aim has been on companies that stand for most part of the export and that bring in the biggest tax revenues namely; oil and natural gas companies, refinery companies and those in the military industry (Ramamurti & Singh, 2009).

Despite having increased the state´s role in the economy Putin has stated his support for a market economy where he calmed the press in 2006 by saying that he was not planning a renationalization of key industries and that foreign companies were welcomed in the Russian oil industry (Ramamurti & Singh, 2009).

Nevertheless there exist some industries in Russia where the state is more or less totally absent and the free market operates on its own; consumer, retail, food processing and the telecommunication sector (Ramamurti & Singh, 2009).

OFDI from Russia

Unfortunately detailed data on Russian OFDI is not accessible and therefore we have chosen to instead use a table of Russian mergers and acquisitions (M&As). The table that is seen below covers M&A made by Russian MNCs over the last 20 years. With it we hope to at least give a glimpse in the geographical dispersion of the outflow of Russian MNCs.

What can be distinguished when looking on the table is that M&A made by Russian MNCs have mostly went in the direction of developed countries. This is confirmed when looking on some of the biggest M&A ever made by Russian MNCs with companies from developed countries: Norilsk Nickels acquisition of Lion Ore Mining, Evrazs of IPSCO and Lukoils of ERG-SpAISAB (Panibratov & Kalotay, 2009).

When turning our eyes towards the developing countries we can notice that the majority of the M&A have been with companies who originate from the CIS. The big amount of M&A made with the CIS countries has to do with the fact that they were once part of the Soviet Union and therefore share common historical and cultural ties (Panibratov & Kalotay, 2009). Majority of the M&A made with companies from the CIS have been with those that have their headquarters in Belarus and the Ukraine. This has been reflected in that the two biggest M&A ever made with companies who originate from developing countries have actually been with those from Belarus and Ukraine: Gazproms acquisition in 2007 of the Belorussian natural gas distribution company Beltransgaz and Evrazs of the Ukrainian iron ore company Sukhaya Balka GOK in 2008 (Panibratov & Kalotay, 2009).

Figure 4.1. Cross-border M&A purchases by Russian multinationals, by host country/region: January 1992- June 1998 (USD million)

Country/Region	1992-1996	1997-2000	2001-2004	2005-2008
World	511	2211	5498	56 794
Developed sountries	511	2151	3962	44 287
Europe	311	1479	2766	30 575
North America	-	170	1195	13 247
Other developed countries	200	232	-	465
Developing countries	-	-	-	3210
Africa	-	-	-	250

Asia & Oceania	-	-	-	2945
South- East Europe and the CIS	-	61	1536	9297

Source: Panibratov & Kalotay, 2009

It is important to stress out that biggest M&A by Russian companies, both with developed and developing countries have been in the natural resource sector. Besides from this they also seem to contain the same aim, which is to occupy higher value-added positions in their value-chains and so attain higher profit margins (Ramamurti & Singh, 2009). This will be once again repeated later on in the thesis when covering Severstal.

4.2.3 India

India's modern political and economic history

India which gained its independence in 1947 chose like many other big developing countries at that time an import-substitute strategy. The implemented strategy of self-sufficiency by its first prime minister, Jawarharlal Nehru was structured in the same manner as the economy of the Soviet Union (Watkins, 1997). This meant that India decided to protect its companies from foreign competition and instead focus on domestic production that would provide its population with everything it needed.

In order to this the government started with Soviet modelled five year plans. The first one in 1951-1955 included only some industries while others were left out (Watkins, 1997). The second one that followed in 1956-1961 tried to combine British socialism with Mahatma Gandhi's doctrines. This meant that important consumer goods like for instance luxury goods were to be eradicated by the usage of high tariffs or the banning of them (Watkins, 1997). Many companies were nationalized during this time and others were forced to get licensing approval by the government in order to start a business (Satyanand & Raghavendran, 2010). Just like in China the government protected its ineffective companies from going into bankruptcy. It also decided where companies could expand (Satyanand & Raghavendran, 2010) and when they could fire workers or shut down (Watkins, 1997).

The planning of the Indian economy by the government was disastrous for all sides, both the agricultural and industrial sector. The governments financing, which was to take resources from agriculture and give them to unproductive industries resulted only in agricultural starvation (Watkins, 1997). In 1971, Indira Gandhi, Nehru´s daughter, tried decreasing national poverty by supporting small, labour intensive enterprises. The outcome became increased growth. However in comparison with the neighbouring countries the growth in India was modest (Watkins, 1997).

A survey by the Economist in 1991 exposed the effects of India's strong protectionism. The country was ranked as the one with the highest tariffs in the world in 1985 (Watkins, 1997). The effects of the high tariffs led later on India to have the lowest ratio of imports to GDP in 1988.

The movement towards liberalization and the opening of the Indian economy to rest of the world started in 1984 when the oldest son of Indira Gandhi, Rajiv Gandhi became prime minister. With Rajiv Gandhi, gradual changes started being implemented, in form of tax reforms and realized reductions in some parts of the industry (Watkins, 1997).

1991 was a year of huge importance with two significant events taking place. The first one affected politics with Rajiv Gandhi being tragically assassinated by a suicide bomber. The second one affecting the economy was the carried out reforms in July. They meant the following things: The abolishment of the enormously high tariffs on goods, the privatization of the state-owned companies in nearly all of the industries and the removal of licensing for both domestic and foreign companies (Panagariya, 2001). With the lowered restrictions FDI from abroad started pouring in. This resulted in increased FDI from 165 $ million in 1992/93 to $ 4.2 billion ten years later (CIA World Factbook, 2008).

<u>The role of the state</u>

For a long time the state intervened in the country`s economy by setting out strong regulations that marginalized the MNCs possibilities of expanding abroad. According to Satyanand & Raghavendran three strong regulations existed. Today, all three of them have either been scrapped or minimized. Nevertheless we felt obligated to give a brief presentation of them in accordance to give the reader a better understanding of the role the Indian state has played in its economy.

- **Industrial licensing needed for Indian companies**. Today, most of the licensing approvals have been lifted and Indian MNCs are now free to produce as much as they want and use whatever kind of technology they desire.
- **Restrictions on OFDI**. During the restrictions the MNCs were allowed to invest abroad only in their core business in developing countries after an agreement with the state had been reached. Liberalization acts undertaken by the Indian government like for instance the Foreign Exchange Management Act (2000) loosened up these regulations for Indian companies. Now MNCs are allowed to invest abroad into whatever country or business they prefer.
- **Regulations for foreign investors and for Indian companies borrowing money internationally**. Foreign investors are now allowed to buy Indian stocks as well as Indian companies are allowed to borrow money from international institutions.

<u>OFDI from India</u>

Table 4.2 Indian OFDI pattern: 1980-2007

Period	Developing	Developed
1980-1989	76.3 %	23.7 %
1990-1999	56.4 %	43.6 %
2000-2007	36 %	64 %

Source: Hong, 2011

In the table above we can distinctly see how the pattern for Indian OFDI has shifted from developing to developed countries. In the 1980s the majority of the FDI, 76.3 % went to the developing countries. This number gradually fell down to 36 % in the years 2000-2007. Meanwhile the amount of OFDI to the developed increased from 23.7 % to 61.2 % (Hong, 2011).

As already explained in the section about the role of the state, different regulations forced the MNCs to mostly expand into developing and not developed countries. With them being out of the way, many companies who had managed to become cost leaders and having their products improved through R&D started finally entering developed markets (Hong, 2011).

OFDI from India started off with first being market seeking and having the developing countries as the main receivers. During this period, the manufacturing sector found itself to be the main receiver of OFDI (80 %) (Lall, 1983). The move towards developed countries changed in the 1990s when Indian MNCs shifted to become more high-tech supporting. Together with a stronger pro-trade approach, these privately publicly listed companies became prominent in such way that they in comparison with EMNCs from other developing countries accomplished buy-outs of international companies exceedingly larger then themselves (Satyanand & Raghavendran, 2010).

4.2.4 China

The modern political and economic history of China

China´s modern history started in 1949 when China emerged as a communist country under the leadership of Mao Zedong. With a new government new processes of changing society started being set in motion. Amongst the first to be carried out were those that affected the rural population. Farmers found themselves forced to give up their farms in order to collectivize them into large communes (Morrison, 2006). Other changes affected the industry where production goals, prices and the allocation of the resources all fell in the governments hands (Morrison, 2006).

During the 1960s and 1970s big investments were being ordered out to industrialize China as quickly as possible (Morrison, 2006). The government's involvement in the industrialization of China´s economy resulted that in 1978 almost three-fourths of the entire industrial assembly were results of central planning. The regimented central plans had one objective, to make China economically self-sufficient (Morrison, 2006). This meant that foreign trade was not preferable. Only goods seen as essential in order to reach self-sufficiency were imported. The lack of competition and price fluctuation created a stagnated economy and living standards well below those of other countries (Morrison, 2006).

When Mao Zedong passed away in 1976 Xeng Diapong took over as head leader of the party and country. Diapong´s solution to solving the stagnated economy was through economic reforms (Hasegawa & Noronha, 2009). The first reforms targeted the countries farmers. They allowed farmers to sell a part of their own crops on the free market. Besides from this four special economic zones were created alongside China´s coast (Morrison, 2006). The intention of the special zones was to attract FDI, boost China´s export and import high-technological products. The state also withdrew its strong control over the planning of the economy by allowing a part of the power to go the provinces of China and the local ruling governments (Morrison, 2006).

The results became noticeable in the country´s annual GDP growth rates, especially in the early 1990s. In the figure below us annual growth rates of 10-14 % in the years 1992-1996 show levels rarely seen anywhere else in the world. When comparing the difference of GDP levels between pre-reform China (5.3 %) and post-reform China (9.7 %) it is pretty clear that Diapongs economic reforms have yielded results.

Figure 4.3 China`s average annual GDP growth rates: 1960-2005

China´s Average Annual GDP Growth Rates	1960-2005
5.3 %	1960-1978 (pre-reform)
9.7 %	1979-2005 (post-reform)
3.8 %	1990
14.2 %	1992
14.0 %	1993
13.1 %	1994
10.9 %	1995
10.0 %	1996

Source: Morrison, 2006

The role of the state

The Chinese governments loosening up of the economy have boosted the country´s inflow of FDI and trade with the rest of the world. Between the years 1983 to 2004 the annual FDI into China increased from 636 US million to 61 US billion (Morrison, 2006). Export levels versus import levels between 1985 to 2005 shows how China has went from deficit levels of 15.3 US billion dollars to surplus of 101 US billion dollars (Morrison, 2006). The big trade surplus levels with the rest of the world have allowed China to build up the second largest foreign exchange reserves in the world. These big foreign exchange reserves have then been utilized by the state to support Chinese state- owned companies.

One third of the state-owned companies that make up the country's industrial production have for a long time acted as a worrying problem. With more than half of them having terrible finances, the state has had no other option than to take on the role as lender of last resort (Morrison, 2006). This has forced it to give away help to struggling companies instead to profitable ones and also made it reluctant in lowering trade barriers out of the fear that it would result into massive bankruptcies amongst the struggling state-owned companies (Morrison, 2006).

The significance of the banking system and the role the state has on it cannot be underestimated. It is strongly regulated by the government, which sets the interest rates. When companies want do expand abroad they can therefore always count on the state to provide them low interest loans (Morrison, 2006).

<u>OFDI from China</u>

The Chinese geographical OFDI dispersion for the year 2009 was the following:

- **Asia** accounted as the biggest receiver of Chinese OFDI. A total of **75.5 %** OFDI went in that direction. However it is important to mention that of those 75.5 % a total of 88.2 % went to Hong Kong (Hong, 2011). The underlying reason behind this huge amount of OFDI to Asia is explained by the close economic relations that exist between China and Hong Kong as well as amongst China and South-East Asia (Hong, 2011). Nevertheless the huge amount of OFDI to Hong Kong cannot alone be explained by referring solely on close economic relations. It is explained by something called "round-tripping" (Hong, 2011). Round-tripping is when Chinese companies move their funds over to Hong Kong because of the favorable conditions that exist there for foreign companies. Later on the money gets reinvested back to China because of the beneficial terms that exist for foreign companies operating in China (Hong, 2011).

- **Latin America** came in second place with a total of **12.4 %** of the OFDI being placed there. The reason behind this big number for Latin America is because of the tax haven countries Cayman Islands and Virgin Islands. These two countries alone accounted for 95.5 % of the total OFDI to Latin America (Hong, 2011)

- **Africa** came in third place with **3 %** while **Europe** and **North America** together received **5 %**

4.2.5 Mexico

Mexico's modern political and economic history

The case of the economic development of Mexico is a turbulent one. Few other countries have experienced similar turmoil with credit crunches, financial crises and political instability. In order to explain its position today as an emerging market with potential but with severe problems we will look on its modern economical history, from 1980 and onwards. Our focus point will be the economic liberalization which at a first glance appears to contradict the general view that liberalization promotes growth.

In the early eighties, Mexico was in a poor state, partly due to external factors such as the two oil crises of the seventies, but more significantly due to internal circumstances e.g. governmental corruption and increased foreign debt (Moreno-Brid & Ros, 2009).

The election of President Miguel de la Madrid Hurtad in 1982 brought changes that aspired to alter the course of Mexico. Among other reforms the Hurtad administration devalued the peso and restructured the financial debts through several agreements with its creditors. The purpose of the reforms was to promote trade and open up the Mexican economy. The country went from being a closed economy to one of the most open within a few years. In 1985 Hurtad signed the GATT-agreement (General Agreement on Tariffs & Trade) which resulted in the elimination of most of the country's earlier trade barriers. With the measures taken, exports experienced a dramatic increase and more importantly made investors abroad pay attention to Mexican goods (Tornell A. et. al. 2003). The investors demanded deregulation of the heavy regulated financial markets in order for them to invest in Mexico and in 1989 the rules and regulations of FDI were finally relaxed (Tornell A. et. al. 2003).

The third and arguably most commonly known measure of economic deregulation in Mexico was the signing of the NAFTA (North American Free Trade Agreement) agreement in 1993. The importance of the agreement did not lie in the reduction of trade barriers because of the earlier cuts in the eighties, instead its strength was in the way it reduced the uncertainty of investors. For them it reduced the likelihood that the Mexican government would violate investors' property rights as had been the case earlier.

Tornell, Westermann and Martínez argue that after the deregulation and the opening of the economy, Mexico had undertaken all precautions needed for economic development in the nineties. However, Mexico failed to deliver. During the period of liberalization (1988 – 1999) the GDP grew only at an annual rate of 1.5 % (IMF, 2010). Tornell argues that liberalization promotes development but also bring economic volatility. The author found two main reasons for why the liberalization did not bring greater success. First of all, Mexico's judicial system was inadequate to withhold contract enforceability. The processes were complicated and sometimes took years to resolve. This resulted in a culture called *Cultural de no pago* which translates into culture of non-payment. Borrowers chose not to pay because they realised that the chances of punishment were low. This proved the importance of having a functional judicial system to support the economy.

The second reason was the governmental response to the above mentioned non-performing loans (NPL). The regulatory discipline was not sufficient and only a small share of the NPLs was officially recognized (Tornell A. et. al. 2003). To deal with the NPLs the government adopted a policy of exchanging the loans for ten-year government bonds that paid interest but were not tradable. This turned out to be an inflexible and poor solution which was very costly for the Mexican government (Tornell A. et. al. 2003).

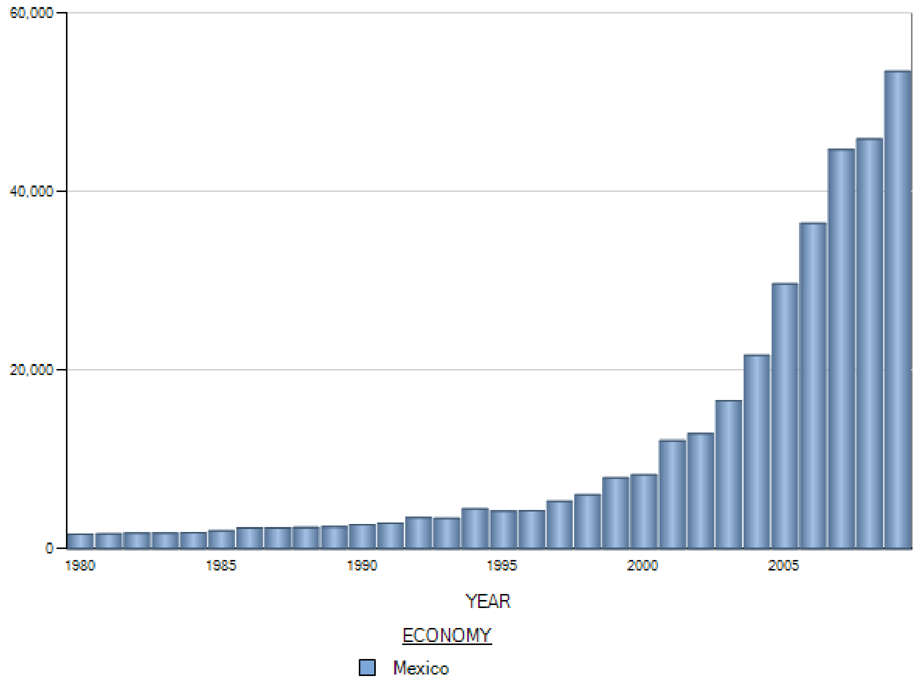
The role of the state

As in all emerging markets, the government of Mexico has played an important role for the domestic firms. In the text above we have seen how that role has had both positive and negative aspects. Positive in terms of all the alterations made to open up the Mexican economy and by forming and signing the important trade agreements (GATT and NAFTA). The negative effects of the state have had to do with the insufficient judicial system and the treatment of the NPLs.

OFDI from Mexico

The deregulations caused better access to foreign markets and hence, Mexican companies began to abandon their domestic scope, they realised the potential of the new opportunities abroad and adopted more aggressive strategies (ECLAC, 2005).

Figure 4.4. OFDI-stock from Mexico: 1980-2009



Source: UNCTAD. UnctadStat: 2010

As the graph above shows the OFDI of Mexico started to increase rapidly around 2000. The reason behind this is that the help of the ingoing FDI and the deregulations caused Mexican firms to develop domestically during the late nineties before reaching the level of maturity needed to go abroad (Daniels, et al 2007).

In the case of Mexico the geographical dispersion is heavily weighted towards the United States. One study implies that the US stands for over 98% of total OFDI for Mexico. The reason behind this is the cultural and linguistic similarities due to the large population in the US that has Mexican origin (Daniels, et al 2007).

According to ‘Foreign investment in Latin America and the Caribbean’, what brought Mexican companies to invest abroad had to do with both pull and push factors. Three pull and push factors were identified. The three pull factors were:

1) **Location advantages for the host-country.** This implies that geographical proximity as well as cultural and linguistic similarities is of great significance. The most important issue of this factor is the Mexican diaspora in the US.
2) **Strategic and competitive advantages.** Examples of this factor include, improving logistic systems, turning national brands into regional ones and the forming of alliances with MNCs from other countries to make use of the LLL theory and gain knowledge.
3) **The impact of policy changes in host-countries.** Mexican firms took advantage of many free trade agreements and therefore gained access to their partners’ markets (Franco-Navarette, 2010).

The three identified push factors were;

1) **Limited domestic market.** Many domestic firms faced matured domestic markets and felt the need of going abroad to keep their profitability
2) **The internationalization of competitive advantages.** The need for Mexican firms to consolidate existing export markets.
3) **Local policy changes.** E.g. Measures undertaken for deregulation, enabling better access to foreign markets. (Franco-Navarette, 2010)

4.2.6 Egypt

Egypt’s modern political and economic history of Egypt

In the second part of the 20th century, Egypt from an economic point of view saw itself being on the verge of collapsing. In 1952, the new regime under its leader Gamal Abdul Nasser leader inherited an economy with substantial problems. The majority of the people were poor and the largest bulk of the economy was controlled by a group of few rich foreigners. (Niblock & Wilson, 1999)

The new administration undertook the heavy task of restructuring the economy and within a decade it had transformed it into one where the state held a dominant position with a huge public sector including large manufacturing companies as well as all the communication and financial enterprises. Other cautions taken by the Nasser regime included fixing the exchange rate and also the substantial development planning. (Niblock & Wilson, 1999)

The positive effects of the measurements taken by the Nasser regime were not realised by the Egyptian people and left the economy with both economic and political distress. This unrest peaked in 1970 with Nasser being overthrown by Sadat (Niblock & Wilson, 1999). The Sadat regime built on the good aspects of the work of Nasser but represented a shift towards economic liberalization. In 1973 he declared a new policy called *infitah* which translates into 'open door'. The purpose of the new policy was to lighten up the regulations, encourage the private sector and promote the inflow of foreign capital (Goldstein & Bonaglia. 2006.)

The infitah-policy was successful in terms of ingoing FDI and large inflows of foreign funds were experienced in the late seventies. Most of the foreign investments to Egypt came from the US and their investments contributed largely to the great success of the Egyptian economy in the eighties.

The role of the state

Egypt`s development after WWII has been very dependent on governmental actions. This has been evidential in the creation of the public sector which enabled the creation of both a communicational infrastructure in addition to a functioning financial infrastructure. Another example is the move towards liberalization made by the Rabat regime which allowed Egypt to receive large amounts of FDI. Today that shift marks the beginning of the LLL process for Egyptian firms. It caused MNCs from more developed market to enter Egypt and hence enabled partnerships between domestic firms in Egypt and the foreign companies from the West. Through that linking and learning process, Egyptian firms gained knowledge which was needed first, for development, and later for expanding its operations abroad.

<u>Egypt and OFDI</u>

Egypt represents one of the least regulated countries in Africa when it comes to OFDI. This led to the large outgoing flows of FDI in the early 1990s (Goldstein & Bonaglia, 2006).

In an attempt to promote both inward and outward FDI flows, Egypt has signed bilateral investment treaties with 83 countries (FDIE, 2005). These agreements helped especially during the 1990s when the OFDI cumulative stock doubled in size between 1990 and 1996 after showing annual growth figures of 12 % (Goldstein & Bonaglia, 2006).

As of today, most of the OFDI from Egypt steams from two companies, Orascom in the Telecommunication industry which will be more thoroughly covered later in the thesis and Oriental Weavers (Goldstein & Bonaglia, 2006). These two companies have had a great effect on its region and are now taking the next step to expanding globally e.g. with Orascom's purchase of WIND Italy.

Further actions by the government in encouraging Egyptian OFDI are underway, such as the issuing of investment insurance guarantees and the signing of upgraded bilateral agreements (Goldstein & Bonaglia. 2006). If they can continue their pursuit of creating national champions such as Orascom and Oriental Weavers is still a question unanswered question.

4.3 The Steel Industry

Steel, an alloy that mostly consists of iron ore is a material that is widely used in the world in various industries. The industries where the need for steel has been the biggest are the following: Automobile, Construction, Infrastructure, Oil and Gas and the Container industry (Economywatch, 2006).

When it comes to determining which countries use steel more than others, a historical shift can be seen. When the Second World War ended the consumption and the demand for steel was mainly driven by the developed countries. This big postwar boom doubled the demand for steel in the 1950-70s. The growth rate in the years 1960-1974 was as big as 5.5 %

(Economywatch, 2006). In the 1980s the industry took a minor dive, but would soon be followed by an increase in demand by the start of the 1990s. The reason behind this was the deregulation, privatization and openness towards foreign FDI made by the developing countries. Since then countries like Brazil, Russia, India and China (also known as BRIC) have seen themselves rise as the leading countries in terms of demand of steel as well as leaders in steel production. Many companies emerged in the BRIC area, and some of them would become leaders in the world as far as steel supplying goes. This is observed on the website Worldsteel where BaoSteel ranked at second place in the world behind Arcelor-Mittal in 2009. Tata Steel was the 7th largest producer and Severstal, the big giant placed 9th. Last but not least, Gerdau, the biggest South American steel company inhabited 13th place (Worldsteel, 2011).

4.3.1 Baosteel

BaoSteel is a state owned giant in a country where the production of crude steel is the biggest in the world. BaoSteel came into terms in 1978 with the consolidation of two Chinese companies, Shanghai Metallurhical Holding Group (SMHG) and Meishan Iron & Steel Co. Since then the company has grown into a multinational one with 104,914 employees and sales networks in three different continents (Baosteel, 2011).

Despite being one of the global leaders in their industry, BaoSteel in comparison to other steel companies and rivals grows more or less entirely by acquisitions made at home. In December 2009, Bloomberg reported that BaoSteel’s expansion plans oversea were only to focus on raw materials until a clear picture of demand for global steel had emerged. In the report, the chairman of BaoSteel Mr. Xu Lejiang stressed out how not only BaoSteel but also other Chinese steelmakers would avoid expansions abroad in the next 3-5 years as they would first select to focus on domestic mergers. He also mentioned how the majority of the Chinese steelmaker’s did not have a clear strategy when it came to overseas expansion. Mr. Xu Lejiang stated also that he wanted to focus on resources and not building new plants unless he had a clear idea of how the market would grow in these countries (Topensea International, 2009).

The reason behind why Mr. Xu Lejiang reasons in this way may have to do with the research made by Rugman about Chinese MNCs and their acquisitions abroad. In his research he mentioned a couple of Chinese companies in other industries that had failed with their acquisitions. He addressed how these acquisitions were unsuccessful because they lacked FSAs and that their objectives had only been to secure natural resources and gain market access. They themselves lacked both the FSAs and the managerial capabilities of integrating foreign acquisitions and developing anything that resembled dynamic capabilities (Ramamurti & Singh, 2009).

If BaoSteel make up their mind and choose to expand it will likely be so to developing areas. Russia, Brazil, India, the Middle East, Southeast Asia and Africa were all places mentioned by Mr. Xu Lejiang. The developed markets of North America and Europe were the only ones left out. Although Chinese Steelmakers are unwilling to expand abroad exceptions have occurred, for instance when accumulating natural resources. The 15 % purchased stake in the Australian company Aquila Resources Ltd for AUD 285 million in 2009 was such one (Topensea International, 2009). This was made when Aquila announced plans to develop an iron ore project in Western Australia and coal mines in Queensland. A reason besides gaining access to natural resources can be found in the huge demand from China which has led to a shortfall in the global shipping capacity (Radhika & Pallavi, 2006). This in turn has led to increased freight costs and made the steel companies to reconsider the logics of transporting bulky raw materials like ore and coal across continents. It is more logic to make the steel near the raw materials and then to ship the semi-finished steel, that is much less bulky to the final markets for finishing (Radhika & Pallavi, 2006).

4.3.2 Severstal

Severstal (in Russian “North Steel”), is the biggest Russian Steel producer. It was founded in the 1930s with the discovery of Kola iron cores and Pechora coal in the North-Western region of Russia. From its foundations throughout its life span in the USSR, the company went under the name “Cherepovets Metallurgical Plant”. Following the privatization of Russian state owned companies in the early 1990s it changed its name into “Severstal” and registered itself as a Joint Stock Company in 1993 (Severstal, 2011).

The core of the company lies mostly in high added value products and unique niche products. To be capable of competing in this sector, Severstal has engaged itself in both domestic and foreign M&As. This has been the primary growth strategy used not only by Severstal but also by other Russian MNCs in the sector. By doing this they have primarily aimed at developing a value-added growth strategy that would eventually lead to higher profit margins (Ramamurti & Singh).

In 2008 Severstal reorganized itself by dividing the company into three divisions: Severstal Russian Steel, Severstal Resources and Severstal International. The last one, Severstal International has its operations in North America, in Italy through its subsidiary Lucchini and in France (Ascometal) where the company is leader in the European SBQ (Special Bar Quality) market (Severstal, 2011).

It's CEO and main stock owner, Mordashov has always had a goal in seeing Severstal emerge as the largest steel company in the world. In 2006 he was close to achieving this when meetings were being held between Severstal and at that time the second biggest Steel producer in the world Arcelor. Arcelor's board was positive towards the merger of the two companies because of the hostile bid being given to them earlier in the same year by Mittal. In the end the merger failed when Arcelor's stockholders decided to merge with Mittal rather than with Severstal. This did not offset Mordashov. In the spring of 2007 Severstal became the fourth biggest steelmaker in the US when its subsidiary, Severstal North America, bought the Michigan based company, Victory Industries. Victory Industries was a firm that specialized in machining, welding, and fabricating services – all downstream, value-added uses of steel. A year later in 2008, just a couple of months before the financial crisis broke out, Mordashov stated that he was willing to reduce his stake in Severstal from 82 % to somewhere between 40-45 %. The revenues that he would receive from the stock sale would be used for further acquisitions mainly in some iron ore and coal assets in the US. This would help him optimize costs. Back then, Pavel Shelekov, an analyst at the Kapital Investment Group commented that Mordashov was not very selective when buying low-profit businesses in the US. He said "the company could continue its expansion in the US or it could also enter new markets" (RBC, 2008). These acquisition plans were put on hold when the financial crisis erupted. Mordashov did not sell of his shares and since then in recent interviews given by him he announced that the company is seeking to expand to Africa as well as to countries like China, India and Indonesia. The reason was that the European and U.S. markets looked "less attractive" (Khrennikov, 2010). This has proved itself to be true. Severstal has already tried to sell of its stake in Lucchini because of the big debts that came along with the crisis. Nevertheless difficulties related to selling Lucchini, mainly because it does not look realistic under current market conditions and also because of large debts have made it problematic for Severstal to stumble upon an interested buyer. With the current problems still being in place, decisions to instead deconsolidate the asset and present a business plan for the company´s development rather than trying to sell it off have looked more preferable (Interfax, 2011).

4.3.3 Gerdau

Gerdau, the Brazilian Steel giant is the world's second biggest producer of long steel as well the biggest in the Americas. Long Steel is a form of steel used for infrastructure and for building new sports arenas etc. (Hägerstrand, 2011).

Gerdau puts its focus mainly on mini-mills, a small-scale production process that uses scrap as its main input. This small-scale production process makes it possible for the company to operate in a decentralized way close to its customers at competitive costs. The mini mills account for some 90 % of the company´s production (Ramamurti & Singh, 2009).

The company is present in 14 countries around the world. The majority of them lie in South and North America with Spain and India being the only ones abroad (Gerdau, 2011).

When founded back in 1901 by German immigrants its core activity was producing nails. The shift towards the steel industry came into existence in 1948 when the company bought Siderúrgica Riograndense (steel mill). Expansion abroad started in December 1980 when Gerdau acquired the Uruguayan Steel company Laisa. Acquisitions abroad were required in order to avoid operating solely on the volatile Brazilian market (Ramamurti & Singh, 2009). The acceleration of acquisitions by Gerdau peaked in the last decade when the number of corporations acquired in new countries grew from 9 in 2006 to 14 in 2008. The expansion that once started off with the buying of Laisa has led Gerdau to acquire new corporations in other neighbouring countries in South America. The first taken steps outside of South America went to Canada when Gerdau acquired Courtice Steel (medium size mill). The biggest acquisition however occurred in 1999 when they bought Ameristeel (the first large mill). The result of the acquisition increased the overall production with 30 % (Johnson, 2006).

More purchases lay ahead because there are still big possibilities for consolidation in the steel industry. The US is still an attractive market for Gerdau because it deals with metallic construction and that has made the company especially interested in the American market. According to Charles Bradford, steel sector analysts from Bradford Research/Soleil Securities there are at least 20 companies in the US that Gerdau could acquire. He noted also that expansion in the US and the rest of North America made sense for Gerdau because "they know how to run mills and to find cost advantages" (Johnson, 2006). Expansions outside the Americas began when Gerdau acquired a 49 % stake in the Spanish company Corporación Sidenor. This acquisition increased their hopes of becoming a part of the automotive global value chain and also taking advantage of the growing demand for specialty long steel that are used in the automobile industry (Ramamurti & Singh, 2009).

4.3.4 Tata Steel

Being its flag barrier, Tata Steel is part of the Tata Group that besides from Tata Steel also contains six more companies within its group (Tata Steel, 2011).

Its origin dates back to 1868 when the company was founded by Jamsetji Nusserwanji Tata. During his entire lifetime, Jamsetji Tata was captivated and led by three guiding stars, one of them being to build a steel company. The other two were to generate hydro-electrics power and to create an institution that would offer the best education in science. The three guiding stars had to do with the Industrialization Revolution in England (Tata Steel, 2011). It had left India overwhelmed and convinced that if wanting to keep pace with the world it would have to master the scientific methods that arrived from the West (Tata Steel, 2011). The creation of a steel company became possible when they found their way to a village south of Calcutta called Sakchi in December 1907, later renamed Jamshedpur. A year later the first plant became functional and in the year that followed after that the blast furnaces, steel furnaces, coke ovens, the powerhouse and the machine shops were all laid down. The government contributed the best way they could, namely by building a railway to Gorumahisani. In 1912 the first steel ingots from the plant began rolling out (Tata Steel, 2011).

During the Great Depression the company survived by supplying nearly three-fourth of the country´s steel requirements. After having gained independence in 1949, the state of India awarded Tata to supply steel for its devised "Five-year Plans". The company undertook many different projects like for instance the Bhakra-Nangal Project, the Howrah Bridge in Calcutta and the port at Kandla (Tata Steel, 2011). With the arrival of liberalization and deregulation of the Indian economy following the reforms undertaken in 1991 Tata found itself in need for self-renewal. Therefore in order to stay competitive different measurements like for instance cost controls, optimization of IT support and a strong customer-centric were added (Radhika & Pallavi, 2005). These approaches created a cost leadership advantage at Tata which displayed itself in 2002 when the Steel prices were at their lowest. In that year Tata was the only company in the industry to show positive results (Radhika & Pallavi, 2005).

With the newly gained cost leadership advantage at hand, Tata decided to go internationally. The first object for acquisition became the Singaporean steel company, NatSteel. On August 15th 2004, talks were being carried out between Tata Steel and NatSteel. Tata Steel was hoping to settle the deal because it was on the same day as India´s Independence Day. Unfortunately the talks spilled over to August 16th before the deal was closed. The acquisition of NatSteel was India´s second biggest overseas acquisition ever right after the acquisition of Tetley by Tata Tea (Radhika & Pallavi, 2005). When Tata Steel acquired NatSteel the company had an output of 4-million-tonne (mt). The company´s desire back then was to increase the production to 15 mt by 2010. The acquisition of NatSteel did not increase the production that much because NatSteel´s annual production was only 2 mt. What instead made NatSteel attractive was the fact that the company provided access to customers in seven countries in South-East and East Asia, a region that consumes a third of the world´s steel (Radhika & Pallavi, 2005). However there was a second reason that affected the value chain. Steel as every other manufacturing industry has its own value chain. In the Steel industry it can be divided into two, primary steel-making and finishing. Tata Steel´s strategy had been to break up the value chain and put each part where it was most cost-effective. While primary steel would for instance be produced in India where access to iron ore was huge, the semi-finished would go to NatSteel for finishing (Radhika & Pallavi, 2005).

In 2007 Tata Steel turned their eyes over to Europe and the steel company Corus. At that time Tata Steel was the 56th largest steel producer in the world while Corus was the ninth largest. The planned acquisition of Corus did not go as smoothly as expected. The Brazilian steel producer, CSN, back then 49th largest steel producer in the world, decided to get involved in the bidding process. After nine rounds of constant bidding head and forth Tata emerged as the winner (Sinha, 2010). The finalized acquisition cost Tata Steel US$12 billion dollars but increased the company´s production to 27 mt and saw Tata Steel become the fifth biggest steel company in the world. The deal, which bonded a low-cost producer company who already had a big presence in India, South East Asia and the Pacific-rim countries on one side and a high value added product range producer with strong positions in automotive, construction and packaging on the other side made Tata Steel second most global steel producer in the world with a presence in 45 countries (Tata Steel Europe, 2007).

4.4 The telecommunication industry

As one of the most important inventions of our time, the telephone has changed the lives of our grandparents and continues to do so even today. If we just compare our lives of just two decades ago to the hard-paced, constantly reachable lives of today, imagine just how different it would have been if we were prohibited from being able to call one another and arrange meetings or share information and place orders. Without the telephone and the telecommunication industry itself we would not have had the Internet, with all its endless possibilities.

The most fascinating aspect of the telecommunication industry is that it affects every other industry. Sharing information simplifies instantly everyday business and enables a faster development. Although the debate over who actually invented the telephone goes on, Bell vs. Gray, the importance of the invention for the world remains unquestioned.

With our focus being on the emerging markets, our area of interest for the telecommunication industry lies within how it has and how it is affecting the development of these parts of the world.

In the eighties, the large western companies that operated in this industry decided to put their faith to the emerging markets in order to grow and the hope of having a piece of the pie (Oliver Wyman, 2009). Today however, companies from developing countries have risen to be those that navigate more successfully the waters of telecommunication in Asia, Latin America and Africa.

Below us are now the four chosen companies in this industry that we will embark on with America Movil being the first one.

4.4.1 America Móvil

America Móvil, is today the fourth largest telecom operator in the world (Reuters, 2009). It has approximately 300 million subscribers and is one of the biggest companies in Latin America. The most astonishing aspect of America Móvil has been their rapid expansion throughout Latin America. Its current structure was formed as late as in 2000 as a result of a spin-off from the former Mexican giant Telmex (Morningstar Analyst Report, 2010). Their growth strategies were implemented immediately where they applied the LLL theory at its best. They focused on more developed companies in their region, most of them western and linked up with them through joint ventures. One example of this was in Brazil, to where they entered shortly after the spin-off from Telmex. They formed a Joint Venture with Bell Canada International and SBC Communications, today widely known as AT&T which enabled them a fast penetration of the competitive Brazilian market (Telecoms, 2008).

Despite the well-executed ways of linking and leverage, what was most crucial for America Móvil was their timing and how well prepared for the telecommunication crisis they were. When the crisis hit, other struggled to cope with their main business and to not having to let go of too much labour, AM on the other hand engaged in an offensive plan to take advantage of the situation (Telecoms, 2008). For the many western carriers that operated in the region, the struggle was to finance business in their home markets which enabled America Móvil and the deep pockets of its founder Carlos Slim Helu to purchase lucrative and undervalued operations. (Kroll, 2010)

To give a broader picture of how America Móvil engaged in acquisitions and how they further made use of the LLL framework, their activities in Argentina, Columbia and The United States will be discussed.

In Argentina, AM entered through an acquisition of the relatively small player CTI in 2003 with 17% market share at the time of the purchase which made them the 4th largest operator in Argentina (Randewich, 2003). This was again an example of how AM take advantage of problems in other companies, since CTI struggled with debt and had to restructure, AM had a strong bargaining position. Part of $90 million spent in the acquisition would be used to pay off debt and the rest of to restructure the company to meet the needs of America Móvil. As Manuel Jimenez a Mexican analyst pointed out at the time of the purchase;" "It's a strategic investment with the objective of grabbing a market that had high cash-flow generation," (Randewich, 2003). The purchase proved to be successful and today AM holds over 30% market share in Argentina. (Americamovil, 2011)

The same strategy was used earlier when AM entered Colombia in 2000. Colombia is an important market in Latin America due to its vast population. It holds substantial potential but also involves considerable risk because of the reluctance of the Columbian people to most things foreign. Through acquisitions of two Colombian companies with debt issues, Comcel and Occel (Telecoms, 2008), AM was able to fast gain entrance to this markets and by operating under the acquired brand names the procedure ran swiftly and through smart marketing and a long adoption process, they soon successfully converted the two acquired brand names into its own. Today Colombia is a crucial market for AM with over 23 million subscribers. (Americamovil, 2011)

The story of American Móvil in the United States is also one of strategic purchases; again this would not have been possible if it was not for the never-ending belief of Carlos Slim that America Móvil would show to be a good investment. The most important acquisition in the US proved to be Tracfone which at the time of the acquisition served about 700 000 customers (Telecoms, 2008). AM formed partnerships with mayor retailers across the US that permitted them to sell prepaid AM cards (under the Tracfone-brand), together with handheld GSM devices at these retailers. This proved to be immensely successful since it targeted a, before this, forgotten segment of the US market; the low-income segment with customers not willing or not able to sign up for long-term subscriptions (Telecoms, 2008). The customer base grew at an astonishing rate and by late 2008 AM, through its subsidiary Tracfone served 9, 5 million customers (Telecoms, 2008), an annual increase of over 35%.

The most important common factors in the entrance to these three markets were that in all of them AM targeted "their" customers. Markets targeted were from the beginning markets similar to their own, for the western world these markets are seen as peripheral markets, far from the competitive markets of Europe, Japan or the US. However, the entrance to the US serves as the exception of the rule (Telecoms, 2008). They did nevertheless still target customers similar to those in their domestic Mexican one. The low-income segment, earlier mentioned, was mainly one of Latin American Spanish speakers. Their Latin American heritage and approach served them well in acquiring customers from this segment.

Another crucial factor in their US approach was the way they used linkage to gain market shares, e.g. their collaboration with important retailers across the country (Telecoms, 2008).

4.4.2 Orascom

Orascom, is the only case example used in this thesis from Africa. With origins from Egypt it is today a global company with a broad focus on the middle-east and Africa. It was founded as late as 1998 and expanded regionally very fast. Today it is the number one telecom operator both in Africa and in the middle-east. The aggressive strategy used to obtain this position was through strategic acquisitions. (WIR, 2010)

One of the most intriguing aspects of Orascom is its former leader, Naguid Sawaris, who is one of the most influential businessmen in the middle-east. It was his vision and his determination that took Orascom to where they are today as fast as it did. Orascom strategies differ from the teleoperators of the west in terms of focus (Ihlenfeld, Karafa, McCord and Qadir, 2010). Instead of putting their effort in already developed markets, Orascom and Mr. Sawaris identified the potential of the emerging markets and realised the importance of acting as a first-mover in these markets. As of now, they operate in seven emerging markets which although they have a relatively low teledensity, about 30%, the promise of these regions are stunning (Ihlenfeld, Karafa, McCord and Qadir, 2010).

Mr Sawari did not have a global scope from the start; instead he wanted Orascom to be *the* telecommunications provider to sub-Saharan Africa (Ihlenfeld, Karafa, McCord and Qadir, 2010). In this quest he learned that there were more markets with similar features, particularly in the middle-east. He formed a strategy to which they have kept until only recently, Orascom, where to enter underdeveloped markets with potential, even if it involved substantial risk. They should always move swiftly and aim to become market leader (or at least second largest) within 2 years. Their way into Iraq is a brilliant example of how this is conducted.

Only four months after the fall of Saddam Hussein, Orascom launched its first telecom network there, Iraqna. They invested heavily but with all the problems of setting up a business in the troubled Iraq they failed to attain the top positions they aspired to. Orascom had tried and failed and hence in 2007 it sold its subsidiary Iraqna to Zain (Kuwait). This shows that the firm is willing to take a risk but also willing to accept a failure and to move on (Ihlenfeld, Karafa, McCord & Qadir, 2010). The same strategy was used in Pakistan which proved to be more successful. Today the vast country is the most important market for Orascom and they hold over 25 million subscribers (Ihlenfeld, Karafa, McCord & Qadir, 2010).

Analysts argue over if this aggressive strategy still holds. In recent years, Orascom have become known to expand into markets where practically no one else dares e.g. North Korea (Noland, 2010).There they first entered in 2008 with a joint venture with the government owned telecompany, CHEO technology. Due to this collaboration Orascom secured a 25 year licence to operate in North Korea. To get this deal granted, the company had to announce heavy investment in the country and promised to invest $200 million the first year, followed by $100 million the succeeding two years. This will be an important boost to the North Korean economy and hopefully for Orascom, the potential weighs up the risk. The main issue, analysts argue over is of course the North Korean government and its intentions (Noland, 2010). Will the government maintain its commitments and not defect from the agreement is a question that only time can answer. Mr Sawari defend their investment in an interview with CNBC; "*the world is coming to an end when it comes to mobile telephones, so the opportunities are very scarce. You really have to go wherever you get a chance and [North Korea] is one of the last*." (Knowledge at Wharton, 2010)

In May 2005, Orascom made its first move into the more developed countries when they acquired the Italian operator, WIND telecommunications. This proved that Orascom meant serious business in the western markets. (WIR, 2006) but everything did not hold up to the expectations. When the financial crisis hit the telecommunication industry WIND was struck severely. Targets were not met and Mr Sawari stepped back from his position as CEO. For Orascom this served as a valuable yet expensive lesson which almost put an end to the previously successful story of Orascom. Mr Sawari's successor was Khaled Bichara, former head of WIND Italy and it is he who holds the future of Orascom in his hands. Bichara and his team tried to make Italy work for them but due to the state of affairs after the crisis he took the decision of letting go of WIND and in March 2011 the fusion of WIND Italy and the relatively new Russian player Vimpelcon were approved by regulators (Reuters, 2011).

One can imagine that it was back to basics for Orascom after this failure but a new approach was taken. Instead of trying to compete with western actors at their terms as with WIND Italy they now aimed for the developed North American market with the purchase of WIND Canada. In Canada they will not continue with the existing strategy, instead. Orascom aims to focus on the low-end segment, trying to fight the large American giants with a low-price strategy (Reuters, 2011).

4.4.3 ZTE

ZTE, was founded 1985 as an offshoot of China's ministry of Aerospace Industry and is today the second largest manufacturer of telecom equipment in China after Huawei. ZTE now has a global presence and serves customers in over 60 countries. (ZTE, 2011)

ZTE signed its first international deal in 1999 when they entered Pakistan. The first phase of their internationalization had a clear focus to developing markets where the competition was less fierce (ZTE, 2011).

Since those early days of internationalization, the purpose has been to penetrate not only developing markets but also the western, well matured countries. They have used a tactic of first installing R&D offices in the mature markets to conduct substantial research of the specific countries to where they wish to enter (Total Telecom, 2006). Only later when the timing and external market circumstances have been judged right by the R&D offices have they opened up a sales office. This tactic was employed to minimize risk and to avoid cultural obstacles (ZTE, 2011).

ZTE use strategic innovations to compete with the severe competition in the industry. One such strategy has been to be deeply involved in the standardization process to be seen as a forward-looking company (Jiang, 2005). Another important strategic issue in the success of ZTE's internationalization has been to internationalize through localization. In other words, link with locally strong players to gain local presence and hence penetrate markets this way (Jiang, 2005). Two different forms of collaborations have mostly been used. The most important form of partnerships is with foreign tech-companies as distribution and service partner in the local markets, e.g. with Ericsson in 2005, the second crucial type is as a technology and solution provider, for example with Switchcore, also in 2005 (Jiang, 2005).

As with many successful Chinese companies, ZTE have benefited from their connections and relationship to the government. The most obvious case is when foreign companies expand into China. Several times has the government favoured ZTE as a partner for the foreign MNCs and stood behind them in negotiations e.g. demanding technological transfer to ZTE in exchange for allowance of venturing into a new part of China.

4.4.4 Huawei

Without doubt the most fascinating company from an emerging market in the telecommunication industry is the Chinese giant Huawei Technology. Huawei was established as late as 1988 in Hong Kong and the development have been rapid even with Chinese standards. It now is the third largest telecom equipment maker in the world (Huawei, 2011).

Today Huawei is hence the largest telecom equipment company in China and their products have been deployed in over 140 countries and used by 46 of the world's top 50 operators (Huawei, 2011). There is plenty to say about Huawei but due to the limitation of this thesis, the focus point will be their global expansion and the strategies used.

The global scope was not obvious from the very beginning due to the massive domestic market. Huawei believed that this would be sufficient and perhaps it would if the prices were higher (Harney, 2005). Eventually they realised that they were even more competitive outside of China than within because of their price which compared to other international rivals were often as low as 30% lower (Harney, 2005). Their strategy were first to compete in other developing countries since they still were not able to compete as much as they would like on quality and product.

Their first international act was to open up a R&D centre in Bangalore, India, in 1997 (Huawei, 2011) and this was important in many ways. First of all it was in India, famous for its high standards in education in IT and technology. This enabled Huawei to gain access to technology they did not yet possess. Bangalore was also a hub for international tech companies and because they were present here they were able to link up with several international western firms (Jiang, 2005).

Only a few years later, in 2000, Huawei made it first move in western markets by setting up a R&D centre in Stockholm, Sweden (Huawei, 2011). This is a good example of how Huawei work when they expand globally. First, they establish a R&D centre in a strategic city where they both can benefit from the research but perhaps more importantly from what they learn about the specific market. Usually the Research centres are followed by a sales office within two or three years. Due to the heavy market research they conduct in every *new* country, they are well prepared for meeting the customers need. Stockholm and Sweden were partly chosen because of the significance of the Nordic companies in the industry, e.g. Ericsson and Nokia (China Stakes, 2009).

In the case of Stockholm and because of the global IT crisis in the early days of the new millennia, the sales office in Sweden was delayed and the first European contract was instead with a Dutch operator Telfort in 2004. Since that first contract, the expansion of Huawei has not been limited to the developing countries, instead it have rather been as aggressive in the western more matured markets (China Stakes, 2009).

As touched upon above, the prices were undoubtedly a mayor reason for the early success in their globalization. It contributed largely to why they as a new unproven player won deals over several much larger competitors. The fascinating feature of Huawei is that they unlike many other Chinese firms seems to understand that being cheap is only a short-term competitive advantage which they need to step away from in order to last. They now compete more on quality than on price and this is can be noted in their current effort of setting up a global service platform (Jiang, 2005). The quality of this service platform is guaranteed by the 20 research centres Huawei now has outside of China in strategic places (Huawei, 2010). Because of this planning, Huawei seems well prepared for the future and they will no longer be too dependent of their low labour cost in China.

Another aspect of their aim to change their customers' perception of themselves as a mere economical competitor is how they work with R&D. As stated above Huawei have a solid base of centres for research and the company's CEO; Ren Zhengfe points out that it is the most vital part of the company (The Economist, 2004) and noteworthy is the contra-trend they are adapting in strategy when it comes to R&D. Other companies move more and more of their research facilities to China due to the cost advantage, Huawei moves in the opposite direction and Mr Zhengfe and the rest of the board believe that this is what will make Huawei succeed in the long run (The Economist, 2009).

As we have seen above, Huawei have both strong FSAs and CSAs. What is firm-specific is above all other its investments in R&D and the country-specific advantages comes with all what being a Chinese company means for example in terms of the earlier mentioned financial backing.

5. Analysis

The focus will be to explain how these companies have internationalized through the lens of the given theories. We commence with an analysis of the industries by themselves before comparing the two in the conclusion. In the analysis we map the companies' position in the FSA/CSA matrix by investigating their strengths in FSAs and/or in CSAs. We then compare the companies first to the matrix then to the LLL theory in order to find similarities or differences.

5.1 Analysis of the steel industry

When trying to analyse the steel companies many similarities and differences between them pop up. In the FSA/CSA matrix they all demonstrate strong CSAs. The answer to this is simple: they come from some of the biggest countries in the world that contain strong labour forces while most of them are also rich on natural resources.

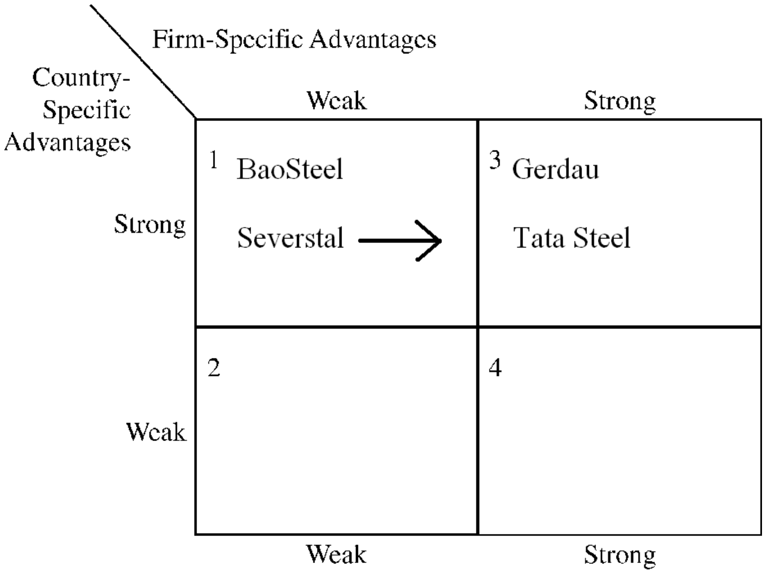
However more differences occur then similarities. Attempts of trying to apply the LLL theory to their businesses are so far only related to Tata Steel and Severstal. Others like BaoSteel totally lack a LLL approach. In BaoSteels case it has to do with the fact that the company has not yet decided to internationalize. Because the role of the state is too interconnected with the decisions made in Chinese corporate boardrooms it is hard to determine in BaoSteel´s case whether the choice for internationalization has been determined by the government or because of the fact that BaoSteel simply lacks the FSAs needed for expanding. Severstal on the other hand with its CEO Mordashov have run the company without having the Russian government on their backs. For how long they will be allowed to continue operating this freely depends on if/when Putin decides that the Russian steel industry should be categorized as "strategic". Such a concern is not needed in the case of Tata Steel. The reform process in 1991 has liberated Indian companies. No plans or fears of future renationalization of companies or industries exist on the table; on the contrary, deregulating processes are being further realized at the same time as the government continues decreasing its role in the economy. Gerdau who is a privately owned company has never had the Brazilian state questioning their choices of expansion, not even during the import-substitution era.

Being successful as Gerdau is one thing, trying to broaden its business activities into new sectors of the Steel industry is something totally different. Gerdau has so far focused mainly on what they are best at: turn over struggling companies. They have however started expanding into new areas. The acquisition of the Spanish company Corporación Sidenor was done in order to become a part of the automotive industry but also because of the huge demand that exists for long steel, a kind of steel that Gerdau is the second highest producer of in the world. Broadening its business activities in a very successful way is something that Tata Steel has achieved best. With the acquisition of Corus they have expanded into the high-value product sector. This creates big synergies when combining Tatas cost leadership with Corus strong position in the high-value segment.

With the steel industry being a mature market containing a lot of competitors in it, acquisitions act more or less as a rule when expanding abroad. This means that the steel companies have to have strong balances with a lot of money. When BaoSteel decides to internationalize in the near future and this being made in the form of acquisitions, financing them will not be a problem especially not when having the government loaning them money for favourable rates. State support is something that Severstal cannot count on but their source for money can instead be found in the pockets of its wealthy CEO Mordashov. This applies also for Tata Steel and Gerdau who have drawn in financial support from the families that founded them.

Before moving on to the analysis of the chosen companies we now aim to give a clearer view of how the companies compare by placing them within the FSA/CSA matrix where we identify their differences within the framework.

Figure 5.1 The position of the steel companies within the FSA/CSA matrix



Source: This is developed from the analysis of Chapter 8 in Rugman (1981, 2006)

5.1.1 BaoSteel

If we start off with BaoSteel we can see that the company is a state-owned one. Therefore the role of the state is strong in the case of BaoSteel. This has been observed in such way that BaoSteel acquires abroad only iron ores and mines that are seen as strategically important for the future supply of the growing Chinese economy. When taking away the role of the state and only focusing on the company itself we can once again by looking back in the section about BaoSteel see that the company lacks FSAs. The absence of a strategy for international expansion and integration of foreign companies together hand in hand with former acquisition failures clearly show that FSAs lack. It could however be questioned regarding if the company really does not have them. After all the company has over the years taken over struggling domestic steel companies and turned them into profitable ones. Since this has been difficult to gather information about and also the questions remain about how much the influence of the state has been in the success of the domestic mergers we have concluded based on the existing information that BaoSteel should be put in quadrant 1 with a strong CSA and weak FSA.

Because BaoSteel is a company that has yet to expand globally it is difficult to apply the LLL strategy. If they would choose to expand they would have to do it in the same way all other Steel companies do, that is to say through acquisitions. When choosing to acquire a company they would have to acquire one that differs from their own in terms of production ways, marketing and all the other things that would make BaoSteel uncompetitive.

5.1.2 Severstal

In the case of Severstal as well as for other Russian MNCs operating in the natural resource industry the decision for deciding where to put them on the CSA/FSA matrix is a little bit tricky. Severstals aim with its acquisitions is exactly similar to those of other Russian MNCs in the same industry, that is to say they want to gain access to the downstream sector. This is something already earlier mentioned in the case when it comes to the motives behind Russian M&As. Also the geographical dispersion of the M&As are the same because Severstals acquisitions have been made with companies originating from North America and Europe. Deciding now if Severstal has a strong FSA is not easy. The company´s aim is clearly to gain strong FSAs. However the financial crisis of 2008 has deeply affected the company. The many M&As seem to have backfired and the markets of the developed countries are now less attractive. This can be seen in Severstals desire to sell off for example Lucchini. Lucchini has not proven to be profitable and this raises the question whether Severstal has strong FSAs when it comes to keeping acquired companies profitable. The conclusion on where Severstal should be is somewhere on the line between quadrant 1 and 3. That they have a strong CSA is nothing new, however they do not seem to quite yet be there when it comes to having a strong FSA. Time will simply have to tell if Severstal will be able to make the leap to quadrant 3.

As a company very keen on acquiring other companies in order to gain access to the high-value segment, the LLL theory can be applied to Severstal. Severstal has tried to link itself to special niche areas of the Steel industry. This has been expressed in the acquisitions of American companies that specialize in segments like machining and welding as well as other like French companies that are market leaders in the SBQ market.

5.1.3 Gerdau

Gerdau is something entirely different when being compared to BaoSteel and Severstal. The difference lies in the fact that the company has both strong CSAs and FSAs. The FDI during the import-substitute era in Brazil saw much of the know-how spill over to Brazilian companies. This was reflected in that way that Gerdau being one of the first ones to pick this up was also one of the first Brazilian companies to expand abroad when they made their first acquisition way back in 1980. Over time Gerdau has created strong FSAs in its decentralized way of operating and finding cost advantages. This has pushed them searching for other struggling companies, mainly in the US. Worth also therefore noting is that the company`s expansion reflects the OFDI made by Brazilian companies with the Americas. The conclusion on where Gerdau should be on the CSA/FSA matrix is quadrant 3.

Since their first acquisition abroad in 1980, Gerdau has for over the last 20-25 years continued acquiring struggling companies and therefore showed no attachments to the LLL theory. However this changed with the acquisition of Sidenór. This was the first step for Gerdau in a totally new sector of the steel industry where the company is not strong. It will be interesting to see how they will be able to mix their current know-how with the new one from Sidenór in order to create new synergies.

5.1.4 Tata Steel

Also like Gerdau, Tata Steel is a company that belongs in quadrant 3. It is a private company, which means that the Indian government does not intervene in Tata Steels expansion plans. The company has after the liberalization of the economy in 1991 managed to transform itself into a cost-leader company. With this they have created a strong FSA that other Steel companies lack. Their expansion has reflected the pattern of other Indian companies which choose to expand to developed countries. In Tata´s case this has been Singapore and Europe. Despite the fact that the company already has a strong FSA they seem to want to further enhance it. This was the case of Corus. With the acquisition of it Tata gained access to the high-value sector. Now the company`s FSA is stronger than ever before because it contains not anymore one but several FSAs.

Tata Steel has made most use of the LLL theory. As earlier mentioned the purchase of Corus linked the company to a new sector in the industry. It has now enabled Tata Steel to pick out the strengths and advantages of Corus in their operational activities that Tata does not have and vice-versa in order to strengthen the overall productivity of the company.

5.2 Analysis of the telecommunication industry

When looking at the two different types of companies in the telecommunication industry from emerging markets, operators and manufacturers, several similarities in strategy have been identified. One important aspect have been the first moves in their internationalization which in all cases started regionally before trying to secure a position in more mature markets . The level of success differs widely between manufacturers and operators. Where operators struggle to make operations in developed markets profitable, these markets serve as the most lucrative ones for the manufacturers. Our belief is that this is due to the strategy used by the manufacturers in the developed countries. Manufacturers have used the advantages that they do carry by being late-comers from under-developed countries. These advantages include low labour-cost as well as not having to invest as much on R&D in their infancy as their predecessors. Through this they have been able to cut themselves a large chunk of the market by competing first with price and later moving up the ladder by competing also in product and quality.

In the FSA/CSA framework, companies from the telecommunication industry are quite similar. With the growing strength of the FSAs of ZTE, all of the four companies analysed now have strong FSAs and are therefore positioned in the third or the fourth quadrant in the matrix.

Another important similarity is the way companies from emerging markets make use of the LLL framework. There seem to be a common factor to enter a new market by collaborations with important actors locally before entering in full force. Often this is achieved by joint ventures to gain the needed market knowledge before expanding when the market conditions are preferable. The manufacturers in the industry form allegiances with developed technologically skilled companies in order to leverage and learn from them. For operators this differs as they tend to focus more upon strategic acquisitions rather than pure collaborations. It is still however within the framework of linking since they have a propensity of starting off with a relatively small joint venture (JV) before throwing themselves into new markets with a fully owned local subsidiary.

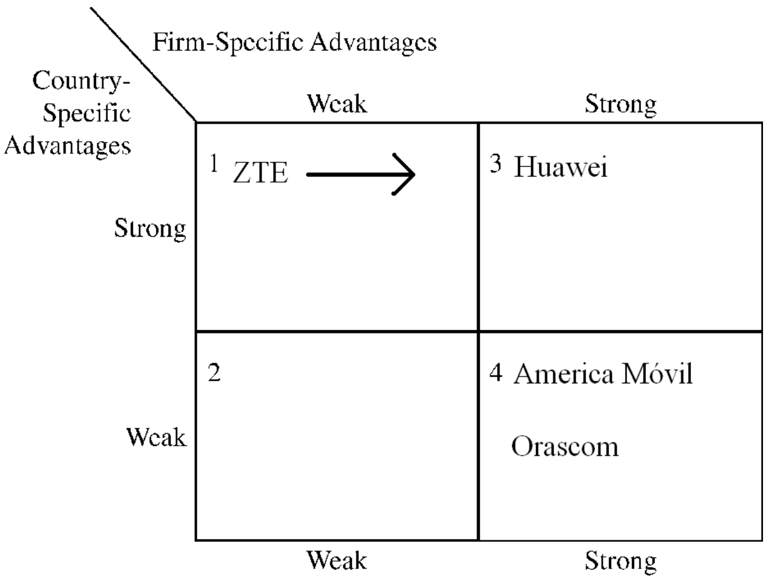
What is most significant with the *new* telecom companies from the emerging markets is their global scope. From an early stage they set out to be truly global companies instead of something growing from a local base to a global one. These companies have the aim of operate globally from the start. To go into a new country is not seen as a way of taking its domestic market abroad, instead it is seen as simple another part of the global market in which they already operate.

The largest difference between telecom EMNCs is found within the Chinese companies and in the prominence of their government. The success of ZTE and the one of Huawei would neither have been possible without their close ties to the Chinese government. Since the early nineties, the Chinese government has been supportive to equipment makers. For instance they formed an industrial policy with the sole purpose of boosting the prospects of Chinese firms at home and abroad. The government has since provided both companies with substantial financial backing when needed and also assessed them in political conflicts with foreign companies within China.

The final remark about the examples from the emerging markets is that they still do not hold very large global market shares but they have however had an enormous effect on the industry itself since they have brought down costs and consolidation across the industry.

As were the case of the analysis of the steel companies, a figure of the companies' positions in the matrix will be used to show how the telecommunication companies compare within the FSA/CSA framework.

Figure 5.2 The position of the telecom companies within the FSA/CSA matrix.



Source: This is developed from the analysis of Chapter 8 in Rugman (1981, 2006)

5.2.1 America Móvil

In the case of America Móvil, the FSA/CSA framework apply, in which AM has a distinctive firm-specific advantage in their strong finances. The country-specific advantages are not as obvious and with, all other equal: their Mexican origin could very well have been another one e.g., Brazil or Argentina. They have some CSAs in having a large domestic market, enabling them to grow domestically first but this is not enough to place them in the third box. Hence in the quadrant they are positioned in the fourth.

America Móvil uses the LLL- theory to a high degree, especially when entering a new market. They make sure they have the connections needed to grow and they gain knowledge through teaming up with important collaborators in the new market. An example can be found in their entrance to the mature market of the United States where they linked with large retailers across the country. This is one way of gaining access both to market information and to the market itself.

5.2.2 Orascom

In the FSA/CSA matrix, Orascom with their firm-specific advantages, their aggressive strategy and strong leadership of the past also enter box nr 4. Their strong finances in the early days were also one of the then crucial FSAs. When one looks at the CSAs, the case is very much like that of AM of Mexico. The country itself does not do much to describe the success of neither AM nor Orascom. The characteristics of their domestic market are still important, as with Mexico, it serves as a sufficiently large market, which enable them to first grow domestically before expanding operations abroad.

The presence of LLL is not as evident here as it is with the other case examples. Orascom of course have used it in the past to gain technological know-how and improved market knowledge but the Orascom of today is setting its own course of actions. If the departure from LLL is one of the reasons for the turbulence of recent years needs more research. Nevertheless, one can conclude that the use of collaborations and JVs in the past helped them to a great extent. Their expansion would not have been as rapid or as large without their alliances to and their acquisitions of strategic players, e.g. WIND.

5.2.3 ZTE

As expected of a Chinese firm, it is the country-specific advantages that stand out when looking to the FSA/CSA matrix. As shown in the empirical research, their success has much to do with their relationship to, and support from the Chinese state. Also as with the other case example the sheer size of the domestic market is one crucial factor for them. If they were to compete on a much smaller market, one can argue that the competition had been too fierce for ZTE in the early days. As it was, there was room for many actors on the domestic stage.

They do, however, possess a few FSAs worth mentioning. In particular, they are strong when it comes to their R&D department. Huge investments have been made and it appears to be working. They have, as Huawei, succeeded in moving from their initial price advantages to being able to compete more on quality.

With this being said, in the matrix, ZTE have long been positioned in the first quadrant of the FSA/CSA matrix but with the efforts and investment of recent years they move towards the third quadrant of having both strong CSAs and FSAs.

The forming of partnerships has had a vital part in the global expansion of ZTE, and without the linkage to more developed tech-companies, e.g. Ericsson they would not have had the prerequisites needed for competing on a global scene.

5.2.4 Huawei

As we have seen above, Huawei have both strong FSAs and CSAs and are therefore placed in quadrant 4. The firm-specifics are above all other its investments in R&D and its use of linkage. The country-specific advantages come with all what being a Chinese company means for example in terms of the earlier mentioned financial backing from the government and with the magnitude of their domestic market.

As stated earlier in the thesis, Huawei serves as the best example of how the LLL theory can be applied to describe the success of an EMNC. Their use of the different aspects of the theory has largely been responsible for their triumph in expanding globally, in particular when it comes to going into developed markets.

To give an example of how this can work we look at their modes of entry to a new market. Huawei realises the importance of clusters and how knowledge is more easily attained closer to where the action is. Hence in their strategy of opening R&D centres in the wanted new markets they tend to localize nearby the competition and close to universities. By setting up such centres they not only gain access to knowledge of a technical base, they also draw advantages by gaining substantial market knowledge before entering the market with a sales office.

6. Conclusion

In the two analyses we have conducted, we aim now to conclude how these industries compare with the selected theories. We head off by first looking at the FSA/CSA theory.

After having examined the EMNCs in accordance to the FSA/CSA, a clear distinction has been notified amongst the two industries. The backgrounds of the steel companies showed us that they all possessed strong CSAs. Nevertheless only some of them had over time managed to create FSAs while others did not. Since the steel industry`s level of maturity is extremely high, the need for strong FSAs is not crucial when wanting to internationalize. However, we have seen that despite the maturity levels in the industry, most of the steel companies are keen on improving their FSAs. With this they hope to enter new segments of the industry by combining their CSAs with the acquired companies FSAs. This has for example been noticed mainly in the case of Tata Steel but also to a certain degree with Severstal. Therefore to conclude, the steel companies of the BRIC countries should be placed in the quadrants 1 and 3.

The telecommunication industry shows another side of the coin. Here the FSAs play a vital part in being able to expand successfully. This is due to the level of technology needed in the industry which requires the companies to invest heavily in R&D and therefore gaining strong FSAs. These FSAs are vital in the industry for new companies wanting to expand globally. In this case the CSAs have only a marginal role. In the countries where the CSAs do exist, they are only present in size and openness of the domestic markets.

To summarize it up, the differences between the two industries in comparison to the FSA/CSA framework are the following; when wanting to internationalize, the need for strong FSAs act as a key factor for EMNCs in the telecommunication industry while in the mature steel industry it is the opposite. Here the CSAs contribute to a larger extent when choosing to go abroad. In addition, there exists one interesting feature in the steel industry, where there is a drive towards stronger FSAs. The purpose of it is to further boost the level of profitability. This is something that is deficient in the telecom industry.

When comparing the EMNCs to the second theory, the LLL, noticeable differences between the industries are observed. In the steel industry, LLL is starting to be implemented by the companies primarily through acquisitions. The best example of this is Tata Steel, which has purchased Corus in order to get access to some of their know-how and competencies but the acquisition serves as a two way LLL, where Corus also realised the potential benefit from the cost-leadership advantage of Tata Steel.

In the telecom industry acquisitions exist but are not equally dominating. The use of JVs is more present since it enables companies from less developed countries to gain access to advanced technology from Western firms. The advantages of JVs also lie in the financial aspects. To form a partnership is less costly than to purchase a competitor and it could mean comparable positive linkage.

To summarize the LLL theory we believe that the dissimilarity exists due to the diverse levels in maturity. It can most often be seen in the usage of linkage. In the steel industry it takes its form entirely in the shape of strategic acquisitions. JV on the other hand is the more preferable way of linking used by telecommunication EMNCs.

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