New wave of multinationals poses competitive threat to U.S.
William J. Holstein

A new wave of foreign competitive pressure is beginning to ripple through the U.S. economy, from companies in emerging markets like Brazil, Russia, India and China. These companies are seeking to become world-spanning multinationals - just as Samsung Electronics emerged from South Korea and Toyota sprang from Japan in earlier phases of globalization.

From Brazil, Embraer has become a big supplier of regional jets in the airline industry. Other Brazilian companies, like Braskem, Embraco and Natura, are also expanding in a variety of global markets. Russian companies like Gazprom, Lukoil and Rusal are using Russia's natural resources to leap into the United States and other countries. India is producing powerhouses in technology services like Wipro, Infosys Technologies and Tata Consultancy Services, and global competitors in manufacturing and pharmaceuticals. The world's largest steel company is now controlled by Lakshmi Mittal, an Indian living in Europe.

China may be the largest single source of new multinationals. Aside from Lenovo, which bought IBM's personal computer division, Haier is emerging in appliances, Huawei Technologies is competing against Cisco Systems to sell telecommunications equipment around the world and the Pearl River Piano Group is carving out a huge share of the piano market.

The emergence of these new multinationals is part of "the biggest shift in the global economy since the Industrial Revolution of the 18th century," says Antoine van Agtmael, the author of a new book, "The Emerging Markets Century: How a New Breed of World-Class Companies is Overtaking the World."

"We are seeing a rebalancing of the global economy back to where it was before the Industrial Revolution, when China and India were major powers in the world."
How is it that so many companies that once would have been content to operate in their home markets have so rapidly gained the expertise to manage complex multinational operations? One explanation is the new ease of global communication and air travel. Another is that the necessary expertise is available for sale.

"These companies are hiring people from anywhere in the world," said Peter Williamson, a professor at Insead, the business school, and co-author of "Dragons at Your Door: How Chinese Cost Innovation Is Disrupting Global Competition."

"They're engaging Ogilvy & Mather to do their advertising. They're using McKinsey for their strategy," he said. "There's been a very big shift in the ability to obtain knowledge that once would have been very slow to build up."

Estimates of the number of these new multinationals vary considerably. Van Agtmael's book identifies 25 of them. A study from the Boston Consulting Group last year named 100. Accenture, the consulting firm, says that there were 62 emerging-market multinationals in the Fortune Global 500 in 2005, up from 20 in 1995; it predicts that the number may hit 100 within 10 years.

Not all the would-be competitors will be successful, of course. Van Agtmael acknowledges that some will have to learn to focus on a few core areas where they truly excel, rather than engaging in a broad mix of activities as they have done at home. Western multinationals also have advantages in distribution, logistics and branding.

But clearly, enough of these new companies will succeed that Americans will feel it, with both positive and negative results. On the positive side for consumers, most of these companies have low cost structures and will be able to offer lower prices.

But there will be some pain as well. "A lot of people who felt that their companies or their jobs were protected because they were in the high-value-added or high-tech kinds of businesses

used to think that the rise of these companies was irrelevant to them," Williamson said, referring to fields like architecture, design and pharmaceuticals.

But now, he said, "their companies are going to face competitors providing pretty much the same level of technology or design competence at a quarter or 20 percent of their price."

That means that American companies will have to look at their own operations with a "zero-base mentality," said William Green, chief executive of Accenture. Companies that do not design business models that are competitive with those of the emerging multinationals will simply be blown away, he said.

The emerging giants have different strategies, reflecting their strengths, says Harold Sirkin, senior vice president of the Boston Consulting Group, based in Chicago, and co-author of its 2006 study.

Some, particularly the Chinese companies, have mainly used cheap labor to undercut established companies. The emerging multinationals have not had time to establish brand names, as Sony or LG have done, but they will compensate for that. "They are either going to buy American companies and use their brands or develop their own brand names," says Sirkin, who regularly consults in China and India.
Others, like Embraer of Brazil, have learned to exploit a local base of excellent but low-cost engineering talent. Companies like Johnson Electric, which is based in Hong Kong and has the capacity to produce three million motors a day, have strong positions in a global product niche. And Russian companies have leveraged their natural-resource wealth to set up distribution channels and make acquisitions in the West.

Sirkin says that over the long run, the entry of the new multinationals into the U.S. market will be a "bigger deal" than the previous arrival of Japanese or Korean businesses, if only because countries as big as China and India are likely to spawn many important companies. "We'll see the next Toyota coming from China and the next Samsung coming from India," he said.

The new multinationals represent a far more complex phenomenon than a surge of imported products, which can be blocked or reduced by tariffs and quotas, experts say. These companies will be buying assets, and while political disputes may block some deals, as in the case of a Dubai group aiming to buy American ports or of Haier trying to buy Maytag, there does not seem to be any stopping of the broader trend.

The emerging multinationals will also be building new plants in the United States and offering services and products that are in great demand, like the IBM computers now sold by Lenovo.

But Sirkin is optimistic that the U.S. economy will continue to flourish. "There are a lot of imports coming in from China today, but what's our unemployment rate?" he said. "It isn't 43 percent. We've responded."

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