Leeds University Business School – Research and Innovation Podcast

Episode 63: New challenges for MNEs within fractures of the global economy

Speakers: Professor Marina Papanastassiou and Professor Peter Buckley

Marina: [00:00:00] Hello and welcome to the Research and Innovation Podcast. I am Marina Papanastassiou. I'm a professor of International Business at the Department of International Business and the Centre for International Business at the University of Leeds, known as CIBUL.

Today we're going to have a chat with my colleague Peter Buckley, who's a professor of International Business and also is the founding director of the Centre for International Business at the University of Leeds. Today we're going to chat actually about the new challenges for multinationals within the fractured global economy.

So, hello Peter. Here we go again. Here we go again to discuss issues that are of crucial importance in these very interesting days that we are living and, actually also concern our field. And the keywords here is fractured world and fractured world as the Chinese and US relationships have turned it into [00:01:00] and also the war in Ukraine.

What does this mean for international business? What does this mean for the role of multinationals in this very volatile and fractured world?

Peter: Yes. I think as the Chinese say, we live in interesting times. I mean, the things that you've already alluded to are the fracture in the world economy between what we might call an American camp and a Chinese camp. US and allies that the west and China camp. And in addition to that, I think multinationals face a lot of increasing political pressure and also they are subject to much more, highlighting of their role from civil society.

So the re multinationals need to show a lot of resilience and if we begin by looking at the fracture between China [00:02:00] and this has important ramifications for global value chains because it's not just a matter of producing in your home country and exporting or indeed investing in the other side of the fracture.

It's about all the elements of the global value chain. And this raises really interesting issues for companies that tap into or are related to suppliers and so on in, in global value chains because are they going to be excluded from one side if they choose the other side? Now usually this is taken from a very American.

And people talk about de-globalization from an American perspective, but when we look at the flaws of foreign direct investment and trade, they haven't dropped that dramatically. And this is because multinationals are able to [00:03:00] adapt. I mean, one of the key features of multinationals is their adapt.

But I do think over the longer-run we're liable to see important changes. There's a very interesting article in The Economist recently that talked about Alt-Asia, alternative Asia. So looking at where they might move to. Were they absolutely forced to do so, by this fracture?

And if you imagine a great crescent of countries starting in Japan and then going all the way down Southeast Asia to Indonesia and all the way around to India, Bangladesh, this is Alt-Asia. These are the countries that multinationals might choose if they left China. And the “if” is quite a big “if” because multinationals have been operating in China very successfully for a considerable time.

And in many ways China is an ideal environment. It's, [00:04:00] it's got abundant labour or it had; labour is becoming much more expensive. It's got a good infrastructure. It's got a large home market, so none of the other countries on their own can really. China at the moment companies are moving to Vietnam and so on, and Vietnam is doing very well.

But the point about Alt-Asia is it's unintegrated. You can't easily do business between, say, Indonesia and India as you can in parts of China. So the fracture to some extent, is exaggerated in the short-run, but I don't think it will be in the long-run.

One other point that you mentioned there I think is really important and that is the impact of the war in Ukraine and the impact on Russia. And a recent study has shown that only 9%, so less than one in 10 multinationals who [00:05:00] said they were going to withdraw from Russia, have actually withdrawn. So this shows the inertia in the system, how difficult it is to restructure and change a whole value chain. So although the fracture is there, I think we're talking about more important changes in the medium and long-term than we are in the short-term.

The other thing to say about that is this goes along with economic changes anyway, in the rate of wage rates in China have rocketed, and it's very difficult to get the kind of skill labour that you need.

The other point, of course, is the semiconductors issue and the fact that the embargo on semiconductors has real ramifications. I was talking to a very good graduate of ours in China this week who cannot get a job in China because of the problems with [00:06:00] semiconductors in the sectors of the industry that he's in. So this is having real effects. So we've got real immediate effects from semiconductors and so on, but we've got much longer-run changes that multinationals are going to have to cope with as these.

We should say plural, FLA fractures perhaps occur in the world economy. And the final thing to say, of course, is the impact on the internet, the infrastructure of doing global trade is being fractured. And we have the so-called “splinternet” where it's not easy to do business across different national internets that have been deliberately targeted.

So these roles of protectionism and all the other effects in the longer run, I think we'll have a profound effect. But this will take time. You cannot just easily rejig a global value chain over.

Marina: Thank you so much, Peter. And when, [00:07:00] while you were talking, I was thinking, all the analysis that we have been developing has been focused on the economic side of things, but, implicitly and we also, I mean, have a very serious political dimension.

You mentioned that only 9%, if I'm correct, of the companies that they were supposed to leave Russia because of sanctions left. You also mentioned that it’s business as usual for the large multinationals so far in China, although alternative-Asia is rising. So, through current research that we have been doing at the department ,myself and colleagues and also at CIBUL, we have paid attention to the political role of the multinational actually, and, as you know, I'm doing research on the innovation side of the multinational, the innovation strategies. And I also noticed, and we also noticed myself and my co-authors, that we probably have neglected the political side [00:08:00] of the multinational because we see that for instance, this 9% that you mentioned, or the China issue, multinationals do not listen to the advice or they don't abide by the recommendations, sanctions laws by their home countries.

They have their own mindset. You said that they adapt. So we have stakeholders which not only involve the multinationals vis-a-vis their host economies, but also vis-a-vis their home economies. We don't see this alignment in goals, so, what I would suggest, and I want your opinion on that.

Have we ignored for a quite long time, the political role of the multinational, now that we live in this fractured world, we see that they have their own political agenda. They don't follow the rules. And, and since you mentioned the semiconductor issue, you know, in July the US government voted for the Chips Act and a lot of financial [00:09:00] incentives were aligned with the Chips Act still, I, we haven't noticed any late strong restoring to the US.

I mean, still it's, we have outward investment in abroad on the semiconductors. And based on some recent data of the FDI markets, this database of the financial times we see that also investment semiconductors in China. So this lack of alignment and this conflict, let's say of interest may be point to the political role.

So what is your view on that?

Peter: I agree entirely. I think international business took what Mark Kassan and I called “boardroom view”. A lot of international business takes the view of the chief executive or the managers of multinationals, and perhaps we need more of what we might call a bird's eye view.

We need to look at the multinationals role in the global economy. I think some [00:10:00] work I've been doing, I call it three vectors of power. I mean, if we think of the multinational conducting its strategy, as you pointed out, it doesn't have a free choice. Strategy. It can't do everything it likes.

So what are the constraints on multinationals? The first constraint is the most obvious one, which is the market that you have to produce, goods and services that people want. You have to adapt to your goods and services across the world. And this has been meat and drink to international business for a long time.

Local versus global, all these kind of issues. So you're operating in multiple markets and the market pressure on multinationals is a major factor. The second factor is of course regulation. I mean, we've been talking a lot here about the changing regulations on multinationals and in fact, protectionism and all these acts that are being [00:11:00] produced to, to protect semiconductors, so-called security industries, are now much wider to include infrastructure and so on, and a whole raft of measures in America, meaning effectively that industrial policies bank, you know, we now fully fledged industrial policy. And a lot of these industrial policies, as you point out, are national. They're not international, they're in the international interest. So multinationals have to deal with multiple regulations.

And as you say, one of the ways they try and do that is through so-called non-market strategies, which is lobbying and trying to influence people, the great and the good and consumers and everyone who has all their stakeholders. So that factor also is great. So we have the market, we have government regulation, but the third thing we have is the pressure from civil society [00:12:00] because it's be become more and more obvious.

The role of, multinationals and large firms across the board impact on what we used to call pressure groups. And we now call the voice of Civil Society. So people are demanding that that multinationals comply with the sustainable development goals of the UN or have sustainable policies, energy transition issues.

So, the way to look at a strategy of multinationals, I think is that it's not just a free choice. It is a matter of being enclosed by these three forces of the market government. Because you're dealing with in international government and civil society, and again, civil society has an international dimension because what civil society is asking of the same firm in California is not the same as [00:13:00] is being asked in Nigeria or Ghana, where attitudes, cultures are very, very different.

So again, multinationals are in a really interesting place trying to balance off different market pressures, different government pressures, and different civil society pressures in all the countries in which they operate. So, you know, again, what we're highlighting is how fascinating and important international business is and how multinational enterprises are right at the centre of all these issues, they simply cannot avoid it. You cannot just say “I'm a business firm. I'm walking away from this. I just produce goods and services.” It's just not possible.

Marina: I have just one last point that I would like to raise with you. You talked about national industrial policies, which I totally agree.

I mean, we see that and in a paper that we're doing with colleagues dealing with exactly these issues, we said that we talked about the liability of foreignness. [00:14:00] Are we in a period that we may talk of the liability of “at homeness” now?

Peter: I think the role of the national is back. You know, there was… I wrote a piece recently which is still not finished, about the difficulties of being of entrepreneurship. The golden age of entrepreneurship may well be over that you can't simply innovate and expect that innovation to go all across the world in a seamless way. And we've talked about the reasons why not.

So when you, when you have a new product or you're developing a product, these are all the issues that have to be taken into account. And this does sound kind of pessimistic, but I don't think it is because I think the factor that we also have to bring in is the resilience of multinationals that over the years, I mean, we're talking about in institutions that go [00:15:00] back to at least the East India Company and probably way beyond that, we're talking about an institution that can evolve and change, and this is the crucial issue about resilience that companies have to look at this in as an adaptation to these factors over time.

So some things you can do immediately, like build your inventories or adapt a product. Other things take longer. And of course we are observing that in the medium-term multinationals are thinking about the kind of things we've talked about. Regional headquarters building alliances. Changing locations for things, these take time. But I think if we were doing this podcast 10 years from now, we'd be looking at very, very different configuration of global value chains than we see now.

And there wouldn't be some of this inertia will disappear over time as companies have to adapt and let's hope [00:16:00] we can talk about a world that is less fractured by war and pestilence and all the Covid and all the rest of it. And look, because these things have real lasting influence.

I mean, there's a thing called hysteresis, which means that you can't immediately adapt to changes. But in the longer term, things become more flexible and multinationals are the ideal institution to deal with that. I mean, I often say it's one of my favourite saying that multinationals are part of the problem, but also part of the solution.

And I think that that becomes very, very evident when we talk about the kind of issues that we've talked about.

Marina: Thank you so much, Peter. Just to point, I mean, I know what hysteresis is, what it means because I'm Greek, so we shared the word to the world.

Peter: Another gift from the Greeks.

Marina: Another gift. Another gift. Thank you so, so much. It's been very educating. Thank you so much.

Peter: Thank you for the questions and the comments. Marina, thank you very much.

Marina: Thank you.[00:17:00]. So, dear listeners, if you are interested in finding out more about what we have discussed you can find our details in the episode show notes, but also a lot of the things that Peter and I discussed about our research can be found on the CIBUL webpage as well as at the Department of International Business webpage.

Thank you and goodbye.