



IdeasViewpoint

BY JEFFREY E. GARTEN

A New Threat to America Inc.

Beyond the controversial \$18.5 billion bid for Unocal Corp. by China's National Offshore Oil Co. and expansion plans by other Chinese multinationals such as Qingdao Haier (currently trying to buy Maytag Corp.) lies an even broader challenge to Corporate America: the rise of many other companies from emerging markets in Asia, Latin America, and

the Middle East. With a few exceptions, such as Samsung Electronics, these emerging blue chips are not household names in the industrialized world, and you won't yet find many on lists of the top 500 global companies. But from India's Infosys Technologies (IT services) to Brazil's Embraer (light jets), and from Taiwan's Acer (computers) to Mexico's Cemex (building materials), a new class of formidable competitors is rising. "There are 25 world-class emerging multinationals today," says Antoine van Agtmael, president and chief investment officer of Emerging Markets Management LLC and author of an upcoming book on the subject. "Within 15 years there will be at least 100 of them."

Although Chinese companies could constitute more than a third of this group, it's a mistake for Western businesses to underestimate the wider assault Third World multinationals could mount on the established commercial order. Companies such as Taiwan's Formosa Plastics Corp. (petrochemicals) or Brazil's Companhia Vale do Rio Doce (mining) have the advantages of a wide-open world economy, easy access to Western knowledge and talent, practically unlimited money from global capital markets, and low-cost skilled domestic labor. And, as van Agtmael notes, these companies' adaptive skills have been honed by surviving financial crises and regulatory chaos at home.

THE BIGGEST CHALLENGE posed by these up-and-coming rivals will not be in Western markets, but within developing nations. That's the arena of fastest global growth—and home to 80% of the world's 6 billion consumers, hundreds of millions of whom have moved into the middle class. Through long experience working in a Third World commercial environment, companies such as India's Bajaj Group (transportation), Egypt's Orascom Telecom, and Turkey's Sabanci Holdings (packaging, tires) will have an advantage in supplying goods and services that are cheaper, simpler to operate, and more effectively distributed than those of many Western rivals. And companies like Thailand's Cementhai Chemicals Co. will have close cultural ties in growing regional

markets such as Southeast Asia or the Indian subcontinent.

The rise of these new multinationals will force Corporate America to rethink strategies for Third World product development, marketing, and links with local companies. But growth of these new rivals should also compel Washington and other Western governments to revamp today's inadequate hodgepodge of global commerce rules. The reason: Western companies could be disadvantaged by having to adhere to more stringent economic and social standards than the competition, because of their tougher home-country laws and expectations.

There is a huge gap in the international framework for such standards. The World Trade Organization deals with governments but not with companies. The Paris-based Organization for Economic Cooperation & Development has established a code of conduct for multinationals, but compliance is voluntary and pertains only to its members—mostly from rich countries.

For example, all companies should be held to international accounting standards, including financial disclosure and transparency. There should be accepted corporate-governance rules, including protections for minority shareholders. The requirements for listing on major stock exchanges should be more rigorous and uniform. And all global companies—including those from the West—should disclose their labor conditions and the impact they have on the environment using a common, audited format. None of this has yet happened.

As long as American multinationals ruled the global roost, Washington resisted most formal rules for international business on the grounds they would constrain U.S. outfits such as IBM and Coca-Cola Co. But the challenge from emerging-market companies signals that the dominance of big U.S. and European corporations is no longer assured. Uncle Sam should take the lead in efforts to build a new global commercial order—while the U.S. still has the clout. ■

Jeffrey E. Garten is the Juan Trippe professor at The Yale School of Management (jeffrey.garten@yale.edu)

Corporate giants from emerging markets are challenging the West