

# How Emerging country MNEs (EMNEs) address the liability of foreignness: The Solar Panel Case

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# Liability of Foreignness

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- Linked to, but distinct from, the Costs of Doing Business Abroad (Hymer, 1976), LoF is usually attributed to Zaheer (1995).
  - Zaheer differentiating between different aspects of LoF - market-driven costs, structural/ relational costs and institutional costs. (Zaheer, 2002)
  - Eden and Miller (2001, 2004), differentiated between costs linked to unfamiliarity, discrimination and relational complexity.
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# Country of origin effects and LOF



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- Assets of Foreignness (AoF) (Sethi and Judge, 2009). MNEs may have technology, brand name and organisational competence, as well as the 'Halo effect' and differential support from host government.
  - Liability of Origin (LOR) (Ramachandran and Pant, 2010). LOF cannot explain disadvantages due to COO: 'While LOF explains disadvantages borne in host countries by MNEs as a consequence of *where they are not from...*[LOR] seeks to capture those disadvantages of MNEs that emerge as a consequence of *where they are from*.
  - Liability of Home (LOH) (Stevens and Shenkar, 2012). LoF treats foreign firms as 'essentially homogeneous' and assumes LoF is the same in both directions. LOH defined as '...the disadvantages borne by a firm investing in a foreign country due to friction caused by the attributes of its home country institutions.' p.133
  - Overcoming such country related costs, would involve, not only firm level, but state level initiatives.
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# LOF/LOR/AOF and EMNEs



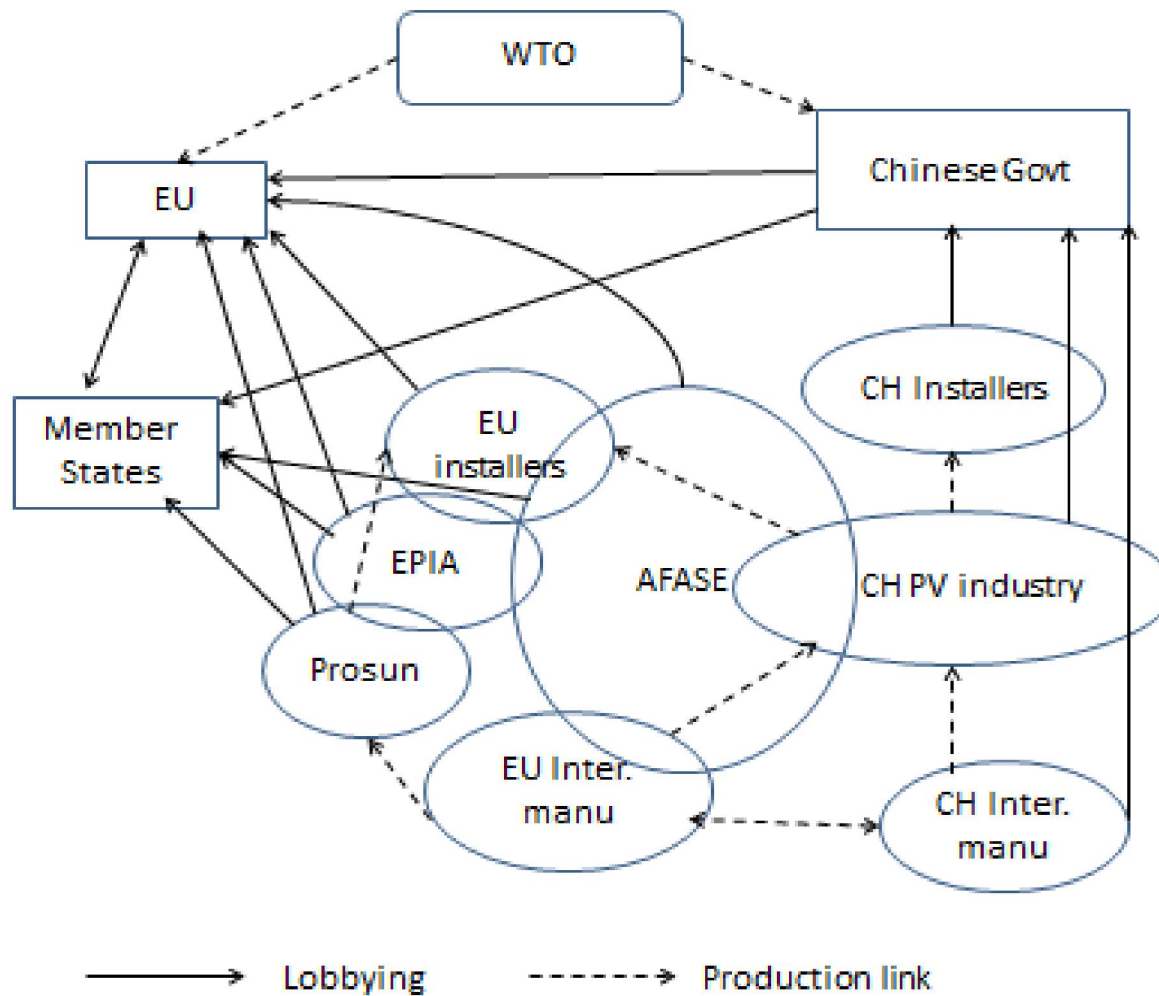
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- Relatively little work has been done on LOF of EMNEs in developed markets
  - Many EMNEs expand through trade-based strategies, but little work has been done on LOF of trading companies
  - Debate about whether there is a need for new theory for EMNEs (Ramamurti, 2012; Guillen and Garcia-Canal, 2009)
  - LOR specifically identified in relation to EMNEs, but not yet explored empirically
  - AOF doesn't specifically consider the potential advantage of home state support (only host state support).

# The Solar Panel anti-dumping case

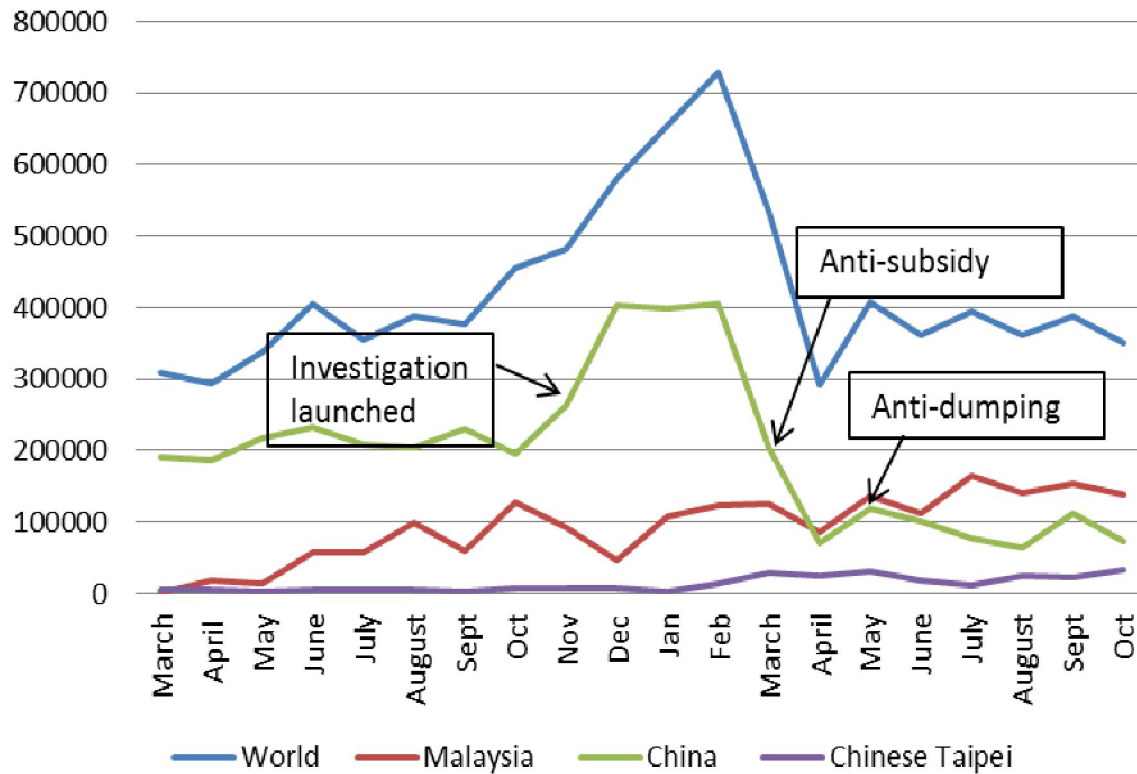


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- September 2012: EU Launched investigation into Photovoltaic Panels, wafers and cells from China, further to request by 'Prosun' – EU solar panel manufacturers fronted by SolarWorld (DE)
  - The merits of the case questioned by opposing grouping AFASE – set up by Trinasolar (CN) – estimated up to 242,000 job losses and loss of €27,2bn value added over 3 yrs.
  - German government not officially supportive
  - Strong parallels with a recent US case brought by the same company
  - China subsequently launched a similar case against EU Polysilicon

# The value chain and the AD case



**Fig 3 - US imports of Solar Panels  
Total and top 3 sources \$'000s.**



# Comments on the case



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- *‘In terms of the national identity of an international company, the renewables industry has always been really global and so when we look at the supply chain, you could draw a line in any direction across this field of companies and nationalities and say well...What does it mean to be Chinese?’ Trinasolar*
  - *‘This is a crisis issue for the company’ Trinasolar*
  - *‘ European companies are not afraid of competing with Korean or Japanese or Americans or whoever, but it can’t compete with China, because China has this incredible state support...’ Prosun*



# Nationality of AFASE members over time



Table 1: Nationality of AFASE members over time

Country	Nov. 2012	March 2013	June 2013	Country	Nov.2012	March 2013	June 2013
Australia	0	1	1	Latvia	1	1	1
Austria	1	5	30	Lithuania	0	0	1
Belgium	3	10	25	Luxembourg	0	1	5
Bosnia-Herz.	1	1	1	Malta	0	0	4
Bulgaria	0	0	7	Netherlands	14	71	162
Canada	1	1	0	Pakistan	1	0	0
<b>China</b>	<b>9</b>	<b>0</b>	<b>0</b>	Poland	3	3	12
Croatia	1	1	1	Portugal	0	1	4
Cyprus	0	0	10	Romania	0	2	11
Czech Repub.	2	3	9	Slovakia	0	0	2
Denmark	2	4	8	Slovenia	0	0	4
Estonia	0	0	2	Spain	10	12	26
Finland	0	1	2	Sweden	0	1	1
France	4	6	20	Switzerland	1	4	5
Germany	66	109	167	Turkey	0	1	1
Greece	7	12	20	UAE	0	1	1
Hungary	0	0	2	UK	22	45	120
Ireland	1	1	7	United States	6	6	6
Italy	12	19	51	No nationality	0	2	2
				Total	324	324	729

# Outcome of the case



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- In June 2013 EU Commission found that dumping had occurred
  - Imposed provisional duties of 11.8% with threat to raise to 47.6% if a solution wasn't found.
  - Member States voted against the provisional duties.
  - China launched a new AD investigation into EU wine.
  - In July an agreement was reached for a 'Minimum price undertaking': a maximum quantity of panels at a minimum agreed price.
  - Prosun very critical
  - Polysilicon and wine cases were concluded amicably
  - May enable the two actors to turn the page on a difficult period.
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# LOF in the case and relevant strategies



	Manifestation	Strategies adopted
<b>LOF</b>	<ul style="list-style-type: none"><li>- Lack of legitimacy.</li><li>- Lack of trust.</li><li>- Perceived threat to energy security/technological capacity.</li><li>- Perceived link to foreign government.</li><li>- Perceived threat to domestic employment.</li></ul>	<ul style="list-style-type: none"><li>- Acquire local knowledge (PR cos and lawyers).</li><li>- Form alliances with local companies.</li><li>- Underline the potential for the greater good (reduced GHG emissions).</li><li>- Form alliances with NGOs.</li><li>- Contract an 'independent' consultancy to study the case.</li></ul>

# LOR and AOF in the case and strategies



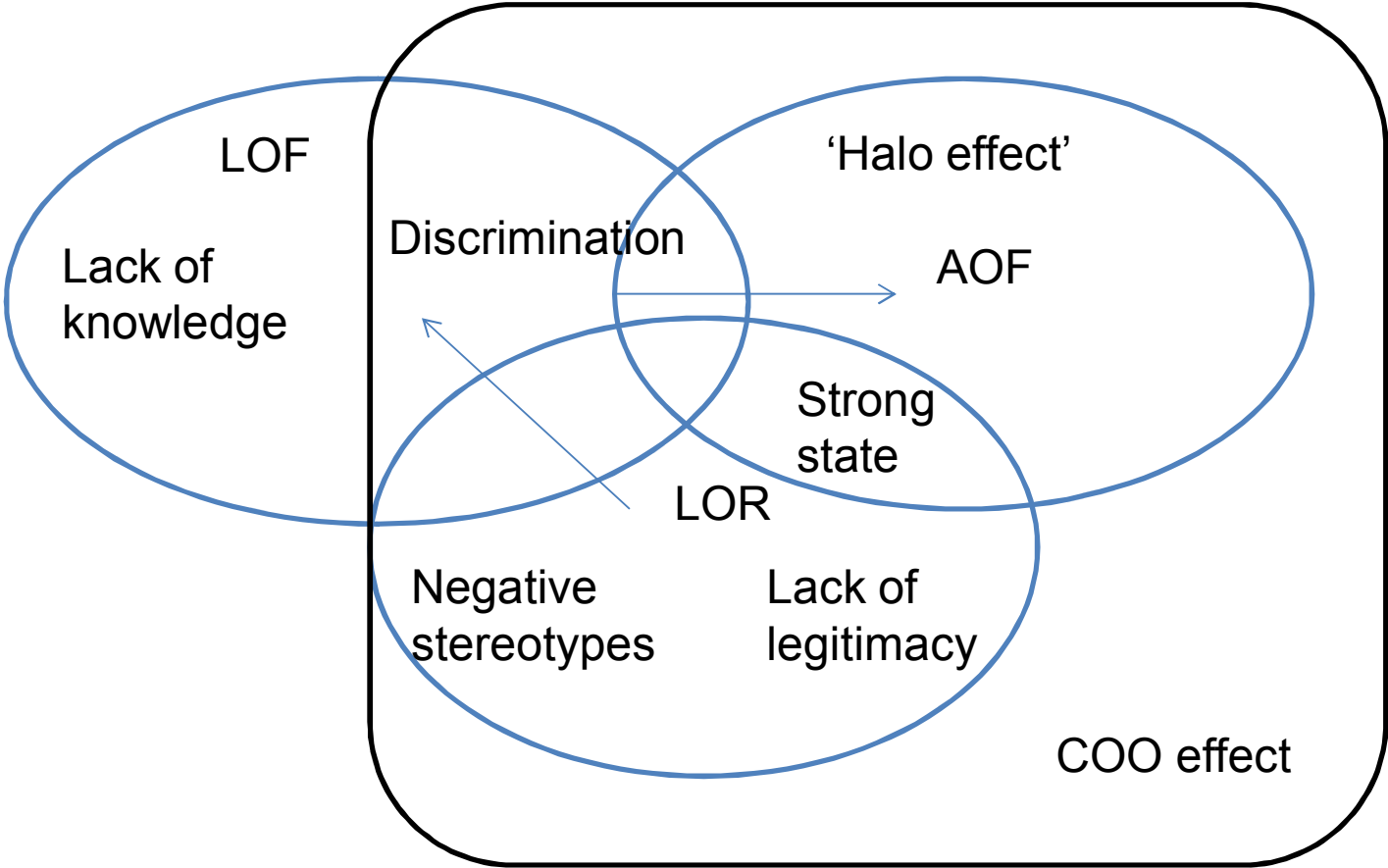
	Manifestation	Strategies adopted
LOR	<ul style="list-style-type: none"> <li>- Chinese companies essentially portrayed as agents of the state.</li> <li>- China’s industrial policy portrayed as suspect – all action part of a grand plan.</li> <li>- China portrayed as substantially different to other sources.</li> </ul>	<ul style="list-style-type: none"> <li>- Focus on the interests of local companies and consumers.</li> <li>- Draw attention to lack of state involvement - private companies quoted on NASDAQ.</li> <li>- Highlight the international nature of the industry ‘What does it mean to be Chinese?’</li> </ul>
AOF	<ul style="list-style-type: none"> <li>- MNEs emanate from a strong state.</li> <li>- Potential for retaliation led many companies to support action anonymously.</li> </ul>	<ul style="list-style-type: none"> <li>- Limited govt activity initially.</li> <li>- Over time became more active and threat of retaliation more concrete.</li> <li>- Political pressure on member states.</li> <li>- Actual retaliation (wine).</li> </ul>

# Implications for theory



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- When dealing with LOF, trade based EMNEs use strategies already identified for MNEs involved in FDI. Key strategies were localisation, buying in local expertise and creating alliances with legitimate local actors
  - There were clear indications of a LOR specific to the 'Chineseness' of the companies – attacks were specifically against the Chinese capitalist model and the perceived threat to EU industry and jobs
  - Main strategy was for EU companies to lead the PR effort through AFASE.
  - In terms of AOF, the capacity of the Chinese government to put pressure on Member States certainly impacted on the outcome.
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# Outcome of trade disputes depends on interaction between LOF/LOR and AOF



Thank you

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