part

III BROAD ISSUES IN GLOBALIZATION

Part III, Broad Issues in Globalization, is particularly concerned with some recent technological and social developments that affect global firms as well as the challenges of the future.

chapter

14 EMERGING GLOBAL PLAYERS

Introduction

In its 2010 report on global development, the Organisation for Economic Co-operation and Development (OECD) stated: 'Over the past decade, a group of emerging and developing economies has been leading the way in terms of growth and development, shifting the world's economic centre of gravity'. At the micro level, companies like Lenovo or Haier from China, Ranbaxy or Infosys from India, Embraer from Brazil, Gazprom from Russia, SAB from South Africa or Petronas from Malaysia have joined the league of global players traditionally occupied by Western or Japanese multinationals. In the *Financial Times* FT Global list in 2011, there totalled 62 firms from emerging counties while there were only 15 in the 2006 report, and the first on the list was Petrochina. The growing importance of emerging countries companies and markets in the world is today one of the key characteristics of the global business environment. This chapter will describe the main characteristics of emerging countries, their development paths, and their attractiveness as markets and as offshore operational bases, as well as their competitiveness and the role of their global champions. Strategies dealing with emerging countries will also be discussed.

Learning objectives

At the end of the chapter you will be able to:

- understand the characteristics of emerging countries
- identify the market and outsourcing opportunities they offer to global firms
- define the components of business strategies specially designed for emerging countries
- describe the strategic development of competitors coming from emerging countries.

Emerging countries and their development

There is no clear definition of an 'emerging country'. The phrase is often used to describe countries that exhibit:

- a high economic growth
- an increasing development of a middle class
- a high degree of infrastructure investments
- the opening of their market to international trade and investment.

For global firms, emerging countries are source of opportunities, but their business and institutional environments are still significantly different to those in OECD countries.

Three types of emerging country that fulfill those characteristics can be distinguished:

- The emerging giants: Brazil, Russia, India, China, South Africa (BRICS).[1] During the first decade of the twenty-first century, the BRICs are considered as the most powerful representatives of the emerging world; their profile is detailed in Appendix 14.1.
- The Eastern European ex-communist countries, also called the 'transition economies'. Most of those have now joined the European Union and are rapidly moving toward a standard of living comparable to Western countries.
- The industrializing countries of Latin America, Asia or Africa that do not belong to the first group, such as Chile or Malaysia. In this category we find companies that have achieved the status of global champion despite the fact that their economies are still considered as 'developing'.

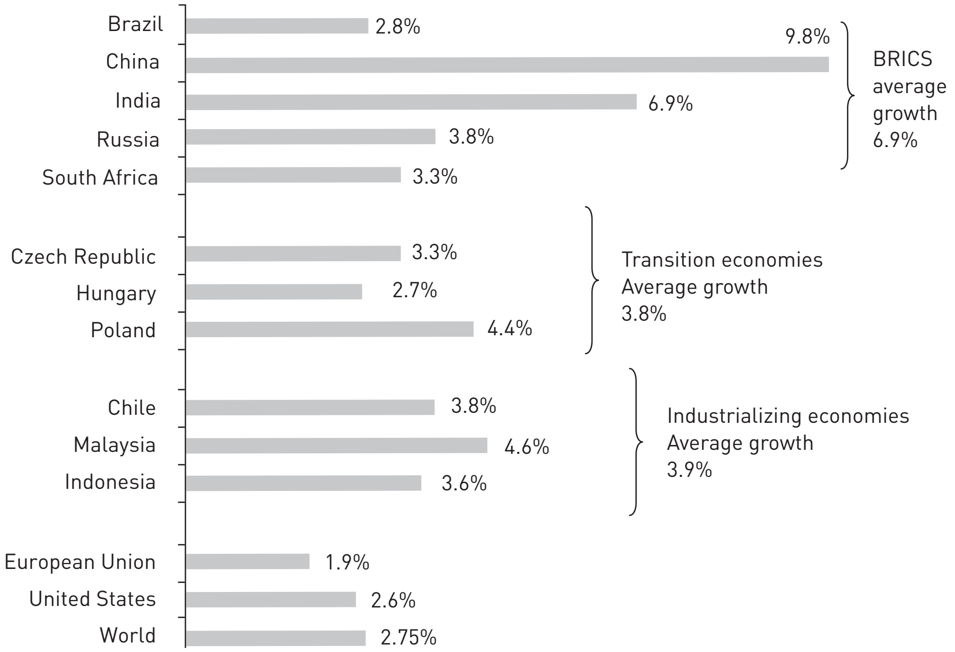

Figure 14.1 GDP growth rates: emerging countries vs. the world (average 2000–2009)

Source: World Bank Development Indicators

Growth

As Figure 14.1 shows, one of the first characteristics of the emerging countries is that their pace of development surpasses the rest of the world. Among those, the BRICS countries (Brazil, Russia, India, China and South Africa) are by far the fastest growing, with China taking the lead. China GDP in dollar terms overtook Japan as the second world economy in 2010.

In 2003, researchers at Goldman Sachs posited that the overall total incremental demand of the then four BRIC countries (Brazil, Russia, India and China) will be *four* times larger by the year 2050 than that of the G6 countries (US, Japan, Germany, UK, France and Italy), at around US$4500 billion versus US$1100 billion.

The incremental demand is due to three factors: a rapidly growing urban middle class, an investment in infrastructure and a drive to conquer international markets.

Middle class

As indicated in Chapter 6, the middle-class effect is a key characteristic of emerging countries. The concept of middle class, although widely used by economists and sociologists, is very vague. The definition of the Swedish middle class, for instance, would differ considerably from the one in Indonesia. The middle class definition can be a purely statistical one (the population that occupies the center on the distribution of income) or it can be a purchasing power one (the population that can afford to purchase goods and services beyond the traditional subsistence level). When looking at doing business in emerging countries the second definition is the most relevant, since what drives demand is the ability of the consumer to afford the purchase of products and services. What is interesting, as mentioned in Chapter 6, is that the growth of a middle-class population translates into a higher growth rate of consumption of non-essential goods than of the average GDP growth. However, the exact threshold of when a population becomes middle class is not very clear. For a car manufacturer a household becomes middle class when the total household income is big enough for the purchase of a car. In China in 2004 it was estimated that 38 million urban households could afford to spend $12,000 to buy a car with cash or credit, mainly in Beijing, Shanghai and Guangzhou. The car ownership rate in urban areas was 12 per cent at the time, rose to 28 per cent in 2009 and is predicted to reach 50 per cent in 2015, meaning that around 360 million cars will be on the road.[2] For a mass retailer like Carrefour or Wal-Mart the threshold of income is much lower and can be evaluated at US$3600, which corresponds to approximately 360 million people. The threshold varies also according to the lifestyle and purchasing power parity: middle class starts at US$25,000 income/capita in the USA as compared with the Chinese US$3600. On that basis the McKinsey Research Institute has estimated the number of households in the middle and upper class in the Chinese urban population at 120 million in 2005, projected to become 454 million in 2015.[3] Euromonitor estimates that around 75 million households in China earned more than US$10,000 a year in 2010 and this will reach 140 million by 2015 and 218 million by 2020.[4] Assuming 3 people per household, more than 650 million people in 2020 will belong to the middle class. In 2009 the OECD estimated that the world middle-class population was 1.8 billion people consuming US$20 trillion, out of which around 850 million people would be from emerging countries and consuming US$7.5 trillion. By 2030 the OECD forecast that 3.8 billion people from emerging countries would consume 38 trillions US$.[5] For its part, the McKinsey institute estimated in 2010 that around 2 billion people in 24 emerging countries are middle class and consume US$6.9 trillion per year, a figure that is expected to rise to US$20 trillion by 2020.[6]

Middle-class population, because of its ability to consume goods and services beyond subsistence level, drives demand in consumer goods both durable and fast moving as well as raw materials, components and intermediate products and associated services.

Investment

The second driver of incremental demand is the investments in infrastructure. The ration of growth capital formation over GDP representing investments in road, housing, telecommunications, transportation, energy etc. in those countries is above the average of industrialized countries (Figure 14.2). In its 2008 World Investment Report, the United Nations Conference on Trade and Development (UNCTAD) has stressed the importance of the need for infrastructure in the developing world and the opportunities that are offered to international as well as local firms to contribute to the investment in those much needed infrastructure projects.[7] Just for Asia, McKinsey has estimated that the investment needs in energy, telecom, transport and water amount to US$8.1 trillion between 2010 and 2020.[8] Infrastructure projects because of their contribution to demand of equipment, raw materials, services and labor have a multiplier effect on income and ultimately demand.[9]

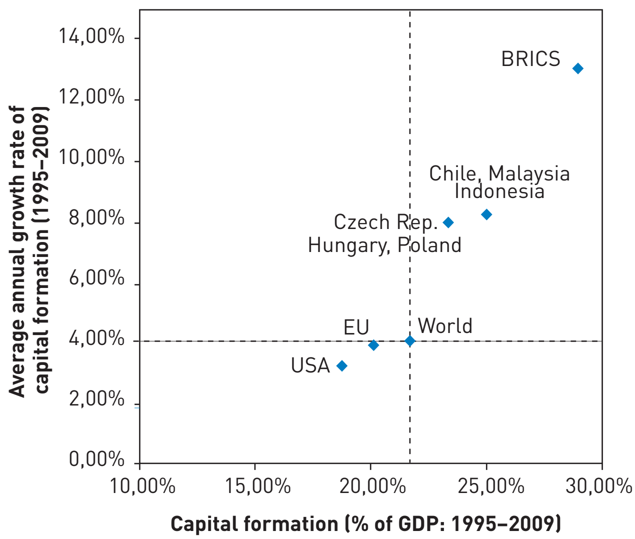

Figure 14.2 Capital formation

Source: World Bank Development Indicators

Opening of markets to international trade and investments

Finally, the third leg of economic development in emerging countries is the opening of their economy to international trade and investment. Over the past two decades, emerging countries have seen a significant increase in their inflow of Foreign Direct Investment (FDI) as well as their participation in international trade (Figure 14.3). Overall international trade is still dominated by industrialized countries but the weight of emerging countries grows very fast. In 2000 the four BRICs countries' share of world trade was 6 per cent; by 2009 it had risen to 12 per cent while their stock of FDI rose from 8 per cent to 11 per cent during the same period. This, together with the two others drivers of growth, contribute to give to the emerging economies a definite attractiveness for global as well as for local firms.

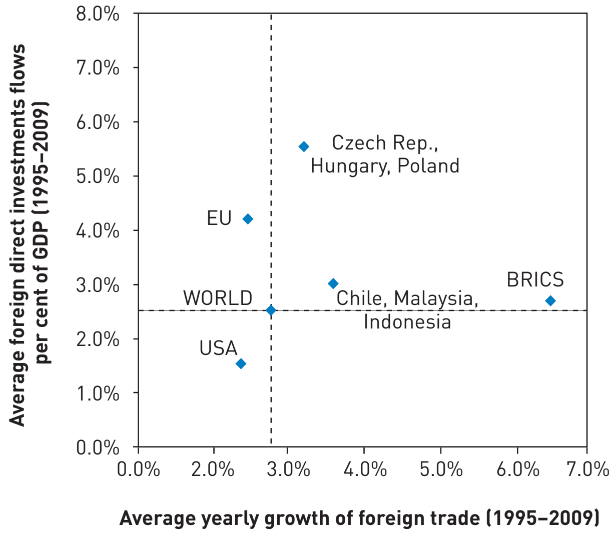

Figure 14.3 Foreign trade and investments

Source: World Bank Development Indicators

Emerging countries and their institutional and business environments

In 1997 Professors Khanna and Palepu from the Harvard Business School published an article in which they argued that what differentiates emerging countries from OECD countries are a number of market failures due to institutional contexts. They pinpointed three such market failures: information problems, misguided regulations and inefficient judicial systems.[10] They later redefined those market failures as 'institutional voids'[11] that directly affect business. They developed a set of questions that companies need to address in order to identify the institutional context related to the political and social system, the openness of government and administration, the product markets, the labor and capital markets.

The overall conclusion is that first companies need to understand the differences, need to adapt their strategies accordingly, but also need to be aware of rapid evolution within those contexts.

Emerging countries and global firms

For global firms the growth and opening of emerging countries has far-reaching consequences for market development as well as for sourcing and localization of productive capacities. Also, emerging countries have created strong firms that raise a competitive challenge to the traditional global firms in their local as well as global markets.

Market opportunities

As mentioned earlier, the emerging middle-class market generates strong demand for fast-moving consumer goods as well as consumer durables, which in turn creates demand for the supply of intermediate products and natural resources along the value chain. However, emerging countries also have a large base of non-middle-class people, what C.K Prahalad called the 'bottom of the pyramid'.[12] According to Prahalad, in emerging countries the largest proportion of the population located at the lower end of the income spectrum are willing to consume goods that are of good quality but obviously cheaper and less sophisticated. This population, contrary to conventional wisdom, is brand conscious and to the extent that their future is to one day become middle class, multinational firms need to capture these market opportunities. This implies that in emerging countries, global firms are advised to adopt a two-pronged strategy: one for the middle class, that looks like, with the relevant adaptation, their traditional approach, and one for the bottom of the pyramid that differs quite a lot from the tradition. Table 14.1 shows the difference between those two approaches.

Table 14.1 Difference between traditional middle-class strategies and bottom of the pyramid strategies

Traditional middle class	Bottom of the pyramid
• Value pricing based on differentiation and segmentation	• Find new price-performances relationships leading to quality at low prices
• Product obsolescence and renewal	• Products built to last
• Products, services, functionalities and packaging are adaptation of industrialized markets	• Products, services, functionalities and packaging are 'reinvented' to fit local conditions
• Advertising on mass TV and media supports	• Communication and advertising rely less on mass advertising and more on educational campaigns using government programs and nongovernmental organizations
• Products designed on 'regular' environments	• Products designed on 'hostile' environments
• Urban areas focus	• Rural focus
• Transfer of technology	• Hybrid technology: combination of advanced and adaptation
• Use of skilled resources	• Deskill the work process
• Build supply chains similar to industrialized world	• Adapt supply chains to local conditions

Sources: Adapted from Prahalad (2005) and Dawar and Chattopadhyay (2002)

At the opposite end of the spectrum, firms making luxury goods find the emerging markets very attractive due to the appearance of a class of 'nouveaux riches' who built their fortune by taking advantage of the benefits of deregulation, economic growth and to a certain extent 'wild capitalism'. A firm like LVMH from France has seen its revenues from emerging countries go from 2 billion euros in 2004 to 5 billion in 2009. Emerging markets account for 30 per cent of the firm's total revenues. Similar trends are observed in companies like Mercedes, BMW, Gucci or Swiss jewelry watches.

Altogether emerging markets see dynamism in the three major segments of the market: upper high end for 'nouveaux riches', middle class and bottom of the pyramid (Figure 14.4), each of them having its own characteristics and each of them offering opportunities to local and international firms that approach them with the appropriate strategy.

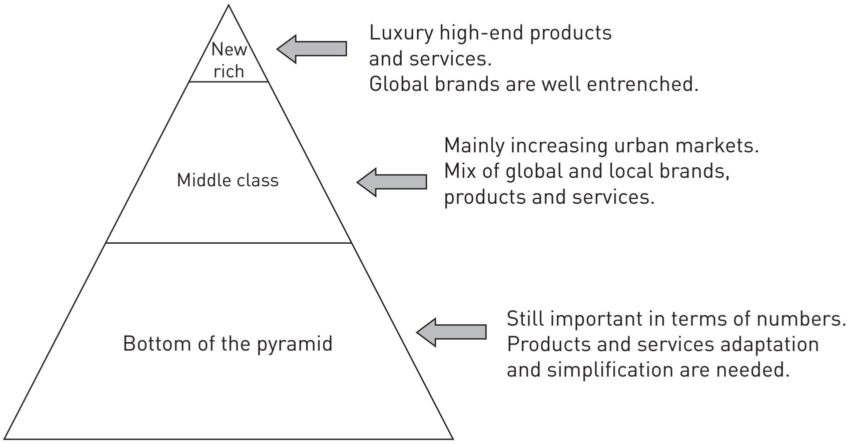

Figure 14.4 The three segments in emerging markets

Strategies for emerging markets

Beyond the classic steps in strategic analysis and formulation that require companies to perform a proper assessment of environments, markets and competition, emerging countries require three decisions to be made: 1) what product/service redesign and adaptation are needed for the selected segments; 2) what level of localization of strategic capabilities is appropriate; 3) is strategic partnership with local firms appropriate?

- *Decide on the kind of product/service redesign and adaptation needed for the selected segment.* As seen earlier there are three types of market segment, each of them with a high level of growth opportunities. Global firms will have to decide whether they want to concentrate on one segment or several segments. This applies particularly to entering and designing products and services for the bottom of the pyramid segment. This approach implies a simplification of products' characteristics. Below are three examples of companies having made the choice to adopt a dual strategy, one for the middle segment and one for the bottom of the pyramid segment.

EXAMPLES

Multi-segment approach in emerging countries

Saurer

In 2003, Volkman, the German subsidiary of the Swiss company Saurer, was a global leader in textile twisting machines. In China the company had achieved dominance in the high-end market but was not present in the low-end market that represented 70 per cent of the demand. The low-end market was dominated by Chinese competitors that sold machines at half of Volkman's price. The company had to make a decision about whether to develop a simple and low-cost machine. The decision was difficult since it was not part of the engineering culture of the company. Eventually, after the mobilization of a team of young Chinese and German engineers they put on the market a machine that sold at a competitive price with a much simpler performance although of superior quality than competitors. This move proved very successful not only in China but in other emerging countries.

Unilever Brazil

In 1996, while Unilever was the dominant player in the detergent market in Brazil, it developed and marketed 'Ala', a type of detergent that targeted the needs of low-income customers in the North East of the country. This detergent was positioned as a hand washing detergent with a perfume giving the sensation of cleanliness at a cost affordable to the low-income population.

General Electric

In 2010, General Electric in India launched the Mac 400, a portable electrocardiograph equipped with a small printer and with rechargeable batteries that doctors can transport easily and operate in remote villages. This machine was priced at a third of that of conventional machines.

Sources: Saurere: The China Challenge, 2006, IMD case n° 5—0688; Unilever Brazil: Marketing Strategies for Low-Income Customers, 2004, Insead case 04/2004-5188; GE Healthcare: Innovating for Emerging Markets, 2011, Insead Case 311-048-1

- *Decide on the localization of strategic capabilities.*

  According to a study published in 2006, more than 50 per cent of US global firms and 40 per cent of Europeans were planning to enter or expand their sourcing in China before the end of the decade and 36 per cent of US global firms and 27 per cent of Europeans were planning to enter or expand their manufacturing in China before the end of the decade.[13] The phenomenon of purchasing products in emerging countries (offsourcing) and of relocation of manufacturing operations (offshoring) is not new but it has increased considerably since the 1990s. The traditional offshoring and offsourcing were based on low costs and were essentially directed to manufacturing and the procurement of parts, components and OEM products. For instance Wal-Mart was buying for around US$13 billion of Chinese products in 2004 and Carrefour 1.6 billion. Nowadays offshoring and offsourcing encompass all elements of the value chain: R and D, manufacturing and services. Although the cost advantage of buying and producing in emerging countries can be significant and on average be 50 per cent of the costs of producing in the US or in Europe, global firms find other advantages of doing so: higher flexibility and speed, better responsiveness to change in environments, higher service orientation. Figure 14.5 gives a pictorial representation of the advantages and disadvantages of offshoring and offsourcing in the various elements of the value chain.

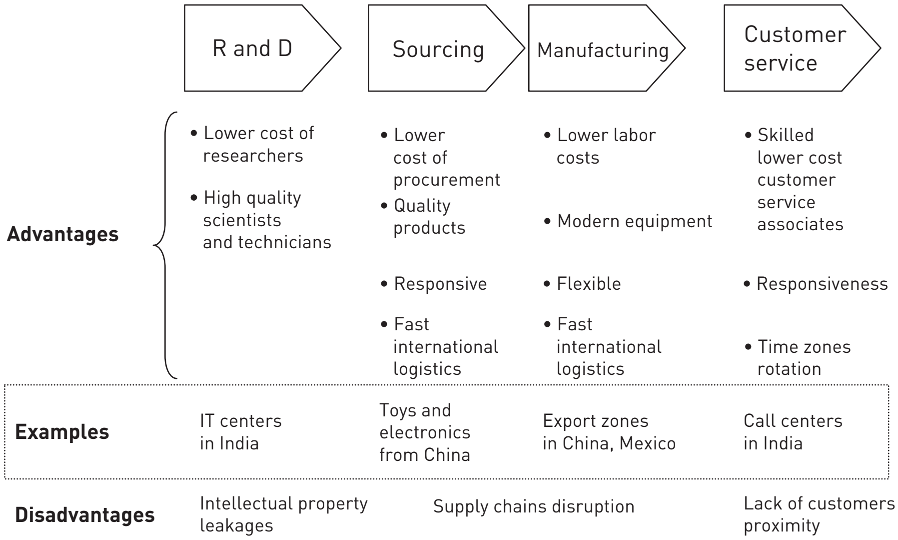

Figure 14.5 Advantages and disadvantages of offshoring and offsourcing in the various elements of the value chain

- *Decide whether to engage in strategic partnership with local firms.*
  The governments of emerging markets are very keen to see local firms engaging in joint ventures with global firms, even if they not force them to do so. In return global firms may benefit from engaging in such partnerships provided that they do a proper job of planning and implementation (as discussed in Chapter 4).

Emerging competitors

Until the 1970s, corporations from the emerging world were viewed as exploiters of cheap labor or imitators of outdated technologies. This perception started to change in the 1970s *vis-à-vis* Japanese corporations, Korean, Brazilian and Taiwanese firms and more recently those from China, India and also Russia. Today the traditional competitive trajectory of those firms is described in Figure 14.6. From a competitive point of view we can observe that multinational firms traditionally concentrate their efforts on the differentiated segment of the markets deploying their competitive advantages based on technology and marketing competences. Emerging markets champions adopt a two-step approach:

- In their protected home markets they concentrate on the lower end segments, benefiting from a low cost base, from imported technology and from their knowledge of the local environment. They succeed in building volume in a market largely ignored by multinational firms
- In the international markets they start first importing low priced products through OEM and

distributors brands and progressively build their own distribution network and later on their foreign presence via acquisitions.

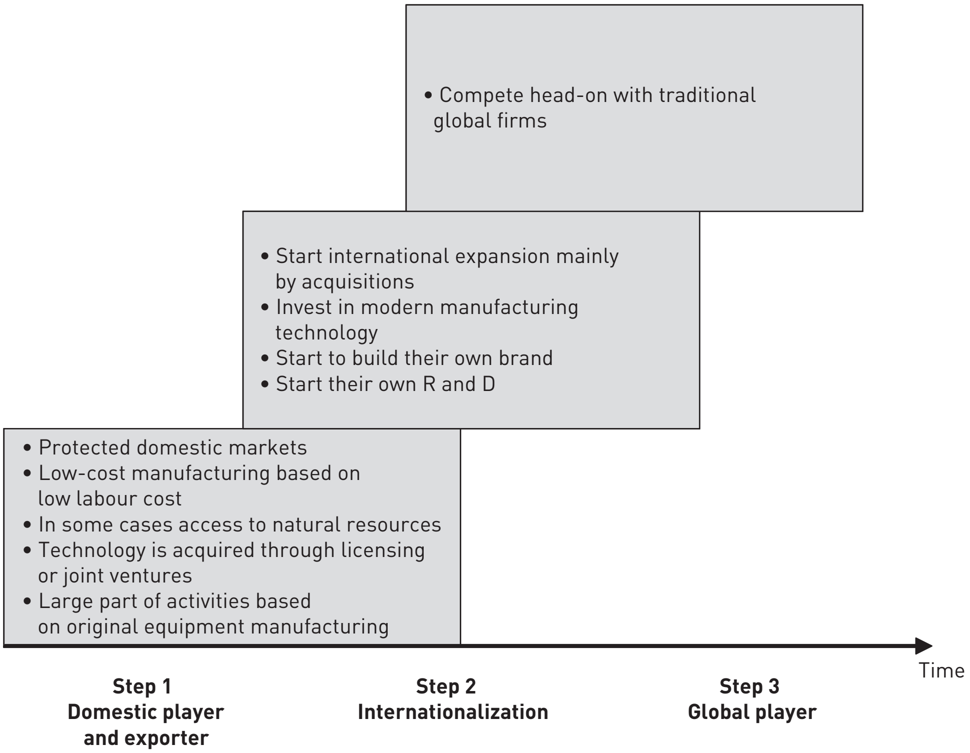

Figure 14.6 The strategic development of emerging markets champions

The competitive dynamic is illustrated in Figure 14.7, while Table 14.2 gives the profile of a selected sample of corporate champions from emerging countries.

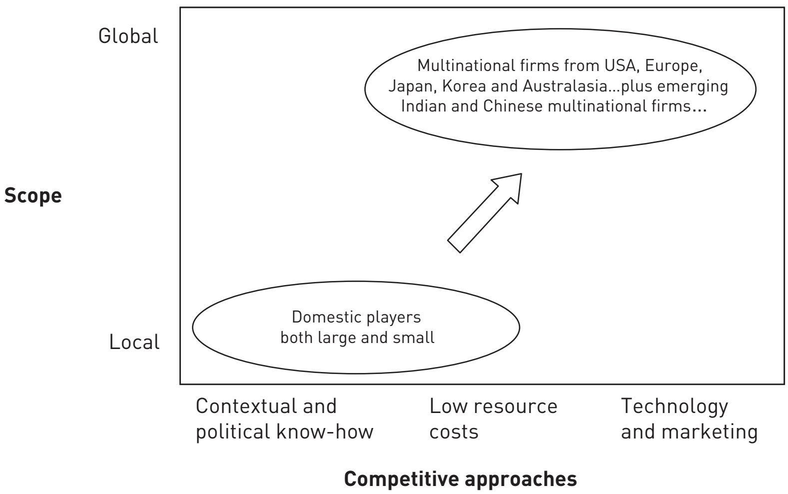

Figure 14.7 Competitive dynamic of emerging countries champions

Table 14.2 Some examples of emerging countries global champions

China Lenovo Personal computers, servers	• Founded in 1984 in Beijing, (China Academy of Sciences), Listed in KH in 1994 as 'Legend' • Dominated the PC Market in China with around 27% market share • Acquired IBM PC division in 2005 • No. 2 PC maker in the world • Revenues: US$16 billion in 2010. Operates in 60 countries.
China Haier Home appliances, IT	• Founded in 1984 in Qingdao • Revenues in 2010: US$5.6 billion • Sells products in 160 countries and produces in 13 countries • Haier announced its 4th strategic development stage of global brand buiding: *'Guided by business philosophy of CEO Zhang Ruimin, Haier has experienced success in the three historic periods, noted as Brand Building, Diversification and Globalization.'* • By 2011 ranked no.1 in appliances brands in the world by Euromonitor.
China TCL Multimedia, Telecommunication	• Founded in 1981 to produce telephone handsets • Early 1990s went to audio equipment and distributed TV sets produced in HK • Started production on TV sets in 1996 in Shenzen • Became no.1 TV producer in China in 2003 • Expanded production in Vietnam, Philippines, Indonesia, Thailand, Russia • Acquired Scheider in Germany • In 2004 created TTE (TCL Thomson Enterprise with Thomson Multimedia) (TCL owns 67% of the venture) • No. 1 worldwide producer of TV sets • In 2005 fully acquired mobile phone handsets business from Alcatel • Employs 50,000 people in 80 corporations including 18 R and D centers • Revenues were US$8.3 billion in 2010.
China Huawei Telecommunication networks products and solutions	• Started in 1988: digital fixed switch • In 1997: Launched GSM equipment • Established joint R&D labs with Texas Instruments, Motorola, IBM, Intel, Agere Systems, Sun Microsystems, Altera, Qualcomm, Infineon and Microsoft • As of June 2006, Huawei Technologies had a total of 10 joint research labs • In 2000, established R&D centers in Silicon Valley and Dallas, United States • Cisco Systems alleged that Huawei Technologies had infringed some of Cisco's technology patents. Litigation resolved • US$27 billion revenue in 2010.
India Infosys Consulting and IT services	• Established in 1981 by 7 people with US$250 • 1987: First office in the USA • Defines, designs and delivers IT solutions to global firms • The first Indian company to be listed on the NY stock exchange • Has 64 offices and 65 development centers in the USA, India, China, France, Australia, Japan, Switzerland, Netherlands, Poland and Canada • Revenues 2010: US$6 billion and employs 144,000 people.

India Ranbaxy Pharmaceuticals	• Created in 1961, Ranbaxy Laboratories Limited, India's largest pharmaceutical company, is an integrated, research based, international pharmaceutical company. It is ranked amongst the top ten generic companies worldwide. The company has manufacturing operations in 8 countries with a ground presence in 49 countries and its products are available in over 125 countries. Ranbaxy went public in 1973 • Revenues in 2010: US$1.9 billion with 13,000 employees.
India Tata Group Conglomerate	• The Tata Group is one of India's oldest business conglomerates The group's businesses are spread over seven business sectors: Engineering, Chemicals, Materials, Energy, Consumer Products, IT, Communication. It comprises 96 companies operating in six continents. Its sales amounted to US$21.9 billion in 2005 and it employs 202,712 people.
South Africa SABMiller Beer	• SABMiller is one of the world's leading brewers with brewing interests or major distribution agreements in over 75 countries spread across five continents with 70,000 employees. SABMiller owns over 200 brands around the world • Revenues in 2011: US$28.3 billion.
Mexico Cemex Cement	• Founded in 1906, CEMEX has grown from a small local player into a top global building solutions company. Today the company is strategically positioned in the Americas, Europe, Africa, the Middle East, and Asia. It operates in more than 50 countries • Revenues in 2010 totalled US$14.07 billion. It employs 46,500 people worldwide.
Malaysia Petronas Oil and Gas	• Petronas, founded in 1974, is an integrated government-controlled company involved in exploration, production and distribution of oil and gas, petrochemicals, logistics, maritime, and engineering. Originally a domestic player, in 2011 it is a global firm engaged in Myanmar, Turkemenistan, Indonesia, Iraq, Sudan, Uzbekistan, Mozambique, Vietnam, Ethiopia, Congo, Australia, Egypt, Cuba, East Timor, Philippines, Pakistan. Its revenues for the year to March 2011 were US$76 billion.
Brazil Embraer	• Founded in 1969, Embraer is a manufacturer of commercial and executive jets as well as defence systems. Embraer has operating units in Brazil, China, USA, France, Portugal and Singapore • Revenues in 2010: US$5.4 billion. It employs 17,200 people.

MINI-CASE 1

PANELSOL Ltd

PANELSOL Ltd is a medium-sized British-German company headquartered in Gibraltar. Its principal manufacturing is in Spain and its research and development center is in Germany. PANELSOL has developed in the photovoltaic segment with a broad customer base ranging from households (distribution through a series of distribution networks), industry and state (government and regional) projects within Europe.

PANELSOL is conscious that the European market has attained a certain maturity. Government and local incentives have been reduced in the last couple of years and competition is quite tough. PANELSOL would like to find new markets for its products and also to improve the

MINI-CASE 1

efficiency of the energy conversion of its solar panels. It judges that an important research and development effort would enable it to develop new generation photovoltaic cells which, in the long run, would have greater energy conversion coefficients and ultimately be cheaper to produce. Its ambition would be to set up a production facility in an emerging country for reaching the local market and to export some elements for its European operations. It would also like to open an R and D center to complement the German laboratory.

PANELSOL strategists have carried out some risk analysis to present to the board, shown in Table 14.3:

Table 14.3 Analysis for possible PANELSOL expansion

	Countries			
	Brazil	**Russia**	**India**	**China**
Solar market				
Solar market potential	Medium high	Medium	High	Very high
Substitute	Many (biofuel, oil)	Many (gas & oil)	Not much	Medium (coal)
Political risks				
Shareholder's exposure	Medium	Medium	Low	Medium
Employer's exposure	Medium	Low	Medium	Medium
Operational exposure	High/Medium	High/Medium	High/Medium	Medium
Economic risks				
Growth	Medium	Medium	High	Very high
Variability	Medium	High	Medium	Low
Inflation	High	Medium	Medium	Medium
Government incentives	High	Low	High	Medium
Solar exposure	Low	High	Low	Medium
Cost of inputs	High	High	Medium	Medium
Exchange risks	Medium	Medium	Medium	Low
Operational risks				
Infrastructure power	Medium	Medium	Medium	Medium
Infrastructure suppliers	Low	Medium	Low	Medium
Administrative complexity	Low	Medium	Low	Medium
Enforcing contracts	Medium	Low	Low	Medium
Competitive risks				
Import protection	Medium	Medium	High	Medium/High
Corruption	High	High	High	High
Networks	Medium	High	Medium	High
Existing competitors	Medium	Low	Low	High

Questions:

Based on the data provided plus your own research:

1) Which country would you select?
2) How do you enter that country?

Source: From a paper written by Pascal Lupton for the course on emerging countries at the University of Geneva, 2011. Reproduced with permission of the author.

MINI-CASE 2

BYD (Build Your Dream)

Founded in 1995 by Mr Wang Chuanfu in Shenzhen in Southern China, BYD (Build Your Dream) is today the largest supplier of rechargeable batteries in the world and has diversified into electronic components, car making and solar energy. Today it has operations primarily in China, India, Hungary and Brazil and employs more than 180,000 people. Its turnover in 2010 was 46 billion RMB (US$6.8 billion).

Mr Wang Chuanfu was a chemist and researcher at Beijing Non-Ferrous Metal Research Institute. He was assigned to be the general manager of a government-owned battery factory. After he read that Japan was going to stop the production of the NiCd1 battery due to environmental concerns, Wang quit his job and founded Shenzhen BYD Battery Company Limited with 2.5 million yuan borrowed from his cousin. It had 20 employees at the start.

When BYD started out by making rechargeable batteries for tools such as electric drills, Wang and his engineers built their own production line, thanks to which cheap labor costs replaced expensive machinery, giving BYD a competitive advantage on price. In 2000 it was qualified as a Li-ion battery supplier for Motorola and in 2002 for Nokia. BYD had to compete not only with traditional Japanese battery makers but more and more with local newcomers who tried to copy BYD's production system.

With increased competition, Wang diversified into mobile phone components such as LCD screens, keypads and modules. Those electronic manufacturing activities became the second leg in the BYD corporate portfolio. In 2008 this division bought the Sino MOS semiconductor, which became a significant part of BYD activities.

However, the major strategic move came on 22 January, 2003 when BYD purchased Xi'an Tsinchuan Auto Co. and entered the auto industry. Immediately Wang replicated in the car industry its method of production based on cheap labor-intensive methods rather than expensive automation. But BYD also had to build an R and D capability and Wang went to top universities and hired thousands of new mechanics and engineering graduates. By the end of 2009, BYD had more than 12,000 engineers working in basic research and development functions. Wang said that he was blessed with engineers who work hard for only 3600 yuan a month. He also engaged in reverse engineering practices, dismantling competitors' products in order to understand and possibly replicate some components. Another practice derived from the battery business was to vertically integrate and manufacture most of the part internally. Wang bought a mold-making factory in Beijing and another in Japan.

The first car produced by the company, the BYD F3, was very much like a Toyota AYGO. In order to fight against possible legal suits, BYD had hired 200 legal people.

In 2007, Warren Buffett's Berkshire Hathaway bought 10 per cent of BYD shares for US$230 million.

By 2008 Wang announced the launch of a hybrid model and a full electric car for 2009.

By 2009 the F3 became a success with 290,000 cars sold and Wang announced his intention to become the No. 1 car maker in China by 2015 and the world's best car maker in 2025.

In the electric car business Wang claimed a competitive advantage in electric car batteries with its lithium-ion ferrous phosphate (LFP) technology.

MINI-CASE 2

However the year 2010 was marked by a decline in profit due to distribution problems.

In 2011 BYD and Daimler signed a memorandum of understanding and announced they will jointly launch electric cars under a new brand in China in 2013 through Shenzhen BYD Daimler New Technology Co. Ltd., a joint venture with a capital of 600 million RMB, combining Daimler's proprietary technologies in vehicle structure and safety areas with BYD's auto battery.

In 2008, BYD signed an agreement with the local government of Shangluo, Shannxi to build a solar power battery plant and announced that it was going to build 5000 MW per year of solar photovoltaic cell manufacturing capacity at a cost of 22.5 billion RMB by 2015. This was considerably more than Suntech Power Holdings Co. Ltd, a major Chinese player in this market, whose current capacity is about 100 MW per year.

The launch of the first pure electric vehicle was announced in January 2010.

In October 2011 BYD opened its North American Headquarters in Los Angeles.

Questions:

1) How do you analyze the success of BYD?
2) Given what you know about the global car industry, do you think that BYD is going to realize its dream to become the number 1 global player? What elements are in its favor?
3) What elements against?

Source: Anna Wang, 'BYD, Build Your Dream', paper, 2010

Summary and key points

1 'Emerging countries' describes countries that exhibit:

- a high economic growth
- an increasing development of a middle class
- a high degree of infrastructure investment
- an opening of their market to international trade and investment.

2 Three types of emerging country fulfill those characteristics:

- The emerging giants, Brazil, Russia, India, China, South Africa (BRICS)
- The Eastern European ex-communist countries, called the 'transition economies'
- The industrializing countries of Latin America, Asia or Africa that do not belong to the first two categories.

3 Economic growth is driven by:

- a rapidly growing urban middle class
- an investment in infrastructure and
- a drive to conquer international markets.

4 The major differences between emerging countries and OECD countries are a number of market failures due to institutional contexts.

5 Global firms benefit from emerging countries for:

- market development
- for sourcing and localization of productive capacities.

6 Emerging countries have a large base of non-middle-class people at the 'bottom of the pyramid'.

7 Strategies for emerging countries consist of deciding:

- the kind of products/services redesign and adaptation needed according to the selected segments
- the localization of strategic capabilities
- whether to engage in strategic partnership with local firms.

8 Emerging countries champions:

- Concentrate on the lower end segments in their protected home markets
- Succeed in building volume in a market largely ignored by multinational firms
- In the international markets they start first importing low-priced products through OEM and distributor brands
- progressively build their own distribution network and later on their foreign presence via acquisitions.

Appendix 14.1 A profile of the BRICS (2009)

	Russia	Brazil	China	India	South Africa
Area (thousand sq km)	16376.87	8459.42	9327.48	2973.19	1214.47
Demography					
Population (million)	141.85	193.73	1331.46	1155.35	49.32
Rural population (% of total population)	27.18	13.96	56.00	70.18	38.78
Population growth (annual 2000–2009 %)	−0.31	1.21	0.61	1.45	1.39
Urban population (%)	72.82	86.04	44.00	29.82	61.22
Life expectancy at birth, total (years)	68.86	72.64	73.31	64.05	51.62
Birth rate, crude (per 1,000 people)	12.40	15.63	11.99	22.45	21.73

	Russia	Brazil	China	India	South Africa
Economic data					
GDP (US$2009)	1232	1594	4985	1377	285
GDP, PPP (billion $ 2009)	2686	2008	9091	3808	507
GDP growth (annual average 2000–2009 %)	5.47	3.29	10.28	7.21	3.63
GDP per capita (current US$)	8.684	8.230	3.744	1.192	5.786
GDP per capita, PPP (Current international $)	18,932	10,367	6.828	3.296	10,278
Adjusted savings: net national savings (% of GNI)	11.39	3.15	42.91	25.22	1.63
Inflation, consumer prices (average 2000–2009 %)	14.0	6.9	1.8	5.5	6.1
Unemployment, total (% of total labor force)	8.16	8.28	4.30	4.29	23.80
Foreign direct investment, net inflows (BoP, current US$)	36.75	25.95	78.19	34.58	5.35
Foreign direct investment, net inflows (% of GDP)	2.98	1.63	1.57	2.51	1.88
Agriculture, value added (% of GDP)	5.00	7.00	11.00	18.00	3.00
Services, etc., value added (% of GDP)	62.00	66.00	42.00	55.00	65.00
General government final consumption expenditure (% of GDP)	20.13	21.81	13.04	11.99	20.98
Household final consumption expenditure, etc. (% of GDP)	53.78	61.74	34.88	55.97	60.45
Gross capital formation (% of GDP)	18.73	16.51	47.66	36.48	19.43
Exports of goods and services (% of GDP)	27.73	11.12	26.74	19.58	27.29
Imports of goods and services (% of GDP)	20.37	11.18	22.33	24.02	28.15
	100.00	100.00	100.00	100.00	100.00
Ease of doing business indicators					
Lead time to import, median case (days)	2.88	3.88	2.56	5.31	3.25
Logistics performance index: ability to track and trace consignments (1 = low to 5 = high)	2.60	3.42	3.55	3.14	3.73
Average time to clear exports through customs	4.58	15.89	6.64	15.00	4.00
Infrastructure					
Fixed broadband Internet subscribers (per 100 people)	9.09	7.51	7.78	0.67	0.98
Internet users (per 100 people)	42.09	39.20	28.84	5.31	8.96
Mobile cellular subscriptions (per 100 people)	162.50	89.79	56.10	45.45	94.15
Telephone lines (per 100 people)	31.58	21.42	23.56	3.21	8.76
Quality of port infrastructure, WEF (1 = extremely underdeveloped to 7 = well developed and efficient by international standards)	3.55	2.65	4.28	3.47	4.66

	Russia	Brazil	China	India	South Africa
Government and society					
Government type	Federal republic	Federal republic	Centralized communist	Federal republic	
Religions	Orthodox 15% Muslim 15%	Catholic 73,6% Protestant 14%	Taoist 4% Buddhist 4% Christian 4% Muslim 1–2%	Hindu 80% Muslim 14%	Christian 85%
Armed forces personnel (1000s)	1495	713	2945	2626	77
Military expenditure % of GDP)	4.33	1.64	2.01	2.69	1.44
Governance indicators (from –2.5 to 2.5)					
Voice and accountability	–0.95	0.51	–1.65	0.47	0.56
Political stability and absence of terrorism	–0.72	0.29	–0.44	–1.19	0.02
Government effectiveness	–0.28	0.08	0.12	–0.01	0.51
Regulatory quality	–0.46	0.18	–0.20	–0.28	0.42
Rule of law	–0.77	–0.18	–.35	0.05	0.06
Control of corruption	–1.12	–0.07	–0.53	–0.33	0.10

Source: Data from World Bank Development Indicators

Note: These indicators combine the views of a large number of enterprises, citizens and expert survey respondents in industrial and developing countries

Learning assignments

1. What are the differences between an emerging country and a developing country?
2. Why is a growing middle class contributing to growth?
3. What benefits do emerging markets champions get from OEM contracts?
4. What are the threats coming from emerging markets champions to Western global firms?

Key words

- BRICS
- Emerging countries champions
- Emerging country
- Institutional voids
- Middle class
- Bottom of the pyramid
- OEM
- Offshoring
- Offsourcing

Web resources

<http://www.securities.com/>
Business information on emerging markets.

<http://www.worldbank.org/>
World Bank website.

<http://www.unctad.org/>
UNCTAD website.

<http://www.emergingmarkets.com/>
List of websites devoted to emerging markets.

Visit the companion website at **http://www.palgrave.com/business/lasserre3e** for a multitude of weblinks and resources, self-test questions for revision and a searchable glossary.

Notes

1 Wilson and Purushothaman (2003).
2 Estimate from Credit Suisse.
3 Farrell, Gersh and Stepehenson (2006), pp. 60–69.
4 Euromonitor International (2010).
5 Karas (2009).
6 Court and Narasimhan (2010), pp. 1–6.
7 UNCTAD (2008).
8 Tahilyani, Tamhane and Tan (2011).
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10 Khanna and Palepu (1997), pp. 41–51.
11 Khanna, Palepu and Sinha (1997), pp. 2–16.
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13 Deloitte Research (2006).

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