The poor infrastructure system economics essay

ASSIGN BUSTER

1. 0 Introduction

Emerging markets have been one of the most attractive investment areas since the early 2000s, with new funds and new ways to invest popping up all the time. While there is no doubt that huge gains await investors that can find the right emerging market investment at the right time (Investopedia 2011).

Emerging markets describes countries with social or business activities are in the process of rapid growth and industrialization. They are in the phase of moving from a closed economy to an open market economy. The economies of China and India are considered to be the largest (Wikipedia 2012).

An emerging market is always endeavoring to build an economic reform program to develop a stronger and more firmed economic performance and efficient capital market. One of the major characteristics in an emerging market is lack of infrastructure facilities. In some areas, there may not be electricity or water, narrow highways, limited transportation and difficulties in telecommunication are some of the key issues.

The poor infrastructure system creates opportunities for businesses that can fill the gaps with water purification systems, generators, mobile telecommunication and other products. Nevertheless, the products and services you sell have to be adapted to local cultures and traditions. How would you sell beef in a market like India where you find sacred cows? Customers can have a major impact over the growth of products and the business.

Incomes and cash flows in emerging markets are much lower particularly, in rural and poor segments. Hence, customers do not buy in large quantities. In India, with 342 people per square kilometer, is more than 11 times as populated in U. S. The companies operate in an environment like this should change their products by reducing the package size, price etc.

Also in emerging markets have poor distribution systems. In India, products go to customer’s hand often through small shops. A market of 600 million is locked in villages in India with weak connections to the outside world. Some villages do not have retail outlets at all. The companies in emerging markets can turn this in to a fortune by building distribution channels or developing existing systems in align with developed countries.

A stable local currency in an economy can build the confidence in foreign investors. The local businesses can also consider sending their capital abroad. On the other hand the emerging economies are most likely receiving aid and guidance from large donor countries and world organizations such as the World Bank and International Monetary Fund. There is a risk also in foreign investments due to the markets are in transition and hence not stable. Thus the investments are higher than the investments in developed markets. During the 1997 Asian crisis, investments flows into these countries actually began to reverse themselves (Banga and Mahajan 2005).

Unlike developed countries, emerging markets suffer from weak institutions in most of the areas. Hence, the companies operate in emerging markets must take responsibility for a wide range of functions and once investing in a new market in order to do business effectively. Some of the large diversified

corporations in emerging markets such as Indonesia and India have failed their investments in advanced economies (Khanna and Palepu 1997). Highly diversified business groups can be particularly well suited and better equipped to conduct business in other emerging markets.

2. 0 Companies and Investment Climate in “ Chindia”

Chindia is a portmanteau word that refers to China and India together in general. Both countries are considered as emerging economies and have been named as countries with the highest potential for growth (Wikipedia 2012).

The Chinese economy is started to boom in 1978, with the transformation happened from centrally planned economy to open economy. In the last 30 years, the growth rate of Chinese economy averaging at 8 percent per annum. According to IMF WEO (2011) figures, China has the biggest economy after United States. In 1980, it was ranked 16th (Economy Watch 2010).

The Chinese market consists of several Fortune Global 500 companies. Some of the largest revenues making firms are headquartered in Beijing such as Sinopec, China National Petroleum, State Grid Corporation, Industrial and Commercial Bank of China, China Mobile Limited and China Life Insurance etc. (Wikipedia 2012).

Figure 01 – China’s GDP growth rate

Source: The Economist online 2012

The Indian Economy is on its growth trajectory, since the time it was liberalized. Historically, for the last 20 years the Gross Domestic Product rate averaged about 6. 5 percent. It was recorded all time high of 10. 1 percent in 2010.

The transition in the economy has created a positive impact on various sectors. Due to the favorable emerging market conditions, more local and foreign companies are being set up and the customer base is also increasing. India is the second largest FDI destination, after China for the period of 2010-12. Foreign investment has become a significant source of funds inflow in the country mainly on telecommunications, services, information technology, construction and real estate industry.

Some industries are competitive in the Indian economy. Large numbers of businesses are selling the same kind of products. Alternatively, the markets have very poor competition. The returns on investments in the India market have been substantially moderate from all the listed stocks. Public Private Partnership has become one of the new trends in the marketplace. The public enterprises like Indian Oil Corporation, Oil and Natural Gas Corporation, Bharat Heavy Electricals, NTPC, Steel Authority of India etc. are creating opportunities for the private sector. At the same time, private businesses such as Reliance Industries Limited, Infosys, Tata, Birla Corporation, Jet Airways, Ranbaxy, Biocon, Bajaj Auto, ICICI Bank have been performing well in all the financial years.

The automobile market in India is the second fastest developing market in the world. The automobile industry has been able to achieve a sustainable

growth during the past years. India is one of the favorite destinations for car makers due to strong economic development, high disposable income, favorable demographics, opportunity for new investments, rise in GDP rate, the growing per capita income, massive population and high ownership capacity etc. There is a massive demand for small cars in India and they are low-priced.

The liberalization policies are being set up favorable for businesses in the car market. The recent trend which is the new generation get to work more in the software industry has led to the rise of the income level and the change in lifestyle. It has further created a demand for different varieties of cars. Moreover, there are many financing companies providing easy car loans at reasonable interest rates and affordable installments.

Today the car Market in India is crowded with various types of car models like small cars, luxury cars and sport cars. Some of the leading companies in the automobile industry are Tata Motors, Maruti Suzuki India, Hyundai Motor India, Mahindra & Mahindra, Ashok Leyland, Hindustan Motors, Reva Electric Car Co., Fiat India Private Ltd., Daimler Chrysler India Private Ltd, Ford India Ltd., Honda Siel Cars India Ltd., General Motors India, Skoda Auto India Private Ltd., and Toyota Kirloskar Motor Ltd (Maps of India 2012).

3. 0 Growing from one Emerging market to another Emerging market

Most of these companies have expanded their operations from India to China to benefit the business opportunities in the Chinese marketplace. Besides many western firms also eager to pursue new opportunities in China.

Considering more on companies grew from one emerging market to another emerging market, it is noticeable that they have been able to increase the revenues and reduce the operational cost in long run.

Most of the Indian companies have used market entry methods as joint ventures, strategic alliances and establishing representative offices. When firms aim to penetrate into a new emerging market, they need to invest a large amount of resources on learning the new market, researching on locational benefits, understanding the supplier’s base etc. However, due to the strong relationship between the governments of India and China, the investing companies can cope up with the institutional uncertainties.

Narrow it down to the automobile industry in India and China, it is identified as one of the most important and opened door for the companies in both marketplace. As a result of increasing demand for the transportation vehicles in China, the foreign automakers started to enter in to the Chinese economy (Lee, Abosag and Kwak 2010). In order to understand the successful entries to the Chinese marketplace it is essential to study on few companies. It will further help to know how the companies are better equipped to grow from one emerging market to another.

Figure 02 – India’s vehicle market

Source: Makanaka 2010

3. 1 Ashok Leyland

Ashok Leyland is the second largest commercial vehicle manufacturer based in Chennai, India. Since the day company was founded in 1948, it’s engaged

in manufacturing commercial vehicles, such as trucks and buses, spare parts and engines, as well as emergency and military vehicles. Operating six plants, Ashok Leyland sells about 60, 000 vehicles and about 7, 000 engines annually. The company is a part of Hinduja Group (Wikipedia 2012).

Beyond its success in India, the company has also expanded their businesses in other emerging markets like China, Brazil and Russia. China is one of the world's biggest commercial vehicle markets. Gupta (2009) describes that there are many large and small firms involved in buying major aggregates like engine, gearbox and chassis from other suppliers to assemble and sell. But, the commercial vehicle industry in India is different. There are not so many small businesses as compared to China where maybe more than 100 companies will just assemble the vehicles. Large Indian companies have their own plants and they do not need to buy the key components from suppliers. While in China, almost all the companies need to buy from others. Therefore there is a number of large supplier base exists in China regarding each kind of key parts.

Ashok Leyland started its operations in Shanghai in 2007 with the purpose of obtain parts from China for use in manufacturing of vehicles in India. The representative office has established strategic relationships with various Chinese corporations, including FOTON, TRI-RING Group and CIMC in the areas exploring their designing or manufacturing of vehicles. Currently it employs more than 12, 000 persons and recorded sales of more than CNY 20 billion during the period of 2011.

This strategy of expanding into emerging markets has worked well in Russia as well. Ashok Leyland partnered with some of the local businesses who had both market access and knowledge (Ashok Leyland 2012).

3. 2 TATA Group

Tata Group is an Indian multinational conglomerate company headquartered in Mumbai. It encompasses seven business sectors and operations in more than 80 countries. The total revenue of Tata companies was US $83. 3 billion in 2010-11 and the 58 percent of its revenue receive from outside India. Tata employs over 425, 000 people worldwide.

Apart from India, Tata Group has expanded their operations in other emerging markets as well. China is a growing market for the Tata group. Zhan (2011) explains that “ in China, steel market, domestic information technology and business process outsourcing segments are growing rapidly. All of this makes China an attractive proposition for Tata Motors, Tata Steel and Tata Consultancy Services. Also, China has the capability to produce high-quality electronics, machinery and industrial materials for supply, at economical prices, to companies such as Tata Teleservices, Tata Communications, Tata Power, Tata Motors, Tata Steel and Tata Chemicals”. Currently, there are ten Tata subsidiaries have set up manufacturing plants and representative offices in China.

In 1996, Tata International opened offices in Shanghai, to perform foreign trade business of iron and steel and other products. Following, the other Tata companies also invested in China to clutch the development opportunities. In 2006 Beijing, Tata planted a Group office in order to help the subsidiaries to

expand their businesses in the Chinese market. Also in 2007, Tata Global Beverages formed a joint venture with China Zhejiang Tea Import and Export Co., Ltd. In 2008, Tata Motors acquired Jaguar and Land Rover. The sales generated from Land Rover and Jaguar in 2011 was increased to 54% and 123%, respectively, compared to the previous year. Considering the fast progress in the business, China has the potential to become Jaguar and Land Rover's largest global market.

In 2011, the Group's sales in China of approximately US $6. 4 billion in Chinese purchases of approximately US $1. 3 billion. Tata Group currently employs approximately 3, 300 people in China (Tata 2012).

3. 3 Mahindra & Mahindra

Mahindra & Mahindra was founded in 1945 as a steel trading company and it was entered in to automobile industry in 1947. Today the company has become one of the largest automobile manufacturers with US $15. 4 billion multinational group and more than 144, 000 employees in over 100 countries across the globe.

Mahindra & Mahindra also has manufacturing facilities in China. In 2005, the group established Mahindra (China) Tractor Company as a result of a joint venture with Jiangling Motor Co Group in China. Entering to the Chinese market became a major advantage to the business. The operations in China help to develop more models for China and the overseas markets mainly by cost and quality advantages.

Despite the economic downturn in 2009-10, Mahindra (China) Tractor Co recorded a growth of 21 percent with domestic sales and exports. The company manufactures 12, 000 tractors per year in China (M&M 2012).

Also it is important to extend the study to non-ferrous metals industry in order to understand the movements of supportive industries from one emerging market to another along with the automobile industry.

3. 4 Sterlite Industries India Ltd.

Sterlite Industries India Ltd. is India's largest non-ferrous metals and mining company. It products include copper and articles, various aluminum products, zinc ore and chemical products.

The company has gained enormous advantage by expanding its businesses to China. Although there is a demand for non-ferrous metals in India, the consumption of metals is still nowhere compared with China. The use of aluminium, copper and zinc is still significantly low. Due to the fast development in China, the demand for base metals has increased. In 1970s, China used to consume about 3-5 percent of the global non-ferrous metal production and which has now increased up to 30-40 percent.

The majority of aluminium is consumed in the industries such as automobile, construction and packaging. This has also become one of the reasons why the future demand for metals revolves around these industries (Bang 2010). Also, with the strengthening of Yuan currency, Chinese exporters will become less competitive to other manufacturers around the world. In 2010, China has imported 0. 61 million tonnes of Copper and the growing demand

from China can accrue more benefits to the company, which sees about 35 percent of its revenues being contributed by copper sales (Jauhari 2010).

There are also several companies in China that have expanded their businesses to India. One of their main focuses is to engage in the new market trends increasing in the automobile industry of India.

3. 5 SAIC Motor

SAIC Motor is one of the largest Chinese multinational automotive manufacturing companies headquartered in China. In 2011, it produced 3. 97 million vehicles, the largest output of any China-based automaker.

In 2009, SAIC and GM, the joint venture formed a strategy to invest in India. The approach was to utilize General Motors India's two vehicle manufacturing facilities, powertrain facility and nationwide distribution network in the beginning of the investment. The changes in the world economy have created opportunities for SAIC-GM in emerging markets. They also announced plans to expand in other emerging markets like Brazil and Russia (SAIC 2012).

4. 0 Foreign Market Entry from Developed economies

Companies not only from emerging markets, But also from the developed economies can be successful in emerging markets. For example, Hyundai Motors have made a significant growth in the Chinese marketplace. The company transferred production technology from South Korea to China right from the beginning and created a supplier network (Lee, Abosag and Kwak 2010). Also HSBC and McDonalds have succeeded by making their global brand local.

On the other hand, there are unsuccessful entries as well. For example, beer companies initially saw a huge potential in China. But, after the first investment failed, the companies realized that the market would be won one local market at a time. Local beers were thriving and thereafter large companies began to acquire them (Banga and Mahajan 2005).

5. 0 Conclusion

For companies from emerging markets or developed countries, an emerging market provides an outlet for expansion by serving as a new place for a new factory or for new sources of revenue. However, the more advantages are clustered around the companies coming from the emerging markets due to their knowledge and experience in operating emerging economies. They are also benefited by the other factors like rapid growth in the emerging economies, rising youth population, cooperation among the emerging countries, regional trade agreements, strategic alliances etc. There is also a risk involved in these investments due to the markets are in transition and hence not stable. But, the companies from emerging markets know how exactly to compete in such nature with the experience they gained over the operations in home countries.

For the recipient country, employment levels rise, labor and managerial skills become more refined and a sharing and transfer of technology occurs. In the long run, the emerging economies overall production levels should rise, increasing its gross domestic product and eventually lessening the gap between the developed and emerging worlds (Investopedia 2009).

The overall outcome of the study cannot be generalized for all the industries. The success of a company may vary depend on the nature of the industry it operates. But overall it is a proven factor that the “ Companies from emerging markets are better equipped to conduct business in other emerging markets”.