The rise of the bric economies essay

Question 1: BRIC economies – a critical overview Part 1: New emerging markets and BRIC. Over the last decade there have been significant changes to the world economy and the way once traditional Multinational corporations do business. This has been primarily due to the rise of new markets, particularly the BRIC economies.

“ The greatest effect of globalization is the shifting of the world’s wealth centers. Former developing countries are rapidly becoming richer through their use of natural resources, labour forces, and industrialization. An essay published by Goldman Sachs identified the core leaders in this category as Brazil, Russia, India, and China, and subsequently coined the term BRICs. Europe soon realized the vital necessity of building bridges with these emerging economic powers.

Portugal saw an opportunity to utilize its historic and cultural ties with Brazil to bolster a strategic partnership with the EU. ” (Building Bridges to the BRICs, Africa on the Agenda. Foreign Affairs, 00157120, Mar/Apr2008, Vol. 87, Issue 2). New emerging markets like Thailand, the Czech Republic, and Poland along with many others are now a source for potentially attractive investments. CEO, Cordiant Capital Inc.

, David. G. Creighton said “ While we have seen many countries develop fairly quickly over the last fifteen years, including the Czech Republic, Poland, Thailand and Mexico, there are a number of others that, for a variety of reasons, are lagging behind. We continue to find attractive opportunities in Russia and Latin America and are now beginning to engage with the next wave of countries in such places as El Salvador, Bulgaria and Kazakhstan. It's all about finding the right risk/return profile.

" (The New Emerging Markets by Benefits Canada, 2007; http://www. benefitscanada. com/pdfs/Reports_TheNewEmergingMarkets. pdf;) New emerging markets, especially the BRIC economies, have been on the rise in terms of industrialization and Gross domestic product growth particularly in the service sectors. To further observe the rise of new emerging markets, specifically BRIC economies the table below shows the top 20 economies for the years 1995, 2001, 2003 and 2006: Table : Top 20 Economies Position1995200120032006 USAUSAUSAUSA 2JapanJapanJapanJapan 3GermanyGermanyGermanyGermany 4FranceFranceUKChina 5ItalyUKFranceChina 6UKItalyChinaUK 7BrazilChinaItalyFrance 8CanadaBrazilCanadaItaly 9ChinaCanadaMexicoCanada 10SpainSpainSpainSpain 11MexicoIndiaIndiaBrazil 12RussiaMexicoBrazilRussian Fed 13South KoreaKorea, RepSouth KoreaIndia 14AustraliaNetherlandsNetherlandsKorea Rep.

15NetherlandsAustraliaAustraliaMexico 16IndiaRussian Fed. RussiaAustralia 17ArgentinaArgentinaSwitzerlandNetherlands 18SwitzerlandSwitzerlandBelgiumTurkey 19BelgiumBelgiumSwedenBelgium 20AustriaSwedenAustriaSwedenBased on World Bank development reports, these rankings show the emergence of new markets as well as the growth and development of BRIC economies. In the report titled " Dreaming with BRIC's : The path to 2050" (Goldman Sacs, 2003), the assumption is made that in a period of less than 40 years the BRIC economies could be larger than the combined G6 nations in terms of US dollars. Furthermore, the report states that the BRIC countries alone are worth about 15 % of the G6 nations.

This alone would indicate the expected levels of growth from emerging markets, specifically Brazil, Russia, India and China. To further understand the emergence of these markets, we must look at the various social and economic factors that transformed these once developing economies to emerging markets with a strong global presence. Prahlad and Lieberthal (The end of corporate imperialism, 1998) postulate that the emerging middle class as an market force has actually led to significant growth in the BRIC countries. A " product hungry" consumer and a growing purchasing power has transformed once developing countries to emerging global markets. They further go on to say that consumers are rapidly changing their tastes and choices of products. To quote "……Indian consumers tried on an average 6.

2 brands of the same packaged good product in one year, compared with 2. 0 of Americans consumers. " Among all the emerging markets, China has always has a strong manufacturing presence globally and is poised to overtake German manufacturing capabilities by the year in the not-so-distant future. Natural resources and labour have naturally been a source of FDI for emerging markets, since China and India alone account for about 33% of the world population.

Russia and Brazil, with its natural resources have turned their once developing economies into strong emerging markets. The emergence of these markets as global players have been accounted to factors like increased levels of privatisation due to disinvestments by PSU's, Technology up gradations, increased levels of skilled labour and liberalization of trade restrictions. In India, for example, had a BPO industry worth about $5. 7 billion in 2005 and showed growth rates of about 44%.

(The Evolution of BPO in India, Pricewatehousecoopers, 2005). The emerging market as secure capital investment is a different story altogether. The risks of emerging markets and BRIC countries are quite prominent in the face of investments from more stable, advanced countries. The volatile nature of these markets in terms of economic viability has actually held back a lot of potential FDI over the years.

Political instability, weak infrastructural capabilities and currency appreciation for export led economies have been just a few of the challenges faced by these emerging markets. GDP growth in agri – dependent economies fluctuates depending on seasonal factors and as most of the emerging markets are, in fact, still largely dependent upon agriculture; a measure of economic growth would too be dependent on agriculture as a primary source of capital. These are just a few of the risk factors in these emerging markets that account for very cautious investments by MNC'c. Part 2: Challenging Global Expansion Strategy With the trends of growth of new emerging markets, particularly BRIC economies, approaches to strategy of global expansion and marketing by traditional MNC's have seen major overhauls.

In terms to Global Expansion Strategy, a look at the EPRG framework for global marketing would give better insight as to how these markets led to the evolution of global strategy. a)Ethnocentric orientation: Ethnocentric orientation refers to an attitude towards export that the product requires little or no modification for export to foreign markets. The key characteristic with these products is that it looks to its home market as the major point of reference. So how has strategy changed regarding the marketing of these ethnocentric products? With the increasing trend of globalization, there is no room for a purely ethnocentric viewpoint towards exportable products. The assumption that the domestic techniques and staff are superior to the target market is imperialistic and redundant in the complex market of today.

This ethnocentric outlook, where overseas operations are regarded are secondary to the home market and where personnel are trained in context to the data gathered in the home market is a good example of " corporate imperialism" Prahalad & Lieberthal (1998), state that the mere cultural sensitivity is not enough. They go on to say that MNC's need to drop many assumptions regarding the nature of the consumer and the market. The assumption, for instance, that the middle class consumer in these emerging markets are at the same level as those in developed markets is not just imperialistic, but may lead to critical errors in the formulation of strategy. A good example of this ethnocentric outlook leading to a loss of marketability would be Revlon when it introduced its products to China in 1976 and India in 1994.

Revlon's assumptions regarding purchasing power and the target customer led to its status as a high-end product and loss of potential sales.) Polycentric Orientation : The next stage in the evolution of a global strategy would be a more polycentric approach towards overseas markets. In view of a changing market scenario, MNC’s could no longer afford to have an ethnocentric orientation towards global strategy, so naturally the focus shifted from home to host country. A polycentric orientation is one where subsidiaries of the mother company are established in the target markets where objectives and plans are established by these subsidiaries. Research and strategies are formulated by these subsidiaries for their specific markets. New emerging markets led to companies drastically changing this strategy of subsidiaries because of the need for quick decisions without the constant approval of the head office, to facilitate the need for sharing of knowledge and most importantly to cope with the fierce competition spearheaded in most part, by China.

Williamson, (2005), talks about increasing innovative competition in Asia and attributes these changes to 4 major shifts in the competitive environment viz. he demise of asset speculation, the scattering of the “ flying geese” development, the breakdown of national economic “ baronies” and the decay of “ me – too” strategies. (Journal of Business Strategy; 2005, Vol. 26 Issue 2, p37-43, 7p) This basically meant that by 1997 strategies based on asset accumulation as a driving force of company worth, or those based on position of low – end or high – end manufacturing were no longer applicable. A polycentric orientation, therefore, would not allow appropriate speed of operation and decision making in these markets.)Regiocentric and Geocentric orientation : With the breakdown of national economic barriers and the decay of me – too strategies, referring to hanger –ons of strategic success, regiocentric and geocentric orientation towards the formulation of global strategy started to form the most logical and profitable outlook.

A regiocentric orientation is where the region is viewed as one market and a geocentric orientation is where the world is regarded as a single market. In order to develop an effective strategy, a series of questions that a firm needs to address have been created. Strategies that fit emerging markets, Khanna, Palepu, Sinha, 2005). Key questions are based on: •Political and social systems •Openness •Product Market •Labour market •Capital Market For example, companies found that the labour market in India had a highly liquid pool of English speaking management whereas in China the market for managers was small and static, Brazil had managers with varying degrees of proficiency of the English language and the same was in Russia. 2. 1) Why the need for strategic change? You are only going to have two kinds of companies in the future: those companies that go global, and those companies that go bankrupt.

” (AT President John Zeglis quoted in Garten. J, 2004, Introduction, World View: Global strategies for the new economy). In today’s economic trends of emerging markets and increasingly profitable global business, strategies that were once acceptable are no longer applicable primarily because of the vast differences in the markets now available to the global company. Some of the reasons we have already discussed are:)Ethnic and cultural differences. b)Economic structure.

c)Organizational structure. d)Increasing competition. e)Globalization. A good example of a strategy that works in advanced economies and does not have the same viability in emerging economies are the “ mantras” of core competencies and focussed strategies. (Palepu, Khanna, 1997 : Why Focussed strategies may be wrong for emerging markets).

Here, the authors talk about how a focussed strategy may work in a developed economy but may not have the same effect in an emerging one. They speculate that the infrastructural incapability in these economies just would not allow this kind of a strategy to function. They argue that " …highly diversified business groups can be particularly well suited to the institutional context in most developing countries. " Therefore it is quite evident that with the rise of BRIC economies and other emerging markets, a change in strategic trends is essential for the MNC to prosper in the changing global economy. Part 3 – Focus on BRIC: Mittal Steel /Arcelor MittalIf there ever was a success story that placed drew attention to the BRIC economies, Arcelor Mittal would be among the top of them.

Mittal steel was formed in 2004 when ISPAT international acquired LNM holdings N. V. – both already controlled by now CEO of Arcelor Mittal Lakhsmi Mittal. By 2005, Mittal steel was ranked among the Global fortune 500 companies and after its merger with Arcelor steel in January 2006, it became the first 100 million tonne plus steel producer. Mittal steel was ranked 99 in the Fortune 500 companies in 2007. (rankings on www.

oney. cnn. com and company information from www. mittalsteel.

com) Mittal steel has an industrial presence all over the globe – Asia, America, Europe and Africa. A Timeline of Mittal Steel 2005: Acquisition of a stake in Hunan Valin ; ISG Acquisition completed ; Mittal Steel Europe created ; Mittal Steel makes Fortune 500 list of top companies; MDA with Liberian government ; Acquisition of Kryvorizhstal ; MoU with State of Jharkhand, India ; Acquisition of Stelco subsidiaries ; Stake lifted in Mittal

Steel Zenica 2004: Acquisition of Polski Huty Stali ; Acquisition of BH Steel ; Acquisition of Macedonian facilities from Balkan Steel ; Creation of Mittal Steel and proposed acquisition of International Steel ; 2003Acquisition of Nova Hut 2002 Business assistance agreement signed with Iscor 2001Acquisition of ALFASID ; Acquisition of Sidex 1999Acquisition of Unimetal 1998Acquisition of Inland Steel Company 1997Ispat International NV goes public 1995Acquisition of Hamburger Stahlwerke ; Ispat International Ltd. and Ispat Shipping formed ; Acquisition of Karmet 1994Acquisition of Sidbec-Dosco 992Acquisition of Sibalsa 1989Acquisition of Iron & Steel Company of Trinidad & Tobago 3. 1) The Strategy From observing the activities of this MNC on the above timeline, it is quite clear that the major Global expansion strategy for Mittal steel has been one of acquisitions. To understand this acquisition – based strategy better, it is imperative to analyse the pre – acquisition negotiation and post – acquisition activities of the acquiring company.

It could be safely said that no acquisition process is completely the same compared to another but there are some commonalities. For Mittal Steel, the strategic management of their mergers and acquisitions in the pre and post acquisition stages have led to their phenomenal success on the global scale. So what could be called their process of acquisition? And what would be the strategic advantages of this so called “ acquisition spree” which has taken place over the last 8 years. An example of the activities Mittal Steel would usually follow can be seen by a look at the acquisition of Mexicana Ispat in 1991 .

In the pre – acquisition stage, a team of experts were divided into sub –units and sent out to analyse the plant and its operations. Reports of the plants performance in areas of finance, marketing, management etc were analysed and based on the reports of these experts, bids were made by ISPAT. In the post acquisition stage had the following characteristics a)Stopping losses and cutting costs b)Minimal lay –offs c)Implementation of quality control and improvisation programs i)Daily meetings and reports ii)ISO methods iii)Stretch goals iv)Knowledge integration programme It is evident that Mittal Steel, even in that point of time, had a larger strategic plan which integrated this acquisition " spree". Cohan and Rangan (2006) speculate that this strategy is the best for the avoidance of head – to – head competition with incumbent firms. If firms can operate in markets that the already established competition ignores, significant scale of operations can be achieved with minimal competitive retaliation. Once the competitions attention is attracted, the newer firm will be in a position to defend its stance.

(Seven Strategy lessons from top entrepreneurs). This strategy has paid off for Mittal steel and has been demonstrated in the Arcelor takeover bid struggle. To answer the question of why it has succeeded where other firms have not, is a combination of both its acquisition process and its innovative market entry strategy. Mittal steel has clearly shown the Global market that emerging markets do have the industrial prowess to finance a takeover in even the most advanced of economies. To conclude, the age of " corporate imperialism" is now behind us – innovative strategy for a global market being slowly dominated by emerging markets, especially the BRIC economies, must be taken very seriously if a firm is to survive.

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