Growing Industrial Interconnections and Globalised Companies

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Abstract

In the fastest ever changing world of today, the face of the global economy has changed since 2000, more than it ever changed through the revolutions that took place in the last millennium.

Many world major trends are bringing new changes, a new demographic revolution, rural exodus and urbanization, the emerging versus old rich countries, the new buying power of new middle classes, the boom in new infrastructures, growing shortages and worry for food supplies, the threats to the environment, the new technologies and the IT, information technology convergences, leading to globalization, major financial shifts, and the current raging world crisis and its uncertain future.

In a less than ten years span, new companies have emerged from the former less developed countries. New global companies appear from all over, from India and China of course, and also from Russia, from Latin America, from Turkey, Egypt, and all the rest of the world. The old structures of the former developed world are shattered. The old multinationals are not staying idle, as they also invest into the emerging countries.

In spite of all uncertainties, optimism is to prevail, as this is hopefully part of a vast move for more riches and peace for many more people.

World major trends

All the long term trends here defined are meant to set the scene. Forecasts are made barring any major catastrophes.

Population trends

The two major trends worldwide are a demographic revolution in reverse, fewer births and longer life expectations.

People in poor countries now exert more control over their own fertility, and over the size of their families. A generation ago the biggest worry about poor countries was overpopulation. Now, in the world as a whole, fertility has fallen from 4.8 to 2.6 in a generation, in the last 25 years, except in sub-Saharan Africa and parts of the Middle East. This means that the actively developing countries are on a trajectory of rapid population aging, the second demographic revolution, in reverse, leading to the greying of populations.

Although less publicized, the aging of developing world populations is likely to be dramatic, when income levels are low and there are few pension plans. There is the saying “China is to become old before getting rich”. The outlook will probably be less violent in India, because of a higher proportion of young people.

At the same time, the total world work force is growing, for one generation at least, similar to the baby boom in the 1950-1970s, in the industrialized world. However, in order to be effective, there is an urgent need for improved education at all levels in most emerging countries.

Rural exodus and growth of the very large urban areas

Everywhere, there is a huge move of peasants going to live in towns. This move affects all the interrelated questions of urbanization, industrialization, rural-urban migration, and squatter settlements in developing countries. This leads to the growth of very large urban agglomerations. There are now 20 very large urban areas of over 10 million people. According to the UN Population Division, World Urbanization Prospects, the world urban population is to grow from 3.2 billion people in 2005 to 4.6 billions in 2025 and 6.4 billions in 2050, about two thirds of the total population then.

Emerging versus developed countries

There have been a few major world changes, revolutions and globalization throughout world history, from the Roman Empire, to Gengis Khan, to the discovery of the New World, and the Industrial Revolution of the 18-19th centuries. A new era of globalization began to emerge, which was interrupted in the 20th century by two world wars and a depression. It was only in 1972 that global trade regained the level it would have achieved if pre-1913 trends had been maintained.

Now a second era of globalization has arrived, allowing other parts of the world, all Asia, South America, Eurasia, to catch up with the developed economies, Europe, North America and Japan.

World economic growth continues to be led by the most dynamic emerging countries, large and small. China and India, and many others, are exporting goods and services. Growth in the older developed countries slows down, in the US and Europe. In the last ten years, the emerging economies averaged annual growth of almost 7%, the fastest pace ever recorded for such an economic size, well above the 2 % growth in rich economies.

As of 2005, the so-called emerging economies had:

80% of the world population,
70% of the foreign exchange reserves
50% of total energy consumption
25 % of Gross Domestic Product, GDP, at foreign exchange rates
50% of total GDP at purchasing power parities, PPP, accounting for lower prices in poorer countries
45% of world exports
15% of stock market capitalization

Actually, some of these countries should be called re-emerging economies, because they are regaining their former shine.

Until the 19th century, before the Industrial Revolution, China and India were the world two biggest economies. According to Angus Maddison, an economic historian, the emerging economies, essentially China and India, were over 90% of the world riches one millennium ago. Their share in the early 19th century was still 70%. It went down to less than 30% in most of the 20th century, and bounced back now to 50%, with a forecast share of at least 66% by 2025.

Brazil, Russia, India and China are the four biggest emerging economies, grouped together under the acronym BRICs, created by Goldman Sachs in 2001. These four economies account for close to half of the total GDP of all emerging economies.

Yet, many impressive forecasts for the next four decades will still leave GDP per capita in the BRICs well below those in developed countries. In 2040 the average American will still be three to four times richer than the average Chinese.

Shifts of major consumer products and buying power

As people grow richer, they want more cars and household appliances as well as better homes and roads. This, in turn, means a huge increase in the demand for energy and raw materials.

By 2015, there will be a billion more people with annual household incomes over $5 000, roughly the threshold for spending money on discretionary goods and services rather than simple necessities.

Consumers' spending power in emerging economies will rise from $4 trillions in 2006 to more than $9 trillions, nearly the spending power of Western Europe today. The fast growing middle class are eager for first equipment in cars, appliances, telectronics, and the widest variety of consumer goods.

The car industry is a major illustration of this. International Monetary Fund, IMF, forecasts for 2050 indicate that the total of cars in use will be multiplied by 5, from 600 million units to 3 billion units, between now and 2050. At present there are only two cars for every 100 people in China, against 50 in America. Goldman Sachs forecasts that China car ownership will rise to 29 per 100 by 2040. The total number of cars in China and India combined could rise from around 30 millions today to 750 millions by 2040, more than all the cars in the world today. And yet, car ownership rates in those two countries would still be only half those in America today.

These forecasts are given in spite of other dire context, like the growing price of steel that can erase half of the profits of an auto maker from one year to the next. The major challenge is the search for non polluting cars, oil free and with zero CO^2 exhaust.

The older Original Equipment Manufacturers, OEMs, in cars and other industries have been relocating assembly facilities to lower cost countries. The next trend is to decentralize R & D, because of the growing availability of lower cost intellectual work in emerging countries.

The search for new production processes might affect the whole car manufacturing structure. The making of electrical batteries requires very little labour, major investments, and the finished product is better used locally.

The boom of infrastructures

The biggest investment boom in history is under way. Over half of the world infrastructure investment is now taking place in emerging economies. Sales of excavators have risen more than fivefold since 2000. In total, emerging economies are likely to spend currently an estimated $1.2 trillion on roads, railways, electricity, telecommunications and other projects, equivalent to 6% of their combined GDPs.

Estimated infrastructure investments in emerging markets, 2008-2017, in trillions of dollars:

China	9.3
India	2.8
Other Asia	2.4
Russia	2.2
Brazil	1.1
All other	3.4

Or over $ 20 trillions for all emerging economies.

Source Morgan Stanley

Questioning food supplies and availability

Food supplies have kept apace, so far, but there are increasing local shortages, local wars and famines. The new bio fuels, the rising standards of living, with more intensive cattle raising, climate changes and drought, all will have a growing impact on food supplies.

Household food expenses are 10-20% in the developed world but still 65% in developing world, mainly hitting the poor.

Growing shortages

Water: According to United Nations Development Program, UNDP, 40% of the world population will suffer water shortages by 2050.
Gas, oil, uranium, will all have diminishing reserves, with yet unknown peak dates.
Fishing is to be depleted to less than 10% of the earlier maximum catches.

Does the world have enough resources to meet the growing needs of the emerging economies?

Environment

Probably more certain than the much hailed global warming, generalized pollution is the most worrying phenomenon for years to come, water, air, land, food, chemicals and many types of pollution.

Technologies

Among the innumerable new development fields, telecommunications play a major role, with overall convergence leading to the merging of computers, cell phones, TV, hi-fi, and all other electronic devices, as well as the blending of cables, wireless and satellite communication.

Globalization

Globalization now is not just physical goods, but also services, finance, people, information and ideas.

In spite of the recent failure of the World Trade Organization, WTO, talks, the world is becoming ever more interlinked.

Financial shifts

There is a shift from traditional money managers to sovereign wealth funds which result from very large trade surpluses, hedge funds and private equity groups. Another major new trend, the topic of this paper, is for companies in developing countries to buy companies in developed countries.

The current flow of capital from poor countries to the richest economies in the world is the opposite of any economic theory. Capital should flow from rich countries with abundant capital, such as America, to poorer ones, such as China, where capital is relatively scarce.

Asian economies are pursuing a deliberate policy of currency undervaluation to ensure strong export-led growth. To hold their currencies down, Asian central banks have been buying lots of American Treasury bonds. This reduces interest rates and supports consumer spending in the United States, allowing Americans to buy more and more Asian exports, which, for the moment, is convenient to both Asia and America.

Current raging world crisis and the future

The current world crisis, 2007-2008, affects three main vital aspects of modern economies, oil, raw materials and finance. No end is in sight.

The fact that people in rich countries are fretting about the success of the emerging economies, rather than no longer about their poverty, shows the progress these economies have made. Poverty in the third world is still rife, but as the emerging economies continue on their way, their rapid expansion can be sustained for several more decades.

China and India offer immense opportunities, and they also bring new risks. If these economies slow down, or even if they simply decide to sell their American Treasury bonds, a crisis would have a much bigger impact on the global economy than formerly.

The balance of power is shifting to the East. The postwar era witnessed economic miracles in Japan and South Korea. But neither was populous enough to power worldwide growth or change the game in a full range of industries. China and India, by contrast, possess the weight and dynamism to transform the 21st century global economy.

The closest parallel to their emergence is 19th century America, a huge continental economy with a young, driven workforce that took the leadership in agriculture, manufactures, and the high technologies of the era, steam engines, telegraph, and electric lights.

But even the rise of America still falls short in comparison to what is happening now. Never has the world seen the simultaneous, sustained takeoffs of two nations that together account for one third of

the earth population. For the last fifteen years, China has been growing by 9.5% a year, and India by 6%. Given their young populations, high savings, and the sheer amount of catching up they still have to do, most economists figure China and India can keep growing by a 7% to 8% average, for many years.

In the coming decades, China and India will disrupt workforces, industries, companies, and markets in ways that can barely be imagined.

The great buying spree

The fast growth of emerging companies buying into world markets is documented with many reports, think tanks, and organizations. A few of them are listed in the Sources section.

The **Boston Consulting Group, BCG,** has identified 100 companies in emerging countries that have the power and the ambition to compete, even upset, the existing multinationals. Over 3 000 companies, from 30 countries, were examined by BCG, firms with $1 billion annual sales.

The **Swiss group KPMG** screens the mergers and acquisitions by analyzing deals between 10 selected emerging economies and 11 key developed markets. The research analyzes deal flows between 11 selected “mature” economies, the UK, USA, Canada, Spain, France, Germany, Netherlands, Italy, South Africa, Australia and Japan, and 10 selected emerging economies, India, China, Russia, Brazil, South Korea, Vietnam, Macau, Hong Kong SAR, Qatar and the UAE.

The United Nations Conference on Trade and Development, UNCTAD, provides figures on foreign direct investment, FDI, from 1970. By 2006, the latest year available, the flow of FDI, including mergers and acquisitions, amounted to $1.3 trillions total world, of which $379 billions from developing economies, and $857 billions from developed economies. The respective figures in 2000 were $ 256 billions from developing economies and 1146 billions from developed economies.

In 2006, the total mergers and acquisitions by developed countries were $722 billions, and the purchases from the developing economies were still only $127 billions, up from $37 billions in 2000.

Since the UNCTAD first analysis in 1970, there has been concern about companies from rich countries into poorer ones. Some developed countries were worried also about the American companies, a word was even coined then, “The American Challenge”. In the 1960s, IBM, Ford, General Motors, Dow Chemical, ITT, looked threatening to the then Western Europe. Then, in the 1980s, America worried as Japanese firms were buying up Hollywood and Manhattan.

The latest trend reflects a new, fundamental shift. In a more open world, emerging economies are building their own giants. Investment now flows increasingly from South to North and South to South, as emerging economies invest both in the rich world and in less developed countries. There is the emergence of a growing number of new multinationals from emerging economies that will increasingly challenge the economic power of the rich country world.

Major acquisitions and mergers

In a recent Forbes magazine list of the world 2 000 largest publicly traded companies, 378 were from emerging economies around the world. This list did not include the giant state-owned oil companies in the developing world, which control 65 % of all known oil and gas reserves.

China and India, the world's two emerging economic superpowers, have the most companies on the Forbes list, with 44 and 21, respectively.

India

India now is the most actively acquisitive. According to Dealogic, Indian companies announced 150 foreign acquisitions in 2007, with a total value of $18 billions, four times more than in 2005.

The purchase of Arcelor by Mittal in 2006, creating the largest world steel company with 100 million tons, is one of the most talked about and symbolic moves, but there are many more:

Tata, the long time Indian major company, acquired the famed Jaguar and Land Rover cars, in spite of many hurdles and questioning. At the same time, Tata Motors was launching the cheapest car in the world, the Nano, at $ 2 500, for the Indian domestic market, with still some local delays.

Much earlier, in 2000, Tata had acquired Tetley, the world second largest manufacturer and distributor of tea, in 40 countries. More recently, Tata had also acquired Corus, an Anglo-Dutch steel company, with mills in Ohio and Pennsylvania and quintupling its steelmaking capacity.

Among the most recent acquisitions, from Indian companies:

Three major companies, Wipro, Infosys Technologies and Tata Consultancy Services, TCS, have built an IT outsourcing industry that is now global and competing with leaders such as Accenture and IBM. Wipro bought the New Jersey software house Infocrossing.

Bharat Forge is now the world second largest forging company and a leading supplier to the motor industry around the world, recently tied up with a French company to get close to PSA Peugeot Citroën.

In the pharmaceutical industry, there are Ranbaxy and Dr. Reddy. Ranbaxy Laboratories is the world largest pharmaceutical company.

Suzlon Energy is the largest wind energy turbine maker in Asia and the fifth in the world, offering full wind power solutions. In 2006, Suzlon bought the Belgian firm Hansen Transmissions, specializing in gearboxes for wind turbines, and in 2007, it purchased a controlling stake in German REpower, thus combining REpower offshore turbine technology with its own cheap components.

Mahindra & Mahindra is the third largest tractor company in the world, plus a wide range of vehicles, SUVs, with participations and plants in China, the UK, and the US. Mahindra & Mahindra dominates the Indian market with its small tractors. As about two thirds of the tractors sold in the US are 70 HP or less, Mahindra is now competing with Deere and other established tractor makers in the US.

Together with Renault and Nissan, Mahindra is investing in a Logan low-cost type passenger car plant in Chennai, to open in 2009, as the largest car factory in India, with 400 000 car annual capacity. Also in 2009, Mahindra plans to launch a range of compact pickups and hybrid SUVs in the US.

Bajaj Auto, competed by Japanese motorcycle manufacturers in the Indian market, is becoming the leader in India, and now competing with Japanese and Chinese manufacturers in Indonesia, Egypt, and Brazil.

Reliance Group makes more polyester fibre and yarn than any other company.

Hindalco Industries, part of India Aditya Birla group, bought the Canadian aluminium company Novelis.

United Breweries bought Whyte & McKay, the world fourth largest distiller of Scotch whisky.

And all these are just examples of many more.

China

China may also have become the largest single source of new multinationals, now.

The earliest moves took place with the drive for resources, particularly oil and gas and minerals. Petro-China, China Petroleum & Chemicals (Sinopec) and China Minmetals Corp. are examples. CNOOC division COSL is buying Awilco Offshore ASA, a Norwegian oil service company in 2008. It was prevented from getting the US Unocal in 2005, and Australian oil companies, wary of a government organization. CNOOC has been buying into oil and gas reserves in Southeast Asia, Africa, and Central Asia.

Baosteel has bought iron ore interests in Brazil and Australia.

There are many famous names of Chinese companies becoming world companies.

Lenovo bought the personal computer division of IBM.

Haier has become one of the main appliance manufacturers in the world, as well as lesser known Hisense. Haier operates plants in the US since 2000.

China Huawei Technologies won some of the work on British Telecom $20 billion plan in the UK. Huawei Technologies competes with Cisco Systems to sell telecommunications equipment in the world.

TCL bought the struggling French Thomson TV receivers.

The Pearl River Piano Group is now number one of the world piano market.

BYD is the world largest maker of nickel-cadmium batteries.

Chery Automobile, the largest China car exporter, plans to build plants in Eastern Europe, the Middle East and South America.

Johnson Electric, of Hong Kong, has half the world market for small electric motors. Any new car now has over 100 tiny motors, to move the wing mirrors, adjust the seats, open the sun roof and so on. Johnson makes 3 millions per day of such motors, put everywhere, in cameras, phones, appliances, vehicles, most of them for export.

China Mobile is the world largest mobile phone operator, with 70 % of China, almost 400 million consumers, and growing.

China International Marine Containers Group supplies 50 % of the world marine container market.

Russia

The new government team says Russia needs more long-term investment to ensure its transition to an innovative development model and join the group of the world five largest economies.

Foreign Direct Investment, FDI, into Russia, is mostly in the retail, construction and raw material sectors. FDI could be $60 billions in 2008, compared with $45 billions in 2007, $30 billions in 2006.

So far, Russia is best-known for basic raw materials companies. Gazprom, Lukoil, use their natural resources to buy into the United States and other countries. Gazprom, 51% government-owned, plans to grow from being the world leading gas company into a world leading energy company

MMC Norilisk Nickel is the world largest nickel producer.

RUSAL is one of the three largest aluminium companies in the world.

Although the electronics and telecommunications are not yet a major industry in Russia, there is Mobile TeleSystems, or MTS, the largest mobile operator in Russia and CIS, as well as Central and Eastern Europe.

The fast growing Luxoft is the largest provider of IT outsourcing services. According to the International Association of Outsourcing Professional, IAOP, there are six companies, Russian or with development centers in Russia, Auriga, DataArt, EPAM Systems, IBA, Luxoft and Mera.

Brazil

In raw materials, the main companies are:

Brazilian oil major Petrobras has strong expertise in deep water work.

Vale, the former Vale do Rio Doce, CVRD, is the world largest iron ore producer. It tried without success to get the British/Swiss Xstrata. The new Vale-INCO was created by the purchase and merger of the Canadian INCO. Before being purchased by Vale in 2006, INCO was the world second largest producer of nickel.

The aircraft manufacturer Embraer has displaced the Canadian Bombardier as the world's third largest aircraft manufacturer, in regional jets.

Very large Brazilian companies are appearing in agricultural and processed products, such as Sadia, frozen foods, and Perdigão. Over half of the $ 6 billions of sales are for exports. Sadia, for example, a household name in the Middle East, was perhaps helped by its name similarity to sa'ada, the Arabic word for happiness.

Embraco has 25% of the global market for compressors.

Braskem is large in petrochemicals and plastics, although not yet international, nor global.

Natura Cosméticos S/A is one of the Brazilian leading manufacturers and marketers of skin care, solar filters, cosmetics, perfume and hair care products. With its specific model of home sales distribution, international sales in Argentina, Chile and Peru, now surpasses Avon sales in Brazil.

Mexico

CEMEX, the world largest cement ready-mix company, has already taken over the British group, RMC.

América Móvil has 100 million customers across 14 Latin American countries, the biggest international cellular empire.

South Korea

The South Korea success story is one generation older than the BRIC country emerging story.

South Korean successes included Samsung Electronics, one of the world's most important semiconductor companies, Hyundai Motor and Kia Motors, competitive automobile companies, LG Electronics, a major manufacturer of electrical appliances.

Tata Daewoo Commercial Vehicle, TDCV, is the second largest heavy commercial vehicle manufacturer in South Korea. It was established in 2002 as Daewoo Commercial Vehicle Co. Ltd, after it was spun off from the mother company, Daewoo Motor Co. Then it was acquired by Tata Motors, of India, in 2004.

Taiwan

Taiwan has a similar older success story as South Korea. Taiwan has a number of then pioneer semiconductors and electronics companies that compete globally.

Turkey

A number of large emerging companies are now known in many areas of the world, if not yet globally.

Koç Holding operates in the automotive, durable goods, food, retailing, energy, financial services, tourism, construction and IT industries.

Koç Holding controls Arçelik A.Ş. a large household appliance manufacturer in Turkey. Products include white goods, electronic products, small home appliances and kitchen accessories, such as refrigerators, freezers, washing machines, dishwashers, aspirators, vacuum cleaners, coffee makers and blenders. They are sold everywhere, particularly in Eastern Europe and South Mediterranean.

Arçelik AS is present in more than 100 countries, including China and the United States through 13 international subsidiaries and over 4 500 branches, operating 10 plants in Turkey, Romania and Russia. It offers products under its own nine brands, including Arçelik, Beko, Altus, Blomberg, Arctic, Leisure, Arstil, Elektra Bregenz and Flavel. Arçelik is the third largest household appliances company in Europe. Innovation is a strong point, as Arçelik is one of the first four companies with the highest number of patents to its name.

Vestel is a company of the Zorlu Holding Group, with many companies, such as Vestel manufacturing electronics and white goods, TAC manufacturing furniture and curtain textiles. In addition to companies in the oil and energy sector, helicopter rental, satellite communications and Internet provider, banks and investment services, and tourism, Vestel operates the largest TV manufacturing plant in Europe, and third largest in the world, with an annual output of 15 million television receivers.

The Sabançi Holding controls 70 companies, many of which are recognized market leaders in their respective sectors. The group has a total of 50 000 employees and operates in 15 countries. Sabançi and its subsidiaries own more than 40% of Akbank, one of Turkey largest banks, and has operations in cars, cement, energy, retail, insurance, telecom, textiles, tires, plastic, hotels, paper and tobacco. Sabanci has 10 joint ventures with several international groups, such as Citigroup, Aviva, Bridgestone, Toyota, Verbund, Bekaert, Heidelberg Cement, Carrefour, Hilton, Mitsubishi Motor, International Paper, Philip Morris, etc.

The glass and chemicals group Turkey Sise ve Cam Fabrikalari, Sisecam, is the largest glass manufacturer in Turkey, with international plans, recently started in Bulgaria. Sisecam has advanced plans for presence in Russia, the Middle East, in flat glass for buildings, car glass, glass containers and glass fiber.

Egypt

The first international name in Egypt is Orascom. In 2005, the subsidiary of Orascom, Weather, bought Wind, Italy third largest mobile operator, from Italian energy company ENEL, in a deal worth €12.2 billions. Weather then bought Tim Hellas, Greece third largest mobile operator, from private equity firms Texas Pacific Group and Apax, in a deal worth €3.4 billions.

The success of Orascom has created an interest for takeover from a number of European companies, including Deutsche Telekom, Vodafone, Spain Telefónica and France Telecom. Orascom Telecom operates in nine countries in Africa and the Middle East, with very high growth potential.

Fall from grace of South East Asia

Now China and India are the stars. Just until twelve years ago, South East Asia was the world fastest developing region, with the same sort of acclaim as now for the two giants. The five main economies, Indonesia, Malaysia, the Philippines, Singapore and Thailand, are still notable for the near absence of companies that could truly be called world class.

The region has about 600 million people. It had a head start in economic development over much of the rest of Asia. So why does it still have no global consumer brands of the stature of South Korea Samsung and LG? Where are its rising technology leaders, like Taiwan AU Optronics and Taiwan Semiconductor? Where are its equivalents of India world conquering Mittal, Tata, Ranbaxy, Wipro?

Many reasons have been given, none of them convincing. As major exceptions, there are three world companies in Singapore. Singapore Airlines is the world fourth largest international airline. Keppel and SembCorp are the two world largest makers of offshore oil drilling rigs.

Africa, the new prize

Poverty decreased everywhere in the world in the last 30 years, except in Sub Saharan Africa, where the number of the poors grew from 200 millions in 1980 to 400 millions in 2007.

Growth in Africa has been, and will be, constrained by infrastructural bottlenecks. However, these are not because of insufficient international funding. The bottlenecks are the result of weak political commitment, poor or non-existent planning and the standing conviction that a foreign donor or lender will always come to the rescue. In Africa the problems come from still limited skills, technology and most of all poor governance. The hope of the great African Union, with all 54 countries of Africa is put off to 2025, in the most optimistic case. The bottom millions are being increasingly marginalized.

This is not true everywhere however. Countries such as Gabon and Angola currently enjoy 20% annual growth, from almost nil, of course.

In their own specific ways, India and China put their stakes in Africa.

China and India both need and want access to African natural resources, and both see Africa as an outlet for their manufactures. The Indian approach is more subtle than that of China. China goes more after raw resources of all kinds. India is renewing its multi-secular tradition of trade with Africa, selling to Africa its high-tech products, particularly in cheap telephony and mobile Internet services.

The new interest for the Mediterranean

One third of the world container traffic already passes through the Mediterranean, bringing manufactured goods from China and South-East Asia to Europe and the east coast of America.

Now, in Morocco, there is the investment on Tanger Med, some €3.5 billions, to make an attractive stop point for international traffic. Goods will arrive to be broken down into smaller loads and sent around Europe. Manufacturers will set up factories in the planned tax-free zones, bring in components for assembly and serve the European markets across the water.

In recent years, Europeans have tended to see Southern Mediterranea as more a threat than as an opportunity, as a source of immigrants, young and illegal, mainly Muslim and generally unwelcome. Yet commerce is not a novelty in the Mediterranean. Millennia ago, the Middle Sea was a center of world trade. It was “mare nostrum” to the Romans, surrounded by the Empire.

There are many political projects to boost the area economies, policy and union, but none of them is yet anywhere. The economic trends are favourable. Most Mediterranean countries ran at an average 4-5 % growth for the last ten years.

The Southern and Eastern Mediterranean now gets large quantities of foreign direct investment, on a scale second only to China among emerging economies. More capital is coming from private-equity funds, indicating the rising interest of international capital, export markets, lower wages. The wave started by 2000, and now private-equity groups and large investment funds from the oil rich Gulf States are joining in.

The offshore investors are firms attracted by oil and gas. They are offshore in the sense that they ship in all their labour, equipment and supplies. They pay the State for the resources they extract, but have little further effect on the local economy.

The second group consists of European companies, mainly French, also Spanish and Italian. These investors usually form joint ventures or buy local small and medium enterprises.

The third are a new group, the Gulf funds. Their billions tend to go to the huge resorts springing up along the coast. Investors from Dubai have a €10 billion project in southern Tunis, a €3 billion development in Algeria and €600m site in Morocco.

The fourth group, also newcomers, is of investors from emerging markets. Several Indian companies came in the region. Tata has invested in motor manufacturing and outsourced information technology work in Morocco. Wipro Technologies does IT work. Ranbaxy Laboratories has factories there. Gujarat State Fertilisers and Coromandel Fertilisers from India are investing in a Tunisian factory to make phosphoric acid from the local reserves of phosphorus. South Korean investors are coming, for instance with a car parts factory in Tunisia and hotels in Syria. These industrial investors sometimes take over local companies.

Strategies of the new globalized companies

As a rule, the main strategy of the new emerging world companies is to prefer acquisitions to the top, rather than organic growth, much slower and uncertain.

According to BCG, thousands of companies are expanding sales and production internationally, for many reasons:

Their home markets offer several base advantages.
Rapid growth gives companies scale and spare cash to invest abroad.
Costs are low.
The difficulties of operating in an emerging market have made managers adaptable and resilient.
Gradual liberalization in the home markets, as in India since the early 1990s, has exposed them to competition from multinationals.

But some companies simply believe they can be the biggest and best in their industries, worldwide.

There are a number of strategies or combinations thereof, as analyzed by the Boston Consulting Group.

The first strategy is to take brands from local to global.

This is the most obvious strategy, pursued by 28 of the 100 companies analyzed by the BCG, which are going abroad with brands that have been established at home. Often, they begin selling their products in neighboring countries before launching them in the US or Europe.

Examples are Chinese appliance and consumer electronics companies Haier, Hisense, Galanz, and Skyworth.

Another example, in India, is Bajaj Auto, a developing country brand going global. It is India biggest maker of two- and three-wheeled vehicles. Its sales have more than doubled since 2000, to $2.3 billions, mostly to South-East Asia.

A second strategy is to turn local engineering excellence into innovation on a global scale

An example is Embraer in Brazil. Supported by the Brazilian government and later privatised, Embraer has passed Canada Bombardier to become the world leading maker of regional jet aircrafts. By 2006 over 95% of its $3.8 billion sales were outside Brazil. It is one of Brazil biggest exporters, combining low-cost manufacturing with advanced R & D. In addition, Embraer has a joint venture with China Aviation Industry Corporation II, a Chinese consortium of aircraft manufacturers. In this it was even ahead of Boeing and Airbus, both now trying to transform themselves from rich world exporters into global producers, with long, difficult-to-manage supply chains throughout the world.

Another example is Wipro of India, which has used its engineers to become a world leader in software and engineering services.

Still another example is Huawei of China, with thousands of engineers, and gaining respect as innovator of low-priced telecom equipment.

The third path to international success is going for global leadership in a narrow product category.

One example of this strategy is BYD, from China, a battery maker. It uses a more labour intensive production system than the Japanese firms it competes with to take advantage of low labour costs.

Another example is Johnson Electric, of Hong Kong, that now produces mainly in mainland China. It makes tiny electric motors for products such as cameras or cars. This was an industry that used to be run by American and European companies. Factories in Europe have moved to China. A number of acquisitions, such as parts of Lear and ArvinMeritor, helped that strategy. Johnson Electric now has plants in America and Western Europe and R&D centers in Israel, Italy, Japan and America.

Pearl River, of China, has used a similar strategy to become the world biggest manufacturer of pianos.

Ranbaxy, of India, is now expanding its reach in the global market for generic drugs by buying up smaller producers worldwide.

Keppel Corp of Singapore is the world largest top offshore oil drilling rigs maker, and is looking for acquisitions in Asian shipbuilding yards.

The fourth strategy is to have a new or better business model, for many different markets.

This is the approach of CEMEX, of Mexico, one of the world biggest suppliers of ready-mixed concrete. Its annual sales were $18 billions in 2006. Industries such as cement and other building materials are usually considered territorial goods, as they are bulky, basic and too expensive to transport over long distances. This vision has changed. Although it will never be worth shipping cement from Mexico to Europe, know-how and investment can be used into any market. As rich world cement companies, such as Lafarge and Saint-Gobain, are investing in developing countries, CEMEX has the same strategy in reverse. CEMEX went unnoticed until it bought the British company RMC in 2005. By that time, 80% of sales were already coming from outside of Mexico. CEMEX had bought or built businesses in Colombia, Panama, Venezuela, Indonesia, the Philippines, Thailand and the United States, before entering Europe. All are successes, because of the development of an own style of managing acquisitions, with systems, dependent on standardised procedures, built around highly developed IT systems.

The last and oldest strategy is to acquire natural resources

Energy is the one sector where emerging economy countries dominate. The vast majority of the world resources are located in developing nations.

Saudi Aramco has the world largest share of oil reserves, followed by the National Iranian Oil Company, the Iraqi National Oil Co., and the Kuwait Petroleum Corp. The big integrated oil companies, such as Exxon Mobil, have direct access to just 16 % of the world reserves.

In gas, Gazprom, the giant Russian oil and gas company, has the world largest reserves of natural gas, followed by the National Iranian Oil Co. and Qatar Petroleum.

And a growing number of emerging multinationals are using access to those resources to their advantage.

Examples include Brazilian food processors Sadia and Perdigao, taking advantage of natural resources at home, and boosting them with first-class marketing and distribution. They operate everything from farms to branded ready-to-eat meals and export half of their combined $4 billions in annual revenue.

Metals manufacturers such as Brazil iron giant Companhia Vale and the Russian companies RUSAL, in aluminium, Lukoil, in petroleum, and Gazprom, are using natural resources to go global.

Many companies were once content to operate in their home markets. The new ease of global communication and air travel, the world availability of management and communication expertise, rapidly helped them to manage complex multinational operations.

A very positive aspect, worldwide, is that most of these companies have low cost structures and will be able to offer their goods and services at lower prices.

Most of the new comers of recent years have been successful.

Often, they have reacted well to difficult starts.

One generation ago, South Korea and Taiwan had demonstrated how impoverished economies can make their way into the world stage, and do it within a single generation.

TCL, a Chinese consumer electronics company, broke into Europe by buying the very ailing French Thomson TV brand.

CEMEX started investing in America when its cement exports were hit by anti-dumping suits. It became the market leader.

Lenovo bought the IBM PC business partly to acquire management talent, and went on to create a firm that blended the best of the two businesses.

Indian multinationals are reversing the usual brain drain by calling on non-resident Indians back from branch offices in America and Europe, where they have gained experience that could be useful at the centre.

More newcomers may also have the Mittal strategy, acquiring businesses in all parts of the world, with a strong base in both developing and rich countries. There will certainly be more companies with Mittal strategy, not just like Tata or Chery, emerging from giant, booming domestic markets, but entirely newcomers, getting out of nowhere to become majors.

It is unlikely, of course, that all of the 100 companies analyzed by BCG will be global powers ten years from now. But they are just the tip of the iceberg. Thousands of other companies from the developing world also have big global dreams and are investing accordingly.

Advantages and hurdles for companies from emerging countries

The new multinationals have some distinct advantages.

They often are family-owned or family-controlled, which helps them to make decisions quickly.

They have the experience of growing up in a tough domestic market. Japanese and Korean firms who went international in the 1980s and 1990s had been nurtured by protectionism at home, but many of the latest newcomers have had to fight all their lives.

Technological innovation may be a differentiator. The emerging challengers are good about repackaging existing ideas, combining Eastern and Western cultural values to create new products and devising ways to make and sell things for less money. All of that gives them competitive edge. They will make fast technological progress.

But their really major advantage is costs. Because of their position in lower-cost developing countries, they can undercut Western firms on labour, property, equipment, raw materials and sometimes even financing. Labour might cost 10 to 20 times less than in a developed economy, for example. Indian generic drug makers such as Ranbaxy Laboratories charge domestic customers 1 to 2% of what US consumers pay. Telecoms firms offer mobile services at tariffs that make European charges look huge.

In this environment, the firms that survive are ready to take on the world.

But they also face particular problems

They are trying to break into a world economy in which globalization is already well advanced.

The crucial step in the development of emerging market giants is when they choose to go global. Many have access to vast, fast growing domestic markets, enabling them to grow large and profitable without venturing overseas.

But being number one in China or India alone will not give them the scale of a true global leader. In many cases, their domestic market has given them the opportunity to compete with established multinationals while they have the home advantage. But eventually, they must take the fight to the wide world.

Tariffs and anti-dumping actions can prevent developing country companies from getting into the rich world. Firms may be ignorant of the markets they are entering. Their brands, though well established at home, are unknown in Europe or America.

They may lack the necessary management talent. Recruiting world class management may be difficult.

The challengers often tend to pay more for their acquisitions and are relatively inexperienced in handling post-merger integrations. The emerging market firms make their own mistakes through poor acquisitions and overexpansion, as many Chinese electronics firms are finding to their cost.

They may be unwanted and barred by legal decisions, like the attempt of the China National Offshore Oil Corporation, CNOOC, Chinese government company, prevented from getting Unocal, or the difficult time given Mittal at first by some European decision makers.

Few of new global companies operate at the cutting edge of innovation. There are some exceptions, such as Brazilian oil major Petrobras, which is one of the world leaders in deep water oil and gas extraction.

Emerging market firms still struggle to handle complex supply chains with developing world facilities. On the whole, emerging multinationals operate low in the value chain.

About the value of brand names, the newcomers are buying into brand names, like Tata with Jaguar, but, of the top 100 brands in 2006, as ranked by the corporate branding consultant Interbrand, not one comes from the rapidly developing economies. Major exceptions are Samsung, Hyundai and LG, from South Korea, but they emerged during a previous wave of competition.

In today emerging markets, there still are no real rivals to Coke, American Express or Google when it comes to the power of brand names, but this will definitely change soon.

Once they realise the threat, the old multinationals fight hard for their markets. US household appliance manufacturer Whirlpool paid high for rival Maytag, just to keep it out of the hands of Haier. Technology firm Cisco Systems is taking the fight to Huawei by attacking it in the Chinese market, although to do so, it formed an alliance with another fast growing Chinese competitor, ZTE.

Westerners are buying up emerging competitors, too. A Chinese national, for example, created a Silicon Valley company called WebEx that relied heavily on highly skilled engineers in China for programming. Rather than allow WebEx to emerge as a competitor, Cisco Systems simply bought it in 2007.

Similarly, IBM and Electronic Data Systems have been buying business process outsourcing companies in India.

Many large American companies are competing at home in the countries of their would-be competitors. They absorb foreigners into their management ranks, allow some decision-making to distant markets and adapt their products or invent new products to compete. General Motors, for example, is enjoying good sales growth in China, where it was number one in 2007, India, Russia and Brazil. Coca Cola is trying to buy Huiyan Juice group, the largest Chinese juice and nectar manufacturer.

In reverse to all the moves from emerging countries to industrialized countries, Vodafone, from the UK, is the largest mobile telecommunications network company in the world by turnover and has a market value of about £75 billions. Vodafone built its global presence through a series of acquisitions and strategic alliances. It is now applying its successful European growth strategy to emerging markets.

All in all, emerging multinationals have the advantages of low costs and being well placed in the world fastest growing markets. But they have a long way to go before they can compete at all levels with their western competitors.

In spite of all hurdles, the future of the new global companies is bright.

Even if the emerging giants are currently lagging in innovation, Chinese and Indian universities are soon expected to graduate 12 times as many engineers, mathematicians, technicians and scientists as US universities.

Many companies in the developing world are also expanding into other developing world markets. In the spring of 2008, Bharti Airtel of India made a bid for the largest wireless company in Africa, MTN.

Even if the developing world companies do not mount major global companies, many succeed in supplying middle income consumers at home.

For instance, Grupo Positivo in Brazil has 18 % of the domestic computer market, larger than the combined share of Hewlett-Packard and Dell, its two closest competitors.

The acquisition of Jaguar Land Rover by Tata was preceded by the advent of its Nano, a $2,500 automobile aimed at growing Indian demand for cheap personal transportation. At this low selling price, Tata is making it difficult for other international car makers eying the Indian middle class markets.

To conclude, to be counted as world class, a firm needs to be more than just well run and large. It should have a globally valued brand, or its own leading technology, or a genuinely innovative and admired business method. Given this, the sky is the limit!

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