The Journal of Business Inquiry 2012, 11, 1, 71–76
http:www.uvu.edu/woodbury/jbi/volume11
ISSN 2155-4072

Book Review

The Emerging Markets Century: How a New Breed of World-Class Companies is Overtaking the World
Antoine van Agtmael
Free Press; annotated edition, 2007
ISBN: 978-0743294577, hardcover

Reviewed by: HAMID YEGANEH*

I. Introduction

In his book 'The Emerging Markets Century,' Antoine van Agtmael discusses a tectonic shift that is taking place from the developed world to the undeveloped or 'Third World' economies. While many authors have addressed the rise of emerging markets, the Agtmael's account is particularly insightful as he examines the emerging markets at the corporate level and shares his valuable experience as an investment manager.

Emerging market is a broad term which may refer to a country that is involved in political, social, and economic evolution and which is experiencing a rapid economic growth (Fan, 2008). Agtmael relies on ample evidence to demonstrate that the extraordinary growth of emerging countries is ushering us to a new century very different from what we have known for the past centuries. According to Goldman Sachs projections, the four emerging economies namely, Brazil, Russia, India, and China will overtake the seven largest industrialized countries (United States, Japan, Germany, France, UK, Italy, and Canada) by 2040 (Agtmael p. 11). Consistent with the same projections, Brazil, Russia, India, China along with the next eleven economies (The next 11) will be larger than the G7 soon after 2030 (Agtmael, p. 11). The manifestations of the shift from the West to the emerging markets are clearly observed at the corporate level. Indeed, the leading corporations originated in the emerging countries such as Korea, Taiwan, China, India, Brazil and Russia are not really that far behind their counterparts located in more developed nations of the West (United States, Europe, Japan, Australia, and New Zealand). Examples are abundant: Korean Samsung's global brand is now better recognized than Sony's, its Research and Development budget is larger than Intel's and its 2005 profits were higher than those of Dell, Nokia, Motorola, Philips, and Matsushita. CEMEX, a Mexican cement company is the largest cement company in the United States, second largest in the UK, and third largest globally and the leading cement company in many other markets. Computers are now not just made, but largely designed in Taiwan and China. Most of the technical support on fixing these computers comes from India. Likewise, Modelo, a company headquartered in Mexico, sells more beer (Corona) to Americans than Heineken.

*Yeganeh: Assistant Professor of International Management, College of Business, Winona State University, Minnesota, 55987-5838, USA. (E-mail: hyeganeh@winona.edu). Phone : (507) 457-2453.

II. Myths about Emerging Markets Multinationals

An emerging market multinational (EMM) may be defined as a multinational company which is headquartered mainly in an emerging country (Fan, 2008). Agtmael relies on many examples to refute some popular myths about the emerging markets multinationals (EMM). For instance, it is widely but wrongly assumed that EMMs are unprofitable, inefficient, and clumsy businesses owned and managed by governments which rely only on cheap labor and plentiful natural resources to produce low-quality products and services. The author points out that just in the past ten years, EMMs have been becoming increasingly independent, efficient, sophisticated, and profitable. He explains that fifty-eight of Fortune magazine’s top 500 global corporations are headquartered in emerging markets. Many of these companies are not less but more profitable than their peers in the United States, Europe, or Japan (Agtmael, p. 15). In 2006, six of these companies that were on the Fortune 500 list were also considered world-class contenders: Samsung Electronics, Hyundai Motors, POSCO in Korea, Petrobas in Brazil, Hon Hai in Taiwan and Reliance Industries in India (Agtmael, p. 38). As little as ten years ago, putting a name with an EMM would have been difficult, but there are currently at least 25 EMMs that are considered world-class companies.

III. EMMs’ Evolution over Time

Agtmael distinguishes three main waves that help us to understand the evolution of the EMMs. In the first wave that started shortly after the World War II, Western multinationals saw the opportunity of opening manufacturing plants in the third world economies in order to take advantage of some benefits such as cheap labor, raw materials, and presence in future markets. Those countries that welcomed the Western multinationals received capital and technology and more importantly acquired the Western management standards. In the second wave, the undeveloped countries gained access to capital markets, technology, and skilled workforce. Therefore, the firms from developed countries opted for outsourcing and off-shoring non-core activities to companies from emerging economies (*The Economist*, 2006). Furthermore, during 1980s and 1990s the advances in transport and telecommunication facilitated many exchanges between firms form undeveloped and developed companies. Gradually, the level of the technology of outsourced processes was increased, and the firms from undeveloped countries were responsible to provide progressively sophisticated products and services. More recently, as the level of technology and sophistication enhanced, the companies from emerging countries started to compete with their counterparts in developed countries.

According to this theory, at the third stage, the EMMs become extremely competitive and can capitalize on their branding. Agtmael explains that not all EMMs have the luxury to build a brand name from the ground up like the Korean company Samsung. Samsung’s rise to power has been a two decade-long journey which has presented the classic linear long road to global branding. However, some EMMs do not have the time to take the classic long road, so they use other avenues such as the shortcut and the back road. The shortcut is much more accelerated and is concentrated on jumping over existing competitors and buying a brand. This is usually driven by the lack of time to establish a brand name or the lack of confidence in being able to establish a global brand name on its own. In 2004, Lenovo, a Chinese EMM tackled the global market and purchased IBM personal computer division for $1.25 billion in cash and stock (Agtmael, p.85). This was a critical point for Lenovo, as they decided to change from the long road and take the shortcut in order to expand their brand name globally. In contrast to classic long road and short-cut, the back road strategy consists of gaining brand recognition almost through luck. An example would be Corona that gained a cult-like popularity through careful marketing (Agtmael, p. 83).

IV. EMMs Competitiveness and Strategies

Agtmael emphasizes the limits of imitation and explains how EMMs are now adopting well-tailored and sophisticated business models. In chapter eight, the author concentrates particularly on Embraer's business strategy and discusses how they have been able to find their niche in the airline manufacturing market. Only Boeing, Airbus and the Montreal-based Bombardier outsell the Brazilian plane maker. Embraer has found an opportunity in what the larger companies did the worst: smaller planes. As a general rule, we might assume that the EMMs supply the first world multinationals with the pieces required for the final products. However, Embraer as an EMM has done the exact opposite. They have designed their company so that everything is made in the established markets and shipped to them ready for assembly. This allows them to obtain the highest quality products for the cheapest prices from all over the world. This strategy also gives them the flexibility that other competitors cannot afford. Thus, through planning and strategy, Embraer is able to sell planes and perform better and quicker than their competitors. The newer EMMs are adopting strategies to explore the opportunity and profitability of the resources that are found around them. Instead of having to ship in resources from all around the world, they are beginning to vertically and horizontally integrate themselves, so the costs are cut. A leading example is the wood pulp company in Brazil Aracruz Celulose that took advantage of its natural resources to become a world-class multinational. Over the years most of the wood that has been used to make paper has come from colder climates such as Europe and North America. In Brazil, where there is tropical weather, the trees grow twice as fast and can be ready in as soon as seven years.

Agtmael highlights the importance of global competitiveness and argues that EMMs need to be the best within their industry, not just as measured against local competitors, but against the best world corporations (Agtmael, p. 35). Without putting themselves to the global test, these companies will never reach their fullest potential. Based on research and interviews with CEOs, CFOs, and other senior managers, Agtmael identifies five criteria to determine whether companies are world-class: 1) A leader in the industry globally, 2) Global presence in exports and production, 3) Top-three market share in foreign countries, 4) Globally competitive not just in price but in quality, technology, and design, and 5) Benchmarks against the biggest and best in the world.

V. Dealing with EMMs

The author discusses the challenges and opportunities emanating from EMMs and maintains that in dealing or competing with these companies, four important issues should be considered: 1) Adopting public-private partnership, 2) Avoiding protectionism, 3) Learning from the first adopter, and 4) Knowing the clients' needs. First, we should set aside our disbelief about permitting local, state, regional, and national governments to become partners in launching and sustaining private enterprises. Second, we should remember that protectionism ultimately impedes excellence. By staying in one spot and not advancing or taking risk, those who rely on protectionism, end up with mediocrity and obscurity. A good example is American car makers that sat in the same position for years and are now finally carrying out new technologies to try to increase sales and profits. The third lesson to be learned from emerging markets is to learn from the adopter. By this I mean that the learning process will increasingly become a two-way street. Technology will be passed on to the First World countries along with other elements such as fashion or new designs. Fourth, we should figure out what clients need all over the world.

As EMMs are evolving, people, firms, countries, and civilizations must find a way to turn these threats into opportunities. People and companies will learn from each other if they implement a truly open and global state of mind. When faced with a competitive challenge, viewing the world as a zero-sum game of conflict usually leads to failure. We need to be adaptive and creative along with having a proactive response in order to be successful. Government officials and business executives are finding new ideas and spreading them across the world forming a new competitive challenge in this already demanding marketplace. Job losses from outsourcing are the most noticeable element of globalization when looking from the First World perspective. But outsourcing is also a two-way street because it is creating thousands of jobs in the U.S. and in Europe. It is interesting to note that five EMMs, namely Hyundai, CEMEX, TSMC, Sasol, and Samsung are the largest employers in the United States and are continuing to grow rapidly.

VI. Investment Strategies for Emerging Markets

In the final part of his book, Agtmael describes some practical rules that could be beneficial for investing in EMMs. The first rule is averaging rather than buying all at once. He adheres to a contrarian approach and says that investors should avoid markets that everyone is talking about and invest in those nobody likes. In addition, he believes that investors should invest less than ten percent of their emerging market exposure through individual stocks and invest the remainder though funds or ETFs (Agtmael, p. 297). He explains why to buy stocks that are underrated by the market. He reminds us that it is important to check out why the stock is cheap or expensive by analyzing the company's competitiveness, corporate governance, and management. In this regard, making plant visits, meeting with management and talking to competitors can be very smart. Agtmael tends to distrust the wisdom of the market, and like many guru investors, thinks that crisis may be a good way into a market because that market will ultimately bounce back and that investment may have a huge return. The notion of proven success should also be looked at when investing. He explains that the proven success is a major reason why some stocks become overrated and companies lose their market share. He suggests looking at companies that are entering the market with few competitors and who are on their way to becoming a world-class company. This strategy may lead to very high returns over a long-term period. By world-class, he means a company that will excel in the global market and will take on the global competition with success. Agtmael goes on to talk about how the world-class companies in his book are probably not the best investments in the future (Agtmael, p. 312). He adds that companies that are receiving government handouts should not be taken into consideration. Finally, Agtmael states that he would rather listen to the badmouthing to find the truth of a company rather than company management.

VII. Conclusion

Agtmael capitalizes on his extensive experience as an investment manager to provide a sharp analysis of the emerging markets' multinationals. He directs our attention to the fact that the EMMs are the results of structural socio-economic reforms after the World War II. As such, the EMMs are very likely to continue their rapid growth in future. Based on a three-stage theory, it is argued that at the first stage, EMMs are dependent on the government help, are factor-driven, and consequently compete based on their factor endowments primarily cheap labor and abundant natural resources. At the second stage of their development, wages rise and companies develop more efficient production processes and enhance product quality (Porter, 1990; Reinert, 1995). At the third stage, the EMMs survive if their businesses are able to compete with new and unique products (Schwab, 2009; Porter, 1990). Agtmael's analyses confirm that many of the EMMs have already entered the second stage and some like Samsung are growing in the third stage. The evolution of EMMs implies that they should invest more in education and training and compete by relying on advanced and sophisticated production processes.

Over time, the EMMs have learned valuable lessons from creative destructions such as the Asian crisis of 1997 and accordingly have become more resilient and agile. Nowadays, while large parts of the European Union and the so-called first world are in deep financial crisis, the emerging countries seem to be in a better position. In addition, the growth of EMMs can be supported because they are generally seen as more flexible, cooperative and less arrogant than their established American and European competitors (Bell, 2009). What is more, the largest populations reside in the emerging countries and that is where disposable incomes and consumer demand are rising fastest. Therefore, the EMMs can rely more and more on their domestic markets to sustain their growth. For instance, the Chinese collectively consume more beer than Americans, and more household appliances are sold in China than in the U.S.A. The size of the Indian middle class is now greater than the total population of all the EU countries combined (Bell, 2009). As the number of consumers is growing in emerging countries, they will ultimately decide about products, designs, brands, and even fashions. The EMMs are likely to compete with their rich-world peers in technology, management, efficiency, and quality. Consequently, it is time we start adjusting to the idea that names we have become accustomed to hearing such as the IBM's, Ford's, Wal-Mart's, Panasonics, Honda's, and Sony's are in grave danger of being over-shadowed by lesser-known names of the emerging markets. This will have a profound impact not only on the world business, but also on all aspects of society. As EMMs grow, they will gain influence, they will dictate their managerial styles, they will shape consumption patterns/behaviors, and they will impose their own corporate cultures and practices. Zakaria (2008) pointed out that as the world moves from commercial domination by the U.S. and Western Europe to more of a multipolar orientation, populations in emerging economies will continue to become wealthier, more sophisticated and self-confident. Thus, we may agree with Agtmael that the rise of EMMs represents a seismic shift in the world business, perhaps "the biggest shift since the Industrial Revolution of the 18th century" (Agtmael, p. 247).

References

Bell, J. 2009. "BRICOland Brands: The Rise of the New Multinationals." *Journal of Business Strategy,* 30(6): 27-35.

Fan, Y. 2008. "The Rise of Emerging Market Multinationals and the Impact on Marketing." *Marketing Intelligence & Planning*, 26(4): 353-358.

Porter, M. E. 1990. *The Competitive Advantage of Nations*. London: Macmillan.

Reinert, E. 1995. "Competitiveness and its Predecessors—A 500 Year Cross-national Perspective." *Structural Change and Economics Dynamics,* 6: 23-42.

Schwab, K. 2009. *The Global Competitiveness Report*: *2009–2010*, Geneva: World Economic Forum, ISBN-13: 978-92-95044-25-8.
The New Titans, *The Economist*, 09/16/2006.
Zakaria, F. 2008. *The Post-American World*. Norton & Company.