

**The Emerging Asian Titans:  
China and India and the Transformation of the International  
Business Environment**

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# **The Emerging Asian Titans: China and India and the Transformation of the International Business Environment**

## **ABSTRACT**

The International Business Environment is being transformed by the emergence of the titan economies of China and India, both as markets and as global competitors. For over a decade China has been regarded as the ‘factory of the world’ and has continued to expand both quantitatively and qualitatively – it has overtaken the US as the world’s leading exporter of IT goods and its brands are moving into global markets. The acquisition of IBM’s PC division by Chinese company Lenovo in 2004 was a harbinger of things to come and the takeover of Arcelor by India’s Mittal in 2006 was a significant step in the concentration of the global steel industry. India in general is still behind in size of the economy, but growing fast and in some areas, such as software, has the edge. Competition from both will grow over a wide and increasing range of goods and services, albeit unevenly. Both countries provide voracious, but difficult, markets for international companies. China is already the major market for many economies in East Asia, and beyond. India is smaller, but expanding rapidly. India is now Australia’s sixth largest market, growing at a rate of 30% in 2005. This paper examines the impact of China and India on the contemporary global economy, and the historical antecedents of that. Whilst the literature to date has tended to focus on international business in China and India, this paper also charts the global expansion of China and India. It concludes that the geography of the global economy is changing at an unprecedented rate due, to a large extent, to the emergence of the Asian titans.

## **KEYWORDS**

International Business Environment, Emerging economies; global brands; China; India

## **INTRODUCTION**

The International Business Environment is being transformed by the emergence of the titan economies of China and India, both as markets and as global competitors. These two aspects are interconnected, with one leading to the other. The development of the domestic market in each country, fuelled by inward Foreign Direct Investment (FDI) and local sources, and by production contracts laid by foreign companies, has stimulated domestic production, R&D and business capabilities in general (UNCTAD, 2005). Inward investment is attracted by the

lure of the large domestic market and a cheap platform from which to produce goods for export. Initially most of the outward marketing is done by foreign companies, under foreign brands, but we are now seeing Chinese companies and brands, and to a lesser extent Indian, on global markets. China and India have many things in common, large population and land area being the most obvious. Curiously, though neither are traditional beer-drinking countries, and India has a tradition of Prohibition, arguably their first global brands have been beer: Tsingtao in the case of China (Stones, 2003) and Kingfisher for India (Kurian, 2004). This paper will first place the two countries within the context of globalisation and then examine the domestic market and economy of each country in a comparative perspective. Next the paper will do the same for their global expansion. The concluding remarks will attempt to tie both aspects together.

## **CHINA AND INDIA IN THE GLOBAL ECONOMY**

There has been a growing awareness in recent years of the huge importance of Asia, and specially of China and India, in the global economy prior to, and even into, the period of European expansion. Moreover, although their domestic markets were huge, there was also a substantial involvement in international trade and business. For instance, it has been noted that during the 17<sup>th</sup> century:

Although it is difficult to “measure” the economic output of early modern Asia...every scrap of information that comes to light confirms a far greater scale of enterprise and profit in the East than in the West. ...Though Western sources tend to stress the role of eight or so Dutch ships which docked in Japan each year, in fact the eighty or so junks from China were far more important. It was the same in south-east Asia: the Europeans ...[and] their ships were outnumbered ten-to-one by Chinese vessels; and the Europeans’ cargoes consisted in the main, not of Western wares but of Chinese porcelain and silk.

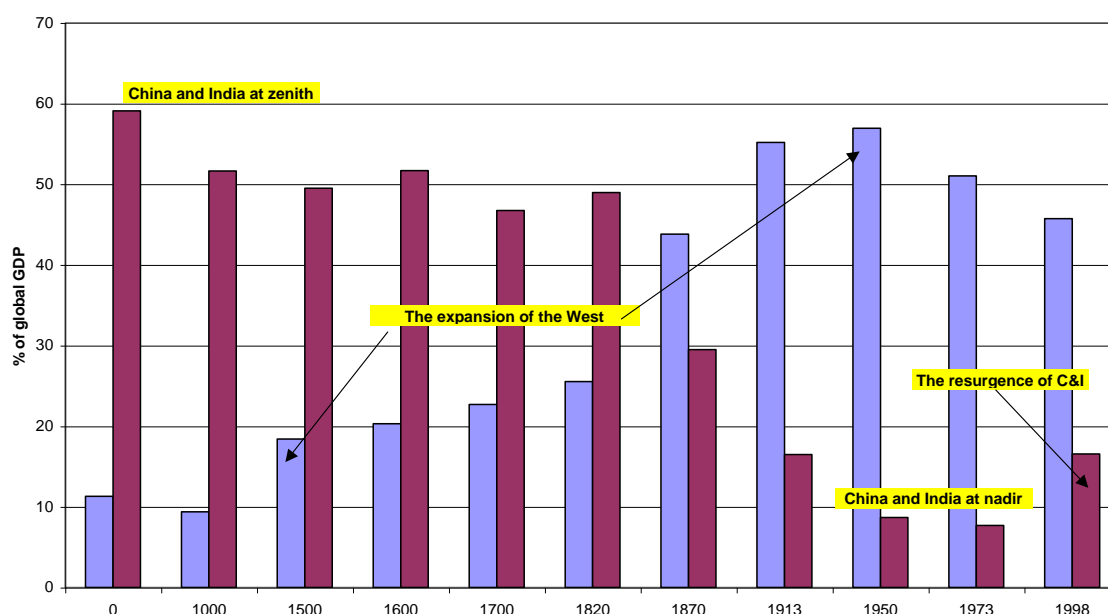
The output of both commodities was stunning. In Nanking alone, the ceramic factories produced a million pieces of fine glazed pottery every year, much of it specifically designed for export – those for Europe bore dynastic motifs, whilst those for Islamic countries displayed tasteful abstract patterns...In India, the city of Kasimbazar in Bengal produced, just by itself, over a million pounds of raw silk annually during the 1680s, while cotton weavers of Gujarat in the west turned out almost 3 million pieces a year for export alone. By way of comparison, the annual export of silk from Messina...Europe’s foremost silk producer [...] was a mere 250,000 pounds...while the largest textile enterprise in Europe, the Leiden ‘new drapery’, produced less than 100,000 pieces of cloth per year. Asia, not Europe, was the centre of world industry throughout early modern times (Parker, 1995)

The challenge of measurements was taken up by Angus Maddison of the Organisation for Economic Cooperation and Development (OECD) who has produced a couple of major studies which provide a valuable way of estimating the importance of Asia in the global economy over a long time period (Maddison, 2001; Maddison, 2004).

As Fig 1 indicates, China and India have been for most of recorded history the major part of the global economy and though they are labelled as ‘emerging economies’ they might be more properly described as ‘re-emerging’. This chart uses data from estimates of Gross Domestic Product (GDP) over two millennia (Maddison, 2001). Maddison gives estimates for a handful of countries, and for regions, including ‘Western Europe’ and ‘Western offshoots’ (North America, Australia and New Zealand) which are combined in this chart as ‘the West’. Here also, for brevity, China and India are joined together but it is interesting to note that Maddison estimates that the Indian economy was larger than China’s until about 1500 AD,

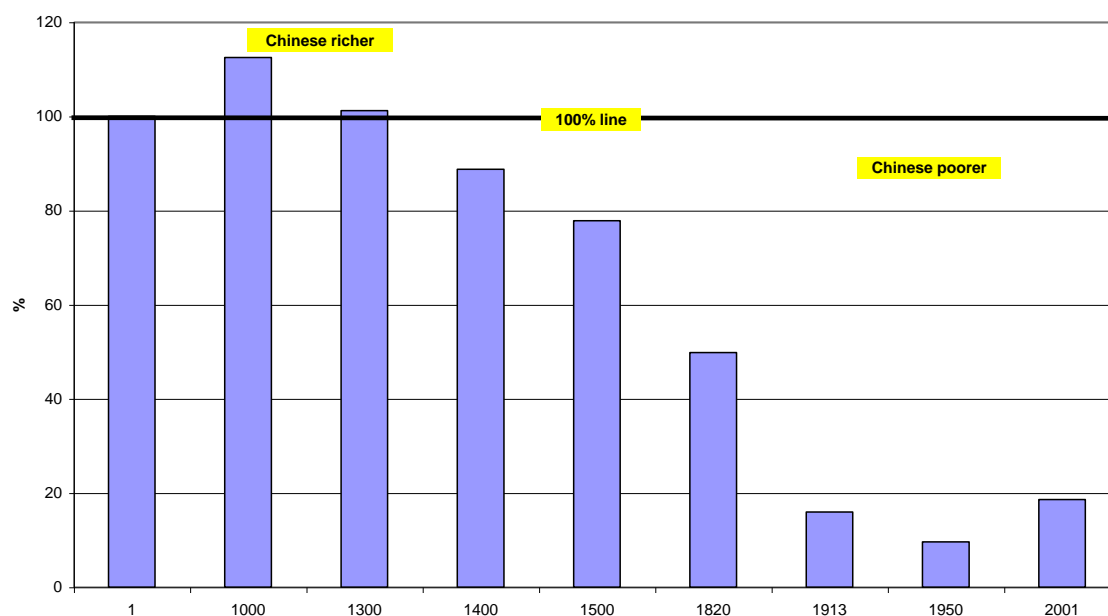
and both of them considerably bigger than that of the West; in 0 AD, for instance, he calculates the West's GDP to be some 11 billion '1990 international \$', while China's was \$27 billion and India's was \$34 billion. It was this disparity, and the recognition of it fuelled by traders and travellers such as Marco Polo which led to the expansion of the West (Larner, 1999).

Fig 1: Long-term changes in the share of global GDP: China and India, and the West  
Source: (Maddison, 2001)



GDP is, even allowing for the uncertainty of these historical estimates, only one way of gauging the size of a national market, and per capita GDP, with all its limitations, is usually preferred. The main problem with pc GDP, from a business perspective, is that it is an average and in a large, poor country can hide substantial affluent segments. This, as we shall see, is an issue with contemporary China and India. Nevertheless, pc GDP does tell us something, and in the case of China at least, for which we have estimates from (Maddison, 2004), this is quite staggering. Maddison calculates the pc capita GDP of China and Western Europe to have been 450 '1990 International \$' in AD1. A thousand years later, when Europe was in the 'Dark Ages' after the collapse of the Roman Empire, and China was just beginning the Song dynasty (960-1279), China was still at the previous level but Europe had fallen to \$400. Three hundred years later, in 1300, the European pc GDP had regained ground to \$593, but China was still just ahead at \$600. Thereafter Europe begins modernisation, and expansion, and pc GDP starts climbing, first slowly (about \$100 a century) and then explosively. China, on the other hand, stagnates until 1820, then goes into decline, down to \$439 in 1950. In that year the average Chinese was worse off than his ancestor of two millennia ago, while the European was ten times better off than his ancestor. Then, over the next fifty years, whilst the European pc GDP increased five-fold, the Chinese went up eight-fold. The Chinese resurgence had begun and this is where it gets really interesting for international marketing. The current Chinese pc GDP (\$3,583 in Maddison's calculation) a vast market (receptive to imports), and a huge manufacturing capacity, capable of dominating one global market after another. And it is an ongoing process with the economy growing at over 9% a year. Fig 2 plots Chinese pc GDP relative to that of West Europe over the two millennia.

Fig 2: *Chinese pc GDP as a percentage of West Europe's, 1-2001*  
Source: (Maddison, 2004)



It is likely that historical data for India would tell much the same story. Andre Gunder Frank observed that just as Germany and North America had displaced Britain, so too was Asia, but as a return to a historical position in the global economy rather than as newcomers:

Alas for some, today their place in the sun is also being displaced by the "Rising Sun" in East Asia. One of the theses of this book is that these developments should come as no surprise, because parts of East Asia already were at the centre of the world economy/system until about 1800. In historical terms, "the Rise of the West" came late and was brief. (Frank, 1998)

Frank was looking at the contemporary situation from an historical perspective. Looking ahead, the US National Intelligence Council echoes his comments:

The likely emergence of China and India, as well as others, as new major global players—similar to the advent of a united Germany in the 19th century and a powerful United States in the early 20th century—will transform the geopolitical landscape, with impacts potentially as dramatic as those in the previous two centuries. In the same way that commentators refer to the 1900s as the “American Century,” the 21st century may be seen as the time when Asia, led by China and India, comes into its own.

A combination of sustained high economic growth, expanding military capabilities, and large populations will be at the root of the expected rapid rise in economic and political power for both countries. Most forecasts indicate that by 2020 China's gross national product (GNP) will exceed that of individual Western economic powers except for the United States. India's GNP will have overtaken or be on the threshold of overtaking European economies (National Intelligence Council, 2004).

China and India may be returning to the position in the global economy that they held two millennia ago, but with a crucial difference. Then long-distance international trade was scarcely in existence. The silk trade between China and Rome was the only one of much significance. Now, of course, international trade (and hence international marketing) covers the world and is a major component of the economy of most countries, and the driving force in some.

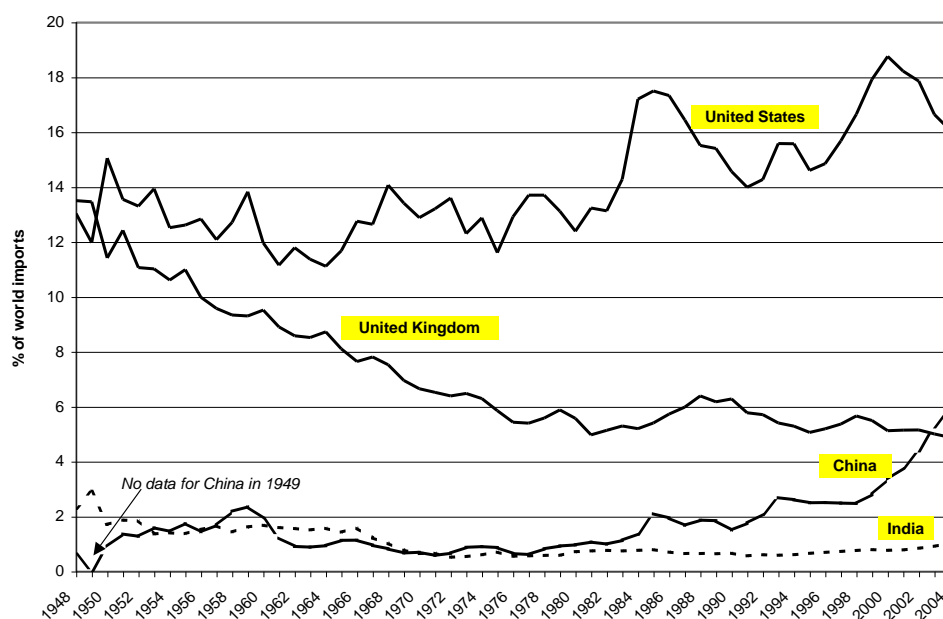
The next two graphs use data from the World Trade Organization (WTO) statistical database to show share of world imports (Fig 3) and world exports (Fig 4) over the last half-century. The United States and Britain are shown for comparison. In the late 1940s those

countries, such as the US and India, which had escaped the ravages of war were in a stronger trade position than countries such as the UK or China. China, in addition, had a civil war ending with Communist victory in 1949, the establishment of the People's Republic of China, the fleeing of the previous Guomintang government to Taiwan. This division of the Chinese economy into three (with the third part being the then British colony of Hong Kong, and the Portuguese enclave of Macau), in the long run was to have profound implications as capital and investment flowed into the Mainland from Taiwan and Hong Kong when China 'opened up' from the later 1970s (Beal, 1999). In the short term trade was devastated, and the WTO gives no data for 1949.

Britain's long-term relative decline as a market comes as no surprise, but the continued growth of the US import share is unexpected. That, combined with the decline in share of exports has resulted in a ballooning trade deficit which may well have profound implications for the global economy, and international marketing, but which does not concern us here. China's story is relatively easy to tell. Imports, and share of world imports, grow rapidly in the 1950s, when relations with the Soviet Union were good, and aid and trade flourished. There were also large purchases of grain from Canada. After the Sino-Soviet schism in 1960, and the crisis in the economy after the Great Leap Forward, the share of global imports falls away, and in some years there is a decline in absolute terms as well. There was strong import growth in the early 1970s (under the 'Gang of Four'), but not of a magnitude to show on the graph. Rapid, then ultra-rapid growth comes with Deng Xiaoping's opening up of China in the later 1970s. China rapidly outstrips India as a market and in 2003 overtook Britain. India, with modest economic growth (3.5%) - dubbed 'the Hindu rate of growth' by Raj Krishna (Panagariya, 2000) - and a policy of import-substitution has a declining share of world imports for most of the period. Even when imports grew strongly in value with liberalisation in the early 1990s, India was still dwarfed by China and its share of world imports only rose from 0.6% in 1989 to 1.0% in 2004. By comparison, China's share went from 1.8% to 5.9% over the same period (WTO, 2006). However, as we shall see below (Table 1), India though far behind, is currently achieving high growth in trade.

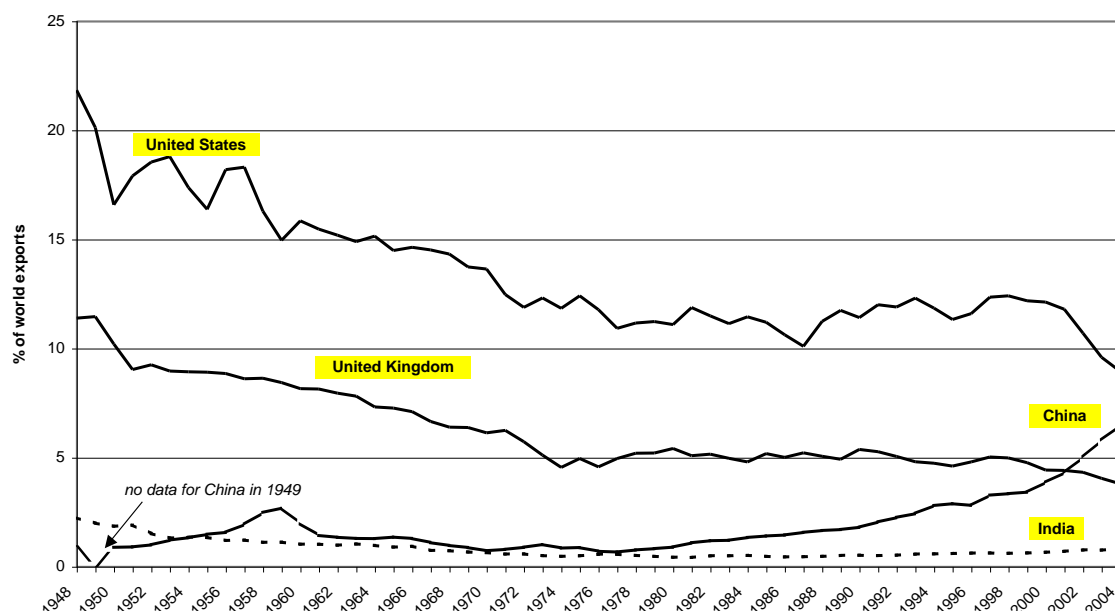
Fig 3: *Share of world imports, 1948-2004: US, UK, China, India*

Source: (WTO, 2006)



The pattern of change of share of world exports (Fig 4) is much the same, with one major difference. Here the US share has plummeted, paralleling Britain. In 1948 the US had 21.8% of world exports, twice the share on Britain (11.4%). By 2004 the US share was down to 8.9% while Britain's had fallen even further to 3.8%. The greatest increase in market share was achieved by China, whose share went from 0.9% in 1948 to 6.5% in 2004. India, despite a respectable increase in global share with liberalisation (from 0.5% in 1989 to 0.8% in 2004) is still far behind its share in 1948 of 2.2% (WTO, 2006).

Fig 4: *Share of world exports, 1948-2004: US, UK, China, India*  
Source: (WTO, 2006)



Turning to recent absolute values, as distinct from shares of global trade, we see that between 2000 and 2004 India grew at two-thirds of the Chinese rates in both exports and imports (Table 1). That means that India is still falling behind China even though its foreign trade is growing very vigorously.

Table 1: *Change in export and import values, China and India, 2000-2004*  
Percentage change over previous year of value in current US\$

	2000	2001	2002	2003	2004	Average
<b>Exports</b>						
<b>China</b>	27.8%	6.8%	22.4%	34.6%	35.4%	31.7%
<b>India</b>	18.8%	2.3%	13.6%	15.9%	32.4%	20.8%
<b>Imports</b>						
<b>China</b>	35.8%	8.2%	21.2%	39.8%	36.0%	35.3%
<b>India</b>	9.7%	-2.2%	12.2%	26.0%	36.6%	20.6%

Source: (WTO, 2006)

## CHINA AND INDIA AS MARKETS

China and India obviously share various characteristics. They are both countries with large land areas (and important maritime economic zones, with oil reserves) and vast populations. They have both moved from policies of self-reliance and import-substitution to a more liberal, trade-oriented approach (called ‘opening up’ in China and ‘liberalisation’ in India) but starting at different times and going at different paces. They are both relatively poor, but because of large population and inequalities, they offer significant middle-class and rich markets. However, listing similarities should not blind us to very significant, sometimes obvious but occasionally subtle, differences between them. This section takes some of the major characteristics and discusses them in order to tease out and illustrate some of the marketing implications. It is impossible to do in a page what requires a large book, but enough can be said to suggest the complex opportunities and challenges these markets present. For clarity, all statistics in this section come from (World Bank, 2005b) unless otherwise stated.

### People and society

China is currently, and perhaps always has been, the world’s most populous country (Maddison, 2004). Table 2 gives figures for 2004 for China, India and comparison countries, South Korea, UK and US. Whilst China has about 200million more people than India (in itself four times the population of either South Korea or Britain, and nearly that of the United States) is predicted to be overtaken by India by 2040 (Thirlwell, 2004). China’s population growth rate – restrained originally by the one-child policy but increasingly by social factors such as urbanisation – is less than half that of India’s and just above that of South Korea. It is also just 2/3 of the US rate. Both China and India are urbanising societies, with huge implications for changes in market demand (Iredale, 2001). Both have a long way to go until they reach America’s 20%, where they will probably stabilise. China is ahead of India in this process, and will probably continue that way. Bearing in mind that markets for international traded goods tend to be cities, rather than the rural areas, it is important to note that 40% of Chinese, some 500 million, and 29% of Indian, about 300 million, are city-dwellers.

Table2: *Basic population statistics, selected countries, 2004*

	<b>Total</b>	<b>Growth</b>	<b>Rural %</b>
	(millions)	(annual %)	% of total population
<b>China</b>	1,297	0.6	60
<b>India</b>	1,080	1.4	71
<b>South Korea</b>	48	0.5	19
<b>United Kingdom</b>	59	0.1	11
<b>United States</b>	294	0.9	20

Source: (World Bank, 2005b)

We know that traditional societies had high birth and high (infant) mortality rates, which tended to restrain population growth. Indeed, it was not uncommon in periods of



epidemic, war, etc., for population to actually decrease. This happened Europe during the Black Death and in China in the 19<sup>th</sup> century. However, with advances in health and medicine, especially improved sanitation, countries have tended to go through two demographic transitions. In the first, birth rates stay high but infant mortality rates drop, resulting in rapid population increase. This in turn results in a ‘young society’, with the proportion of the population being under, say, 15 being high. Subsequently, there is often a drop in birth rates, and the population growth rate slows down. This drop can be brought about by a combination of political measures and social forces, as in the case of China, or mainly social factors, as in the case of Britain. The process is complicated by religious attitudes towards contraception, desire for parents to have boy children (especially in the countryside) and by migration. This second demographic transition brings about the ‘ageing society’.

Population distribution, and changes in it, have profound implications for marketing since many products are age-specific. Table 3 shows that both Britain and America are ageing societies, though the latter is younger because of higher immigration rates. China and South Korea are about the same; the latter is slightly older, but not by much. Neither of them are very different from Britain and America, except for the proportion over 65. India is clearly different. The proportion of the population over 65 is less than 1/3 the British level and the proportion of young people is approaching twice the British one.

Table 3: *Population distribution, 2004, selected countries*

Country/age group	0-14	15-64	65 +
China	23	70	7
India	32	63	5
South Korea	20	72	8
United Kingdom	18	66	16
United States	21	67	12

\* values are presented as “percentage of total population”

Source: (World Bank, 2005b)

By virtually any sort of social indicator that one selects – life expectancy, literacy, physicians per 1,000 people, etc. – China is appreciably ahead of India and sometimes not far behind advanced countries. China is very diverse and companies divide it into a number of markets. There is also a basic divide between the richer eastern seaboard and the poorer interior. Generalisations about China and its market are hazardous. However, India is much more diverse. Whereas 92 % of the Chinese population are Han, sharing the same (written) language, in India the situation is quite different. Hindi is the national language and is used by some 30% of the population. But there are 14 other official languages, a large number of other languages used by substantial numbers of people, and English as an associate language and *lingua franca*. The implications of this for advertising, communication and labelling are formidable.

## Imports

The three sets of data in Table 4 do not tell us anything direct about the nature of the market in the five countries but they do provide some important clues for international marketers.

Firstly, imports of goods and services as a percentage of GDP. We know that the UK is a more trade-oriented economy than the US, and South Korea's growth has been driven by trade. However, what might be surprising is that China's imports make up a greater proportion of GDP (32%) than is the case for Britain (28%). India is way behind China, but ahead of the US. These figures indicate the receptiveness of the economy to imports. A closed economy would, on the contrary, show imports as a small part of GDP.

Growth in imports is another key indicator. One year, as shown here, is suggestive rather than conclusive but available data indicates that 2003 was not atypical. The UK and US are mature markets and import growth is slowing down. South Korea is maturing, but still has rapid import growth. India has rapid growth as well, but less than half the Chinese rate. In time, as the Chinese economy matures we can envisage India catching up, but whether it will ever rival China's hyper-growth is unknown.

Growth, and import dependence, are useful indicators but on their own they only take us so far. A small pacific nation might well have very high scores on both these indicators, but being small would not be very attractive for most companies. Size does matter. The US remains by far the major import destination but China is overtaking Britain (and has since done so). India is again, far behind, but still already a substantial market for international companies

Table 4: *Imports, selected countries, 2003*

	% of GDP	Annual growth	Value
	%	%	US\$ billion
<b>China</b>	32	25	449
<b>India</b>	16	11	94
<b>South Korea</b>	36	10	216
<b>United Kingdom</b>	28	1	510
<b>United States</b>	14	3	1,517

Note: % of GDP and growth for US are 2002 figures

Source: (World Bank, 2005b)

This snapshot illustrates just how important the titans are as markets. China is much more important than India, and still growing faster. However, although India might still be in the shadow of China it is a very large market, with huge potential. It is illustrative that the new chief executive of Coca-Cola, Roberto Goizueta, faced with the task of regaining global leadership from PepsiCo has 'vowed to address emerging markets such as China and India more energetically' (Teather, 2005). What is good for Coca-Cola must hold lessons for most companies, large or small, engaged in international marketing. Both are difficult markets, and they are very different from each other, but neither can be ignored (Shukla, 2006).

## CHINA AND INDIA AS GLOBAL COMPETITORS

China and India compete for inward FDI, and currently China is by far the more successful. In 2004 it received \$60.6 billion compared with only \$7.0 billion for South Asia as a whole

(UNCTAD, 2005). The basis for this competition is the size and growth of the domestic market, the quality, cost and availability of factors of production, and increasingly, their suitability as platforms for serving global markets. This entry into global markets can be done by developed country MNCs, but there is a growing presence of China-, and India-originated MNCs. Whilst there is competition between Chinese and Indian MNCs, internationally and in the other's market, and this is likely to continue, what is of most importance and impact is the threat they pose to established, developed country, firms.

Shekhar Bajaj of the Bajaj Group, one of India's leading conglomerates, has claimed that Indian manufacturers 'have the edge on China' because of lower costs and higher quality (Field, 2006). He may be right. Labour costs are lower, but are rising, as did China's. However the quality of labour is generally lower and India is handicapped by a much weaker infrastructure. Electricity is a case in point: "A detailed survey by the World Bank has found that manufacturers in India face nearly 17 significant power outages per month, versus only one per month in Malaysia and four in China. Nine per cent of the total of output is lost due to power breakdown, compared to 2.6 per cent in Malaysia and 2 per cent in China" (Birla, 2006). However, there are pockets of excellence. The Chennai-based Rane Group has carved out an international niche in automotive valves (Ramesh, 2006).

Significantly, according to the Reserve Bank of India, in 2004/5 China (6.3%) overtook the United States (5.9%) to become the largest source country for Indian imports. This does not in itself prove that Chinese manufactures are superior to Indian, since the imports may be in industries in which India is not a strong competitor, but we do know that Chinese companies are now targeting India. Whiteware giant Hai'er is a prime example (Bailay, 2004).

One area in which India does outdo China is in the field of services, from call centres to software. High technology exports are as an important part of China manufacturing export profile as they are for South Korea, Britain or the US (Table 5). In terms of value of such exports, China's are twice that of either South or Britain and 2/3 of America's. On both these measures India is far behind. But turning to services, we get a different picture. India's exports of services are only half the Chinese level but not far behind South Korea. Much of the services exports for China may be attributed to inbound tourism: in 2002 China had 36.8 million tourist arrivals, compared with only 2.4 million for India (World Bank, 2005b). In terms of services compared with merchandise exports, India is pegged with the US, just behind Britain, but way ahead of China (and South Korea).

Table 5: *High tech and services exports, 2003, selected countries*

Item	China	India	S. Korea.	UK	US
<b>High-technology exports (% of manufactured exports)</b>	27	5	32	26	31
<b>High-technology exports (current US\$b)</b>	107.5	2.3	57.2	64.5	160.2
<b>Ratio of commercial service exports to merchandise exports (%)</b>	11	40	16	48	40
<b>Service exports (BoP, current US\$b)</b>	46.7	23.4	32.7	148.9	304.1

Source: (World Bank, 2005b)

Where China is far ahead of India, probably unassailably so, is in merchandise exports. China is often called the 'factory of the world' and the statistics in Table 6 bear this out. The huge size and staggering growth of China exports of goods is clear. In 2002 China's exports were 32% of the US level; by 2003 they were 61%. India also gained on the US, going from 6% to 8%, but at a much more modest rate.

Table 6: *Exports of goods, 2000-3, selected countries*

	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
<b>China</b>	249.1	266.1	325.7	438.3
<b>India</b>	43.2	44.8	51.1	59.3
<b>South Korea.</b>	176.2	151.5	163.4	197.6
<b>United Kingdom</b>	284.4	273.7	279.9	308.3
<b>United States</b>	774.6	721.8	685.3	716.4

\* values are presented as “current US\$ billions”

Source: (World Bank, 2005b)

Most Chinese exports of goods are traded under foreign brands, but things are changing fast. Now we are seeing the appearance, one after the other, of Chinese brands, in the way that in previous decades we saw Japanese and South Korean (Beal, 2006 forthcoming).

Chinese corporations such as Hai’er, Lenovo, Shanghai Automotive Industry Corporation (SAIC), and China National Offshore Oil Corporation (CNOOC) have attracted the attention of the media for an aggressive thrust into world markets (Crowell, 2005). Its widely predicted that a growing number of such corporations will become household names before long (Madden, 2003).

Firstly, Chinese corporations are acquiring parts, or the whole, of foreign companies. High profile instances of this are Lenovo’s purchase of IBM’s PC division, and Shanghai Automotive Industry Corporation (SAIC) purchase of South Korea’s Ssangyong corporation, and Nanjing Automobile Group purchase of MG Rover Group (Bunkley, 2006). The sale of IBM’s PC division was particularly symbolic and significant event and it came on the heels of another milestone – in 2004 China overtook the United States as the world’s major exporters of information technology goods (OECD, 2005a).

Secondly, there are a number of other Chinese corporations making their own way on the world stage, for example, “BYD company is the world’s largest manufacturer of nickel-cadmium batteries and has a 23 percent share of the market for mobile-hand-set batteries; China International Marine Containers Group Company has a 50 percent share of the marine container market, supplying the top ten shipping companies globally; Galanz Group Company commands a 45 percent share of the microwave market in Europe and a 25 percent share in the United States; Hisense is the number-one seller of flat-panel TVs in France” (Aguiar et al., 2006). However, the one capturing the most attention is Hai’er (also frequently, if incorrectly, spelt Haier). Hai’er originates from the port of Qingdao, home to China’s most famous beer, and arguably its first global brand, *Tsingtao* (Madden, 2003). It has become “the world’s fourth-largest home appliance maker, with 2005 sales of \$12.8 billion” (Engardio and Arndt, 2006). What is significant about Hai’er’s operation in the United States is that it has gone beyond the expected, and virtually obligatory, deals with the dominant retailers into production. It started selling in the US in 1995 under other names before establishing its own operation in 1999 (Spors, 2004). The following year Hai’er completed a \$40million factory in Camden, South Carolina, moving to an area where wage rates were ten times what it was paying in China (Zhao, 2003). It is reported that Hai’er is the top-selling brand of compact refrigerators and No.3 in freezers, and its sales in the U.S. were \$750 million in 2005. (Engardio and Arndt, 2006). The Japanese had reluctantly opened up production in the United States in the 1980s in order to circumvent and deflect American protectionism fuelled by a

large trade deficit. The Hai'er investment has echoes of that, because America's deficit with China has replaced that with Japan as a major concern but there are considerable differences. The Japanese were hesitant not because of any disparity in wage rates but because they considered American workers inferior to Japanese. Hai'er has given various reasons for the Camden factory such as being able to respond quickly to orders from retailers while maintaining a low inventory, and cutting transportation costs from China but arguably the main one is the strategic desire to establish the perception of Hai'er as an 'American company', and nationalist pride (Zhao, 2003). Nevertheless, the Hai'er investment may be starting a trend, with American regions vying for Chinese FDI in the way they sought Japanese investment in the past (Grant, 2005).

## **CONCLUSION: THE UNFORESEEN TRANSFORMATION**

It is interesting to note how little this has been predicted, either by business or government, or in the academic literature. A forward look at 'China in 2010' in *Business Horizons* in 1987 concluded that China would "muddle through", and it was certainly a place US corporations should invest in, but there was no sense of how important it would become as a global player (Battat, 1987). More recently, a number of reports on Delphi studies of business perceptions of "international business and trade in the next decade" by Czinkota and Ronkainen provides an insight in how attitudes are changing, but probably still lagging behind reality. In their 1997 report China is described as "the economic event of the decade", but this is seen entirely in terms of providing 'substantial opportunities for outside participation'. South Korea 'is likely to emerge as a participant in worldwide competition, while India is considered more important for the size of its potential market' (Czinkota and Ronkainen, 1997). By the time of their 2005 report there is a recognition that "emerging countries' companies will be pushing into global markets by both establishing their own brands or through acquisition of famous global brands. Chinese brands such as Haier and Huawei are becoming part of many markets' key brands while brands such as Murray have been bought by Chinese investors". (Czinkota and Ronkainen, 2005). In the period since Czinkota and Ronkainen conducted their latest round of research Chinese and Indian MNCs have made, or attempted, huge acquisitions. Lenovo and IBM PC division, SAIC and Ssangyong, SAIC's unsuccessful bid for MG Rover, and Nanjing's successful takeover, CNOOC's thwarted bid for Unocal and, most recently, Mittal's fiercely contested but ultimately successful bid for Arcelor mark a new stage in international business. Academic studies take considerable time to get into print while consultancy companies and the media are naturally much nimbler. The first half of 2006 saw a major study of emerging country MNCs by the Boston Consulting Group (Aguiar et al., 2006) and the influential US magazine *Business Week* featured them as its cover story for 31 July 2006, proclaiming 'Multinationals from China, India, Brazil, Russia, and even Egypt are coming on strong. They're hungry -- and want your customers. They're changing the global game.' (BusinessWeek, 2006).

Are they "changing the global game"? Probably not, but they are certainly having a substantial impact on the environment and this is likely to continue and intensify. Sometimes the impact is dramatic, as in the saga of Mittal's takeover of Arcelor, but often it happens at a less obvious level. For instance, the collapse of the Doha round in July 2006 owed something to this transformation. The Doha round was focused on agricultural trade and the EU and the US were the main protagonists. Nevertheless, it is significant that whilst the US trade representative, Susan Schwab, laid most of the blame on the EU she also claimed that the

access that “advanced developing countries - represented in the core negotiating group by India and Brazil - had offered to their agricultural markets was too low to be meaningful”. (Beattie and Parker, 2006). Access to markets is one part of the story but at a deeper level there is a faltering confidence in American (and European) ability to counter competition from emerging economies such as China and India, which is leading to rising sentiment for protectionism (Weinstein, 2005).

The aggressive advance into global markets of companies such as Hai'er and Mittal may yet come unstuck, but then Japan's first attempts at the US market were often less than glorious (Kotler et al., 1985). However, the Japanese kept coming and so will the Chinese and the Indians. With economies of scale from huge domestic markets, and able to acquire technology and business expertise in an increasingly globalised world, the Asian titans will transform the international business environment. Whether the global economy, and the firms that have run it in the past, will be able to accommodate this transformation, remains to be seen.

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