Abstract: This chapter sets the stage for this Handbook by defining the research field of managing in emerging markets. We first discuss the features that normally distinguish emerging economies from the advanced economies of the Triad, including both economic and institutional aspects of development. Second, we review alternative definitions of the term in use in scholarly research, and thus the pivotal question: When should a country be considered as ‘emerging’? Third, we present data on key economic trends that have led to emerging economies becoming key players in international business, both as a host to inward traders and investors and, more recently, as a source of indigenous businesses that make their mark internationally. We also provide an overview of each chapter in this Handbook within the broader research agenda on Managing in Emerging Markets.

Keywords: emerging markets, emerging economies, management, international business, institutions, economic development, economic growth
1.1. Objectives of this Book

Emerging markets, also known as emerging economies, have become major players in the global economy and a primary source of growth in the 21st century. Many emerging markets have a track record of economic growth ahead of global averages, others have laid the foundations for growth by enacting economic reforms. Standards of living, life expectancies, and personal wealth have risen, though not uniformly. Thus, companies from Europe, North America and Japan (the Triad) face opportunities to grow their sales, to invest capital, and to organize their supply chains on a global scale. At the same time, local firms in emerging markets are expanding, becoming more international, and competing extensively with companies from the historically advanced economies.

Emerging markets are low or middle-income economies with high economic growth potential. Yet, they tend to be less stable and still imperfect with respect to the efficiency and impartiality of markets due to imperfections in the institutional framework; commonly known as institutional voids (Khanna & Palepu, 1997; Meyer & Peng, 2016). Management practices in emerging markets are not categorically different from advanced economies in the sense that business is business. However, what is different is the environment for business. For example, Xu and Meyer (2013: 1323) describe the characteristics that typically distinguish emerging markets from developed economies as:

- “Markets are less efficient due to less transparency, more extensive information asymmetries, and higher monitoring and enforcement costs.
- Governments and government-related entities are not only setting the rules, but are active players in the economy, for example through state-owned or state-controlled firms.
- Network-based behaviours are common, in part as a consequence of the less efficient markets, but arguably also due to social traditions, and they influence how firms interact with each other.
- Risk and uncertainty are high due to high volatility of key economic, political, and institutional variables. Hence, businesses find it harder to predict parameters they need
for strategic decisions, including, for example, business cycles, government actions, and the outcome of legal proceedings.”

To this, we would like to add the often (but not always) weak physical infrastructure and the weak skill and innovation bases available locally. On the other hand, some emerging markets are rich in natural resources ranging from agricultural produce to oil, gas and minerals. Also, the institutional environment varies across emerging markets. While, most emerging markets rely on markets as primary coordination mechanisms, their business systems vary substantially especially with respect to the role of the state in business affairs through regulation, industrial policy, and equity ownership (Witt and Redding, 2014; also see Chapter 33). Understanding these contextual features is essential both for businesses crossing borders into and out of emerging markets and for scholars theoretically or empirically investigating management phenomena in emerging markets.

This Handbook provides an overview of managerial challenges in emerging markets for both local and foreign-invested companies, and offers the latest scholarly insights on how businesses can succeed in these contexts. Our aim is to identify key elements of the business environment and to analyze competitive strategies and business practices. The Handbook contributors offer a wide-range of theoretical and conceptual approaches to analyzing the opportunities and challenges that businesses face in emerging markets.

This Chapter 1 introduces key concepts and trends. First, we discuss the sometimes confusing plethora of terms used to designate emerging markets, or to describe subgroupings. Then, we provide some data regarding the importance of emerging markets within the global economy. Finally we briefly introduce each of the Chapters of this Handbook, highlighting key ideas and themes that the authors develop. In Chapter 2, we outline conceptual frameworks that run across the contributions in this Handbook, namely the evolving global value chains and the tenuous balance between global theories and practices and indigenous ones for explaining management in emerging markets.

1.2. What Are Emerging Markets?

1.2.1. Definitions and Terminologies
Management scholars are often pragmatic in defining the scope of emerging markets, essentially including all economies that are not considered ‘advanced’ (Hoskisson et al., 2000; Wright et al., 2005; Meyer & Xu, 2013; Grosse, 2015). Some economies achieved advanced status in the 1990s, notably Israel, Singapore and the Republic of Korea (henceforth ‘Korea’ in this book). Others have been reclassified by the IMF and the World Bank more recently, for instance Central and East European countries. The latter held ‘emerging’ status until recently, and studies on those countries continue to be an important source of knowledge relevant to emerging markets. Therefore, we include them as emerging markets in this Handbook. This perspective ensures broad scoping for relevant insights, though contributors may adapt the scope of their analysis as appropriate for the topic of their chapter.

A number of alternative terminologies have been used to refer to the countries covered in this Handbook. The term ‘emerging markets’ was coined in 1981 by an economist at the International Finance Corporation, Antoine van Agtmael (Van Agtmael 1984; Wharton 2008), who was seeking an attractive label for an investment fund that would invest in a portfolio of minority stakes in companies in what was hitherto known as the Third World. The term quickly became popular among financial market analysts (e.g. Errunza, 1983; Harvey 1995) and has later been adopted by management scholars studying business organizations operating in these economies (Khanna and Palepu, 1997; Hoskisson et al., 2000). The term ‘emerging economies’ is mostly used synonymously with emerging markets (see e.g. Wright et al., 2005; Xu and Meyer 2013); its advantage is that it indicates that these economies play a variety of different roles for businesses, for example as production bases within global value chains, or as home bases for emerging market MNEs.

Management scholars have primarily focused on the economically most dynamic of the emerging markets, especially on China. These are mostly middle income economies – neither rich nor poor – with actual or potential economic catch up and an imperfect but improving

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1 In firm level empirical studies, the number of observations in each country often is an important practical consideration, while the concept emerging markets is not formally defined. For example, Khanna and Rivkin (2001) include Argentina, Brazil, Chile, India, Indonesia, Israel, Mexico, Peru, the Philippines, South Africa, South Korea, Taiwan, Thailand, and Turkey; Delios and Henisz (2000) include Argentina, Brazil, China, India, Indonesia, South Korea, Malaysia, Mexico, Philippines, Poland, Singapore, South Africa, Taiwan, Thailand, Turkey and Vietnam, while Estrin, Meyer and Peletier (2018) include Brazil, China, India, Mexico, Russia, South Africa and Turkey.
institutional framework for business (e.g. Hoskisson et al., 2000; Xu and Meyer, 2013). On the other hand, management scholars have not paid much attention to low income economies.²

An older terminology distinguishes ‘industrialized economies’ from ‘developing economies’. This terminology was popular in the discourse on economic development in the 1960s (e.g. Akamatsu, 1962; Baer and Hervé, 1966; Vernon, 1979) when industrialization was seen as essential to raise per capita incomes. However, the traditionally industrialized economies have moved to service industries while some emerging markets, especially in Central and Eastern Europe, have seen a high degree of industrialization, but are lagging the advanced economies in economic prosperity. Second, many people in emerging markets find the term ‘developing’ somewhat patronizing as they have their own rich history and culture that they perceive to be belittled by this terminology.

Other terms largely rejected by the countries concerned are ‘underdeveloped economies’ (e.g. Singer, 1949) and ‘third world’ which refer to countries that are neither early-industrialized economies nor the ‘second world’ of the former socialist bloc led by the Soviet Union (Turner, 1974; Worsley, 1964). We advise against continued usage of these terms.

### 1.2.2. Classifications

Multilateral organizations each employ their own classification of countries, varying with the purpose of the organization (Table 1.1). The World Bank classifies countries in four categories based on the per capita income as low income, lower-middle income, upper-middle income, and high income. The thresholds are continuously adjusted; in 2016 they were: over $1,025 = lower middle income; over $4,035 = upper middle income; over $12,475 = high income economies. The IMF uses a similar classification, but adjusts it for example for members of the eurozone which are considered as advanced. The UN categorizes countries in three categories, developed, developing and transition. Apart from countries that joined the EU and

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² A notable exception is a recent special issue on business in Africa in the *Global Strategy Journal* (Mol, Stadler and Ariño, 2017).
thence are classified as ‘developed’, this classification has not been updated to reflect the economic evolution of the past 25 years.³

Table 1.1: Classification of Selected Countries by Different Organizations

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP per capita in 2016 (1)</th>
<th>IMF classified as advanced since (3)</th>
<th>United Nations (4)</th>
<th>OECD member since</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Countries not normally considered ‘emerging’</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>52,960.7</td>
<td>1997</td>
<td>Developing</td>
<td>Not member</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>43,681.1</td>
<td>1997</td>
<td>Developing</td>
<td>Not member</td>
</tr>
<tr>
<td>Korea (Republic of)</td>
<td>37,538.8</td>
<td>1997</td>
<td>Developing</td>
<td>1996</td>
</tr>
<tr>
<td>Israel</td>
<td>37,292.6</td>
<td>1997</td>
<td>Developing</td>
<td>2010</td>
</tr>
<tr>
<td>Taiwan, China</td>
<td>n.a.</td>
<td>1997</td>
<td>Developing</td>
<td>Not member</td>
</tr>
<tr>
<td>Spain</td>
<td>26,528.5</td>
<td>From the outset</td>
<td>Developed</td>
<td>1961</td>
</tr>
<tr>
<td>Portugal</td>
<td>19,813.3</td>
<td>From the outset</td>
<td>Developed</td>
<td>1961</td>
</tr>
<tr>
<td>Greece</td>
<td>18,104.0</td>
<td>From the outset</td>
<td>Developed</td>
<td>1961</td>
</tr>
<tr>
<td><strong>High income economies (2) considered ‘emerging’ by other criteria</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>37,622.2</td>
<td>Emerging</td>
<td>Developing</td>
<td>Not member</td>
</tr>
<tr>
<td>Bahamas</td>
<td>23,124.4</td>
<td>Emerging</td>
<td>Developing</td>
<td>Not member</td>
</tr>
<tr>
<td>Bahrain</td>
<td>22,354.2</td>
<td>Emerging</td>
<td>Developing</td>
<td>Not member</td>
</tr>
<tr>
<td>Slovenia</td>
<td>21,304.6</td>
<td>2007</td>
<td>Developed</td>
<td>2010</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>20,028.6</td>
<td>Emerging</td>
<td>Developing</td>
<td>Not member</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>18,266.5</td>
<td>2009</td>
<td>Developed</td>
<td>1995</td>
</tr>
<tr>
<td>Estonia</td>
<td>17,574.7</td>
<td>2011</td>
<td>Developed</td>
<td>2010</td>
</tr>
<tr>
<td>Slovakia</td>
<td>16,496.0</td>
<td>2009</td>
<td>Developed</td>
<td>2000</td>
</tr>
<tr>
<td>Lithuania</td>
<td>14,879.7</td>
<td>2015</td>
<td>Developed</td>
<td>Not member</td>
</tr>
<tr>
<td>Latvia</td>
<td>14,118.1</td>
<td>2014</td>
<td>Developed</td>
<td>2016</td>
</tr>
<tr>
<td>Chile</td>
<td>13,792.9</td>
<td>Emerging</td>
<td>Developing</td>
<td>2010</td>
</tr>
<tr>
<td>Hungary</td>
<td>12,664.8</td>
<td>Emerging</td>
<td>Developed</td>
<td>1996</td>
</tr>
<tr>
<td><strong>Upper middle income economies (2)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poland</td>
<td>12,273.4</td>
<td>Emerging</td>
<td>Developed</td>
<td>1996</td>
</tr>
<tr>
<td>Croatia</td>
<td>12,090.7</td>
<td>Emerging</td>
<td>Developed</td>
<td>Not member</td>
</tr>
<tr>
<td>Turkey</td>
<td>10,787.6</td>
<td>Emerging</td>
<td>Developing</td>
<td>1961</td>
</tr>
<tr>
<td>Romania</td>
<td>9,474.1</td>
<td>Emerging</td>
<td>Developed</td>
<td>Not member</td>
</tr>
<tr>
<td>Russia</td>
<td>8,748.4</td>
<td>Emerging</td>
<td>Transition</td>
<td>Not member</td>
</tr>
<tr>
<td>Mexico</td>
<td>8,201.3</td>
<td>Emerging</td>
<td>Developing</td>
<td>1994</td>
</tr>
<tr>
<td>China, P.R.</td>
<td>8,123.2</td>
<td>Emerging</td>
<td>Developing</td>
<td>Not member</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>7,350.8</td>
<td>Emerging</td>
<td>Developing</td>
<td>Not member</td>
</tr>
</tbody>
</table>

Notes: (1) per capita income in current US$ at market exchange rates; (2) World Bank thresholds in 2016: > $ 1025 = lower middle income; > $4035 = upper middle income; > $12475 = high income; (3) IMF classifies eurozone member countries as advanced but not necessarily other EU countries; (4) United Nations defines all EU member countries as developed independent of income level.

Sources: World Bank, 2017a; IMF, various years; United Nations 2017; OECD, no date.

³ For example, Hope, Thomas and Vyas (2011) use the UN definition to design their sample.
The member countries of the Organisation for Economic Co-operation and Development (OECD) are generally considered as advanced economies, and some studies define emerging markets as non-OECD-member countries. However, in recent years the boundary has blurred as Chile, the Czech Republic, Korea and others have joined the OECD (Table 1, Column 5). In fact, Turkey has been member of the OECD since 1961, and Mexico joined with the formation of NAFTA in 1994, even though both are still upper-middle-income economies.

For the purposes of this book, we adopt the operationalization of the IMF. However, we believe that the intellectual discourse on management challenges in emerging markets can greatly benefit from insights gained in countries that recently ‘graduated’ from emerging to advanced. Therefore, for this book, we use the status of a country in the IMF classification in the year 2000 as baseline (see Table 1.1). In other words, we consider Singapore, Hong Kong, Korea, Israel, Taiwan, Spain, Portugal and Greece as advanced economies.

Financial investment professionals and scholars of financial markets tend to use a definition of emerging markets that starts from the perspective of internationally operating financial investors who invest some of their assets abroad to enhance their risk diversification. For them, critical criteria include the ability of foreign investors to buy and sell financial instruments in the country. The MSCI index developed by Morgan Stanley Capital International has become most popular in the finance community (e.g. Harvey, 1995), and is also used by some management scholars (e.g. Kalasin, Dussage & Rivera-Santos, 2014). To be included in the MSCI emerging markets index, a country needs to have high degrees of free movement of capital and stock market liberalization. Countries not meeting these criteria or lacking depth of financial markets due to their small size may be considered as ‘Frontier Markets’ (Table 1.2).

### Table 1.2: Financial Markets as Classified by MSCI

<table>
<thead>
<tr>
<th>Index</th>
<th>Americas</th>
<th>European Union</th>
<th>Other Europe, CIS</th>
<th>Middle East and Africa</th>
<th>Asia Pacific</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI World Index (Developed Markets)</td>
<td>Canada, USA</td>
<td>Austria, Belgium Denmark, Finland France, Germany Ireland, Italy, Belgium, France, Germany, Ireland, Italy</td>
<td>Norway Switzerland</td>
<td>Israel</td>
<td>Australia, Hong Kong, Japan, New Zealand, Singapore</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>MSCI Emerging Markets Index</th>
<th>Netherlands, Portugal, Spain, Sweden, United Kingdom</th>
<th>Russia</th>
<th>Egypt, Pakistan, Qatar, South Africa, Turkey, United Arab Emirates</th>
<th>China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, Thailand</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI Frontier Markers</td>
<td>Brazil, Chile, Columbia, Mexico, Peru</td>
<td>Czech Republic, Greece, Hungary, Poland</td>
<td>Kazakhstan, Serbia</td>
<td>Bahrain, Jordan, Kenya, Kuwait, Lebanon, Mauritius, Morocco, Nigeria, Oman, Tunisia, WAEMU</td>
</tr>
<tr>
<td></td>
<td>Argentina</td>
<td>Croatia, Estonia, Lithuania, Romania, Slovenia</td>
<td></td>
<td>Bangladesh, Sri Lanka, Vietnam</td>
</tr>
</tbody>
</table>

Notes: (1) Pakistan is included since June 2017; (2) China is to be in the Emerging Markets Index from June 2018 onwards; (3) West African Economic and Monetary Union.


The MSCI classification is somewhat different than the classifications used by the multilateral organizations. For example, Korea and Taiwan are still considered emerging markets although they fall in the high income category of the World Bank and the IMF. Also, OECD member countries Chile, Czech Republic, Greece, Mexico, and Poland are considered as emerging markets. China is admitted to the emerging markets index only effective June 2018 following long running negotiations with the free flow of capital being a sticky point; the ability of foreign investors to invest domestic stock markets in China is still restricted.

EU member countries are found in all three categories, with Croatia, Slovenia and Romania considered as Frontier markets and Bulgaria and Latvia not covered at all. Also, the relatively rich gulf states of Bahrain, Kuwait and Oman are considered as Frontier markets. For financial analysts to cover a market meaningfully, the market needs to have a substantive number of assets traded, which results in small rich countries appearing in the Frontier index alongside large lower-middle-income economies.

1.2.3. Dynamics of Emergence of Economies
The inconsistency of the classifications points to an important conceptual issue: there exists no black and white distinction between advanced and emerging economies. Rather, the differences are a matter of degree – and the critical challenge is not to decide which country should be labeled as emerging, but to develop suitable scales for the degree of development.

What then are appropriate indicators of the ‘emergence’ of economies? A variety of different indicators have been proposed (Table 1.3). The above discussed categorization used by the IMF and the World Bank implies a priority of economic development with (average) per capita income as a key indicator. A broader perspective is taken by the Human Development Index (HDI) published annually by the United Nations Development Programme (UNDP, 2016), which focuses on the quality of life. It aggregates three indicators considered drivers of peoples’ development: life expectancy, education, and per capita income.

Table 1.3 Example Indicators of Emergence

<table>
<thead>
<tr>
<th>Economic</th>
<th>Institutions</th>
<th>Resource Endowments</th>
</tr>
</thead>
<tbody>
<tr>
<td>• GDP per capita</td>
<td>• Global competitiveness index (GCI),</td>
<td>• Sub-indices within the GCI, e.g.</td>
</tr>
<tr>
<td>• GDP growth rate</td>
<td>• World Governance indicators (WG),</td>
<td>technology readiness</td>
</tr>
<tr>
<td>• Human Development Index (HDI)</td>
<td>• Economic Freedom Index (EF),</td>
<td>• Secondary / tertiary school enrollment</td>
</tr>
<tr>
<td></td>
<td>• Polity IV indices of democracy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Transparency Index (TI)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Many management scholars focus on the prevalence of ‘institutional voids’, defined as imperfections in the institutional framework that cause markets to operate ineffectively, as defining criterion of economic advancement (Khanna and Palepu, 1997; Meyer and Peng 2005). Related definitions focus on property rights in the sense of protection against expropriation by the government or the elites of the country (Acemoglu and Johnson, 2005) or on institutions enabling private contracting, such as the effectiveness and independence of the court system (Coase, 1960; Williamson, 1985).
These constructs of institutions are commonly proxied by selecting sub-indices from a range of popular indices, such as the Global Competitiveness Index (GCI) (World Economic Forum, 2016), the World Governance Indicators (World Bank, 2017b), the Index of Economic Freedom (Heritage Foundation, 2017), Polity IV for the quality of government (Center for Systemic Peace, 2017) or the Corruption Perception Index capturing the absence of corruption (Transparency International, 2016). These indices reflect a wide variety of different operationalizations of the idea of institutional development.

Economic theory moreover suggests that resource endowments are critical for the prosperity. Many emerging markets are rich in natural resources. Yet, to assess economic prosperity it is more useful to focus on created assets, which include both human capital in various forms and man-made physical assets such as transportation infrastructure and digital networks (Dunning and Narula, 2000; Estrin, Meyer & Pelletier, 2018). In a similar spirit, Hoskisson et al. (2013) suggest using two indicators to classify countries: institutional development and infrastructure development. Within the GCI, sub-indices such as innovation and technology readiness capture aspects of created assets.

1.2.4 Taxonomies of Emerging Markets

A number of studies have developed taxonomies of emerging markets that create meaningful sub-groupings. A common starting point is the assertion of the Varieties of Capitalism (Hall and Soskice, 2001) and Business Systems (Whitley, 1999) literatures that market economies vary in the ways in which economic activity is coordinated, with economies varying in their inherent logic. The original work on advanced economies distinguished coordinated market economies and liberal market economies (Hall and Soskice, 2001). Recent extensions of this work have derived taxonomies of emerging markets from the analysis of multiple economic, social and institutional indicators (Amable, 2005; Carney, Gedajlovic & Yang, 2009; Fainschmidt, Judge, Aguilera and Smith, 2018; Witt and Redding, 2014). For example, Witt et al. (2017), in addition to liberal market economies and coordinated market economies, distinguish socialist economies, emerging economies, Arab oil-based economies, advanced city economies, advanced emerging economies and European peripheral economies. Fainschmidt et al. (2018) distinguish emerging economies as state-led, family-led, emergent liberal market
economies, collaborative agglomerations, fragmented with weak state, centralized tribe, and hierarchically coordinated.

Popular discussions of emerging markets tend to use conceptually easier groups that focus on the size or on the geography of the countries (Table 1.4). For example, the term **Asian Newly Industrialized Economies** (also known as **Asian NIEs** or **Asian Tigers**) comprise four economies in East Asia that distinguished themselves in terms of economic growth in the 1970s and 1980s, and, arguably, graduated from developing to advanced economies in the 1990s: Korea, Taiwan, Hong Kong and Singapore. The term Asian NIEs is often associated with the ‘flying geese’ model of Asian economic development, which posits that development is trickling down from the more advanced Asian economies to the less advanced ones with the help of direct foreign investment (FDI) (Akamatsu, 1962; Kojima, 1973).

**Table 1.4: Popular Country Taxonomies**

<table>
<thead>
<tr>
<th>Name</th>
<th>definition</th>
<th>Usage</th>
<th>Origin (if known)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian NIEs</td>
<td>Newly industrialized economies in East Asia: Korea, Taiwan, Hong Kong and Singapore</td>
<td>Common term in the 1980 and 1990s when these four economies stood out in economic performance.</td>
<td>1970s, original source unknown</td>
</tr>
<tr>
<td>(East) Asian Tigers</td>
<td>Same as Asian NIEs.</td>
<td>Journalistic term for Asian NIEs.</td>
<td>1970s</td>
</tr>
<tr>
<td>BRICS</td>
<td>Brazil, Russia, India and China</td>
<td>The four largest emerging markets by GDP. Sometimes extended to include South Africa as ‘BRICS’</td>
<td>Attributed to Goldman Sachs economist Jim O’Neill, who used it in 2001.</td>
</tr>
<tr>
<td>MINT</td>
<td>Mexico, Indonesia, Nigeria, Turkey</td>
<td>Next four largest emerging markets. Apart from size, they have no commonalities.</td>
<td>Attributed to Goldman Sachs economist Jim O’Neill who used it in 2013</td>
</tr>
<tr>
<td>CIVETS</td>
<td>Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa</td>
<td>Emerging markets outside the BRICS believed to be promising because they have reasonably sophisticated financial systems, controlled inflation, and soaring young populations.</td>
<td>Robert Ward of the Economist Intelligence Unit (EIU) used it in 2009.</td>
</tr>
<tr>
<td>Transition economies</td>
<td>Countries of Central and Eastern Europe, the former Soviet</td>
<td>Historically planned economies that embarked on transition toward a market economy in the 1990s.</td>
<td>World Bank, e.g. 1996</td>
</tr>
<tr>
<td></td>
<td>Union, China and Mongolia</td>
<td>Poor countries with 1 billion people</td>
<td>Paul Collier, 2007</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td><strong>Bottom Billion</strong></td>
<td>58 poor countries</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Least developed countries</strong></td>
<td>49 poorest countries</td>
<td>Countries with the lowest per capita income</td>
<td>United Nations</td>
</tr>
<tr>
<td><strong>Triad</strong></td>
<td>Originally North America, Western Europe and Japan. Recent uses include less clearly defined North America, Western Europe and Asia-Pacific advanced economies.</td>
<td>Historically industrialized economies.</td>
<td>Kenichi Ohmae, 1985</td>
</tr>
</tbody>
</table>

The term **BRIC** is an abbreviation for the four largest emerging markets by GDP: Brazil, Russia, India and China, that was coined by Jim O’Neill around 2000. The term is sometimes extended to include South Africa in ‘BRICS’ (with capital S). This grouping reflects the size of the economies and their importance to financial investors rather than any structural similarities among the four or five countries (see Chapters 28 to 31). In fact, only China continued its fast economic growth in the 2010s. Since the political leaders from the BRICS countries have started holding political summits, the term has also attained political significance.

At times when some of the BRIC countries are showing sluggish economic growth, investors may seek further investment opportunities. Further acronyms thus have become popular for other relatively large emerging markets, notably **MINT** for the next largest emerging markets: Mexico, Indonesia, Nigeria, Turkey; and **CIVETS** for six countries predicted to experience substantive economic growth: Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa.

The term **transition economies** evolved in the policy discussions after the fall of the Berlin Wall when economists associated with the World Bank, IMF and other think tanks were debating economic reform in the countries of Central and Eastern Europe, the former Soviet Union, China and Mongolia. The underlying assumption was that these economies would
‘transition’ from a central plan-led economy to a market economy resembling Western advanced economies (e.g. World Bank, 1996; Meyer and Peng, 2005).

Not all countries have joined the economic growth of the past two decades, some countries find it hard to catch-up, be it due to economic hardship or due to incompetent political leadership. Paul Collier (2007) coined the term **bottom billion** for the people in 58 countries that he argues are failing their citizens. More formally, the United Nations classifies 49 countries, the majority of which are in Africa, as **least developed countries** using per capita income as the criterion (United Nations, 2017). These countries have rarely attracted attention from management scholars.

On the other end of the global income scale, we refer to the countries not considered as emerging markets as **advanced economies** or **high income leaders**. Another commonly used label is “**Triad countries**”, which is unfortunate, because the original construct by Kenichi Ohmae (1985) included just the US and Canada in North America, the European Community and Japan. Recently, the term has been used to talk about the rich, post-industrial countries of North America (sometimes including Mexico), Europe (EU plus Norway, Switzerland and Iceland), as well as Asia-Pacific (Japan, Korea, Singapore, Taiwan, Hong Kong, Australia, and New Zealand).

1.3. **Emerging Markets in the 21st Century**

1.3.1. **Economic Catch-Up Trends**

Numerous indicators show that emerging markets have gained in importance in the global economy over the past three decades. Figure 1.1 shows the share of emerging markets in global economic activity using a variety of indicators. For example, they account for 84% of the world’s population, 49% of all cars are manufactured in emerging markets, and 48% of world exports of goods originate from emerging markets. Among emerging markets, China accounts for the largest share by most indicators, but other countries such as India, Brazil and Russia are important by some measures. On the other hand, emerging markets account for only 21% of world stock market capitalization and 22% of world outward FDI stock.

*Figure 1.1 Emerging Markets as Share of the Global Economy, 2015*
Data sources: Online databases of World Bank, WTO, UNCTAD and OICA.

The share of emerging markets has increased substantially over the past 25 years. For example, in 1990, they contributed 16% of global GDP, compared to 36% in 2015. In 1990, they attracted 17% of global FDI inflows compared to 45% in 2015; and they accounted for 7% of FDI outflows, compared to 28% in 2015. The rapid catch-up of emerging markets over the past decades is also evident in the macro-economic data presented in Table 1.5 and the analysis of the economic data by John Luiz in Chapter 4.

For people who grew up in the 20th century, the share of emerging markets in the global economy may look surprisingly high. In the late 1970s, China’s share in global GDP was estimated to be about 2% compared to 15% in 2015 (see Figure 1.1). However, seen in a historical perspective, the numbers are not high at all. Historically, China and India accounted for about half of the global economy. Historians estimate that at the end of the 18th century, China accounted for 25% to 30% of the global economy (Maddison, 2006). Yet, with the industrial revolution that started in England in the 18th century and then spread to continental Europe and to North America in the 19th century, the ‘Western’ societies became the ‘advanced economies’ of the 20th century. Yet, this distinctive advantage is rapidly diminishing in the 21st century as the capital and knowledge base of the rest of the world is strengthening, and institutional obstacles to economic prosperity are removed.
1.3.2. Markets for goods and services

While the importance of emerging markets is evident for the 84% of the world population living in these countries, there are also compelling reasons why business leaders and management scholars in advanced economies should be concerned with the latest development in emerging markets.

First and foremost, the size and rapid economic growth has made emerging markets attractive markets for goods and services from around the world. In the 2010s, China, India and Brazil are among the ten largest national markets based on GDP, and Russia and Mexico are not far behind. Consumer demand is expected to grow faster than in advanced economies, not only because the economies are on a catch-up growth path, but because the average age of consumers in emerging markets is far below that of consumers in the US, EU, and Japan. They will be around longer, and they are reproducing at a faster rate. So, a range of factors is pushing
emerging markets as the source of future growth in the world economy. Consumers in emerging markets are explored further in Chapter 9 by Castano and Flores, while Dembek and Sivasubramaniam discuss consumers at the bottom of the pyramid in Chapter 10.

As one example, which is not representative, but which is enormous, consider China (see Chapter 30, by Williamson & Feng). This country of 1.4 billion people has moved more than 500 million people out of poverty during the past 30 years, according to World Bank estimates. This growth has made China the largest market in the world for many products, from cars to chemicals. Within the next few years it is predicted to become the world’s largest economy. China thus is important for international companies, be it as a market for their goods and or as base for their production.

India presents a second major case of emerging market opportunity. With a population of 1.3 billion people that is growing at a rate of about 1.3% per year, India will pass China in population by about 2025. Despite a similar population size, India’s economy is much smaller than China’s, and per capita income in 2016 was US$ 1,709 per person versus China’s US$ 8,123. Even so, the size of India’s economy is very large, and it presents an opportunity for international firms too big to be ignored. And, because of the low per capita incomes, India offers a production environment that will have lower labor costs than China and lower than any Triad country for decades to come.

1.3.3. Sources for raw materials and labor intensive manufacturing

Throughout the 20th century, emerging markets were seen by business as sources of raw materials and locations for the assembly of manufactured goods for sale in the Triad countries. Table 1.6 shows the countries that have the greatest output in several major categories of commodities. Emerging markets dominate the production of many (and probably most) commodities in the early 21st century. Commodity-based companies feature prominently among the largest companies in many emerging markets. It is also fascinating to note that

---

4 The number of people who have escaped poverty in China since the great opening started by Deng Xiaoping in the late 1970s has been estimated to be between 400-800 million people. The World Bank estimates it to be 500 million people (http://www.worldbank.org/en/country/china/overview#3).
China is one of the largest producers of every one of these commodities, while at the same time being a major importer.

**Table 1.6: Natural Resource Production by Commodity, 2015**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Crude oil</th>
<th>Coal</th>
<th>Iron ore</th>
<th>Copper</th>
<th>Wheat</th>
<th>Corn</th>
<th>Cattle</th>
<th>Cotton</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Russia</td>
<td>China</td>
<td>China</td>
<td>Chile</td>
<td>EU</td>
<td>USA</td>
<td>India</td>
<td>India</td>
</tr>
<tr>
<td>2</td>
<td>Saudi Arabia</td>
<td>USA</td>
<td>Australia</td>
<td>China</td>
<td>China</td>
<td>China</td>
<td>China</td>
<td>China</td>
</tr>
<tr>
<td>3</td>
<td>USA</td>
<td>India</td>
<td>Brazil</td>
<td>Peru</td>
<td>India</td>
<td>Brazil</td>
<td>Brazil</td>
<td>USA</td>
</tr>
<tr>
<td>4</td>
<td>China</td>
<td>Indonesia</td>
<td>India</td>
<td>Australia</td>
<td>Russia</td>
<td>EU</td>
<td>USA</td>
<td>Pakistan</td>
</tr>
<tr>
<td>5</td>
<td>Iraq</td>
<td>Australia</td>
<td>Russia</td>
<td>USA</td>
<td>Argentina</td>
<td>EU</td>
<td>Brazil</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Canada</td>
<td>Russia</td>
<td>Ukraine</td>
<td>USA</td>
<td>Canada</td>
<td>Ukraine</td>
<td>Argentina</td>
<td>Australia</td>
</tr>
</tbody>
</table>

*Note: Emerging markets in bold.*


Even in manufacturing, emerging markets are taking an ever-greater share of world markets, due to both growing local markets and export to Triad markets. Table 1.7 presents the top 6 exporting nations for a range of manufactured goods, including both high- and low-tech ones. Emerging markets dominate low-skill-labor-intensive sectors and also made substantial inroads in more sophisticated sectors. China has been the world’s largest manufacturing nation since 2010. For example, China became the largest manufacturer of cars with 28.1 million units in 2015. Yet, these are primarily produced for domestic markets; China is not (yet) a major car exporter.

Many opportunities for manufacturing in emerging markets however arise from the fine slicing of global value chains where different stages of the production are conducted in different geographies dependent on their comparative advantages (also see Chapter 2). Thus, many manufacturing operations in emerging markets concern components assembled into other products at other locations, which are not captured by statistics of major product categories such as Table 1.7.

**Table 1.7 Manufacturing Exporters by Sector, 2016**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Cars</th>
<th>Cellphones</th>
<th>T-shirts</th>
<th>Leather shoes</th>
<th>Computers</th>
<th>Air conditioners</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Germany</td>
<td>China</td>
<td>China</td>
<td>China</td>
<td>China</td>
<td>China</td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>Vietnam</td>
<td>Bangladesh</td>
<td>Italy</td>
<td>USA</td>
<td>Thailand</td>
</tr>
</tbody>
</table>
Note: Emerging markets in bold.


1.3.4. Markets for Services

Emerging markets have also been catching up in international markets for services, both as buyers and as suppliers. For example, India has been leading the global business process outsourcing center, providing services ranging from information technology to call centers and administrative tasks. Others export business services such as software development or personal services such as medical services.

In tourism, emerging markets have emerged not only as a popular destination; they have become major sources of tourists themselves. As tourism destinations, emerging markets still remain generally behind the US and Western Europe, although China is currently by far the largest single tourism market in the world, while countries like Turkey earn a substantive share of their export revenues through inbound tourism. Although people living in emerging markets are joining global travels, many emerging markets have a deficit on their tourism account (i.e. their nationals spend more abroad than foreigners bring to their country). Table 1.8 provides international tourism industry related data for BRICS and MINT countries, along with selected Triad countries for comparison. Chinese have become the largest group of tourists with 116.9 million trips abroad, spending US$ 292.2 billion. Yet, this represents less than 1 trip per 10 inhabitants, the growth potential remains substantial – in Germany the number of tourism departures (83.7 million) exceeds the number of inhabitants (82.7 million), so on average every resident took more than one trip abroad.

Table 1.8 – Inbound and Outbound Tourism from Emerging Markets, 2015

<table>
<thead>
<tr>
<th>country</th>
<th>Inbound tourism expenditures</th>
<th>Outbound tourism expenditures</th>
<th>International tourist arrivals</th>
<th>International tourist departures</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>USA</td>
<td>Hong Kong</td>
<td>Turkey</td>
<td>Vietnam</td>
</tr>
<tr>
<td>4</td>
<td>Canada</td>
<td>Netherlands</td>
<td>India</td>
<td>Germany</td>
</tr>
<tr>
<td>5</td>
<td>UK</td>
<td>USA</td>
<td>Germany</td>
<td>Indonesia</td>
</tr>
<tr>
<td>6</td>
<td>Korea</td>
<td>Korea</td>
<td>Vietnam</td>
<td>India</td>
</tr>
<tr>
<td>7</td>
<td>Korea</td>
<td>Korea</td>
<td>Vietnam</td>
<td>Indonesia</td>
</tr>
</tbody>
</table>

Note: Emerging markets in bold.
### Table 1.2

<table>
<thead>
<tr>
<th></th>
<th>(bn US$) (service exports)</th>
<th>(bn US$) (service imports)</th>
<th>(million people)</th>
<th>(million people)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>6.3</td>
<td>20.4</td>
<td>6.3</td>
<td>9.5</td>
</tr>
<tr>
<td>Russia</td>
<td>13.2</td>
<td>38.4</td>
<td>33.7</td>
<td>34.6</td>
</tr>
<tr>
<td>India</td>
<td>21.5</td>
<td>17.7</td>
<td>13.3</td>
<td>20.4</td>
</tr>
<tr>
<td>China</td>
<td>114.1</td>
<td>292.2</td>
<td>56.9</td>
<td>116.9</td>
</tr>
<tr>
<td>South Africa</td>
<td>9.1</td>
<td>5.7</td>
<td>8.9</td>
<td>n.a.</td>
</tr>
<tr>
<td>Mexico</td>
<td>18.7</td>
<td>12.7</td>
<td>32.1</td>
<td>19.6</td>
</tr>
<tr>
<td>Indonesia</td>
<td>12.1</td>
<td>17.7</td>
<td>10.4</td>
<td>8.2</td>
</tr>
<tr>
<td>Nigeria</td>
<td>0.5</td>
<td>9.2</td>
<td>1.3</td>
<td>n.a.</td>
</tr>
<tr>
<td>Turkey</td>
<td>35.4</td>
<td>5.7</td>
<td>39.5</td>
<td>8.8</td>
</tr>
<tr>
<td>USA</td>
<td>246.2</td>
<td>148.4</td>
<td>77.5</td>
<td>73.5</td>
</tr>
<tr>
<td>Germany</td>
<td>47.4</td>
<td>88.8</td>
<td>35.0</td>
<td>83.7</td>
</tr>
<tr>
<td>Japan</td>
<td>27.3</td>
<td>23.2</td>
<td>19.7</td>
<td>16.2</td>
</tr>
</tbody>
</table>


---

### 1.3.5. Investment opportunities

Portfolio investors have been fascinated by the opportunities of emerging markets since the 1980s. Following capital account liberalization, stocks, bonds and other financial instruments have become attractive investment opportunities that often offer high rates of return. The trends had been led by markets such as Hong Kong and Singapore that nowadays are no longer considered emerging markets. Recently more markets have been accessible for international investors (See Table 1.2), including to some extent China, which has gradually created opportunities for foreigners to invest in local stocks and other financial instruments.

However, due to economic volatility, emerging market currencies often fluctuate wildly, making returns more volatile than in the Triad countries. Even so, financial investment in these countries creates substantial diversification benefits for investors. Thus, Vihang Errunza and co-authors (Errunza, 1983; Errunza, Hogan & Hung, 1999; Christoffersen, Errunza, Jacobs & Langlois, 2012) have found on repeated occasions that the returns from portfolio investment that include emerging market securities have improved overall portfolio performance very significantly relative to investment only in advanced economy securities. Chapter 7 by Hrnjic, Reeb and Yeung further explores the financial markets of emerging markets.

### 1.3.6. New Competitors
With the growth of emerging markets, firms from these economies have become major players in the global economy. Thus, over the past decade, emerging markets not only attract FDI worldwide but have become the source of MNEs that undertake major investment overseas. Thus, in 2016, 28% of global FDI capital was invested by firms from emerging economies.

The rise of emerging economy firms is also reflected on the growing number of Fortune Global 500 companies originating from emerging markets. In 2017, China alone had more than 100 companies on the list (and 17 in the Top 100, see Table 1.9), many of which focus on the vast and fast growing domestic market and are not well known outside of China. Beijing has become the city with the largest number of headquarters of Fortune 500 companies, including 12 in the Top 100 (Table 1.9). These data illustrate not only the important role Chinese companies play in the global economy, but also the vast domestic market that in many industries – including utilities, energy and banking – is dominated by local firms.

Table 1.9  Top 20 Chinese companies

<table>
<thead>
<tr>
<th>Rank in Fortune</th>
<th>Rank in Fortune</th>
<th>Company name</th>
<th>Headquarters</th>
<th>Industry</th>
<th>Annual sales 2016 (bn USD)</th>
<th>Employees</th>
<th>Main shareholder (if known)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>State Grid</td>
<td>Beijing</td>
<td>Utilities</td>
<td>315.2</td>
<td>926067</td>
<td>State: 100%</td>
</tr>
<tr>
<td>2</td>
<td>3</td>
<td>Sinopec Group</td>
<td>Beijing</td>
<td>Oil &amp; gas</td>
<td>267.5</td>
<td>713288</td>
<td>State: 70.86%</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
<td>China National Petroleum (PetroChina)</td>
<td>Beijing</td>
<td>Oil &amp; gas</td>
<td>262.5</td>
<td>1512048</td>
<td>State: 86.01%</td>
</tr>
<tr>
<td>4</td>
<td>22</td>
<td>Industrial Commerce Bank of China (ICBC)</td>
<td>Beijing</td>
<td>Bank</td>
<td>147.6</td>
<td>461749</td>
<td>State: 69.31%</td>
</tr>
<tr>
<td>5</td>
<td>27</td>
<td>China State Construction Engineering</td>
<td>Beijing</td>
<td>Construction</td>
<td>144.5</td>
<td>263915</td>
<td>State: 100%</td>
</tr>
<tr>
<td>6</td>
<td>22</td>
<td>China Construction Bank</td>
<td>Beijing</td>
<td>Bank</td>
<td>135.0</td>
<td>362482</td>
<td>State: 57.11%</td>
</tr>
<tr>
<td>7</td>
<td>38</td>
<td>Agricultural Bank of China</td>
<td>Beijing</td>
<td>Bank</td>
<td>133.4</td>
<td>501368</td>
<td>State: 79.24%</td>
</tr>
<tr>
<td>8</td>
<td>39</td>
<td>Ping an insurance</td>
<td>Shenzhen</td>
<td>Insurance</td>
<td>116.5</td>
<td>318588</td>
<td>CP Group</td>
</tr>
<tr>
<td>9</td>
<td>41</td>
<td>SAIC Motor</td>
<td>Shanghai</td>
<td>Cars</td>
<td>113.8</td>
<td>97582</td>
<td>State: 100%</td>
</tr>
<tr>
<td>10</td>
<td>42</td>
<td>Bank of China</td>
<td>Beijing</td>
<td>Bank</td>
<td>113.7</td>
<td>308900</td>
<td>State: 64.02%</td>
</tr>
<tr>
<td>11</td>
<td>47</td>
<td>China Mobile Communications</td>
<td>Beijing</td>
<td>Telephone services</td>
<td>107.1</td>
<td>463712</td>
<td>State: 72.72%</td>
</tr>
<tr>
<td>12</td>
<td>51</td>
<td>China Life Insurance</td>
<td>Beijing</td>
<td>Insurance</td>
<td>104.8</td>
<td>143676</td>
<td>State: 68.37%</td>
</tr>
<tr>
<td>13</td>
<td>55</td>
<td>China Railway Engineering</td>
<td>Beijing</td>
<td>Construction</td>
<td>96.9</td>
<td>292215</td>
<td>State: 54.39%</td>
</tr>
<tr>
<td>14</td>
<td>68</td>
<td>Dongfeng Motor</td>
<td>Wuhan</td>
<td>Cars</td>
<td>86.1</td>
<td>189795</td>
<td>State: 100%</td>
</tr>
<tr>
<td>15</td>
<td>83</td>
<td>Huawei</td>
<td>Shenzhen</td>
<td>Electronics</td>
<td>78.5</td>
<td>180000</td>
<td>Private</td>
</tr>
<tr>
<td>16</td>
<td>89</td>
<td>Pacific Construction</td>
<td>Nanjing</td>
<td>Construction</td>
<td>74.6</td>
<td>362128</td>
<td>Private</td>
</tr>
<tr>
<td>17</td>
<td>100</td>
<td>China Southern Power Grid</td>
<td>Guangzhou</td>
<td>Utilities</td>
<td>71.2</td>
<td>302421</td>
<td>State: 100%</td>
</tr>
<tr>
<td>Rank</td>
<td>Rank in Fortune</td>
<td>Company name</td>
<td>Headquarters</td>
<td>Industry</td>
<td>Annual sales 2016 (bn USD)</td>
<td>Employees</td>
<td>Main shareholder (if known)</td>
</tr>
<tr>
<td>------</td>
<td>----------------</td>
<td>---------------------------</td>
<td>--------------</td>
<td>--------------</td>
<td>----------------------------</td>
<td>-----------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>1</td>
<td>63</td>
<td>Gazprom</td>
<td>Russia</td>
<td>Oil &amp; gas</td>
<td>91.3</td>
<td>476,400</td>
<td>State: 50.23%</td>
</tr>
<tr>
<td>2</td>
<td>75</td>
<td>Petrobras</td>
<td>Brazil</td>
<td>Oil &amp; gas</td>
<td>81.4</td>
<td>68829</td>
<td>State: 64.00%</td>
</tr>
<tr>
<td>3</td>
<td>102</td>
<td>Lukoil</td>
<td>Russia</td>
<td>Oil &amp; gas</td>
<td>70.8</td>
<td>105500</td>
<td>State: 92.15%</td>
</tr>
<tr>
<td>4</td>
<td>113</td>
<td>Itaú Unibanco Holding</td>
<td>Brazil</td>
<td>Bank</td>
<td>66.8</td>
<td>94779</td>
<td>IUPAR 51%, Itausa 38.66%</td>
</tr>
<tr>
<td>5</td>
<td>151</td>
<td>Banco do Brazil</td>
<td>Brazil</td>
<td>Bank</td>
<td>58.0</td>
<td>100622</td>
<td>State: 50.73%</td>
</tr>
<tr>
<td>6</td>
<td>152</td>
<td>Pemex</td>
<td>Mexico</td>
<td>Oil &amp; gas</td>
<td>57.7</td>
<td>125689</td>
<td>State: 100%</td>
</tr>
<tr>
<td>7</td>
<td>154</td>
<td>Banco Bradesco</td>
<td>Brazil</td>
<td>Bank</td>
<td>57.4</td>
<td>94541</td>
<td>Cidade de Deus Participacoes: 48.5%</td>
</tr>
<tr>
<td>8</td>
<td>158</td>
<td>Rosneft Oil</td>
<td>Russia</td>
<td>Oil &amp; gas</td>
<td>56.5</td>
<td>295800</td>
<td>State: 50.00%</td>
</tr>
<tr>
<td>9</td>
<td>161</td>
<td>Indian Oil</td>
<td>India</td>
<td>Oil &amp; gas</td>
<td>53.5</td>
<td>34999</td>
<td>State: 58.3%</td>
</tr>
<tr>
<td>9</td>
<td>176</td>
<td>America Movil</td>
<td>Mexico</td>
<td>Telecommunications</td>
<td>52.2</td>
<td>194193</td>
<td>Private: Carlos Slim family</td>
</tr>
<tr>
<td>10</td>
<td>184</td>
<td>Petronas</td>
<td>Malaysia</td>
<td>Oil &amp; gas</td>
<td>49.4</td>
<td>510346</td>
<td>State: 64.4%</td>
</tr>
<tr>
<td>11</td>
<td>191</td>
<td>JBS</td>
<td>Brazil</td>
<td>Food processing</td>
<td>48.8</td>
<td>237061</td>
<td>Private: Batista family 44.4%</td>
</tr>
<tr>
<td>12</td>
<td>192</td>
<td>PTT</td>
<td>Thailand</td>
<td>Oil &amp; gas</td>
<td>59.2</td>
<td>24,790</td>
<td>State: 51.1%</td>
</tr>
</tbody>
</table>
Note: Consistent with the definition of emerging markets adopted in this Handbook, companies from
Korea, Taiwan, Hong Kong and Singapore are not included; Column 2 shows rank in the Fortune Global
500; ownership data refer to the holding company of the group; some groups may have subsidiary
companies that are listed on stock markets (notably Chinese companies).

1.3.7 Sources of innovation and technology

Emerging markets are not usually thought of as hotbeds of innovation or R&D. Traditionally,
one of the major competitive disadvantages of most emerging markets is their relatively poor
performance in innovation, as measured by indicators such as patents registered with the US
Patent and Trademark Office, R&D spending as a percentage of national income, and numbers
of scientific articles published by scholars in these countries. However, R&D spending has
grown importantly in a number of emerging markets, and indeed China is already #2 worldwide
in R&D spending after the United States. Chinese companies registered more patents than
anyone else (World Bank, 2017), even though this patenting activity is concentrated among a
small number of companies (Eberhardt, Helmers and Yu, 2016). Even so, the bulk of R&D does
remain in the rich countries, and this activity does not show signs of shifting to emerging
markets nearly as dramatically as manufacturing has done.

Innovation in emerging markets has traditionally focused on local adaptation of products
from advanced economies: local firms might reverse engineer products of their foreign
competitors, while foreign investors would simplify their products to meet local demand.
Beyond adaptation, local firms developed products meeting local needs at locally affordable
prices in a process known as frugal innovation. With these locally designed products, local
entrepreneurs can challenge global players in ‘good enough’ markets, the fastest growing
market segment in many emerging markets. Some foreign investors responded by providing
their local subsidiaries high degrees of autonomy to develop products for this segment to
preempt the emergence of local competitors (Chang & Park, 2011; Zeschky, Widenmayer & Gassmann, 2011)

Innovations in emerging markets do not stay local, some spread from one emerging market to other emerging markets, where people have similar needs. Others take ideas from emerging markets back to advanced economies in a phenomenon known as reverse innovation (Govindarayan & Ramamurti, 2011). Yip and Prashantham discuss the changing global landscape of innovation in Chapter 15.

Many innovations originating in emerging markets concern business models or product offerings rather than new technologies, which tend to be the primary focus in innovation discourses in advanced economies. Indeed, business model innovation has been the driving force in the recent growth of the internet businesses such as Alibaba and Tencent in China, which have moved beyond transferring ideas from Silicon Valley to creating new forms of O2O (online-to-offline) business models and offer services, e.g. in terms of delivery speed, not available in North America. Others develop new consumer oriented fintech based services or business logistics solutions, such as Aramex from the United Arab Emirates, a global package delivery service that operates through a network of partners around the world to provide service far from its own network in the Middle East. Arguably, new forms of leading diverse business groups, such as Tata Group from India and Grupo Carso in Mexico represent innovative approaches to managing in volatile environments (Colpan, Hikino and Lincoln, 2010; see also Chapter 22 by Luo and Chung). Business model innovation thus likely is at the core of many success stories from emerging markets.

1.4. Structure of this Handbook

This Handbook provides an overview of research on key managerial challenges and solutions for businesses operating in emerging markets. We have a diverse set of scholars who provide a comprehensive coverage and a variety of views. The invited authors are experts on the respective themes and many are (or have been) based in emerging markets and know the challenges of managing in those contexts first-hand.

1.4.1. Part I -- Conceptual Perspectives
In Part I we offer conceptual perspectives. In Chapter 2, we as editors of the Handbook offer overall conceptual frameworks that tie the different topics together. The first theoretical theme concerns the relevance of existing theory to explaining business phenomena in emerging markets, and the need to integrate local insights. We argue for the need to both apply concepts developed in global management research, and integrate local insights through contextual moderators, boundary conditions, or even indigenous theorizing. The second theme concerns the role of emerging markets within changing global value chains and production networks.

Chapter 3, by Geoff Jones of Harvard Business School takes a historical perspective on IB in emerging markets. He looks at the first era of globalization from about 1850 until World War I, and then at subsequent times through the mid-2010s, tracing the activities of (largely Western) multinational firms in emerging markets. Looking at the second era of globalization after World War II, he presents a wide range of multinational company activities from market-seeking investments in large and medium-sized emerging markets to activities of emerging market-based MNEs that have arisen in the more recent period.

Chapter 4, by John Luiz of the University of Cape Town and Sussex University provides an overview of the economic environment of emerging markets from the period from the British-led gold standard beginning in about 1850 to the contemporary period after the Global Financial Crisis of 2008-9. He focuses on the challenges of the ‘middle income trap’, which is the barrier that seems to affect most countries as they attempt to move from low-income or lower-middle income to advanced levels of economic development as seen in the Triad. Many countries have moved away from extreme poverty in the 20th century and early 21st century, but few have joined the ranks of the post-industrial economies— with the very large exception of China. Luiz explores the reasons for the middle-income trap and possible ways to overcome it, as well as warning managers to beware of an expectation that emerging markets will simply follow the US and EU into advanced post-industrial status.

In Chapter 5, Tatiana Kostova (University of South Carolina) and Valentina Marano (Northeastern University) review the contribution of institutional theory to explaining management phenomena in emerging markets. They distinguish three distinct intellectual traditions developing theory around the notion of institutions, and identify their contributions
to our understanding of emerging markets, focusing on the context of emerging markets, firm-context interfaces, and the strategies and organizations of firm.

In Chapter 6, Karl Sauvant, formerly of UCTAD and now at Columbia University, explores the impact of the international investment regime on emerging markets. Bilateral and multilateral agreements on free trade and investment protection have become popular in recent years, supplementing the global systems such as the WTO. These agreements shape how emerging markets develop their trade and investment relationships with other countries.

1.4.2. Part II -- Markets and Governance

The chapters in Part II analyze a range of important issues in the structure and functioning of markets in emerging markets. These analyses range from financial markets to consumer behavior to a variety of governance issues, including government-business relations broadly and in the narrower context of corruption and also in the poorest segments of emerging markets (the bottom-of-the-pyramid).

Emir Hrnjic of the CIBFM Monetary Authority of Brunei Darussalam, along with David Reeb and Bernard Yeung of National University of Singapore, start in Chapter 7 by analyzing financial markets and governance of financial behavior of firms in emerging markets. They look specifically at the differences in financial market operation that occur as a consequence of the largest firms being either controlled either by families (who may sell shares in the stock market, but who maintain control) or by the government (state-owned enterprises). This reality may lead to inefficient allocation of financial resources on both the investment side and the borrowing side.

Chapter 8 by Ruth Aguilera and Ilir Haxhi reviews challenges for corporate governance in emerging markets in a comparative perspective. Based on a comprehensive review of the management literature on corporate governance, they identify four major areas of research: ownership, boards of directors, top management teams, and CG practices and reform. They then review these corporate governance features for each of the BRIC countries, using OECD Corporate Governance Guidelines as benchmark. Integrating existing research and issues arising from the review of practice in the BRIC countries, they offer directions for future research.
In Chapter 9, Raquel Castaño and David Flores of Monterrey Tec discuss consumer behavior in emerging markets. They propose a framework that identifies the main differences between emerging-markets and developed-markets consumers. The framework describes how consumers in these societies recognize a need, select, evaluate, buy, and use products. Having identified the key differences between the two groups of markets, they suggest some strategic directions for managers operating in both contexts.

Chapter 10 addresses the business opportunities at the bottom of the pyramid (BoP), the poorest section of society in many emerging markets. Krzysztof Dembek of the University of Melbourne and Nagaraj Sivasubramaniam of Duquesne University take a mutual value perspective and explore how MNEs can create value through their business in social, economic and environmental forms, simultaneously for themselves, local communities, and other parties. They highlight that value creation and retention within BoP communities is central to achieving long term advances in key issues such as poverty alleviation.

The relationships between government and MNEs in emerging markets are discussed by Farok Contractor of Rutgers University in Chapter 11. Liberalization policies that removed barriers to foreign investment since the 1980s in many emerging markets, and the regulatory environment shaped by host country governments continue to be major factors in attracting foreign investors. He looks specifically at the relationship between economic opening around the world and flows of FDI, showing that countries that have liberalized their policies more have attracted more FDI since the fall of the Soviet Union. He also shows which policies tend to be associated with greater success in attracting FDI.

In the final chapter of the second part, Sun Pei of Fudan University in Shanghai reviews the recent literature on political ties and political capabilities in emerging markets. He highlights the multitude of ties between private and government actors, and how businesses can use such ties to their advantage, which also being subjected to institutional pressures through such ties to align themselves with policy agendas.

1.4.3. Part III -- Foreign MNEs in Emerging Markets

The Chapters in Part III focus on the challenges faced by foreign MNEs that operate in emerging markets. Their local operations are subject to the risks and challenges and
opportunities that arise in the local context. From risk management to human resources management, this section looks at some of these issues.

J.T. Li of Hong Kong University of Science and Technology and Zhenzhen Xie of Tsinghua University start in Chapter 13 by discussing the export strategies for MNEs operating in an emerging market. Specifically, they analyze subsidiaries of MNEs competing with local firms in China, and find that local Chinese manufacturing firms tend to increase their exports when faced with competition from foreign MNEs. Then the MNE subsidiaries either react by increasing their own export intensity, if they are relatively independent of their home office – or they tend to do nothing if they act as local unit within a tightly-controlled MNE that sets strategy more from the home office.

In Chapter 14, Steve Kobrin of the Wharton School analyses management and policy challenges related to globally dispersed value chains extending into emerging markets. He focuses on the political economy challenge arising because governments are national while global value chains are both transnational and comprised of multiple company participants. He argue that the sovereignty and policy options of national governments are challenged by this organization of economic activity, and explores some of the implications of this reality.

In Chapter 15, George Yip of Imperial College London and Shameen Prashantham of CEIBS discuss the changing landscape for innovation in emerging markets. They highlight the shift in the global geography of knowledge creation by documenting examples of innovations led by both foreign MNEs and local players in emerging markets. They conclude that innovation is no longer the prerogative of the historically advanced economies alone, which has major implications for the paths of future development of both advanced and emerging economies.

In Chapter 16, Florian Wettstein of the University St. Gallen discusses challenges arising in the interface between business and human rights in emerging markets. Approaching the topic from the perspective of business ethics, he traces the evolution of what is now called the ‘business and human rights debate’ in the context of emerging markets and provides a comprehensive overview to this emerging discussion. This agenda poses particular challenges both for ‘Western’ companies expanding their value chains to emerging markets as well as for emerging economy MNEs expanding into ‘Western’ markets, in which they have to cope more
demanding expectations from consumers, investors, and citizens with respect to social, environmental and human rights.

In Chapter 17, the benefits that local firms in emerging markets may attract via spillovers from MNE investing in their country are discussed by Nigel Driffield, Sumon Bhaumik, Meng Song and Priit Vahter. They consider theoretical and conceptual explanations for the variations in technology transfer or spillovers between inward investors and host country firms under the contextual conditions of emerging markets.

In Chapter 18, Don Lessard of MIT discusses challenges of risk management in emerging markets for both foreign MNEs and domestic firms, some of which are also MNEs. He explores the sources of risk for different types of firms and value chains operating in emerging markets, and he evaluates risk management practices available to foreign and domestic firms. He offers four perspectives on emerging market risks: identification of the relevant kinds of risks, who has comparative advantage in risk bearing, the pecking order of risk management tools available, and the integral nature of risk management in overall operational and strategic management.

1.4.4. Part IV - Local Firms in and from Emerging Markets

In Part IV, the focus shifts to local firms in emerging markets, and the challenges they face both in their local environment, as well as in their efforts of growing beyond their home country. Chapter 19 by Saul Estrin, Tomek Mickiewicz, Ute Stephan, and Mike Wright explores challenges and opportunities for entrepreneurship in emerging markets with a focus on the interplay between institutions and entrepreneurship, starting from the observation that human capital is utilized differently in emerging markets and in advanced economies. This leads into a discussion of theoretical perspectives on entrepreneurship in emerging markets at the individual level, and the attraction of human capital in form of returnee entrepreneurs.

In Chapter 20, John Child of the University of Birmingham explores the challenges for small and medium sized enterprises in emerging markets with a focus on their innovation and internationalization strategies. He argues that innovation and internationalization tend to be mutually reinforcing, though the role they play in SME business models varies across countries and industries. The chapter is organized in terms of four major analytical perspectives which
inform studies of international business and international entrepreneurship: (1) the contextual perspective (with special reference to institutions); (2) the resource-based view; (3) the network perspective; and (4) the entrepreneurial perspective.

In Chapter 21, Rodrigo Basco of American University of Sharjah discusses family business in emerging markets. He focuses on three dimensions of this subject: family dynamics and their relation to business and society; family ownership of a business; and business in the emerging market context. He looks at organizational, institutional, social, temporal, and spatial forces across contexts for studying family and business dimensions in emerging markets. The ultimate goal of this analysis is to explain how family firms contribute to regional economic development, and how they could be ‘optimized’ through government policy and company strategy to pursue this end.

In Chapter 22, Chi-Nien Chung of National University of Singapore and Xiaowei Luo of INSEAD explore the persistent leading role of business Groups in many emerging markets. They provide an updated review of contemporary research on business groups by comparing and synopsizing different theoretical views on business groups. The chapter thus organizes the literature according to four theoretical perspectives rooted in economics and sociology: the internal market view, the resource bundle perspective, the network perspective, and the institutional logic perspective.

In Chapter 23, Aldo Musacchio of Brandeis University, Felipe Monteiro of INSEAD and Sergio Lazzarini of Insper review the role of state-owned enterprises from emerging markets in international competition. They examine the complex agency issues state-owned enterprises face, the advantages they get from government ownership, and how those factors affect their performance and internationalization patterns. They argue that in contrast to the old Soviet state-owned firms, modern state-owned MNEs are often publicly-traded corporations, with corporate governance and financial reporting practices similar to those of private firms. They thus face simultaneously the pressures of private shareholders and state owners, while in many cases benefitting from preferential access to critical resources.

In Chapter 24, Shameen Prashantham and George Yip explore the evolution of global value chains, focusing especially on aspects of governance and of upgrading of local firms in emerging
markets. The increasing geographic and organizational fragmentation of global value chains creates opportunities for business in emerging markets, but also competitive threats that depress the wages in segments newly exposed to international competition. This raises questions as to who actually controls these value chains, but also how to address the backlash in advanced economies triggered by the perceived migration of jobs to emerging markets.

Two chapters are devoted to MNEs originating from emerging markets. Chapter 25, by Lin Cui of Australia National University and Preet Aulakh of York University provide a comprehensive review of the literature on strategies and operations of emerging market MNEs in advanced economies. They focus on the why and how questions of such investment, and explore the influence of institutional contexts on both aspects of EMNE strategies. In this context, the development of capabilities through FDI is at least as important as the traditional motive for FDI, the exploitation of existing resources.

In Chapter 26, Jing Li and Daniel Shapiro of Simon Fraser University analyze emerging market MNEs bridging across emerging markets, a theme popularly known as “South-South investment”. They focus on the motivations behind South-South investments, the firm-specific and country-specific advantages associated with multinational enterprises from emerging markets, and the spillovers effects of such South-South FDI on local economic and institutional development.

In Chapter 27, Dana Minbaeva of Copenhagen Business School reviews challenges and solutions to developing human resources in emerging market firms. She argues that the way human resources are managed by a company is dependent on interactions between the focal company and other companies present in its local business ecosystem, which in turn is nested in the wider global business environment. Accordingly, she explores how HRM is practiced by actors within emerging market business ecosystems, how these actors interact, and how these interactions are affected and affect the business environment.

1.4.5. Part V - Country and Region Perspectives

Part V provides country and regional perspectives on management challenges in emerging markets. Management in Brazil is reviewed in Chapter 28 by Jorge Carneiro of the Fundação Getulio Vargas Business School. He offers a fascinating account of the history of business in
Brazil, the cultural traditions that exist today and their sources, as well as the style of management that is most common in Brazil today. His explanation of the reasons for various policies and practices in Brazil will serve foreign business people who want to operate in Brazil very well. He will also enlighten Brazilian businesspeople about some of the strengths and foibles of their own business system.

Management in Russia is reviewed in Chapter 29 by Sheila Puffer, Dan McCarthy, Ruth May, Galina Shirokova and Andrei Panibratov, who analyze how the evolving political environment has overtime lifted and created constraints on the operations of private businesses. They argue that doing business in Russia is challenging for both domestic and foreign firms due to the country’s negative institutional environment, except for those Russian MNEs favored by the government. This has profound implication for both domestic and foreign firms engaged in, in particular, knowledge transfer, management and leadership, and innovation.

Management and strategies of domestic tech industry multinationals in India is examined in Chapter 30 by S Raghunath and Jaykumar Padmanabhan of the Indian Institute of Management-Bangalore. They argue that emerging market companies can compete in technology-intensive industries by building legitimacy through partnering with existing multinationals and building their capabilities through that process. They look at several Indian multinationals in the IT sector, demonstrating how they have used alliances with foreign multinationals and participation in standard-setting to gain international credibility and competitiveness. This may be a useful lesson for firms in other emerging markets and possibly other sectors for succeeding in international competition.

Management by foreign multinationals in China is discussed in Chapter 31 by Peter Williamson and Feng Wan. They warn foreign company managers to recognize that China is not a ‘typical’ emerging market, with lagging technology and relatively inexperienced company management. China has become the world’s second leading producer of new technology, and many Chinese companies populate the Fortune Global 500. So, these authors describe the 21st century Chinese business reality that both attracts foreign business to the large market and low-cost production opportunities – but also threatens foreign business with new competition.
at home and abroad. They highlight the importance of learning from Chinese competitors as a key element of strategy for foreign firms competing in China.

Management in Central and Eastern Europe is reviewed in Chapter 32 by Kalman Kalotay and Magdolna Sass with a focus on the patterns of inward and outward FDI. They are concerned with how multinational firms utilize countries in this region for parts of their global value chains and also as markets. CEE countries have much higher production costs than in Southeast Asia and many other emerging markets – while their per capita incomes are much closer to the Triad countries than to India or Brazil. These conditions present a challenge for the CEE countries, since they are also quite small in relation to BRICs or Triad countries. The chapter presents a useful view of how MNEs currently integrate CEE countries in their overall business.

Management of multinational firms in Africa is reviewed in Chapter 33 by Helena Barnard and Theresa Onaji-Benson of the GIBS Business School in South Africa. They focus particularly on the challenges South African companies face, and the strategies they deploy, competing at home and in other African countries, to catch up with global leaders. They develop a strategic framework that leads to six alternative methods for competing in Africa, for both foreign MNEs and local companies. They look also at how African countries fit into global value chains led by the MNEs.

Last and not least, Michael Witt of INSEAD discusses management challenges in Southeast Asia in Chapter 34 from a varieties-of-capitalism perspective. This identified substantial variations across the countries of the region, with varying similarities to major players outside the region. Witt places Singapore in a separate category as a city state and hub for regionally operating MNEs, Vietnam as a post-socialist economy while the remainder of the region is classified as emerging markets.

1.4.6. Conclusion

Together, these 34 chapters provide a state-of-the art perspective from the scholarly community on key themes of concern to management in emerging markets. Due to space limitations, we have not been able to cover all relevant themes. For example, changes in technology, especially the digital economy, are having profound impact on how firms compete
in emerging economies, creating new opportunities not only for economic catch-up that jumps over certain stages of economic development, but also to challenge businesses in advanced economies. Moreover, the global geo-politics is evolving with important shifts of power between the major political powers and increasing anti-globalization sentiments in some parts of societies in advanced economies, which in turn suggest the possibility of new protectionism and a relative decline of some aspects of global integration (Kobrin, 2017; Meyer, 2017).
References to Chapter 1


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