BRIC Building (Part II)

By Eleanor Eaton

In Part I of this article (www.leadershipcrossroads.com/BRIC1.pdf), we started discussing the countries commonly referred to as BRIC: Brazil, Russia, India and China. Their huge emerging and developing markets are particularly important at a time when flat or negative growth in mature markets is exacerbated by the first global recession in recent history.

We already reviewed opportunities and challenges in Brazil and Russia. Now, let us discuss how the rapidly changing economic and political conditions are affecting India and China.

India: Mumbai Disaster Changed the Rules of the Game

This country has demonstrated its ability to jump literally from the middle ages into the 21st century – all in the span of a couple of decades. From a supplier of exotic fabrics and ivory artifacts, India became the powerhouse for intricate software development while mostly avoiding issues of copyright violations or IP piracy.

Its growing middle class is among the best educated and supplies experts all over the world. More work visas are continually being issued to Indians in the US than to any other nationals. Further, owing to Indians' good education levels and command of the English language, the country became a preferred place for call centers and hi-tech outsourcing across several industries.

This created such lucrative local markets that Western companies rushed in, seeking to establish their own manufacturing foothold, especially since the local government was quite receptive to such ventures. However, companies quickly learned that not all is perfect in this burgeoning "paradise." The middle-class consumer layer turned out to be rather thin and the rest of the country not upwardly mobile. The fast-paced progress also turned out to be just skin-deep and limited to the large municipal areas, while the rest of India's population lack the education, interest or skills to participate in the rapid market development. From a foreign market engagement perspective, these stumbling blocks required greater patience and strategic changes, often involving the pre-business stage of local community development.

AND then, … the events of Mumbai happened, introducing the high-cost, high-risk variable of terrorism into the business development process. Most alarming were the apparent low level of preparedness and lack of anti-terrorism training, combined with the weak approach of the Indian government of blaming others (especially, their neighbor Pakistan) rather than admitting own mistakes.

Life is moving on and foreign business in India will not stop. However, part of the new reality is that entering into Indian markets will be substantially costlier, requiring additional protective structures (e.g., extra security, high risk insurance), as well as close coordination of military, police and government activities between India and the West.

China: Still the Best Business Bet

The Chinese economic evolution from low-cost manufacturing outsourcing destination to the fastest growing consumer market, powered by an upwardly-mobile and ever expanding middle class, reveals very different culture, work ethics and perspectives when contrasted with India.

Admittedly, entering and establishing manufacturing facilities in China presented its own problems. For instance, early on the government insisted on being a partner in each and every venture, not so much for the profit but for reasons of control, and local governments proved to be surprisingly independent of Beijing, with their own and often incompatible requirements, rules and regulations. On top of that, the past 18 months saw substantial increases in the cost of labor, driven by high demand and a resource drain caused by the Beijing Olympics. The key lesson foreign businesses had to learn was that the Chinese government retains the absolute decision power on the allocation of labor resources.

This scared US businesses into searching for other outsourcing havens in the Southeast region. Vietnam is an obvious alternative, but its labor force generally does not offer skill levels comparable to those of the Chinese. Parts supply was another problem, as product assembly in other countries would still require parts delivered from China, driving up costs further.

Just when many Westerners decided that China remained the most attractive market, the country became enmeshed in the global recession on a scale commensurate to the size of its economy.

SO, what should US and Western businesses do now? Run and lick their wounds? Freeze up and wait for better times?

We believe that China's all-powerful business-minded government is a blessing rather than a detriment. Bent on quick recovery and not held back by slow democratic decision-making processes, we expect their recovery/bailout program to be effective soon. Accordingly, this is the time for savvy businesspeople to build and intensify their government alliances by offering to participate in the recovery program and providing the necessary support, a step that will yield highly beneficial results in a not-too-distant future, with government assistance in business building or labor resource allocation that assures stability of costs.

Our conclusion from this look at the four BRIC markets, considering their specific idiosyncrasies, strengths and weaknesses? Stay alert, remain flexible, and carefully pick your markets and strategies.

GOOD LUCK !!!

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