Globalisation is entering a new phase, with emerging-market companies now competing furiously against rich-country ones. Matthew Bishop (interviewed here) asks what that will mean for capitalism

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Globalisation used to mean, by and large, that business expanded from developed to emerging economies. Now it flows in both directions, and increasingly also from one developing economy to another. Business these days is all about “competing with everyone from everywhere for everything”, write the authors of “Globality”, a new book on this latest phase of globalisation by the Boston Consulting Group (BCG).

One sign of the times is the growing number of companies from emerging markets that appear in the Fortune 500 rankings of the world’s biggest firms. It now stands at 62, mostly from the so-called BRIC economies of Brazil, Russia, India and China, up from 31 in 2003 (see chart 1), and is set to rise rapidly. On current trends, emerging-market companies will account for one-third of the Fortune list within ten years,
predicts Mark Spelman, head of a global think-tank run by Accenture, a consultancy.

There has been a sharp increase in the number of emerging-market companies acquiring established rich-world businesses and brands (see chart 2), starkly demonstrating that “globalisation” is no longer just another word for “Americanisation”. Within the past year, Budweiser, America’s favourite beer, has been bought by a Belgian-Brazilian conglomerate. And several of America’s leading financial institutions avoided bankruptcy only by going cap in hand to the sovereign-wealth funds (state-owned investment funds) of various Arab kingdoms and the Chinese government.

One example of this seismic shift in global business is Lenovo, a Chinese computer-maker. It became a global brand in 2005, when it paid around $1.75 billion for the personal-computer business of one of America’s best-known companies, IBM—including the ThinkPad laptop range beloved of many businessmen. Lenovo had the right to use the IBM brand for five years, but dropped it two years ahead of schedule, such was its confidence in its own brand. It has only just squeezed into 499th place in the Fortune 500, with worldwide revenues of $16.8 billion last year. But “this is just the start. We have big plans to grow,” says Yang Yuanqing, Lenovo’s chairman.

One reason why his company could afford to buy a piece of Big Blue was its leading position in a domestic market buoyed
by GDP growth rates that dwarf those in developed countries. These are lifting the incomes of millions of people to a level where they start to splash out on everything from new homes to cars to computers. “It took 25 years for the PC to get to the first billion consumers; the next billion should take seven years,” says Bill Amelio, Lenovo’s chief executive.

The sheer size of the consumer markets now opening up in emerging economies, especially in India and China, and their rapid growth rates, will shift the balance of business activity far more than the earlier rise of less populous economies such as Japan and South Korea and their handful of “new champions” that seemed to threaten the old order at the time.

This special report will argue that the age of “globality” is creating huge opportunities—as well as threats—for developed-world multinationals and new champions alike. The macroeconomic turbulence that the world is now going through after almost a decade of smooth growth will probably not alter the picture fundamentally, but it will complicate it. Despite all the talk of “decoupling”, emerging economies have recently been growing more slowly because of their exposure to increasingly cautious American consumers.

Moreover, high oil and food prices are creating inflationary pressures in many emerging countries that had enjoyed years of stable, low prices along with extraordinary economic growth. The side-effects of rapid development, such as pollution and water shortages, also need to be tackled. “After a long period in which globalisation has been all about labour productivity, the business challenge everywhere, and especially in emerging markets, will increasingly be to raise resource productivity—using fuel, raw materials and water more efficiently,” says Bob Hormats of Goldman Sachs, an investment bank.
Assuming that the upbeat growth forecasts for emerging markets remain broadly on track and the developed economies get back on their feet, what will be the main competitive battlegrounds of global business? One is those new consumers, who often demand products at far lower prices and often in more basic forms or smaller sizes than their developed-country counterparts. Emerging-market firms with experience of serving these consumers think they are better placed to devise such products than their developed-world competitors. Lenovo, for example, is going after the developing world’s rural markets with a cheap, customised PC that enables farmers to become networked.

Some of these innovations have global potential. Lenovo’s Chinese R&D labs developed a button that recovers a computer system within 60 seconds of a crash, essential in countries with an unreliable power supply. Known as “Express Repair”, this is now being incorporated into its computers everywhere.

The same logic may apply to innovations in business models that allow goods and services to be delivered in fundamentally different ways and at much lower cost. Lenovo, for example, has developed a highly effective formula for selling to Chinese consumers that it has since taken to India and America.

Yet the rise of the new champions has brought a vigorous response from some of the old ones. IBM may have felt that it was no longer worth its while to compete in PCs, but Lenovo is facing fierce competition from American companies such as Hewlett-Packard and Dell everywhere, including in China. Nor was IBM’s decision to sell its (low-margin) PC business due to a lack of commitment to emerging markets: it now employs 73,000 people in India, against 2,000 at the start of the decade, and hopes to increase the share of its global revenues coming from emerging markets from 18% now to 30% within five years.
Although multinational companies in developed countries must grapple with legacy costs of various kinds—financial (pensions, health-care liabilities), organisational (headquarters far away from new markets) and cultural (old ways of thinking)—they have advantages too. The greatest of these may be a deep well of managerial experience, which emerging-market firms often lack. Yet Lenovo has shown how to overcome this management deficit by hiring a group of seasoned international executives, including Mr Amelio, an American who cut his managerial teeth at IBM and Dell.

But Lenovo went further than hiring international managers. “We are proud of our Chinese roots,” says Mr Yang, but “we no longer want to be positioned as a Chinese company. We want to be a truly global company.” So the firm has no headquarters; the meetings of its senior managers rotate among its bases around the world. Its development teams are made up of people in several centres around the world, often working together virtually. The firm’s global marketing department is in Bangalore.

A huge effort has been made to integrate the different cultures within the firm. “In all situations: assume good intentions; be intentional about understanding others and being understood; respect cultural differences,” reads one of many tip sheets issued by the firm to promote “effective teamwork across cultures”. Mr Yang even moved his family to live in North Carolina to allow him to learn more about American culture and to improve his already respectable command of English, the language of global business.
In short, Lenovo is well on its way to becoming a role model for a successful multinational company in the age of globality: a good reason to be optimistic about the future of capitalism, even capitalism with a Chinese face. Perhaps Lenovo and other new champions will become the first of a new breed of truly global companies, rooted in neither rich nor developed countries but aiding wealth creation by making the most of opportunities the world over.

**Good and bad capitalism**

But is such optimism justified? Indeed, would Lenovo even have been allowed to buy IBM’s PC business today? Congress nearly blocked the deal at the time because it feared that valuable intellectual property might fall into the hands of the Chinese government. Since then, China-bashing has increased, there has been some Arab-bashing too, deals have been blocked and the rhetoric in Washington, DC, has become ever more protectionist.

One fear is that American jobs will disappear overseas. This is despite plenty of academic evidence that open economies generally do better than closed ones, that in America in particular many more and generally better jobs have been created in recent years than have been destroyed, and that the number of jobs lost to outsourcing is tiny compared with those wiped out by technological innovation. Mr Yang explains that “people thought we would manufacture all our products in China, but in fact we have opened new plants in Greensboro and also Poland, as we need to be close to our customers.”

Lately a new fear has been adding to the protectionist sentiment, turning even some usually enthusiastic global capitalists into protectionists. Could the rise of the new champions reflect the advance of bad forms of capitalism at the expense of good forms?
In their 2007 book, “Good Capitalism, Bad Capitalism and the Economics of Prosperity and Growth”, William Baumol, Robert Litan and Carl Schramm identify four main models of capitalism around the world: entrepreneurial, big-firm, oligarchic (dominated by a small group of individuals) and state-led. Most economies are a mixture of at least two of these. The best economies, say the authors, blend big-firm and entrepreneurial capitalism. The worst combination may be of oligarchic and state-led capitalism, both of which are prevalent in many emerging markets.

The worriers point out that, through corporate acquisitions and the investments of sovereign-wealth funds, the role of the state (often an undemocratic one) in the global economy is rapidly expanding. Given the lamentable history of state intervention in business, they say, this does not bode well.

Such fears are not easily dismissed, if only because what is happening is so new that there is not much evidence either way. Sovereign-wealth funds insist that they are interested only in getting a good return on their money and will not meddle in politics. Perhaps they will turn out to be sources of good corporate governance and patient capital, in admirable contrast to the growing number of short-termist institutional investors in developed countries. But perhaps they will not.

Again, Lenovo offers an encouraging example. Even though its largest shareholder is in effect the government of China, its acquisition of IBM’s PC business does not seem to have had any troubling consequences. But maybe the Chinese government was restrained by its co-investors, two of America’s leading private-equity firms. Besides, the new champions may be typified not by Lenovo but by, say, Gazprom, through which the Russian state can make mischief abroad. As Mr Yang points out, of the 29 Chinese firms in the Fortune 500, Lenovo is the “only one that is truly market-driven”. Most of the rest enjoy monopoly power or operate in
the natural-resources industries, where there is far more scope for politics and corruption than in consumer electronics.

At the very least, the growing role of states that often lack democratic credentials creates a sense that the competition from emerging-economy champions and investors is unfair, and that rich-country firms may lose out to less well-run competitors which enjoy subsidised capital, help from political cronies or privileged access to resource supplies.

So there is a real risk that bad capitalism will spread in the coming decades. Yet at the same time this latest, multidirectional phase of globalisation offers enormous potential for business to raise living standards around the world.