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September 2012

Online at <https://mpra.ub.uni-muenchen.de/42315/>  
MPRA Paper No. 42315, posted 31 Oct 2012 22:55 UTC

# Emerging Markets, the Markets of the Future

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This article introduces emerging markets, their history, current developments, and future trends. To do this, it first analyses the origin of the “emerging markets” name, a list of potential markets to be included in the emerging category, and the flows of trade and investments along with their share in the world’s economy. It continues by studying the main characteristics of emerging markets and the distinctive features of local players. The article concludes by exploring two growing trends in emerging markets, their largest cities as the markets of the future, and the commercial relationship between China and Latin America.

## Emerging markets, the markets of the future

*“Global institutions had failed to fully reflect the changing status of developing countries in the world economy and finance”*

*Hu Jintao, China’s president (1)*

### 1. Introduction

Emerging markets have been increasingly appearing in the media, specialised literature, and MNCs annual reports in the last 15-20 years. During this period, acronyms like BRIC (Brazil, Russia, India, China), BRICET (BRIC + Eastern Europe + Turkey), BRICS (BRIC + South Africa), VISTA (Vietnam, Indonesia, South Africa, Turkey, Argentina), BRICM (BRIC + Mexico), BRICK (BRIC + South Korea), CIVIETS (Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa), or Next Eleven (Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey, and Vietnam) were coined and are now common in the business vocabulary.

Also during this period, twelve Transition Economies from Eastern Europe joined the European Union (EU) and from them five entered the Eurozone. Emerging markets have also increased their weight in political terms in recent years as the Group of Twenty (G20) (2) has replaced the Group of Eight (G8) to “become the new permanent council for international economic cooperation” (CNN.com, 2009).

However, along with the many acronyms, there are various definitions of emerging markets as well as different lists of these markets.

### 2. Emerging Markets

Until the end of the 1970s, ‘less economically developed countries’ (LEDCs), based on objective or subjective indicators, was the common term for countries that were less developed in comparison with the USA, Western Europe, or Japan. This term carried the idea of high potential for profits but with higher risks. The term was thought not positive enough and as a consequence the label ‘emerging market’ appeared and since then has been used with ‘emerging economies’ interchangeably. The term ‘emerging markets’ “was coined, the literature seems to agree, in the early 1980s by Antoine van Agtmael, then working for the World Bank’s International Financial Corporation. The phrase was defined in terms of economics and levels of wealth. Emerging markets were economies with low-to-middle per capita income. It quickly came to be understood that emerging markets also needed to boost their growth, open their markets, and embark on structural reform. For years, the term was synonymous with the Asian tiger economies” (Authers, 2006).

At the beginning of the 2000s, new definitions and lists appeared in specialised literature. For example, Arnold and Quelch (1998) said that emerging markets are countries that satisfy at least two criteria: (i) a rapid pace of economic development, and (ii) government policies favouring economic liberalisation and the adoption of a free-market system. At that time, the International Financial Corporation (IFC, 1999) identified 51 rapidly growing countries in Latin America, Africa, Asia, and the Middle East as emerging economies and to this Hoskisson, Eden, Lau, and Wright (2000) added 13 Transition Economies from the list of the European Bank for Reconstruction and Development (European Bank for Reconstruction and Development, 1998). This made a total of 64 emerging markets at the beginning of the 21st century.

After this, in 2001 Goldman Sachs’ chief economist Jim O’Neill developed the idea of BRICs for countries he expected to be the next to enter the economic big league. He said that the BRICs, Korea, and Mexico “should not be really thought of as ‘emerging markets’ in the classical sense, as many still do. (3)

We regard these countries as a critical part of the modern globalised economy”.

**Table 1: FTSE Global Equity Index Series (FTSE, 2010)**

Developed	Advanced emerging	Secondary emerging	Frontier markets
Australia	Brazil	Chile	Argentina
Austria	Hungary	China	Bahrain
Belgium/Luxembourg	Mexico	Colombia	Bangladesh
Canada	Poland	Czech Republic*	Botswana
Denmark	South Africa	Egypt	Bulgaria
Finland	Taiwan	India	Côte d'Ivoire
France		Indonesia	Croatia
Germany		Malaysia*	Cyprus
Greece		Morocco	Estonia
Hong Kong		Pakistan	Jordan
Ireland		Peru	Kenya
Israel		Philippines	Lithuania
Italy		Russia	Macedonia
Japan		Thailand	Malta
Netherlands		Turkey*	Mauritius
New Zealand		UAE	Nigeria
Norway			Oman
Portugal			Qatar
Singapore			Romania
South Korea			Serbia
Spain			Slovakia
Sweden			Slovenia
Switzerland			Sri Lanka
UK			Tunisia
USA			Vietnam

\*Czech Republic, Malaysia and Turkey will be promoted to Advanced Emerging market status from June 2011

With these definitions issues appeared when analysis and comparisons were attempted. These economies are too diverse; the pace and depth of their political and economic changes, and the size of their markets are only examples of the differences. Is it possible to have in the same group countries like Argentina, Pakistan, and Lithuania? Or China, Trinidad and Tobago, and Jordan? ^

For this reason, probably, The Economist (2008) proposed to retire the phrase “emerging markets” and supports the more rigorous three categories recently published by the FTSE group based on the development levels of local stock markets (4): (i) advanced emerging, (ii) secondary emerging, and (iii) frontier markets. Table 1 shows the list of countries in each category as at September 2010.

Figure 1 shows the performance for the FTSE Emerging Markets Index (5) compared with the FTSE All World Index from January 2006 to January 2011.

In this figure, it is possible to see that the Emerging Markets Index has outperformed the All World Index over the period of analysis; this is particularly relevant as the period was dominated by a deep economic and financial crisis.

**Figure 1: Compared performance of the FTSE Emerging Markets Index versus the FTSE All World Index from 2006 (FTSE, 2011)**



In addition to the FTSEs, there are other lists from specialised institutions like ISI Emerging Markets or indexes like the Morgan Stanley Capital International (MSCI).

In fact, Jim O’Neill from Goldman Sachs, the creator of BRIC, recently proposed to add Mexico, South Korea, Turkey, and Indonesia to what he dubs “growth markets” as “any economy from the emerging markets world that is already 1 per cent of global GDP or more, and has the potential for that to rise, has the ability to be taken seriously”. (6)

But still it seems challenging to create a comprehensive list, index, or even a definition of emerging economies. One of the reasons is that countries are growing; markets may have developed from a past emerging market phase like South Korea or Taiwan (or the other way around, like Argentina).

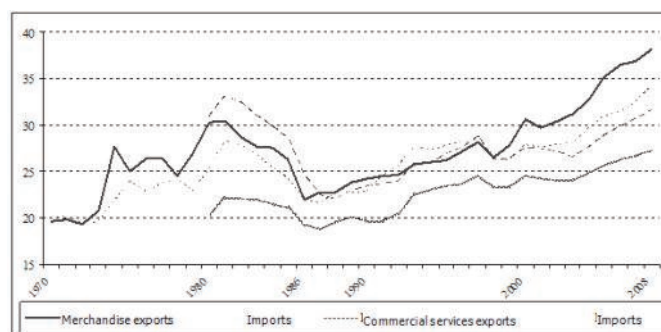
A second reason may be the simplification inherent in making an index, for example, small countries (or countries with limited market liquidity), like Chile, are often underestimated.

### 3. Trade and investments

In any case, and regardless of different classifications, the increasing importance of LEDCs or emerging markets is being fed by their growing share in the flows of trade and investments in the world economy.

This can be seen in Figure 2: by 1970 merchandise exports were around 20% and by 2008 they had reached 38%, commercial services exports also increased from around 20% in 1970 to 27% of global trade in 2008 (WTO, 2010b).

**Figure 2: Share of developing economies in world trade in %, 1970-2008 (WTO, 2010b)**



A comparison between Table 2 and Table 3 shows the same trend by country and region. In Table 2 it is possible to see that the EU 15, the USA, and Japan accounted for around 65% and 60% of world trade in 1990 and 1999 respectively, and that LEDCs for only around 12% and 18% over the same period. Ten years later, Table 3 shows that in 2009 the EU 27, the USA, and Japan accounted for around 33.5% whilst the Six East Asian Traders (7), China, Mexico, and the Russian Federation were responsible for 34% of world trade. From Table 3, it is also worth noting that the list of top ten exporters is shared by developed countries and emerging markets, and also that India and Brazil (key components in the BRIC) are still at an early stage in their involvement in international trade with 1.7% (position 15) and 1.6% (position 18) respectively.

**Table 2: World merchandise exports by country and region in %, 1999 (WTO, 2000)**

	Share		Annual percentage change			
	1990	1999	1990-99	1997	1998	1999
<b>Developed countries</b>						
European Union (15)	44.5	39.8	4	0	4	-1
United States	11.6	12.7	7	10	-1	2
Japan	8.5	7.7	4	2	-8	8
	<b>64.6</b>	<b>60.2</b>				
<b>LEDCs</b>						
Six East Asian traders	7.9	10.0	8	3	-7	8
China	1.8	3.6	14	21	0	6
Mexico	1.2	2.5	14	15	6	16
Central and Eastern Europe	1.4	1.9	7	6	9	1
	<b>12.3</b>	<b>17.9</b>				
<b>Regions</b>						
Western Europe	48.3	43.0	4	-1	4	0
Asia	21.8	25.5	7	5	-6	8
North America	15.4	17.1	7	9	-1	4
Latin America	4.3	5.4	8	11	-1	6
C. E. Europe/Baltic States/CIS	3.1	3.9	6	4	-5	-1
Middle East	4.0	3.1	3	5	-23	24
Africa	3.1	2.0	1	2	-16	9
<b>Regional Trade Associations</b>						
NAFTA (3)	16.6	19.6	7	10	0	6
MERCOSUR (4)	1.4	1.4	5	11	-2	-9
ASEAN (10)	4.3	6.6	11	4	-7	9

For foreign investments the trend is similar. As can be seen in Figure 3, FDI flows to developing and transition economies have been growing, from a 10% share in 1974 to 49% of total flows in 2009.

If this trend continues, in a few years emerging markets for the first time will be receiving more FDI than developed economies. This trend is also seen in mergers and acquisitions (M&A). 2010 figures in emerging markets are now higher than those of Europe for the first time with a volume of US\$575.7bn against Europe's us\$550.2bn.

“Deals by companies in emerging markets now account for 30 per cent of global M&A activity, while Europe's share has fallen to 29 per cent. China, with about \$133bn in deals, has attracted most interest this year from acquirers. Brazil, India and Russia follow, with the four BRIC countries together accounting for more than half of emerging markets activity” (Saigol and Thomas, 2010).

**Table 3: World merchandise exports and imports by country in %, 2009 (WTO, 2010a)**

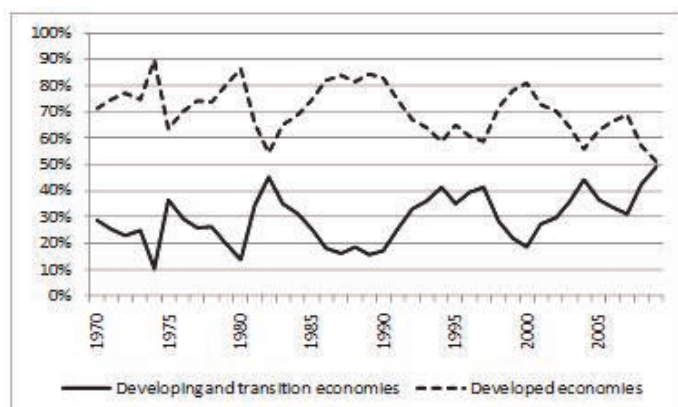
Rank	Exporters	Share	Rank	Importers	Share
				Extra-EU (27)	
1	Extra-EU (27) exports	16.2	1	imports	17.4
2	China	12.7	2	United States	16.7
3	United States	11.2	3	China	10.5
4	Japan	6.2	4	Japan	5.7
5	Korea, Republic of	3.9	5	Hong Kong, China	3.7
6	Hong Kong, China	3.5	6	Canada a	3.4
7	Canada	3.4	7	Korea, Republic of	3.4
8	Russian Federation	3.2	8	India	2.6
9	Singapore	2.9	9	Singapore	2.6
10	Mexico	2.4	10	Mexico	2.5
	<b>Sub Total</b>	<b>65.5</b>		<b>Sub Total</b>	<b>65.9</b>
11	Taipei, Chinese	2.2	11	Russian Federation	2.0
12	Saudi Arabia	2.0	12	Taipei, Chinese	1.8
	United Arab Emirates				
13	b	1.9	13	Australia	1.7
14	Switzerland	1.8	14	Switzerland	1.6
15	India	1.7	15	Turkey	1.5
				United Arab Emirates	
16	Malaysia	1.7	16	b	1.5
17	Australia	1.6	17	Thailand	1.4
18	Brazil	1.6	18	Brazil	1.4
19	Thailand	1.6	19	Malaysia	1.3
20	Norway	1.3	20	Saudi Arabia	1.0
21	Indonesia	1.3	21	Indonesia	1.0
22	Turkey	1.1	22	South Africa	0.8
23	Iran, Islamic Rep. of	0.8	23	Viet Nam	0.7
24	South Africa	0.7	24	Norway	0.7
	Bolivarian Rep. of				
25	Venezuela	0.6	25	Iran, Islamic Rep. of	0.5
26	Viet Nam	0.6	26	Israel	0.5
27	Argentina	0.6	27	Philippines	0.5
28	Chile	0.6	28	Ukraine	0.5
29	Nigeria b	0.6	29	Egypt	0.5
30	Kuwait	0.5	30	Chile	0.4
				Bolivarian Rep. of	
31	Israel	0.5	31	Venezuela	0.4
32	Algeria	0.5	32	Algeria	0.4
33	Kazakhstan	0.5	33	Nigeria b	0.4
34	Qatar b	0.4	34	Argentina	0.4
35	Angola	0.4	35	Iraq b	0.4

a Imports are valued f.o.b.

b Secretariat estimates.



Figure 3: Inward and outward FDI flows, annual, 1970-2009 (UNCTAD, 2011)



In any case, not all emerging economies are active recipients of FDI. Fifteen countries from East Asia, Latin America, and Southern Africa account for around 73% of inward FDI to developing economies as can be seen in Table 4.

Table 4: FDI inward stock to developing economies, 1990-2009, in millions of US\$ (UNCTAD, 2010)

<b>Developing economies<sup>8</sup></b>	<b>26,836,498</b>	
1 China	3,793,786	14.14%
2 Brazil	2,652,972	9.89%
3 Mexico	2,588,323	9.64%
4 Russian Federation	1,840,589	6.86%
5 Chile	981,911	3.66%
6 Korea, Republic of	974,455	3.63%
7 Argentina	923,725	3.44%
8 South Africa	851,992	3.17%
9 Malaysia	815,441	3.04%
10 Thailand	795,430	2.96%
11 Turkey	743,011	2.77%
12 British Virgin Islands	724,764	2.70%
13 India	704,872	2.63%
14 Saudi Arabia	699,253	2.61%
15 Indonesia	591,238	2.20%
<b>Total</b>		<b>73.34%</b>
East Asia <sup>9</sup>	5,439,300	20.27%
South and Central America <sup>10</sup>	9,107,029	33.94%
Southern Africa <sup>11</sup>	1,238,610	4.62%
<b>Total</b>		<b>58.82%</b>

Recipients in this table are ranked by the stock of FDI, where it is worth noting the high position of a small country like Chile (probably the gateway for foreign investments in South America) showing that not only big countries can be emerging economies. India's relatively low position is also worth of mention as its FDI stocks are much lower than its BRIC counterparts.

#### 4. Main characteristics

As stated above, it is difficult to find a comprehensive definition of emerging markets that suits all. For example, "for households, emerging markets are the source of cheap consumer goods. For frustrated computer users, they are often the location of outsourced technical support. For executives of multinationals, emerging markets are growth drivers amid stagnation and financial crisis in developed economies" (Khanna and Palepu, 2010, p. 1).

But one of the criteria that often underlies various definitions of emerging markets "is the system of market governance and, in particular, the extent and stability of a free market system" (Arnold and Quelch, 1998, p. 8) along with the "ease with which transactions can take place in any market and the cost associated with it" (Khanna and Palepu, 2002, p. 4). This is based on the fact that economies should put in place a web of institutions to facilitate the efficient functioning of markets. These institutions mould the social and organisational behaviour of organisations and, as a consequence, affect their decision-making processes as well as their available options. Institutions in a market (country) should reduce uncertainty and provide a stable level playing field that facilitates interactions and diminishes both transaction and information costs.

This complex web of institutions that permeates the developed economies is either absent or poorly developed in emerging markets. This seems evident in three main areas in EMs: (i) information problems: comprehensive, reliable, and objective information to make decisions is not widely available; (ii) misguided regulations: some emerging economies place political goals over economic efficiency which reduces the chances to take full advantage of business opportunities; and (iii) inefficient judicial systems: an independent judicial system that enforces contracts in a reliable and predictable way does not seem to be the reality in EMs (Khanna and Palepu, 1997).

In this sense, it has been found that “building all the institutional infrastructure for well-functioning markets is a slow and time consuming process” (Khanna and Palepu, 2002, p. 4).

Reasons for this can be: (i) that emerging markets require good political governance to develop institutions with thoughtful and supportive regulations, as well as even-handed and predictable enforcement; (ii) that these institutions need qualified persons with certain skills who are usually difficult to find in emerging economies; and (iii) that in the development of market institutions there is a mutual interdependence across the first two problems (Hoskisson et al., 2000; Khanna and Palepu, 2002).

In fact, it has been suggested that “many emerging markets are likely to suffer from significant institutional voids for a long time to come” (Khanna and Palepu, 2002, p. 4) as “the mere deregulation of economies does not automatically lead to immediate reduction in transaction costs” (Khanna and Palepu, 2000, p. 281).

Institutional voids usually result in higher transaction costs. This is because the price system does not give reliable information for the efficient allocation of resources; also, because sometimes the government’s discretion rather than the rule of law determines property rights and makes their enforcement more costly.

Institutional voids can also lead to market failures and, as a consequence, firms operating in EMs often have to perform some of these functions themselves. Higher transaction costs are also a reason behind the high prevalence in emerging markets of unrelated diversified local business groups mainly due to the low development of the capital and labour markets. Examples of this are the chaebols in South Korea, business houses of India, or grupos económicos in Latin America (Khanna and Palepu, 1997).

In addition, capabilities for relationship-based management in emerging markets substitute for the lack of institutional infrastructure as firms tend to base their competitive advantage on links with local authorities. In this environment, local companies can obtain licenses and other benefits due to their close links with the home government and, as a consequence, protect their operations from domestic and international competitors (Fornes, 2009; Hoskisson et al., 2000).

## **5. Local players**

Local companies from emerging countries usually take any of these three organisational forms: (i) domestic competitors (mainly business groups, state-owned companies, and privatised firms); (ii) entrepreneurial start-ups; and (iii) overseas players (Peng, 2003; Peng, Tan, and Tong, 2004). They face four broad challenges: (i) competition from developed countries’ firms entering EMs to exploit the skills developed in their home markets; (ii) having to develop new strategies to deal with improved conditions in their domestic markets; (iii) having to enter other EMs to exploit the strengths developed in their domestic markets; and (iv) having to enter developed economies (Wright, Filatotchev, Hoskisson, and Peng, 2005).

These companies face a ‘high velocity’ environment of rapid political, economic, and institutional changes” (Wright et al., 2005, p. 7). Due to this, EMs’ companies have developed a set of abilities, strengths, and capabilities (like close links with governments, structures aimed at internalising transaction costs, etc) to overcome these challenges which help them to compete successfully in the domestic market. But their engagement in international activities, especially FDI, has been relatively low. In the 1990s, most FDI from EMs was categorised as asset-exploitation and asset-seeking. The former implies a transfer of proprietary assets across the border, and the latter aims at the acquisition of strategic assets (Makino, Chung-Ming, and Rhy-Song, 2002).

Asset-exploitation FDI by EMs’ firms, especially in other developing countries, is usually small scale, labour intensive, and has flexible production skills along with products suitable for the host market that could eventually replace domestic competition. Companies from EMs used to choose FDI, rather than exports or licensing, as their preferred option because of: (i) the uncertainty of the local market (mainly poor information on the value of local assets and weak distribution networks), (ii) the difficulty for local firms to internationalise their operations, and (iii) the weak legal framework to protect technological knowledge (Wells, 1981, 1983). Asset-seeking FDI has been followed by companies from Asia’s newly industrialised economies to reinforce their price competitiveness in EMs, but to strengthen their non-price competitiveness when investing in developed countries (Chen and Chen, 1998; Kumar, 1998).



This strategy implies that internal strengths should come from the ownership of proprietary assets and also from the capacity to buy and the knowledge to manage assets from firms in the host country (Dunning, 1995; Dunning, 1998).

But since the 2000s, the situation has been changing as firms from EMs have been increasing their presence outside their home markets.

Well known examples like Cemex and America Móvil from Mexico, Ternium from Argentina, Vale and Gerdau from Brazil, JSFC from Russia, Lenovo and ZTE from China, and Tata Motors from India are leading the way in the internationalisation of companies from emerging economies followed by an increasing number of firms engaging in international operations.

This trend can be seen in Table 5 which shows the outward stock of FDI as % of GDP. In the table, it is worth noting the high increases during the period of countries like Chile, Malaysia, Korea, or South Africa, although they are still far away from the 40.8% posted by developed economies.

Different from the situation for most of the 20th century, EMs' companies now seem to be in a stronger position to compete in foreign markets.

These companies can offer high levels of flexibility and the capability for rapid adjustment from their experience dealing with changing home environments.

They can also offer every day low prices and high value for money to middle and low segments of consumers in both developed and emerging economies. Firms from EMs have also been strengthening their position as suppliers of global retailers where customers are now demanding their products (Williamson and Yin, 2009).

Still, they seem to have a long way to go until they can reach a level of internationalisation (measured by foreign assets) similar to that of their Western counterparts. This is self-evident in a comparison between the figures in Table 6 (the top 75 non-financial firms from EMs) with the world's top 75 MNCs (UNCTAD, 2010).

For example, General Electric, the world leader, has US\$401.290 millions in foreign assets, while CITIC from China (top in the EMs' list) has around 10% of this value (CITIC is number 48 in the world's list). Also, the company in 75th position in the world's top 100 MNCs, TeliaSonera AB from Sweden, has US\$29.067 millions in foreign assets; while TPV Technology Limited from China has less than 10% of this figure in foreign assets (US\$2,266 millions).

**Table 5: FDI outward stock as percentage of GDP, 1990-2009 (UNCTAD, 2010)**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
China	1.1	1.3	1.9	2.1	2.7	2.3	2.2	2.3	2.4	2.4	2.3	2.6	2.6	2.0	2.3	2.6	2.8	2.8	3.4	4.9
Brazil	9.4	10.3	10.8	9.7	7.9	5.8	5.2	5.2	5.7	8.5	8.1	9.0	10.8	9.9	10.4	9.0	10.5	10.0	9.9	10.0
Mexico	1.0	0.9	1.0	0.8	1.1	1.5	1.3	1.3	1.4	1.6	1.4	1.9	2.0	2.6	3.2	3.3	3.7	4.1	4.2	6.1
Russian Federation	..	..	..	0.5	0.6	0.8	1.1	1.9	3.3	4.9	7.8	14.4	18.1	21.0	18.1	19.2	22.0	28.8	12.1	20.1
Chile	0.5	0.7	1.5	2.3	3.6	3.8	5.2	6.2	8.5	12.3	14.8	17.1	18.2	18.5	18.2	18.1	17.7	19.3	18.6	25.2
Korea, Republic of	0.9	1.1	1.3	1.5	1.8	2.0	2.5	3.3	5.9	5.2	5.0	4.0	3.6	3.9	4.5	4.6	5.2	7.1	10.5	13.9
Argentina	4.3	3.2	3.2	3.4	3.6	4.1	4.5	5.5	6.1	7.1	7.4	7.9	20.2	16.6	14.2	12.7	12.1	10.5	8.7	9.5
South Africa	13.4	13.4	13.6	13.8	14.1	15.4	16.9	15.6	20.0	24.8	24.3	14.8	19.8	16.2	17.8	15.3	19.5	23.0	18.0	22.6
Malaysia	1.7	1.6	1.8	2.1	3.5	5.8	8.8	11.5	17.2	17.5	16.9	9.0	10.1	10.9	10.3	15.9	23.1	31.3	30.5	39.5
Thailand	0.5	0.6	0.7	0.8	1.0	1.4	1.7	1.3	2.4	2.5	1.8	2.3	2.3	2.4	2.3	2.9	3.1	4.0	4.6	6.2
Turkey	0.6	0.6	0.6	0.5	0.8	0.6	0.6	0.7	0.8	1.1	1.4	2.3	2.5	2.0	1.8	1.7	1.7	1.9	1.9	2.4
India	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.4	0.4	0.5	0.8	1.0	1.1	1.2	2.9	3.7	4.9	6.1
Saudi Arabia	1.8	1.5	1.6	1.7	1.8	1.8	1.8	1.9	2.3	2.1	2.6	2.8	3.7	3.5	3.0	4.5	5.5	8.4	7.2	11.1
Indonesia	0.1	0.1	0.5	0.7	2.4	2.7	2.6	2.8	6.4	4.4	4.2	4.3	3.7	3.2	4.2	4.9	4.6	4.9	5.3	5.6
Japan	6.7	6.7	6.6	6.0	5.8	4.5	5.6	6.4	7.0	5.7	6.0	7.3	7.8	7.9	8.0	8.5	10.3	12.4	13.9	14.6
Canada	14.6	15.8	15.2	16.4	18.5	20.0	21.6	24.0	27.9	30.5	32.8	35.0	37.5	36.8	37.6	34.3	34.8	36.5	35.0	42.4
United States	12.6	13.8	12.6	16.0	15.8	18.6	20.7	22.8	26.2	30.8	27.6	23.0	19.4	25.0	28.9	29.4	34.0	38.3	21.8	30.2
United Kingdom	23.1	22.4	20.6	25.5	26.6	26.8	27.7	27.2	34.3	46.8	62.3	60.6	63.2	63.8	56.6	52.6	59.6	65.6	57.5	76.0
Italy	5.3	5.9	5.6	7.9	8.5	9.4	9.3	11.7	14.5	15.1	16.4	16.3	16.0	15.9	16.2	16.5	20.3	24.6	22.3	27.4
Spain	3.0	3.7	4.5	5.9	5.6	5.8	7.2	9.3	12.3	19.1	22.2	23.6	23.8	25.0	27.0	27.0	35.3	40.8	37.4	44.2
France	9.0	10.6	11.4	12.3	13.4	13.0	14.7	16.7	19.6	22.9	69.7	59.6	43.8	52.6	56.1	57.5	71.0	69.6	45.9	64.9
Germany	8.8	9.6	8.6	9.3	10.5	10.6	11.9	14.3	17.1	19.3	28.5	32.7	34.5	34.0	33.7	33.2	37.1	40.1	36.0	41.2
Developed economies	11.2	11.9	11.2	12.9	13.3	14.0	15.8	18.0	21.5	24.7	28.8	27.8	26.8	30.7	32.6	32.7	38.9	42.8	32.9	40.8



Table 6: The top 75 non-financial firms from developing and transition economies, ranked by foreign assets, 2008 (UNCTAD, 2010) (12)

Corporation	Home economy	Industry <sup>c</sup>	Assets			Sales		TNI % <sup>b</sup>
			Foreign	%	Total	Foreign	Total	
1 CITIC Group	China	Diversified	43,750	18%	238,725	5,427	22,230	21.0
2 Cemex S.A.	Mexico	Non-metallic mineral products	40,258	89%	45,084	17,982	21,830	81.6
3 Samsung Electronics Co., Ltd.	Korea, Republic of	Electrical & electronic equipment	28,765	34%	83,738	88,892	110,321	54.2
4 Petronas – Petrolim Nasional Bhd	Malaysia	Petroleum expl./ref./distr.	28,447	27%	106,416	32,477	77,094	29.6
5 Hyundai Motor Company	Korea, Republic of	Motor vehicles	28,359	35%	82,072	33,874	72,523	36.5
6 China Ocean Shipping (Group) Company	China	Transport and storage	28,066	77%	36,253	18,041	27,431	49.9
7 Lukoil	Russian Federation	Petroleum and natural gas	21,515	30%	71,461	87,637	107,680	42.2
8 Vale S.A.	Brazil	Mining & quarrying	19,635	25%	79,931	30,939	37,426	38.3
9 Petróleos De Venezuela	Venezuela, Bolivarian Republic of	Petroleum expl./ref./distr.	19,244	15%	131,832	52,494	126,364	21.5
10 Zain	Kuwait	Telecommunications	18,746	95%	19,761	6,034	7,452	61.2
11 Formosa Plastics Group	Taiwan Province of China	Chemicals	16,937	22%	76,587	17,078	66,259	40.9
12 Tata Steel Ltd.	India	Metal and metal products	16,826	70%	23,868	26,426	32,168	69.8
13 Petroleo Brasileiro S.A. – Petrobras	Brazil	Petroleum expl./ref./distr.	15,075	12%	125,695	40,179	146,529	16.2
14 Hon Hai Precision Industries	Taiwan Province of China	Electrical & electronic equipment	14,664	55%	26,771	21,727	61,810	58.1
15 Metalurgica Gerdau S.A.	Brazil	Metal and metal products	13,658	53%	25,750	10,274	23,182	48.6
16 Abu Dhabi National Energy Company	United Arab Emirates	Utilities (Electricity, gas and water)	13,519	57%	23,523	3,376	4,576	69.5
17 Oil And Natural Gas Corporation	India	Petroleum expl./ref./distr.	13,477	44%	30,456	4,238	27,684	23.8
18 MTN Group Limited	South Africa	Telecommunications	13,266	73%	18,281	7,868	12,403	67.4
19 LG Corp.	Korea, Republic of	Electrical & electronic equipment	13,256	26%	51,517	44,439	82,060	43.8
20 Evraz	Russian Federation	Metal and metal products	11,196	58%	19,448	12,805	20,380	47.5
21 Qatar Telecom	Qatar	Telecommunications	10,598	52%	20,412	4,077	5,582	69.7
22 América Móvil	Mexico	Telecommunications	10,428	33%	31,481	17,323	31,026	52.6
23 China National Petroleum Corporation	China	Petroleum expl./ref./distr.	9,409	4%	264,016	4,384	165,224	2.7
24 Hindalco Industries Limited	India	Diversified	8,564	68%	12,653	11,371	14,338	71.6
25 STX Corporation	Korea, Republic of	Other equipments goods	8,308	45%	18,338	1,668	12,914	34.5
26 Axiata Group Bhd	Malaysia	Telecommunications	8,184	76%	10,783	1,746	3,406	67.7
27 Severstal	Russian Federation	Metal and metal products	8,066	36%	22,480	9,325	22,393	30.2
28 Ternium SA	Argentina	Metal and metal products	7,063	66%	10,671	5,357	8,465	64.5
29 China State Construction Engineering Corp	China	Construction and real estate	7,015	23%	29,873	3,619	29,080	16.6
30 YTL Corp. Berhad	Malaysia	Utilities (Electricity, gas and water)	7,014	63%	11,102	968	1,966	47.8
31 Tata Motors Ltd.	India	Automobile	6,767	47%	14,359	9,869	15,635	48.9
32 Asustek Computer Inc	Taiwan Province of China	Electrical & electronic equipment	6,746	61%	10,998	9,522	21,157	55.9
33 Orascom Telecom Holding	Egypt	Telecommunications	6,718	69%	9,757	2,947	5,305	64.4
34 Quanta Computer Inc	Taiwan Province of China	Electrical & electronic equipment	6,711	73%	9,250	4,930	25,946	41.6
35 Sasol Limited	South Africa	Chemicals	6,679	35%	18,977	7,781	21,676	29.6
36 Sinochem Corp.	China	Petroleum expl./ref./distr.	6,409	32%	19,825	34,218	44,280	36.8
37 Sappi Limited	South Africa	Wood and paper products	5,933	97%	6,109	5,483	5,863	85.2
38 JSFC Sistema	Russian Federation	Telecommunications	5,698	20%	29,159	3,983	16,671	19.1
39 Netcare Limited	South Africa	Other consumer services	5,590	84%	6,642	1,516	2,904	56.1
40 Posco	Korea, Republic of	Metal and metal products	5,335	14%	37,345	13,512	37,966	21.4
41 Suzlon Energy Limited	India	Diversified	5,310	72%	7,370	4,714	5,685	75.7
42 China National Offshore Oil Corp.	China	Petroleum expl./ref./distr.	5,247	9%	59,917	4,475	28,028	9.4
43 Genting Berhad	Malaysia	Other consumer services	5,139	58%	8,790	667	2,726	47.9
44 Steinhoff International holdings	South Africa	Other consumer goods	5,060	70%	7,194	3,492	5,636	56.5
45 Gold Fields Limited	South Africa	Metal and metal products	4,839	57%	8,491	1,443	3,223	35.7
46 Medi Clinic Corp. Limited	South Africa	Other consumer services	4,788	89%	5,395	1,341	2,294	78.7
47 Pou Chen Corp.	Taiwan Province of China	Other consumer goods	4,553	66%	6,929	5,518	6,622	71.6
48 Acer Inc.	Taiwan Province of China	Electrical & electronic equipment	4,455	60%	7,418	16,495	17,311	79.9
49 MMC Norilsk Nickel	Russian Federation	Other consumer services	4,389	21%	20,823	1,998	13,980	13.3
50 Sime Darby Berhad	Malaysia	Diversified	4,307	43%	10,061	6,065	8,827	45.7
51 China Communications Construction Co.	China	Construction and real estate	4,010	13%	31,911	5,599	25,740	12.1
52 Telefonos De Mexico S.A. De C.V.	Mexico	Telecommunications	3,948	29%	13,528	2,464	11,140	28.6
53 Naspers Limited	South Africa	Other consumer services	3,821	66%	5,746	995	3,018	55.3
54 Taiwan Semiconductor Manufacturing Co Ltd.	Taiwan Province of China	Electrical & electronic equipment	3,813	22%	17,030	6,139	10,558	30.8
55 VimpelCom	Russian Federation	Telecommunications	3,726	24%	15,725	1,520	10,117	21.8
56 Beijing Enterprises Holdings Ltd.	China	Diversified	3,662	55%	6,670	2,524	2,530	77.0
57 Enka Insaat ve Sanayi FEMSA-Fomento	Turkey	Construction and real estate	3,540	46%	7,767	3,256	6,956	46.5
58 Mexicano	Mexico	Food, beverages and tobacco	3,508	26%	13,377	4,792	15,082	30.3
China Railway Construction	China	Railway Construction						



## Emerging markets, the markets of the future — Gaston Fornes

59	Corporation Ltd.	China	Construction	3,146	10%	32,204	2,475	31,571	9.1
60	ZTE Corp.	China	Other consumer goods	3,143	41%	7,642	3,860	6,373	44.2
61	Chi MEI Optoelectronics	Taiwan Province of China	Electrical & electronic equipment	3,070	17%	18,099	187	10,081	11.9
62	Mechel	Russian Federation	Metal and metal products	2,911	24%	12,010	1,385	9,951	16.0
63	United Microelectronics Corporation	Taiwan Province of China	Electrical & electronic equipment	2,901	44%	6,594	2,153	3,068	52.7
64	Inventec Company	Taiwan Province of China	Electrical & electronic equipment	2,874	73%	3,935	1,911	12,016	61.2
65	Lenovo Group	China	equipment	2,732	43%	6,308	8,467	14,901	41.1
66	San Miguel Corporation	Philippines	Food, beverages and	2,655	37%	7,117	458	3,774	21.7
67	Compal Electronics Inc	Taiwan Province of China	Other consumer goods	2,573	43%	5,954	4,579	15,171	43.9
68	PTT Public Company Limited	Thailand	Petroleum expl./ref./distr.	2,525	10%	25,252	5,993	59,931	10.0
69	SAK	Kuwait	Diversified	2,504	40%	6,279	264	420	47.5
70	Tanjong Public Limited Company	Malaysia	Pharmaceuticals	2,445	71%	3,451	455	1,101	49.5
71	Qisda Corp. (Benq)	Taiwan Province of China	Electrical & electronic equipment	2,441	62%	3,936	2,678	5,372	53.5
72	TMK	Russian Federation	Metal and metal products	2,361	33%	7,071	2,302	5,690	27.4
73	Wistron Corp.	Taiwan Province of China	Other equipments goods	2,316	55%	4,249	2,458	14,153	42.7
74	China Minmetals Corp.	China	Metal and metal products	2,269	17%	13,484	4,318	26,668	11.6
75	TPV Technology Limited	China	Wholesale trade	2,266	68%	3,354	6,860	9,247	69.8

<sup>a</sup> All data are based on the companies' annual reports unless otherwise stated.

<sup>b</sup> TNI, the Transnationality Index, is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

<sup>c</sup> Industry classification for companies follows the United States Standard Industrial Classification as used by the United States Securities and Exchange Commission (SEC).

## 6. Emerging cities

Probably due to the heritage from the time when the idea of less economically developed countries was in use, EMs have continued being associated with countries rather than with markets. This difference is relevant as one of the characteristics of these countries is the disparity in income distribution, where most of the wealth is concentrated in their cities and surrounding areas, usually large ones. This is the case for small countries, like Chile, where its capital Santiago has a population of around 5 million (out of a total country population of 16 million) or bigger countries, like Argentina, where Buenos Aires, the capital city, has around 18 million inhabitants (including La Plata) out of a total country population of around 40 million. Brazil has two cities, Sao Paulo and Rio de Janeiro, with around 20 and 12 million respectively out of an estimated country population of 190 million.

In Mexico City there are 20 million inhabitants out of a total country population of around 112 million. Similar cases can be found in China, where the 4-5 largest and most developed cities of Shanghai, Nanjing, Guangzhou, Hangzhou, and Beijing account for a population of around 75 million. Examples like these can be found in most emerging markets. As a comparison, in the EU there are only two urban areas with populations of around 10 million (London and Paris); in the USA (New York and Los Angeles); and in Japan (Tokyo and Osaka).

**Table 7: The 30 largest urban agglomerations in 2025 ranked by population size (UN, 2009)**

Urban Agglomeration	Country	Estimated population
1 Tokyo	Japan	37.09
2 Delhi	India	28.57
3 Mumbai (Bombay)	India	25.81
4 São Paulo	Brazil	21.65
5 Dhaka	Bangladesh	20.94
6 Ciudad de México (Mexico City)	Mexico	20.71
7 New York-Newark	United States of America	20.64
8 Kolkata (Calcutta)	India	20.11
9 Shanghai	China	20.02
10 Karachi	Pakistan	18.73
11 Lagos	Nigeria	15.81
12 Kinshasa	Democratic Republic of the Congo	15.04
13 Beijing	China	15.02
14 Manila	Philippines	14.92
15 Buenos Aires	Argentina	13.71
16 Los Angeles-Long Beach-Santa Ana	United States of America	13.68
17 Al-Qahirah (Cairo)	Egypt	13.53
18 Rio de Janeiro	Brazil	12.65
19 Istanbul	Turkey	12.11
20 Osaka-Kobe	Japan	11.37
21 Shenzhen	China	11.15
22 Chongqing	China	11.07
23 Guangzhou, Guangdong	China	10.96
24 Paris	France	10.88
25 Jakarta	Indonesia	10.85
26 Moskva (Moscow)	Russian Federation	10.66
27 Bogotá	Colombia	10.54
28 Lima	Peru	10.53
29 Lahore	Pakistan	10.31
30 Chicago	United States of America	9.94

These cities are the real emerging markets. They are the places where a growing middle-class is demanding higher living standards as the economy develops and where growth rates are usually higher than those in developed economies. Most of these cities have vibrant economies with an average purchasing power higher than the rest of the country and are the places where the local wealthy live.

Although these cities suffer from some of the institutional voids present in their countries, private agencies operate in these markets to help in the reduction of inefficiencies in transactions (to the extent permitted by local legislation), physical infrastructure is improving along with public transport, and education levels and reach are also improving. Table 7 shows the 30 largest urban agglomerations in 2025 where it can be seen that the great majority of cities are in emerging economies (24 out of 30). These 24 cities will total 375 million inhabitants in 2025, 75% of the current population of the 27 countries in the EU (Eurostat, 2011).

### **7. China-Latin America: the emerging markets' axis**

It is widely agreed that most of the current state attained by EMs started with the Six East Asian Traders in the 1970s and 1980s and has been consolidated with the emergence of China from the 2000s. But there are other emerging markets that have been increasing their presence in the world's economy since the 1990s, such as Chile and Mexico, and from the 2000s Brazil and Costa Rica. In fact, most Latin American countries in the last decade have been posting growth rates much higher than those in developed economies led by an export boom. Asia is increasingly the destination of these exports where China has become a main trading partner for many Latin American countries. At the same time, Latin America with around 600 million people and a common culture, history, and language (13) has also been a target market for many Chinese companies looking for consumers for their low cost products.

The trade relation between China and Latin America was negligible at the beginning of the 1990s. But from the mid-1990s it has grown more than 18 times (posting a trade surplus for China of around US\$47 billion in 2008 from a deficit of US\$283 million in 1990 (ECLAC, 2010; Sanchez Ancochea, 2006)). A similar situation can be described for investments. One of the main destinations of Chinese Outward Foreign Direct Investment (ODI) in recent years has been Latin America, with 50% of Chinese ODI in 2004 (more than the 30 per cent that went towards Asia) (Blazquez-Lidoy, Rodriguez, and Santiso, 2006, p. 35), with 53% in 2005, 40% in 2006 (MOFCOM, 2007)), and with similar trends in 2008 and 2009 (MOFCOM, 2008).

This shows that a new strong axis of trade and investments between China and LA is consolidating. Flows of trade and investment exceed US\$100 billion (ECLAC, 2008, 2010) and are growing at an annual rate close to 50% (WTO, 2008).

This figure is similar to that of the trade between the EU and Japan at the end of the 1990s, which means that the China-LA axis rivals that of the Triad's (14) axis (Fornes and Butt-Philip, 2011). In other words, the last decade has seen the development of the China-Latin America commercial relation as the emerging markets' axis. All Latin American countries were colonised by Spain, speak Spanish, and are Catholic, with the exception of Brazil that was colonised by Portugal and speaks Portuguese. Japan, North America, and Western Europe (Omae, 1985).

### **8. Conclusion**

This article has presented why emerging markets are now one of the main areas of growth for international companies. It has analysed their main characteristics, local players, and local environment. It ends by presenting two big trends with the potential to attract the strategic focus of multinational companies, their emerging cities, and the relationship between China and Latin America.

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The FTSE All-World Index Series is the large/mid cap aggregate of 2,700 stocks from the FTSE Global Equity Index Series. It covers 90-95% of the investable market capitalisation" (FTSE, 2011).

6. Quoted in (Hughes, 2011)

7. Hong Kong, China; Malaysia; Republic of Korea; Singapore; Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Taipei, Chinese) and Thailand (WTO, 2006)

8. Hong Kong and Singapore were withdrawn by the authors from UNCTAD's list of developing economies following Hoskisson et al.'s (2000) list of emerging countries; the total FDI stock in developing economies shown in the table does not include the stocks in these countries.

9. China; Korea, Democratic People's Republic of; Korea, Republic of; Macao, China; Mongolia; Taiwan Province of China.

10. Argentina; Bolivia, Plurinational State of; Brazil; Chile; Colombia; Ecuador; Guyana; Paraguay; Peru; Suriname; Uruguay; Venezuela, Bolivarian Republic of; Belize; Costa Rica; El Salvador; Guatemala; Honduras; Mexico; Nicaragua; Panama.

11. Angola; Botswana; Lesotho; Malawi; Mozambique; Namibia; South Africa; Swaziland; Zambia; Zimbabwe.

12. Hong Kong and Singapore were withdrawn by the authors from UNCTAD's list of developing economies following Hoskisson et al.'s (2000) list of emerging countries.

13. All Latin American countries were colonised by Spain, speak Spanish, and are Catholic, with the exception of Brazil that was colonised by Portugal and speaks Portuguese.

14. Japan, North America, and Western Europe (Omae, 1985)

## Footnotes

1. Quoted in (McGregor, 2011)

2. [www.g20.org](http://www.g20.org)

3. Quoted in (The Economist, 2008).

4. The categorisation is based on four criteria: market and regulatory environment, custody and settlement, dealing landscape, derivatives.

5. "FTSE Emerging Market indices are a segment of the overall FTSE Global Equity Index Series (GEIS), and contribute to the overall GEIS market coverage of 98% of the world's total investable market capitalisation, cover 48 countries and comprise over 7000 large, mid and small cap stocks. Our emerging market indices cover the same 48 countries and consist of approximately 1700 large, mid and small cap stocks. FTSE has divided the emerging markets into advanced emerging and secondary emerging markets for greater granularity and to provide a transparent system on the monitoring of emerging market criteria through a country review process.



# The Key Success Factors of Penang As the Silicon Valley of the East

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## Abstract

The aims of this study is to analyze the key success factors of SEZs in Malaysia especially Penang as a centre of investment which is recognised as the Silicon Valley of the East. By employing qualitative research, the result of this study shows that Penang sources of competitiveness laid on their strategic location (close to airport and harbour), well equipped infrastructure, transparency in custom, tax offices, good education to support industry, supply chain, IT as well as the availability of talented human resources who have division background that suitable for electronic industry. This research also reveal the important of cluster strategy, strong comitment and support from local and central government.

## Keywords:

special economic zone, regional competitiveness, cluster strategy, Malaysia

## Introduction

Penang, one of Special Economic Zones (SEZ) that focuses on electronic industry is one of the most successful states in Malaysia. Since the year 2010 Penang has recorded as the highest investment in Malaysia.

The dynamic growing industrial cluster, supply chain, human resource, transfer of knowledge, and other facilities available in this area have successfully boost foreign direct investment in Malaysia, decrease unemployment, and eventually increase regional competitiveness. Penang has transformed to become manufacturing hub for high-tech giants such as Intel, Motorola, IBM and Dell.

They aggressively expand their business in Malaysia by not only operating one production place but also developed several sites of production in Penang. Even Dell has moved their call centre to Penang.

The strategic location of SEZ in Penang - just 10 minutes from airport and 15 minutes from harbour - allows Dell to deliver their product from Penang to US only within 28 hours.

This paper is trying to analyze the key success factors of SEZs in Malaysia, especially in Penang which is widely recognized as the Silicon Valley of the East. Throughout the history, Malaysian industry apparently has shifted from low wage, labour-intensive manufacturing activities organized by foreign-based multinational companies (MNCs) to low cost, rapid ramp-up, high volume, increasingly automated manufacturing activities with special capabilities in assembly, testing, and packaging of semiconductors and hard disc drives (Best, 1997). Malaysia has developed SEZs in significant quantities but the greatest returns come from a subsection of large-scale zones with favourable locations, good planning and access to the resources. According to the 2010 World Competitiveness Yearbook, in the year 2010 Malaysia for the first time has earned a position among the 10 most competitive countries in the world, up from 18th placing last year (<http://www.imd.ch/research/centers>). The list measures Malaysia against 58 countries this year, from 57 nations last year. With an index score of 87,228, Malaysia has joined the ranks of the most competitive countries in the world, sharing the Top 10 ranking with Singapore, Hong Kong, the US, Switzerland, Australia, Sweden, Canada, Taiwan and Norway.

Figure 1. Malaysian Competitiveness record



Source: MIDA presentation April 2011

According to the IMD World Competitiveness Center, competitiveness is defined as "how nations and businesses are managing the totality of their competencies to achieve greater prosperity.

IMD further describes competitiveness as “a country’s ability to resist adversity and show resilience to weather” global financial crises. The performance of Malaysian competitiveness can be seen in Figure 1.

Malaysia Ministry of International Trade and Industry clearly stated that to have a sustained growth demands, Malaysian electronics industry have to develop a transition to more automated operations involving high technology and knowledge-driven processes (Best, 1999).

One of the strategies to achieve a good economic performance is to increase export through development of Special Economic Zones (SEZs).

This zone has been seen as a key instrument not only for promoting exports and earning foreign exchange but also for stimulating economic growth through additional investment, technology transfers, and employment generation. SEZs has been proven to help industrial investors to lead economic growth which eventually increase country competitiveness. This paper is divided into four parts. First, we explain the methodology of this research which is followed by the role of Penang as a centre of manufacturing industry in Malaysia. Third, we analyze the key success factor of SEZ in Malaysia which consist of: human resource, transfer of knowledge, Malaysian cluster strategy, input factors, role of government in supporting SEZs, and incentive. Fourth, we present Malaysia’s investment trend. Finally, we close this paper with conclusion.

**Table 1: Malaysia Total Number of Investment(Source: MIDA)**

State	Februari 2011				2010
	No. of approvals	Proposed Investment (RM Million)			Total Proposed Investmen (RM Million)
		Domestic	Foreign	Total	
FT Kuala Lumpur	3	94.6	95.4	190.0	55.0
FT Labuan	0	0	0	0	14.9
Selangor	41	463.2	1,299.2	1,762.4	10,641.8
<b>Penang</b>	<b>16</b>	<b>633.9</b>	<b>18.0</b>	<b>651.9 (3rd)</b>	<b>12,237.9 (1st)</b>
Perak	2	1.0	16.8	17.8	3,039.7
Johor	36	2,472.2	518.3	2,990.5	7,464.9
Negeri Sembilan	3	25.0	0	25.0	1,292.6
Melaka	6	221.9	42.6	264.5	1,631.1
Kedah	8	12.6	141.7	154.3	1,960.6
Pahang	4	52.4	30.6	83.0	1,038.7
Kelantan	1	0	6.6	6.6	169.5
Terengganu	3	220.8	0	220.8	2,327.9
Perlis	0	0	0	0	31.4
Sabah	5	58.1	15.9	74.0	1,325.6
Sarawak	4	171.7	199.1	370.8	3,945.0
<b>Total</b>	<b>132</b>	<b>4,427.4</b>	<b>2,384.2</b>	<b>6,811.6</b>	<b>47,177.0</b>



To answer the above question, we use some secondary data, in-depth interview and indirect observation in selected SEZ area in Malaysia. In this case, we choose SEZ area in Bayan Lepas Penang because of historical value and impressive achievement, which are:

1. Bayan Lepas, Penang was the first free trade zone to be set up in Malaysia in 1972 (presentation Custom Penang, April 2011).
2. In 2011, Penang acknowledged as the highest SEZ contribution in Malaysia ( see Table 1).
3. Due to the increasing investment and manufacturing activities in Penang, Malaysian Director of Labour Department (Rahmat Ismail) reported that there were over 5,500 job vacancies available in Penang on April 2011. Those vacancies mostly came from manufacturing, services, retail, wholesale, hospitality and tourism (Star newspaper, April 2011). This impressive number confirms the success of Penang as SEZ area.

### Methodology

The aim of this study is to gain an insight on the FDI performance of Malaysia and their strategic imperative in attracting foreign investment. We strive to answer the following question:

1. How is the macro competitiveness and FDI performance of Malaysia?
2. What is the strategy of Malaysia government in attracting FDI in their country?
3. What is investor opinion about Malaysia?

Instead of observation in SEZ area, we also conducted in-depth interview to the Malaysian Investment Development Agency (MIDA), Malaysian Royal Custom and investors in Penang. The usage of these three types of data collection can be seen as a part of triangulation process which hopefully can increase the reliability and validity of the data. The list of interview can be seen in Table 2.

**Table 2: List of interviews in Penang**

Date	Duration Interview	of Respondent
April 25 <sup>th</sup> 2011	14 Hours	MIDA Penang
April 25 <sup>th</sup> 2011	14 hours	Malaysian Royal Custom
April 26 <sup>th</sup> 2011	13,5 hours	Benchmark
April 26 <sup>th</sup> 2011	13.5 Hours	Venture Electronic Services (Sdn) Bhd
April 27 <sup>th</sup> 2011	13.5 Hours	Inventec Electronics Sdn Bhd
April 27 <sup>th</sup> 2011	13 Hours	Kobay Technology Sdn. Bhd.
April 27 <sup>th</sup> 2011	11.5 hours	PSDC (training centre located in SEZ Penang)
April 28 <sup>th</sup> 2011	13,5 hours	Daktronics (a company established by the ministry of finance to ensure that knowledge transfer retain in Malaysia)

## Penang as Centre of Manufacturing in Malaysia

In 2010, Penang became the top manufacturing investment in Malaysia for the first time in history with RM12.2 billion investment. It was reported that 26% country investment in Malaysia is comes from Penang. This is a marvelous and incredible achievement for the second smallest state in Malaysia without any natural resources. Penang topped manufacturing investment for the second year running with RM9.1 billion surpassing the targeted RM6.1 billion (Eng, 2012).

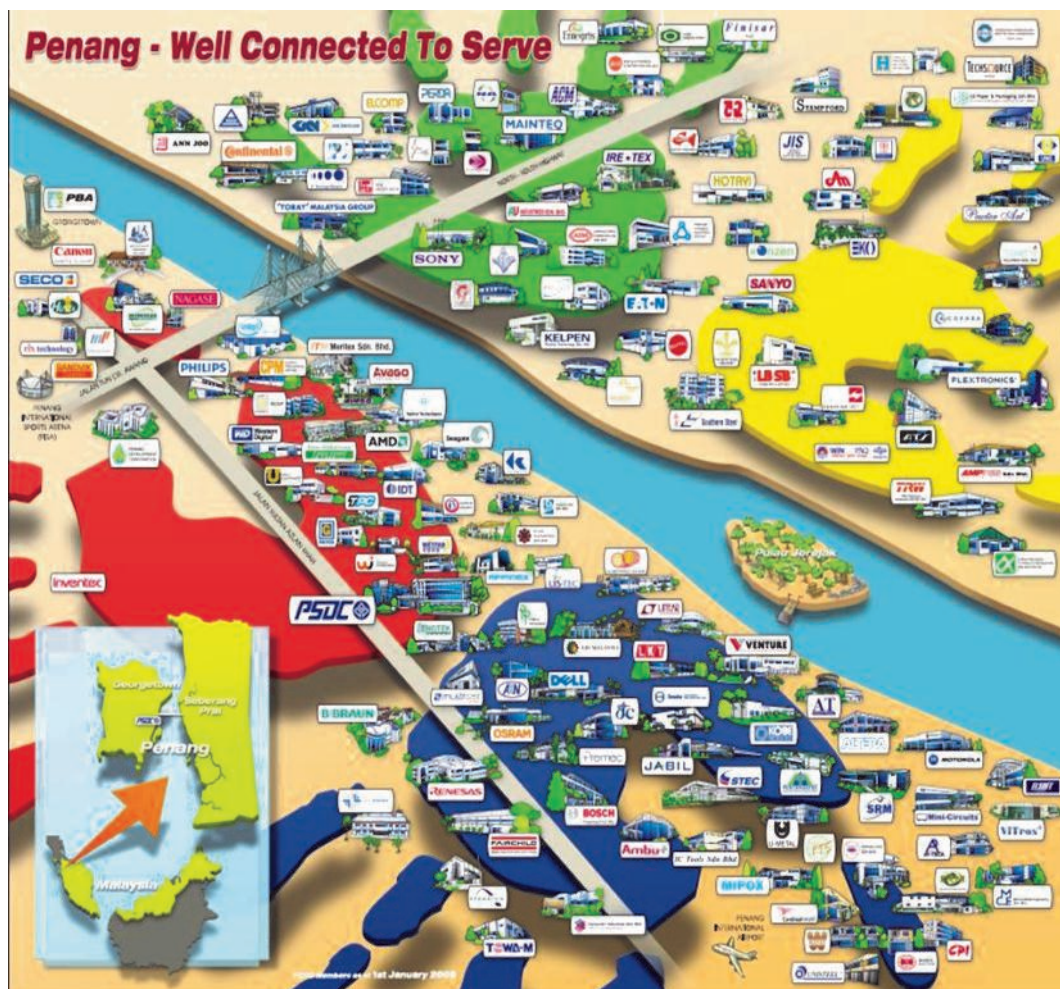
From only having one SEZ in 1972, Bayan Lepas Penang is now managing 7 zones which consists of four industrial estate free zone and three non free zone. There are 22 companies in phase one, 10 companies in phase two, 48 companies in phase three (interview with Custom Penang, 2011). Most of the tenant are coming from manufacturing sectors (50,50%) and 45,8% are from services industry (45,8%) (Interview with Invest Penang).

With this composition and their focus on high tech electronic, it is not surprising that Penang is now recognised as the Silicon Valley of the East.

Penang SEZs started to grow up more than other SEZ in Malaysia when the government invited 8 big electronic companies to make a business in Malaysia. Intel, Bosch, Agilent Technologies, AMD, Fairchild, Renesas electronic, Osram, and Clarion are 8 pioneers electronic industry in Penang since 1972. They were called as 8 Samurai From that point onward, the supporting companies came in and supply chain has been organically develop which ultimately provide a significant economic growth to the region.

*“Political stability, government support, and capable workforce have motivated 8 pioneer MNCs to continue operating in Penang for 39 years. The eight Samurai can encourage many top MNCs in the world to establish their plant in Penang.*

Picture 1. SEZ in Penang





*There are now more than 300 foreign companies in Penang, such as Singapore, Japan, Taiwan, and US. Every year investment increases and the biggest country investors also change.*“  
(MIDA Penang, 2011)

The above quote highlight the fact that anchor companies play a disproportionately large role in seeding and upgrading clusters, acting as a magnet for other companies and supporting projects that improve the business environment.

### **The Key Success Factor of SEZs in Malaysia**

Malaysia is the first country in Asia that ready to make Special Economic Zones (SEZs) in 1971 compare with Thailand (1972), China (1979), and Indonesia (1986) (FIAS, April 2008) SEZs in Malaysia have been divided into some regions, such as Kuantan, Johor, Gabon, Penang, and Kuala Lumpur. Every region has different characteristic of input factors.

For example, Kuantan is well-gifted with natural resources such as oil, gas, and petrochemical. Malaysia as a whole has many natural resources in areas like agriculture (palm oil, natural rubber, sawn timber, sawn logs, pepper, cocoa, and pineapple), minerals, and forestry (<http://www.tradechakra.com/economy/malaysia/natural-resources-in-malaysia-199.php>).

Nevertheless, the government realizes that relying only to the abundant of natural resources is not enough therefore they have tried to develop strategic competence based on the development of knowledge and education, skill of human resources, cluster strategy. In this session, we will discuss each of those important variables that provide unique value of SEZ areas in Malaysia.

### **Human Resource & Transfer of Knowledge**

Malaysian government place human resource as an eminent role and the driving factors of industry competitiveness. Malaysia total population in July 2011, is 28,728,607 people with 12,693,000 labour force. The unemployment rate in there was last reported at 3,3 percent or there is 412,600 in September, 2011 (Principal Statistics of Labor Force, Malaysia, October 2011). Fortunately, Malaysian special economic zones have been able to become the driving force in building up industrial capacity which eventually provides positive impact in developing job creation.

For example ECER (East Coast Economic Region) as one of SEZs in Malaysia has been able to create 560.000 new jobs by the year 2020 under the ECER Master Plan (East Coast Economic Development Council, 2009). As a result, Malaysian Human Development Index (HDI) has been categorised as a high human development country (57th rank) in 2010 which eventually the best HDI compare to China (89th rank), Thailand (92th rank), and Indonesia (108th rank). These three countries still categories as medium human development country. To develop their human resource, Malaysia established Pembangunan Sumber Manusia Berhad (PSMB) who designs national human resource development.

Recognising the strategic role and value of human resource, Malaysian government try to focus on how to empower their citizen to be a valuable employee. For example, in Penang they formed a talent development institution so-called PSDC which was established in May 1989 by using a tripartite model: industry, government, and academia.

During our visit on April 2011, it was revealed that PSDC consists of 156 members companies. Each member contributes RM 5.000-20.000 which is depending on the amount of employee (this is one time installment). PSDC provide facility for training, consultancy, academy development, and services. Other states in Malaysia used the PSDC concept to set up their own skills centre. To date, there are 11 skills development centre out of 13 states in Malaysia, with PSDC being the first to set up (see Table 3).

PSDC can be categorised as a unique non profit organisation not only because they developed base on tripartite partnership but also the fact that competing companies pool their resources to fund it. Our interview with PSDC management shows an interesting view on how they could leverage their competitiveness:

*“PSDC is a disruptive innovation which plays an important role in HRD. We are supported by many supporting programme such as incentive from Malaysian government for firms who conduct training to their employee. Malaysian government would reimburse 20% of the course fee into employers' levy accounts after the completion of training under Malaysia Training Program and so on.”*  
(PSDC Management, 2011)

Table 3. Skill Development Centre in Malaysia , Source: <http://www.psd.org.my>

STATE	SKILLS DEVELOPMENT CENTRE	YEAR	
Penang	PSDC	Penang Skills Development Centre	1989
Selangor	SHRDC	Selangor Human Resource Development Centre	1992
Negeri Sembilan	NSSDC	Negeri Sembilan Sills Development Centre	1993
Kedah	KISMEC	Kedah Industrial Skills and Management Development Centre	1993
Perak	PESDC	Perak Entrepreneur and Skills Development Centre	1993
Johor	PUSPATRI	Johor Skills Development Centre	1993
Terengganu	TATI	Terengganu Advanced Technical Institute	1993
Sarawak	PPKS	Sarawak Skills Development Centre	1994
Malacca	MISDC	Malacca Industrial Skills Development Centre	1994
Pahang	PSDC	Pahang Skills Development Centre Berhad	1996
Terengganu	TESDEC	Terengganu Skills Development Centre Berhad	1996
Sabah	SSTC	Sabah Skills and Technology Centre	2000

Indeed, knowledge and expertise of employees need to be seen as a critical strategic resource and organizations have to explore ways in retaining them. Nevertheless, capturing knowledge particularly tacit knowledge has been one of the main challenges in knowledge management. Therefore, PSDC programme also include internship in their company member, sharing knowledge from company expert, a joint laboratory, and so on.

Malaysia apparently do not want their country to be exploited and only become a place of investment. To ensure there is transfer of knowledge, Malaysian government would not give permission for investment to companies that do not have a clear transfer of knowledge programme for local employee. This is reflected in the following quote:

*“When a company want to build their business in Malaysia, they must fill a form and agree with our human resource policy which ensure that there is a transfer of knowledge to local people such as submitting proposal of training skill from their*

*company to Malaysian employee, give opportunity for local employee in their project, providing information about how many expatriates will be employed, their qualification, etc.”*  
(Director of MIDA Penang, 2011).

Basically on the job training for local citizen is a must. The main idea of this policy is to protect and empower local employee so that they can improve their skill and capability in certain industry. After companies established in Malaysia for certain period, depend on the type of industry, those companies must be localized. Localized means that at the end all employees should be Malaysian citizen. Figure 2 shows government policy in developing SEZ which is based on knowledge and education as the centre of SEZs model. Knowledge Transfer Program Committee of Ministry of Higher Education Malaysia has established Knowledge Transfer Program (KTP) as a critical project agenda to develop community and industry. The aim of this program is to solve demand for knowledge workers which eventually will be increased in a high income economy.

Figure 2. Special Economic Zones (SEZs) Model. Source: <http://www.ecerdc.com.my>



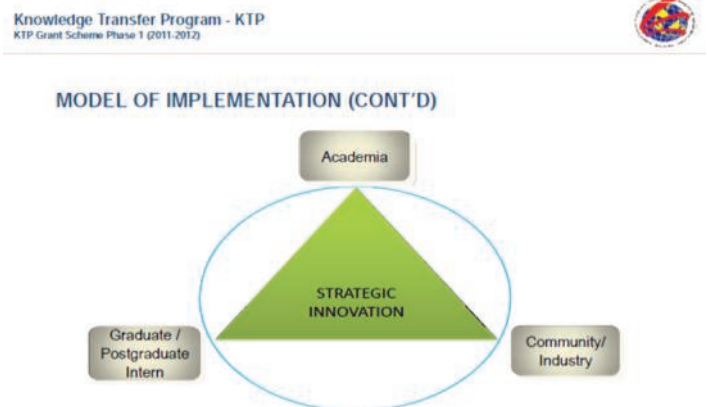
KTP grant scheme phase 1 (2011-2012) initiate to recognises a broad range of activities to support mutually beneficial collaboration between universities, industries, and communities such as government agencies, non-government organisation (NGOs), or public sector (KTP, 2011).

It also provides the platform for the exchange of intellectual property, expertise, learning and skills between the stakeholders (see Figure 3).

The forms of interactions may include joint research, education, training, etc. To successfully implement those programme, they established Public Higher Education Institutions (IPTA) which should be effectively engaged with industry and community towards mutually beneficial initiatives through role played by:

- Academia: able to incorporate relevant and up to date knowledge from industry and the community into their teaching, learning, research and consultancy activities.
- Industry : can utilize the resources of IPTA to enhance their business capability and economic activities
- Community: can benefit from the knowledge generated in IPTA to improve quality of life within the community.
- Graduate/Postgraduate Intern: enhance their personal and professional development.

Figure 3. Model Implementation of KTP, Source: Knowledge Transfer Programme Committee (2011)



The above strategic alliances between related stakeholders provide a superb learning environment that has been positively acknowledged by investors:

*“Penang provide cost effective and vibrant business environment. We don’t have to set up the training here, and go back the home country....everything is available here.”*  
(Venture Penang, 2011)

A more thorough insight expressed by Benchmark:

*“Since Penang has been manufacturing design operational for multinational MNC, we have a lot of talented engineers. Find expert is also very easy, because colleges are trained what is needed, so it is easy to fit in at technology requirement”*  
(Benchmark, 2011)

The existence of electronic clusters in Penang made knowledge, HRD and innovation a necessary component to maintain the competitive advantage of state and region.

The increasing input of knowledge into production and acquisition of new knowledge will create a new „epistemic landscape“ with a new architecture of knowledge production and innovation (Evers, 2011). Such an epistemic landscape consists of

- a concentration of knowledge workers and highly-educated manpower,
- Institutions of higher learning and research
- companies with strong R&D an ICT backbone



By improving the quality of education and expanding the learning opportunities and facilities, Malaysia has been able to generate a pool of specialized skills and knowledge workers that can serve the man power needs of existing and future industries.

### **Malaysian Cluster Strategy**

Former studies have shown that industrial clusters enhance the competitive advantage of states or regions (Porter and Bryden, 2007, Wahyuni et al. 2011). Clustering of related industries reduces transaction costs, stimulates innovations and drives development. Silicon Valley in California or the automotive cluster of Stuttgart, Germany is examples of successful clusters.

What makes a cluster successful? A number of important factors include: the availability of venture capital; critical mass; technical infrastructure; presence of higher education and research institutions; entrepreneurial drive; influence of champions; presence of an anchor firm(s); networks and quality of linkages; social capital; and, diversity.

An intriguing aspect is that the factors that distinguish 'over achieving' from 'under achieving' clusters are so-called intangible assets. Clusters possessing strong inter-firm relationships, trust and social capital are more competitive and dynamic. According to Enright (1999), 'overachieving' clusters are aware of the interdependence of their players and, in essence, produce more than the sum of their parts.

The important of eminent cluster shows in the following quote:

*"We invest in Penang because of several reasons: 1) the dynamic growing industrial cluster, nearby suppliers and big customer such as HP, Acer, etc. If one big company invest here logically speaking other related company will come here as well .2) Easy to search skill people, good medical, and high tech. 3) Stable and progressive government. 4) Developed infrastructure (close to airport, port, Singapore) which make the movement of goods very fast and efficient. 5) custom immigration is very supporting. Government have database online, even the police check the criminal. 6) Well educated, multilingual work force that have good communication and skill."*  
(Venture Penang, 2011)

*"The existence of Intel, Motorola, and other MNC in Penang are very important for us because our intention is to support them. Cost of Singapore is increased. Nobody goes to China because Intellectual property. Malaysia has very good law for manufacturing companies like us. Shipping from Penang to California only takes maximum 2 days with very low risk (theft, high jacking, etc.),"*  
(Benchmark, 2011)

The above two quotes show the intangible aspects of Penang. They basically implement a cluster-based Manufacturing strategy which involves two basic thrusts: the move along the value chain to increase value added at either end of the chain and the shift of the entire value chain to a higher level thereby increasing value-added at every point along the value chain (EPU,1996, p.31).

Malaysia tries to improve local supply chain to support big foreign companies in SEZs area by developing a database, regular meeting, seminar, and training. To get right human resources for companies, Malaysia also arrange job matching programme.

This strong value chain will not be successful if existing companies do not actively increase value in their activity, as shown in the following quote:

*„At the beginning Quality assurance came from us but then the freight cost has been increased. We tried to localize value chain so that the cost will be lower and the lead time will be shorter. We developed strategic alliances with other company to build strong value chain."*  
(Venture, 2011)

Although its clear that Malaysia has developed their SEZ using strategic cluster, interestingly their SEZs are not exclusive. For example, in the middle of electronic clusters in Bayan Lepas there are also Diamond Company which is indeed unrelated with surrounded activities. During our interview, our sources from MIDA said,

*"Malaysia allows all types of investment do not matter whether the industry is big or small. Infrastructure is provided and controlled by the government, except the logistic arranged by private sector. Our government do not only take care the business, such as tax incentive,etc. but also take care investor's family, such as established international schools for investors' children and other facilities."*

The above analysis clearly shows the eminent role of government support, educational and research institutions (colleges and universities), non-profit organizations and trade associations all play important roles in cluster development and have a catalytic effect on clusters.

Anchor companies play a disproportionately large role in seeding and upgrading clusters, acting as a magnet for other companies and supporting projects that improve the business environment. Educational and research institutions play pivotal roles in cluster development. It is worth noting that the majority of clusters either originated at educational institutes or in close proximity to universities. Community colleges and vocational apprenticeship training centres produce the specialized workforce essential to the cluster's success.

Several studies about Penang indicated that this city has the potential to change from an industrial cluster to a knowledge cluster (Evers, 2011) For this purpose Penang has reinvented itself as a "knowledge hub". Knowledge clusters are agglomerations of organizations that are production-oriented. Their production is primarily directed to knowledge as output or input. Knowledge clusters have the organizational capability to drive innovations and create new industries. Examples for organizations in knowledge clusters are universities and colleges, research institutions, think tanks, government research agencies and knowledge intensive firms.

Knowledge hubs are local innovation systems that are nodes in networks of knowledge production and knowledge sharing. They are characterized by high connectedness and high internal and external networking and knowledge sharing capabilities.

As meeting points of communities of knowledge and interest, knowledge hubs fulfill three major functions: to generate knowledge, to transfer knowledge to sites of application; and to transmit knowledge to other people through education and training.

*"Penang Science Council have developed CSR together with companies. For example: Motorola (sustainable, education, learning, very strong in training), Intel (innovation & research), Braun (life science medical health), and so on. Government initiate the project and companies will do it."* (Invest Penang, 2011)

Government also provide incentives to stimulate private sector involvement in the productivity-driven strategy. Therefore, a series of governmental technology-policy related measures were introduced (Rasiah, 1998), such as in Multi Media Super Corridor companies who enjoy lots of incentive due to knowledge driven strategy.

### **Input Factors**

Looking the input factors, in fact it is quite interesting to see that most of our respondents do not mention the availability of resources as one their stimulating factors in choosing Penang as a place for investment, which is shown at the following quote:

*"Accessibility of raw material in Penang is not easier than Singapore. The materials are mostly coming from other countries like China and Singapore. In fact, most of them we purchase it from Singapore but it is not originally coming from Singapore."* (Kobay, 2012)

Despite lack of natural resources, apparently well developed infrastructure has become a complementary rewarding variable.

Malaysia's persistent in driving and upgrading its infrastructure has resulted in one of the well-developed infrastructure among the newly industrializing countries of Asia.

Malaysia has invested effectively in infrastructure and has excellent transportation which make Global Competitiveness Index (GCI) marked Malaysia in 23th position from 125 countries with score 5,04. (2007).

Network of highways, efficient seaports, international airports, developed industrial parks are other physical infrastructure that undoubtedly support SEZs effectiveness. Malaysia's central location in the Asia Pacific region makes it an ideal gateway to Asia.

*"Cost of Singapore is increased. Nobody goes to China because of intellectual property. Malaysia has very good law of intellectual property and infrastructure for manufacturing company like us. To ship from Penang to California maximum is only take 2 days with a low cost and risk (theft, high rejection, etc.)"* (Benchmark, 2012)

The other input factor that can encourage growth of SEZs in Malaysia is administration infrastructure. Medium-term economic planning in Malaysia has been effected through a series of five-year plans, and the country's relatively high-quality public administration has allowed for effective implementation of its development policies and programs.

Malaysia also set up a one-stop shop hosting the company registry, the Inland Revenue Board, customs, financial institutions, the pension and social security agencies. Electronic systems that have been emplaced in many areas have significantly reduced administrative costs.

Malaysia's company registry invested \$12.7 million in a sophisticated registration system over 5 years. The investment was fully covered by fees generated by the registry.

In 3 years after the reform, the number of registered businesses increased by 19%—and the compliance rate for filing annual tax returns rose from 28% to 91% (Sarunhanjaya Syarikat Malaysia, Companies Commission of Malaysia)

Within 6 weeks after the introduction of the new system, 5,439 applications were recorded online. This new system reduced administrative costs by 71.3%, saving €10.2 million a year. Some reformers offer incentives to use e-systems. Malaysia reduced company registration fees as part of the government's economic stimulus package, with the expected benefit being the registration of 320,000 new businesses in 2009. I

n East Asia and Pacific region, Malaysia supports cut filing and service time by 15 days by adding administrative staff to deal with incoming cases and setting stricter deadlines. It also improved caseload allocation by creating a fast track in the commercial division of the Kuala Lumpur high court, to deal exclusively with interlocutory matters (IFC, 2010).

### **Government's Roles**

The impressive achievement of SEZs in Malaysia cannot be separated from the eminent role of MIDA (Malaysian Investment Development Authority) which is the government's principal agency for the promotion of the manufacturing and services sectors in Malaysia.

*"Government of Malaysia treated us very well"*  
(Kobay, 2011)

The wide range of services provided by MIDA includes providing information on the opportunities for investments, as well as facilitating companies which are looking for joint venture partners. MIDA function is explained in Table 14

**Table 4. Functions of MIDA, Source : MIDA**

Promotion	<ul style="list-style-type: none"> <li>• Foreign direct investment, Domestic investment.</li> <li>• Business matching through E-Connect.</li> <li>• Manufacturing services, Supporting value chain</li> </ul>
Evaluation	<ul style="list-style-type: none"> <li>• Manufacturing licenses, Tax incentive, Duty exemption.</li> <li>• Expatriate posts.</li> <li>• OHQ, RDC, IPC, and R&amp;D status, Transfer knowledge</li> <li>• Strategic Place.</li> </ul>
Planning	<ul style="list-style-type: none"> <li>• Planning for industrial development.</li> <li>• Recommended policies and strategies on industrial promotion and development.</li> <li>• Formulation of strategies, programs, and initiatives for international economic cooperation.</li> </ul>
Follow up / Monitoring	<ul style="list-style-type: none"> <li>• Assist company in the implementation and operation of their project.</li> <li>• Facilitate and exchange &amp; coordination among institutions engaged in or connected with industrial development.</li> <li>• Advisory services.</li> </ul>

MIDA also assists companies interested in venturing abroad for business opportunities. For example, when their current investor would like to expand their market abroad, MIDA can help them as well. As shown in the following quote:

*"When investors encounter any problem, they can contact MIDA at first to help so that they feel save to do business in Malaysia. To further enhance MIDA's role in assisting investors, senior representatives from key government agencies are stationed at MIDA's headquarters in Kuala Lumpur to advise investors on government policies and procedures. These representatives include officials from Department of Labour, Immigration Department, Royal Malaysian Customs, Department of Environment, Tenaga Nasional Berhad, and Telekom Malaysia Berhad".*  
(MIDA Penang, 2011)



During our interview, the director of MIDA Penang also said that they have constant efforts to obtain feedback from the business community through channels of consultation such as regular government-private sector dialogues.

These allow the various business communities to air their views and to contribute towards the formulation of government policies which concern them.

*“Government policy is very friendly business. Therefore, to decrease complain and enhance our mutual understanding, there is regular meeting between zone manager, custom, and company.”*  
(Head of Custom Penang, 2011)

Since there is a close relationship between investors and government officers, Malaysian government also aware of the possibilities of corruption or abuse of power. To reduce these possibilities, they always try to keep everything transparent and professional.

*“Here is our strategy to keep the officials clean : there is rotation and transfer for the official in certain period. Anti corruption agency attack certain departments which are prudent with corruption. They conduct internal control for “hot spot, hot staff, and hot job”. They investigate everything and report it if there is any indication”*  
(Head of Custom Penang, 2011).

**Table 5: Doing Business in Malaysia, Source: Economic overview, 2011. [www.mida.gov.my](http://www.mida.gov.my)**

Indicators	Malaysia	
	2010 Rank	2011 Rank
Doing business rank	23	21
Starting a Business	116	113
Dealing with Construction Permits	109	108
Registering Property	65	60
Getting Credit	1	1
Protecting Investors	4	4
Paying Taxes	24	23
Trading Across Borders	37	37
Enforcing contracts	59	59
Closing a Business	57	55

Table 5 shows the rank of doing business in Malaysia which upgraded from 23th (2010) to 21th (2011).

Some variables that successfully accelerated Malaysian rank are: starting business, environment regulatory, property registration, tax incentive for investor, and closing business.

Active steps to reduce the regulatory burdens and streamline the business environment with the objective of raising investment and growth are the part of regulatory environment in Malaysia. The government have taken steps to increase the supply of skilled workers and enhance the employability of the human resources.

When there is company outside the zone, they can get the same facilities with company inside the zone by applying to custom agency to get exemption facility.

Restrictions of doing business in Malaysia are ownership of industrial land which is usually on a leasehold basis, ranging from 30 to 99 years. However, freehold land is also available for industrial purposes. Shortages of skilled workers and regulatory burdens are the key adverse features of the investment climate.

*“Firms note that the difficulty in hiring local workers, the regulations for hiring foreign workers, and skill shortages are the reasons why they are understaffed.”*

Moreover, the fact that many electronics companies located in the same compound result in a strive competition. Retaining the best employee become a daunting challenge in this region.

### Incentive

Government incentive for investors also one of the variable that upgraded rank of doing business in Malaysia (MIDA, 2011). In Malaysia, incentive divided by two categories: tax incentive and non tax incentive. The type of tax incentives are:

- Pioneer Status gives exempt on 70% of income for 5 years
- Pioneer Plus gives 100% exempt for 5 or 10 years
- Investment Tax Allowance, deduct 60% of investment against 70% of income
- Investment Tax Allowance, deduct 100% of investment against 100% of income
- FIZs have tax incentives plus duty free import on equipment and raw materials

A set of non tax incentive will also be available to encourage investors' participation (although the policy is different from one SEZ to other SEZ regions. Government also provide special incentives for companies who invest in the knowledge-intensive activities.

They fully aware that they face global competition to get investors from other country as well. Therefore, an attractive incentive and most importantly value added of their location should be profound which is indicated in the following interview:

*"We realize that there is a tight competition in attracting FDI. In this sense, we divide competition in two types: inside competition and outside competition. Inside competition occur when investors want to move from one SEZ to other SEZ in Malaysia. If investors in Malaysia want to move to other zone, like from Penang to Johor, they can move easily and MIDA would not defend it.*

*But when the competition is outside Malaysia, the story is different. If input factors of production in Malaysia are difficult than others, Malaysia still has other bargaining power for investor than other country. Our bargaining power is expatriate regulation, strong supply chain, and excellent transportation such as direct flight to Hong Kong and China, direct ship to Singapore, etc. Government in Malaysia try to make regulation for investor as simple as possible. This is a part of our strategy on how Malaysia attracts new investors and keep current investors."*

(MIDA Penang, 2011)

Since June 2003, foreign investors could hold 100% of the equity in all investments in new projects, as well as investments in expansion/diversification projects by existing companies irrespective of the level of exports and without excluding any product or activity.

### **Malaysia Investment Trend and Key Success Variable SEZs**

From a country dependent on agriculture and primary commodities in the sixties, Malaysia has today become an export-driven economy spurred on by high technology, knowledge-based and capital-intensive industries.

The structural transformation of Malaysia's economy over the last 50 years has been spectacular.

Often dubbed the "lucky country" because of its wealth of mineral resources and fertile soils, Malaysia did not rest on its laurels but progressed from an economy dependent on agriculture and primary commodities to a manufacturing-based, export-driven economy spurred on by high technology, knowledge-based and capital-intensive industries.

Malaysia's total trade in 2008 reached RM1.19 trillion, an increase of 6.8 per cent from RM1.11 trillion in 2007. Exports increased by 9.6 per cent to RM663.51 billion in 2008 from RM605.1 billion in 2007.

The manufacturing sector accounted for 29.9% of Malaysia's GDP during the first nine months of 2008 while exports of manufactured goods made up 70.0% of the country's total exports. From being the world's largest producer of rubber and tin, Malaysia is today one of the world's leading exporters of semiconductor devices, computer hard disks, audio and video products and room air-conditioners.

Malaysia has edged up another position to rank 18th this year in the global competitiveness survey of 57 countries by the Switzerland-based Institute for Management Development (IMD) in its World Competitiveness Yearbook (WCY) 2009. Parameters of improvement in this competitiveness are economic efficiency (9th to 8th rank), business efficiency (13th to 4th rank), and government efficiency (19th to 9th rank). Malaysia competitiveness Ranking can be seen as Table 6 below.

**Table 6: World Competitiveness Ranking, Source: World Competitiveness Report 2010 IMD.**

Countries	2009	2010
Singapore	3 <sup>rd</sup>	1 <sup>st</sup>
Hongkong	2 <sup>nd</sup>	2 <sup>nd</sup>
US	1 <sup>st</sup>	3 <sup>rd</sup>
Switzerland	4 <sup>th</sup>	4 <sup>th</sup>
Australia	7 <sup>th</sup>	5 <sup>th</sup>
Sweden	6 <sup>th</sup>	6 <sup>th</sup>
Canada	8 <sup>th</sup>	7 <sup>th</sup>
Taiwan	23 <sup>rd</sup>	8 <sup>th</sup>
Norway	11 <sup>th</sup>	9 <sup>th</sup>
Malaysia	18 <sup>th</sup>	10 <sup>th</sup>

Our interview with MIDA (April 2011) indicated that Malaysia is acknowledged as a premier investment destination due to the following reasons: recognised as the 1st for investor protection (Forbes Report, 2009); 3rd attractive location for outsourcing destination (A.T. Kearney Global Service Location Index, 2010); 10th most competitive economy in 2010 (Institute Management of Development, 2010); and 23rd for ease of doing business in 2010 (The World Bank, 2010).

To keep company stay and feel enjoyable in Penang, government not only focuses on business but also other aspects that make them feel comfortable to stay with their family. For example, there are 7 international schools for investor's children in Penang.

This small island is also furnished with international hospital, high-tech park, shopping centre, etc. George Town, the capitol city of Penang, is announced by UNESCO as the world heritage site, that in somehow provide a balance life for investor. They are not just only came to Penang for work but also for pleasure. Even investors whom invest in other state of Malaysia spend their time in Penang which make economic effect of Penang is even bigger than other.

## Conclusion

This paper clearly shows that strategic location, well equipped infrastructure, transparency in custom, tax offices as well as the availability of talented human resources who have division background that suitable for electronic industry became Penang sources of their competitiveness. Penang not only has good infrastructure logistic, good education to support industry, supply chain, IT protection, transparency, government, get people experiences in electronic manufacturing, the labors can be trained to match with the industry need.

On top of that, George Town as the capitol of Penang has announced by UNESCO as a world heritage site. Thus, Penang has transformed not only a place for work but also a pleasant place to stay for investor.

This paper also highlight the eminent role of government support, educational and research institutions (colleges and universities), non-profit organizations and trade associations all play important roles in cluster development and have a catalytic effect on clusters in Malaysia.

For example, the private sector is the key to success as private sector-led initiatives are simply more successful. Anchor companies (the eight samurai) play a disproportionately large role in seeding and upgrading clusters, acting as a magnet for other companies and supporting projects that improve the business environment. Educational and research institutions play pivotal roles in cluster development. It is worth noting that the majority of clusters either originated at educational institutes or in close proximity to universities. Community colleges and vocational apprenticeship training centres produce the specialized workforce essential to the cluster's success.

The only eminent drawback came from the though competition inside clusters. High jacking the best talent became normal phenomena that made retaining the best employee becomes a daunting challenge in this region.

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