Vol-5, Issue-5 PP. 200-206 ISSN: 2394-5788

GLOBAL JOURNAL OF ADVANCED RESEARCH
(Scholarly Peer Review Publishing System)

REVISITING THE INVESTMENT POTENTIALS IN EMERGING MARKET ECONOMIES (EMEs): THE CASE OF STAR TRUCKS INTERNATIONAL LTD.

Dr. Van Dalluay
Assistant Professor,
Managerial & Financial Sciences,
Al-Zahra College for Women,
Muscat,
Sultanate of Oman
revjalagatjr@gmail.com

Dr. Carl Mark Miniano
Head of the Department, Business & Economics Department,
Modern College of Business and Science, Muscat,
Sultanate of Oman

Dr. Revenio Jalagat, Jr.
Assistant Professor, Managerial & Financial Sciences, Al-Zahra College for Women, Muscat,
Sultanate of Oman

ABSTRACT

This paper primarily examines the investment potentials in the emerging market economies (EMEs) as the point of consideration for business expansion of the chosen organization, Star Trucks International Ltd. Specifically, it established key indicators in comparing the business environment surrounding the emerging market economies including the BRICs (Brazil, Russia, India and China) countries. These indicators include but not limited to labor productivity measured in value added per worker, labor quality, measure of capital and total factor productivity and employment. Moreover; it tackles the topics on investment environment, market and labor productivity potentials, government intervention on policies, impacts of regional integration initiatives and assessing the opportunities and threats of the BRICs countries. Secondary data were used for analysis and comparison among the EMEs. Key results showed that the indicators used provided varying outcomes. However; further evaluation revealed that countries such as China, India and Indonesia are better choices for Start Trucks International Ltd. to invest because of favorable fixed capital formation, increasing participation of working population, and the opportunities to capitalize in these markets. Furthermore; in terms of real GDP growth rate, these three countries also demonstrated its dominance with China the highest, followed by Indonesia and India although significant drop of the rate on China and India in 2011-2013. Based on these findings, it can be recommended that preference on investment potentials will be emphasized in these countries although further studies are needed to affirm these results.

Keywords: BRICs, emerging market economies (EMEs), investment potentials, key indicators, Star Trucks, Inc.

1. INTRODUCTION

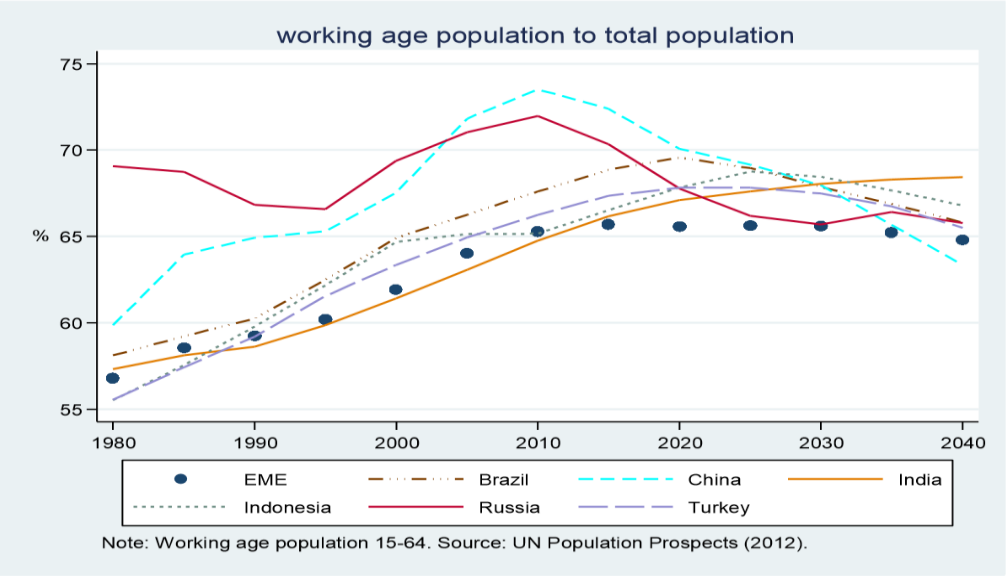
This paper focuses on assessing and evaluating the potentials of the emerging markets for possible business expansion by Start Trucks International Ltd., a manufacturing company mainly operating in Bedford, UK and head stationed in London. Since it predominantly operating in the European market, its plan is now changed to include the emerging markets where it can enter and make business. A comparative analysis shall be endeavoured to differentiate how this company do business which considers the BRICs and other emerging markets such as Turkey and Indonesia. It specifically examines the investment environment, effects of governments' interventionist policies, the market potential, the impact of regional integration initiatives, if any, and related issues with a clear identification of opportunities and threats in each of these markets. And finally, suggest recommendations on which countries the firm may considerably enter by discussing why the firm can enter to these markets. The paper is structured with the introduction, the body paragraphs that provides the detailed answers to the questions, the conclusion and recommendations.

According to Anand, et. al. (2014), about ½ of the world's GDP is contributed by the emerging countries, an evidence that there are big opportunities to do business in these countries. For the purpose of this research, there are six countries that are evaluated in terms of growth on performance considered as emerging economies including Brazil, China, India, Indonesia, Russia and Turkey. In further determining the extent of comparisons, the following determinants are considered: labor productivity measured in value added per worker, labor quality, measure of capital and total factor productivity and employment. Based on data generated in 2011-2013, the potential growth in Emerging Markets Economies (EME) is averaging at 1.7 percent which is significantly lower than the rates in the year 2006-2007 from 8.2% to 6.6%. Consequently, the labor productivity has also dropped based on experience that negatively impacts the GDP growth potential. In years 2000-2007, labor productivity is influenced by sectoral developments that specifically mentioned the service sector and the large shift of workers from the agricultural sector into the service sector. Labor force is seen to be favorable in the countries of India, Russia and Turkey. Considering further the present growth of the EME, it was 2000-2007 where these markets grows with average 6.7% which is higher compared with the last 10 years with 2 percent. Accordingly, the six countries as mentioned above averages 8.1% which is also higher by three percent from the previous years (Herd and Dougherty, 2007).

Furthermore, about 80% of the population in the world resides in emerging markets and the US Department of Commerce has also projected that more than 75% of the estimated rise of the world's trade originates from emerging markets in the next two decades that accounts for more than half of the population (Aghion and Howitt, 2006; Acemoglu et al. 2006).

2. INVESTMENT ENVIRONMENT

According to Cubeddu, et. al. (2014), there are more or less 25% of the growth since 2011 are generated from the non-commodity EMEs as a result of external demands. For instance, increasing attention and demand for global supply chain considers India and China as major players in the distribution of products and goods in worldwide scenario. However, reports generated from IMF (2014) has seen the decreasing trend in economical aspect of the EMEs because of the increasing global crises. As an example, macroeconomic domestic imbalances that are experienced with Brazil, India, South Africa and Russia where these countries are susceptible to financial vulnerabilities. In the aspect of labor supply, the growing demand for working-age population is a good indication for expansion of manufacturing and service companies while maintaining the provision of lower wages to workers. Positively it enables the companies to stretch its resources and maximized profits. For instance, the lower costs of production in India gives good income opportunities for companies compared to other emerging markets. Cristadoro and Marconi (2013) stressed that the increasing working-age population impacts the supply of labor and savings on the part of the companies. Bloom, et. al. (2010) revealed that growth in labor participation and human capital investments enables companies to capitalize its profits and capital. India and China posted a higher incidence of working-age population that significantly impacts the labor workforce and increasing economic growth. As illustrated in the figure below described the working age population.



Graph 1: Demographic Transition in selected EMEs

Source: UN Population Prospects (2012)

The above diagram reflects the increasing participation to the workforce with age range 15-64 in the countries of India, Turkey, Indonesia and China. When measured with the application of the GDP growth rates from 2006-2013 comparing between the Real GDP and the Potential GDP, the table 1 shows how the GDP declines from 2006 to 2013 with the following EME's.

Table 1: Real and potential GDP growth rates in selected emerging countries

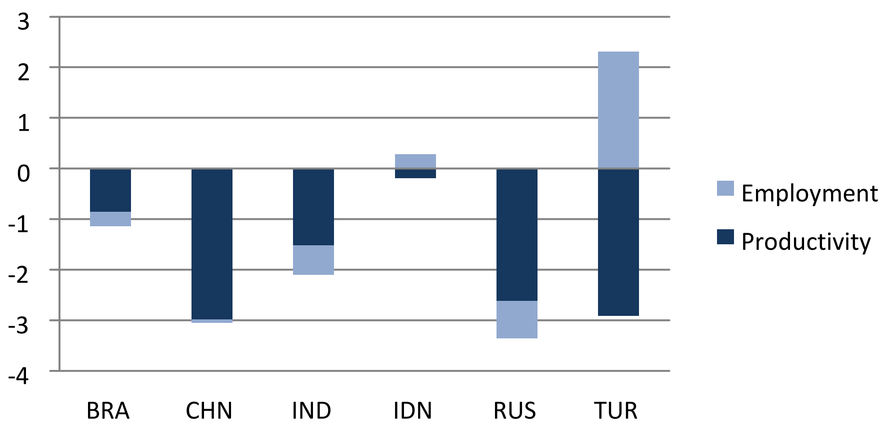
	Real GDP growth rate		Potential GDP growth rate	
	2006-07	2011-13	2006-07	2011-13
BRA	5.0	2.0	3.9	2.7
CHN	13.4	8.2	10.9	8.5
IND	9.5	5.2	8.3	6.2
IDN	5.9	6.2	5.5	6.0
RUS	8.3	3.0	6.0	2.5
TUR	5.8	5.0	4.8	4.5
Average (PPP-weighted)	10.1	6.2	8.2	6.6

Source: World Development Indicators databank, and National statistics; IMF, *WEO*, April 2014; OECD, *Long-Term Projections*, May 2014.

Dwelling upon the real GDP growth rate, all other countries have experienced decline on its growth rates while only Indonesia posted an increasing trend. This reflects the increase in inflation rates caused by structural factors and cyclical factors being a great contributor to the slowdown of the rates. From these results, it would be ideal to pursue the investment opportunities in Indonesia where investors can enjoy in low-cost labor, but equally competitive quality with other emerging markets. It's a welcome development for Indonesia for its opportunities to compete and grow. Turkey has also good standing in the market considering that it posted all the requirements to compete in the marketplace. Analyzing further, Indonesia has tendency for more development as evident in the GDP data. Its ability to compete and increase its government and country's revenues is promising.

3. MARKET AND LABOR PRODUCTIVITY POTENTIAL

Labor productivity is also a good measure for assessing the potentials of EMEs to decide whether to expand in these economies. The importance of determining the labor productivity therefore helps in evaluating potential GDP growth rate as well as the growth of potential employment. It is also essential that before making investment to a particular country, the status of labor production, how productive are the workforce shall be considered to ensure that the necessary returns and profitability shall be achieve and maximized. Analyzing this aspect, the aid of the table that shows how productive are the workforce for the emerging markets (EME) will guide Star Trucks Ltd in deciding which of these EME it should enters as shown in Graph 2.



Graph 2: Contribution of productivity and employment to potential GDP growth (% changes: 2011-12 relative to 2006-07)

Source: World Bank, ILO and NSBC data

It can be interpreted from the above-mentioned table that there is slowdown of the labor productivity that is also related with the slowing down of the accumulated networth except for Indonesia. The most impacts of that slowdown is evident in the countries of Brazil, China, India, Turkey and Russia as the investment to the GDP ratio already marked lower than the middle-income nations as demonstrated in the averages in Table 3. It is worth noted that the employment in Indonesia has increased comparing to other EME countries while its slowdown in productivity is posted at an acceptable that has no significant negative impact to the GDP which is below 1%. Based on this data, it can be concluded that Indonesia is one of the preferable options for the company's investment options.

Table 3. Gross fixed capital formation in selected EMEs

Gross fixed capital formation

	Average annual rate of growth (%)		*as % of GDP*
	2000-08	**2012-13**	**2013**
Brazil	4.8	1.2	18.9
China	12.0	9.2	46.0
India	10.2	5.4	30.6
Indonesia	8.3	7.2	31.7
Russia	13.0	2.6	21.4
Turkey	6.6	0.8	20.0
Memorandum:			
Middle income countries	9.2	.1	30.1

Source: IMF, WEO 2014 and World Bank, WDI, 2014.

However, analyzing the gross fixed capital formation to these EME's, it can be observed the decrease of the average annual growth from 2000-2008 to 2012-2013 figures where Russia, Turkey and India seemed to have drastic decrease. While on the other hand, slight decreases can be seen to Indonesia and China are evident that can be interpreted that these two countries are good potential for investment opportunities. When evaluated and assess the percentage of fixed capital as percentage (%) to the GDP, China and Indonesia posted the first and second percentage with 46% and 31.7% an indication that its capital has contributed much to the GDP of their respective countries (OECD, 2014). Bosworth and Collins (2007) emphasized the importance of assessing the labor productivity growth in making decision to invest in particular country and decline in productivity would mean equivalent to risk in investment opportunities. He added that labor productivity is a very important driver for the country's economic growth. As an example, attaining location economies Indonesia is a good choice for investment due to its low labor costs with good and competitive infrastructure that enable foreign companies to enter the market and invest (Aghion and Howitt, 2006).

4. GOVERNMENT INTERVENTIONS ON POLICIES

However, the government intervention and local policies also poses a threat to the investment opportunities. The call for globalization is affected by national policies imposed by each countries in the emerging markets that poses a barrier to entry by foreign investors. Trade regulations for example lessens the impacts of free trade although there are existing agreements between countries. For instance, in Indonesia the people or citizens prefers to patronize their own products where the government has encourage them to buy thereby making the imported products to be of lesser options. The same scenario is happening in China considering that their large scale production caters to both domestic and global demands as evidenced by their exports of products anywhere in the world. In India, the tax imposition is very high and the internal policies are stringent that leaves less opportunities for foreign investment. The promotion of local production of goods are of high priority.

5. IMPACTS OF REGIONAL INTEGRATION INITIATIVES

In the aspect of regional integration, the emerging markets like the countries belonging to ASEAN have considered regional integration and the same is true with the European countries with its own regional integrations. Agreements particularly to economic and financial integration had been reached. Regional integration may also encompasses not only economic but also political, environmental and others. In the past, regional integration focuses on free trade of labor, goods, capital investment such as Foreign Direct Investment (FDI) and other related activities. The essence of integration provides two major economic benefits which are economic growth and risk sharing. Countries engage in regional integration primarily to share the risk in the business as well as the promotion of the financial system for growth and as means of diversification from domestic to international operation (Soares, 2005). It also promotes a healthy investment and financing opportunities by the member/participating countries in the regional integration to enhance business growth. European and Asian regional integration works in favor of the member countries and proven to have harmonization in practices specifically the financial integration relative to unified financial system on accounting, tax treatment and on regulations thereby eliminating the borders or beyond borders (Altomonte, 2007).

In Asia, it is largely participated by countries such as China, Singapore, Malaysia, Philippines, Indonesia and other nearby countries. This initiatives have been found to foster economic growth and promotes the welfare of the participant countries. The roles of FDI is also very promising in relation to regional integration as the countries have achieved the benefits of lesser barrier to entry thereby allowing a healthy competition while leveraging or equalizing the opportunities of foreign countries and domestic companies in conducting business. For Star Trucks Ltd., it is a welcome and good development considering that regional integration potentially eliminates barrier to entry where most of companies failed in this area.

According to Ravn and Uhlig (2002), geographical proximity also plays important role in regional integration to financial markets and the investment styles that requires the need to have regional integration to diversify the global investor base. However, Alfaro, et. al. (2005) also stressed the risks brought about by regional integration that requires the countries to have a well-functioning domestic financial markets. Assessing the strengths of the integration in Asia, it can be safely assumed that countries participating in the regional integration enjoys the benefits of healthy competition, open opportunities on foreign investments, reciprocity in the imposition of tariffs and taxes and good relations from country to country.

6. OPPORTUNITIES AND THREATS IN EMERGING MARKETS

To gain a better understanding on the opportunities and threats on emerging markets, the BRICs (Brazil, Russia, India, and China) are examined both with its opportunities and threats as discussed in the succeeding paragraphs.

6.1 Brazil

Business opportunities in Brazil in 2014-16 can be seen in their developing infrastructure that covers telecommunications, energy, roads and ports that exist with the mixture of local and foreign companies classified as large-scale projects with only few mid-size and small-size businesses. It also becomes attractive in this country the services sectors particularly in the field of Insurance, financial, tourism and retail chain services. More specifically, the countries promotion of sports and entertainment like the World Cup and Olympic Games has contribute to the economic growth of the country. Thirdly, the rapid growth of E-commerce like the increasing demand for smart-phones and has penetrated the market as evidenced by its market growth from 15% in 2012 to 40% in 2013. However, there are also threats accompanied with it, one is the difficulty to do business because of the unfavorable business conditions like for instance, the imposition of very high taxes and bureaucratic actions that may lessen the business activities. It is politically unstable with high crime rates. Also, the country is struggling because of the lack of private and government companies in local infrastructures and the need of large investment on local industrialization because the consumption patterns are only evident in credit and family consumptions. Furthermore, recession has also been experienced recently with the economy at a contract rate of (-3%) throughout the year as well as the increasing cases of corruption and the collapse of the commodities markets.

6.2 Russia

To begin with, Russia expects to boost their economy with its hosting of the FIFA World Championships in 2008 due to its vast development of infrastructure to meet this needs where they have expected that more foreign investors will do business. The business opportunities in this country is primarily built on their access to the WTO. Just recently in 2012, the country has joined the World Trade Organization (WTO). Because of this, the local regulations has to be adjusted to conform to the global standards and encourage more opportunities for importation and exportation. Custom duties and taxes are expected to become lesser and changes in the comparative pricing strategies. More investors will be attracted to invest and compete with the locals for more economic wealth by the country. Another opportunities for Russia is the government very high support on hi-tech industries that the state considers it as economic diversification. From being dependent to oil and gas, the government promotes for investment opportunities in technological advances with the presence of hi-tech industries with the localized Research and Development activities and advance processing technologies. An evidence to this is the investment of more than $5 billion dollars by the Rusnano Corporation in nano-technologies, the establishment of Russian Venture Corporation, the Russian Silicon Valley project and the Russian Pharmaceuticals 2020 program.

Furthermore, the growth in service sector although it cannot be compared with Europe and the USA however, it has seen an increasing trend especially in the B2C services such as banking, insurance, travel, entertainment, restaurants, hotels. Also, it is gaining more attention in B2B services comprising of the consulting, IT-outsourcing, design, engineering and management. Conversely, there also threats affecting the business condition of the country. Among those is the global economic turndown. Russia is greatly affected by global recession that hinders their business activities. It's decreasing production on oil and gas that urges them to diversify its products and services. Political stagnation with the government taking the majority control of the businesses and even to the social environment. The growing incidence of corruption, bad infrastructures and the recent isolation of the country with other Western countries which is believed to be caused by the aggressive foreign policies implemented by authorities. The fall of oil process had also negatively impacts the revenue generation of the country resulting into recession at the greater heights.

6.3 India

In October 2013, the Asian Development Bank (ADB) has issued a report considering the country's economic growth of 6% from the 4.7% in April of the same year. Compared to Russia and Turkey, India is seen to be more volatile and stable on its Foreign Direct Investment (FDI) in the last five years and the FDI rose from $25.6 billion in 2011 to $40 billion in 2012. The projection conducted by the Inbetrnational Monetary Fund (IMF) sees India increased its GDP into According to IMF's projection, India's GDP 6-7% in 2013-2018, that is higher compared to the G7 countries that are forecasted grow at 1-3% in the same period. The business opportunities in India includes the high rising of the service sector growth. The service sector in this country is known contributes 65% of the country's GDP. It has more than 7,000 companies operating nationwide which is comparable to China and has average of 5% growth in the service sector particularly in insurance, e-commerce, domestic banking, telecommunication in the year 2013-14 which signals a positive indication of business. Also, the increasing demand for telecom services and the sophistication of mobile industry provides good impacts on the businesses. Secondly, the infrastructures has been developing at a fast pace because of the government full support on infrastructures through investment and continuous construction of roads, rails that competes China as well as support on construction and maintenance, construction equipment, financing and transportations. Thirdly, the provision of health care, a sophisticated service and providing quality health care. Statistically, the country closely competes with China in terms of economic growth rate of 6%-7% where there is evidence of growing trend compared to the declining rates for China.

Evaluating further the potentials of these markets based on the data and information provided above, it is rational and logical to consider India as a potential location for the business expansions. Considering specifically the various factors mentioned above such as the investment environment, impacts to regional integration, market potentials, as the business opportunities and threats, India competes with other emerging markets. Resource-wise, it has good infrastructure, technological advances or competitive technologies, the government's full support on infrastructure and developments as well as the growing business opportunities not only in service sector but also production. India has been progressing with licensing and franchising for global entry mode by investors. Also, it has positive and good ratios in FDI which can offer valuable option for Star TrucksInternational Ltd. For the company, FDI is a very good option considering that the trend in this sector is on the FDI and many companies in India seeks for foreign investments because of the benefits it can offer to the host countries. The government favourably considers the FDI as an entry mode over others due to its promotion to relationship with foreign countries. Considering also the nature of the business, franchising will not work effectively as it is not mainly a service company.

On the other hand, the business threats comprised of rising fiscal deficits and currency fluctuations. Also, the political situation is not good with the cases of corruptions. Many businesses suffers the consequences of red tapes in order to make business and the complex business environment. Taxation, legal and bureaucratic systems limits the potentials of businesses (Acemoglu, Aghion and Zilibotti, 2006). So, the FDI seems to be the most favorable option. Internet connectivity in the entire country is still struggling with 27% of the populace have internet connections which needs more improvement in this area. The political climate is another major concern and challenge especially on how to eradicate the clear incidences of red tapes and corruption. However; with the installation of Prime Minister Narendra Modi, economic reforms are expected and development in infrastructure (M-Brain, 2015).

6.4 China

Undeniably, China is also progressing with its economic growth though they have registered the top spot in terms of population. According to the country's 5-year plan which was drafted in 2010 by the Government, China is expected to double its figure in Gross National Product (GNP) over 10 years having annual growth rate of 7% with the aim of stimulating the domestic market (Wealtheon, 2015). In Asia, China has been considered as the largest economy in terms of GDP thereby surpassing Japan through business expansions and in terms of export-based economy which catapulted the country as an economic powerhouse. Estimates are reliably measured that China will surpass the economy of United States in 2017. This will be attributed to high savings rates, open market offerings, highly-educated workforce and high incomes. Moreover; the favorable economic conditions allow the country to capitalize on its resources and capabilities to be on top in economic growth. Finally, the purchasing power of the country is getting stronger compared to the rivals in emerging markets (Wealtheon, 2015).

7. CONCLUSION AND RECOMMENDATION

Assessing the potentials of the emerging market economies provided different and varying results. Key indicators are employed to compare the business environment surrounding the emerging market economies including the BRICs (Brazil, Russia, India and China) countries. These indicators include but not limited to labor productivity measured in value added per worker, labor quality, measure of capital and total factor productivity and employment. Moreover; it tackles the topics on investment environment, market and labor productivity potentials, government intervention on policies, impacts of regional integration initiatives and assessing the opportunities and threats of the BRICs countries. However; further evaluation revealed that countries such as China, India and Indonesia are better choices for Start Trucks Ltd. to invest because of favorable fixed capital formation, increasing participation of working population, and the opportunities to capitalize in these markets. Furthermore; in terms of real GDP growth rate, these three countries also demonstrated its dominance with China the highest, followed by Indonesia and India although significant drop of the rate on China and India in 2011-2013. Based on these findings, it can be recommended that preference on investment potentials will be emphasized in these countries although further studies are needed to affirm these results.

Also, it is not much affected by global recession as evidenced by the economic growth rate as well as low inflation rate. It is clear from the above statements the criteria and consideration in choosing which market the company Star Trucks Ltd should expand its business and evaluating these factors would lead to the selection of three countries such as China, India and Indonesia as better investment options. Clearly indicated in the opportunities and threats analysis, Foreign Direct Investment (FDI), Gross Domestic Product (GDP), market analysis, labor productivity and its contribution to the GDP shows favorably that these three countries possess the capability and ability to accept the challenge of this foreign expansions. The trade and regulations as well as the government's outlook on FDI is promising. Although more researches can be required to further assess the potential of the emerging markets using different techniques and dimensions.

8. REFERENCES

[1] Acemoglu, D., P. Aghion e F. Zilibotti (2006). Distance to frontier, selection and economic growth; Journal of the European Economic Association March 2006 4(1), 37–74.

[2] Alfaro, L., A. Chanda, S. Kalemli-Ozcan and S. Sayek (2006). How Does Foreign Direct InvestmentPromote Economic Growth? Exploring the Effects of Financial Markets on Linkages', NBERWorking Paper 12522.

[3] Altomonte, C. (2007). Regional Economic Integration and the Location of Multinational Enterprises. Review of World Economics, 143 (2), 277-305.

[4] Aghion, P. and P. Howitt (2006). Joseph Schumpeter Lecture. Appropriate growth policy: A unifying framework. Journal of the European Economic Association, 4 (2–3), 269– 314.

[5] Anand R., K. C. Cheng, S. Rehman and L. Zhang (2014). Potential Growth in Emerging Asia; IMF Working Paper, WP No. 14/2.

[6] Bloom, D. E., D. Canning and G. Fink (2010). Implications of population ageing for economic growth;Oxford Review of Economic Policy, 26(4), 583-612.

[7] Bosworth, B & Collins, SM. (2007). Accounting for growth: Comparing China and India; NBER Working Paper 12943.

[8] Cristadoro, R. and D. Marconi (2013). Urban and rural household savings in China: Determinants and policy implications; in The Chinese Economy – recent trends and policy issues; G. Gomel, D. Marconi, I. Musu and B. Quintieri, eds.; Springer-Verlag, Berlin.

[9] Cubeddu, L., A. Culiuc, G. Fayad, Y. Gao, K. Kochhar, A. Kyobe, C. Oner, R. Perrelli, S. Sanya, E. Tsounta and Z. Zhang (2014); Emerging markets in transition: Growth prospects and challenges. IMF Staff Discussion Note, SDN No. 14/06.

[10] Herd, R. and S. Dougherty (2007). Growth prospects in China and India Compared. The European Journal of Comparative Economics, 4(1), 65-89.IMF (2014); Global Financial Stability Report; FMI, April.

[11] M-Bright (2015). https://www.m-brain.com/insights/geographies/emerging-markets/assessing-the-opportunities-and-threats-in-bric-for-2014-2016/(Date Accessed: 16/4/2018).

[12] OECD (2014). Perspectives on Global Development 2014: Boosting Productivity to Meet the Middle-Income Challenge, OECD Publishing. http://dx.doi.org/10.1787/persp_glob_dev2014-en

[13] OECD (2014b), Realising the productivity benefits of new technologies; OECD February 2014.

[14] Prichett, L. and L.H. Summers (2014). Asiaphoria meets regression to the mean; NBER Working Paper No. 20573.

[15] Ravn, M. O. and H. Uhlig (2002). On adjusting the Hodrick-Prescott filter for the frequency of observations.The Review of Economics and Statistics, 84(2), 371–380.

[16] Soares, R. (2005). Mortality Reductions, Educational Attainment, and Fertility Choice. The American Economic Review, 95(3), 580-601.

[17] Wealtheon (2015). Emerging Markets: Growth, Opportunities and Challenges Emerging markets: opportunities and threats. https://wealtheon.eu/en/News/Emerging-markets-opportunities-and-threats (Date Accessed: 25/3/2018).