NEW CHAMPIONS
Davos Asia

FINANCIAL TIMES **SPECIAL REPORT** | Wednesday September 14 2011

Bites from beyondbrics
A trio of articles – including a novel marketing pitch aimed at Vietnam's young mobile users – from the FT's emerging markets blog
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Globalisation cuts both ways

Brics are the clear winners as the developed nations look to emerging markets for growth, reports **Stefan Wagstyl**

For politicians, globalisation has run into serious trouble, with questions raised about everything from its role in the world economic crisis to its alleged contribution to environmental degradation and rising income inequality.

But for business people, the forces driving globalisation are as strong as ever, with countries and companies daily taking decisions that strengthen the bonds of commercial and financial interdependence.

World trade has this year recovered to the record levels of the pre-crisis boom; investment flows from the developed world into emerging economies are back above $1,000bn a year – short of the 2007 record of $1,200bn but higher than any year before that, according to the International Institute of Finance, the bankers' body.

The future of the emerging economies and their impact on the rest of the world are the focus of the World Economic Forum's regular annual New Champions meeting (the "summer Davos") which begins today in Dalian, China.

"If you look at the numbers, globalisation still looks very exciting, but at the margins some politicians want to pull back," says Maarten-Jan Bakkum, global emerging markets strategist at Netherlands-based ING Investment Management. "You can't make the case yet that there's enough protectionism to interfere with global trade and investment. But it could come."

Governments in much of the developed world face huge difficulties pulling their nations out of the economic mire. These challenges have triggered debates about the pre-crisis years, including globalisation and its impact on the poor, who saw their jobs disappear to the emerging world while the rich grew richer.

Writing in the FT last month, Jeffrey Sachs, the US economist, said: "Globalisation has raised very serious adjustment challenges for the high-income world, and most high-income countries, notably the US, have failed to meet those challenges."

But, despite all the soul-searching, most of globalisation's critics are looking at reform, not revolution. As Mr Sachs also wrote: "I am not calling for a reversal of globalisation or declaring it a failure . . . I am calling, rather, for its proper management."

Most of the emerging world takes little comfort from the economic difficulties of the US and Europe and stagnation in Japan. Developing countries were hit hard by the 2008-09 recession and would be hit hard again if there were another developed world contraction.

But emerging market policymakers see that their economies are mostly in far better shape than those of the developed world – often thanks to serious restructuring, as in eastern Europe after 1989-91 and much of Asia after 1998.

Little wonder that these countries take pride in their growing wealth and spending power – and cannot resist a little *schadenfreude*. When Russian state television this summer aired a fictional documentary called *The End of the Dollar Epoch*, thousands thought it was real and rushed out to sell their greenbacks.

The immediate future of the globalisation debate depends much on the economies of the rich world. The loudest demands for a brake on globalisation – in the form of protectionist moves to safeguard carmaking and other industries – came in the depths of the 2009 recession. Another contraction in the US and/or Europe would lead to similar calls.

The economic outlook has deteriorated markedly since the early summer, with growth forecasts dropping in the US and Europe and worries multiplying about Washington's debt and the eurozone's financial turmoil.

The Organisation for Economic Co-operation and Development last week became the latest institution to revise its outlook and forecast a second-half slowdown in the rich world, with a 50:50 chance of a contraction in the last three months of 2011.

This month, the International Monetary Fund is widely expected to cut its 2011 predictions from the current forecast of 2.2 per cent annual growth for the developed world and 6.6 per cent for emerging markets.

As well as making the policymakers sweat, the likely slowdown in the developed countries' economies will make life much more difficult for companies, as the sharp sell-off in global financial markets this summer has signalled.

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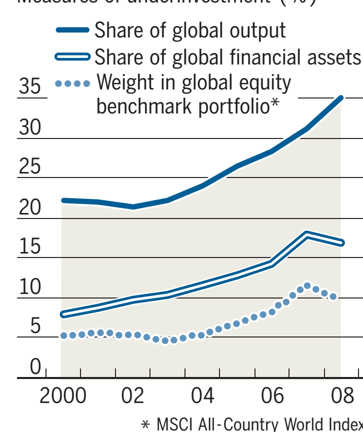
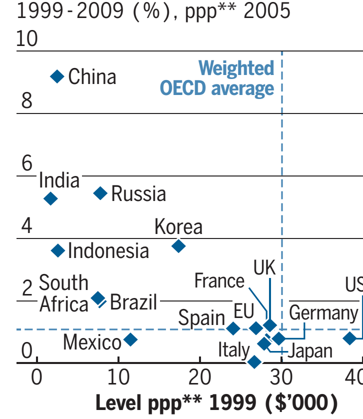
High anxiety in Dalian – at least for policymakers from developed countries Alamy





Sources: IIF; OECD ** Purchasing power parity

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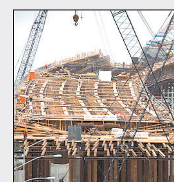

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Vehicle-buying surge in Brazil fuels component sector

Car parts makers

Foreign companies move in as consumer spending soars, writes **Samantha Pearson**

São Paulo's traffic is notorious. On particularly bad days, gridlock in the city can stretch for more than 100 miles and in the rainy season, it is not uncommon for cars' engines to be flooded before drivers can escape the jams.

However, what has become one of the city's biggest infrastructure headaches over the past few years is also a promising sign for Brazil's booming auto industry.

Fenabrave, the national car-dealership association, forecasts that 3.5m more light vehicles will hit the country's roads this year, up 6 per cent from 2010, as higher salaries and greater access to credit allow more Brazilians to buy their first car.

The growing number of cars on Brazil's roads is also an attractive opportunity for car-parts makers. They have thrived on the chance to supply manufacturers based locally, such as Volkswagen, as well as providing spare parts.

"The long-term forecast is for the market to keep growing. Brazil has increased income and reduced unemployment, and all this favours consumption," says Renato Fonseca, president of the National Association of Autoparts Manufacturers (Anfape). While in developed countries there is normally one car to every two people, in Brazil there is still only one car to every seven inhabitants, he says.

Growing demand from Brazil's ever-wealthier consumers has also lured a series of new car manufacturers to the market over the past year. After China, Brazil has been attracting the most investment from car manufacturers in the world, says Mr Fonseca.

Chery, the Chinese car manufacturer, is one of the latest to announce expansion plans in Brazil, after selling more than 3,000 cars during August, an increase of 80 per cent from the same month last year. The group plans to spend $400m to build a factory in Jacareí, an industrial town about an hour's drive from São Paulo.

"Chery has [a] mission to be a global company and to be a global company, you can't just be in China. Brazil is a strategic auto market for South America," says Luis Curi, Chery's chief executive in Brazil. "You have to be in this market."

But despite Brazil's booming car market, Brazilian car-parts makers also face serious challenges, namely greater competition from abroad and difficulties in selling their products outside Brazil because of the strength of the local currency.

In many cases, foreign companies have set up subsidiaries in Brazil or acquired local groups to make the most of the fast-growing domestic market.

Mahle, the German automotive group, was one of the first, setting up operations in Brazil in the 1950s. After an acquisition in Argentina, the resulting company, Mahle Metal Leve, now manufactures engine components for the South American market.

Foreign competition has also come in the form of increased imports, principally from Asia.

Exports from Brazilian car-parts makers reached $986.2m in July, up 14 per cent from the previous year, according to data from Sindipeças, the Brazilian Association of Autoparts Manufacturers. But imports rose much faster, by 22 per cent to $1.43bn, in July. As a result, the industry has accumulated a trade deficit of $2.7bn in the first seven months of this year.

"The market is growing considerably, but the question now is whether Brazilian companies will benefit from the increase in the domestic market or whether big multinational groups will be the beneficiaries," Mr Fonseca of Anfape says.

Although China has been one of the biggest investors in Brazil's car market, it has also become a key competitor for Brazilian car-parts makers.

Piston-making at Mahle, Brazil

For example, imports to Brazil of Chinese tyres for passenger cars totalled $91.3m between January and July this year, up 57 per cent from the same period last year.

As part of Brazil's recent "Bigger Brazil" industrial plan, the government even extended a package of loans to finance the working capital of small and medium-sized car-parts makers, to help support local production.

The sharp appreciation of Brazil's currency, the real, against the dollar over recent years is the other major challenge confronting the country's car-parts makers.

It is making it more difficult to export to other fast-growing markets in the region.

"We both import and export, but now the focus is much more on importation because of the level of the dollar [against the real]," says Luiz Roberto Ghidini, commercial director of Decar, a car-parts distributor in São Paulo.

Since October 2008, the real has appreciated by more than 40 per cent against the dollar.

And despite heavy intervention by the central bank in the currency market and government measures to target speculators, the real remains one of the world's most overvalued currencies.

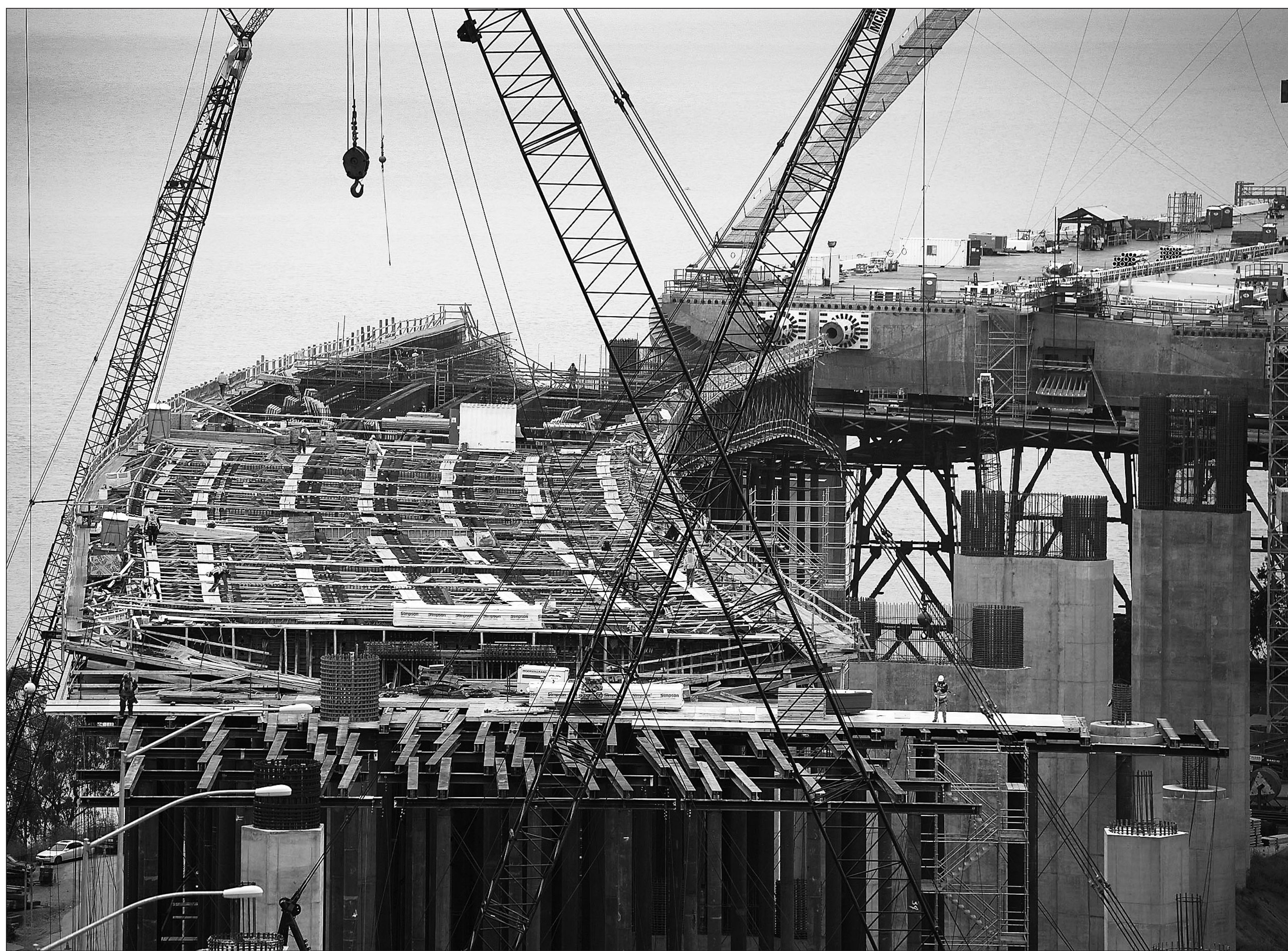
"We mainly export to South America, countries such as Argentina, Chile and Bolivia, but our exports have dropped about 50 per cent over the past five years," Mr Ghidini says.

But if the current circumstances continue, Brazilian car-parts makers might soon have to adapt their own business models by moving more production to places such as China.

"If these circumstances continue, companies will increasingly move their production there. For logistical reasons, it is not possible to import big structural pieces from China, but it could be a good idea for replacement parts," says Mr Fonseca of Anfape.

By making the most of cheap labour in Asia and their links to the fast-growing domestic market, Brazil's car-parts makers could soon follow in the footsteps of foreign companies by becoming global component kings themselves.

"The potential of the market is enormous," says Mr Fonseca.



Bridge of size: Shanghai Zhenhua Heavy Industries is building the new Bay Bridge linking San Francisco to Oakland Bloomberg

Chinese builders target contracts in EU and US

Construction

Simon Rabinovitch thinks developed markets will be tougher to crack

After a decade of remarkable expansion in Africa and Asia, Chinese construction groups are beginning to break into more mature markets.

At first glance, their progress in the US and Europe looks as if it might be as impressive as their march through developing nations.

Shanghai Zhenhua Heavy Industries is building a bridge that will connect San Francisco to Oakland across the bay. China State Construction Engineering has broken ground on a huge hotel, casino and resort complex in the Bahamas. China Road and Bridge is working on a bridge over the Danube River in Serbia.

But the steady stream of headlines about high-profile projects won by Chinese construction companies belies the reality that they are facing new headwinds and will find the developed world harder to penetrate than emerging markets.

The Chinese construction industry has resembled something of a juggernaut over the past two decades. From $2.5bn in overseas contracts in 1990, Chinese companies signed more than 50 times that amount last year at $134.4bn, according to the China International Contractors Association.

Yet there is now evidence of a slowdown. The value of Chinese companies' overseas deals had grown 27.6 per cent a year on average since 2000, but that pace slipped to 6.5 per cent last year.

That slowdown, in part, has prompted Chinese builders to consider fresh terrain. Their strategy over the past few years was summarised by Zhang Xiang, a CICA spokeswoman, as "consolidate superiority in Asia and Africa, build up again in the Middle East, break into Latin America and pay attention to Europe and the US".

Now, however, Europe and the US "have already become the next market targeted by quite a few big contractors", Ms Zhang says.

To date, the secret of success for Chinese companies has been their curious blend of ample state support and fierce market-driven competition.

Beijing has lavished aid money on Africa, often in the form of soft loans for infrastructure development. For the country's state-owned construction groups this has been a boon: the one condition that Beijing regularly attaches to the loans is that the building work must be carried out by Chinese companies.

China is trying to replicate that model in mature markets, albeit not in the form of development assistance. With bank lending far tighter in the wake of the global financial crisis, the promise of cheap credit can give Chinese companies a leg-up in bidding for contracts.

For the Bahamas casino, about two-thirds of the project financing is coming from a $2.5bn loan by Export-Import Bank of China. For the bridge over the Danube, another loan from China ExIm Bank is supposed to cover 85 per cent of the bill.

Yet it would be a mistake to view these construction companies simply as government-coddled entities.

Even in Africa, where Beijing's support has been most generous, Chinese contractors have proved their worth against international rivals, and against each other.

China State Construction Engineering, China Railway Group and China National Machinery Industry all ultimately answer to the same master: the government in Beijing. However, it is not uncommon to see them compete with each other when vying for contracts.

> Europe and the US 'have already become the next market targeted by big contractors'

"On the ground, the project managers of the subsidiaries of the big [Chinese] mother companies operate like any private company. Their main motivation is making a profit," says Sanne van der Lugt, a research analyst with the Centre for Chinese Studies at Stellenbosch University in South Africa.

The quality of Chinese construction in Africa is often perceived to be shoddy. A series of public mishaps in Angola – roads washed away by rain and a hospital evacuated because of cracks in the building – have reinforced that impression.

Ms Van der Lugt says the negative perception is not entirely fair. In countries where governments have maintained closer oversight throughout the construction process, the Chinese-built structures have been favourably assessed by foreign engineers and governments, she says.

However, there was sparse competition to begin with in sub-Saharan Africa. The more developed regions that China is now targeting are far more crowded.

"The market is very competitive. Chinese contractors are just one part of it, then there are domestic companies and international companies from other parts of the world," says Johan Karlström, chief executive of Skanska, the Swedish construction and infrastructure group.

In fact, he says he was less worried about the competitive threat emanating from China than he was excited about the possibility of working with Chinese companies to help them learn about environmentally friendly building techniques.

"It's something that has been much more developed in mature markets because it has been on the agenda for both contactors and owners for quite some time," Mr Karlström says. "They [the Chinese] are eager to learn and pick up ideas and technology."

Besides lagging behind their Western rivals in technical skills, Chinese construction companies also have a steep learning curve ahead of them when it comes to the business norms of developed markets.

That challenge was revealed in June when Poland's road authority terminated a $447m contract with China Overseas Engineering Group.

The company was supposed to build a 50km highway from Warsaw to the German border, but quickly ran into financial difficulties after winning the contract with a bid so low that rivals accused it of price dumping.

The Polish embarrassment also underlined what could be the biggest challenge ahead for Chinese construction companies. Having made a name for themselves in the developing world as cheap but efficient builders, their low-cost advantage is now being whittled away by rising wages in China.

Exporting Chinese workers to construction sites abroad or even building parts of a project in China, as done with segments of the San Francisco bridge, are becoming less feasible business strategies.

Ms Zhang of the China International Contractors Association says she is confident that "opportunities are still greater than challenges".

But with challenges on the rise, the seemingly unstoppable overseas expansion of Chinese construction companies is set to shift into a lower gear.

Russia's aerospace giant seeks take-off in civilian market

Profile
UAC

Charles Clover considers ambitious moves to compete outside defence

Russia's United Aircraft Corporation produces some of the world's sleekest and fastest fighter aircraft, whose trademark wheeling and see-sawing "cobra" manoeuvre thrills audiences at air shows the world over. It also makes the Il-96 wide-bodied, long-haul airliner.

But for Mikhail Pogosyan, the new chairman of UAC, the future is in a dumpy, smallish airliner called the Superjet 100 – the first step, he hopes, toward his conquest of the world civilian airliner market.

The aircraft has seen an uneasy launch. Orders were slow coming in. Even Aeroflot, the Russian state-owned airline, had to be wheedled into buying 30, and for a time the only foreign orders came from friendly, ex-Soviet Armenia. Then the jet had to be grounded, soon after it took to the air for the first time in June, because of a safety flaw.

But, slowly, things are starting to look better. Mr Pogosyan says there are up to 170 orders for the $31.7m aircraft.

UAC is an industrial juggernaut that spans Russia's nine time zones. It was assembled in 2006 out of the ageing remnants of one of the country's last competitive manufacturing industries.

Today, UAC, which produces virtually all Russia's aircraft and is 17 per cent privately owned, focuses mainly on military aviation. Its Su-27/Su-30 fighter-bomber is the jewel in its crown and the main export money-spinner of the defence industry.

But Mr Pogosyan sees the future of Russian aerospace in civilian aviation. This is where 75 per cent of world aircraft sales are made today. He wants to right the skewed balance of aircraft produced by UAC: 90 per cent military, 10 per cent civilian.

By 2025, he would like to see that balance reversed – 25 per cent military, 25 per cent transport, and 50 per cent civilian aircraft.

Mr Pogosyan's ascendancy represents a victory for Sukhoi corporation in its legendary battle with the Irkut factory, the two powerhouses of the Russian aviation industry. Their uneasy marriage in 2006, along with a dozen other big-name companies such as Tupolev and MiG, formed UAC.

The replacement of Alexei Fedorov, the Irkut-backed president, in February, with Mr Pogosyan, who hails from Sukhoi, represented "a sound, and possibly final, victory for Sukhoi over its Irkut rivals", wrote Konstantin Makienko, an aviation analyst, in a recent issue of Moscow Defense Brief, a defence industry newsletter.

Mr Pogosyan steps warily around the issue, saying "some cadre decisions have been taken. But I wouldn't say Sukhoi and Irkut are in opposition to each other. We both want to make great aircraft."

Russia's reputation for making world-class military aircraft is established. However, in civil aviation, "we are slightly behind" he says, in what most of the industry would regard as a major understatement. Russia's cramped and ill-ventilated airliners, with their rough upholstery, are sold almost exclusively in the former Soviet Union, Iran, and parts of Africa.

> The future [of Russian aerospace] is in a dumpy, smallish airliner – the Superjet 100

The Superjet is the first attempt in a decade to penetrate this already-competitive market. It is a 100-seat, short-range airliner that will target the easy end of the market.

The company's main competitors are Brazil's Embraer and Canada's Bombardier, rather than Boeing and Airbus, and Mr Pogosyan reckons the Superjet is up to 15 per cent cheaper than other options.

Of the 170 orders, perhaps a quarter come from outside the former Soviet Union: Indonesia has ordered 42, Laos three and Interjet from Mexico 15, he says. But over the long term, he aims to sell 70 per cent of UAC's airliners abroad.

He promises a "new level of comfort" for the aircraft, with a wider body, more headroom, and business-class seats that are roomier than those of competing aircraft.

But penetrating the mainstream airline market will be hard, especially with Russia's reputation for poor air safety. This was not helped by the crash last week of a Yak-42 aircraft in the city of Yaroslavl, killing 43, and a similar crash of a Tu-134 in June at a provincial airfield, killing 44.

In the wake of these misfortunes, Dmitry Medvedev, the president, signalled that Russia might seek to buy more of its aircraft abroad, a blow to the domestic aerospace industry.

"Of course we have to think of our own, but if they are not capable of coping, then we'll have to buy technology from abroad" he said.

Over the long term, Mr Pogosyan thinks that a new approach to manufacturing, based on the outsourcing practices of Airbus and Boeing, the global leaders, combined with unique access to cost-effective Russian engineering, will prevail.

"In the past, we tried to do everything in Russia, using all-Russian technology," he says. "Now, we are using systems of the best world producers, as our competitors do. Russian producers participate, but now our aircraft are truly international products."

He says that the Superjet 100, for example, is 50 per cent produced in Russia, and 50 per cent abroad. The engines are a joint product of Snecma of France and Saturn of Russia and assembled in Rybinsk, Russia.

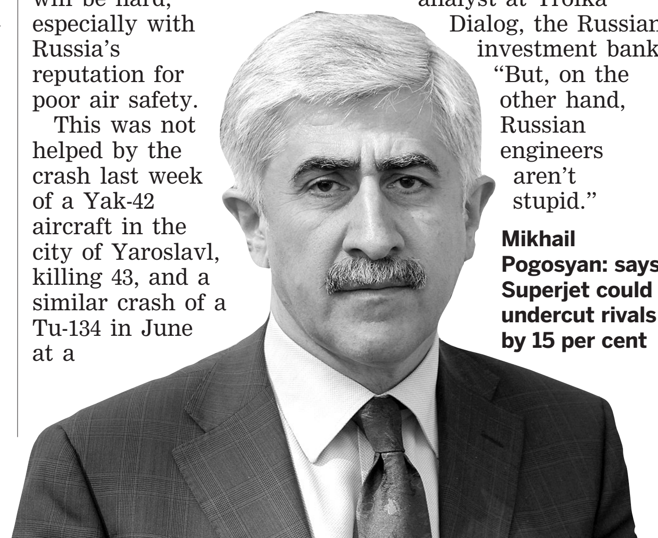
The next step in the plan to penetrate the civil aviation market is more ambitious. The MC-21, a short-to-medium range aircraft which will directly compete with the Boeing 737 and the Airbus 320, aims to start test flying in 2015, with mass production in 2017.

"We think the market for these aircraft is growing faster than Boeing and Airbus can produce them. Already, the waiting list for Boeing or Airbus is four-five years. We think the market wants immediate gratification," says Mr Pogosyan.

Analysts are sceptical. The Chinese, for example, are producing their own aircraft for this market segment, the C919, which promises to be even cheaper than the MC-21.

Meanwhile, Boeing and Airbus have far more resources and clout.

"On the one hand, it seems mad to take on Boeing and Airbus," says Mikhail Ganelin, an equity analyst at Troika Dialog, the Russian investment bank. "But, on the other hand, Russian engineers aren't stupid."



Mikhail Pogosyan: says Superjet could undercut rivals by 15 per cent

Visions differ as world cities build for the future

Urbanisation
EDWIN HEATHCOTE

For a long time the world's attention has been focused on the seemingly unstoppable growth of the megacities – cities in which the population exceeds 10m. Their sheer mass seems to attract headlines by a kind of gravity, like black holes; they suck in reporters and urbanists, but they throw out beams of incredible statistics.

There are facts and figures about unbelievable densities, horrific crime rates, seemingly insurmountable problems of education, health, coping with ageing, employment and industry and, of course, about the environment: about how to make such places – almost incomprehensible in scale – sustainable.

Mumbai, Beijing, Istanbul, Tokyo, Mexico City, Cairo – even the old-school megacity pioneers London and New York – are the subject of endless meditations on the future of the city. But, despite their size, the real, phenomenal growth in world cities is happening outside these famous, historic – almost romantic – centres, in the second-tier cities of Asia that can seem to spring up overnight.

Earlier this year I ascended the 100 storeys or so of Guangzhou International Finance Centre – the tallest building ever built by a British architect, Wilkinson Eyre. It is an elegant, streamlined cigar of a building. From the top you could see perhaps four or five miles in every direction before the yellowish industrial smog swallowed up the horizon. The young architect showing me around said that when construction on the tower started a couple of years ago virtually nothing was there, it was all farmland, there was no city to see from the site.

Guangzhou has exploded – the same goes for Wuhan, Chengdu, Shenzhen and dozens of others. But these are not cities growing through informal settlements at their edges, haphazardly; they are ruthlessly planned. A McKinsey report published in March this year predicted that, in 2025, 100 of the world's 600 top cities will be new entries from China.

It is calculated that 40 per cent of global growth over the next 15 years will come from 400 midsize cities, many of which we will never have heard of. That growth equates to more than that predicted for all the world's developed economies and the megacities of the emerging markets (including São Paulo, Mumbai, Shanghai and the others) together.

The top five fastest growing cities in the world are all in Asia – and they may come as quite a surprise: Beihai (China), Ghaziabad (India), Sana'a (Yemen), Surat (India again) and, despite everything, Kabul. Somehow business will need to reorientate itself towards these exploding cities and their vast opportunities.

The Chinese government has long realised that its extraordinary industrial boom is not only attracting former agricultural workers from the country to these new midsize cities but that it is creating a new bourgeoisie, a business class of entrepreneurs and managers.

This emerging and increasingly wealthy middle class is exactly where China has decided to invest. It has realised that they will begin to demand the infrastructure of bourgeois city life, from education, healthcare and public transport to leisure facilities, shopping and parks. And China's notably top-down planning system allows the creation of these at a stroke. Huge, almost unimaginable infrastructure projects are being put in place not only in the big centres, in Beijing, Shanghai and Hong Kong, but in these secondary cities.

Serious development: Sana'a in Yemen is among the top five fastest growing cities in the world Dreamstime

The journey has not been trouble free. The bullet train crash in the eastern Zhejiang province in July, which saw 35 die, not only pointed to inadequacies in planning but to a readiness of bloggers to protest and openly express their outrage – exactly the kind of thing that seems to unnerve the government in the wake of the Arab Spring.

But what will these new cities look like? Is there still the skill to design cities from scratch? The established megacities – New York, Istanbul, London, Cairo, Beijing, Tokyo and São Paulo developed over many centuries, from historic cores that bred poorer, less formal settlements around them, which were then themselves subsumed and upgraded into new quarters, so that cities grew in concentric rings.

> These are not cities growing through informal settlements at their edges; they are ruthlessly planned

These new cities, theoretically, will allow their planners to bypass the problems of historic cores and ageing infrastructure, to wire in connected city tissue from the outset. And, if you stroll along the green spine of Guangzhou's Zhujiang new town, which conceals a subway built beneath a central pedestrian park space and a seemingly endless shopping mall at sub-basement level, you get the feeling that these cities could work.

The authorities have meticulously programmed in cultural infrastructure – Guangzhou has at its centre a dramatic library, a Zaha Hadid-designed opera house and a striking museum. It is true that the building of the opera house has preceded demand – it is there, just in case.

It is easy to criticise these new cities as soulless and corporate – which they are – but the scale of the achievement in building these places is astonishing. These are cities that will be capable of housing the millions still pouring in from the country. The rural population, currently standing at 900m, is expected to decrease by 500m over the next 30 years.

Other models look precious in comparison. South Korea's $40bn Songdo provides the prototype for a wired city. A fully integrated high-tech hub near Seoul with services supplied by Cisco and architecture design by US firm KPF, it heralds the advent of city-conceived-as-CBD (central business district). But, with its golf course and parkland, is it really much more sophisticated in its planning and architecture than Guangzhou or the dozens of other cities like it?

Masdar (masterplanned by Foster & Partners) in Abu Dhabi provides the model for the eco-city – a joint venture between the Emirate and MIT, an experiment in creating a sustainable city in one of the most inhospitable environments on the planet. It is feeling its way along but it still feels tiny compared with the default experiments the Chinese are undertaking.

One extraordinary statistic to appear recently is that, according to an Ipsos/Mori poll, Mumbai, a city with 55 per cent of its population living in slums and 65 per cent of its population working in the informal economy, is the "happiest" city in the world, its residents the most satisfied with their quality of life. London, just as astonishingly, comes in at number two.

It is difficult to imagine a more striking contrast between the rickety, dirty and dysfunctional Mumbai existence so vividly described by the Indian writer Aravind Adiga in his new novel *Last Man in Tower* and the sterile, endless expanses of extruded modern blocks that radiate in every direction in China's new cities. Yet here they are – the models for Asia's future.

Is it a choice between vibrancy and inefficiency versus the grimly repetitive but inarguably efficient? One is making do and getting by, the other is getting on with it. It is impossible not to admire the Chinese for their extraordinary determination, even if their vision of the future is not necessarily one we all might want to live in.

At least they have a vision.

Dalian Green slopes slowly disappear under waves of high-tech industry

When participants of "Summer Davos" pour into the Dalian World Expo Center today and take in sea views in the airy lobby, they will see the image their host city likes to project of itself: a clean, modern, cosmopolitan place.

Indeed Dalian is one of the few Chinese cities that make it into international livability rankings. A local government drive in the 1990s under Bo Xilai – the high-profile politician who now heads Chongqing – for more parks, more skyscrapers and a better infrastructure transformed Dalian from a grubby port city to one of the cleanest and fastest-growing in the country.

Its picturesque location on a hilly peninsula in Bohai Bay has helped – the city has several beaches, and a constant sea breeze helps prevent the relentless smog that plagues most other Chinese urban areas.

The city's economy, in common with most of China's north-east, used to be dominated by heavy industry. But Dalian's proximity to Japan and South Korea made it one of the prime locations for foreign direct investment from these two countries. Many Japanese technology companies, such as Toshiba and Panasonic, have built a presence in Dalian, in turn attracting other companies that make niche products or are their suppliers.

Alpine Electronics, a Japanese car audio and navigation company, is a typical example. "We set up a research centre in Dalian in 2003 to serve our product development for the Chinese market," says Shinichi Kaminaga, the centre's deputy general manager.

Last year, Intel opened its first semiconductor fabrication plant in China in Dalian.

The city exported electrical and electronic industry products worth $14bn last year, more than half of its total exports, according to municipal government statistics. High-technology goods, though still a tiny portion of overall exports at just $400m, were the fastest-growing export product category last year, with an increase of 53 per cent.

But the biggest new contributor to the local economy is software. Dalian has become one of China's major hubs for the outsourcing services sector, with the value of contracts hitting $1.18bn last year, up 33 per cent from a year earlier. The city is home not just to Neusoft, China's largest software company, which runs its own university there, but also to 940 other outsourcing firms, which employ more than 100,000 people, according to the government.

"We are looking to double our headcount this year," says Xia Xue, head of human resources at Yidatec, the software subsidiary of a local real estate conglomerate.

Multinationals that dominate the sector globally, such as IBM, Microsoft, Hewlett-Packard and Softbank, have all invested heavily in Dalian as well.

This industry's growth, and its need for increasing numbers of young employees, has spawned a local real estate boom. In the green hills surrounding central Dalian, one valley after another is being developed into yet another software company park with adjoining residential buildings and recreational facilities. As land supplies are running low, Dalian's government has become one of the most aggressive in the country at reclaiming land from the sea.

But this has left local residents somewhat dissatisfied. Many complain that a focus on investment has replaced a priority for environmental protection. Accumulated frustration exploded last month when 12,000 took to the streets in protest at a toxic petrochemical plant built on reclaimed land, forcing the government to promise that it would be closed down.

The city's relentless development drive has also pushed property prices out of reach for many.

In the Shahekou district, neighbouring the massive World Expo Center, the coast has been built up with a huge compound of luxury villas and flats. "These are the most expensive in all of Dalian, and they're all sold out, all bought up by out-of-towners," says Tina Ren, an agent at Century 21 in Dalian.

On the other side of the World Expo Center, rows of faux European buildings house upmarket restaurants and bars. Many of the cars out front are limousines with red characters on their licence plates, indicating use by government officials.

"We call this the corruption centre," explains Wang Liang, a taxi driver who serves this area.

"There is no public transport here, so most ordinary people don't get out here and the leaders feel safe coming here for seafood and champagne."

Kathrin Hille

Food groups aim expansion recipes at local consumers

Africa

Multinationals are shedding their fears and adapting well, writes **Louise Lucas**

Africa is the new China. Where once multinationals made it a badge of honour to discuss their Chinese operations – often widened to embrace the fellow Bric nations of Brazil, Russia and India – it is Africa that is earning an increasing number of name-checks.

"It's a jewel," says Paul Walsh, chief executive of Diageo. The world's biggest distiller and the brewer of Guinness, garners 13 per cent of net revenues from the continent, where it built its first overseas brewery – in Nigeria's Lagos – in 1963.

It is, of course, a jewel with risks, or what Angus Hodgson of management consultancy AT Kearney refers to as "the big fear factor" among companies with a less established heritage in the continent.

"We argue it might be a big play, but it's a big play you have to make now," he says. The attraction: large, young populations with rising incomes.

While some are in the throes of making their big Africa play, others are older hands. SABMiller, the world's number two brewer by sales, began life in South Africa in 1895. Heineken first brewed beer in what is now the Democratic Republic of Congo in 1923. Unilever, which originally went in search of plantations, dates its ties back to the early 20th century.

Tom de Man, Heineken's recently retired president for Africa, recalls his own early stint in the continent in the 1970s: contact with head office was spasmodic and the international school was the wife of the Unilever representative, working from a spare room.

All that has changed. Heineken's own ambitions are forging ahead – it recently bought two breweries in Ethiopia. This month, Diageo will open a brewery in Tanzania, its first new brewery in 20 years. Unilever generates sales of more than €5bn a year in Africa and is racking up mid-teen percentage growth every year.

Such success stories have drawn more multinationals to a continent once better known for the strife that accompanied the birth of independence – political mayhem, hyperinflation, corruption and ravaged economies.

Frank Braeken, who heads Unilever's African operations, offers a graphic illustration of the sheer physical size: three times as big as China, or with room to accommodate the US, Europe, China and India with room left over.

"It's all about purchasing power," says Frits van Dijk, who is in charge of emerging markets at Nestlé, the Swiss food group. He calculates there are 300m-400m people in Africa who can afford the Swiss food group's products; within a few years he expects that to rise to 600m.

Monetising the opportunity is less easy and challenges remain. Africa, points out Mr Braeken, is "of course, not one continent, not one story".

Angolans, for example, mostly live in towns; in other countries, the rate of urbanisation is less than one-third. The presence of supermarkets is another marker, with modern trade accounting for 40 per cent of Kenyan shopping but just 5 per cent in Nigeria. This demands different distribution methods.

Operational difficulties, says AT Kearney's Mr Hodgson, are "absolutely real". In Nigeria, a favoured market, he cites transport as the biggest difficulty, in particular finding the right partners with the right skills and capabilities to distribute from factories.

There are big distances to cover. "Transport costs as a proportion of landed costs are much higher because [transport] is much less efficient," he says.

Nestlé is overcoming this in part by bringing in smaller "finishing" factories closer to consumers. Bulk consignments of, say, paste for stock cubes or bulk milk powder are delivered to the finishing factories where they are bound and packaged.

This also allows Nestlé to scale up these factories when demand requires, rather than ploughing in big money at an early stage. Finishing factories cost roughly one-sixth as much to build as fully fledged ones and, as Mr van Dijk notes, Africa is a continent that still has risks attached.

Another issue is sourcing. Importing raw materials across borders or from further afield is expensive, and can be tricky for certain fresh products.

Food and beverage companies' answer to this is to go local, building up deals with local farmers whereby the company provides training and a guaranteed price for the finished product. In some cases, the company will provide more – seed, fertilisers and even microfinance.

Nestlé now deals with 60,000 farmers in Africa; SABMiller 20,000. On the Ivory Coast alone, Nestlé works with 1,000 farming families and has built a research and development centre focusing on agricultural issues.

Glad to be'er: drinkers in South Africa enjoying SABMiller's Castle Lager One Red Eye

> Companies provide training for farmers and a guaranteed price for the finished product

These companies are also refashioning recipes to replace traditional ingredients with local ones. Thus SABMiller aims to have its pioneering cassava beer on the shelves later this year.

The beer is now expected to go on sale in Mozambique in six to nine months' time, nearly a year after the initial launch plans for late 2010. Assuming this is successful, the beer will then be rolled out to other parts of the continent.

The brewer, which in March lifted its medium-term financial targets for Africa, already uses sorghum in Nigeria. Nestlé is using Mali's unique blue onions in its Maggi cubes.

Even so, there are companies that still struggle to keep up with demand. Zambeef Products, which started life as a single butcher's shop in Zambia in 1994 and now runs a vertically integrated operation complete with herds of cattle and around 100 of its own shops, soon had Zambians flocking to its stores.

"If you refurbish, retile [a store], put in new display cabinets, sales double if not treble in a couple of weeks, because people are no longer willing to accept shoddy services or shops," says Francis Grogan, co-chief executive officer.

"Our challenge is just to keep up supply. In the last six months there has been unprecedented demand for beef, pork and dairy ... we had to import beef for the first time ever last Christmas and are having to do that again."

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One step nearer to becoming a superbank

A selection of recent blogposts by FT writers in India, Brazil and Vietnam

It is a bit like calling someone "big-boned" or firing an employee by inviting them to take part in "synergy-related headcount restructuring".

The merger announced last month between Brazil's top investment bank, BTG Pactual, and Chilean brokerage Celfin looks very much like an acquisition.

The terms of the deal are not yet public but given that Pactual has more than $64.5bn under management and Celfin has only $5.5bn, it is already obvious who is going to wear the trousers in this relationship.

For Celfin, this is a great – and probably rather unexpected – opportunity. For Pactual, though, it is one carefully planned step in its plan to become an emerging market superbank.

After being bought back from UBS in 2009 by BTG, a company set up by young billionaire André Esteves (above), one of Pactual's founders, the renamed BTG Pactual has wasted no time in marking out its territory at home.

It swooped in to buy Brazil's PanAmericano in January, paying only R$450m ($279m) for the well-known bank after it was brought down by fraud. Pactual has also expanded its reach in the retail industry, funding the construction of shopping malls and even offering money for Pão de Açúcar's recent merger bid for Carrefour's Brazilian business.

While Pactual's success can be put down to its star management and the European and US contacts it brought with it from UBS, it has also benefited from a huge wave of cash from Asia and the Middle East.

Last December, Pactual secured $1.8bn from a consortium of banks, led by the sovereign wealth funds of Singapore, China and Abu Dhabi.

So what next? Well at home, it looks like an initial public offering.

Last month, Pactual filed a request to become a publicly listed company. An IPO would be the only logical next step.

Watch out for more "mergers", too. Pactual is likely to have its eye on other Latin American targets and perhaps even the local assets of a struggling foreign bank.

Samantha Pearson

Marketing Being red helps Vietnam's mobile phone-loving youngsters stay in the black

Driving down costs: Vinaphone's offer has no strings attached but registration is no easy feat Bloomberg

In modern, consumption-obsessed Vietnam, it is hard to find young people who profess much enthusiasm for Communism.

But the select few who opt to follow the ways of Ho Chi Minh and Vladimir Ilyich Lenin rather than Harry Potter and Justin Bieber have much to gain – from moral guidance to career advancement within the civil service and, now, cheaper mobile phone calls.

In a special promotion that neatly illustrates Vietnam's peculiar mix of Marxism-Leninism and capitalism, Vinaphone, a state-owned mobile phone network operator, is offering big discounts to young Communists.

Vinaphone sent out a marketing text message last month that offered 60 minutes of free calls a month (worth 70,500 Vietnam dong or $3.42) to cadres of the Ho Chi Minh Communist Youth organisation, an official group that is named after the revolutionary leader who brought Marxism and independence to Vietnam.

Vinaphone is also offering 50 per cent off the cost of downloading external ringtones so young Communists can show their fervour by ensuring that incoming callers hear popular patriotic songs while they wait.

And, to encourage the Communist activists to deepen their intra-cell activity, they will get 50 per cent off all calls to other cadres registered under the scheme.

There are no strings attached. However, registration is no easy feat.

Cadres, who must be prepaid mobile customers under 42 years of age, will have to go to their nearest Vinaphone office with their ID card, a certificate from their employer, university or local government confirming that they are a member of the youth organisation and an introductory letter from their employer.

Many a good initiative has floundered due to red tape in Vietnam, a nation where even the simplest administrative procedures can require multipe copies of documents, notarised and stamped with the appropriate chop.

But, at least in this case, the target market will already be well versed in the ways of bureaucracy, having risen through the ranks of the Communist Party's key youth organisation.

Ben Bland

Hoping to clean up in Indian male grooming

In the never-ending drive to encourage consumer spending, advertisers are targeting the hygiene habits of the young Indian male.

Betting that rising incomes are persuading more Indian men to take better care of their appearance, the Aditya Birla conglomerate is offering Kara – a new weapon in the battle against the sweat generated as boys go about their daily business. (Indian girls, like girls everywhere, don't sweat, they glow). The product may or may not be a winner – but the video commercial is raising some smiles on YouTube.

Kara is a face wipe designed to replace the damp cotton towel many Indian men carry on their bikes and scooters as they negotiate the hot streets of Mumbai or Chennai.

In the video, a sweaty young man pulls up on his scooter and pulls out a cloth from under his backside to wipe his face.

But as he starts to rub his nose in the sweaty white cloth, he is embarrassed to find a fellow biker staring at him. His new-found friend questions him on his hygiene and urges him to switch to Kara face wipes.

Male grooming products have become one of the fastest growing segments of India's consumer products industry as men pay ever more attention to how they look and move away from a traditional emphasis on intelligence as the ultimate male quality.

Datamonitor, the UK-based market research consultancy, estimates that 50 per cent of Indians think physically attractive people have more opportunities in life.

"Rising affluence and greater consciousness of personal image and hygiene are expected to drive growth in both rural and urban areas," says Euromonitor.

Sales of dedicated men's grooming products in India are estimated to be $500m a year, and rising at 15 per cent annually. Judging by the video, there's plenty of scope for growth from a fairly low base.

Akanksha Awal

Globalisation cuts both ways as emerging markets thrive

Continued from Page 1

Among the first to sense trouble are carmakers, since consumers can easily delay purchases. Volvo, the Swedish carmaker owned by China's Geely, last month warned that the "unstable economic climate" would be likely to cause greater volatility in consumer confidence, exchange rates and raw material prices, which could in turn have an impact on its profits.

But with the wide gap between growth rates in developed and emerging markets, the effects of the slowdown will be uneven, as they were in 2009.

Multinationals based in the US, Europe and Japan, fighting recession or near-recession at home, will struggle to compete with emerging market rivals based in economies that are forecast to grow much faster.

Hans-Paul Bürkner, president and chief executive of the Boston Consulting Group, says: "For companies in the developed markets, there's a real danger that if you talk in terms of 3, 4, or 5 per cent growth then in 10 years' time you will be marginalised because you will find that the companies from emerging markets have taken over."

Successful developed-world multinationals have been grappling with these challenges for a decade – and some have succeeded by prioritising emerging economies and ensuring that they respond quickly and directly to changes in these fast-moving markets.

For example, Diageo, the UK-based drinks group, last month raised its medium-term growth targets because weakness in Europe has been offset by rising emerging markets sales. Reporting results for the year to June, Diageo saw sales of Johnnie Walker whisky rise 20 per cent in Brazil, for example.

Philips, the Dutch electronics maker, is boosting its investment in healthcare in Indonesia and other emerging Asian economies – spending money despite a sluggish performance for the group as a whole this year.

Emerging market companies also face challenges, particularly as they move from their home countries into the developed world. They may benefit from rapid domestic growth and, often, accessible finance, but may lack management skills.

Mr Bürkner says: "It's not easy for emerging market companies when they come to Europe or North America or Japan. Coming from a market that's growing at 30 or 40 per cent a year, it's difficult to adjust."

Hans-Paul Bürkner of BCG warns of dangers for developed world groups

Corporate globalisation is punctuated by headline-making deals, and these have not been in short supply this year, despite the economic uncertainty. For example, Nestlé, the Swiss foods group, this summer agreed to pay $1.7bn for control of Chinese sweets maker Hsu Fu Chi.

The transactions flow both ways, as emerging market companies buy businesses both in the rich world and in other emerging markets, with the Chinese leading the way: the largest Chinese overseas deal so far this year was state oil group Cnooc paying $2.1bn for Opti, a Canadian oil sand producer.

Rupert Hume-Kendall, chairman for global capital markets at Bank of America Merrill Lynch, the US investment bank, says emerging market companies are certain to see opportunities in the developed world's likely slowdown. "We will surely start to see an uptick in M&A involving Bric industrial groups, as they start to take advantage of undervaluation in western markets."

Emerging market groups are making their presence felt in the ranks of the world's largest companies. In the June 2011 FT 500 list of top corporations by capitalisation, China was in fourth place behind the US, the UK and Japan with 27 companies, not counting the 18 in Hong Kong, which would have put it in second place. By contrast in pre-crisis 2007, China was equal eighth, with eight companies in the top 500 (plus nine from Hong Kong).

Other big emerging market companies are also climbing the rankings, with India putting 14 groups into the 2011 top 500 (up from eight in 2007), Brazil 12 (seven), and Russia 11 (nine).

Size does not necessarily mean quality, in either the developed or emerging world. But emerging market groups are establishing themselves as world leaders in specific sectors. Just five years ago, the top global wireless telecommunications equipment makers were all western. Today, two of the top five are Chinese: Huawei Technologies and ZTE.

Almost whatever happens to the world economy, over the next few years the list of world-beating emerging market companies will surely grow longer.

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