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Tomorrow's Global Business

Part Two: Emerging Economies

Catching up is hard to do

Inside A nimble cohort of multinational companies from the developing world is gaining ground

SUPPORTED BY
PAUL HASTINGS

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Companies from developing countries are winning market share, writes *James Kynge*

Challengers gain ground despite slowdown

New frontiers: employees of Jollibee Foods in Quezon City, the Philippines
Veejay Villafranca/Bloomberg

Catching up can be hard to do. But while many emerging market economies have hit the skids in the past couple of years, an aggressive cohort of multinational companies from developing countries has continued to rise steadily.

Emerging market companies are using a medley of strengths — including significant cost advantages, a deeper understanding of regional markets and robust relationships with stakeholders, governments and customers — to grow by winning market share from established US and European multinationals.

BCG, a management consultancy, estimates that the number of companies in Asia with more than $1bn in annual revenues jumped sixfold between 2003 and 2013 to a total of 1,015. Many of these companies are emerging multinationals or have ambitions to expand overseas — and almost all of them compete with established multinationals in their home markets. In Latin America, Africa and the Middle East the pace of corporate growth is slower but still impressive, BCG data show. There were about 700 corporations in these regions with annual revenues in excess of $1bn in 2013, double the number seen a decade earlier.

The recent slowdown in headline GDP growth in several emerging markets — notably recession-hit Russia, Brazil, and South Africa — has affected the growth rates of many corporate challengers from the developing world, says Christoph Nettesheim, senior partner at BCG in Singapore. "Nevertheless, I would say that emerging market companies are still winning market share from multinationals overall, despite the slowdown that we have seen in the last couple of years," Mr Nettesheim says.

In addition, longer term structural trends may be helpful to emerging multinationals. The urban population of developing countries is set to grow by 600m by 2020, a year by which some 6.4bn people out of a global population of 7.5bn are expected to live in emerging economies.

In this report, FT correspondents in Asia, Latin America and Europe profile companies that are making regional or global waves, illustrating shifts in the competitive landscape whether in vehicles, renewable energy, construction, luxury goods or food and drink.

Chinese companies loom large across several sectors. In some cases, such as the expansion of Chinese automakers into the Brazilian market, an internationalising verve is represented by mostly private companies that have survived a cauldron of competition at home and are now attempting to build their brands in foreign climes.

But Brazil also shows how foreign headwinds can stunt emerging ambitions. The arrival of these Chinese companies in the world's fourth-largest car market preceded a meltdown in Latin America's biggest economy by just a few years, forcing the automakers to offer deep discounts and hampering nascent sales growth. In spite of the turbulence, some market share has been won, but some plans to localise production in Brazil have been put on hold because of modest sales volumes (see page 8).

In other sectors, the power of the Chinese state reinforces overseas forays. Infrastructure construction companies and construction equipment companies have been riding on the coattails of finance provided by two huge state-owned development or "policy" banks — the China Development Bank and the Export-Import Bank of China. These now lend almost as much as the six western-backed multilateral development institutions put together.

At the end of 2014, the two Chinese state-owned development banks had outstanding loans to overseas

borrowers amounting to an estimated $684bn, just short of the $700bn owed to the World Bank, Asian Development Bank, Inter-American Development Bank, African Development Bank, European Investment Bank and the European Bank for Reconstruction and Development, according to a study by Boston University and the Chinese Academy of Social Sciences.

Most of the Chinese development finance is for infrastructure projects, preparing the ground for large home-grown companies to win construction contracts.

These contractors, in turn, tend to prefer Chinese construction-equipment companies, such as Sany and Zoomlion, as suppliers.

The financial firepower of Chinese development institutions is unlikely to dissipate as Beijing rolls out its "One Belt, One Road" initiative, a grand design to build infrastructure in more than 60 countries between China and Europe requiring an estimated investment of about $900bn over the next decade.

But China is by no means the only springboard for emerging multinationals. Jollibee Foods, the Philippine owner of fast-food brands worldwide, shows that a successful multinational can emerge from almost anywhere in the developing world, given a strong home base and judicious internationalisation strategy.

> 'The number of Asian companies with more than $1bn in annual revenues jumped sixfold between 2003 and 2013'

Not only has Jollibee built up a chain of noodle restaurants in China under the Yonghe Dawang brand, it has taken on the US burger market with the recent acquisition of a 40 per cent stake in Smashburger, which is contributing to its healthy growth in the North American market.

The experience of Indian business consultancy multinationals such as Tata Consultancy Services, Infosys and Wipro, however, shows that effective international strategies that have worked in the past may need updating (see page 10).

Clients who once had healthy appetites for outsourcing are now automating these processes in-house, putting pressure on the Indian companies to offer innovative and better value-added services that cannot be accomplished by that mass hiring of low-paid Indian graduates.

As a result, and to stay relevant to clients in a changing world, these former trailblazers for fast-growing emerging multinationals more than a decade ago, must rethink their strategies to offer more creative products and services.

Food brands hunt for their next meal

Consumers

Companies from developing nations seek prestige names to swallow, reports *Lucinda Elliot*

Grupo Bimbo of Mexico, Latin America's second-largest food company in terms of revenue, is one of a club of emerging market food companies that are diversifying into developed markets in search of upmarket brands to swallow.

Bringing in some $13.7bn in revenue (about 219bn pesos) from sales of sliced bread and carb-fuelled treats in 2015, Grupo Bimbo is a sizeable presence even compared to its more established Anglo-Saxon peers, such as Premier Foods in the UK and US-based General Mills.

In fact, the Mexican baker's revenues are 12 times those of Premier and General Mills — at $1.1bn and $1.2bn respectively in 2015.

Food companies tend to be the fastest-growing of the corporate giants in emerging markets and Grupo Bimbo has plenty of international counterparts. Brasil Foods (BRF) and JBS of Brazil are conglomerates whose main business is processed meat, with BRF specialising in halal-certified cuts. Thailand's Charoen Pokphand focuses on fish and poultry. Indofood of Indonesia is famed for its instant noodles, while Turkey's Yildiz Holding owns McVitie's biscuits, Godiva chocolates and Jacob's crackers.

These five food companies — four of them listed, while the privately-held Yildiz controls publicly traded companies — between them generated about $79bn in annual revenues during 2015, four times more than US heavyweight Kraft Heinz (with $18.3bn).

Their competitive advantage is the low cost of production at home combined with an extensive distribution network. But they have compounded these benefits by snapping up brands abroad. Back in 1945, Grupo Bimbo's baked goods were delivered to corner shops in Mexico City by five trucks. In 2015, the group serviced 2m points of sale across 22 countries.

Cheaper lines of credit available to emerging markets corporates over the past decade have facilitated this voracious spending spree.

Grupo Bimbo has added 40 brands to its portfolio in the past 10 years, while BRF has acquired 13 additional businesses in the past two. The average interest rate on cash borrowed to secure Grupo Bimbo's acquisitions, 4.4 per cent, is historically low.

"Bimbo has a very good record of balancing their level of debt, gradually paying off their loans before borrowing to buy something new," says Rogelio González, part of the Mexico corporate ratings team at Fitch, the rating agency.

However, these companies are not immune to rising levels of debt in emerging markets and the falling price of commodities.

In Brazil, for example, record-high corn prices in 2016 are forcing poultry processors to close plants and making pork producers slaughter animals they cannot afford to feed. BRF, the world's largest poultry exporter, and beef exporter JBS raised local prices for the second time this year to try to contain feed costs.

"The price of drumsticks in the supermarket is 5 reals [$1.40] a kilogramme: that barely pays for water to produce the meat," Mario Lanznaster, president of Aurora Alimentos, Brazil's third-largest pork and poultry processor, told local press in June.

What sets Grupo Bimbo apart and maintains its investment grade

40
Brands Grupo Bimbo has acquired in past 10 years

13
Brands Brasil Foods has acquired in the past two years

status, according to Filipe Alves da Silva, senior Latam adviser at Indosuez, a Switzerland-based wealth manager, is that 53 per cent of its total revenues derive from its North American operations. "They sell bread in dollars and buy ingredients in dollars . . . so their growth margins have been remarkably stable," he says.

Grupo Bimbo runs 89 production plants north of the US border. Recent additions to the group's portfolio include Canada Bread and Sara Lee's North American bakery business. Should the deal go through, in the second half of 2016, Panrico in Spain and Portugal will be a further acquisition.

Thanks to diversification, only 35 per cent of Grupo Bimbo's total revenue comes from Mexico, where the currency has fallen about 6.5 per cent against the dollar since the start of the year, making the Mexican peso the worst performing emerging market currency against the dollar in 2016. Revenues at Grupo Bimbo in the first quarter of 2016 rose 13.2 per cent over the same period last year to 56.64bn pesos, above market expectations.

For Yildiz, buoyant sales from its confectionery segment (of about $4.5bn last year) have led to plans to consolidate its confectionery operations into a new UK-based company to be named Pladis, by 2020.

Local chains take on coffee giants

Retail Southeast Asia's caffeine hit could be bad news for larger groups, writes *Gavin Bowring*

Cafe culture: customers at the Jek Piek coffee shop in Hua Hin, Thailand — Leisa Tyler/LightRocket/Getty Images

Not long after Starbucks made its first foray into Ho Chi Minh City in 2013, a local coffee chain called Phuc Long presented a direct challenge to the international brand.

Starbucks set up shop on a main intersection of Ly Tu Trong street in the city's District 1. Phuc Long's store opened a few paces away. Its logo was similarly green and white, its interiors were comparably pristine and modern and it offered its customers a considerable discount on the price of a Starbucks cappuccino. Since then, the Vietnamese chain has sought to attract other would-be Starbucks' clients, opening in large office buildings and shopping centres across the city.

The incumbent does not seem worried. "While the food and beverage space has become very competitive in Vietnam, Starbucks has a total of 20 stores across Ho Chi Minh City and Hanoi that are doing well," says Alain Cany, country chairman for Hong Kong-based Jardine Matheson, the owner of the Starbucks franchise. "We plan to have 30 nationwide by the end of the year."

Despite competition from local chains, Starbucks is perceived as a premium brand among Vietnam's upper-middle classes. While Ho Chi Minh's café scene is already one of Asia's most diverse, with an abundance of independent cafés and domestic chains serving sophisticated varieties of fresh roasted coffees, there is potential for more growth.

A quarterly survey by FT Confidential Research of 1,000 consumers in each of the five biggest economies in the Association of Southeast Asian Nations (excluding Singapore) in 2015 found that Vietnam was the only country where Starbucks was not ranked as the most frequently visited chain thanks to prevalence of homegrown favourites Trung Nguyên and Highlands Coffee. FTCR gauges popular sentiment towards macroeconomic and political trends.

While the regional dominance of Starbucks and other international coffee chains has been well established, a surge in the establishment of independent cafés across Southeast Asia's capital cities presents a long-term challenge to the bigger and better-known brands.

Jakarta, Indonesia's capital, is a notable example, where per capita coffee consumption is growing at about 5 per cent annually, although this remains below many countries in Asean and East Asia according to the London-based International Coffee Organization.

Indonesian chains such as Coffee Toffee, Ngopi Doeloe and Anomali Coffee are multiplying, and the independent café and organic coffee concept has also developed strong roots. Similar trends are being seen in Kuala Lumpur, Manila, and Bangkok, according to FT Confidential surveys.

Independent chains are also successfully expanding in Asean's frontier markets, including Dao Coffee Shop in Laos, Brown Coffee in Cambodia, and Coffee Circles and Espressonite in Yangon, Myanmar.

While the size of the urban middle classes in these countries remains comparatively small, Starbucks, Costa Coffee, and The Coffee Bean & Tea Leaf have all made recent initial forays into Phnom Penh, while regional chains such as Thailand's Black Canyon are expanding in both Cambodia and Myanmar.

Southeast Asia's most visited coffee chains

Quarterly survey of 1,000 consumers in each country* (Q4, 2015)

Indonesia	
Starbucks	32%
J.CO Donuts & Coffee	30%
Dunkin' Donuts	13%
The Coffee Bean	10%
Kopitiam	10%
Other	15%
Does not regularly visit	22%

Malaysia	
Starbucks	38%
Seattle's Best Coffee	20%
McCafe (McDonald's)	19%
The Coffee Bean	17%
Dunkin' Donuts	4%
Other	9%
Does not regularly visit	30%

Philippines	
Starbucks	45%
Dunkin' Donuts	17%
McCafe (McDonald's)	14%
The Coffee Bean	11%
Bo's Coffee	10%
Other	5%
Does not regularly visit	25%

Thailand	
Starbucks	32%
McCafe (McDonald's)	11%
Coffee World	7%
The Coffee Bean	4%
Dunkin' Donuts	4%
Other	25%
Does not regularly visit	37%

Vietnam	
Trung Nguyen	49%
Highlands Coffee	26%
The Coffee Bean	7%
Starbucks	6%
McCafe (McDonald's)	3%
Other	14%
Does not regularly visit	22%

Source: FT Confidential Research * Respondents may choose more than one option

Philippines Fast food flourishes

Indonesia and Vietnam hold the greatest long-term potential for growth for many consumer industries targeting Southeast Asia thanks to favourable demographics and high per-capita consumption levels.

But the Philippines is still the region's most dynamic growth market for the fast-food sector, partly because of the established dominance of local chains owned by Jollibee Foods and smaller groups like Max's Restaurant. No other states in the Association of Southeast Asian Nations have homegrown fast-food chains of similar scale.

Fast-food culture has taken hold in the Philippines because of rapid urbanisation, cultural affinities with the US and the rise in many cities of outsourcing industries where staff work all night.

But there are indications that the scope for domestic growth for Jollibee has begun to plateau. FT Confidential Research, an analysis company in the FT group, conducted surveys of 1,000 consumers between 2013-15 that found the preference for Jollibee had declined slightly, albeit from a high base.

There are signs of growing competition, too, from the likes of McDonald's, whose franchise holder, Golden Arches Development, is planning 30-40 new restaurants this year, bringing the nationwide total to more than 500. McDonald's has been successful in tapping parts of the sector at Jollibee's expense, notably the breakfast market.

Also there is new competition, according to Felipe Salvosa, Philippines researcher at FT Confidential. First, the push by domestic food and beverage groups such as Bistro Group, which is launching casual dining outlets across Manila, including local franchises for American chains TGI Fridays and, potentially, Texas Roadhouse and Denny's. Then there is the growing popularity of restaurants such as Vikings Luxury Buffet, an increasingly ubiquitous feature of Filipino shopping centres that offer package deals on food and alcohol. Convenience chains such as FamilyMart, Lawson, Ministop and 7-Eleven have also expanded into cooked food. These chains now compete directly for the custom of the growing ranks of night-owl workers.

In response, Jollibee has sought to expand overseas, targeting the Filipino diaspora. It has paid $100m for a 40 per cent stake in US-based Smashburger. Jollibee has established footholds in the US, China, and other parts of Asia and the Middle East.
GB

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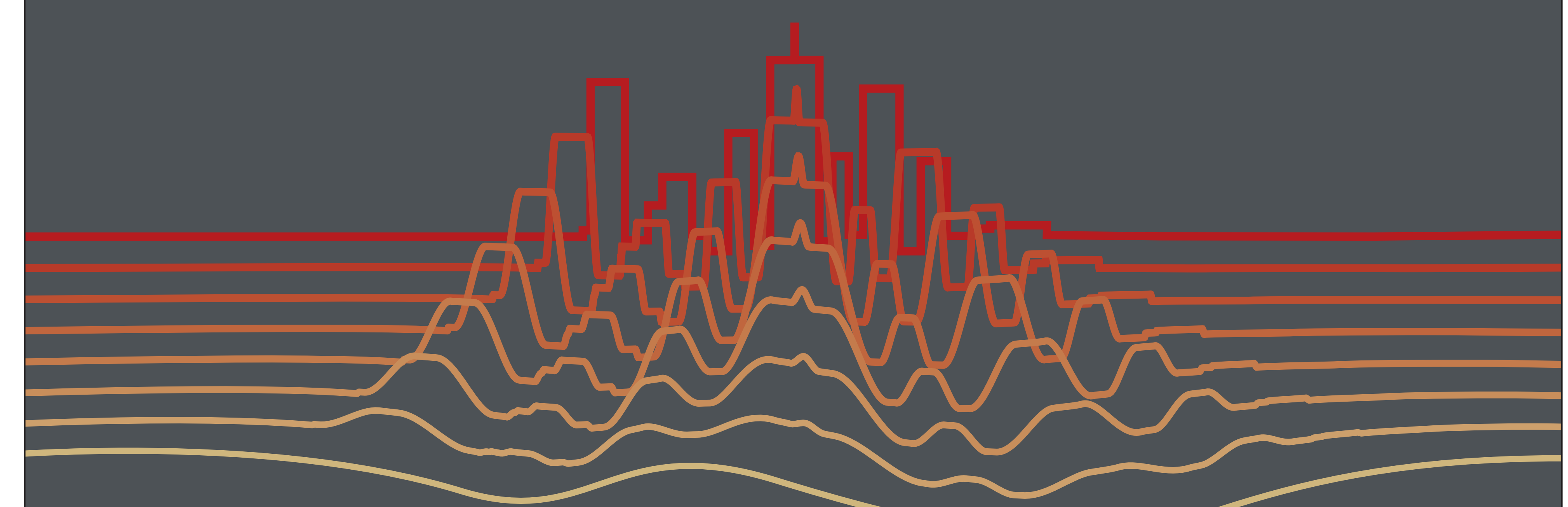

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Wind farms power up in Xinjiang

Profile Goldwind
Turbine maker faces a saturated market.
By *Christian Shepherd* and *Lucy Hornby*

Dabancheng wind farm's location in a natural wind tunnel in China's Xinjiang province makes it one of the best situated in the world. It is also a showcase for the turbine manufacturer Goldwind, which became the largest supplier in the world after installing so much turbine capacity in 2015 that it overtook Vestas of Denmark.

Wu Gang, Goldwind's founder and chairman, sweeps his hands gracefully to show how the wind courses through the narrow corridor between the Junggar basin and the Taklamakan desert, where Marco Polo wrote of hearing the voice of a genie calling from the whirlwinds.

Today more than 300 towers rise from the dusty desert floor, churned by that constant wind. Dabancheng is an engineer's heaven, studded with prototypes of nearly every generation of turbine technology, both Chinese-made and foreign. "I joke when I'm in Europe — I tell young people who want to know the history of European windpower technology to come to Dabancheng," Mr Wu says.

Whether or not those young enthusiasts make the trip, Goldwind is coming to them. Last year, China accounted for half the world's wind power installation. It now has a third of the world's total wind power generation capacity.

Goldwind is not the only company on the rise: five of the top 10 wind turbine manufacturers are Chinese according to FTI Consulting, a business advisory firm. Many cut their teeth in a protected market, after local rules effectively locked many foreign turbine manufacturers out of the Chinese market. Saturation in the domestic market now means that Goldwind and its fellow Chinese producers are looking to compete overseas. Pressure from Chinese exports is already fuelling a round of consolidation among established European players. Siemens of Germany, for example, is in talks to buy Spanish turbine maker Gamesa.

At home in Xinjiang province, Goldwind's home market, wind power capacity doubled in 2015, reaching 26 per cent of the region's total power generation capacity. However, a bottleneck in transmission lines out of the region means that almost half its installed wind power went unused in the first quarter of 2016.

"Xinjiang is pretty much maxed out in terms of installed wind capacity," says Sebastian Meyer, research director for renewable energy consultancy Azure International.

Turning circles: wind power production in Xinjiang province, western China
Feng Li/Getty Images

To maintain its position as the world's largest wind turbine supplier Goldwind will have to increase sales in other Chinese provinces, notorious for their local protectionism, where it will also have to compete directly with its domestic rivals Guodian, Ming Yang and CSIC. Meanwhile curtailment — the amount of installed wind power capacity not being used by the grid — is rising, as provinces race to meet Beijing's renewable energy targets.

Mr Wu remembers the 1980s as an era of international wind power co-operation. He became fascinated by the potential for wind power while working on an experimental project in Xinjiang funded by the Dutch government. That experimental farm is now Dabancheng.

He is quick to point out that being big in China does not necessarily translate into strength overseas. "We are number one in the world in terms of market share, but we are well aware that we still lag behind multinationals like Siemens, GE and Vestas," he says.

"Take Vestas. Their products are sold in more than 30 countries. Ours are only sold in 17 countries. This is a gap. As a Chinese company, we lag far behind our foreign competitors in internationalisation."

But Goldwind is catching up. It hires local sales and installation teams overseas and also finances wind farms to sell to power producers after they are up and running.

FT **Video** learn more about the future of wind power in Xinjiang province ft.com/goldwind

Listed in Hong Kong and Shenzhen, the company has powerful backers, including state-owned dam builder China Three Gorges Corp and insurer Anbang Group, which has made a string of aggressive acquisitions over the past year. Most of Goldwind's technology is licensed from Germany's Vensys, although Goldwind has made alterations to the original designs.

Mr Wu says Goldwind's real competitor is not other wind power producers but coal. Currently, wind power generation in the north of China (home to strong and regular winds) costs slightly less than thermal power generation in the south, where coal is more expensive and emissions standards are stricter. However, coal is cheapest in Xinjiang and northern China, leaving wind power at a disadvantage in its most favourable region.

Further technological improvements and increased economies of scale could help to narrow the gap, Mr Wu believes. "Our competitors are not the foreign companies," he says, citing UN goals that non-fossil energy should represent 85 per cent of primary energy consumption globally by 2050. "Thermal power is competing with us. The competition between wind and fossil energy is far greater than the competition within the wind industry."

Additional reporting by Luna Lin

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Manufacturing Confidence is being shaken by an economy in crisis, reports *Joe Leahy*

Chinese carmakers stall as Brazil hits the brake

Brazil plant: Chery is the only large Chinese carmaker to have opened a factory in Brazil

The Brazilian website of Chinese automaker Lifan Motors advertises its compact sedan Lifan 530 with a price cut of about 14 per cent.

Lifan is a newcomer in a market dominated by four US and European manufacturers — Fiat, Volkswagen, General Motors and Ford. It entered Brazil in 2010, optimistic that its cost-effective offerings would do well against its pricier competitors. But like other Chinese carmakers Chery, JAC Motors and Geely, Lifan arrived in time to witness a crisis, as Brazil — the world's fourth-largest car market — began a meltdown that started in 2013 and has since gained speed.

"We would like, today, to be selling about 500 units per month, but we are in the range of 300 to 350," says Jair Leite de Oliveira, director of sales at Lifan. "We would certainly be [meeting our target] if it wasn't for the rapid decline in the market."

Political uncertainty because of the impeachment process against Dilma Rousseff, who has been suspended from her role as the nation's president during the hearings, combined with what analysts say was economic mismanagement by her government, have hurt Brazil's growth story. Lifan's situation reflects that of an automotive industry which is at the centre of the biggest economic slowdown for more than a century in Latin America's largest economy.

In early June, the national automotive producers association, Anfavea, predicted a 19 per cent year-on-year fall in sales of passenger and commercial vehicles to 2.08m units, taking the market back to 2006 levels. That fall would compound a 27 per cent decline in sales in 2015 compared with the year before.

"The level of consumer and investor confidence is still being shaken by the political and economic juncture," says Antonio Megale, the president of Anfavea. "There are expectations that there might be structural changes [in economic policy] and that is leading people to postpone their purchases."

The slowdown has frustrated the ambitions of Lifan and its Chinese counterparts to expand outside their Asian bases. Latin America's largest economy, and its rising lower middle class, had seemed the perfect target for new producers. This new Brazilian consumer was seen as aspirational, yet acutely conscious of price and value and open to trying new products.

Lifan had hoped to exploit these tendencies by introducing some of its best models to Brazil, such as the X60 sport utility vehicle, which the company says has sold well despite the crisis. "This has been the best-selling Chinese car in Brazil for two years," says Mr Leite de Oliveira.

According to the vehicle importers association, Abeifa, Lifan sold 5,006 cars in Brazil last year, just behind JAC Motors with 5,026. Chery sold 3,948 and Geely 651. Of its total, Lifan sold 3,082 X60s — outstripping by far any other model of Chinese car in the market.

Despite this, all three companies have been suffering this year. Chery's sales are down nearly 52 per cent in April compared with a year earlier, Lifan's have fallen nearly 38 per cent and JAC Motors by more than 34 per cent.

> 'We would certainly be [meeting our target] if it wasn't for the rapid decline in the market'

During the boom of 2000-10, when Brazil overtook Germany as the world's fourth-largest car market and looked set to overtake third-ranked Japan, all four Chinese carmakers announced they were considering establishing factories in the country.

Brazil heavily taxes imported cars, providing an incentive for manufacturers who want to sell large numbers to build factories in the country. In the end, Chery was the only large Chinese producer to open a plant, inaugurating its facility in Jacareí, São Paulo last year.

As of last December, the plant was operating at only 10 per cent of its 50,000-unit capacity.

Chery says it hopes to begin exporting an initial 1,000 cars from the São Paulo plant, starting with exports to Argentina this year. "The past year has not been easy," Luis Curi, vice-president of Chery Brasil, said in a statement to the press.

Also caught out by the crisis was JAC Motors, which in 2012 had laid the foundation stone for a new plant in Camaçari, in the northeastern state of Bahia, but has yet to build it.

Brazil's ministry of development, industry and foreign trade last month said it would begin seeking the repayment of tax breaks awarded to JAC Motors for setting up local production, alleging the carmaker had not fulfilled its promises to build the factory. JAC Motors responded that the project was still under way, with the plant due to be inaugurated early next year.

Lifan had also contemplated local production, but was using a plant in Uruguay — part of the Mercosur trade bloc of countries that also includes Brazil, Argentina and Venezuela. This enabled Lifan to produce vehicles in a tax-efficient manner within the region, while it waited to see how the Brazil market evolved.

"To have an industrial manufacturing operation in Brazil you have to have a certain minimum volume," says Sidney Levy, an executive at Lifan in Brazil. "Lifan does not have the scale to justify manufacturing in Brazil, but we are on the way there."

Instead, he says, the company has been working on customer service to try to lift its brand image for when the market begins to recover. Given the Chinese automakers' lack of brand recognition, the strategy was to market Lifan through a limited number of car dealerships, which would recommend the brand to customers. The company was also focused on post-sales service.

Lifan, along with Chery, was among the nine automotive manufacturers ranked best on Reclameaqui.com.br, a site for consumer complaints. The so-called "big four" US and European carmakers were listed as among the worst. Mr Leite de Oliveira says recovery in the market could be slow. "We are starting to perceive a change in attitude, with more people visiting dealerships," he says. "But actual growth, I think, will only be towards the end of the year or in 2017."

Asian brands go west chasing holiday shoppers

Luxury

The affluent combine European and US breaks with spending sprees, says *Jennifer Thompson*

When items from the collections of Chinese fine jewellery brand Qeelin started to appear in US shops last November, it was not just a case of a young company making a well-timed entry for the Christmas shopping season. The move into department stores such as Neiman Marcus, as well as smaller independent retailers, is a sign of the growing ambitions of Asian luxury companies to push beyond their home market.

It was once the case that the global luxury industry moved in only one direction: west to east. The most distinguished European and US brands would buy up prime retail sites in Asian megacities, selling old-world prestige to a new generation of affluent spenders. For Asian buyers, the pleasure of owning a pair of shoes, a handbag or a silk scarf was enhanced by the idea that some of the makers were more than a century old.

In recent years, however, a rise in outbound Chinese tourism has prompted companies to expand beyond the domestic market. As Chinese customers have started to combine holidays abroad with shopping expeditions, Chinese brands have begun to follow the money.

"There's a natural attempt to capture [customers] as they travel abroad," says Luca Solca, head of luxury goods at broker Exane BNP Paribas. The luxury research institute Hurun reports that France — home of labels such as Chanel and Louis Vuitton — has emerged as the top holiday destination for wealthy Chinese millennials. Other popular destinations include London, San Francisco and New York. Closer to home, Japan and South Korea are also favoured.

The move to expand into these locations is being led by the fine jewellery sector. Chow Tai Fook, the biggest jeweller in the world by market capitalisation, says Chinese outbound tourism was the main motivation for its push into south-east Asian countries, such as South Korea and Taiwan. The company, one of only two listed arms of Hong Kong's Cheng family, had 2,319 stores in China, Hong Kong, Macau, Taiwan, Singapore, Malaysia, South Korea and the US at the end of March.

More than 2,000 of the stores are in mainland China, but those overseas, particularly in east Asia, are increasingly important. While the group prefers to run "large-scale advertising and marketing campaigns [to] deliver a consistent brand image", there are occasional regional tweaks. In April, for example, members of Taiwanese boyband SpeXial were enlisted to help drum up publicity for a store opening in the city of Taichung, Taiwan.

Tourist trends are also important to Hong Kong-based jeweller Tse Sui Luen. Over three quarters of its 312 stores are in mainland China and it has three in Malaysia after expansion in the mid-1990s.

"Malaysia is one of the top tourist destinations among Asean [Association of Southeast Asian Nations] members, making the country an excellent spot to attract visitors from neighbouring countries and make them aware of the Tse Sui Luen brand," says the brand's deputy chairman and chief financial officer, Estella Ng.

Some Asian brands are expanding after having been bought by larger groups. Swiss luxury goods group Richemont, owner of jewellers Cartier, Van Cleef & Arpels and Piaget, took this approach with the acquisition in 1998 of Shanghai Tang.

The fashion group, founded by Hong Kong businessman David Tang, has 26 stores including outlets in London and Miami.

More recent examples are Qeelin and Shang Xia, a luxury label now operated by French luxury group Hermès. Qeelin, named after an auspicious mythical Chinese beast, opened a store in Paris soon after its official launch in Hong Kong in 2004. Acquired by French luxury conglomerate Kering in early 2013, the Chinese jewellery brand is pushing into the US, adding to its stores in Hong Kong, Macau and mainland China.

Qeelin began selling its products in the US partly to meet demand from the "local Chinese community and Chinese travellers", according to Christophe Artaux, Qeelin's chief executive. "The US remains a strong market when it comes to luxury," he says. "The Chinese diaspora is very strong in North America, especially on the west coast."

The brand is also targeting a broader audience in the US, encouraged by the performance of its Paris flagship store, where about 60 per cent of customers are non-Asians. Having opened stores in Manila and Seoul, it is also eyeing Taiwan and Australia.

"These [brands' overseas expansions] are all really experiments," says Mr Solca. Jeweller Luk Fook, for example, has more than 1,400 stores but only a handful are outside Asia.

That Chow Tai Fook — with a market capitalisation of around $7bn — has a US presence is thanks to its acquisition of American jewellery company Hearts on Fire in 2014. While Hearts on Fire's products are sold in 183 retail outlets across the US, it only has two branded stores there.

Building a brand overseas will take time, says Erwan Rambourg, global co-head of consumer and retail research at HSBC. This is particularly true when it comes to establishing iconic designs that are as recognisable around the world as a Chanel handbag, for instance.

"Storytelling is easy if you've been around a century or more," Mr Rambourg says. "You don't build luxury brands overnight."

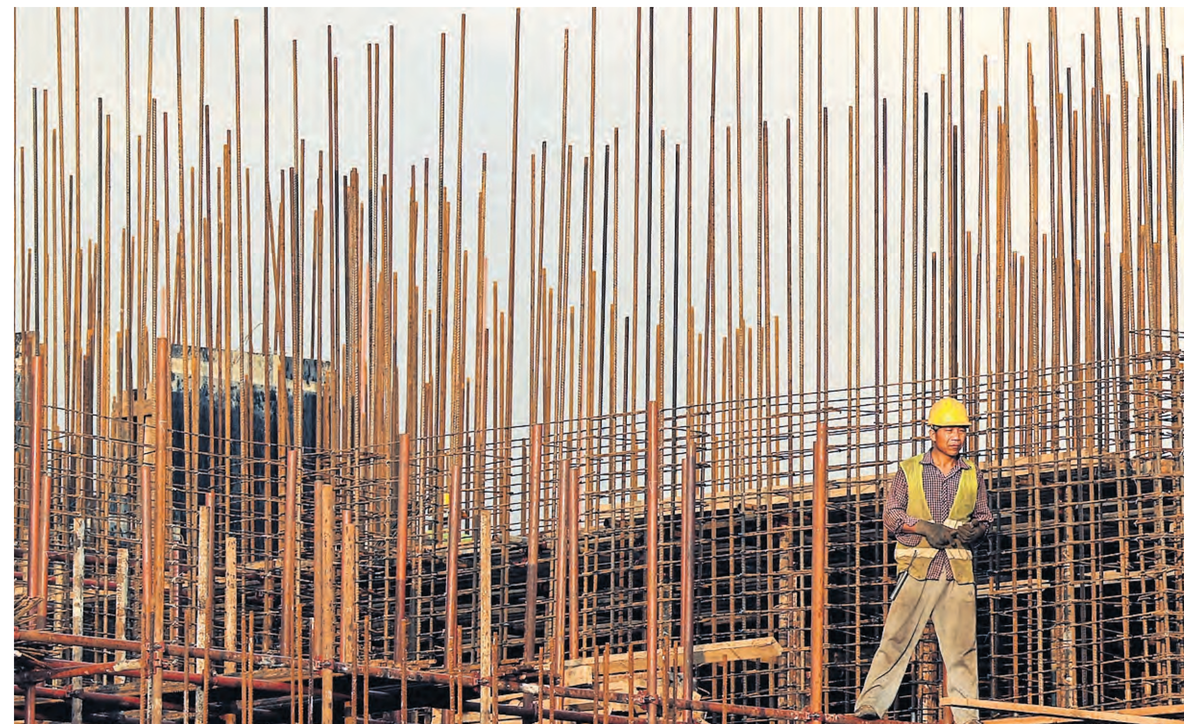
Profile Shang Xia

Having started life as a horse harness business in Paris in 1837, Hermès now presents itself as a champion of traditional French craftsmanship and high-quality manufacturing. That message is echoed at Shang Xia, the Chinese luxury brand that Hermès opened in 2008 with Jiang Qiong Er, a Chinese designer (pictured) who studied in France for several years.

Its clothing, jewellery and homeware are inspired by traditional Chinese art and crafts and their techniques. Items are displayed sparingly throughout stores as if they were pieces of art. Its boutiques in Shanghai, Beijing and Paris could be mistaken for small galleries or museums.

The Paris outlet opened in 2013 and Shang Xia is looking for new openings "in the near future", the company says. **JT**

Construction companies stage second act overseas


Back to work: the Colombo Port City Project was temporarily suspended in 2015 — Buddhika Weerasinghe/Getty Images

Infrastructure Low cost base will give them a competitive advantage, says *James Kynge*

Over the past two decades, China's construction companies have built more infrastructure more quickly than ever before. Now, spurred by the world's most powerful development finance institutions, they are looking overseas to stage their second act.

The China Communications Construction Company (CCCC), which ranked 151st in the 2016 Fortune Global 2000 of leading companies, typifies the global ambitions that are animating the big Chinese builders.

"Our ultimate goal is to have 50 per cent of our revenue from overseas," Fu Junyuan, CCCC's chief financial officer, told reporters this year.

Although he did not give a timescale or say what proportion of current business derives from foreign shores, he did say that the company's international order book was much more vibrant than its domestic counterpart.

Africa was a particular bright spot for CCCC, which employs 112,000 people in 130 countries. At least three projects in Kenya were signed in the first quarter of this year, worth a total Rmb5.4bn ($820m), Mr Fu said. Permission to resume a controversial $1.4bn port city development in Sri Lanka was also obtained in the first quarter of 2016.

This same urge to expand abroad is driving the China Railway Group's attempts ramp up its international business to compensate for softening domestic demand.

The China Railway Group plans to boost the share of its revenue that comes from overseas to at least 10 per cent by the end of 2020, up from about 5 per cent last year, according to Li Changjin, chairman of the construction group. The company is working on 405 construction projects in 68 countries. These include the 427km China-Laos railway and the 329km Ethiopian national railway. "The current representation of overseas business is low, but that also means a huge room for improvement," Mr Li told reporters recently. The 4,400km-long South American Twin Ocean railway project, linking the coasts of Brazil and Peru, ranks as the most ambitious plan so far.

The scale of such ambitions might appear absurd were it not for the backing of the world's most powerful development finance institutions, which often suggest Chinese contractors to carry out the projects to which they lend.

Two Chinese policy banks — the China Development Bank and the Export-Import Bank of China — had outstanding loans to overseas borrowers amounting to an estimated $684bn at the end of 2014, just short of the $700bn owed to all six of the western-backed development institutions put together, according to a study by Boston University and the Chinese Academy of Social Sciences.

Such largesse is not expected to dissipate as Beijing rolls out its "One Belt, One Road (OBOR)" initiative, a plan to build infrastructure in more than 60 countries between China and Europe, with an estimated investment of about $900bn over the next decade. "There are a lot of additional funds available because the OBOR initiative will accelerate overseas expansion," says Christoph Nettesheim, senior partner at BCG, a consultancy, in Singapore. "You can see this already, the Chinese construction and construction-equipment companies are very active in OBOR-related areas."

Chinese construction-equipment companies such as Sany, Zoomlion and XCMG are also pursuing ambitious international expansion plans, according to a study by the UBS Evidence Lab, which analysed about 15,000 construction equipment dealerships around the world.

The Chinese companies are likely to boost their global market share outside China to about 15 per cent by 2025, up from about 7 per cent currently, according to the analysis.

"We think the Chinese are making moves to expand further into the west and we think they have a very good chance to take market share, if they are fully committed to doing so," says Steven Fisher, UBS analyst.

Mr Fisher says the biggest competitive advantage of Chinese companies was a relatively low cost base that allowed them to offer discounts in the region of 15-40 per cent to equivalent premium brand equipment.

Automation threatens India's IT services model

Technology

The high-headcount low-cost approach has been disrupted, writes *David Keohane*

India's information technology service companies have long held reputations as innovators, but in recent years the ground has begun to shift. The model that allowed them to grow effectively — deploying cheap labour to perform simple IT tasks — is itself being disrupted by advances in technology.

As a result, analysts expect companies such as Tata Consultancy Services (TCS), Infosys and Wipro to move from a strategy based on high headcount and low costs to one reliant on higher employee costs and flexible services.

"Their financial model is under stress. It's that simple. They can't just keep hiring freshers [out of college] to keep costs down," says Pankaj Kapoor of JM Financial Institutional Securities, a Mumbai-based brokerage. "Clients know data centres can be operated by one person now, so why do Indian companies need so many?"

As their clients move towards automation, artificial intelligence and cloud computing, India's IT companies are being forced to redefine their pitches. "Our context has fundamentally and irreversibly changed and we cannot go back to the approaches and methods of the past. The world as we know it has been transformed," wrote Vishal Sikka, chief executive of Infosys, in its 2015-16 annual report.

Wipro's chief executive Abidali Neemuchwala shared similar concerns with the Indian newspaper Business Standard in April.

"It's very simple. The number of people required in the lower end of the pyramid is going down. Robots and bots are taking over. You will see a slowdown in hiring across the industry."

Infosys, Wipro and their rivals are now revising their old service model: to provide a fixed IT service for a fixed cost.

"We have started seeing models where we are jointly investing with the client, putting skin in the game," says Pravin Rao, chief operating officer of Infosys. "I go to the client saying: 'We believe that by applying these technologies, leveraging them, we can bring you benefit. You can pay me based on the number of transactions, or based on the percentage of revenue I drive, or the kind of cost savings I do.' It's probably a small percentage of the business right now, but over the next five years it will become much larger."

UBS's Indian equities team thinks revenue growth in the industry could fall to 8-6 per cent in 2020 from 13 per cent in 2015. UBS analysts say the below-consensus estimates are based less on cyclically weak markets and more on increasing pressure on "legacy services", which they say make up 85-90 per cent of total revenue, and "shrinking contract size" that may weaken incremental revenue growth.

They argue, too, that business model disruption has not been priced in and that as the "revenue disruption" of digital technologies becomes more visible the industry will suffer a structural decline.

Mr Rao admits the value of deals is falling: "Earlier, anything from $300m-$500m over five to 10 years was possible, but today the large deal size is typically $100m-$150m for three to five years.

Those deals will also come in chunks based on performance for defined tasks, said Mr Rao. "You will do business in incremental $5m-$10m chunks rather than in a big-bang way."

But, he argues, this does not necessarily equate to lower growth. "Client spend on IT is the same or probably increasing 1 or 2 per cent a year. As long as we have the capability and competency, there is an opportunity for us to capture a larger share of the pie and continue to grow."

Making waves

The companies below are all featured in this report and represent some of the leading emerging market corporations in their industries. Their experiences show that while some are taking the world by storm, others are encountering stiff headwinds as they attempt to break into territory dominated by established multinationals.

Infosys, India
In common with its Indian competitors Tata Consulting Services and Wipro, Infosys is starting to shift its business model away from providing a fixed information technology service at a fixed cost. It is now increasingly investing with the client, putting skin in the game to generate revenues jointly.

Lifan Motors, China
One of a group of Chinese carmakers, including Chery, JAC Motors and Geely, to have entered the Brazilian market in recent years and taken on the so-called 'big four' (Fiat, Volkswagen, General Motors and Ford). The company also makes motorbikes in Thailand, Iran, Turkey and Vietnam.

Jollibee Foods Corp, Philippines
A multinational owner of fast food restaurants headquartered in Pasig, Philippines, Jollibee has more than 3,000 stores worldwide under several brands including Yonghe Dawang and Hong Zhang Yuan in China. Sales in the US have been strong, following store openings in Virginia and Texas.

Chow Tai Fook, Hong Kong/China
Chow Tai Fook is the biggest jeweller in the world by market capitalisation, and has 2,319 stores across China, Hong Kong, Macau, Taiwan, Singapore, Malaysia, South Korea and the US. Outbound Chinese tourists are a big money spinner for the Hong Kong-based company.

Grupo Bimbo, Mexico
The Mexico-based bakery giant Grupo Bimbo has around 129,000 employees, 165 manufacturing plants and 2.5m sales outlets in 22 countries in America, Europe and Asia. A serial acquirer of overseas companies, Bimbo derives more than half of its net sales from outside Mexico.

China Communications Construction Group, China
China's state-led 'One Belt, One Road' initiative to finance and build infrastructure in more than 60 countries helped the state-owned China Communications Construction Corporation – the country's largest infrastructure builder – to post a net profit of Rmb15.8bn ($2.4bn) in 2015.

Goldwind, China
Five of the top 10 wind producers today are Chinese and Goldwind currently sits at the top of the global rankings by production. A protected domestic market helped Chinese wind firms make headway after Beijing blocked European firms from selling to China's wind farms between 2003 and 2009.

Sany, China
The world's biggest producer of concrete mixers and a leader in almost all other types of construction equipment, Sany has been expanding beyond its home market for more than a decade. It took 10 years for Sany to turn a profit in the US, having paid insufficient attention to after-sales service.

Emerging challengers

Most profitable EM companies that make more than an estimated 10% of revenues abroad*

Company Name	Country	Profits, 2015 EBIT $m	Profits, 2015 Growth (%)	Revenues, 2015 $m	Revenues, 2015 Growth (%)
CITIC	China	30,299	9	71,629	2.5
Gazprom	Russia	20,857	11	94,978	8.6
State Grid Corp. of China	China	14,218	-3	315,202	-1.0
Petroliam Nasional Berhad (Petronas)	Malaysia	13,639	-30	61,142	-24.8
Rosneft	Russia	10,681	14	78,787	-6.3
China National Petroleum Corp.	China	9,877	-64	306,895	-26.1
PetroChina	China	9,370	-65	262,562	-24.4
China Petroleum & Chemical	China	8,930	-23	307,071	-28.6
China Huaneng Group	China	8,448	1	40,891	-7.6
China State Construction Engineering	China	8,266	14	133,999	10.1
Saudi Basic Industries	Saudi Arabia	7,813	-22	39,486	-21.6
Petróleo Brasileiro (Petrobras)	Brazil	7,694	-2	95,047	-4.6
America Movil	Mexico	7,488	-11	49,278	5.4
China Huadian	China	7,030	5	30,118	-6.8
Huawei Investment & Holding	China	6,957	23	60,192	37.1
China Resources National Corp.	China	6,659	0	73,228	4.3
China Guodian	China	6,645	-3	29,236	-10.1
Shenhua Group	China	6,583	-39	36,034	-27.2
China Nat. Offshore Oil Corp. (CNOOC)	China	5,947	-59	64,926	-30.3
China Datang	China	5,919	5	25,296	-10.8
Tencent	China	5,578	40	15,682	30.3
Lukoil	Russia	5,392	-1	89,907	4.4
China Southern Power Grid	China	4,297	16	71,434	-0.6
Reliance Industries	India	4,043	10	56,334	-13.6
China Telecom	China	4,031	-7	50,492	2.1
Tata Motors	India	3,887	17	39,385	12.9
China Comms. Construction	China	3,549	12	61,626	10.3
Tata Consultancy Services	India	3,402	-5	14,185	15.7
Sasol	S. Africa	3,199	0	12,513	-8.6
China Railway Construction	China	3,196	10	91,385	1.2
Jardine Matheson	China	2,782	-24	37,007	-7.3
China Railway Group	China	2,704	0	94,891	1.9
JBS	Brazil	2,679	17	47,995	35.2
PTT	Thailand	2,570	-43	57,689	-22.2
Aviation Industry Corp. of China	China	2,487	35	58,165	-0.8
CRRC Corp.	China	2,327	9	36,814	8.9
China United Network Comm. Ltd	China	1,921	-37	42,236	-4.0
China National Pharmaceutical Group	China	1,881	15	42,448	12.9
FEMSA (Fomento Economico Mexicano)	Mexico	1,855	13	17,037	18.3
Koc Holding	Turkey	1,834	152	23,993	1.3
China Aerospace Science and Tech. Corp.	China	1,796	14	27,188	7.1
Power Construction Corp. of China	China	1,761	-13	32,155	11.0
VALE	Brazil	1,689	-67	25,188	-3.1
China National Chemical	China	1,562	36	39,676	1.0
China Aerospace Science and Industry	China	1,502	0	25,260	5.2
Sinopharm Group	China	1,395	17	34,617	13.5
China Energy Engineering Group	China	1,330	24	31,358	11.9
China Metallurgical Group	China	1,280	-3	33,833	0.6
Pegatron	Taiwan	1,228	40	37,566	19.0
SOCAR	Azerbaijan	1,181	12	23,359	-11.2

FT graphic Sources: S&P Capital IQ; FT research * From the top 100 based on revenues, 2015. All financials converted at current exchange rates Photos: Bloomberg; Getty

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