



## THE REASONS OF THE SUCCESS OF ASIAN EMERGING MARKETS



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### **Abstract**

The Asian emerging markets had a consistent growth in the recent years. The reason of this growth and consistency is searched with this study. The growth rate of Japanese market is excluded due to the inconsistency of this market in the last 10 years. The study is prepared as a case study. It is seen that initially successful adoption of technology plays an important role. Then the other factors are effective. The results indicate that the multinational enterprises enjoy a kind of arbitrage. This arbitrage focuses on paying for the factors which are necessary for production and adding the costs of these factors into the product prices at the market where the costs are low and selling the products in the markets where these costs are high. The success of Asian emerging markets are mostly related with this gap. The emerging multinational enterprises' institutional heritage and its own internationalization strategy are likely to create synergy together with the geographic advantages. It is explored that the conditions are also followed by the government and the risk management is adjusted.

**Keywords:** Asian emerging markets, arbitrage, multinational enterprises, internationalization.

## GELİŞEN ASYA PAZARLARININ BAŞARISININ SEBEPLERİ

### **Öz**

Gelişen Asya pazarları geçtiğimiz yıllarda istikrarlı bir büyümeye sahne olmuşlardır. Bu büyüme ve istikrarın nedeni bu çalışma ile araştırıldı. Japon piyasasının büyüme oranı, son 10 yıl içerisinde gösterdiği istikrarsızlık nedeniyle, çalışmanın dışında tutulmuştur. Çalışma, vaka çalışması şeklinde hazırlanmıştır. Öncelikle teknolojileri uyumlaştırmanın önemli bir rolü olduğu görüldü. Sonrasında diğer faktörler etkilidir. Sonuçlar çok uluslu işletmelerin bir tür arbitraj imkanından faydalandığına işaret etmiştir. Bu arbitraj maliyetlerin düşük olduğu piyasalarda üretim için gerekli olan faktörlere ödeme yapmak ve bu faktörlerin maliyetlerini ürün fiyatlarına eklemek ve bu ürünleri mevzubahis maliyetlerin yüksek olduğu piyasalarda satmak esasına dayanmaktadır. Gelişen çok uluslu şirketlerin kurumsal miras ve kendi uluslararasılaşma stratejileri coğrafi avantajlar ile sinerji yaratabilmekte gibi görünmektedir. Koşulların aynı zamanda hükümetler tarafından da takip edildiği ve risk yönetimi düzenlemelerinin de gerçekleştirildiği keşfedilmiştir.

**Anahtar kelimeler:** Gelişen Asya pazarları, arbitraj, çok uluslu şirketler, uluslararasılaşma.

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## I. INTRODUCTION

The growth of Asian markets started at the beginning of 1990s with Japan, this growth has continued with the other countries in the recent 10 years. Most of the Asian frontier markets have turned into emerging markets. The emerging markets of Asia have shown an unexpected success.

The entries to Asian emerging markets continued and the volume of the market kept on expanding. The Asian markets did not stop growing even during the 2008 crisis. The corporations of Asian emerging markets have also shown a consistent graphic. These Asian corporations are internationalizing successfully.

Some Asian emerging multinational enterprises were internationalizing at a younger age and that was usually expected (Brokaw, 1990). The influence of market growth rate plays a great role on internationalizing. On the other hand, the importance of a firm's manufacturing facilities to achieve success in the marketplace has been well reported in the literature (Skinner, 1984). The technology use of the multinational enterprises is also important. The Asian firms are able to adopt new technologies easily. But this is not the only reason of their success. The other reasons will be surveyed with this study.

## II. LITERATURE REVIEW

To improve the concept of emerging markets, the markets of the countries are analysed. With the improvement of the frontier markets, emerging markets appeared (Berger, Pukhuanthong and Yang, 2011). The emerging markets have turned into mature markets or developed markets in time.

The researches on international market integration and diversification mostly seems to be focusing on developed and emerging market asset classes. A research argues that it is possible to get benefit from international diversification on the basis of cross-market correlations (Solnik, 1974). Another study of Solnik indicates that despite increasing informational integration across markets and greater correlation during volatile periods, overall international correlations cannot move higher and relatively remain lower than expected (Odier and Solnik, 1993). Another study, which is about diversification of benefits, indicates that emerging markets have diversification benefits for local investors (Driessen and Laeven, 2007). These studies described the benefits of emerging markets and the impacts of internationalization. Some other studies, which was not able to prove the international diversification benefits, focused on downside risk and correlation of the circumstances (You and Daigler, 2010).

The resulting large saving–investment gap in emerging Asia is one of the most important factors which plays on the growing emerging markets (Cline, 2005). This gap of the emerging markets of Asia has been the focus of recent policy debate on global current account imbalances (Rato, 2006). The debate which is going on is particularly between the US and the rest of the world, especially the Asian emerging markets and the Asian countries with no budget deficit (Summers, 2004). The countries which has emerging markets have a gap which plays a locomotive role on the way of economic improvement.



### **III. ASIAN EMERGING MARKETS**

A study indicates that international expansion paths of Asian emerging multinational enterprises are significantly affected by the geographical regions (Chang, 2011). At first large firms initially dominated the international competitive landscape, but emerging multinational enterprises have also entered the race, owing to the narrowed gap in competitive advantage in international markets (Oviatt and McDougall, 1994). The labor cost and the other costs were lower in Asia. The corporations which operates in other markets with higher costs started to move to Asia. Taking the advantage of this gap was a kind of arbitrage. Because when a product is sold, the labor and the other costs are also sold to the customer together with the profit. The costs are bought from the Asian markets where they are cheaper and sold to the customers of the other markets where these costs are expensive. This is another kind of arbitrage.

The multinational enterprises of Asia have international connections to the other markets. The multinational enterprises began to grow with the connections to the new markets. This growth continued with the growth of the market where these multinational enterprises are located. Asian frontier markets started to turn in to an emerging market with the increasing contribution of the multinational enterprises. The governments of Asian countries started to support industrialization. Tai-pei is the most significant example.

The planned growth of the Asian markets and high infrastructure investments convinced the multinational enterprises about the decisive policy of the government to protect the foreign investors. The entry to Asian markets started to increase and the orders to the existing companies started to increase with the increasing quality. Better infrastructure was providing better quality to the products of the enterprises.

### **IV. BANKING AFTER 1997 CRISIS**

The process of bank consolidation is one of the major trends in Asian banking systems in the aftermath of the 1997 financial crisis and bank consolidations tend to specifically affect the degree of bank competition in emerging and developing countries (Jeon, Olivero and Wu, 2011). After the bank consolidations, the banks were able to stand on their feet.

An empirical study which used a sample of commercial banks in 12 Asian countries over the 2001–2007 period, indicated that higher market power in the banking industry is associated with better capital adequacy (Soedarmono, Macrouh and Tarazi, 2011). Higher capital adequacy of the Asian banks do not decrease the credit risk of the banks, but it decreases the risk of the market.

The Asian banks have been able to support the development of the industries at the emerging markets. The strong structure of these banks were an advantage of the multinational enterprises and the other corporations. The emerging markets had no problem on financing.



## V. BRAND LOYALTY AND CULTURE

The relationship between perceived quality and brand loyalty and the relationship between brand awareness and perceived quality are found to be significant in Thailand as well as in Vietnam (Nguyen, Barret and Miller, 2011). These countries are also samples of Asian emerging markets. Brand loyalty and quality are correlated by Asian consumers and the consumers pay attention to the brands.

The Culture has influences on the design preferences (Peter and Olson, 1999). The influence of culture has some events (Arnould et al., 2002). These events are effective on social and physical environment, the product and the consumers (Salmi and Sharafutdinova, 2008). New products are expected to be adopted lately due to cultural structure. On the other hand, new products are preferred by Asian consumers. Instead of traditionally designed products, new products with reputable brand or the design of reputable companies are more consumed.

The innovative structure of the Asian markets might be correlated with the brand loyalty. On the other hand, internationalization of the Asian corporations plays a great role. These corporations make production for the markets which prefers products with new designs. Some of these production is traded to Asian markets and these products are easy to get for the Asian consumers. The availability of these products also shapes the preferences of the Asian consumers.

## VI. COMPETITIVENESS

The World Competitiveness Index has four components, namely, economic performance, government efficiency, business efficiency and infrastructure (IMD, 2006). In the overall rankings of world competitiveness report, China and India have improved over the years whereas Brazil and Russia have lower rankings and China has the highest ranking followed by India, Brazil and Russia in decreasing order (Pillania, 2009).

It is believed that the catch up of latecomer firms in an emerging market is an evolutionary pattern that depends on how they leverage with their positions in the global market by using limited resources, obtain external resources from other incumbents, and gradually develop their own technological capabilities for future competition (Mathews, 2002a, b). The leverage use of the latecomer firms are sometimes supported by the banks. The true technologies also provide the advantage of latecomers.

It is seen that the latecomer firms are not supported as much as the other firms which were supported in the past by the government in China (Chen and Toyama, 2006). The huge corporations are supported more by the government for quick results. On the other hand, there is not a destructive competition in Asia. The corporations may even support each other. It is common to see the manufacturers using the unnecessary raw material of a factory. These materials are usually wasted materials, which can be used as raw material by some other manufacturers.



## VII. ASIAN CURRENCY

Some studies has shown that Asian currencies are globally undervalued, especially since the end of the 1990s (Lopez-Villavicencioa and Mignon, 2011). The currencies play an important role on the growth of the markets. Especially the frontier markets mostly can turn into an emerging market with the support of the currencies. The affect of a currency appears after devaluation. The probable customers in a country can buy more products from the manufacturer country and the export of the manufacturer country increases.

Economic and financial sector reform measures, which have been continuing in India since 1991, facilitated the process of financial integration and various segments of the money market are integrated (Misra and Mahakud, 2009). The financial integration is important for emerging markets.

The financial markets of Asia have expanded more than expected. The increasing volume of the financial sector gives the chance of growing to the emerging markets. The financial power of the government is also higher than before and the financing of some certain sectors and regions can be arranged when it is necessary. Besides, with the new financial power, most of the Asian governments are able to prevent any medium-sized financial crisis before it appears.

## VIII. CONCLUSION

It is necessary to consider necessary criterias for development such as: integral human development; the common good; inter-generational justice; the cultural context; ethics integrated within the economy and moral responsibility (Lozano, 2011). The emerging markets can keep on developing only with the true human. The people are ready for any development in Asia; they have the required skills, appropriate morals which is supported with a strong cultural structure and the responsibility. The emerging markets can easily develope with a qualified workforce.

A major reason for expecting strong association between internationalization and competitiveness of emerging nations in a globalized world, is that, internationalization enables firms to benefit from economies of scale (Dunning, 1995). This was the main reason of the growing economy of Japan for years and today China and India have a high rate of growth due to the scale economies of their corporations.

Internationalization offers significant benefits for Asian emerging multinational enterprises like economies of scale and scope (Porter, 1985). But not only scale economies, but also new market opportunities are offered by internationalization (Buhner, 1987). The new market opportunities and scale economies appears the advantage of flexibility (Kogut, 1985). Another advantage is exploiting distinctive capabilities (Hymer, 1976). The result of all these mentioned advantages is risk reduction (Shaked, 1986).



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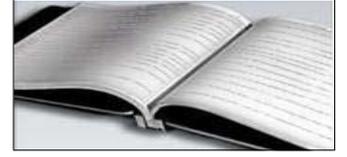
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