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The Rise of the BRIC Economies:
Challenges of a Multi-Polar World for
International Business Scholars and Managers

ABSTRACT

The rise of Brazil, Russia, India and China, or 'BRIC' economies is shaping global resource use, the location of market demand and international institutions and interdependencies. Evolution of these trends looks set to continue in the next decade. In this paper we argue that an understanding of the institutional and historic context of the BRICs, and the potential shift towards a multi-polar world is important for understanding the challenges that international business scholars and managers will face in the next decade. Key implications of the changes in the markets, resources and international interaction are discussed.

KEYWORDS: Emerging markets, international business, BRIC.

INTRODUCTION

The spectacular economic growth and imposing size of Brazil, Russia, India and China (or the BRIC economies) has their current - and future - role in the global economy under increasing scrutiny and speculation (Grant Thornton, 2007). While these economies initially attracted foreign investors from developed markets due to an abundance of cheap resources, today they are increasingly attractive as markets in their own right and as low-cost locations for investment into knowledge-based activities (UNCTAD, 2006; Garten, 1997). The focus of this paper is the BRIC countries, their beginnings, the situation today and possible scenarios a decade ahead. Its principal objective is to discuss the implications of the economic and political rise of these countries for international business scholars and managers. The grounding argument of the paper is that the time dimension and time dynamics matter. Thus, the paper considers not only the present activities and future projections for the BRIC countries, but also their institutional and historical roots which influence international interaction and ways of doing business in the future. As we see it, international integration will take place at an increasing pace as a shift towards a multi-polar world occurs. We argue it is crucial for both practitioners and scholars of international business to understand the challenges thereof for future business and global prosperity.

The area of analysis - emerging markets of BRIC - is very extensive and its developments not easy to summarize. Despite the inherent difficulties, managers and scholars need to draw synthesis in order to be able to operate in this new business situation. This paper aims to specify the key trends and issues in the development of BRICs. As the literature review will show, there are several similarities within the four countries, which makes their joint analysis feasible. Further, this analysis is in line with the arguments that we, as international scholars and managers, need more synthesis and integration of temporal, spatial and developmental data from around the world to develop the field of international business (Fruin, 2007).

This paper finds that the importance of the BRIC countries in the global economy revolves around markets, resources and international integration (Winters & Yusuf, 2007). Following an introduction to the BRIC countries, the first part of the paper focuses on these three issues. We then discuss the implications of a shift towards a more multi-polar world for both international business scholars and managers.

THE BRIC COUNTRIES

Predictions by global consulting firm, Goldman Sachs, that by 2025 the BRIC economies together could account for more than half the size of the G6 countries (in US dollar terms), and be larger than the G6 in less than forty years strongly suggest major changes to the international business environment as we know it today (Wilson & Purushothaman, 2003). Since 2000, the BRIC countries have accounted for 30 % of global growth and their share of global GDP has risen, in dollar terms, from 7.8 %to 11 % (Johnston, 2006). The Economist reports they currently account for two-fifths of the total GDP of all emerging economies. At market exchange rates, China and Brazil rank among the world's top ten economies, but in purchasing power terms all four BRICs are included with China and India being the largest. In current dollars Brazil and Russia both produce more than India (The Economist, 2006). Over the next few years, development of the BRICs (and in particular, industrialisation in China and India) could push the world growth rate above 4%. It is likely to remain above the 3.7% averaged for the past twenty years for at least the decade ahead (Wilson et al., 2004),

So how did the BRICs achieve such a rapid growth path? The BRIC countries have all embraced a more market-oriented approach to business. China, although still led by the People's

Communist Party, opened its economic doors to the outside world in 1979 and since then has gone from an agrarian to an industrial society supported by foreign technologies and investment from the West. Since the collapse of the Soviet Union in 1991, the Russian Federation (Russia) has been in transition from planned economy and totalitarian rule (lasting nearly 75 years) to a market-based economy and democratic political system. India, although already a democracy, implemented wide-sweeping market-oriented reforms to address its financial, institutional, infrastructural and social welfare problems following the crisis of the early 1990s. Then in 1998, Brazil broke from its nationalist mercantilist approach where restrictions on foreign trade and investment as well as state control and subsidization of industry was the norm, to policies that encouraged the growth of capitalism and freer markets.

The key strengths of these economies today will only be briefly summarized here. China's key sources of advantage include an abundance of low cost, skilled labour and business related infrastructure. It has also been more open to trade and investment for longer than the other BRICs encouraging inward investment through special economic zones (SEZs). It also has maintained better record of macroeconomic stability while investing heavily into infrastructure and education. Russia has natural resources, new markets and efficiency. The education level is high: in contrast to other BRICs illiteracy is no problem, and the share of population with higher education is higher than the average in the EU. The country invests 1.2 per cent of GDP into R&D and attempts to enhance innovations, for instance, with SEZs. India has a well-educated and abundant English-speaking labour force that has enabled it to emerge as a major outsourcing destination for MNEs as well as an independent exporter of IT services and labour. Brazil has abundant labor and natural resources in the form of minerals and oil, a benign climate and proximity to the North American market. However, the BRICs also face a number of issues which threaten growth and performance in the future. In China overspeculation and poorly performing bank loans threaten long-term financial stability. India, which is about 15 years behind in reform relative to China, is plagued by corruption and poor infrastructure. Russia needs new investments in infrastructure, and also, diversification of the production structure in order to be less dependent on natural resources. The country is experiencing a wavering commitment to capitalism, and difficulties with crime and corruption in government. Brazil needs to address financial discipline, poverty and unemployment (Jain, 2006), and its potential is rarely matched by its performance (Adrogué et al., 2006).

Economic, social and political profile

Economic growth in all four economies is strong. China's is the most spectacular, averaging 9 % over the past two decades while India has averaged 6.8% since 1994. Russia has averaged 6.5% annually since the financial crisis of 1998 and peaked at 10% in 2000, while Brazil has since recovered from the crisis of 1999 and its growth has fluctuated between 2-3% peaking at 5% in 2004. By GDP, China ranks as the world's 4th largest economy, followed by Brazil (10th), Russia (11th) and India (13th) (www.imf.org, 2006 figures). For other rankings see Table 1.

Table 1 here

The BRIC countries will significantly contribute to the growth of world economic output in the next decade, both directly via their own production and indirectly by supplying the inputs required to fuel the growth of other countries. Today, however, the BRIC countries' role in the global economy is still relatively small, accounting for approximately 8 per cent of the total global economy in terms of GDP at market prices (although in terms of purchasing power this is 24 per cent). Over the last 10 years the BRIC's share of the global economy has thus increased by just over 1.5 percentage points. This, as well as trade and investment, this is expected to rise dramatically in the next decade (see Table 2).

Table 2 here

The BRIC countries account for approximately 42 per cent of the total world population, with China and India combined accounting for one third. The BRICs population will continue to grow in the next decade (by 10 million per year in China alone). In contrast to their spectacular economic growth, however, all the BRIC economies have socio-economic concerns. Both Russia and China are known for abuse of human rights, including limited access to information, restricting freedom of the press, lack of privacy rights, discriminatory police or military pressure on citizens and incarceration without trial. India and China both share problems of unemployment, rural-urban inequalities, need for greater dispersal of spending on health and education and improvement of living standards (especially access to clean water). Brazilians are described by Jain (2006, p. 484) as 'daydreamers' who 'hope someday something will happen to transform their country into a great power'. Awareness of their problems, a national will to succeed and mass education are needed to help realize this dream.

Personal relationships, not the rule of law, tend to dominate how things get done' in the BRIC countries (Garten, 1997, p.74) and the role of government remains pervasive but not always efficient. Although privatization of SOEs in China has been on-going, the largest firms remain at least partially state-owned and controlled by the communist party. Underpinning all business relationships is the notion of *guanxi* or social connections. In Russia the government's role has similarly been reduced by privatization, but business owners also often retain close, frequently collusive, ties to government and connections are needed to get things done. Government interference in private enterprise continues to dissuade foreign investors (Jain, 2006). Even of India whose strong but slow system of law is often bypassed in favour of more expedient solutions via family members (nepotism is common). India may be the world's largest democracy but bureaucracy, regulation and delay is rife, and judicial cases take a decade or more to be heard. Tax evasion and unequally distributed tax burden (e.g. the manufacturing sector pays 80 % of taxes despite only accounting for 17 % of output (Behrman, 2006, p. 525) persist. Corruption in business also is a challenge for all the BRIC countries[1], particularly in Russia and the state governments in India. China is making some progress in this regard and Russia has recently reformed corporate and securities laws and regulations. Guided by IMF programs, Brazil is focusing on fiscal policy, inflation and floating exchange rates (Kedia et al., 2006), but tax evasion and high levels of debt are still a big problem (Jain, 2006; Wilson et al., 2004).

Key trends and issues

All BRIC countries hold aspirations of global economic power (Jain, 2006). Whether they realize these aspirations or even the growth predicted in Table I, their impact on the shift of major markets, the demand for world resources and the balance of power will be nothing short of global in both scale and scope.

Markets

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1 The 2006 Transparency International Corruption Perceptions Index which included 163 countries, ranked India, China and Brazil at 70th equal place with a score of 3.3, and Russia at 121st place with a score of 2.5 out of 10 (where 10 is least corrupt).

The BRIC countries' hunger for energy and commodities is expected to peak in the next decade, but demand for consumer durables is predicted to rise and be the main focus for Western and emerging economy MNEs alike. Financial markets are also predicted to gradually strengthen in the BRIC countries over the next two decades (Wilson et al., 2004).

China, and to a lesser extent India, will contribute to the growth of demand for oil and energy for at least the next decade, although the US and Russia will remain the largest by volume and per capita consumers, respectively, for years beyond that. Thus, while much of the increase in use of resources today reflects the role of the BRIC economies as 'workshops' catering to world markets, in the next decade this will represent a net rise in market demand at home (Grant Thornton, 2007). Already in China, millions of consumers are buying consumer durables and other goods as they grow richer and desire the same standards of living as in the West (Winters & Yusuf, 2007, p. 14). Demand by middle class consumers[2] in BRIC countries is predicted to grow fourfold to over 800 million people, making them the centre of new market development in the next decade. Wilson et al. (2004) of Goldman Sachs predict new growth from the BRIC economies could rival that of the G6 countries, despite most individuals still being poorer on a per capita basis (with the exception of Russia). Local consumer markets, rather than labour for manufacturing and outsourcing activities, are fast becoming the attraction of the Chinese market for MNEs (Lieberthal and Lieberthal, 2003), and if growth predictions for the other three BRICS come to fruition their consumer markets will also be targeted by MNEs. For example, potential exists for a threefold increase in car ownership in China and India over the next decade, with China's rate peaking but India's highest growth after 2015, while demand for cars in Russia could double and equal that of Japan's (Wilson et al., 2004).

[2] Defined by Wilson et al. (2004) as consumers with incomes over $3000.

Although the difficulties facing foreign firms in these countries, as well as the growing US trade deficit with China are amongst the issues of concern today, the next decade foresees fewer regulations on foreign businesses, a greater awareness of the needs of BRIC markets, and subsequently gains from trade for developed economies in the form of exports and local production and service provision to strengthening local markets. Increasing openness of the BRICs (measured by exports as a ratio of GDP), has closely accompanied growing prosperity (GDP per capita). Openness not only facilitates trade and access to capital, technology, but also enables investment by foreign MNEs. China is perhaps most open, having recently opened power, rail, oil, aviation and defense to both local and foreign investors. Brazil and India are making great strides in the right direction. Although in India older industries, such as machine tools, textiles and engineering, remain inefficient and protected by government, restrictions to trade and foreign investment are declining, and liberalization in the civil aviation, telecom and insurance sectors is expected soon. Russia is moving, albeit rather haphazardly, towards more open markets. Opening of the economy is politically sensitive, and Russia relies on high import duties to protect own industries and markets. While in the early years of the 21st century the private sector was seen to be the key motor for economic progress, today emphasis is on the government as a leader and an active agent. To diversify the production base, the country is focusing on the so-called strategic sectors (like energy and logistics), where foreign companies have only limited access to. New clusters of companies, which are state-owned or have strong linkages to the state, are established in the car, aviation, ship building and military industries (Lainela et al. 2007).

Financial markets, although attractive, are still of some concern in the BRIC countries. For example, since the start of 2001, Brazilian equities have delivered returns of about 165 per cent in dollar terms, with gains in India (229 per cent), China (348 per cent) and Russia (713 per cent) (Johnston 2006). But high returns signal high risk. The past decade saw a contagion of financial crises which hit both Russia in 1998, and then Brazil in 1999. Although both countries have focused on reform and improvements to their financial market stability since[3], there is always potential for crisis in the future. Although China has high levels of foreign exchange and foreign debt under control (Kedia et al., 2006), revaluation of the RMB and reform of banks and addressing poorly performing loans to the state sector is high priority. India needs to continue to make its business environment attractive to foreign capital to ease capital market pressures. The next decade is likely to see currencies appreciate as the BRIC countries become more affluent, and their importance in global capital markets rise from 3.5% to around 10% in 2020 (Wilson et al., 2004).

As the BRIC markets open up further, competition will become more heated amongst both global and local players. Garten talks of a 'vigorous commercial diplomacy' (1997, p. 141) developing between the West and big emerging markets, where rival governments may support the promotion of exports and securing lucrative contracts. Competition will also emerge from local players in these countries. Already in China one of the greatest challenges faced by foreign MNEs is the cut-throat local competition. As these firms rapidly catch-up with their counterparts in the West in terms of both technology and skills in marketing and management, this competition will intensify.

[3] Since the crisis, Russia has benefited hugely from high prices for oil, which have contributed to a rise in foreign exchange reserves from $12 billion in 1998 to $300 billion in 2006 (BOFIT), and a reduction of foreign debt to just 5 per cent of GDP (Lainela et al., 2007).

Resources

Rising demand in the BRIC economies also means rising demand for natural and human resources. Much of this demand can be served by the BRIC economies themselves. Russia is estimated to have the largest reserves of natural gas in the world, and its economy is based on oil and gas production and mineral extraction. Similarly, Brazil's economy is based on agriculture, oil and mineral extraction, leaving both economies sensitive to price swings for these commodities. However, the BRIC economies are becoming more heavily dependent on imports or acquisitions of resources from abroad, and in particular energy, timber, steel and food products. Use of these commodities in the BRIC markets is already amongst the highest in the world. China alone accounts for the highest proportion of the world consumption of metals and coal, and energy resources. Already in decline, the latter are now being sought in earnest by large, state-supported Chinese investors. China is already a huge importer of energy, and accounted for 12.6 per cent of world consumption in 2003 (Winters & Yusuf, 2007, p. 16). Although demand from the BRICs will increase with economic output, this will be at least partially offset by lower energy intensity, which has already fallen by 30 per cent in the past decade and is expected to continue into the next (Purushothaman et al., 2006).

The proportion of active workforce to total population in these economies will rise in the next decade, whereas the share in Western Europe will fall. In China and Russia the proportion is expected to rise until 2010-2015, in Brazil until 2015-2020 and in India until 2035-40. In 2015 the working population (defined as those over 15 but under 65 as a percent of the total) will be 67% in Brazil, 72% in China, 66% in India and 70% in Russia. With an estimated 28% of the population under 15 in 2015, India holds the most potential beyond 2015 (Cooper, 2006).

Russia has the most highly educated population on a par with that of industrialized countries, but is able to provide highly-skilled technical and scientific labour at a fraction of the cost of the US. In India such labour remains isolated in regional pockets (ie. the IT sector in Bangalore) while two thirds of labour remains in agriculture. In addition, quality and dissemination of education is very uneven. While some of India's universities and technological institutes are internationally recognized for producing highly qualified professionals, there is a lack of adequate education provided for children. Higher education also is booming in China, with a large share of its graduates in science and engineering. China has firmly established itself as a cost-effective base for manufacturing, but is now rapidly moving into R&D. Indians and the Chinese are both known for their work ethic, resourcefulness and desire to 'do business'. Brazil is largely engaged in semi skilled manufacturing, horticulture and agriculture (Jain, 2006). Lack of commitment to education policy has undermined progress.

The division of labour seems destined to follow existing trends as education, skills and wage levels rise and employment shifts from low- to high-skill. Technological progress, despite rising wages, has thus-far accelerated rather than diminished this trend as the BRIC countries become more able to execute higher value-added activities. Western MNEs are currently establishing R&D centres in China and offshoring development services to India – activities that were once considered the domain of the industrialized countries (UNCTAD, 2006; Engardio, 2006). While China is currently attracting the most FDI in R&D, over 125 Fortune 500 firms now have R&D sites in India, highlighting the growing global importance of highly skilled labour for both economies. India also has much to offer by way of services and is far ahead of China in IT and support of MNE outsourcing. Indeed, Winters and Yusuf (2007) argue that a concentration of the best Chinese or Indian brains could make either country a major force in some sophisticated sectors, but the demand for skills in public service, general management, and education could constrain the emergence of such technological or innovative leadership for some time.

International Integration

The next decade will herald stronger interconnectedness and interdependencies in terms of the political activities (i.e. discussions on freer trade, economic and political integration) of old and new key players on the world stage. Drawing the BRIC countries into (Western) international organizations (eg. the WTO, G7 group, the Security Council etc.) encourages them to play by the rules, improve local governance, control regulatory issues and adopt international norms of behaviour in both business and politics. However, this does not mean the game – nor the players – will be the same. Economic, and increasingly, political self-assurance by the BRICs is likely to bring many changes in the international interactions with existing players as well as amongst themselves. Focus by the BRICs on both Europe and Asia rather than North America as locations for trade and investment is also predicted, suggesting a decline in the dominance of the U.S. in economic centrality.

The next decade will see a dramatic rise in outward foreign direct investment (FDI) from the BRIC countries, as so-called 'latecomer' firms invest abroad to acquire natural resources, strategic assets and to learn from first movers and market leaders. Chinese firms are already shifting their focus from subcontractor/manufacturer and domestic marketer status to one of independent marketers of their own products in traditional Western markets (i.e. the Chinese consumer electronics giant Haier with their European headquarters in the Netherlands). All BRIC countries are expected to cement their positions in global markets through acquisition of, or partnerships with, major Western companies, particularly in the U.S. Outward FDI for the purposes of acquiring knowledge (rather than exploiting it) is a means of accelerating this process (e.g. Lenovo's acquisition of IBM's PC business) (Rugman & Li, 2007; Rui & Yip, 2007). The BRICs are also investing in the developing regions of the world, such as Central and Eastern Europe, Latin America and Africa (Weiner, 2006; Wong & Chan, 2003). They appear more capable in dealing with low quality public governance and inadequate institutional contexts than their counterparts from more stable democracies in the West (Doh et al., 2003).

In response to opportunities for growth and the constraints imposed by developed economies, economic integration through trade, investment and regional cooperation will increase in the next decade amongst the BRIC countries themselves. China, in particular, has already strongly embraced multilateralism not only through WTO entry in 2001, but also through a number of regional agreements, including those with Brazil and Russia. There are other examples of cooperation between the BRICs. Brazil, India and China joined forces to challenge the developed nations' agricultural policies at the WTO meeting in Cancun, Mexico (Jain, 2006), and all four BRIC countries were invited to meet with the G8 in 2006. China is currently Brazil's third-largest export market, and India's third largest trading partner. Trade between Russia and China was $12 billion in 2004, and is expected to rise to between $60-80 billion in five years (Behrman, 2006, p. 529). Joint efforts may see them dominate the world economy through an economic (and potentially political) coalition with the objectives of, *inter alia*, accessing resources, collaborating in technology. These trends suggest a shift towards a more multi-polar world by challenging the economic dominance of the US and the EU (Behrman, 2006).

The international behaviour and emerging power of the BRIC is determined by their current and future place in the international system: 'they do what they do because, in the structure of power, they are where they are' (MacFarlane, 2006, p. 42). In other words, the identity of the BRIC will be dynamic and their position is changing as they gain more power. However, the emerging power is depends also on their past. As the BRIC countries enlarge their role on the global stage, their integration as full partners in multilateral solutions to global problems will be essential. Major threats to global prosperity will also require negotiation and policy cooperation on a global or regional level, including environmental protection, resource use and allocation, global warming, human rights, transparency, intellectual property, movement of people, accounting standards, nuclear weapons, export subsidies, tax harmonization, exchange rates, anti-competition regulations, financial contagion and others (Behrman, 2006, p. 531). All these are indicative of a very challenging period that will face managers, decision-makers and scholars in the near future.

TOWARDS A MULTI-POLAR WORLD

The rise of the BRIC economies strongly suggests a shift in not only economic, but also political, power in the foreseeable future. A multi-polar world would see the dominance of the US, and to a lesser extent the EU, in world economic and political affairs eroded over time in favour of greater influence by big emerging markets. The imperialist view espousing democracy and freedom, and supported by foreign policy, war or trade have already come under strong criticism and will not be acceptable, at least in its current form, to the BRIC countries as they begin to assume more importance in the world economy (Behrman, 2006, p. 514). From a developed economy perspective, Winters and Yusuf (2007) suggest that the implication of the rise of big emerging markets is ‘about dancing with the Giants without getting one’s toes stepped on’. History will influence the extent to which this is a tortuous or a smooth path to follow. Current reticence by the US, suggests the former is more likely. A policy of ‘accommodation’ of the BRIC economies as advocated by Berhman (2006) is not enough. We would argue that countries need to work together, not just alongside each other.

There is no doubt that the rise of the BRIC countries will contribute to a ‘brutally competitive world economy’ (Garten, 1997, p. 114), but one where attitudes need to be more cooperative and collaborative and less ‘them and us’. In his book on big emerging economies, Garten (1997) asserts that cultural, institutional biases are perhaps nowhere stronger than in the US, while Behrman (2006, p. 532) highlights the need for separate cultural ‘identity’ sought by those countries within the EU. No wonder, there is a tendency for dominant countries to act – whether consciously or unconsciously – ethnocentrically and, in some instances somewhat complacently, when considering the ‘rest of the world’. A decade ago, Prahalad and Lieberthal (1998/2003) asserted that ‘corporate imperialism’ or the view of emerging markets as locations to extend margins on existing products and exploit technology obsolescing in Western markets, rather than treating them as unique markets and sources of talent in their own right, has meant MNEs have not been as successful as they might. The authors’ argument, simply put, is that thinking in terms of markets at home (ie. the middle class) will not help understanding customers in China or India. The same analogy might be made for countries. Just as MNEs have been scrambling to adapt their business models, so should the West be rethinking its stance on the BRIC countries.

We would argue that successful integration of the West and the BRIC economies requires a change of mindset. Consider the current state of thinking in business schools. Much has been made of the trials of doing business abroad, yet to-date onus for cross-cultural understanding has largely fallen on those from BRIC countries as they seek access to developed markets by integrating themselves into the existing system of Western-style business. Despite the semblance of adoption of Western culture in BRICs, however, Behrman (2006, p. 515) suggests that deeply rooted value-sets (such as the importance of family, belief systems and social class) will endure, bringing about a 'complex hybrid' alternative model of society. Importantly, this is less evident within the context of the BRIC economies themselves, and more so in advanced nations attractive to waves of immigrants and students seeking better opportunities. Just as desire to learn and benefit from the West is fuelling immigration, student exchange and cross-fertilization of ideas, a desire to build on one's own strengths will drive changes in social structure and cultural norms in the BRIC countries. The importance of relational linkages, not just in the BRIC economies, but also with the rest of the world will be important. Chief amongst these are students returning home to China, India, Brazil and Russia (reverse-brain drain) after graduating from universities and/or establishing careers abroad, armed with their own dreams of entrepreneurship, scholarship and stewardship at home.

Greater cultural sensitivity and openness to alternative systems and methods (coupled with rejection of the expectation that the world should conform to norms and values of the West) is required from international managers. Also, these need to be the objective of IB research in the next decade. This would involve not only renewed emphasis on ethics from a broader socio-cultural perspective, but also an appreciation of the role of key values in societies, including the increasingly multi-cultural societies evident in the leading industrialized economies. The need to instill guiding principals in corporate behaviour and governance (which are underpinned by cultural norms) is underscored by the recent examples of fraud and corruption in the BRICs *and* in the West.

Accommodation of both local and global viewpoints is needed to encourage sustainable growth in these economies in the future. Western countries, reliant on these countries as ‘workshops’ contribute a large share of both their demand and their supply, and thus should be actively seeking to be part of the solution, at least until the economies themselves are able to assume more responsibility (for example, addressing environmental issues is a ‘luxury’ that developed economies are much more able to afford). Considering the huge challenges ahead affecting the global prosperity, the collective response of today’s global leaders is almost certain to have far-reaching implications for the welfare of future generations (World Bank, 2007).

CHALLENGES TO SCHOLARS AND MANAGERS IN INTERNATIONAL BUSINESS

We began this paper by noting that the time dimension and dynamics are important for our analysis, and therefore, we have briefly presented key trends of the BRIC countries. We believe that development is path dependent, thus both earlier development (‘starting point’) and 'accidental' events over time can have significant effects on the economic development (or the ‘outcome’) in the future. This means that any business situation is influenced not only by the expectations for the future, but also by past developments. The historical and institutional context, both at the macro and micro levels, affects the potential for global business by the BRIC countries. Although the BRIC countries are undergoing institutional change processes, and while the new formal rules for behavior (e.g. via WTO membership) may be relatively easy to establish, a fundamental change takes place only when new informal rules are adopted and the mental models of people change (North, 1993). One would, therefore, predict turbulence and competing views to characterize the next decade of global business. The challenges of the rise of the BRIC countries for managers and scholars are summarized in Table 3.

Table 3 here

In terms of the current and future issues for managers, there is a need to understand evolving markets (e.g., develop sophisticated methods for analyzing and approaching different consumer segments in the BRIC countries), resource bases (e.g., development of human resources through local education and training), political decision-making and stakeholders (e.g., environmentalists, particularly concerning natural resources and the pace in the development of local R&D skills and units), and international interaction (e.g., integration through trade and investment, which also means interaction at the level of managers and companies, between the West and the BRIC countries, but also amongst the latter). While it is easy, however, to report on the opportunities and potential for (economic) growth in the BRIC countries, a major challenge is to predict the influence of institutional and cultural heritage on the evolution of international interaction and activities that take place in the global business arena. We argue in this paper, that an appreciation of history, both at the company and the country level, may help meet this challenge.

A company's future is strongly influenced by their history, or *administrative heritage* (Bartlett & Ghoshal, 2000). Administrative heritage can act as a source of competitive advantage due to the multitude of incremental changes which cannot easily be replicated by competitors. However, administrative heritage may also be a disadvantage if it has encouraged the development of ingrained and inflexible practices that constrain the development of dynamic, responsive strategy.

Similarly, when developing new innovative ways of doing business across multiple countries with very dissimilar political, economic and socio-cultural foundations, a firm's history may form a constraint and slow down progress. Alternatively, for the Asian companies, their history may be the basis and stimulus on which to build anew, thus offering potential for the future (see Meyer, 2007). The ensuing institutional change in the global arena is fundamental, and as North (1993, p. 17) points out, the key to the nature of this change is the kind of learning and skills that entrepreneurs, managers and their organizations acquire. Therefore, it is crucial for international managers and scholars to realize that fruitful interaction draws on the potential and features of both parties – not only from the Western or the Asian representatives.

In order to institute such change Western managers need to be familiar with, and sensitive to, the historic roots of the BRICs. Only in this way, may they be successful in their business interactions. As, Fruin (2007, p. 354) notes: "Asia must be understood on its own terms. This requires a deep respect for, and understanding of, Asian history". The same rationale applies in the BRICs, and calls for sensitivity of managers and scholars to the differences in political styles and socio-cultural norms, that is, the different ways of seeing the world and of doing business, and skills to tackle the potential results, thereof. In sum, we argue for the significance of history and institutional context shaping the economic, social and political trajectories of BRICs today and in the next decade, and for the importance of successfully melding company response to these trajectories through a holistic and open-minded approach to doing business.

The simultaneous friction and bond between historical context and future developments also has implications for development of theory in international business. Within the next ten years, IB researchers will need to work on a larger framework or wider perspective for understanding the key changes which are happening through a growing presence of the BRICs and their key players on the global stage. This would address Garten's (1997) call for such framework because otherwise 'the stories appear far less significant than they are'. In other words, examining phenomena through an inappropriate lens (ie. theory rooted in Western contexts) is likely to lead to inconclusive and unhelpful prognoses. In a posthumous work published in 2005, Sumantra Ghoshal polarizes this argument by stating that management today is plagued by destructive short-termism, mistrust, and cynicism which can be traced back to 'a set of ideas that have emerged from business school academics over the last 30 years' (Ghoshal, 2005, p. 75). Examples of these ideas include agency theory, monitoring and control mechanisms to prevent opportunistic behavior, and the notion of adverse, competition-based relationships not only applied to other similar firms but also to reference groups such as suppliers, customers, and employees. Approaches to business are not the same in the BRIC countries. Indeed, we would suggest that the ideas in the next decade are likely to come from the BRIC economies themselves and the experiences of their firms which face extreme 'liabilities of foreignness' (Zaheer 1995) in distant markets. The emergence of alternative ways of doing business are likely to promote debate over social connections and alliances between firms, economic progress versus environmental concerns and the risks and ethics of doing business in less-democratic, developing nations.

Thus, we would argue that many other elements of business theory and practice underpinning Western views that require reconsideration in light of the rise of the BRIC countries; such as formal contracts, insider status, the role of government in business, resource allocation and use, and different approaches to capitalism. For example, the BRIC economies cannot be expected to follow, nor even desire to follow, the Western business and legal practices where formal contracts take precedence over insider, family or social connections (eg. *guanxi* in China, and *blat* in Russia). Similarly, the role of government and even in many cases, local mafia in business, remains overtly strong in many sectors which presents an ideologically-flawed (and therefore uncertain) business environment at least from the Western perspective which extols the virtues of market forces and democracy. Akin to the industrial revolution in Britain and the cotton-fuelled boom of the American Midwest (which relied on slave labour and often resulted in abysmal working conditions and environmental degradation), the BRIC economies want to use their own resources – both natural and human – to fuel growth. However, global concerns over trade, the environment, human rights and use of resources continue to pressure them not to do so. In each of these areas, not surprisingly, we find governments and businesses from Europe and the U.S. pushing their own agendas *at their own pace*, rather than that more suited to the level of development in the BRIC countries.

The emergence of BRIC thus challenges existing views of management and management research. Managerial narratives in Brazil vs. the UK led Faria and Wensley (2002) to question both the theories and linguistic codes used and to pay attention to the particular set of social and political networks where the management researchers and managers are embedded. They note that the contemporary scientific logic and language shared and reproduced by Western-based managers and researchers mainly represent the Anglo-American institutions and capitalist systems. Also, Fruin (2007) notes that "IB regularly portraits the universe of business as the activities of Western firms during the late 19th and 20th centuries". Today and in the decade to come there is need to consider really worldwide business, and in particular to look into the developments in Asia, Japan, and India. In line with this Meyer (2006) notes the strong North-American influence on management education in Asia and calls for development of locallyrelevant theories by local researchers in the future. "The challenge is to understand the non-Western business activities as significant, meaningful, and able to generate theory in their own right" Fruin (2007, p. 355). Indeed, there is a general need for researchers to be more specific about the contextual boundaries of the research, as global management knowledge consists of context-free, context-bounded and context-specific knowledge (Meyer, 2007).

The appearance of new and multiple IB theories will require scholars to better understand different methodologies. The multidisciplinary feature of international business calls for education at the meta-cognitive level – to compare and contrast different ways of researching in order to also reveal the foundations of different knowledge (Laughton, 2005). This will become even more important in the future as a result of investigating the BRICs. For instance, the analysis of the long-existing network structures in Asia (Fruin, 2007), demands theoretical approaches that attend to perceptions and historical roots and easily leads to an idiographic research orientation. Thus the development of empirical basis and new theoretical models goes hand in hand with methodological issues, and these methods can be explicitly used to advance learners' understanding of the empirical and theoretical developments.

CONCLUSION

There is no doubt that developments within the BRIC economies will influence international business in the future. A wealth of resources has shaped their economic rise, and demand for resources, growth of domestic markets and greater integration into regional and international economic areas and institutions heralds their rise in the future. Even the concept of the multinational enterprise is evolving in response to both entry strategies employed, and new entrants, from these economies. Beyond their role as markets for procurement and natural resources and markets for consumption, they will shape the macro-environment, not only economically but also politically. In the future, these large and fast growing markets will play important roles in shaping international interdependencies.

In conclusion, therefore, we return to the time dimension of our discussion. While recognizing the growing significance of BRICs in the global economy, it is also important to recognize the foundations of these economies and of the global economy system. The challenge is to extrapolate and to specify what will change and what will not. Here we have tried to identify the broad trends to show that some issues can only be addressed by a change in mindset. However, it is important to remember that the growth and development of the BRIC economies as predicted in Table 2, is by no means assured and will depend on numerous factors (see Kedia et al., 2006). Political and financial stability, *inter alia*, is central to these economies fulfilling their potential as markets in the next decade. Rather than focus on forecasts, however, attention should also be given to contrasting the apparent dramatic change to political and economic systems with the persistence of culturally and institutionally entrenched norms and behaviour that leave much the same and confound efforts to find common ground between countries.

Thought should also be given to the role of these economies in the world we all share. In the West where health is now considered by most to be more important than wealth (a priority not yet afforded to most of those in the developing world), the importance of collaboration and joint effort to balance the two cannot be overstated. Both Western and emerging economies need to pull together to address global issues of poverty, education, environmental pollution, degradation and exhaustion of natural resources, threats to security and financial and political instability.

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Table 1: BRIC Growth Rate and Rankings 2006*

	China	India	Russia	Brazil
GDP Growth Rate %	10.5	8.5	6.6	2.8
Rankings				
GDP (ppp)	2	4	9	10
GDP	4	13	11	10
Population	1	2	9	6
Labour force	1	2	6	5
Oil consumption^	2	5	5	9
Electricity consumption#	2	5	4	9
Exports	3	29	13	22
Imports	3	17	18	27
Forex & gold reserves	1	6	3	10
External debt	18	28	20	26
People living with HIV/AIDs	14	2	13	15
Internet users	2	4	12	11

Sources: World Economic Factbook, www.worldfactbook.org, and for GDP figures the IMF, www.imf.org.
* unless otherwise stated figures are for 2006 and are country rankings
^ China and Russia figures are 2005, India is 2004

Table 2: BRIC GDP Projections to 2020

Country	Projected US$ GDP (US$ bn 2005)			Projected US$ GDP per Capita (US$ 2005)			Projected Real GDP Growth (%YOY)		
	2010	***2015***	***2020***	***2010***	***2015***	***2020***	***2005-2010***	***2010-2015***	***2015-2020***
Brazil	916	1295	1803	4685	6347	8523	4.0	4.0	3.7
China	3450	5539	8176	2560	3975	5715	7.6	6.0	5.0
India	1129	1680	2455	977	1369	1893	6.2	5.7	5.5
Russia	1200	1702	2326	8523	12352	17305	4.5	3.4	2.9
United States	14215	15838	17582	45979	49095	52323	2.8	2.2	2.1

Source: Adapted from O'Neill, et al., 2005, pp. 20 – 21.

Table 3 Challenges of the rise of the BRICs

Issues	Challenges for Managers and International Business Scholars
Markets	• New rules of the game together with new players are emerging. These concern both the local markets of the BRICs as well as markets globally, as increasingly influential companies from the BRICs are quickly entering new and existing markets • Increasing competition in all different markets: BRIC, Western and developing countries • The competition must partly be dealt with by applying new business models that are, for instance, based on network structures or social and political ties
Resources	• Important role of governments in some areas of business • Environmental concerns relating to the exploitation and degradation of resources that call for global attention • Increase in the number and influence of MNE's originating in BRICs
International Intergration	• Changing role of the BRIC companies and research institutes from users to creators of new scientific knowledge • Need for joint efforts and integration on different levels (countries, companies, individuals) to address international issues • Need for sensitivity to different cultural/institutional backgrounds to enable fruitful interaction and cooperation • Need for new theoretical IB models and multiple research methodologies