Latin America’s Contribution to IB Scholarship p3

Bangalore vs. Bollywood: Connectivity and Catch-Up in Emerging Market Economies p7

Multinationals Make Money in the Third World p12
Emerging Markets’ Evolving Role in the New Economic Order

The new decade started on a sour economic note, marked by a deep financial crisis described in the previous two issues of AIB Insights. Emerging markets, on the other hand, turned out to be the bright spot in the new world economic order. Exemplary among them are not only the big emerging markets, such as Brazil, China, India, but also smaller, more economically advanced markets such as Israel, Slovenia, Singapore, and Taiwan.

In recent years, our Academy has also given emerging markets more emphasis with regional chapters in China, India, Southeast Asia, Middle East and North Africa, and Latin America. In pursuit of a global footprint in the developing world, AIB’s 2010 Annual Meeting will be held for the first time in June in Rio de Janeiro, Brazil. As AIB heads southwards in the Americas for the first time, it is time to reflect on evolving role of emerging markets in the new world economic order.

This issue represents the diversity of articles sought for AIB Insights in future editions. The first two articles deal with the evolving role of emerging markets, with specific reference to Brazil and India. The third is written for those interested in collecting coins from the Third World.

The first article, by Luis A. Pérez-Batres and Michael J. Pisani of Central Michigan University and Jonathan P. Doh of Villanova University, discusses “Latin America’s Contribution to IB Scholarship.” A review of both Latin American researchers and Latin America as a region shows that the region is underrepresented in the IB academic literature. Latin American researchers are also sparsely distributed among editorial boards of top journals. At a time when the world is looking both South and East, IB may wish to lead the way.

The second article, “Bangalore vs. Bollywood: Connectivity and Catch-Up in Emerging Market Economies,” written by Mark Lorenzen of Copenhagen Business School and Ram Mudambi of Temple University, compares industrial methods of development in two distinct industries in India: Technology and Entertainment. The authors question conventional wisdom that suggests that economic development needs be outward oriented. Bollywood’s inward development gave it a mass market and economies of scale. Diaspora Indians contributed to both industries’ growth and internationalization.

The final article in this issue, “Multinationals Make Money in the Third World,” is written by Harvard Business School Professor Louis T. Wells. The article discusses token collections from the Third World, which can help understand the historic, institutional, and developmental patterns of emerging markets and multinational companies. Tokens created by companies in the Third World allowed them to save on working capital, capture seigniorage, support sales in company stores, and provide security. Turning a fun hobby into productive work, Professor Wells lists publication outlets from his own research on the topic.

Research on emerging markets is varied and exciting. Their growing importance will stimulate more innovative approaches to international business research, which will ultimately advance the discipline.
Latin America’s Contribution to IB Scholarship

Luis A. Pérez-Batres, Central Michigan University, USA
Michael J. Pisani, Central Michigan University, USA
Jonathan P. Doh, Villanova University School of Business, USA

Recently, some international business (IB) scholars have argued and provided empirical support for the view that most international business takes place within a world region rather than among world regions (e.g., Rugman & Doh, 2008; Rugman & Verbeke, 2004, 2005). These findings imply that the nature of IB is mainly regional, not global. In taking this logic into the realm of international business research, this Insights article explores whether our international business research efforts are regional (rather than global) in nature. More specifically, and in light of the first ever AIB annual meeting taking place on South American soil, our brief commentary is to assess and report on the role of Latin America in international business research. In so doing, we explore whether Latin America, as a region, is fully represented in the core international business literature. Specifically, we investigate (1) Latin America’s contribution to IB scholarly research and (2) Latin America as a region of interest for IB scholarly research.

Latin America: Economic and IB Scholarship Antecedents

In economic terms, Latin America is an important world player. Of the top 30 national economies in the world (World Bank, 2008), four are from Latin America: Brazil (8th, 2.66 percent), Mexico (13th, 1.79 percent), Argentina (29th, 0.54 percent), and Venezuela (30th, 0.52 percent). Furthermore, Latin America comprises 4.85 percent of global trade, 8.51 percent of the world’s population, 3.20 percent of the Forbes Global 2000 (Forbes, 2008), and 6.34 percent of global output (World Bank, 2008). In addition, several companies headquartered in Latin America are among the global leaders in their respective industries (e.g., Brazil’s Embraer and Odebrecht and Mexico’s CEMEX).

Concerning IB scholarship and Latin America, Chan et al. (2005) report that Latin American-based scholars represent only 1.3 percent of all IB editorial board membership among 30 ranked IB journals (i.e., only 19 out of 1,457 IB editorial members are based in Latin America). Further, in their recent paper focusing on the research productivity and influence of Farmer dissertation award finalists, Aggarwal et al. (2008) find the developing world virtually absent from the dissertations. In fact, none of these proposals included Latin America within the subject of study. Rather, these IB dissertations focus almost exclusively on IB questions and phenomena within North America and Western Europe. As young leaders in IB scholarship, Farmer finalists set the tone for their and other young researchers’ future research agendas, an issue that might be worrisome for the continuing development of IB research on emerging markets such as Latin America. Moreover, from this first assessment it can be inferred there is an apparent disconnect between Latin America’s economic output and IB scholarship representation. In the following section, we aim to measure the current state of Latin America in the international business literature.

Latin America’s Contribution to IB Scholarly Research

We measure Latin America’s contribution to IB scholarly research by calculating the productivity of Latin American-based authors (independent of nationality) in these core IB journals: Journal of International Business Studies (JIBS), Management International Review (MIR), Journal of World Business (JWB), and International Business Review (IBR). During the years of 2001–2005, six Latin American-based scholars produced 3.58 of the 642.88 net articles published in these journals. This number (3.58) represents about one half of one percent (0.58 percent) of the total number of authors for the five-year period in the four journals. Thus, authors working outside Latin America published 99.42 percent of the articles appearing in the core IB journals (see Table 1). Further, of the six Latin American-based scholars who published in these IB journals from 2001 to 2005, four are based in Mexico (ITESM-Monterrey, 2; Universidad de las Américas, and ITAM) one in Brazil (Pontifícia Universidade Católica–Minas) and one in Chile.

continued on page 4
Table 1: Latin American-Based Author Contributions to Core IB Journals (2001-2005)*

<table>
<thead>
<tr>
<th>Journal Name</th>
<th>Latin America</th>
<th>Rest of the World</th>
<th>Latin America</th>
<th>Rest of the World</th>
</tr>
</thead>
<tbody>
<tr>
<td>JIBS</td>
<td>0.33</td>
<td>195.97</td>
<td>0.17%</td>
<td>99.83%</td>
</tr>
<tr>
<td>MIR</td>
<td>1.00</td>
<td>135.25</td>
<td>0.73%</td>
<td>99.27%</td>
</tr>
<tr>
<td>JWB</td>
<td>0.75</td>
<td>135.50</td>
<td>0.55%</td>
<td>99.45%</td>
</tr>
<tr>
<td>IBR</td>
<td>1.50</td>
<td>172.58</td>
<td>0.86%</td>
<td>99.14%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3.58</strong></td>
<td><strong>639.30</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td><strong>0.58%</strong></td>
<td><strong>99.42%</strong></td>
</tr>
</tbody>
</table>

*Note: The numbers only include research conducted by faculty at universities (and colleges).

continued from page 3

(Universidad de Chile). This suggests that a small subset (albeit the larger economies) account for the totality of Latin American scholarly presence in the IB journals.

Two of the authors published single authored pieces while the other four coauthored with faculty from either the US (Texas A&M University, Southern New Hampshire University, Northeastern University, and Alliant International University) or the United Kingdom (University of Lancaster). Interestingly, there were no coauthored articles for which Latin American-based authors were the first (or lead) author. In all, the International Business Review and the Journal of World Business have been the most likely to publish Latin American-based authors (the works of two authors each). In terms of research topic, of the six distinct works comprising Latin American-based authors, only two of them distinctively touch on Latin America's business environment. It is also worth noting that all the Latin American-based authors were trained at doctoral institutions in the United States, Canada, or England.

Latin America as a Region of Study

Within the four journals considered from 2001 through 2005, 18 of the 653 papers (2.75 percent of the sample considered) focused either exclusively on Latin America or Latin America was at least one of two regions studied. The eighteen papers were evenly distributed among our core IB journal sample: IBR, JIBS, JWB, and MIR. North American-based scholars were the most likely to study Latin American-based business phenomena (69 percent of the studies), distantly followed by Western European-based researchers (19 percent of the studies). In fact, Latin American-based authors made up only 7 percent of investigators studying the Latin American region in the four journals explored (see Table 2). In all, during our study period, 37 authors contributed in the authoring of the 18 papers.

We also measured Latin America's contribution to IB research, as a region of study, by examining all empirical articles published in these journals (479). To this end, we divided the world into 11 regions. There were 20.63 net articles with some degree of Latin American interest. These articles were also evenly distributed among our core

Table 2: Adjusted Author Contributions by Latin America Study Site

<table>
<thead>
<tr>
<th></th>
<th>IBR</th>
<th></th>
<th>JIBS</th>
<th></th>
<th>JWB</th>
<th></th>
<th>MIR</th>
<th></th>
<th>Total</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>%</td>
<td>N</td>
<td>%</td>
<td>N</td>
<td>%</td>
<td>N</td>
<td>%</td>
<td>N</td>
<td>%</td>
</tr>
<tr>
<td>Chile</td>
<td>1.00</td>
<td>20.0</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>1.00</td>
<td>5.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>0.50</td>
<td>10.0</td>
<td>---</td>
<td>---</td>
<td>0.50</td>
<td>2.8</td>
</tr>
<tr>
<td>Mexico</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>0.25</td>
<td>5.0</td>
<td>---</td>
<td>---</td>
<td>0.25</td>
<td>1.4</td>
</tr>
<tr>
<td>Portugal</td>
<td>1.00</td>
<td>20.0</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>1.00</td>
<td>5.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>---</td>
<td>---</td>
<td>0.33</td>
<td>8.3</td>
<td>---</td>
<td>---</td>
<td>0.33</td>
<td>1.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>1.00</td>
<td>20.0</td>
<td>---</td>
<td>---</td>
<td>0.50</td>
<td>10.0</td>
<td>---</td>
<td>---</td>
<td>2.50</td>
<td>13.9</td>
</tr>
<tr>
<td>USA</td>
<td>2.00</td>
<td>40.0</td>
<td>3.66</td>
<td>91.5</td>
<td>3.75</td>
<td>75.0</td>
<td>4.00</td>
<td>100.0</td>
<td>12.41</td>
<td>68.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5.00</td>
<td>100.0</td>
<td>3.99</td>
<td>99.8</td>
<td>5.00</td>
<td>100.0</td>
<td>4.00</td>
<td>100.0</td>
<td>17.99</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Totals do not add up exactly due to rounding errors.
IB journal sample: MIR (5.62), JWB (5.30), JIBS (4.93) and IBR (4.78). Thus, 4.31 percent of the empirical studies (20.63/479) published in these journals had some Latin American component. Here too, North American-based researchers and Western European researchers encompassed 87 percent of all the studies and Latin American-based researchers made up only 6.5 percent of investigators studying the Latin American region in the four journals explored. This is surprising, as one would expect research projects would benefit from involving locally-based coauthors.

**Latin America Is Underrepresented in International Business**

In this Insights article, we have reported on the status of Latin America in the domain of international business research. Depending upon the metric used, either 2.75 percent or 4.31 percent of all core IB journal studies published in the sampled journals had some Latin American component. When compared to Latin America’s economic figures, which range from 3.20 percent to 8.51 percent, these figures appear to fairly represent Latin America as a geographical region of study. To put these numbers in perspective, we compare them to the country-regions of China and India-SAARC- (Figure 1).

Even though researchers based outside of the region provide important insights and findings, there is still a large holistic drawback. This is because most of what we know about Latin America, in the core IB journals, is devoid from local-based voices, as local-based authors represent only 7 percent of the studies concerning the region.

In contrast to the reasonably represented Latin American topic, Latin America-based authors are a rarity in the core international business literature, representing just 0.58 percent of all IB authors in IBR, JIBS, JWB and MIR from 2001–2005. Moreover, Latin American-based authors do not necessarily confine themselves to the study of Latin America; half of our sample authored papers on subjects and regions outside of Latin America. It appears to the authors of the present paper that while the Latin American region interests international business scholars, more international business researchers from the area are needed. According to Chan, Fung, and Leung (2006: 336), publishing opportunities exist for those located around the globe where “international business research is becoming a truly international discipline.” This may be true in general, but there persists a dearth of participation from Latin America. Perhaps Latin American institutions are not highly embedded in regional, international, or global networks that facilitate research in the core IB literature.

In addition, the nature and emphasis of doctoral study may differ in Latin America, placing greater emphasis on teaching and industry relationships. Indeed, until recently doctoral business programs in Europe differed greatly from those in North America, and up until the last decade or so, European scholars were somewhat underrepresented in North American journals. Leading Asian business schools, by contrast, have drawn heavily from the experience of North American doctoral programs. As a result, Asian-based scholars have begun to gain a prominent role in leading journals, both in terms of scholarly contribution and editorial leadership, especially over the past five years.

In light of our findings, we believe Latin America’s role in the IB research arena can be greatly improved as IB researchers (outside the region) realize the area is still not fully represented in core IB journals. In fact, researchers based outside the region should benefit from finding local-based coauthors, thereby filling the gap for studies devoid of local perspective. Nonetheless, this challenge ought to be presented to Latin American business schools and Latin American-based scholars as well. We suggest that Latin American business schools need to more fully facilitate IB research. Additionally, Latin American-based scholars need to keep abreast of what happens in

![Figure 1: Economy & IB Scholarship Regional Comparison](image-url)

Note: 10^11 = 100 billion in North America
the IB field by attending IB meetings and seeking (and obtaining) editorial board memberships, hence developing connections with other international members of the profession. Simply put, Latin American-based scholars ought to take advantage of AIB’s meeting in Rio de Janeiro and be ready to be heard…IB scholars from all corners of the world will be listening.

References

Endnotes
1 Latin America includes Mexico, South America, Central America and the Spanish speaking Caribbean.
2 Rankings and country GDP (relative to world’s GDP) are reported in parentheses.
3 64 firms represent the countries of Brazil (31), Mexico (18), Chile (8), Colombia (3), Peru (2), and Venezuela (2) in Fortune’s 2000 list.
4 The Farmer dissertation competition award is given annually to the top international business dissertation by the Academy of International Business.
5 We followed Pérez-Batres, Pisani and Doh’s (2010) selection of core IB journals.
6 These numbers include only articles produced by persons affiliated to colleges or universities. Further, the “net” number of articles adjusts for multi-authorship.
7 North America (USA and Canada), Western Europe, Eastern Europe, Developed Asia (Japan, Hong Kong, Taiwan, South Korea), Mainland China, Australia, ASEAN countries, SAARC (Afghanistan, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka) countries, Latin America (both Americas but USA & Canada and Tax Heaven Islands), Middle East, and Africa.
8 To determine the “net” level of site interest, we divided by the number of regions that a study encompassed. Thus, a study only focused on one region (e.g., Latin America) will be counted as 1 (1/1=1). However, a study exploring three regions (e.g., Latin America, Western Europe, and North America) would count as 0.33 (1/3=0.33).
9 In 2008, the Academy of International Business (AIB) began a Latin America chapter to facilitate scholar interaction not only in the region, but also across AIB with those with a geographical interest in Latin America.

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Bangalore vs. Bollywood: Connectivity and Catch-Up in Emerging Market Economies

Mark Lorenzen, Copenhagen Business School, Denmark
Ram Mudambi, Temple University, USA

Emerging market economies account for an ever-increasing share of gross world product. By 2005, the total output of the 22 countries in this grouping overtook that of the advanced market economies (IMF, 2009). It is well recognized that countries that are often placed in this category are heterogeneous; they range from relatively wealthy countries like South Korea and Singapore to "middle income" countries like Brazil and Taiwan to fairly poor countries like China, India and Indonesia. These countries have different comparative advantages and specialize in different industries, e.g., South Korea has established a leading position in high end electronics while China has become the world's leading center for low cost manufactures (Ramamurti & Singh, 2009).

However, what is less recognized is the heterogeneity of economic activities within emerging market economies. Early work in development economics recognized that many developing countries were characterized by so-called "dual" economies where backward sectors (usually, subsistence agriculture) co-existed with relatively advanced export-oriented sectors (Nurkse, 1955). We expect such sectoral diversity to be even more pronounced in rapidly changing emerging market economies. Some sectors and industries are likely to be much more advanced than others. These industries and their constituent firms have been characterized as the engines that drive the process of emergence (Athreye & Cantwell, 2007). Examples include emerging market multinationals like Lenovo and Huawei in China as well as Infosys and TCS in India (Khanna & Palepu, 2006; Ramamurti & Singh, 2009). These firms and sectors attract attention because they are beginning to compete on world markets with rivals from advanced markets (Ozawa, 2003). However, having an outward orientation and dependence from the outset, while often successful, is not the only path along which catch-up is occurring in emerging market economies. Many industries and sectors that have been inward-oriented for decades or longer are beginning to reorient themselves and participate in the process of catch-up. The latter process of development has received relatively little attention, and this is unfortunate, because such sectors are often more deeply embedded in the domestic economy and offer a more stable route to long term inclusive development, especially for the larger emerging market economies like the BRIC (Brazil, Russia, India, China) countries.

In order to build a better understanding of the heterogeneity of catch-up phenomena within emerging market economies, this note contrasts two locomotive sectors in India, one of the large BRIC countries: the information and communications technology (ICT) sector anchored in Bangalore, catching up from an outward-looking outset, and the film and entertainment industry (so-called Bollywood) anchored in Mumbai, catching up after a century of looking inward.

As outlined in Table 1, the catch-up models of these two Indian sectors are different along important dimensions, and we shall discuss these differences below.

Bangalore vs. Bollywood

Bangalore is the seminal Indian ICT cluster. Its inception is often associated with the founding of a Texas Instruments (TI) subsidiary in 1985 (Patibandla & Petersen, 2002), roughly a quarter century after the genesis of the globally dominant cluster in the ICT industry, Silicon Valley, in the 1950s (Saxenian, 1985). TI was followed in Bangalore by Microsoft in 1987, Hewlett-Packard in 1989, Motorola in 1991, Oracle in 1994 and Philips and Cisco in 1996. All of these foreign MNC subsidiaries undertook high-knowledge, cutting-edge R&D activities as evidenced by the large number of US patents assigned to them.
However, with a few exceptions, this R&D effort was in support of their parents’ R&D, an example of the fine-slicing of even very high value-added activities (Mudambi, 2008). These early investments created knowledge spillovers to local firms and spurred establishment of sophisticated (public) telecom links. This was used to good effect by local firms that were to become the main players in the Indian software industry – Infosys, Wipro and Tata Consultancy Services (TCS), all of which located operations in Bangalore. These local firms, followed by a multitude of others, soon recognized the advantages of undertaking standardized tasks for MNCs – initially for their subsidiaries in India and soon after servicing their locations around the globe. They began at the bottom of the “smile of value creation” (see Figure 1 below, adapted from Mudambi, 2008), undertaking “implementation and testing”, i.e., tasks involving coding, data entry and so on. From the very beginning both the MNC subsidiaries and the Indian firms were outward-looking, focused on servicing clients in advanced market economies in areas like business process outsourcing (BPO) and IT-enabled services. Even today, Bangalore invests little in developing its domestic market. This is ironic since ICT is currently India’s biggest growth sector, growing in spite of the benign neglect of the leading firms in the industry.

“Bollywood” is the popular name for the cluster in Mumbai (formerly Bombay) of hundreds of producers of feature films and related entertainment. Its inception can be dated to 1912, at roughly the same time as the globally dominant cluster in the entertainment industry, Hollywood. Bollywood is a mature cluster that has traditionally been...

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**Table 1: Bangalore and Bollywood’s Models of Catch-Up**

<table>
<thead>
<tr>
<th>Development potential</th>
<th>Bangalore</th>
<th>Bollywood</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Young ICT cluster (inception: 1980s)</td>
<td>Old entertainment cluster (inception: 1910s)</td>
</tr>
<tr>
<td>Outward-looking from inception</td>
<td>→ few investments in domestic market</td>
<td>→ inward-looking for almost a century</td>
</tr>
<tr>
<td></td>
<td>→ modest domestic spillovers to suppliers or other industries</td>
<td>→ investments in domestic market</td>
</tr>
<tr>
<td></td>
<td>→ domestic spillovers to suppliers and other industries</td>
<td></td>
</tr>
<tr>
<td>Catch-up model</td>
<td>Early and one-way global connectivity</td>
<td>Late, but two-way global connectivity</td>
</tr>
<tr>
<td></td>
<td>→ inward investment impetus, outward market focus</td>
<td>→ Inputs from Indian diaspora, outward investment</td>
</tr>
<tr>
<td></td>
<td>→ early but slow catch-up, steady exports</td>
<td>→ late but rapid catch-up, booming exports</td>
</tr>
<tr>
<td></td>
<td>→ imitative in value creation as well as value capture capabilities</td>
<td>→ leapfrogging in value capture activities</td>
</tr>
<tr>
<td>Strategic challenges</td>
<td>Build two-way global connectivity through acquisitions—in order to catch-up to bleeding edge in value creation and value capture</td>
<td>Use existing two-way global connectivity—in order to leverage existing value creation capabilities to create global products</td>
</tr>
</tbody>
</table>

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**Figure 1: The Software Development Value Chain**
almost entirely looking inward at the Indian home market. While thus being central to Indian national identity for almost a century, Bangalore has also been characterized by very poor economic performance. Since the 1990s, however, the cluster’s sales and exports have been skyrocketing and the cluster has built widespread synergies with TV, pop music, computer games and advertising. Consequently, while Bangalore’s approximately 250 annual feature films represent 15 percent of India’s film output, the cluster accounts for 40 percent of India’s film revenues, with a current annual growth rate between 10 and 20 percent and notable quantities of outward foreign direct investment (FDI). It is largely due to Bollywood that entertainment now is India’s second biggest growth sector and that India is becoming an important global player in the booming global entertainment sector (Lorenzen & Täube, 2008).

"...the nature of their global connectivity plays an important role for the different modes of these clusters’ catch-up..."

Below, we analyze key dimensions of Bangalore and Bollywood’s recent development. We find that the nature of their global connectivity plays an important role for the different modes of these clusters’ catch-up with respect to value creation and value capture.

Global Connectivity: One-Way vs. Two-Way

Even if Bangalore has traditionally been much more outward-looking than Bollywood, a crucial factor for both clusters’ catch-up is how they have been connected to the world economy. Bangalore was already connected upon its inception, but in a one-way connectivity, where capital and knowledge was pipelined into the cluster. Knowledge spillovers were largely from foreign MNC subsidiaries to domestic firms, while foreign subsidiaries themselves served their overseas parents. Even the large domestic firms did most of their work responding to user specifications rather than driving the technology frontier themselves. This is evidenced by the fact that even by 2008, TCS has accumulated a grand total of 7 US patents, while Infosys has 4. Finally, a significant share of knowledge spillovers were embodied in the mobility of engineers and managers from MNCs and MNC subsidiaries to domestic Indian firms. There is little evidence of “reverse mobility”, i.e., of Bangalore pipelining talent abroad.

Bollywood became connected to the world economy much later than Bangalore, but when it did in the 1990s, it quickly developed a two-way connectivity, where knowledge and talent was pipelined in and investments pipelined out of the cluster. For a short period after Bollywood’s inception, a handful of studios enjoyed connections to European filmmakers, actors, and cinematographers, but after World War II, the cluster lost global connectivity. Small-scale producers became dominant, relying on local capital, talent, and inspiration. Film formulae incorporated local musical, dance, and theatre styles and were adapted to local tastes. Since the 1990s, however, Bollywood has become rapidly connected to the global economy in two ways. First, inward connectivity into Bollywood has been established from the 10 million strong Indian diaspora in the US, the UK, Canada, the Middle East, and Australasia. NRIs (non-resident Indians) in these countries are becoming actively engaged in consuming Indian films online, on satellite TV, and on DVD. Many act as “lead users” (von Hippel, 2005), pipelining knowledge on global trends and styles to Bollywood film directors and producers. NRIs also invest directly in Bollywood productions or companies or infuse global talent into the cluster through pursuing careers in Mumbai. Second, outward connectivity from Bollywood consists of the cluster’s recent on-location shooting all over the world, plus its notable FDI into exhibition channels and production infrastructures abroad. Bollywood companies currently own more than 250 cinemas across North America and large shares of several Hollywood production companies. This connectivity is particularly impressive, as Hollywood has had little luck with its attempts at investing in the Indian entertainment market.

Catch-Up: Value Creation vs. Value Capture

From its outset, Bangalore undertook implementation and testing activities. It is now widely recognized that it is imperative to move up the value chain toward higher value-added activities (Figure 1). Bangalore’s move to build capabilities of design and post-production client support occurred fairly rapidly, but even the most advanced Indian firms are having difficulty moving to the highest level of the business with respect to value creation (here, the highest value-added lies in conceptualization) and value capture (here, business development activates offer most growth potential). They derive relatively little revenue from bespoke consulting businesses, which offer the highest rates of value capture. This is at least partly because Silicon Valley continues to push the technological edge, leaving little scope for clusters elsewhere to leapfrog. Indian firms have responded to this challenge by undertaking a series of targeted overseas knowledge-seeking acquisitions to build capabilities in specific areas. Examples include the TCS acquisition of the Swiss firm TKS-Teknosoft and Infosys’ acquisition of the UK consulting firm Axon. Some acquisitions had added customer relationship aspects, as when Wipro acquired the continued on page 10
Bangalore and Bollywood showcase the heterogeneity of catch-up phenomena within emerging market economies... 

Continued from page 9

Finnish firm Saraware not only for its wireless semiconductor patents and expertise, but also because it was intimately related to the Finnish cell phone giant Nokia (Dossani & Kenney, 2009). In 2007 alone, Indian ICT firms undertook 48 strategic acquisitions valued at about $2.5 billion, though the current pace has fallen off due the global recession. These developments could herald a new level of connectivity for Bangalore, as knowledge and skills flows between the Indian operations to overseas locations become increasingly two-way.

In the course of a century of looking inward, Bollywood developed strong capabilities of value creation—i.e., the production of blockbuster films for a mass market. However, Bollywood’s focus on the hugely fragmented home cinema market and the cluster’s disintegrated industry structure with poor marketing and distribution capabilities did not allow it to capture value efficiently. Since the 1990s, however, Bollywood’s two-way global connectivity has allowed for a late but dramatic catch-up with respect to value capture capabilities. While Hollywood hesitated to take advantage of new distribution technologies, Bollywood decided to leverage the diaspora markets to introduce satellite TV and online film distribution. Such technological leapfrogging was necessary to capture value from the affluent diaspora which remains so geographically dispersed globally and across national territories that traditional cinema distribution is not viable. The value thus captured has been strategically reinvested in catching up to Hollywood’s core capabilities in large-scale global marketing and distribution. The connectivity to the diaspora has also been used to repackage the economic value encapsulated in Bollywood’s main product: the skills as well as trend and style inputs pipelined from the diaspora are helping Bollywood to change the masala (mixed-genre) formula to create a product that is more exportable to the global market. To further catch up and move into higher value-added activities, Bollywood is now acquiring shares of Hollywood. The 2009 acquisition by Bollywood’s Reliance Entertainment of US Dreamworks may signal a phase when Bollywood’s global connectivity allows the cluster to co-produce Hollywood films, or even develop films that blend the styles of the world’s two largest film entertainment industries to a new and truly global product.

Emerging Market Clusters: The Importance of Connectivity for Catch-Up Processes

Bangalore and Bollywood showcase the heterogeneity of catch-up phenomena within emerging market economies: an outward-looking and inward-looking cluster, respectively, currently struggling to catch-up to dominant clusters in different ways. Both Indian clusters are in crises of adolescence: they are very close to maturity, but they still need to earn legitimacy and recognition as equal partners in the global value system. Each faces its own challenges. Bangalore needs to live down its reputation as a low cost ICT service provider. Bollywood needs to break out from the confines of the Indian cultural silo and develop a truly global entertainment product.

Decades of one-way connectivity offered Bangalore little opportunity to catch up, and thus, the cluster now pursues an acquisition strategy to enhance its connectivity to the global ICT industry. Very soon after the Indian diaspora offered Bollywood global connectivity, the cluster has entered into a strategic process of connecting to Hollywood through acquisition. Hence, the fundamental differences between Bangalore’s and Bollywood’s industry and technological context aside, our comparison of the two Indian clusters demonstrates how important it is for emerging market economies to build a two-way global connectivity as a part of the process of catch-up.

The links between connectivity and catch-up highlighted in the Bollywood and Bangalore illustrations have echoes in other large emerging market economy clusters. Our analysis resonates, for example, with the experiences of electronics clusters in China like Suzhou and Dongguan. Advanced economy multinationals, “diaspora” Chinese firms from Hong Kong and Taiwan and local firms are all major investors here (Yeung, 2004). While the multinationals are largely focused on component supply for final sales in advanced economy markets, local Chinese firms have established entrenched positions in the burgeoning domestic market (Yang, 2007). Meanwhile, the highly organized “diaspora” Chinese firms offer crucial inflows of investment and knowledge as well as conduits to advanced economy markets.

References


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Multinationals Make Money in the Third World
Louis T. Wells, Harvard Business School, USA

Medical doctors collect antique surgical instruments; dentists, exotic antique advertising for false teeth; chefs, old and odd kitchen equipment. Do international business scholars collect anything related to their field? Maybe antique stock certificates of defunct multinationals or old maps, but I collect tokens that foreign investors issued in developing countries. The tokens—coin-like objects generally made of brass, copper, nickel, or aluminum, but sometimes of iron, tin, cardboard, or vulcanite—were used at plantations, mines, trading houses, and other businesses in Latin America, Asia, and Africa, mainly in the 1880s to 1920s (see illustrations and captions, p. 14). Some of the foreign investors have survived as today's multinationals; many were what Mira Wilkins has called "free-standing multinationals" and have disappeared over the years. A large part of the pleasure of collecting their tokens lies the search for who the investors were, why they went where they did, and what happened to them.

What Are Tokens?
"Tokens" were usually struck and look much like coins, but they are not official tender. In fact, sometimes they were made by countermarking official coins. For example, a few German coffee growers in Guatemala stamped their initials on small-denomination German coins and turned them to use as tallies for coffee pickers. (Countermarks also appear on tokens to change their value or to designate a different plantation or different owner from what was originally envisioned.) Foreign investors used tokens for a number of purposes: as simple monetary instruments to pay wages, particularly in remote areas with little local currency; as tallies as well as payment for coffee, tea, or banana pickers, stevedores, and similar; as queuing tokens in banks; as employee identification when paper record keeping was difficult; as receipts for the day's tool kit; as advances for seeds and other expenses; as lunch, drink, transportation, or rationing tickets; as devices to operate machines such as telephones, games, or slot machines; as casino chips; simply for advertising; and more. Often tokens could be spent in a company-owned store or periodically (say, mining, plantations, or transportation), or seeking only tokens bearing currency denominations, for example. A collector runs up against the fuzzy borders as to what a foreign investor is. One might collect tokens for Guatemalan coffee plantations only if they were owned by a company registered in Germany; alternatively, one could include tokens issued by Germans who migrated there, even though they might remain permanently. A collector must decide whether the British East India Company and its Dutch equivalent (the VOC) were multinationals or quasi-government powers that could issue what was for all practical purposes coinage of the realm in India and the Netherlands East Indies. What about the largely private, but non-profit, American Colonization Society, which issued tokens for Liberia bearing an 1833 date? Was czarist Russia a Third World country? How about South Africa, pre-statehood Hawaii, or Puerto Rico? Borders can be drawn to suit a scholar’s interest, pocketbook, or travels, of course.

Making Choices
A collector faces choices: concentrating on a particular host country or region or on a particular home country, specializing in an industry (say, mining, plantations, or transportation), or seeking only tokens bearing currency denominations, for example. A collector runs up against the fuzzy borders as to what a foreign investor is. One might collect tokens for Guatemalan coffee plantations only if they were owned by a company registered in Germany; alternatively, one could include tokens issued by Germans who migrated there, even though they might remain permanently. A collector must decide whether the British East India Company and its Dutch equivalent (the VOC) were multinationals or quasi-government powers that could issue what was for all practical purposes coinage of the realm in India and the Netherlands East Indies. What about the largely private, but non-profit, American Colonization Society, which issued tokens for Liberia bearing an 1833 date? Was czarist Russia a Third World country? How about South Africa, pre-statehood Hawaii, or Puerto Rico? Borders can be drawn to suit a scholar’s interest, pocketbook, or travels, of course.

Surprisingly, I am aware of no other IB scholars who collect tokens of foreign investors. Most token collectors focus on an issuing country, an area (e.g., British colonies), or an activity (e.g., mining), with no special interest as to whether the investor was a foreigner. Although there are catalogs of tokens for several countries, they rarely include the kind of information an IB scholar would want. Moreover, their coverage is very incomplete. Collectors thrive on discovering tokens heretofore unknown or unpublished, of course.
Locating Tokens

Where to find tokens? They are often sold by coin dealers, at coin auctions, and on eBay. I most enjoy finding them in-country. Local dealers in “antiques,” markets catering to foreigners, coin collectors, and even jewelry shops can be sources in developing countries. Prices vary tremendously by scarcity and demand. Strong interest by a few Dutch and British collectors has driven prices for some tokens of the Netherlands East Indies and West Africa hundreds of dollars; on the other hand, many Central American tokens go for a few dollars or less. Some tokens are extremely rare, with only one to five examples known. Occasionally what was thought to be rare becomes more common when someone locates a hoard. A bag in the back of a warehouse in Sumatra was allegedly the source of the large number of once very rare Herrings & Co. tokens that appeared on the Southeast Asian market mainly in the early 1990s, for example. One warning: like for other antiques, high prices (and published pictures) encourage copying and creativity. The Southeast Asian market is rife with fakes, fantasies, and false attributions; they show up in-country and now on eBay.

Doing Research

Tracing issuing companies usually requires access to old commercial directories, colonial documents, London and other stock exchange records, history articles and books, and, of course, Google. (By the way, the study of tokens, medals, and similar is often called “exonumia” in the U.S., or “paranumismatics” in the U.K.) Some of the interesting questions to study go beyond the investor. Why, for example, were so many of the tokens of the Netherlands East Indies denominated in dollars, even though it was a Dutch colony? The likely answer is somewhat complicated. The dollar reference is not to U.S. circulating dollars, but to trade dollars, silver bullion coins struck at U.S., U.K. and Japanese mints for use abroad. Chinese workers on the plantations wanted to redeem tokens for silver bullion to remit to China, which was on the silver standard in the late 19th century. Investors allegedly benefited from the deal. The Dutch and other European markets for Deli (mainly cigar wrapper) tobacco were on the gold standard. With the silver price declining against gold, silver-denominated wages could favor the plantation owners.

Another warning: for those with a collecting instinct and habits instilled from academia’s “publish or perish,” collecting tokens can be addictive and lead to publications. There are outlets: broad numismatic journals as well as a few journals devoted to tokens.

Author’s publications on tokens:


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Illustrations and Captions

Figure 1: Chile, Dupont Nitrate Company, Oficina Delaware, 20 centavos, nitrate mine, bi-metalic, 28mm.

Dupont is, of course, a U.S.-based multinational. It operated a nitrate mine, Delaware, in Taltal, Antofagasta, with nitrates going directly to its U.S. explosives works. It ran the mine at least from 1918; the mine may have previously been German. By 1927, the development of synthetic ammonia was leading Dupont to cut back on nitrate mining.

Figure 2: Reverse of Fig. 1. Vale Para la Pulperia/ 20 cts. Pagadero Sin Discuenta.

The inscription states that the token is valid in the company store and is to be honored without discount.

Figure 3: Ceylon (Sri Lanka), KDC monogram of Keir, Dundas & Co., copper, 26 mm.

KDC was established in Kandy in 1854 by Simon Keir, G. H. Dundas, and Captain John Keith Jolly, British planter-settlers in Ceylon, as an agency, general merchant, and owner of coffee plantations. The company eventually expanded downstream into coffee mills, but it soon succumbed to business problems from the disruption to trade from the American Civil War. Its Ceylon assets were taken over by Duncan, Symons & Co., probably in 1866. Some tokens are countermarked with D and/or S for the new enterprise. In an 1873 reorganization some or all of its assets were acquired by Duncan, Anderson & Co. Plant disease soon led to Ceylon’s shift from coffee to tea exports.

Figure 4: Reverse of Fig. 3.

The token is said to have represented 4 ½ pence. Few tokens from foreign investors were pictorial. Most carry only indication of issuer, denomination, and perhaps use; some are crudely made locally. The particularly attractive tokens of some British agency houses in Ceylon were struck in London.

Figure 5: Netherlands East Indies (Indonesia), Unternehmung Tandjong Alam/ Gut für 20 Cents/1891, cupro-nickel (?), 40 x 28 mm. Reverse is blank.

Tandjong Alam and several other tobacco plantations near Tandjung Balai, in Sumatra, belonged to H. Herrings & Co., a firm registered in Bremen, but headquarters for the plantation was listed as Amsterdam. It is not clear whether H. Herrings was himself German or Dutch, but he had previously worked for the Dutch Deli Maatschappij; the tokens' inscriptions are in German. Herrings used a different shape token, or different center hole in the token, for each plantation – round, oval, square, triangular, pentagonal. The plantations were re-organized into Nederlandsche Asahan Maatschappij soon after 1891, with H. Herrings as a director. Tandjong Alam was merged into Tanah Radja and, after rounds of financial problems, in 1911 Tanah Radjah and other properties went to United States Rubber Company, which became Uniroyal. The estates were nationalized during the Suharto period, then later returned to Uniroyal, and in 1986 sold to Bakrie & Brothers, an Indonesian company.
Figure 6: Guatemala, Compania Hamburguesa de Plantaciones en Guatemala/Osuna Rochela/San Andres Osuna, denominated in Mais [corn], but counterstamped with a “3,” brass, 27 mm. Reverse is identical.

The coffee plantations were acquired by German interests in the 1890s. The parent company was listed in a trade directory in 1897 and on the Hamburg stock exchange in 1905. Along with other German properties, its plantations were seized in 1919, at the end of WWI.

Figure 7: Mozambique, Sena Sugar Estates Limited/Pagamento Homem Prazos, copper or brass, 33 mm.

This was a British-financed company that was established in 1920 to consolidate several sugar estates in Mozambique. The company was nationalized in 1977/8 and its facilities suffered severe damage in the civil war of the 1980s. “Pagamento Homem Prazos” indicates that the tokens were for payment to workers on prazos. Under the Portuguese, the original grants for prazos in Mozambique included almost feudal powers.

Figure 8: Reverse of Fig. 7.

Luabo is a place name, indicating the location of the plantation. The three holes specify the denomination for illiterate workers.

Figure 9: China, Shanghai Volkswagen, plastic, 30 x 55 mm. Reverse is blank.

The Chinese text says “Shanghai Volkswagen Company, Ltd./150 grams/5 liang [equivalent to 150 grams]/meal (rice) ticket.” Issued by 1993 and likely a lunch token. Founded in 1984, Shanghai Volkswagen Automotive Co., Ltd., is a joint venture between the German Volkswagen Group (50 percent total, through two VW firms) and Shanghai Automotive Industry Corporation (50 percent).
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