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India:

The next big opportunity for New Zealand business?

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The growing Indian economy holds huge opportunity for New Zealand business, both as a market and a low-cost production base. There are several key sectors where India's pressing needs can be met by New Zealand's distinct competitive advantages. To realise this opportunity for increased international business, New Zealand firms need to find market entry modes that balance resource commitment and risk with the need for control and appropriation.

New Zealand as a small open economy heavily dependent on the rest of the world has enjoyed what might be charitably described as mixed success in its international economic engagement over recent years.[1] The country's share of world exports was 0.28 percent in 1980; by 2007 it was down to 0.19 percent. Annual export growth over the period 2000-2007 was a modest 3 percent. More generally, New Zealand's international competitiveness rating has slipped in recent years, with the country ranked 24th in the 2008 Global Competitiveness Report.[2] Various explanations for this poor international economic performance have been offered, including the challenges which result from small average firm size,[3] remoteness and distance from major world markets,[4] and a distinct industrial structure[5] which sees the country dependent on the primary sector for almost two thirds of exports. One area where New Zealand's trading sector has enjoyed success has been in achieving market diversification.

Trade, which for many years was overly dependent on the United Kingdom, has been redirected to a much wider range of markets. Exports are now spread across a number of key markets including Australia, the United States, the EU, Japan and the People's Republic of China (hereafter termed China). Despite the concerns of New Zealand's geographical remoteness the country is well placed to capitalise on the extraordinary economic growth and development that has been experienced by the large emerging markets of Asia, particularly China. Growing linkages between the two economies as well as the conclusion of a free trade agreement have elevated China to one of New Zealand's most important trading partners with exports to China in 2008 in excess of $2 billion dollars. Although China offers immense economic opportunities, it is not the only large emerging economy in this region; India is attracting a growing amount of interest. Trade statistics suggest that New Zealand business has, to date, not paid that much attention to opportunities in India. For example, in 2008 New Zealand's exports to China were almost six times the level of those to India. While China was New Zealand's third most important trading partner, India ranked a lowly 24th.

In this paper we suggest that for a number of reasons New Zealand business would benefit from greater engagement with India. One reason is the high rates of growth which India has enjoyed in recent years. While these have been lower than the stellar rates posted by China, average growth rates of 6-7 percent are still impressive. This has raised Indian per capita incomes to levels where consumer discretionary spending has surged and tastes have begun to shift towards imported products. Secondly, New Zealand exporters have tremendous opportunities in areas such as food and beverages, commodities including coal and wood products, agricultural technologies and tourism. Third, the scale and diversity of the Indian economy means that it offers a range of opportunities to business: as final markets, as a source of specialist resources, and a location for lowering costs through frugal engineering and corporate R&D for example. Fourth, in the very long run India will constitute one of the largest economies in the world. Given its favourable demographic profile, forecasts suggest that by 2050 India could catch up with the United States in terms of size of the economy.[6] This would suggest that few businesses can afford to ignore the

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Indian market. Fifth, while large emerging markets such as India remain challenging locations in which to do business,[7] in some areas – particularly trade restrictions - India has made some positive progress. Sixth, while the world economy struggles to deal with the global capital crisis, emerging markets, including India, appear to be less adversely affected than New Zealand's traditional markets.[8] For all these reasons we suggest that now is an opportune time for New Zealand business to increase its commitment to the Indian economy.

Our arguments are organised around five major sections. The following section offers a brief overview of the growing attractions of the Indian economy including the extent of liberalisation, and the types of benefits which are available. Section three provides a discussion of the key sectors and possible entry modes which are likely to be most successful for New Zealand business. This is followed by a consideration of the principal challenges that New Zealand business might expect to face and how these might be overcome. The final section offers concluding thoughts.

Attractions of the Indian market

As suggested above, India offers a number of attractions for international businesses. These attractions result from both the structure of the Indian economy as well as recent policy initiatives which have improved the business climate. In the last decade, significant structural reforms have helped India become one of the world's fastest growing economies.

India was for many decades one of the most highly protected economies in the world. During the period of 1950-1973, the Indian leadership embarked on a development strategy based on economic self-reliance and a regulatory framework that severely limited international engagement. Following the experience of China and the USSR, India adopted central planning and state control. Restrictive policy measures included industrial licensing, import substitution, and severe limitations on financial markets. These restrictions provided considerable protection for domestic firms from price competition, encouraged ongoing inefficiencies, and supported a highly fragmented structure within the Indian economy.

Like many developing countries, India's reforms were preceded by an economic crisis, in this case a crippling balance of payment crisis in 1990-91. Although the external payments crisis provided the immediate impetus for change, there were other political and international factors that had been pushing India towards radical policy reforms. First, relative stagnation over a considerable period suggested the need for change. Second, some cautious and limited deregulation during the 1980s indicated that higher rates of growth were possible.[9] Third, the spectacular rise of China encouraged the newly elected Indian government to embark upon a reform programme that set India on the path of significant growth and development. This programme opened the economy to the world with the aim of developing trade and investment opportunities. The reforms abolished industrial licensing, floated the exchange rate, and increased domestic and foreign participation in financial markets. India gradually abandoned the use of quantitative controls in economic management in favour of market-based instruments. There was a decisive shift away from an inward orientation towards greater integration with the global economy.

Over the 1990's these reforms provided a considerable boost to both productivity and economic development. India's economy has doubled in real terms since the reforms began in 1991, and shows little sign of slowing down. For example, India has enjoyed annual growth rates of 8-9 percent during the period 2003-07. This contrasts to average annual growth of per capita GDP of just 1¼ percent in the three decades from 1950 to 1980. The broad commitment to the reforms by various governments appears to be irreversible and is driven by a collective belief that India must have a strong economy to improve its standard of living, to be taken seriously by the rest of the world, and, not least, to keep pace with neighbouring China.

The reforms have created increasingly attractive business opportunities. International businesses are attracted to the Indian economy for three major reasons. The first, and the most significant for New Zealand exporters, is as a market. India offers a huge market comprising more than a billion increasingly affluent consumers. Forecasts based on current growth rates suggest that by 2025 India will offer the world's fifth largest consumer market with consumer spending quadrupling over the next 20 years. India's middle class is expected to increase from 50 million to 583 million over the same period.[10] A number of New Zealand based businesses are already taking advantage of these opportunities. For example, Vista Entertainment Systems has achieved an approximately 60 percent market share for its cinema software amongst Indian multiplexes.

Second, India also offers extensive prospects for firms seeking to lower costs. Its huge low-cost and well educated workforce provides opportunities for outsourcing services such as software development and business processes. For example, a number of New Zealand health providers outsource the reading and interpretation of X-rays to lower cost technicians based in India.

Third, India's strong IT sector as well as its rapidly developing manufacturing sector provides additional sources of specialist skills and resources which can augment the capabilities of New Zealand businesses. A well known example is in the area of "frugal engineering" with India at the forefront of developing low cost motor vehicles. This capability is the result of investment by both foreign investors (Renault and its Logan car) and local producers (Tata's ultra low-cost Nano). India's favourable demographics mean that it will continue to offer specialist skills to much of the world in a number of areas for the foreseeable future. The following section provides a more detailed discussion and examples of how New Zealand businesses can capitalise on these opportunities.

Opportunities for New Zealand business in India

In recent years the view of India as an economic partner has undergone a change in New Zealand. This change has been driven largely by the dramatic rise of India, its rapid growth and growing influence both regionally as well as internationally.[11] Increasingly New Zealand sees economic relations with India as a priority with India becoming an important market for New Zealand especially with regard to IT software, defense, security, and telecommunication equipment.[12] The opportunities for New Zealand companies have to be considered in the light of these sectors that offer long-term opportunity, where price points are acceptable, and where high-value solutions, rather than low-value components, are sought. At the same time, India is also becoming progressively more important in the global value chains of major manufacturing and service industries. New Zealand companies have considerable potential to tap into parts of these global value chains, positioning themselves as innovative suppliers at critical steps in the value-adding process.[13]

The key sectors that have attracted significant interest from international investors are Information Technology, Biotechnology, Food Processing and Infrastructure.[14] The possible reason behind the interest within these sectors is that, although domestic firms in India have access to skills and capital, they often lack the necessary expertise and innovation abilities critical for the successful development and growth.[15] Hence, although India has benefits of low cost production and market size, the inability to innovate to world-class standards has motivated foreign investors to collaborate with Indian counterparts to fill potential gaps present in these sectors to the benefit of both sides.

Table 1 presents a summary analysis of the potential prospects that the Indian market offers in these sectors. The growth experienced by the sectors has seen a rapid rise in the number of foreign investors, including New Zealand businesses keen to access these opportunities. A possible reason for the rising New Zealand presence in the Indian market could be because New Zealand firms have complementary competitive advantages and can help bridge the potential gaps present in these sectors within India. As the size of most New Zealand firms is small, it is not surprising that many firms tend to focus on innovation and creativity to develop profitable market niches.[16]

Indian firms today are keen to create global partnerships not only with the intention to expand their operations internationally, but also to fill resource and knowledge gaps through transfer of knowledge/skills and technology across different areas.[17] Considering this, New Zealand firms could capture potential opportunities that may benefit businesses on both sides. Although Indian firms could develop the requisite capabilities themselves, it often makes sense for them to adapt to offerings

Table 1 An Overview of Opportunities for New Zealand Business in India.

Potential sectors	Highlights	Companies India + New Zealand	New Zealand Competitive Advantage	Indian Competitive Advantage	Suggested Mode of Entry	Synergy
Information and Technology	Fast growing. Major growth propelled by exports as India is seen as a global partner. Due to rapid developments the sector is attracting increasing attention from foreign investors.	CMC+QLB CMC + Massey	Ability to provide creative solutions through world-class technology. Such collaborations grant Indian firms direct access to the New Zealand IT industry.	Access to a large consumer base. Can leverage off the excellent reputation that the Indian IT industry enjoys. Indian firms can act as a channel to promote New Zealand's innovation within India and abroad. Third market opportunities for New Zealand firms.	Collaboration	+
Biotechnology	Rising sector likely to reach US$40 billion by 2010. Growing prominence is making India a coveted partner for bilateral technical co-operation. New Zealand has a MOU with India to allow sharing of technical skills and knowledge to expand ties within this sector.	Dr. Reddy's + University of Auckland	The calibre of New Zealand investigators and clinicians in the field is high. Access to innovation within India is frugal; hence look for partners that can support their ventures.	Collaborating with Indian firms will create opportunities to use low-cost services to develop and test products along the value chain as well help finance projects both in India and third markets.	Knowledge Agreement	+
Food Processing	Liberalisation of the market and rapid urbanisation leading to tremendous growth of new opportunities for exploiting the large latent market.	Britannia + Fonterra	New Zealand firms offer advanced technical knowledge and assistance, learning from other international markets & access to R&D strengths.	Alliances with Indian firms can provide a strategic point of entry into the market and provide local market knowledge.	Joint Venture Local +/-	+/-
		United Breweries + Index Distribution	Opportunities lie in various stages such as packaging, preservation of food quality control, specialty processing, and cold chain management system.	Government support of foreign investments by permitting full repatriation of profits and capital invested during the operations.	Distributor (Exporting)	+/-

Potential sectors	Highlights	Companies India + New Zealand	New Zealand Competitive Advantage	Indian Competitive Advantage	Suggested Mode of Entry	Synergy
Infrastructure	The Government of India is keen to develop infrastructure facilities and plans investments of up to US$ 9 billion in the next five years. Major work projects in highways, roadways, airports and ports amongst other facilities. Emphasis on Public Private Partnerships (PPPs).	Beca Group, Aviation NZ, Glidepath, Airways International	New Zealand expertise in engineering consultancy and construction is highly regarded. Firms could offer services such as project feasibility, quality control, architectural expertise & implementation of air navigation systems, areas of weakness in India.	Policies are being developed which aim to standardise and simplify the PPP transactions for airports & related amenities giving much needed transparency.	Project Office Collaboration	+

from overseas markets such as New Zealand. The innovative, market-focused product development services typical of New Zealand capability help create cost effective solutions that encourage Indian companies to identify and create relationships with complementary New Zealand companies.

Drawing on the above discussion there are two main commonalities observed in most of the cases outlined above. First, from the New Zealand perspective, while New Zealand firms have skills and know-how and access to technology, they may lack the market knowledge and capital necessary to fund operations in India. Second, from the Indian perspective, Indian businesses possess local market knowledge as well as sufficient capital to fund operations, but they often lack the necessary technical ability. The other common aspect that could be observed in the examples is the suggested mode of entry. The examples discussed above suggest that New Zealand and Indian firms could develop synergistic relationships through collaborative arrangements which would help both leverage the other's competitive advantage.

Reasons for focus on these four sectors

The sectors that have been highlighted in Table 1 are the most prominent amongst a number that have attracted significant interest from both local and foreign business. This suggests a number of reasons why New Zealand businesses may wish to focus on these sectors.

Information technology:

Technical developments and the opening up of the once protected services industries mean that the IT sector has provided a key driver of development in the Indian economy. Because such services tend to be less dependent on large-scale investments they are less likely to face investment related regulatory hurdles. Furthermore, the rapid growth the Indian IT services market has experienced suggests considerable future potential.[18] While Indian IT services firms are strongly established at the lower end of the industry value chain, they are alert to possible partners that could help them further enhance their capabilities.

In the area of information technology the scope for outsourcing R&D (research and development) holds great potential for New Zealand investors.[19] New Zealand firms like QLB.com for instance, have been early to recognise the promise that the Indian market holds by establishing ties with local firms like CMC (Tata Group). Due to their size New Zealand firms like QLB.com have the ability to provide creative solutions through world-class technology. The collaboration between the firms reflects that Indian firms are keen to capitalise on the niche capabilities that New Zealand businesses tend to offer. In addition to this, the relationship confirms that internationally competitive solutions are being developed in New Zealand and may open third market opportunities through CMC.

Biotechnology:

Besides IT, India is also investing substantially in the creation of excellent capability in the areas of biotechnology and biomedicine, an area of potential interest to New Zealand businesses. The Indian biotech industry today comprises of over 280 companies with six of those generating revenues of over US$ 22.7 million and the industry is set to touch US$ 45 billion in revenues by 2010.[20] Rising prominence of the field has made India a coveted technical partner. Recognising the potential within the industry New Zealand has recently signed a Memorandum of Understanding with India which will allow the two to share technical skills and knowledge to expand ties within this sector. Moreover, Indian firms recognise that technical gaps exist within the sector and are looking for partners that can support their ventures.

This can be seen in the case of Dr. Reddy and the University of Auckland. Dr. Reddy collaborated with the University of Auckland to carry out clinical trials for the super drug "polypill". Indian firms' today aim to reduce cycle times by development and innovation of products, by accelerating clinical research and reducing bottlenecks associated with clinical data management and trials, areas where New Zealand firms and research institutions are highly proficient. Thus collaborating with Indian firms may create opportunities for New Zealand firms and research institutions to use low-cost services to develop and test products early in the gestation period.

Food processing:

With ongoing liberalisation the Indian food processing sector has seen slow but a steady growth. Rapid urbanisation and rising per capita income have contributed to growth and changes in demand patterns leading to tremendous new opportunities for exploiting the large latent market. Amongst processed foods India's total dairy market at NZ$50 billion is one of the world's biggest and steady growth has opened up attractive opportunities for investment in the country's dairy industry. Recognising the potential of the dairy industry New Zealand firms such as Fonterra have entered the Indian market. Fonterra provides advanced technical knowledge and assistance to Indian firms. In addition to this, Fonterra can also provide learning from other international markets and access to its R&D strengths to upgrade quality and lower costs of manufacture in India. The combined strengths of the two parties could be a formidable force in meeting present and future consumer needs. In addition, New Zealand firms specialising in the development of food processing equipment, machinery and technology could also benefit by entering the Indian market, perhaps piggybacking on the inroads made by Fonterra.

Infrastructure:

The state of infrastructure in India has been a major concern for both local and foreign businesses. According to the Government of India, investments of around US$320 billion are expected as part of the 10th five year plan.[21] In order to improve existing road infrastructure the government plans to spend US$50 billion by 2011.[22] The creation of world class infrastructure would require large investments to address both inadequate quantity and poor quality. The authorities are also encouraging private investment through their commitment to Public Private Partnerships (PPP), particularly in the development of highways, ports and airports.

New Zealand expertise in engineering consultancy and construction is highly regarded by both Indian firms and the government. New Zealand firms that seek to enter this sector could offer services ranging from project feasibility, quality control, and architectural expertise such as master planning, design, project implementation management, all areas where India has shortcomings. Opportunities for technology transfer and supply of innovative materials, as well as building and consultancy services also offer possibilities to New Zealand firms. For example, Beca Group supports road and highway developments by rendering consultancy services to their Indian counterparts and government authorities. In addition, in order to support foreign investments in the area, the government has developed a streamlined regulatory framework. This has made it easier for businesses to establish and conduct operations as well as increasing the transparency of procedures. Special regulatory frameworks have been created to help address concerns over land acquisition and protection in the case of default. These actions have been positively received by both foreign and local investors.

In addition to developing and modernising airports, the government also has plans to privatise development activities within this sector. Due to rapid growth airline services and related infrastructure are under considerable strain. Considering this New Zealand firms such as Glidepath and Airways International have been early movers into the Indian market. Glidepath offers baggage handling systems with the aim of further enhancing existing airport facilities in India. Similarly, Airways International plans to offer commercial, operational, and technical experience in Air Navigation Services. These developments provide opportunities for New Zealand firms to contribute to much needed upgraded of Indian infrastructure. In view of this the next section outlines selected entry modes that New Zealand firms could adopt when considering operations in India.

Entry modes

The mode of entry is a fundamental decision that a firm makes when it enters a new market because the choice of entry influences the marketing and production strategy of the firm. The mode of entry also affects how a firm faces the challenges of entering a new country and deploying new skills to successfully market its product or service.[23] Entry mode selection, as outlined in Table 2, is also contingent on several firm-specific traits. First, a firm's resource endowment will influence its ability to exploit market potential and gain competitive advantage in that market. A firm lacking distinctive resources, but willing to share risks and returns, may consider a joint operation method.[24]

Although New Zealand businesses do possess distinctive technological and operational resources, they may lack the ability to finance their operations and may not be able to scale up operations to meet demand in a market like India. Second, the risk of leakage of technologies may affect the entry mode that a business chooses. If the associated risk is high, exporting or a wholly-owned subsidiary mode of operation increases the firm's ability to utilise and protect such technologies. Third, a firm's strategic goals for international expansion will influence entry mode selection.[25]

Table 2 Alternative Entry Modes for the Indian Market.

Entry Modes	Advantages	Disadvantages	Examples	Likely to be used when
Exporting	Low cost and risk. May facilitate economies of scale. Control over technology and intellectual property.	May indicate limited commitment to overseas market. Need to arrange distribution.	United Breweries + Index Distribution Vista Entertainment Solutions	Firm has limited resources. Overseas market is small and low growth. Market needs appear relatively homogeneous.
Knowledge agreements	Low cost, facilitates rapid market penetration. Minimises need for market knowledge. Provides complementary knowhow and resources.	Limited control and market understanding. Danger of loss of intellectual property, quality problems and of creating a competitor.	Dr. Reddy's + University of Auckland	When the advantage of the firm is technology or brand. Firm has limited resources or experience.

Entry Modes	Advantages	Disadvantages	Examples	Likely to be used when
Project Office	Serves the intention of providing facilities to key projects in the local market. Shared risk. Access to local market knowledge.	Dependent on third party for local market knowledge. May result in lack of understanding of government policies/ industry standards.	Beca Group, Aviation NZ, Glidepath, Airways International	When the firm is unable to transfer its knowhow without a local presence, but may not want to take the associated risks of operating in the market. When work needs to be localised.
Strategic alliances/ joint ventures	Sharing of costs, resources and risks. Access to local knowledge. Opportunity to develop close relationships. Reduces the problems of "foreignness".	Sharing management, control and earnings. Ensuring an equitable sharing of costs and benefits. Danger of being "hollowed-out". Challenges of cross-cultural management.	Britannia + Fonterra CMC+QLB, CMC + Massey	When local knowledge or complementary resources are critical. When country of origin effect is negative. May be a government requirement
Piggybacking	Risk and cost are reduced. Reduced need for local market knowledge. Can access the networks of the carrier firm.	High level of dependency and vulnerability. Limited control over activities.	Possible in food processing, infrastructure services	Small and inexperienced firms offering complementary product or service.
Domestic collaboration	Allows firms to pool knowledge, resources and risk.	Problems of effective coordination and management of group. Danger of competition between members.	Possible in sectors such as IT, food processing	When a group of SMEs sell similar or complementary products or services. Undifferentiated commodities prone to excessive price competition.
Wholly-owned subsidiary	High level of control in creating market knowledge. Facilitates adaptation to local market needs.	High cost and resource commitment. Demands senior management time and resources. May create inflexibilities.	Likely where quality or protection of technology are critical.	Tariff or transport costs inhibit exporting. Market needs are idiosyncratic or change rapidly.

When a business attempts to pursue market expansion, entry modes such as a joint venture or alliance may be preferable. The reason a company may pursue either of these modes is because they provide the firm a deeper understanding of local market requirements and practices. However, if a business aims to exploit factor endowment advantages, low commitment entry modes such as sub-contracting, trade, co-production, cooperative arrangements, or piggybacking may be better because risks and costs are lower.[26]

Finally, international or host country experience is also crucial in determining modal choice. Businesses with little or no experience in the international environment or the host country may prefer low control and resource commitment entry modes such as export, sub-contracting, knowledge agreements or countertrade.[27] In contrast, businesses with significant international experience normally prefer intermediate control and resource commitment entry modes such as alliances and collaborations when entering a new market. However, this may not hold true for all businesses, in particular, small businesses.[28] For example, most New Zealand businesses serve offshore markets simply by exporting.[29] Furthermore, the involvement of most New Zealand businesses is limited to certain international markets, mainly those that are geographically and/or culturally similar.[30]

Whilst the points presented above generally hold true for any foreign market that a business considers, the choice of entry becomes particularly important for emerging markets such as India as these markets are quite diverse and volatile making it critical for firms to evaluate the mode of entry in accordance with their business needs. Considering this, there are four primary entry modes that New Zealand firms may consider when entering India.

Exporting (agents/distributors)

The first possible mode of entry that New Zealand firms could consider is establishing operations in the Indian market is exporting through the use of either agents and/or distributors. This would best suit companies that approach the Indian market with the aim of selling products without manufacturing in India or which seek to render services. This mode is possibly the least risky method for entering a market such as India. Having a local representative can help firms not only enter the foreign market but also provide them with the functional knowledge required to operate effectively. Information about regulatory issues, bureaucracy, administrative requirements, and levels of competition for example, can be difficult to acquire in a market like India.[31] Having a local presence can ease the process of market entry, particularly in the early stages.

For example as shown in Table 2, Index Distribution credits its success in the Indian market to its local distributor (the UB Group). The company suggests that having a distributor in the market was helpful in establishing operations, particularly in the initial stages as the distributor helped the company understand the marketplace as well as maintaining strong linkages with customers and with potential support agencies which would have been difficult to establish without local input.[32] This example suggests that New Zealand businesses with operations in India have found the use of a distributor or a representative in the local market helpful. Also, given the nature and size of the Indian market many New Zealand firms may not be able to make significant investments in the early stages of operations due to financial constraints. This mode may suit New Zealand businesses as it limits levels of risk and investment. It could be used by businesses that seek to enter the Indian market with the intention to first test the market and subsequently expand operations.

Knowledge agreements

The second mode of entry that may suit New Zealand businesses is establishing knowledge agreements with their Indian counterparts. A knowledge agreement is where firms in the home market (New Zealand) share knowhow with the firms in the host nation (India) to help develop capabilities that may be jointly shared by both the parties involved. This mode of entry may be well suited for New Zealand businesses and research institutions that are keen on developing capabilities for new markets but may not necessarily have the capital to finance or a market to test the outcomes of such research. Dr. Reddy and University of Auckland are a prime example of such an arrangement. Collaboration between Auckland University and Dr. Reddy was to test a Super-Drug called the "polypill".

The project was led by Professor Anthony Rodgers at the University of Auckland, an institution that enjoys a reputation of being a world-leader in clinical trials. One notable aspect from the New Zealand point of view was the clinical development expertise and global creditability that Professor Rodgers and his team brought to this project. On the other hand, Dr. Reddy helped in financing successful trials and the development of the drug.[33] The calibre of New Zealand investigators and clinicians in the field is high and New Zealand firms and research institutions offer expertise both in terms of ethics and regulatory standards, elements that Indian companies are keen to incorporate into their operations. Indian firms like Dr. Reddy realise that access to innovation within India is limited and hence look for partners that can support their ventures.

Strategic alliance/joint ventures

The third mode is based on an alliance or a joint venture strategy. An alliance is a collaborative agreement between one or more firms in the home market (New Zealand) and firms located in a host nation (India) to share activities in the host nation.[34] This entry mode would best suit New Zealand businesses seeking to conduct operations in the Indian market.[35] The examples highlighted in Table 2 suggest that collaborative arrangements may help develop win-win relationships between Indian and New Zealand companies so that each can leverage the others' competitive advantage. Examples such as QLB.com and CMC as well as Fonterra and Britannia suggest that in many respects opportunities for New Zealand businesses will come in the form of cooperation enabling each partner to specialise in its strengths and augment its capabilities in other areas. Also, such collaborations could give New Zealand firms direct access to other third markets which may not be possible without Indian support. Moreover, most New Zealand businesses seeking to conduct operations in India may have little or no experience with the market and industry trends. Knowledge of the regulatory systems and the business environment and practises may not be that well defined and the foreign investor may face obstacles when attempting to enter the market without any local support.[36] Considering this, firms like Fonterra and QLB.com have created an alliance with their Indian counterparts which allow a deeper involvement with the indigenous market bringing more opportunities to accumulate the knowledge necessary for successfully operating in the local environment. In view of the possible motives for market entry, (such as market expansion, growth, resource exploitation), the alliance mode of entry can be beneficial in creating and transferring market knowledge.

Project office

An alternative entry mode is the project office. A project office would best suit New Zealand businesses seeking to operate in the areas of infrastructure where the companies could set up temporary project/site offices for the duration of a contract. This mode of entry would help New Zealand businesses rendering services in the areas of construction, building and development where the main intention is to Build-Operate-Transfer (BOT). BOT is a "turnkey" investment mode, where a foreign investor (in this case a New Zealand business), assumes the responsibility for the design, construction and development of an entire operation and upon completion turns the project over to the purchaser and hands over the management to local personnel in that market.[37] Given the characteristics of many New Zealand businesses with small size and limited access to finance, this mode of entry can help offset risks.

In addition to this, a project office is also helpful in analysing Indian market trends and the provision of such knowledge to the parent company can help adapt operations to local conditions and mitigate risk to a large extent.[38] The springboard project for the Beca Group into India for example, was a major road construction programme funded by the World Bank and the Asian Development Bank, with which Beca secured a number of initial projects in India. During the early years of its operation the company maintained project offices in India as it realised that successful operations in the market would require the development of local alliances and an intensive phase of learning about the institutional environments in India. Here the company did not use a one-step action process, rather, an evolutionary process involving a series of incremental decisions during which the firm increased their commitment to the Indian market.[39]

Our discussion suggests that these modes may be the most attractive for New Zealand businesses. Having a local presence may suit New Zealand businesses as this not only helps secure market access, but local networks can also prove helpful in providing the necessary finance required to function in the market. In addition, local alliances may also act as a support for third market access, adding to the benefit of both New Zealand and Indian businesses. Having considered the opportunities and possible modes of entry the following section will discuss some of the challenges that New Zealand businesses are likely to face when operating in India.

Barriers in the Indian market

The aspects discussed in this article so far have highlighted the importance of India as a possible market for New Zealand firms. Competing successfully in international markets like India however has its own set of challenges. The added difficulty, cost and risk of going into an overseas market are perhaps the major reasons why businesses without sufficient resources and knowledge are skeptical of international business.[40] The costs involved in conducting operations in India result from added logistics and fixed costs associated with setting up a presence in that market. Foreign firms also need to invest in understanding new markets, set up distribution networks and tailor product offerings to suit the market. Establishing such a presence can be time consuming and expensive for any firm, but particularly for small firms.[41]

Also, firms that decide to operate in the international environment need to be more efficient in terms of generating sufficient revenues to be able to absorb any additional costs incurred and still remain competitive in that market. This is possibly the key reason why most small firms that go international tend to be significantly more productive and capital intensive as compared to domestically oriented firms[42]. This aspect becomes all the more critical for New Zealand firms in markets like India as most firms, both local and foreign, operating in that market tend to be significantly larger in comparison. Size of a given business is an important determinant of whether a firm will engage in international operations. As most New Zealand firms tend to be small by international standards,[43] they may find it difficult to develop efficiency advantages in the Indian market.

Moreover, businesses operating in India are not only larger, but usually engage in diverse production activities. In contrast to this, small firms have a tendency to specialise in order to achieve economies of scale.[44] As a result, most New Zealand firms seeking to conduct operations in India need to scale up their operations to meet local demand which can be risky considering the investments required. The risks associated with making the investments to scale up operations escalate if there is any uncertainty around subsequent business in the market. These difficulties are compounded by the fact that large markets like India are distant from New Zealand which raises costs and risks of entering and developing a substantial presence in the market in comparison to other more proximate businesses. Research suggests that most New Zealand businesses prefer markets like Australia, the Pacific Islands, the U.S. and the UK with which they enjoy cultural similarities or geographical proximity.[45] This suggests that most New Zealand firms focus on markets that are less risky rather than pursuing distant markets like India. Hence, due to limited exposure, firms may lack the necessary knowledge and experience of operating in large markets. This factor is related to the problem of the liability of foreignness.[46]

Liability of foreignness concerns extra costs incurred by a company once it enters a foreign market which a local firm may not face.[47] These costs arise because of the need to effectively operate and manage the host country's task and institutional environment. These costs arise because of a lack of familiarity with the local business environment e.g. suppliers, buyers, competitors and distributors, cultural differences, geographical distance and the institutional environment e.g., legal, regulatory, political, socio-cultural and economic institutions.[48] Liabilities faced in India are high as uncertainties in the industrial environment are largely structural and challenges in the institutional framework are normally unpredictable making it difficult to control external disturbances. Recent social and political conflict also adds to the risks foreign investors face. These aspects are particularly challenging for New Zealand businesses as most are not familiar with such conditions.

Apart from liability of foreignness, the other barrier that could hamper operations is market failure. A characteristic of almost every emerging market is the under-development of local markets and absence of supporting institutions that are critical for conducting market transactions. Market failures can occur in product/service, labour, financial and intellectual property markets in India.[49] Such features are widespread, and although in most cases not overwhelming, they do present considerable challenges where New Zealand businesses are unfamiliar with local business and market practices. This aspect is true for some New Zealand firms that are currently operating in India. Glidepath for example, when first entering India found that difficulties arose from over estimating the quality and efficiency of the Indian labour market, causing problems with meeting client requirements and on-time delivery. Apart from market failure, bureaucracy and corruption are also aspects that can prove to be challenging. These aspects are quite common and New Zealand firms seeking to enter India should be aware of their likely impact on operations. These problems stem from burdensome government requirements, non-transparent governance, and overly complex decision making processes which tend to differ at state and central levels. [50]

The issues discussed above may be easy to deal with if the information to resolve them is readily available. However as the business system in India is highly dependent on personal relations, gathering the necessary knowledge to help deal with these barriers can be a daunting task for New Zealand businesses. In the light of these barriers the following section discusses some implications for New Zealand firms and offers insights into how to deal with the challenges presented by the Indian market.

Perceptions of New Zealand businesses in the Indian market

While in an abstract sense we can identify considerable complementarities and commercial opportunities between Indian and New Zealand businesses, actual success depends critically on effective strategy formulation and implementation. However, when we consider available evidence on Indian perceptions of New Zealand business, significant deficiencies are apparent in both of these areas[51]. Market research of Indian business respondents highlights three principal concerns with regard to New Zealand business. The first is the general paucity of information regarding New Zealand business and their potential contribution to Indian development. While there is a perception of high quality and technology levels in areas such as food and beverages, the overall poor level of comprehension disadvantages New Zealand based firms.

A second concern is that India's experience suggests that many New Zealand businesses have little genuine interest in the Indian market. This is reflected in their reluctance to adapt products to market needs as well as unwillingness to commit to long term relationships within the Indian marketplace. A third difficulty is that New Zealand businesses are perceived to suffer a number of competitive disadvantages in the Indian market. Principal among these are a low level of awareness of their potential contribution, high costs, in part the result of unfavourable location, a perceived reluctance to engage with the SME sector, India's most dynamic, difficulties in scaling up to meet high levels of demand as well as excessive competition between New Zealand producers which frustrates a consistent and coordinated approach to market development.

There are probably two main reasons for these findings. The first may relate to marked cultural differences between New Zealand and India. Particularly significant are the greater acceptance of power distance and widespread collectivism within India. This could help explain differences in attitudes towards competition, cooperation, and the value of long term relationships. The second reason may simply be that New Zealand companies are not yet displaying the level of commitment which a market as large and dynamic as India warrants. There is certainly evidence for India, in the case of Korean whiteware producers and Nokia in the mobile phone industry, that careful market research and the tailoring of products to market needs, increases the likelihood of success.

Some implications

The diversity and size of India makes it a challenging market to operate in. As business systems are largely relationship-based, forming good networks with key stakeholders is critical. Moreover, as market and institutional support is weak, operating in the Indian market can be tough particularly if the firm has limited experience in similar market conditions.[51]

In order to deal with these barriers New Zealand firms need to sharpen and focus their strategic thinking around international expansion. While it is important that New Zealand's policy settings are supportive of international expansion, such actions will have a limited effect without a supply of New Zealand firms with the capacity and aspiration to internationalise.

It is also important that New Zealand firms have commitment towards the foreign market, in this case India. Such commitment is particularly important for markets such as India as it helps establish a strong presence in the market ensuring success in the long run. New Zealand businesses need to develop an image where the company is perceived to be a part of the local environment rather than being perceived as a foreign business. This is critical as it can help create trust amongst key stakeholders and help ensure stability of operations in the Indian market. Like most foreign markets, it is important that New Zealand firms understand the need to invest in developing products or services and technology to meet the local expectations of the Indian market. The success in India of Korean firms such as LG, Samsung and Hyundai illustrates the value of understanding and responding to local needs.[53]

The other aspect that New Zealand businesses need to consider is the way to approach the Indian market. Considering the size and the risks of the market, businesses are best to approach the market on a piece-meal basis rather than a big bang approach.[54]

As discussed earlier, the Indian market presents significant barriers and New Zealand firms should be well aware of those challenges and their possible impact upon entry. Companies such as Fisher and Paykal operating in India suggest that in order to safeguard their interests and be successful in the local market, companies should tap into the domestic market with the intention to first learn and understand the local business environment and then make further investments to expand.[55] The extreme volatility in emerging markets requires different management skills than those that are needed in more mature Western markets. For businesses that are unaccustomed to such an environment such conditions can be very challenging and expensive.

In order to achieve success, firms need to invest in developing strong local networks that will help achieve the information and support required to operate in a market like India. Apart from facilitating this, New Zealand Trade & Enterprise (NZTE), the country's key trade promotion agency, also needs to integrate further with local businesses and other institutional bodies within India to help attain critical support for New Zealand businesses especially in their early stages of their operations.[56] This involves accessing supply chains, obtaining access to local networks and developing an understanding of market preferences. Obtaining increased local market access for New Zealand firms is much more about providing in-market services than negotiating trade agreements. Strong efforts should be made to integrate New Zealand firms into local networks that would assist in establishing economic relationships within the Indian market.

Due to the complexity of the Indian market the priority should be to invest in people-to-people networks through the use of agents, representatives or partners. Substantially increasing New Zealand's economic engagement with India is unlikely to be achieved through simple exporting and trading activities. New business models and new types of economic activity will be required to generate a substantial and sustained improvement in the performance of New Zealand firms within markets like India. Achieving this will involve understanding which parts of the value chain New Zealand firms can be profitably engaged in and can only be accomplished by establishing closer connections and a presence in India.

Conclusions

Our discussion suggests a number of conclusions. The first is the obvious attraction of India for New Zealand business. The Indian market is enjoying comparatively high rates of economic growth and the emergence of a sizable middle class. India's demographic profile means that this growth could continue well into the future. For New Zealand business, India offers considerable appeal including a market of more than "two billion eyes" as well as a low-cost production and development base. Like China, India is one of the major emerging economies which is rapidly accounting for a growing percentage of global economic activity.

Second, in this paper we have outlined opportunities for New Zealand business in specific sectors, emphasising Information Technology, Biotechnology, Food Processing and Infrastructure Development. These are all areas where New Zealand has acknowledged competencies and India has pressing needs. The opportunities for mutually beneficial trade and investment are considerable. This is not to suggest that these are the only industries where international businesses should focus; rather they appear to be areas where commercial success is most likely.

Third, the basis for our expectations is the likely synergism that could be generated through such exchanges. The competitive advantages held by New Zealand business (creativity, technological knowledge etc) are neatly complemented by those of Indian businesses (finance, government connections, familiarity with the local business environment). For this reason we suggest that some form of collaborative partnership should appeal to both parties. The key challenge for New Zealand business is recognition of such opportunities and the cultivation of suitable partners.

Fourth, we have outlined some of the entry modes which New Zealand businesses could consider when contemplating entry into the Indian market. The key issue here is to balance resource commitment and risk against the need for effective control and appropriation of returns. The recent experience of Fonterra and Sanlu, its Chinese joint venture partner, illustrates the danger of inappropriate governance of international operations.

Finally, while we have highlighted the attractions of the Indian market it is essential that these be balanced against the considerable challenges that India brings. The size of the market, distribution weaknesses, capricious government policy, widespread bureaucracy, and social and political risk mean that local knowledge is critical. The lack of familiarity of such operating conditions within most New Zealand businesses raises the value of local partners. Furthermore, we would benefit from some meaningful data on the performance of New Zealand businesses in India. At the present time the small number of such firms, their limited experience in India, their often complex collaborative structures, and the challenges of the current global recession make any such data dubious. Further work on this important topic would be most valuable. However, in the long term the huge potential of India means that these challenges must be tackled if New Zealand business is serious about the country's need for greater international business engagement.

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