

## CHALLENGES AND OPPORTUNITIES OF ENTREPRENEURS IN EMERGING ECONOMIES

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### Abstract

In the present economic scenario no country can afford to slow down the pace of its economic growth. The growth of economy business cycle must be in motion, products and services must be purchased. Now the one who can understand the market better will win the race and also contribute to country's economic growth. Till now we talk about the budding managers that Indian Inc. needs but now comes in picture the emerging people known as entrepreneurs. Entrepreneurs are the one who not only help in meeting their goal but by this way they cater the several needs of society knowingly and unknowingly with their excellent enterprising skills. With the increase of entrepreneurship activities all over the world there is a generation of productive and meaningful employment and these employment opportunities are significantly necessary for the emerging economies as they are going to be hub of business activities. Industrial development is based on the entrepreneurial competencies of the people. The BRIC countries (Brazil, India, China and Russia) are the fastest growing economy and among these some also have significant percentage of youth but surprisingly have almost lowest entrepreneurial activities. This paper strives to dig out the facts that what are the opportunities and barriers which hinder the emergence of entrepreneurs and how the knowledge of these economies can help them to open consumer oriented ventures.

**Key words:** - Entrepreneurs, Economic development, Employment, Challenges, emerging economies (BRICs).

### Introduction

The prosperity of a country is related to its overall development and when we say overall development we talked about the number of production units that are prevailing in that economy. An economy is known as an emerging economy or an emerging market when it is seen through the entrepreneurial nature of the economy. In the past decade, developed countries have grown diminutively. Several developing economies have expanded at extraordinary rates. As developing countries are significant part of the world's economic output many leading economist have predicted them as emerging economies and the global competitive advantage is also shifting from developed to developing countries.

Entrepreneurship played a significant role in economic growth, innovation, and alleviating poverty. And awareness regarding entrepreneurship is needed. In many of the developing countries is questionably the least studied. Entrepreneurship may affect economic growth in various ways. They may introduce important innovations by entering markets with new products or production processes (Acs and Audretsch, 1990). They may boost efficiency by mounting competition. They may enhance our knowledge of what is technically viable and what consumers prefer by introducing variations of existing products and services in the market. The resulting learning process speeds up the discovery of the dominant design for product-market combinations. Knowledge spillovers play an important role in this process (Audretsch and



Feldman, 1996; Audretsch and Stephan, 1996). And finally, they may be prone to strenuous working hours as their income is prominently linked to their working effort. In this paper we strive to find out that what are the upcoming or already embedded challenges and opportunities for entrepreneurs especially young in the emerging economies especially BRIC nations and how with environment they should sustain sustaining success

### Reflection of BRIC nations guide to future economic growth

The BRIC acronym, first invented in late 2001 by Jim O'Neill, then Head of Economic Research at Goldman Sachs, has proved to be visionary and been acknowledged as the “call of the century” by leading investment commentators. However, many investors, entrepreneurs and business leaders are still struggling with it as a guide for future investment and business opportunities. The four BRIC countries are distinguished from a congregation of other promising emerging markets by their demographic and economic potential to rank among the world’s largest and most significant economies in the 21st century. Together, the four original BRIC countries comprise more than 2.8 billion people or 40 percent of the world’s population, cover more than a quarter of the world’s land area over three continents, and account for more than 25 percent of global GDP.

The BRICs are important drivers of economic growth and that’s why they are considered as emerging economies. Basically there are three drivers of economic growth land, labor and capital which are also known as the factors of productions. A country’s population and demographic conditions are one of those factors that could affect the potential size of the economy and also shows its competence to function as steam engine of economic growth. As early as 2003, Goldman Sachs forecasted that China and India would become the first and third largest economies by 2050, with Brazil and Russia capturing the fifth and sixth spots.

**Table 1: BRICs Development Indicators**

BRICs Development Indicators				
Indicator	Brazil	Russia	India	China
Population (2009)	194 mil.	142 mil.	1.15 bil.	1.33 bil.
GDP (US\$, 2009)	1,573 bil.	1,232 bil.	1,310 bil.	4,985 bil.
GDP per Capita (PPP, Current Intl. \$, 2009)	\$10,499	\$14,913	\$3,015	\$6,778
GDP Avg. Growth Rate (1990 - 2009)	2.5%	0.3%	6.3%	10.1%
GDP Projected Avg. Growth Rate (2011-14, as of April, 2011)	4.2%	4.5%	8.1%	9.5%
Merchandise Exports (US\$, 2009)	153 bil.	303 bil.	162 bil.	1,201 bil.
HDI % Change (1990 - 2010; for Brazil only 2000 - 2010)	7.6%	3.8%	33.3%	44.2%
Global Sherpa, 2011 ( <a href="http://www.globalsherpa.org">www.globalsherpa.org</a> ); Data sources: World dataBank, International Monetary Fund (IMF), UNDP Human Development Report.				



These BRIC nations and their development indicators are showing the comparative advantage of starting new ventures lie more in these emerging economies that is how we are seeing that China had the highest GDP and is growing as the fastest economy so investors from the developed countries are also planning to make investment in these economies by opening new ventures and further we would see that how entrepreneurship could be more rewarding for entrepreneurs by discussing country wise the challenges and opportunities.

### **BRAZIL-The leading exporter-but is that enough?**

Brazil is a country which is rich with plentiful resources like minerals, commodities, oil and gas, soybean, rainforest and had adequate amount of water. Brazil is also being famous as it is the largest exporter of sugar, coffer, orange juice and poultry. This country is rich with several resources and for entrepreneurs there are many untouched opportunities in the form of these resources only. Brazil is considered by many economists one of the pricey economies, even the restaurants which situated in Sao Paulo is priced higher than of Europe. Haircuts cost more than of London; bike rentals are also expensive as compare to Amsterdam. The local prices in this economy are high and when a visitor comes from a wealthy nation to this country they felt that there is country is not growing.

Brazil is the leading exporter of many of the raw materials and also a leading partner with US in 2009. It is the country with an expensive currency and high interest rates. Brazil had per capita income of \$12,000 more than two times of china. Brazil is rich in one of the resource and it is oil, and it is now expected to have world's tenth largest reserves and is called as next Saudi Arabia, that is great sign for its growth. The young population is one of the greatest advantages for this economy which brings great demand for western style attires, consumer goods.

But seeing all this facts the brazilin economy is trying to grow as some of the developments are in process and some have been done .According to certain studies conducted by the local brazilin agency it had been observed that young business play significant role in country's growth and development. Small and medium size-enterprises (SMEs) are responsible for 96% of the jobs in Brazil and comprise 98% of all companies in the country. According to the OECD, Brazil reported a large number of high-growth enterprises in 2006. The government's Financing Agency for Projects & Studies (FINEP) has launched a significant project to support start-ups, PRIME, which will disburse around \$65,000 to start-ups focused on innovation. FINEP expects to help 10,000 innovative companies over four years, and thereby generate 10 new jobs per each one directly generated by a new company. In 2005, the Inter-American Development Bank and SEBRAE engaged in a \$1.5 million technical cooperation program to help Brazilians returning home from Japan with the goal of starting new businesses. In 2004, for instance, the government passed a law that allows federal university professors temporary leave to create a start-up. However, there is a lot of room for improvement in the policy realm. Brazil's Ease of Doing Business rank in the World Bank's Doing Business project is 129 out of 183 economies. Starting a business there takes 120 days, double the average for Latin American and Caribbean countries and far worse than the average 13 days for OECD countries.



### **Challenges**

The tax system in this economy is the biggest burden for the new ventures and the new entrepreneurs, the tax burden now in this economy accounts for 38% of GDP that is the highest in the emerging economies, there is heavy load of personal and corporate tax which is hampering up the investment from the corporate.

The poor infrastructure could be another challenge for the emerging entrepreneurs as the government here invests very less on roads and on infrastructure development. If the supply chain would be affected by the poor transport system the demand cannot be upheld and it leads to rising prices. The traffic system is so poor that businesses there had developed an alternative transport system like landing pads on roof tops.

The low investment on the education and skill development create skill shortage, schools are underfunded. Though the unemployment rate has fallen in a decade to low as 6% but the business as they required manpower they have no choice but to hire these unqualified applicants. The high cost of labor and transport in Brazil is direct result of investing less in it. The investment rate in Brazil is just 19% from many years which is lowest in the emerging economies.

Brazil leaders are trying to manage and stabilize exchange rates, interest rates and the flow of foreign money in and out of the country. The brazilin are basically puzzled as it is difficult for them to solve the problem of inflation as inflation hampers higher economic growth, so they are increasing the interest rates but it is again pushing up the value of currency. This economy actually needs more investment, low interest rates and cheap currency. Brazil is one of the hottest stock market in the emerging world. But what the Brazilian economy needs is the path which helps it to be out of low economic growth, transparent tax regimes, removal of trade barriers and low cost of borrowings, good saving habits.

### **Russia-Where cash talks and wealth whispers**

Russia is one of the leading economies and is the largest exporter of wheat. It is the world capital of oversized newly rich people and matchless for its showiness. It is the country which has the largest consumer class, which emerges as entrepreneurial opportunities for many. Entrepreneurship and small businesses started to appear in the Soviet Union after the economic reconstruction that took place in the late 1980s and at the beginning of the 1990s. The modifications in the Soviet system led to the privatization of government-owned companies and created new possibilities for individuals to launch entrepreneurial activities (Ageev et al., 1995; Hisrich and Grachev, 1993; McCarthy et al., 1993). Certain fact about the rising emerging class shows that Russia is rich with millionaires. According to the 2011 Forbes survey of billionaires, Moscow has more billionaires (79) than any other city in the world (the closest is New York with 58) and Russia accounts for a third of Europe's 300 billionaires, and 15 of the world's 100 richest people. Not surprisingly, retail sales in Moscow now exceed Paris and London, and by 2025 the consumer market in Russia, which is now approx. 142m, is expected to be larger than Germany's, one of Europe's largest markets.

Vladimir Putin when became president in 2000 he tried to bring many reforms in the Russian economy like consolidating banks, cutting the red tape required to start companies, reducing personal income tax to just 13%, this all help the Russian economy to bring consumer boom. There are certain sectors in the Russian economy which made it very attractive for the entrepreneurs like food, beverages, agri sector. Food and beverage represents 45% of Russia's



total retail trade and is growing at over 19% per year (compared to approx 12% for non food sectors). As with rise in the per capita income Russians become more affluent, they are demanding higher quality, trusted brands and greater variety which represents great opportunities for new entrants, particularly in Meat, Dairy, Fruit and Vegetables. The average Russian has a higher disposable income than their Western counterparts, the typical Russian has now more than one mobile phone while just 70% of Chinese own only one. For a whole range of historical, cultural and economic reasons, plus a 13% flat tax rate, high home ownership with no debt (a legacy from the post Soviet period in which most Russians were given their homes at no cost) Russians be inclined to spend their money, rather than saving it, and this is stimulating a retail boom which is now spreading to their Eastern European neighbors and boosting the economy for the whole region.

### **Present scenario and challenges**

When the global crisis in 2008 hit many of the economies, Russia was one of the hardest hit countries in the world. The economy got contracted by 10%.The government took certain measures to absorb shocks of that crisis. Inflation is one of the problems for the Russian economy and for the emerging entrepreneurs also for the past two years it is averaged at 7.8% which should be 4.5% for an emerging market. Russia is also investing less in infrastructure like in roads, plant and equipments that workers there are becoming less productive, Russia lack institutional strength and political willingness to implement serious reforms that help to sustain growth.

One more problem or challenge arise in this economy that the middle is gone astray that is the proportion of small and medium enterprise are lower in Russia as compare to any other emerging economy. The concentration of wealth and economic power is seen in only one city that is Moscow. It is lacking balanced regional development; most of the billionaires are residing in Moscow itself. The Russian economy is also lacking in banking system as there are no such modern banks in Russia and the interest rates are high about 15% to 20% on business loans which is a big hurdle for the entrepreneurs. The net foreign direct invest was negative i.e. \$9.5 billion in 2010 meaning Russians were investing more in factories and business abroad but the foreigners were investing less in Russia. Another major challenge for entrepreneurs here could be the working age population which fall by about 870,000 people per year between 2010 and 2015 that is the loss of near to 1% of population each year .With these difficulties it is seen that the Russian economy is becoming less friendly for business.

### **India-A hope to win**

After the reforms of 1991 India took a new beginning and started its journey to become one the developing and emerging economy. India has many good reasons which come to be seen as the each man of emerging nations, an epitome that captures the finest and nastiest tricks of all the most vibrant young economies. There is unbelievable diversity in the country in which youth still have the options between world class engineering schools and Maoist mutiny, yet the large command of English among elites can make it highly uniform and easily accessible to the outside world. India is opening doors for many of the entrepreneurial opportunities and in the previous year's facts have shown that there is lot of entrepreneurial development in our economy. The growing young population is becoming a competitive edge, and a driver of economic growth. By 2020 the average chines will be 37 years old, the average Indian will be



29. This data create a hope that china will get old before it gets rich and India will reach the middle income class status while still they are young. India had numerous opportunities in the field of real estate, IT and communications, retail, education and the list is long.

### Challenges

It is said and researches shows that attitude towards entrepreneurs and entrepreneurship is an important factor that determines entrepreneurial growth in a country but talking about the Indian culture it continues to remain risk averse. Even certain studies have shown that our Indian business men want to invest less in our country because of regulatory environment and are ready to invest abroad. The entrepreneurs here face challenges like limited access to finance, bureaucratic procedure, and poor infrastructure etc. The distribution system is one more challenge for the entrepreneurs in India because of poor infrastructure, low internet penetration.

Table 2: Ranking of India with respect to other countries

Parameters	Ranking
<b>Quality of roads</b>	90
<b>Quality of railroad</b>	23
<b>Quality of Port</b>	83
<b>Quality of Air transport</b>	71
<b>*(World Bank &amp; IFC, 2010/2011)</b>	

This study by World Bank itself shows the state of infrastructure growth in india. Another study by World Bank shows internet condition-

Table 3: Ranking of India with respect to other countries

Parameters	Ranking
<b>Availability of latest Technology</b>	41
<b>Firm – level adoption</b>	39
<b>Internet users</b>	118
<b>Broadband internet subscriptions</b>	100
<b>Internet bandwidth</b>	119
<b>*(World Bank &amp; IFC, 2010/2011)</b>	

The cronyism in this country is a big hurdle for entrepreneurial growth. According to the survey conducted by the National Knowledge Commission, 2008: 50% of the entrepreneurs experienced difficulties while seeking statutory clearances and licenses. Two-thirds faced hassles while filing taxes and 60% claimed to have encountered corruption. To avoid a crisis and to have a better environment India needs to create a society governed more by rules than by personal connections.

### China-The rising Dragon

China is one of the leading emerging economies; in the past few years we have seen how china had touched the incredible pinnacle of growth and technological development. Around 1.2 billion people in the economy it is growing with double digit pace growth. The Chinese have made a remarkable development in terms of infrastructure and technology. In the 12<sup>th</sup> five year plan by the government had created certain opportunities for entrepreneurs like lashing

investment offshore and in real corporate assets to diversify their exposure to US Treasuries, to secure resources and commodities but also to upgrade their service sector (tourism, education, healthcare, technology, financial services etc.). This move will definitely create opportunities for foreign companies as well as entrepreneurs. The Chinese consumption has been growing and this provide many opportunities to the entrepreneurs and one of the area is organic food with increasing urbanization the scope of modern supermarkets have increased the Chinese are also very much cautious regarding food safety, health and diet which increased opportunities in organic food industry. Moreover the Chinese consumer spending has increased at average annual rate of 9%,it is one of the leading market and had replaced Europe and united states. This data itself shows that there are great opportunities for the entrepreneurs. Some facts show that china already had 25% share in the global luxury market. The Chinese men have started rethinking themselves have their way towards being stylish the sales of skin care products grew at 40% in early 2011.

### **Present scenario and challenges**

China is now on the verge of natural slowdown, the sign have started appearing. To grow 10% the country has to sustain this growth. The growth drivers which had pushed the economy are now reaching to a mature stage, the pool of surplus labour dries up, and factory employment reaches maximum capacity. Demographically china is slowing down the rural class slowly vanishing away as they get better paid jobs in the cities. The cheap labour which was the strength of Chinese economy is no longer being there as the urban wages are already rising sharply. Moreover the Chinese are losing the young work force as after the establishment of one child policy in 1979 this positive step had negative impact that now we are seeing in the long run. As a result that only five million between ages of 35 and 44 will join the china's core labour forces this decade and 90 million in the previous decade, which is a major hurdle for the entrepreneurs.

This problem is creating one more challenge that is the wage driven inflation. In late 2011 the average wages were rising at an average rate of 15% and the prices were rising at pace of more than 5%.The situation is that the employers paying to get return their workers at work .The growing need had already arisen provided to workers which shows the increasing negation power of workers, as strikes and walkouts.

### **Conclusion**

Each of the BRIC country is offering various opportunities for the entrepreneurs but the present situation need not be neglected as these challenges would help the entrepreneurs to sustain success through developing strategies. Talking about sustainability it demands for living and carrying out business in such a way that financial gain and economic growth do not move toward at the cost of debasing the environment or make vulnerable living standards and social well-being. The entrepreneurs have to design their business models accordingly to the economies advantages and disadvantages. The entrepreneurs in order to sustain their success should not only focus on these BRIC but other breakout nations like turkey, Saudi Arabia, Indonesia etc. Creating the favorable conditions for rapid growth is more art than science, unconventional polices are required to promote more of entrepreneurial culture.

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