Introduction Remarks by Russ Ackerman, Sr. Director, KPMG High Growth Markets Practice

Mr. Ackerman welcomed the audience and started off the roundtable by highlighting the opportunities and challenges represented by high growth emerging markets. High growth markets are at the top of the corporate agenda, with 84% of senior US executives indicating high growth emerging markets are important to their company strategy, and 84% stating geographic expansion as the top company investment area. US companies are also expanding to a broader range of frontier markets than ever before, such as Kenya, Nigeria, Myanmar, Vietnam and Saudi Arabia. Further, despite years of experience in dealing in emerging markets, companies are finding the challenges and risks are becoming more complex and difficult than ever. The highest reported challenges include the following:

- Market entry challenges
  - Culture and language
  - Infrastructure
  - Government (including corruption, bribery, fraud)
- Revenue growth challenges
  - Local competitive activities
  - Lack of local human talent
  - Reverse innovation/frugal engineering


Introduction Remarks by Richard Coyle, Executive Director, Emerging Markets Institute

Richard Coyle, Executive Director, Emerging Markets Institute followed up by emphasizing the importance of government relations in high growth markets. Government support is needed at every step, not just at the beginning when attempting to obtain required permits and meet local compliance standards. Trade Associations represent collective interests, and are a cost-effective way of establishing and maintaining government relations, especially for smaller players.

Session 1 – Effective Government Relations
Humberto Ribeiro, Visiting Scholar at the Johnson School, and former Secretary of Commerce and Services, Brazilian Ministry of Development, Industry and Foreign Trade, led the first roundtable session about how to foster productive government relations. Drawing from past experience, he found that it was easier for domestic private sector to interact with the government through associations, gathering companies together either by segment, or by specific interests. Periodic meetings, where parties set and evaluate results, were effective. On his experience interacting with foreign governments and international investors, fostering transparent governance and accessible information to all parties paved the way for successful interactions. The DOC (USA) was cited as an example of positive interaction with his Secretariat, as Brazil and US are massive trade partners with historical government relations. Also, the US was mentioned as the global benchmark for competitiveness in service industries.

**Transforming Government Procedures and Processes**

Mr. Ribeiro also overhauled the bureaucratic processes that hindered businesses in Brazil. Associations had pointed out many procedures that were outdated or overwhelming for companies to tackle in order to conduct business. His team streamlined the procedure to open a company in Brazil in less than 5 days - also separating companies that had specific requirements like environmental/healthcare issues from regular day-to-day companies but 90% of companies that open in Brazil now went into an express process. This has enabled 4 million companies to open in Brazil since 2010. It started in the capital, Brasilia, where the procedure has achieved an average of 48 hours to open a new company and granting all registries for operation, paving the way to be adopted in the whole country by 2015. Brazil is an integrated federal government, with 27 states and 5560+ municipalities, making this a complex process. Mr. Ribeiro also oversaw the facilitation process for investor to access investment opportunities, including foreign direct investment (FDI), and expedited process for FDI as well. The last three years have seen the highest level of FDI in Brazil ever, positioning the country among the top 5 FDI destinations worldwide at approximately $60-65 million per year.

**Addressing Issues of Corruption**

A partner at an NYC-based accounting firm offered his views on identifying and addressing issues of corruption in emerging markets. He stated that business units that are doing the best are often the ones that are at the greatest risk of being found guilty of unethical conduct and corruption. The Corruption Perception Index by Trace International is a great starting point. A score of 100 means no corruption and lower scores represent the perception
of government officials asking for kickbacks and payments in order to establish businesses.

The FBI investigates corruption issues on behalf of FCC and DOJ under the US FCPA (Foreign Corrupt Practices Act). They are working on global corruption standards enforcement. India and China are the notable exceptions to signing on, but Colombia, Russia, and the OECD countries are all recent signatories, out of a total of 41. China is the game changer as their current president’s agenda includes cracking down on corruption. Currently, over 50,000 Chinese government officials are under investigation for improper conduct, often done through intermediaries, and third-parties. Therefore, due diligence of third parties is a must.

Transparency is achieved by identifying corrupt conduct. Since “bribery accounts” obviously do not exist, transactions and behavior that may be part of corrupt practices and activities can be very challenging to identify, and even if suspect activities are isolated, they are rarely black or white and need to be evaluated in-depth. Any/all of the following activities can be indicators of corruption:

- One-off aberrational transactions – consulting fees, stock/share payouts
- Hiring relatives of government officials in countries of interest
- Fair market value assessments
- Proof of service
- Excessive discounts to vendors/distributors
- Gifts in kind
- In some countries – listing college students as board directors

Situations where there are business interests abroad that need to abide by US regulations and compliance standards, it is crucial to work with local business partners who can collaborate with US business partners, and work with lawyers who specialize in these matters. There may also be incidences where countries do not enforce the regulatory standards and provisions because they want to attract investment and businesses. Local media serves as a reminder of wrongdoings by companies – e.g. Bhopal gas tragedy (Union Carbide), Chevron in Ecuador, Shell in Nigeria (environmental contamination).

The US faces a competitive disadvantage compared to India and China because Patriot Act and other local regulations require stricter standards of conduct, making it an unfair playing field. This can be extreme in some cases, and one should just walk away from those high-risk markets because the corruption and bribery risk is just too high, especially for a publicly-traded US company.
Lourdes Casanova, Academic Director of the Emerging Markets Institute and Sr. Lecturer at the Johnson School, led the second session. Lourdes focused the discussion on local competition in emerging markets, i.e. emerging multinational companies (EMNCs). EMNCs account for 151 of the Fortune Global 500, i.e. over 30%, of which 2/3 are Chinese companies. Ten of the top 50 companies are from emerging markets as well, including two banks, the Industrial and Commercial Bank of China and China Construction Bank, each having a major global presence (in over 60 countries). Many MNCs have started keeping their money in Chinese banks because they are considered more stable, with lower risk; and also because of potential in RMB currency and Chinese economy. Two other emerging multinational companies are oil companies, Petrobras (Brazil) and Pemex (Mexico). Pemex is in the process of privatization and just signed its first contract with Lukoil (Russia), instead of a US company, as was expected. In recent years, there have been several acquisitions of companies in the West by EMNCs, such as those by Tata (Jaguar, Corus), Lenovo (IBM PCs), and Cemex (Rinker, RMC).

**Succeeding Against Local Competition**

In order to succeed against EMNCs and other local competitors, it is crucial to find a local partner. These partners are often family businesses, conglomerates, or state owned enterprises (SOEs). These partnerships must establish a win-win business model. In the medium- to long-term, there is risk of political instability and currency fluctuations in many emerging markets, therefore, it is important to account for and expect a certain level of volatility and variations in valuation (sometimes 50-100%). It is important to time your entry and exit. Exit opportunities are not as easy or lucrative in the short-term. Larger companies in their home markets usually have more resources to deal with setbacks and volatility in emerging markets; however, while US companies have some of the best business models in the world, it is important to recognize that these may not work everywhere. Business model innovation is very hard to implement in US companies but EMNCs are often younger, more nimble, and constantly adapting to new environments and markets. While internationalization is a hedge against volatility, risk assessment is imperative as the risks may vary drastically by country. Risks can be mitigated by concentrating in an area of expertise and reorganize your foreign assets.
An owner of an African Trading Company offered his thoughts on competing in Africa. He indicated that Chinese firms have established themselves as entrenched competitors.

- China is expanding aggressively while many African countries are still working outside the rule of law – Chinese companies do not necessarily focus on corruption standards – they will expand no matter what and be opportunistic – e.g. China will build roads, schools etc. meanwhile expanding quickly in those countries
- Need to educate the customer about quality – Chinese products can be lower quality on average – but they are expanding fast and are everywhere
- Nigeria – a lot of Indian and Chinese investment – very high growth and expanding middle class – unrest in eastern Nigeria b/c of civil war (Christian-Muslim conflict) – not the most attractive US FDI target – biggest African economy, overtook South Africa
- You have to be aware of whom you are dealing with in any African country – there are 54 African countries that are not united or similar, different speeds, problems, cultures, economies etc.
- UAE companies are also investing in Africa
- Many potential investment opportunities in South Africa, Kenya, Uganda, Mozambique, Angola, Namibia – Nigeria is higher risk
- English speaking countries are doing much better than the French speaking ones except Ivory Coast, Senegal and Morocco

US companies do not invest in some countries for whatever reason but not all countries share the same perspective on those countries as the US, and are therefore expanding into those countries – rise of FDI from companies in India, China, UAE, Brazil >> US must learn to cope with these changing times. For example, Russia has boycotted US agricultural imports – they wouldn’t have been able to do it 20 years ago but today, there are many other countries who are positioned to swoop in where the US is leaving money on the table.

Professor Casanova offered her thoughts as to how traditional MNCs changing/adapting to enter these emerging markets:

- Many EMCs are focusing their efforts in their regions
- See a reorganization of their international assets for MNCs in the US and Europe as well as EMNCs – internationalization is not always easy – focus/prioritization based on what you are best at – can’t win everywhere – e.g. Tracfone is #2 prepaid mobile operator by # of customers in US > owned by America Movil which was the first to implement a prepaid mobile at the large scale in Mexico and jumped on the market gap in the US
Closing - Richard Coyle

Richard gave the participants an overview of the Emerging Markets Institute (EMI) and the EMI Fellows program. He gave a glimpse into upcoming events, including the China Conference on October 14, 2014, and Lourdes Casanova’s book launch on October 15, 2014, in New York, NY, and a speaker series in Ithaca. He encouraged companies to consider becoming members of the EMI Corporate Partners Program. Lastly, he congratulated Lourdes on starting her term as EMI Academic Director and Humberto on starting his term as EMI Visiting Scholar.