

APRIL 2006

THE FINANCIAL DIRECTOR GUIDE TO:

EMERGING MARKETS



In emerging markets
the biggest risks
aren't always
the obvious ones.*



By definition, emerging markets are less developed and present unfamiliar risks – like rapid growth outstripping the local infrastructure's ability to keep up. Half the battle is knowing what to watch out for. And experience in your domestic market may well be of little use when you're far from home. Cultural differences, supply chain issues, legal and tax systems, and political instability all create unaccustomed challenges. But they can be overcome. At PricewaterhouseCoopers we understand these factors and can work with you to develop a strategy, choose a market that's right for you and manage the risks.

To give yourself a better chance of success visit
www.pwc.com/emergingmarkets

*connectedthinking

PRICEWATERHOUSECOOPERS 

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Wealth of nations

NO BUSINESS CAN IGNORE THE ASTONISHING OPPORTUNITIES PRESENTED BY EMERGING MARKETS. ANDREW SAWERS INTRODUCES OUR HOTSPOTS GUIDE.



The picture postcard view of Shanghai these days is of the skyscraper-filled vista of the Pu Dong district, dominated by the space-age Oriental Pearl Tower. Seen from the Bund, the pre-revolution boulevard across the Huang Pu river, the gleaming towers symbolise the vibrancy and modernity of the Chinese economy.

But the real story is in the river. Take a trip downstream to where the Huang Pu meets the Yangtze, and watch as mile after mile after mile of shipyards and container yards sweep past, while literally hundreds of freighters carry coal, iron ore, cement, rubbish and heaven knows how many computers, machine tools and garments – millions and millions of tonnes of *stuff* moving upstream and down, testament to China's voracious appetite for raw materials and components, and its capacity for production.

How does a country with such a huge share of global trade get classified as an *emerging* economy, when so much activity is taking place now? Surely it's too late.

When you consider that the people who work in the cities are relieved that their hard, grubby labour earns them barely \$50 a month – easily twice as

much as they could expect on the farms – you begin to appreciate that there is still so much more growth to come. Fend off the hawkers selling fake Mont Blanc pens and Louis Vuitton bags, then go to the Plaza 66 shopping and office complex and watch Chinese women shopping for the real thing.

Growth, not costs

It's little wonder that China came top of our poll when, last November, *Financial Director* asked FDs at the Richmond Events Finance Directors' Forum for their views as to which were the leading 'business hotspots' – places that still had a lot of unrealised potential. Just over half mentioned China – and yet less than one in five were operating there. Next on the FDs' list was India, cited by more than a quarter of respondents as a 'hotspot' although less than 10% currently operate there. Eastern Europe came next.

The new consumerism is fuelling emerging markets, creating new opportunities. Respondents to a recent survey by the Economist Intelligence Unit (*CEO Briefing: Corporate priorities for 2006 and beyond*) said they expect the proportion of revenue coming from overseas markets to jump by one-third over the next three years, with demand

from emerging economies being the most critical component of that growth. A survey by PricewaterhouseCoopers elaborates on this by saying that companies are increasingly looking to emerging economies for new customers rather than cost savings.

Another PwC survey sheds light on the scale of the opportunity. Identifying seven emerging markets – China, India, Brazil, Russia, Indonesia, Mexico and Turkey – the firm calculates that these 'E7 economies' will actually outstrip the existing G7 economies by 2050.

Eight to rate

In this *Guide* we look at eight of the most important emerging markets. For each, we've looked at the current state of play and the business outlook, as well as noting some of the regulatory issues, not least the 'corruption perception' and World Bank 'ease of doing business' indicators. Above all, the words of those who have been there and done it provide the most valuable insight.

One CEO told us – with no hint of irony – that: "The world is becoming an increasingly global place." We know what he *meant* – and it's equally clear that you don't want to be somewhere else when that happens. ■

You've chosen an
emerging market,
but do you know
where you're going?*



Once you've selected a territory, success in emerging markets depends on getting things right on the ground. Should you go with a joint venture, alliance, start-up or local acquisition? What are the legal, transactional, tax and HR implications of your chosen location? Can you bring some of your profits home? Perhaps most importantly, if problems should arise, what is your exit strategy? At PricewaterhouseCoopers we have experts to assist you along each step of the way. We can help you establish the right regulatory, tax and business status to maximise opportunities.

To give yourself a better chance of success visit
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The road to nowhere

BUILDING NEW BUSINESSES IN EMERGING ECONOMIES IS FRAUGHT WITH RISK. ANDREW SAWERS REPORTS ON HOW TO AVOID SOME OF THE BIGGEST COMMERCIAL DEAD-ENDS.

Emerging markets offer many challenges, some of which are very different in nature from those found in developed economies, while others are simply different in scale.

In evaluating the risks, it's worth learning from the experience of Malcolm Wyman, FD of the brewing giant SABMiller. His company has made acquisitions or entered into joint ventures almost everywhere from Colombia to China, with a bias towards countries that are hardly renowned for their economic or political stability. In evaluating an opportunity, the risk-appraisal process doesn't try to forecast what's going to happen, Wyman explains. Instead, he says: "We'll run multiple scenarios to try and build in the risk and we won't try and guess which one is going to be right. What we'll do is take a couple of scenarios – such as what are the risks around them? Which do we believe are likely? – and then we'll price [the deal] accordingly."

Here's a handful of the risks that need to be borne in mind.

Political & economic risks

One of the risks that businesses face in emerging markets is that they can be more vulnerable to economic shocks than deeper, more mature economies. Major currency swings, surging oil prices, sudden outbreaks of disease, or consumer markets 'spooked' by bank failures can all cause great problems in countries from Argentina to Thailand.

But there's good news. The 2005 annual report of the Bank for International Settlements – the central banks' central bank – says, however, that emerging economies are becoming more resilient these days. After a period of economic growth, it found that many countries now have:

- Stronger domestic growth (which helps offset any export weakness);
- Better government budgetary positions; and
- More stable inflation on the back of more credible monetary policy.

Likewise, a report by the Economist Intelligence Unit, *CEO Briefing: Corporate priorities for 2006 and beyond*, also argued that the most dynamic emerging markets are becoming less volatile as growth continues and as reform and liberalisation programmes roll out.

There are still dangers. The collapse of the tiger economies in the late 1990s showed how quickly the wheels can come off the economic juggernaut, while the outbreak of SARS impacted on business travel to China a few years ago.

In both China and India, the authorities are concerned about the growing disparity between the fast-growing, increasingly wealthy industrial and urban areas, while poverty is still at unimaginable levels in the rural districts. While China has the most profoundly Communist government, India has the world's largest democracy: similar grounds for discontent on the



part of the rural poor could manifest themselves in quite different ways.

Alun Jones, partner in charge of PricewaterhouseCoopers' emerging markets practice in the UK, agrees that there is greater stability in emerging markets: "As the growth benefits the population more widely, then you should see some increased stability through greater consumer satisfaction." But, he adds: "One of the things that happens is that people then see more of the disparity between the haves and the have-nots and that can create instability."



Trading partners

Joint venture or go-it-alone? A perennial problem when considering how to enter a new market, not least when language, culture and management skills are all very different from what you are used to.

“Going in completely fresh means you don’t have any bad baggage, but you do have to make all your own relationships,” says Jones, “from making sure your utilities work 24/7 and that you have the local party official on board.”

He adds that there is a greater

propensity in these markets for local firms to have “less integrity” when working with westerners than with fellow nationals. All the more reason, then, to work as hard on the business and personal relationships as on the cold logic of the strategy.

Work that his firm has done to ensure that licensors are being paid in full has unearthed great volumes of ‘under-reporting’ by licencees – in amounts typically equal to about 16 times PwC’s fees, Jones says.

Aside from all the usual problems that can develop between joint venture partners, there can also be problems in which ‘related party transactions’ can affect the profitability of a deal. It may suddenly become apparent, for example, that a key supplier who is making excessive pricing demands is, in fact, partly-owned by your JV partner.

In other instances, there is simply a difference in approach to corporate governance. A senior manager in the Shanghai office of a JV between a US advertising agency and a local firm said that the Chinese partner didn’t see any need to pay its half of the Sarbanes-Oxley compliance costs for which the US partner was liable.

Legal

There are all sorts of reasons to avoid litigation in emerging markets. The relative immaturity of the legislation or case law, particularly where commercial, property or insolvency laws are concerned; the glacial pace of legal process; and the uncertainty of the outcome in court. Better to have international arbitration clauses in contracts, though even then it can be a lottery as to whether they are recognised or enforceable. The European Bank for Reconstruction and Development gave a presentation with KPMG recently in which it advised delegates to be both principled and pragmatic when seeking redress, adding that “reconstructions, work-outs and amicable solutions are the preferred route”.

It’s also imperative to think about how you can protect your intellectual property. Anyone in the business of making things other than luxury goods

or easily-copied DVDs and software might think that this isn’t a real worry for them. Think again. An Economist Intelligence Unit report in 2004, *Coming of Age: Multinational companies in China*, said that there was a factory in China producing 100,000 rip-off Volkswagen Jettas. Almost incredible.

The perils of corruption and bribery loom large and companies will have to determine their policy at the outset, if only to avoid making early mistakes that become difficult or impossible to reverse out of. Managers whose companies are, by virtue of being subsidiaries of US companies, subject to the US Foreign Corrupt Practices Act would do well to remember that the discovery of any unacceptable practice is likely to result in US investigators being unleashed against almost the whole of the rest of the company, anywhere in the world.

Corporate governance

Different business cultures have different approaches to financial controls, which can create difficulties in trying to conduct due diligence in the acquisition process, as well as in the post-acquisition phase when local managers have the buyer’s big system imposed on them. Many of our following case studies make the point about the need to get local managers to buy into the process and again, that involves a process of building up trust as well as putting effort into training.

Easier said than done, though, as, in many jurisdictions, the role of finance – and the financial director – is seriously underdeveloped. Accounting often means little other than bookkeeping, usually for regulatory or tax purposes or to keep track of debtors. Apart from that, the books serve little purpose as part of the management decision-making process.

Of course, the biggest risk surrounding emerging markets may well be the risk of missing out altogether. Or as Malcolm Staff, managing director of Halifax Fan, puts it on page 11, “Leave your cultural mistrust at home. It hinders you from making decisions.” ■

The tax office

IF YOU DON'T PROPERLY UNDERSTAND THE LOCAL TAX PRACTICES IN YOUR CHOSEN EMERGING MARKET, YOU COULD COME BADLY UNSTUCK. SARAH PERRIN EXPLAINS.

Developing markets are typically going through rapid change, which can create a number of tax-related issues for investing companies to manage.

"First, a lot of emerging markets have new tax systems and how they are applied or interpreted is not always clear, and there may not always be consistent application," says Mark Schofield, an international tax partner at PricewaterhouseCoopers.

"Second, the tax authorities are relatively unsophisticated and have little experience of complex deals – and international deals tend to be more complex."

In addition, double-taxation treaties with developing countries tend to be less developed, if they exist at all. There is no tax treaty between the UK and Brazil, for example.

Another challenge is that there may be a multitude of taxes and levies – far more than UK companies are used to.

"Brazil has 68 different taxes and contributions," Schofield says. "Most of these are paid by companies. Emerging markets also often have different reporting cycles. There won't just be an annual tax return; you often have to submit a return on a more regular basis."

Tax rates, particularly for indirect taxes, can also change rapidly.

Finally, the tax rules can be entirely different from those at home. "China has no concept of a capital gains group," Schofield says. "Brazil has no concept of tax pooling, so you can't surrender tax losses between different legal entities in the same group."

Domestic repercussions

Companies dipping their toe into emerging markets for the first time may also fail to realise the repercussions of sending out UK-based staff for short, perhaps repeated, exploratory visits.

"Nobody in the company takes notice of the fact that these people are crating a tax presence for themselves," says Andy Hodge, head of Deloitte's employer solutions practice. "Going back 10 years or so, most tax authorities took a pretty relaxed attitude, even if people were going out for 30 or 60 or 90 days. Now even the most unsophisticated authorities are aware there could be tax due. It's also an opportunity to go after companies for interest and penalties – and they could go back a few years."

Tax holidays

While there are plenty of tax challenges, there are also plenty of good tax-related opportunities related to emerging markets. For example, developing countries may offer attractive financial incentives to tempt foreign businesses to invest.

"In some regions in China it is possible for any overseas entity to locate and have a corporation tax holiday," says Mike Linter, a tax partner at KPMG.

Making the most of any tax incentives is worthwhile. Linter recalls how one client discovered that setting up a China operation in Shenzhen's special export zone exempted it from the export charge of 4% of turnover incurred in Shenzhen's industrial zone.

The advantage of setting up inside



the export zone is obvious, although there is no guarantee as to how long the exemption will last. China reviews its tax regime, including its tax treaty with the UK, in 2007.

Linter was also struck when visiting China by the amount of bureaucracy. "We had meetings with corporation tax people, income tax people, VAT people – all uniformed party officials," he says. "Each meeting seemed to be attended by roomfuls of people." Regions also seem to have considerable autonomy in determining tax policies.

Financing constraints

Once a decision is made to invest in a location, there are tax issues to consider in structuring the deal. For example, if the company borrows to fund a local acquisition, the developing country may have strict rules controlling the interest that can be deducted before calculating taxable profits, or the debt may need to be with a registered bank in the territory.

Even moving cash around an



emerging market may incur tax costs. Brazil applies a tax called CPMF at a rate of 0.38% every time funds are withdrawn from a bank account.

Tax issues also affect the ongoing management of operations in emerging markets. Aware that many overseas investors will want to repatriate profits, many developing countries levy high rates of withholding tax.

“They can also be more aggressive in terms of scope of the withholding tax,” says David Nickson, a partner at Ernst & Young. For example, in addition to dividends, interest and royalty fees, charges may be made for management

or technical support services.

Schofield also notes that some countries operate “alternative minimum tax” regimes, whereby a certain amount of tax will be charged, but credit for the tax will not necessarily be given when profits are repatriated.

With tax, as with all other aspects of doing business in a foreign territory, it is vital to consider and understand cultural niceties. “In some parts of the world, tax isn’t necessarily viewed as a cost to be controlled,” says Nickson. “Paying tax can be about being a good citizen.” This can lead to a culture clash between an investing company and local tax authorities.

Under arrest

“Similarly, developing areas may take routine compliance on things like customs duties extremely seriously,” Nickson says. “Even a minor compliance error could result in the authorities shutting down your operations. It’s important to establish local relationships. It’s important for a manager who has gone out to set up local operations to understand the local importance of tax compliance. You hear stories of local tax authorities turning up on the manager’s door looking to arrest them, so you need to make sure that your management is protected.”

Schofield also highlights the need to take compliance seriously. In Russia, for example, expats who incorrectly declare the number of days they have spent in the territory are committing a criminal offence, which can, and in some cases does, result in a jail term. “There are quite stringent penalties,” Schofield says.

The issue of how to incentivise local managers may also need attention.

“How do you motivate and retain people and get the best out of them going forward, when they have been taken over by a foreign company?” asks Schofield. “How do you adjust your share ownership plan to the new market so that colleagues there can participate in it?”

The tax needs of expat managers also need to be addressed. “You may be resourcing an investment from the UK with highly paid executives,” Nickson says. “You don’t want them distracted from the job they are there to do. Personal tax issues can create all sorts of problems. You need to look at the ramifications: what they will have to pay in additional taxes, and to consider making compensation payments.”

Stock option shock

One blind spot some UK companies have when considering their expats’ tax situation relates to stock options. As Hodge explains, expats on secondment for a few years may exercise options during that time but forget they need to declare this. “Sooner or later it comes out – perhaps because the company gets audited by the authorities,” Hodge says. “If companies get it wrong, the tax authorities can go after them for penalties.”

In general, Nickson stresses the importance of getting sound local advice on tax issues. “It’s very important to get people who are fully immersed in the local culture and can also understand the needs of investing groups coming from Europe,” he says. “It’s important that your expectations are understood by your adviser. There is a limited number of people who are really skilled in understanding the needs of the investing group as well as the local culture.” ■

THE BIGGEST TAX BLUNDERS IN EMERGING MARKET INVESTMENTS

1 Not understanding what it is you are buying, how the valuation assumptions are made and how the profits will be repatriated

2 Making assumptions about how an emerging market’s tax system works – and then not testing those assumptions

3 Failure to devote sufficient time and effort at the outset to getting the investment decision and the structural implementation right

4 Failure to appreciate the importance of the tax penalty regime in the emerging market and its potential to affect your investment

source: PwC

The great haul of China

SURGING GROWTH, CHEAP LABOUR AND THE BIGGEST INTERNAL MARKET IN THE WORLD MAKE CHINA A LAND OF REAL OPPORTUNITY. ANDREW SAWERS REPORTS.



China's ambition to be "the workshop of the world" is well on its way to being realised. A single factory in the country's southern province of Guangdong, for example, manufactures around 40% of the world's microwave ovens. As for Chinese consumers, there is a huge appetite for products taking in everything from L'Oréal shampoo to IKEA furniture.

There has been a shift in the growth agenda in China, however. John Stuttard, a member of the China-Britain Business Council and an adviser to PricewaterhouseCoopers, says that the outlook is still for 10%-plus growth. But the Chinese Communist Party authorities are increasingly concerned about the lack of investment and growth in some of the more rural or moribund rustbelt areas of China.

Political and regulatory environment

With China's membership of the World Trade Organization (WTO), the political leadership is working to embrace free market economic reform within what is still emphatically a communist system.

But even now, to navigate all the state and local laws successfully it is imperative for a business to use local experts.

One significant change in China in the last few years is that the court system has improved considerably. Tim Clissold, author of the best-selling (and highly recommended) book *Mr China*, says that, in the event of a legal dispute with a trade partner, "You're much more likely to get a fair judgement these days than you would have done five or six years ago."

Clissold adds that the government is dealing "robustly" with the problem of corruption, whether in the business world or government.

Doing business there

One of the most important words in the Chinese business lexicon is *guanxi*. It means relationships, and the significance of it is that to succeed in business it is necessary to build up the right relationships with the right people.

In most industries it is possible to establish a "wholly foreign owned enterprise" (WFOE). That doesn't necessarily mean that it is always a

good idea to do so. Many businesses enter into joint ventures so as to be able to work with local companies that have the necessary *guanxi* with business and government.

"Despite their drawbacks, joint ventures are likely to remain as the most viable entry option," according to a KPMG report on the Chinese machine tool industry. The WFOE structure, though, is "likely to become more common after foreign companies become more experienced in China".

The currency – variously known as the renminbi, RMB or the yuan – is not freely convertible on the capital account, but under the WTO agreement it should be possible to get dividends out of the country.

"If you can't it's probably because of some administrative procedure that hasn't received local approval," says Stuttard.

CURRENCY (SYMBOL): YUAN/RENMINBI (RMB)

14.08 = £1
8.04 = \$1

MOODY'S RATING

A2

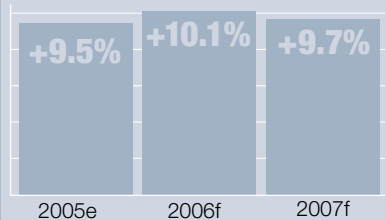
GDP

\$1,917bn

PER CAPITA

\$1,464

GDP GROWTH



BEIJING

POPULATION
1,309m

UNDER AGE 15
21.4%



Drinking buddies

“China has changed dramatically since we first went there in the early 1990s and had a look,” says Malcolm Wyman, FD of the London-based but South Africa-originated SABMiller brewing company.

“We took the view that we needed to go in as a joint-venture partner, as opposed to trying to run something on the other side of the world on our own. We spent two years in a courtship dance with a company called China Resource Enterprises – which was doing exactly the same thing with us. We spent a long time feeling each other out to see whether we would be the right partners. And after about 18 months or so we signed an agreement.

“We are now the second-largest brewer in China. We have breweries all over the country. We still operate as a joint venture and I would say that we categorise our relationship as being the norm. We have our ups and we have

our downs, but over time we think it’s been a very good partnership. Both parties have worked tirelessly for the joint venture. We’ve managed to resolve any differences that we may have.

“Our partner is a Hong Kong-listed business, 51%-owned by the government of the People’s Republic of China – the Ministry of Finance and Trade – and the people who sit on its board are all government officials appointed by Beijing.

“You hear many stories about China. Yes, it is very different to run a business in China. You have to work through the Chinese. It’s not possible for westerners to get enough Mandarin-speaking Chinese to run the business of 50 million hectolitres spread right across China, so you need to work through a few senior Chinese people.

“We think we’re good at adapting to cultures rather than forcing a culture onto our acquisitions. We think that’s made us a lot more successful in our partnership arrangements.”

INFLOWS AND OUTFLOWS

Exports	\$437.9bn	Imports	\$413.1bn	Net foreign direct investment
Office equipment	\$62.6bn	Electrical machinery	\$79.8bn	\$51.0bn
Clothing	\$52.1bn	Petroleum products	\$26.7bn	
Telecoms	\$45.0bn	Office equipment	\$24.2bn	
Electrical machinery	\$42.4bn	Other machinery	\$21.0bn	
Footwear	\$13.0bn	Telecoms	\$19.5bn	

Weblinks: www.cbcc.org www.lehmanbrown.com

support on a short-term basis or financial people helping them to run the system for a couple of months.”

Making a success of business

Be patient. Decision-making can be a slow process, particularly if government officials are involved. The culture is based around deference to superiors and hence a reluctance to make a decision.

Good due diligence is vital, as not only is the quality of financial reporting variable, but “related party transactions” can create problems for the unwary. One way to improve your success rate is to be prepared to own less than 100% of a business. This can help you “structure a company in such a way that it can still motivate the local team so that their interests are tied up very much with your interests”, says Maggie Eather in PwC’s Shanghai office.

Understand the importance of not causing someone to lose face. Your Chinese opposite number may haggle, but will rarely embarrass you by saying no, and it can be easy to misinterpret as yes a comment that was not necessarily meant to be encouraging.

Don’t expect to make a quick buck. “People are taking a much longer-term view than they have done in the past,” says Stuttard. “It might take you 10 years to make a profit.” ■

The RMB slightly loosened its link to the dollar last year to placate US concerns that the exchange rate was too skewed in favour of China’s exporters.

Management/accountancy staff

The influx of western and Japanese businesses into China has significantly raised the overall quality of local managers who have been trained in the ways of modern business methods and financial controls. But although there is

still a shortage, incoming businesses generally recognise the importance of having Chinese managers.

“We don’t see clients send a whole team to China to manage their business,” says Jeffrey Wang of Business Development Asia, which is associated with Close Brothers investment bank. Wang advises western businesses looking to acquire Chinese companies. “We typically see them send one guy. Occasionally, they send a team of people to come to

UNEMPLOYMENT

20.0%

CORRUPTION PERCEPTION INDEX

3.2 **77th=**
SCORE OUT OF 10 WORLD RANKING

EASE OF DOING BUSINESS (WORLD RANKING)

91st

USE OF INTERNATIONAL ACCOUNTING STANDARDS
IFRS required for some domestic listed companies

+1.4%
INFLATION

Press 1 for exports

THE LOCATION OF CHOICE FOR OFFSHORE CALL CENTRES, ANGLOPHONE INDIA OFFERS AN EVEN BIGGER POTENTIAL MARKET THAN CHINA, AS PETER BARTRAM REPORTS.



It may seem extraordinary to those British finance directors whose only experience of India is a call centre in Bangalore, but the health of the country's domestic economy still relies, at least partly, on a good monsoon season. That's because 65% of Indians still depend on agriculture for their livelihood.

Last season, the rains were satisfactory and so the economy continues to thrive. Even so, the latest estimates suggest that real GDP growth will ease back from the 7.2% of 2005 to an estimated 5.6% in 2006 and 5.4% in 2007.

Shahzad Farouq, a senior economist with D&B Country Risk Services, predicts that the Indian economy will trend at around 6% real GDP growth a year for the next 10 years.

FDs who like to take both the long and the broad view, might care to note that India's population, currently totalling 1.09bn, is forecast to outnumber China's before 2050. India's middle class is already larger than the population of the UK, opening up a market for many different consumer products and services.

Political and regulatory environment

The World Bank ranks India as the 116th easiest country in which to do business. Not a good start. Worse is to come. India is ranked 124th for dealing with licences – important in the bureaucracy-bound country – and 138th for enforcing contracts.

"On average, it takes 89 days to start a new business in India," says Farouq. "The average for south-east Asia is about half that."

FDs starting up an Indian business are likely to have to pass through 11 different administrative processes. Regulatory authorities include the Foreign Investment Promotion Board, a key organisation for firms planning to invest in India. It helps to clear proposals for foreign investment and monitors their implementation. The Foreign Investment Implementation Authority helps cut through the stifling bureaucracy, and the Secretariat for Industrial Assistance keeps firms up to speed on government policies relating to investment and technology.

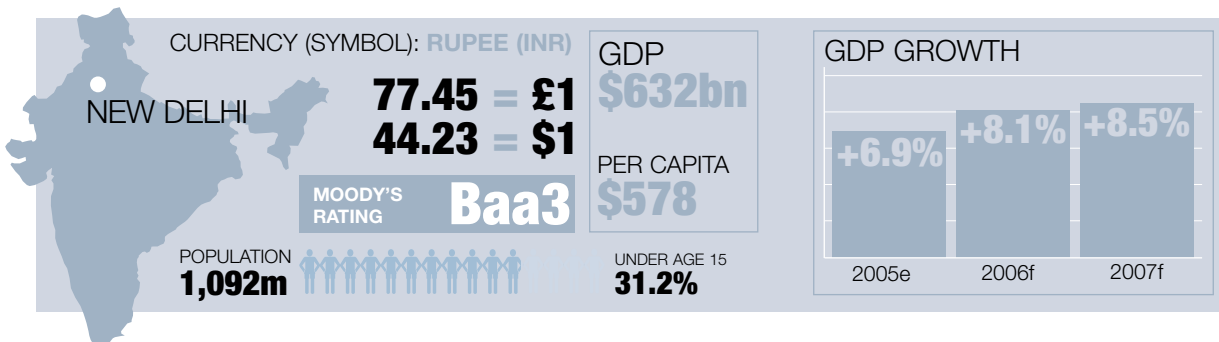
But don't imagine that's the lot – bureaucracy thrives everywhere.

Doing business there

With its large English-speaking population, healthy economic growth and open society, some businesses reckon India could be a safer long-term bet than China. But doing business is never that easy in India.

FDs should start by deciding on the type of approach they use to move into India. They might just want a traditional supplier relationship, but they could also be attracted by a joint venture or a hybrid, such as the "build, own and transfer" model common in the business process outsourcing market.

Given the difficulty of enforcing contracts, it's especially important to know all about prospective partners before signing on the dotted line. "You should have a framework to evaluate and measure performance continually," advises Sanjoy Sen, a partner with PwC India. "More and more organisations





A place in the sun

When Malcolm Staff, managing director of Halifax Fan, wanted to get his company into the booming Indian economy, he decided the best way was to set up a joint venture.

With labour constituting 70% of the cost of making bespoke industrial fans, Staff knew that competing in India without local manufacture would be an uphill struggle.

He says: "We get about five emails a week from overseas companies wanting to partner with us." So in his search for a local partner, he started with Indian firms that had been emailing him.

"I checked them out by looking on their websites and asking for information from local chambers of commerce. Later on, when we got closer to one or two of them, I got one of our lawyers in India to do a bit of investigative work. I was always concerned that I was going to be ripped off."

Two firms made it onto Staff's shortlist and the lawyers produced accounts for both of

them. The final choice was RR Techno, a metal fabrication company in Chennai (Madras).

Because RR Techno already had a factory equipped with the required machinery, the £5.6m-turnover Halifax Fan has been able to stake its place in the Indian market for a bargain basement £144,000.

But it wasn't all straightforward. Battling with the notorious Indian bureaucracy was particularly frustrating. "We should have got a lawyer onboard earlier," Staff says. "We were trying to muddle through making the shareholder and various other agreements ourselves. It probably took a lot longer than it should have done."

Staff was also concerned about protecting Halifax Fan's intellectual property. "We worked out a fairly in-depth agreement on transfer of technical data," he says.

And his advice for others making a passage to India?

"Leave your cultural mistrust at home. You have to put it away because it hinders you from making decisions."

INFLOWS AND OUTFLOWS

Exports	\$57.0bn	Imports	\$71.1bn	Net foreign direct investment
Engineering goods	\$12.2bn	Petroleum & products	\$20.6bn	\$3.4bn
Gems & jewellery	\$10.5bn	Capital goods	\$9.8bn	
Textiles	\$6.5bn	Electronic goods	\$7.5bn	
Chemicals	\$6.3bn	Gems	\$7.1bn	
Garments	\$6.1bn			

Weblinks: www.indiaserver.com www.samachar.com

are now putting in place various contingency or exit plans upfront to address situations where the venture does not work out or meet objectives."

Management/accountancy staff

One strong plus for any business moving into India is the abundant supply of high-quality business and accountancy people. There are 96,000 chartered accountants in India, regulated through the Institute of Chartered Accountants of India.

There are 30 MBA schools among the country's 220 universities and 10,500 colleges, which have seven million students. There is no shortage of quality IT personnel, and more arrive on the labour market every year from India's 140 engineering colleges.

Making a success of business

To succeed in India, companies must learn to think like the locals. "Lack of cultural alignment and understanding of mutual objectives have so far been two

of the most common reasons why offshore ventures to India have failed," says Sen. "This is important not only for day-to-day operations but also customer service."

Sen also says it is essential to manage HR issues well. "They have a significant impact on staff attrition rates, which can be very high in India if not appropriately managed."

Another problem is dealing with the "yes culture", says Chris Gentle, director of research at Deloitte. Politeness makes it difficult for Indians to say no, so yes sometimes means no. "If you ask somebody to do something they will say yes, but they may not do it."

Malcolm Staff, managing director of Halifax Fan, which set up a joint venture in India (see box), says adapting to the business culture was one of the keys to his company's success. "Indian business people make decisions extremely quickly and expected us to make decisions just as quickly," he recalls. "They harass you like you have never known before. It wasn't just our partners – they all seem to be like that."

"You have to be really prepared to understand what your objectives are before starting a discussion. Be sure that you are firm and fixed on what you want out of that meeting because otherwise they will bully you along to get what they want." ■

UNEMPLOYMENT

9.0%

CORRUPTION PERCEPTION INDEX

2.9

SCORE OUT OF 10

88th=

WORLD RANKING

EASE OF DOING BUSINESS
(WORLD RANKING)

116th

USE OF INTERNATIONAL ACCOUNTING STANDARDS
IFRS not permitted for domestic listed companies

+5.1%
INFLATION

Commerce revolution

DEFAULT AND DEVALUATION ARE REAL FEAR FACTORS BUT RUSSIA CAN GENERATE BIG PROFITS – AS LONG AS YOU CAN GET UP CLOSE AND PERSONAL. PETER BARTRAM REPORTS.



With enough oil and gas to fuel western Europe for a generation, Russia looks like the hottest growth market on the continent, but first impressions can be deceptive.

For a start, real GDP growth is targeted to fall this year to 5.5%, and 5% in 2007. And much of that growth comes off the back of hydrocarbon industries: if world oil prices fall, GDP growth will slide back even more.

In any event, says Darren Middleditch, a senior economist who specialises in eastern Europe at D&B Country Risk Services, Russia won't benefit fully from high world oil prices "because it can't get the stuff out of the ground fast enough. One of the reasons for that is that foreign companies are still quite reluctant to invest because of political risk."

Yet the economy is in a healthier shape than in the late 1990s when the rouble was devalued, there was talk of state loan defaults, and thousands of public workers went unpaid.

But with much of its heavy industry a rust belt, the country needs to import billions of roubles' worth of capital

equipment to become competitive in non-commodity markets.

Political and regulatory environment

The World Bank ranks Russia the 31st easiest country in which to start a new business, but that ranking hides a host of problems. For a start, don't expect the kind of clarity and stability you may be used to in your home territory.

"Russian customs authorities have gained a reputation for making frequent and unpredictable changes to regulations, which has created significant problems for foreign and domestic trade and investment," says Middleditch.

A key problem is endemic corruption at every level of the administration. There is also widespread crime, and a judiciary that doesn't always exercise the independence expected in a western democracy.

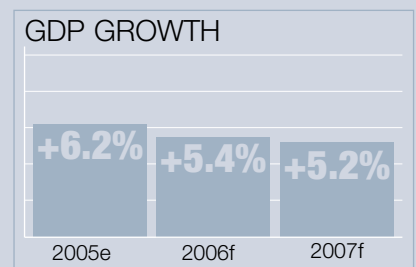
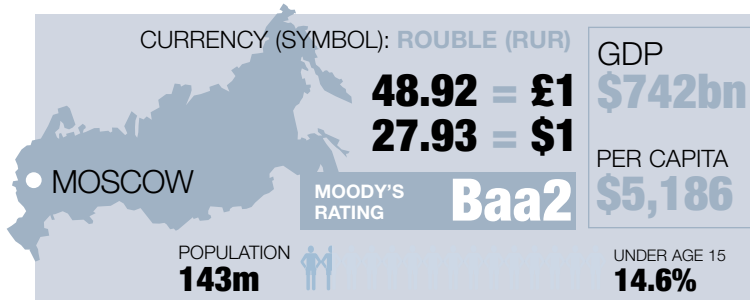
Doing business there

Despite all the difficulties, there are plenty who believe it's still worth trying to win business in Russia. "The rewards are high but the risks commensurate,"

says Godfrey Cromwell, executive director of the Russo-British Chamber of Commerce (www.rbcc.co.uk).

"Find out who actually owns the company you are dealing with," he advises. "Can you see past accounts, management and shareholding structures? Are the corporate governance procedures credible? Follow up on possible references from trusted sources. In short, do your due diligence thoroughly and do not be tempted by short cuts."

Cromwell says opportunities do exist beyond the energy sector. "The economy now presents a more diversified picture and British businesses ranging from basic household product manufacturers to real estate agents, from luxury brand good providers to scrap metal dealers, from gold miners to corporate governance consultants are all active."





Back in the USSR

When Instron, a \$200m-turnover US-owned company with a significant UK operation, decided to re-enter Russia in 2002, it was concerned to mitigate the financial and technical risks.

The company, which makes materials testing equipment, knew from bitter experience what they could be. At the end of the 1990s, it lost money from sales in Russia when government-backed organisations defaulted on payments.

“It left a nasty taste in the mouth, and senior management decided they didn’t want anything to do with Russia after that,” says Kieran McGrane, Instron’s north Europe sales manager, who spearheaded the company’s return.

But by 2002, McGrane believed the economic and political environment had changed enough to make re-entry a real possibility.

The company decided it could manage the downside risk more effectively by

appointing a distributor to carry some of the financial risk. It eventually teamed up with Novatest, a Russian company that makes a complementary range of products.

Compared with the UK, Russia is bandit country, awash with bureaucracy, corruption and organised crime. McGrane wanted to distance Instron from those problems, yet still develop an effective way to build the business. The deal with Novatest has delivered, but it’s been a cautious process of building trust at every step.

“At the start, we were looking for Novatest to make payments of 80% with order and 20% before shipment,” says McGrane. “That has been relaxed now to 50% with order and 50% after shipment.” But, where necessary, the distributor finances that upfront payment.

But no market is entirely risk-free. McGrane adds: “We are still exposed to some financial risk and you have got to be conscious of that and make sure that you’re taking on risk in a measured way.”

INFLOWS AND OUTFLOWS

Exports	\$134.4bn	Imports	\$81.7bn	Net foreign direct investment
Mineral products	\$69.3bn	Machinery & equipment	\$21.1bn	\$4.5bn
Metals	\$17.2bn	Food products	\$12.1bn	
Machinery & equipment	\$10.6bn	Chemicals	\$9.9bn	
Chemicals	\$8.3bn	Metals	\$3.9bn	

Weblinks: www.rbcc.co.uk www.stilit.com

differences. Don’t think you can build a relationship, close the deal and start a business success by remote contact, email or a one-off visit. Personal contact, really understanding each other’s expectations and developing a robust relationship are essential.”

Nor should FDs expect easy-going ways. “Russian society – particularly in larger organisations and government structures – is hierarchical, and management style and attitudes are often unreconstructed,” warns Cromwell. “Juniors are very much in awe of seniors while very conscious of their own authority. This can make clear internal communication inefficient and opaque at times.

“On the other hand the Russian style of discussion can be disarmingly direct – and constant politeness can be seen as insincere. Discussions will challenge you to make your points and to defend them well.”

Cromwell adds: “Finally, one of the pleasures, but also one of the stress factors, is the high level of spontaneity. Russians, even at senior levels, often find organising meetings well in advance and with a specific agenda pretty alien. Meetings arranged well in advance often end up cancelled at short notice while a call to your mobile asking for a meeting with your CEO in an hour’s time is quite common.” ■

Management/accountancy staff

Technical staff in Russia rank among the best in the world. Managers are of more variable quality.

A UK businessman with experience of hiring and managing Russian staff says there can be a big difference in outlook between older managers, brought up under the communist regime, and younger people.

Generally, FDs should expect to spend far more time developing managers’ basic commercial skills than

they would in the western world.

As for accounting, most Russians take the term to mean bookkeeping rather than the more sophisticated financial reporting concept in the west.

Making a success of business

“In spite of some superficial similarities, Russia is not the UK, nor is it Europe, and it’s a mistake to forget this,” warns Cromwell. “Russia really is a fun place to work but you need to evolve your own way of dealing with the cultural

UNEMPLOYMENT

7.6%

CORRUPTION PERCEPTION INDEX

2.4 **126th=**
SCORE OUT OF 10 WORLD RANKING

EASE OF DOING BUSINESS
(WORLD RANKING)

31st

USE OF INTERNATIONAL ACCOUNTING STANDARDS

Proposed phase-in of IFRS for listed companies in 2006

+11.2%
INFLATION

Zloty machine

THE SHEER SIZE OF ITS INTERNAL MARKET MAKES POLAND ONE OF THE KEY PLAYERS IN THE EUROPEAN UNION. RICHARD WILLISHER EXPLAINS HOW TO SUCCEED THERE.

At 38.6 million, the population of Poland dwarfed that of the other countries which joined the EU in May 2004. Poland's accession immediately opened up a large ready market for EU exports and brought on stream a pool of labour at a price to rival low-wage EU economies such as Greece and Portugal.

Two years later Poland's economic outlook is positive. S&P gives it a long-term sovereign debt rating of BBB+, and lists its strengths as a competitive and increasingly diversified export sector, good external liquidity and benign inflation.

Estimated GDP growth for 2005 is 4.3%, which is likely to continue over the next three years at least one percentage point above projected inflation. And while industrial production in Poland is 9.2%, wage growth is only 1.5% – the UK's figures are 1.4% and 3.4% respectively.

Poland's weaknesses include a high fiscal and debt burden, structural reform challenges and high unemployment levels. The bright side of structural weakness is an influx of funds from Brussels. Between 2004

and 2006 Poland was allotted €12.8bn (£8.7bn) to pay for big infrastructure projects such as transportation and roads, and for 2007 to 2013 it will get €58bn. The difficulty in structural reform has been in privatising heavy industries. Administrative delays and red tape are reported to have been major causes.

Political and regulatory environment

Poland is still a bureaucratic society with a considerable amount of red tape. "This is quite easily managed if you understand the process and follow it," says Eoin McCoy of HR consultancy Hewitt Associates. "Dotting the Is and crossing the Ts is very important."

The World Bank rates Poland just 54th for ease of doing business. It ranks particularly poorly for ease of paying taxes and enforcing contracts.

The World Economic Forum ranks Poland 57th out of 103 countries while the University of Passau's Corruption Perceptions Index gives a rating of 3.4.

Doing business there

Poland's export sector has been a roaring success, in particular its

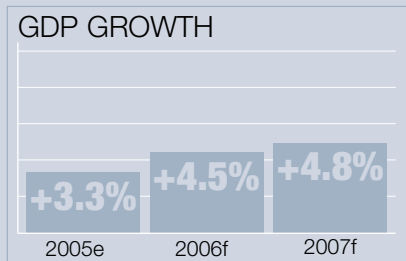
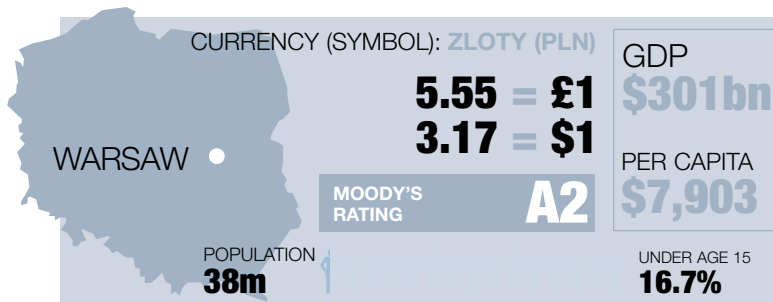


agricultural products. It has also had success in manufacturing, with foreign companies establishing assembly operations in the country.

Significantly, the service sector now accounts for more than half of Poland's GDP, an indicator that the country is moving away from its traditional strengths in primary industries such as mining and manufacturing.

One sector that has proved particularly attractive to inward investors is retail, where western Europe's big hitters are sparring for a larger slice of the increasingly affluent Polish consumer's purse, although "affluent" needs to be seen in the context of a less developed post-communist background and a per capita GDP of \$6,990.

McCoy advises against starting up a Polish operation from abroad. "There's a lot of bureaucracy and you have to





People power

Unilever has a €600m (£409m) turnover business in Poland, with nearly 300 employees. Its four factories all export products as well as serve the Polish market.

In Katowice in Silesia the company produces tea and margarine on the same site. It is the third largest margarine factory in Europe. Brands such as Lipton and Flora are sold in Poland and also exported to western Europe and to Scandinavia.

In western Poland there is a savoury products plant in Poznan, producing brands such as Knorr and Hellman's, which also exports to the main markets of western Europe, including the UK.

The third site, in the north-west of Poland at Bydgoszcz, produces personal care brands such as Sunsilk and Dove, exporting 80% of production.

The fourth site, at Banino, near Gdansk, is Unilever's lowest-cost ice cream factory in Europe.

Chris Bull, chairman of

Unilever Poland & Baltics, says: "I announced just before Christmas a further €50m of investment across the four sites and we will make further investments as well."

Bull stresses that manufacturing in Poland is not just about lower wages than in Germany or the UK, for example. "It's very much about the efficiency of the factories. We enjoy a very well-educated workforce, very motivated people who are able to produce very efficiently to very high-quality standards."

Staff quality also extends to management levels. "Six years ago we had 48 expatriates managing our business. Now we have a business that is three times larger than it was then, bearing in mind that we acquired Best Foods. We now have just three expats, of whom I am one, and all the rest of our senior people are Polish. We also have 18 Polish managers elsewhere in the company abroad. I think our experience is a very strong endorsement of the capability and talent of the people here."

INFLOWS AND OUTFLOWS

Exports	\$53.7bn	Imports	\$68.2bn	Net foreign direct investment
Machinery & transport equipment	\$20.2bn	Machinery & transport equipment	\$25.9bn	\$9.7bn
Manufactures	\$12.7bn	Manufactures	\$14.3bn	
Other manufactures	\$9.2bn	Chemicals	\$10.0bn	
Agriculture/foodstuffs	\$4.1bn	Mineral fuels	\$6.2bn	

Weblinks: www.bpcc.org.pl www.polandmonthly.pl

have the right people on the ground to make it all run smoothly," he explains. "It's all about understanding the labour and tax requirements. It's not a trap; it's just the way it is."

Management/accountancy staff

According to McCoy, who has just opened an office in Krakow, the finance and accounting sectors are well served in Poland because of the investment made by the big accounting firms in the 1980s and early 1990s. "The fruits of

this investment are visible now," he says. "Looking across most of the firms like PwC, Deloitte, Ernst & Young and so forth, the majority of partners will now be Polish nationals."

All the major professional firms, accountants, consultants and lawyers are active in Poland, training and employing local people, and expats are less necessary than they used to be.

Areas such as software development, engineering and call centres are also key development

sectors that can draw on able local human resources.

Making a success of business

In Poland, executive and managerial status is very important in dealing with people in business. Greetings like "Mr President" and "Mr Director" are very common when addressing older people, although less formality is required with younger people. The same is true of dress and the conduct of meetings: the older the Pole, the more formal their behaviour. When in doubt, play it conservatively.

Martin Oxley, CEO of the Polish-British Chamber of Commerce, stresses the importance of making the most of Poland's talent pool.

"Poland has one of the youngest and most highly educated populations in Europe," he says. "50% of Poles are under the age of 35, an increasing number of them are multilingual, and 10% have a university degree, which makes Poland an increasingly attractive location for R&D."

Oxley advises putting Poland in the context of a global strategy. "Poland has one of the highest industrial productivity growth rates in Europe," he says. "It is a viable alternative to the Far East for manufacturing because of its proximity to Europe for complex and high labour input products." ■

UNEMPLOYMENT

18.3%

CORRUPTION PERCEPTION INDEX

3.4 **70th=**
SCORE OUT OF 10 WORLD RANKING

EASE OF DOING BUSINESS
(WORLD RANKING)

54th

+1.0%
INFLATION

USE OF INTERNATIONAL ACCOUNTING STANDARDS
IFRS required for domestic listed companies

Orient express

A NEW ERA OF POLITICAL AND FINANCIAL STABILITY HAS DAWNED IN TURKEY, DRIVING THE COUNTRY TOWARDS EUROPEAN INTEGRATION. RICHARD WILLSHER REPORTS.

Should Turkey succeed in its aim of joining the EU, it will be the second most populous nation in the European bloc after Germany. But unlike Germany and the other ageing populations of western Europe, the majority of Turkey's 73 million population is under the age of 35, representing a formidably large workforce.

After a decade of hyperinflation, currency crash and political crises, Turkey is showing significant progress on many fronts, underpinned by World Bank and International Monetary Fund programmes since 2000. The country began a new stand-by agreement in 2005 that is set to last for three years. The economy is in growth mode and inflation has been pegged back. On 1 January 2005 the currency consolidated on the basis of one new Turkish lira per 1,000,000 old, so the exchange rate is now a respectable-looking YTL2.29 to the pound.

Rating agency Moody's estimates GDP growth as around 5% in 2005, having stabilised from just short of 9% the previous year. It predicts continued growth at 5% levels over the next

couple of years. The critical inflation rate is now down to double figures and tight government controls look like keeping it there.

At present Turkey's long-term foreign debt is rated Ba3 by Moody's and BB- by Standard & Poor's, with outlook "stable" and "positive" respectively.

S&P points to the progress Turkey has made over the past year on structural reform, especially privatisation. Divested assets in 2005 were estimated at \$22bn.

Political and regulatory environment

Moody's describes the 2002 election of the current government as a "critical turning point in Turkey's modern history" that has tempered the country's history of chronic political and financial instability. Its success has created fertile conditions for growth and Turkey's export sector has been booming on the back of it. But how easy a place is Turkey to do business?

The World Bank ranks Turkey 93rd out of 155 countries for ease of doing business, protecting investors, paying taxes, trading across borders, enforcing

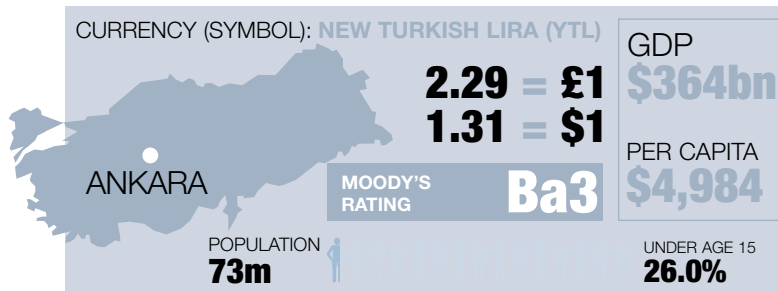


contracts and closing a business. This puts it between Serbia and Montenegro and Nigeria. Not inspiring, perhaps, but Turkey is a large and complex market.

Doing business there

The corruption index puts Turkey equal 65th with Peru and Burkina Faso, with a score of 3.5 on a scale of 1 to 10 – Iceland tops the ratings with 9.7 while last-placed Chad scores 1.7. But it is important to remember that the rating is based on *perceptions* of corruption. People who actually do business there, such as the CEO of heating appliance manufacturer Baxi (see box), typically say how business-positive Turkey is as a place to operate.

It's a view supported by Mustafa Erim, senior manager with the PricewaterhouseCoopers emerging markets team. He says that Turkey's workforce can be a major asset.





Local hero

“When times got tough,” says Mark Edwards, CEO of Baxi Group, “we were able to continue to trade profitably when many were finding that difficult to do.”

The Derby-based supplier of space and water heating appliances has a £680m turnover, employs 5,600 people across Europe and has a long-standing joint venture in Turkey that distributes and sells boilers in the Turkish market.

“We are also developing our capability for low-cost manufacturing in the country as part of our joint venture,” says Edwards.

Baxi’s relationship with its Turkish partner Baymak stretches back 15 years, during which time Turkey has been through hyperinflation, currency devaluation, political crises and earthquakes, but Edwards says the strength of the joint venture has been critical to their success.

“We are primarily a western European operator and Turkey is no different to a number of

new markets we are entering where we don’t know the local market conditions; we needed a partner we could rely on.

“Baymak’s management team leader Murat Akdogan has very clear ideas on how to operate in high-inflation and declining-currency markets. Having worked in similar markets myself I recognised that all the principles he was applying were the keys to success in those sorts of economic conditions. But it needed someone like him to carry them out. You can’t do them at arm’s length.”

As part of the joint venture, Baxi built a factory to serve the local market. The plant also produces solar panels, water heaters, boilers and pumps for export to western Europe.

Edwards is impressed with the quality of the output and the Turkish workforce and is in no doubt how crucial his Turkish partner has been.

“We would not have been as successful as we have been without Murat Akdogan,” he says. “There is no question about that.”

INFLOWS AND OUTFLOWS

Exports	\$46.6bn	Imports	\$65.6bn	Net foreign direct investment
Textiles	\$14.3bn	Machinery & transport equipment	\$15.8bn	\$5.0bn
Motor vehicles/parts	\$5.2bn	Fuels	\$11.4bn	
Metals	\$5.1bn	Metals	\$6.8bn	
Agriculture products	\$4.0bn			
Food	\$1.8bn			

Weblinks: www.bcot.org.tr/en www.turkishdailynews.com.tr

Making a success of business

Although 100% foreign ownership of businesses is permitted in Turkey, most companies set up joint ventures or distribution deals, making their most valuable asset an able and trustworthy partner who knows the market for their products or services and can negotiate Turkish bureaucracy. Tackling red tape is a major and time-consuming risk – even if you know the language.

In Turkey, traditional respect for professional qualifications often means that lawyers, engineers, doctors and others are greeted with their professional title. Rank in an organisation is also more respected than in the UK.

Although Turkey is a secular country, most Turks are Muslims. Many pray several times a day and respect Ramadan and other Islamic customs. It is important to pay heed to this when arranging meetings in the country.

Turks are also strongly family-oriented and may not separate their personal life from their business life as rigidly as may be the case in Britain.

The bottom line in Turkish business is the personal relationship. Strong business relationships are forged through trust, good personal interaction and evident mutual benefit. Build the personal relationship first and the business will follow. ■

“It is a highly qualified, skilled and cost-effective labour force, well known for its learning capacity,” Erim says. “With a working average for an employee of 280 days per year and nine hours per day, Turkey is the third hardest-working country in the world.”

Management/accountancy staff
Erim adds that well-qualified executives are available, as well as competent engineers, finance, sales and HR managers who meet international

standards and speak major European languages, especially English. Many major executive search firms have offices in Turkey.

The international accounting firms also have local offices producing a flow of locally trained accountants and financially able people. Many Turkish business people return home after training abroad in multinational companies and institutions and bring with them skills to add to their knowledge of their home market.

UNEMPLOYMENT

10.0%

CORRUPTION PERCEPTION INDEX

3.5 **65th=**
SCORE OUT OF 10 WORLD RANKING

EASE OF DOING BUSINESS
(WORLD RANKING)

93rd

USE OF INTERNATIONAL ACCOUNTING STANDARDS
IFRS permitted for domestic listed companies

+7.7%
INFLATION

In a grain of sand

IT'S BOOM TIME IN THE UAE, WHICH IS POURING MONEY INTO MAKING ITSELF THE MOST ATTRACTIVE BUSINESS REGION IN THE WORLD. RICHARD WILLSHER REPORTS.

Few people in the West know how many emirates there are in the United Arab Emirates, let alone what their names are. In fact, the country is a federation of seven emirates or sheikhdoms: Abu Dhabi, Ajman, Dubai, Fujairah, Ras Al-Khaimah, Sharjah and Umm Al-Qaiwain. The UAE has a population of 2.8 million, and a land area of 83,600 square kilometres. Interesting for geographers, but let's cut to the chase.

The UAE is reckoned to hold one-fifth of the world's known oil reserves – enough to last for 100 years at current rates of production. Most of the oil lies below the sands of Abu Dhabi, which rating agency Moody's describes as the driver of the UAE economy.

Even though there has been some diversification, in 2004 oil and gas still directly accounted for 33% of GDP, 77% of consolidated government revenue, and 92% of exports (excluding re-exports and free zone exports).

In the light of last year's hikes in oil prices, GDP is expected to have grown by 25% in 2005 as against almost 18% for the previous year. In revenue terms, it's boom time in the UAE.

Within the UAE, Dubai boasts the most stunning economic development story in the Persian Gulf, the Middle East as a whole, and quite possibly the world. It is the fastest growing city on the planet. The value of current construction projects under way could be as much as \$100bn (£57.5bn).

Dubai's response to the dwindling of its oil wealth (relative to that of Abu Dhabi, for example) has been to diversify into other sectors – on a massive scale. Its port facilities, already among the largest in the world, have grown rapidly. The vision is for Dubai – positioned as it is between Asia, Africa, Europe and the Middle East – to become the world's shipping hub. The emirate's tourism sector has also leapt ahead, attracting a spectrum of visitors from families to golfers and the super-rich.

Political and regulatory environment

Although the UAE is generally more liberal and open than neighbouring Saudi Arabia in its acceptance of western investment, values and practice, there are still drawbacks. The



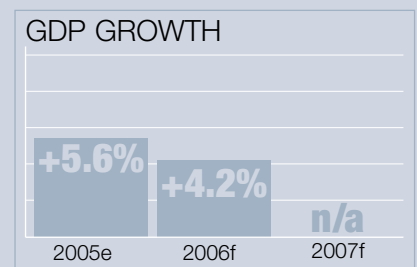
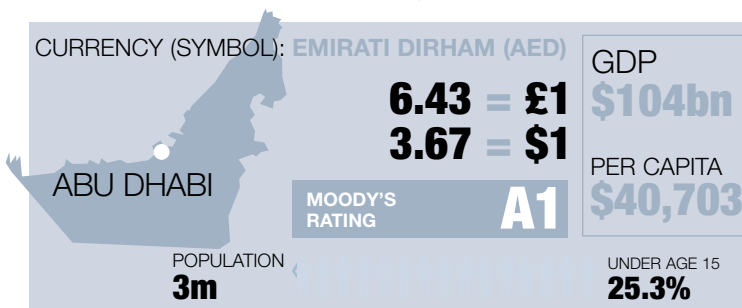
UAE capital, Abu Dhabi, for example, only opened up its property market to outside investors last year.

The UAE is keen to be seen as all-round business friendly. The World Economic Forum puts it at number 18 for growth competitiveness in a list of 117 countries, just below Germany, New Zealand and Korea. In the World Bank's ease of doing business ranking, it is 69th of 155 countries, and on the Corruption Perceptions Index it ranks number 30 among 158 countries.

Doing business there

Many companies choose to set up in Dubai's free zones, such as the Internet and Media Cities. This can be relatively quick: it takes around two months to apply for permission to set up, get local government approval for the business plan and a licence to operate.

Practically speaking, this means





Sand hassle

UK management engineering and development consultancy Mott MacDonald played a key role in one of the largest maritime development projects in Dubai.

Dubai Marina will eventually consist of 50 tower blocks, providing retail and leisure accommodation as well as luxury apartments. Mott MacDonald was lead engineer in phase 1 of the project, which was completed in 2004. Its job was to provide the overall structural and building services design for a 10-hectare site with six residential tower blocks and related infrastructure.

On a flat waterside site where the temperature can hit 50 degrees Celsius in the summer, the project posed twin challenges of structural stability and energy efficiency in the cooling of the building.

Mott MacDonald describes the fast-track timescale as a major challenge. "It required careful planning by the building services design team, with

consideration of the systems requirements and technical development as they worked well ahead of the architectural design. This enabled the direct procurement of major plant items such as generators, chillers, air handling systems, life safety systems and building management systems.

"Mott MacDonald also had to specify, package and analyse the tenders of these procured items to ensure the customer received a high-quality installation while still addressing commercial considerations."

Today, the six towers – each between 20 and 37 storeys high – look down on the marina and are one of Dubai's most prestigious landmark sites.

Mott MacDonald meanwhile is still in Dubai, working on the Mall of Emirates project. When complete, the development will embrace 350 stores, a 14-screen cinema and entertainment centre, and a snow park. Projects in Dubai are huge and meeting the challenges they pose requires extraordinary skills.

INFLOWS AND OUTFLOWS

Exports	\$50.0bn	Imports	\$38.1bn	Net foreign direct investment
Re-exports	\$22.3bn	Consumer goods	\$15.2bn	\$9.0bn
Crude oil	\$22.1bn	Capital goods	\$12.6bn	
		Intermediate goods	\$5.3bn	

Weblinks: www.britbiz-uae.com www.uae.org.ae

many of whom have been educated at overseas universities and business schools, but more often than not it is a matter of bringing in expatriates."

Ranson adds that the development of Dubai International Financial Centre has exerted extra demand for staff to work at financial services companies setting up at the centre.

using the government services office in the free zone, which deals with all the government departments to obtain approvals. It is efficient, although licences and permits can cost several thousand pounds.

The alternative is to set up as an onshore company. In this case, foreign nationals may own only 49% of the company, with 51% owned by a local partner. Such partnerships can be difficult to unwind if the arrangement doesn't work out.

Management/accountancy staff

Professional and managerial staff are typically expatriates, many of them from the UK, although headhunters and recruiters are also busy trying to move people between companies within the UAE or from elsewhere in the Gulf, such as Kuwait and Bahrain.

"Finding staff here with the right skills is well-nigh impossible," says Matthew Ranson, a committee member of the Dubai-based British Business Group. "There are some good local people,

Making a success of business

Despite appearing to have adopted the American model of runaway capitalism and economic development, religious, ethical and family values are important in Dubai.

While Dubai may be liberal and open for business, it does not tolerate some behaviour. In this regard, though, it is more comparable to Singapore than Qatar or Saudi Arabia, say.

It is important to dress presentably in the UAE and show respect for the fact it is a Muslim country where prayer five times a day is common, which may dictate the way diaries are organised.

The more traditional local men may consider it inappropriate to shake hands with a woman. In the new industries such as media and design, things are more informal, and suits and ties have given way to jeans and sweatshirts. This is not the case in banks, government departments and other formal situations. ■

UNEMPLOYMENT

2.4%

CORRUPTION PERCEPTION INDEX

6.2 **30th**
SCORE OUT OF 10 WORLD RANKING

EASE OF DOING BUSINESS (WORLD RANKING)

69th

+4.5%
INFLATION

USE OF INTERNATIONAL ACCOUNTING STANDARDS
IFRS required for trading at Dubai International Financial Centre

Diamond geezers

OF ALL THE EMERGING MARKETS, SOUTH AFRICA OFFERS THE CLOSEST CULTURAL FIT FOR WESTERN COMPANIES. RICHARD WILLISHER EXPLAINS HOW TO GET IN AND ON.



South Africa is consistently rated the strongest economy on the African continent. Standard & Poor's long-term foreign currency debt rating for South Africa is BBB+ and stable in outlook over the next 18 to 24 months – on a par with Poland and Thailand. S&P points to prudent macroeconomic policies, an independent central bank committed to low inflation, a well-developed financial sector, political stability and transparent institutions.

Against this must be set weaknesses such as some aspects of the structure of the country's economy, social inequalities and the vulnerability of capital inflows. Burgeoning population growth amounts to both a pool of hungry labour but also one in which political instability is rooted and may grow if it is too long denied access to the rich fruits of society enjoyed by South Africa's wealthy.

South Africa knows that it cannot compete with emerging markets such as China and India on availability and cost of labour, so it has adopted a more high-education, high-value but low-cost strategy, stressing the value of its

time proximity and cultural affinity with European markets.

The country offers substantial scope for growth. Estimates are that in 2005 the South African economy grew by around 4% – a level that is likely to be maintained over the next three years. Further growth is likely to come from South Africa's own services sector including financial services, technology such as software development, call centres and manufacturing, where the key inputs of raw materials, labour and energy are competitively priced against those in western European economies.

Political and regulatory environment

The World Bank rates the country 28th out of 155 for ease of doing business, which puts South Africa at a similar level to Chile, South Korea and Israel.

The World Economic Forum ranks the country 25 out of 117 for business competitiveness – on a par with Malaysia, Korea and Spain.

While South Africa still owes its wealth to primary industries such as gold and diamond mining and the financial system is still run by the white

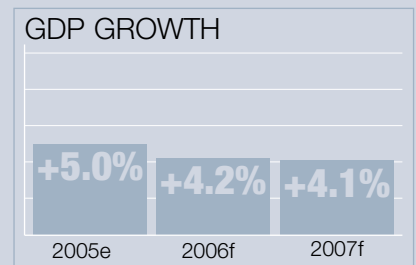
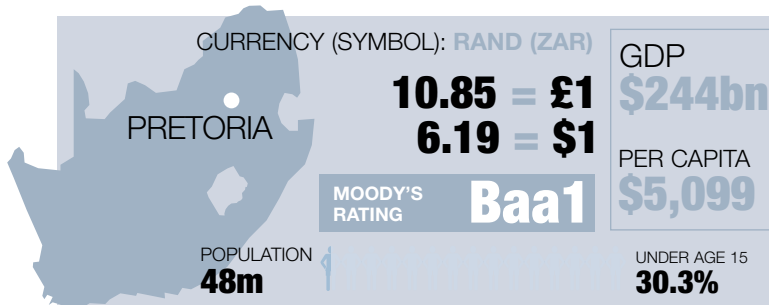
minority, things are changing.

Social divisions are more complicated than a simple black/white dichotomy. There are still tribal differences serious enough to cause bloody disputes within recent memory between supporters of the ruling African National Congress and the Inkatha Party. The Cape Coloured community is only one of many disadvantaged groups.

Doing business there

Setting up a business in South Africa is as trouble-free as in the UK. It is important to establish a subsidiary as a Pty Limited company to make sure that the shares are marked as non-resident. This enables funds to be transferred in and out of the country, such as when inward investors are repatriating dividends or capital.

VAT and other company registrations





Gearing up

South Africa is keen to make itself the “safe” manufacturing hub of Southern Africa, promoting manufacturing for export as well as sales in its own domestic marketplace. Nowhere is this more visible than in the country’s growing automotive sector.

Last year Volkswagen produced 112,000 Jettas, Polos and Golfs at its Uitenhage factory – twice the number it made eight years earlier.

“In fact,” explains Andreas Tostmann, the company’s managing director, “in the period 2000 through 2008, Volkswagen South Africa will have invested over R6bn [€560m] in new models, a new paint shop, and a new truck and bus assembly plant.”

VW has seen its sales in South Africa rise by 60% since 2003 and it remains the country’s biggest car exporter. But it is by no means the only player. BMW’s Rosslyn site in Pretoria has received plaudits for its efficiency and quality.

And Fiat makes and exports catalytic converters in South Africa, which now claims to be the world’s biggest supplier of platinum-based catalytic converter components.

VW also exported 40,000 vehicles in 2005, mainly to Japan – ahead of both DaimlerChrysler (30,000) and BMW (29,000), which also ship from South Africa.

What is clear is that VW is making strenuous efforts to play a social and community role in a country where political and social engineering is intent on developing opportunities for deprived ethnic groups.

VW has announced support for a new, locally owned operation, Mzantsi Truck and Bus, and also implemented a HIV/AIDS workplace programme to fight the disease among its staff.

In South Africa, social responsibility is part and parcel of running a business – and that means more than just paying lip service to the country’s multicultural ideals. VW has taken this on board as it develops its business there.

INFLOWS AND OUTFLOWS

Exports	\$36.3bn	Imports	\$40.7bn	Net foreign direct investment
Gold	\$5.0bn	Crude oil	\$3.7bn	\$6.7bn
Coal	\$1.5bn	Motor vehicles	\$2.1bn	
Diamonds	\$1.4bn	Aircraft	\$1.7bn	

Weblinks: www.southafricahouse.com/Britsa.htm www.businessday.co.za

are straightforward procedures in South Africa and there are grants, tax breaks and other support for sectors such as call centre operations and software-related businesses. A variety of economic development zones exist throughout the country.

South Africa’s corruption perception rating is 4.5 (10 represents a high degree of transparency, 1 a high degree of perceived malfeasance). Countries with similar scores include Kuwait, the Czech Republic and Greece.

Management/accountancy staff

Many *émigrés* have returned to South Africa following the dismantling of apartheid, with skills honed overseas. Accountants probably lead the returning pack of professionals. Add in those who have worked abroad post-qualification and have gained broader international experience, and the market provides a good level of staffing.

All the major accounting firms operate in South Africa and the country’s universities produce a good

flow of graduates, so the country is well supplied with qualified staff.

Luke Mills, expat executive director of outsourcing agency Calling The Cape, says: “First-line management tends to be a bit more of an issue, and takes a bit longer to find and develop. But generally companies can recruit people from the domestic business and industrial base with 75% of the capabilities they need. The companies that have been successful here have been those that have taken a long-term recruitment approach, recruiting the good, want-to-learn and business-positive attitude first and foremost, even if all the skills are not available from day one.”

Making a success of business

On the whole, business attire in South Africa is less formal than in the UK. “Ties are not obligatory,” says Mills. “It’s a hot country.”

It is important to be sensitive to social diversity, which is major issue in South Africa. “I don’t think there are any other major dos or don’ts, or differences with the UK,” adds Mills. “If anything, South Africans tend to be a bit more polite, so avoid being blunt or abrasive, which tends not to play too well here. Otherwise, it’s exactly the same as the UK when you are doing business here day to day.” ■

UNEMPLOYMENT

25.2%

CORRUPTION PERCEPTION INDEX

4.5 **46th=**

SCORE OUT OF 10 WORLD RANKING

EASE OF DOING BUSINESS
(WORLD RANKING)

28th

USE OF INTERNATIONAL ACCOUNTING STANDARDS
IFRS required for domestic listed companies

+4.3%
INFLATION

More than just coffee

DON'T TURN UP TO MEETINGS IN A FORD PINTO, AND BANISH GREEN AND YELLOW FROM YOUR WARDROBE. PETER BARTRAM EXPLAINS HOW TO BE BIG IN BRAZIL.



After a wobble in 2005, Brazil's economy is growing strongly again. The country's real GDP growth is forecast as 3.2% this year and 3.4% in 2007.

That may not sound too exciting set against the high single-digit and even double-digit growth of other "hotspot" economies, but FDs should remember that Brazil already has a substantial economy – an estimated \$634bn in 2006 – and another 3% represents an awful lot of extra opportunity.

Matthew Albert, senior economist at D&B Country Risk Services and a specialist in Latin America, offers two reasons why Brazil's economic recovery may continue.

"Interest rates are coming down faster than expected," he says. "As a result, the rebound in economic activity in the fourth quarter of 2005 was stronger than anticipated. Industrial output was above expectation and we believe that's a signal that investment is going to rebound more strongly in the first couple of quarters of 2006."

The second reason for optimism is that China is increasingly eager to buy Brazil's abundant raw materials. Even if

demand for Brazilian goods from Europe and North America slows, China alone could keep the country's economy growing.

Political and regulatory environment

The World Bank ranks Brazil as only 119th in the world for ease of doing business. Bureaucracy can be stifling – federal and state governments don't always see eye to eye, making it difficult to know how regulations will be interpreted in any given situation.

Although the undergrowth of bureaucracy is as thick as the rainforest, FDs find themselves mostly tussling with five bodies.

The Central Bank (BACEN) handles exchange controls, foreign capital issues and profit remittances. A Securities Commission (CVM) deals with the securities market and listed companies. The Administrative Council for Economic Defence (CADE) cracks down on monopolistic and unfair business practices. The National Institute of Industrial Property (INPI) handles technology issues, including technology transfer agreements. And

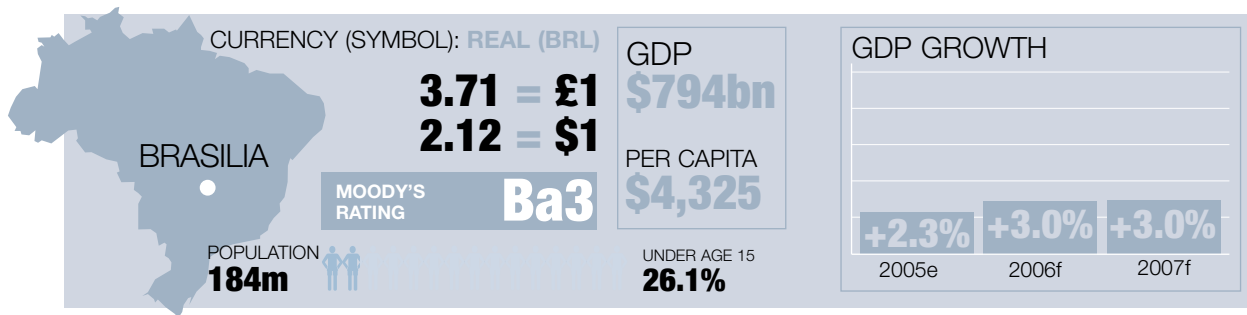
the Foreign Trade Department (DECEX) – part of the Bank of Brazil – controls import and export licences.

Depending on the nature of your business, you could also fall foul of the Brazilian Environment and Renewable Natural Resources Institute (IBAMA), which can suspend tax benefits, restrict credit and even close businesses that don't meet environmental criteria, although the fact that massive illegal logging continues unabated suggests that much regulation is more honoured in the breach than the observance.

Doing business there

Brazil bursts with possibilities. "There are lots of opportunities for foreign companies to start a business in Brazil," says PwC partner José Rezende.

Specific areas of opportunity include agribusiness (including alternative energy sources such as ethanol and





Grow with the flow

Matthew Armstrong is hoping to win orders worth £3m for his company Litre Meter from Brazil's state-owned oil giant Petrobras by 2008.

Armstrong, Litre Meter's sales and marketing director, is already well on his way to that figure with orders worth £233,000 and £190,000 for Litre Meter's specialised equipment, which measures the flow of chemicals injected into oil pipelines to improve the flow of the crude.

Yet to get his company's foot inside Petrobras's door, Armstrong has had to make half a dozen trips to Brazil and devote quality time with key managers.

"The Brazilians approach business in a different way to what we're used to in northern Europe," says Armstrong. "I'm used to going into a company, giving a presentation and answering technical questions. If they then believe in your technical competence, they buy the equipment.

"In Brazil, I found that I had

to spend social time with the people I was selling to before we got round to the business. They wanted to know about me as a person, my background and my family – very personal things. They have to know you, and feel you are the right sort of person to do business with."

But when the negotiating started, Armstrong discovered that Brazilians also had a hard head for a deal. He met executives with a shrewd understanding of the concept of knowledge transfer.

"They were very proactive in wanting to get their own engineers and local companies involved in the whole supply chain process," says Armstrong. "It's clear they want to become more self-sufficient. They have a specific clause in the contract which states that 60% of the contract by value should be Brazilian."

On the all-important question of payment, Armstrong has experienced no problems. "We rarely have debts over 60 days and most of our customers pay within 30 days," he says.

INFLOWS AND OUTFLOWS

Exports	\$73.1bn	Imports	\$50.7bn	Net foreign direct investment
Transport equipment	\$11.2bn	Machines & electrical equip	\$11.9bn	
Soyabeans, etc	\$7.9bn	Chemical products	\$8.8bn	
Metal goods	\$7.2bn	Oil & derivatives	\$6.6bn	
Chemical products	\$1.7bn	Transport equipment	\$4.9bn	

Weblinks: www.brazilianchamber.org.uk

"When starting a business in Brazil, it's advisable to hire a headhunter to identify key professionals."

Making a success of business

The story goes that when Ford marketed its Pinto in Brazil, there were few takers. It turned out that *pinto* is slang for "little willy" in Brazilian Portuguese. The tale underlines the importance of being sensitive to cultural differences.

Old Brazil hands advise allowing plenty of time to become acquainted with your prospective partners before getting down to business. It's polite to turn up for meetings on time, but don't be offended if people turn up an hour late. And don't speak Spanish – it infuriates the Portuguese-speaking Brazilians – or wear green and yellow, the colours of Brazil's flag.

"During negotiations, be prepared to discuss all aspects of the contract simultaneously rather than sequentially," advises Terri Morrison, author of the business culture guide *Kiss, Bow or Shake Hands*.

Individuals also carry more weight than corporate entities in Brazil. Morrison warns: "If you change your negotiating team, you may undermine the entire contract. Brazilians value the person they do business with more than the firm's name." ■

biodiesel), infrastructure and logistics. Many companies need restructuring with more capital and new technology, so Brazil could also be a happy hunting ground for private equity players.

Management/accountancy staff

Apart from an awful lot of coffee, there are two kinds of bean counters in Brazil. The best of the brew are the *contadores* – graduates permitted to do any and all accounting work, including auditing. The grounds are

técnicos de contabilidade – accounting technicians restricted in the types of work they can undertake.

The profession is controlled by a federal accounting council formed of members elected by regional councils. Accountants can't practise until their qualification has been recognised and registered by the local regional council.

More generally, there is a skilled workforce of professionals and managers, many with international experience. But Rezende warns:

UNEMPLOYMENT

9.9%

CORRUPTION PERCEPTION INDEX

3.7 **62nd=**
SCORE OUT OF 10 WORLD RANKING

EASE OF DOING BUSINESS (WORLD RANKING)

119th

USE OF INTERNATIONAL ACCOUNTING STANDARDS
IFRS not permitted for domestic listed companies

+5.7%
INFLATION

KEY STATISTICS

Turkey

- Net FDI \$5.0bn
- Δ GDP 2006 +5.5%
- GDP/head \$4,984
- Moody's Ba3[§]
- Ease of doing business (rank) 93rd

Brazil

- Net FDI \$15.0bn
- Δ GDP 2006 +3.0%
- GDP/head \$4,325
- Moody's Ba3[§]
- Ease of doing business (rank) 119th

Sources and notes for data on pp 8-25: all GDP data from Credit Suisse First Boston (except for the UAE, which is from the IMF); exchange rates from the *Financial Times*; Moody's rating is for long-term foreign currency government bonds (www.moody.com); §=sub-investment grade credit rating; population data from CSFB and the CIA World Factbook (www.cia.gov); inflation data from CSFB (the UAE's is from the IMF) and covers the period December 2004 to December 2005; unemployment data is the latest official estimate in the CIA World Factbook and may be distorted by underemployment or the black economy; Corruption Perception Index is from the Internet Center for Corruption Research (www.icgg.org); international accounting standards notes from www.iasplus.com; export and import data from *The Economist Pocket World in Figures 2006*; foreign direct investment data from CSFB (except for the UAE, which is from the IMF); Ease of doing business data from www.doingbusiness.org

Poland

- Net FDI \$9.7bn
- ΔGDP 2006 +4.5%
- GDP/head \$7,903
- Moody's A2
- Ease of doing business (rank) 54th

Russia

- Net FDI \$4.5bn
- ΔGDP 2006 +5.4%
- GDP/head \$5,186
- Moody's Baa2
- Ease of doing business (rank) 31st

UAE

- Net FDI \$9.0bn
- ΔGDP 2006 +4.2%
- GDP/head \$40,703
- Moody's A1
- Ease of doing business (rank) 69th

China

- Net FDI \$51.0bn
- ΔGDP 2006 +10.1%
- GDP/head \$1,464
- Moody's A2
- Ease of doing business (rank) 91st

India

- Net FDI \$3.4bn
- ΔGDP 2006 +8.1%
- GDP/head \$578
- Moody's Baa3
- Ease of doing business (rank) 116th

South Africa

- Net FDI \$6.7bn
- ΔGDP 2006 +4.2%
- GDP/head \$5,099
- Moody's Baa1
- Ease of doing business (rank) 28th

Which emerging markets
should you enter?
Ask someone who's
in all of them.*



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