

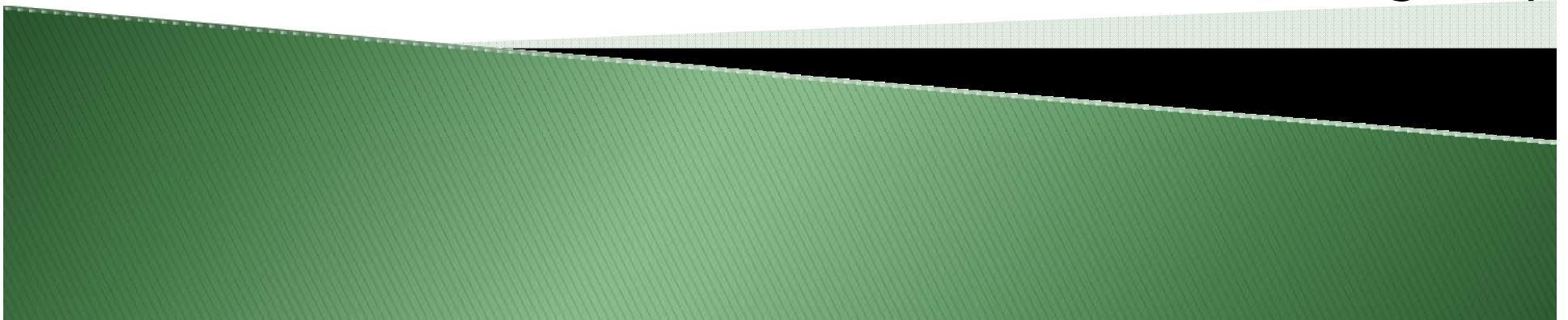


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The Other 4/5^{ths} of the World:

Opportunities in Emerging Economies

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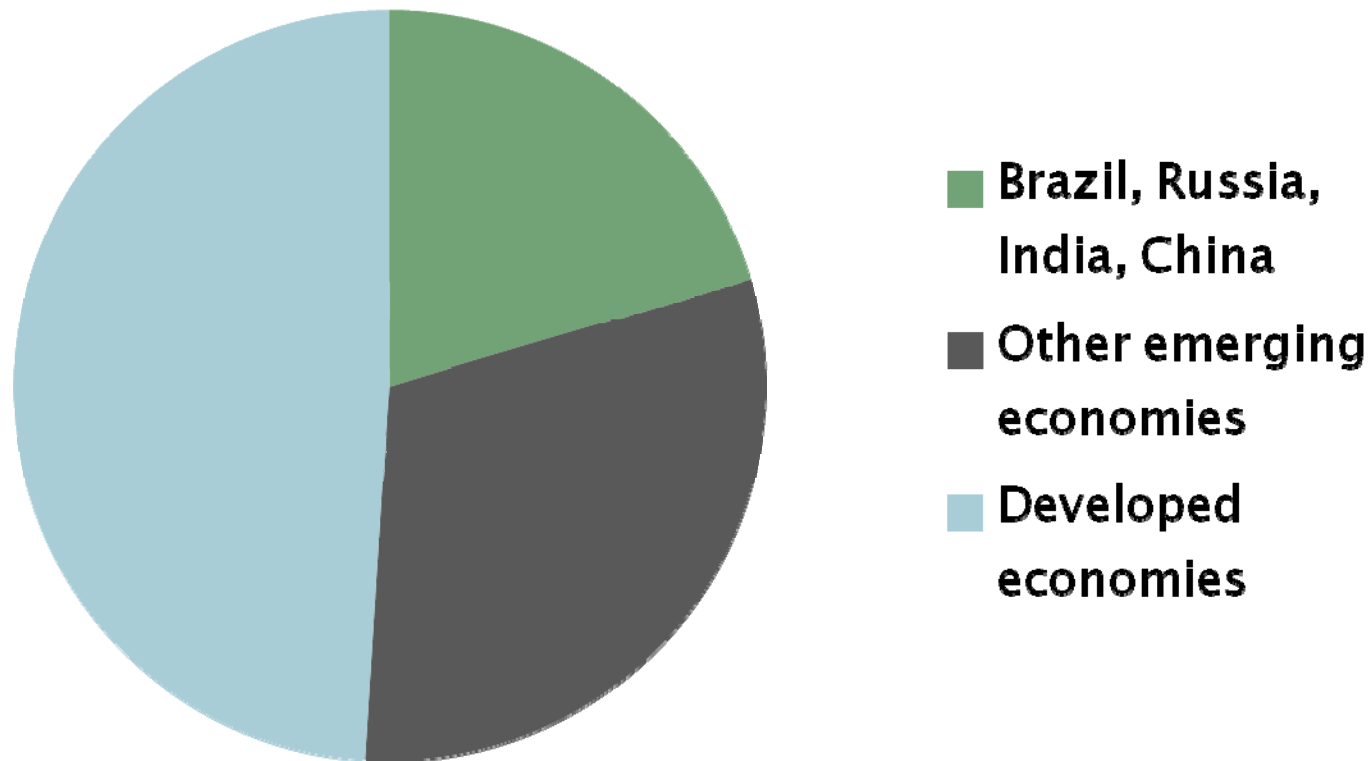


Who cares about emerging economies?

- We want our businesses, our universities, our students and children to be successful
- Success is becoming harder to achieve in an increasingly 'winner-take-all' economy
- To be successful, we must:
 1. Understand the competition
 2. Find non-traditional partners and customers
 3. Look for opportunities in unlikely places

A quiet milestone

World Output, 2005 (at PPP)



Emerging economies account for...

- 82% of the world's population
- 70% of total foreign exchange reserves
- 52% of global energy consumption
- 43% of world exports (from 20% in 1970)
- Vast majority of growth in income/capita

What flows from north to south

- Private Investment: Was 30% of total financial flows into EEs, now 70%
- Aid: Was 70% of financial flows, now 30%; \$104 billion in development aid last year
- Cash: \$300 billion in annual remittances
- Exports: Consumer products, services, software, entertainment, capital equipment
- But also... cultural changes, corruption, demand for drugs

What flows from south to north

- Corporate Profits: Returns on portfolio and direct investment in emerging economies
- Labor: Skilled and unskilled workers in US, Europe, Russia, Gulf States and Malaysia
- Exports: Commodities, but also textiles, consumer products, components, etc.
- But also... instability, violence, and disease – as well as wage stagnation, losses, etc.

What flows everywhere: Innovation

- 98 Fortune 500 companies have R&D facilities in China, 63 in India
- Huawei – most patent applications in 2008
- Tata – world's cheapest car
- M-Pesa, Kenya – mobile \$
- Indian medical devices



Challenges in emerging economies

- Weak rule of law
- Poor physical infrastructure and security
- Corruption and cronyism
- Too much or too little government
- Limited and expensive talent pool.



Opportunities in emerging economies

- Large EEs recovered from recession more quickly than the US, growing much faster
- Annual real GDP growth of about 6% in Africa through 2011 – growing demand for consumer products and services
- Typical bank profits: 2.5 to 4% ROA (compared to 1% in the US)



Opportunities in emerging economies

- Job opportunities in EEs (for Americans) not easy to find, but often worth the effort
- Overseas postings offer more responsibility, exposure at an earlier stage
- Professionals with overseas experience are more creative and effective problem solvers (INSEAD)



Opportunities in emerging economies

- EEs buy 55% of US exports – and growing
- Increasing source of foreign investment in the US – both FDI and portfolio (not just bonds!)
- Global supply chain opportunities and quality-of-life enhancing imports



Few know about these opportunities

- 6 in 10 Americans aged 18–24 can't find Iraq on a map (National Geographic–Roper Public Affairs 2006)
- 48% think India's majority religion is Islam (National Geographic–Roper Public Affairs 2006)
- Median estimate of aid as percent of national budget = 25% (US and Europe)



1. Emerging economies exist.

- 4/5ths of the world's people, most of its resources, half of its production
- Tangible impact on our daily lives
- Tremendous diversity
- Not impossible to engage
- Big opportunities



2. Emerging economies matter.

- Source of every day products and services
- Competition for talent (not just offshoring!)
- Source of skilled and unskilled labor... and new political and security challenges
- New markets, suppliers, partners, research locations, innovators, investment opportunities... and competitors

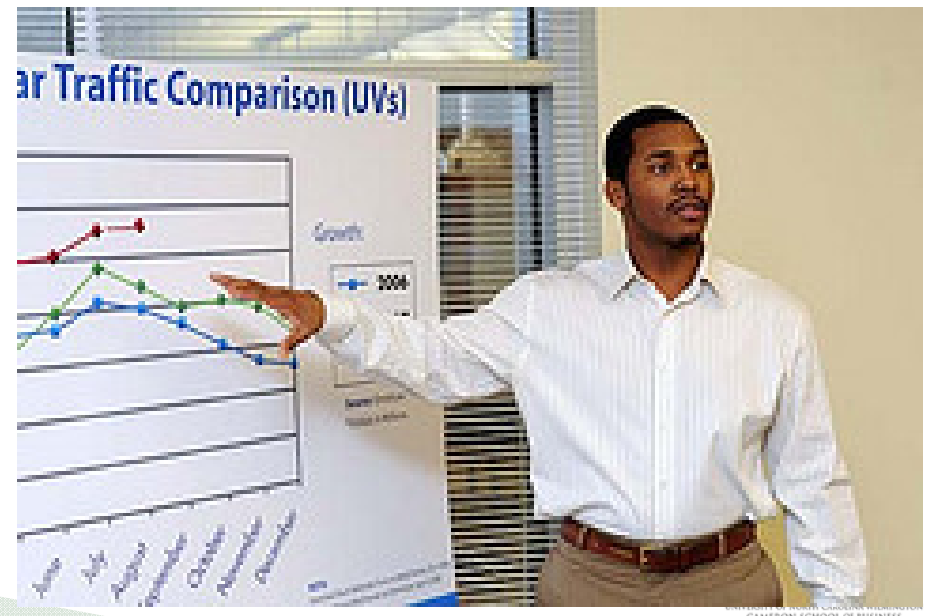
3. Emerging economies are not all the same – despite common problems.

- Legal and financial systems differ.
- Level of trust varies, affecting transaction costs in commercial relationships.
- Education, strength of civil society, physical infrastructure all vary.
- Culture matters!



4. Emerging economies are diverse, but the same basic rules apply.

- Define a meaningful value proposition.
- Operate ethically and act in a socially responsible manner – protect reputation.
- Adapt to local tastes and constraints, but strive for global best practices.
- Work hard!



5. Emerging economies offer great opportunities – for the brave few.

- Opportunities for growth and profit
- Opportunities for career advancement
- Opportunities for education and personal enrichment



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THANK YOU!

