Don't miss out

Recognizing opportunity in high growth markets

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Significant challenges exist, but companies have found ways to deal with them.

Contents

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Introduction

Slowing global growth, China stock market downturn, Brexit, U.S. Fed rate uncertainty. These are just some of the market themes economists are saying will define the year ahead. At the same time, many are predicting a modest pickup in emerging markets growth and are upbeat about how many high growth market (HGM) countries will weather the storm.

U.S. businesses are investing over $600 billion[1] each year in foreign countries with high growth markets.[2] And in our survey of 200 senior executives in the U.S., 86 percent told us that high growth markets are important to their company's strategy and growth.

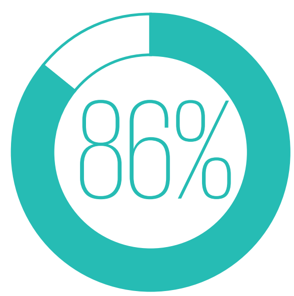
However, more than 50 percent of U.S. foreign direct investment (FDI) flows to just five countries: Mexico, Brazil, Chile, India, and South Korea.

In this report, we identify where the U.S. is underinvesting compared to other countries.

We challenge the perceptions behind this restraint on investment and explain how you can overcome obstacles and barriers that do exist in order to exploit untapped potential in eight high growth markets.

Mark Barnes leads KPMG's high growth markets strategic initiatives. He has many years' experience working with companies investing to and from China, India, ASEAN, Latin America and other emerging countries. Barnes is a frequent public speaker on challenges and barriers executives often face in cross-border investments, including market entry and expansion, the business and regulatory climate in growth markets, risk and regulatory framework models, and managing businesses in different countries.

Mark Barnes
Partner in Charge
High Growth Markets
KPMG LLP



Percentage of senior U.S. executives who say they still consider high growth markets important to their company's strategy and growth.

U.S. companies are underinvested in HGMs

The U.S. lags behind other industrialized countries in investing in high growth markets. We compared U.S. FDI flow with that from other advanced industrialized economies – the 34 other members of the OECD. The U.S. trailed the average OECD flow in 51 out of 74 high growth markets.

In the pages that follow, we focus on eight geographies that offer great opportunity and where we believe U.S. firms are missing out.

(For an explanation of our research methodology, see page 25.)

Where the U.S. is underinvesting

U.S. versus OECD FDI flows, 2010-2014

Investment Recipient	U.S. difference from OECD average
Argentina	-11.4% ▼
Bahrain	-20.2% ▼
Bangladesh	-18.1% ▼
Botswana	-16.4% ▼
BRAZIL	-10.2% ▼
Bulgaria	-16.7% ▼
Chile	13.6% ▲
CHINA	-19.5% ▼
Chinese Taipei	-0.2% ●
Colombia	-1.7% ●
Côte d'Ivoire	-30.6% ▼
Croatia	-29.9% ▼
Cyprus	-26.0% ▼
Czech Republic	-13.9% ▼
Dominican Republic	188.4% ▲

Investment Recipient	U.S. difference from OECD average
Ecuador	-8.9% ▼
Egypt	9.3% ▲
Estonia	36.9% ▲
Gabon	9.9% ▲
Ghana	-24.5% ▼
Greece	17.9% ▲
Hungary	-32.9% ▼
INDIA	-7.5% ▼
INDONESIA	-11.1% ▼
Iran, Republic of	-26.7% ▼
Iraq	32.1% ▲
Israel	-11.5% ▼
Jamaica	-165.0% ▼
Jordan	-14.9% ▼
Kazakhstan	104.1% ▲

Exceeds average by + 5% or more ▲ Average ● Misses average by – 5% or more ▼

Investment Recipient	U.S. difference from OECD average
Kenya	-232.5% ▼
So. Korea	12.0% ▲
Kuwait	-25.2% ▼
Kyrgyzstan	-26.7% ▼
Latvia	-27.3% ▼
Lebanon	11.6% ▲
Lithuania	-26.7% ▼
Macedonia	-26.7% ▼
Malaysia	3.6% ●
Malta	148.5% ▲
Mauritius	-151.5% ▼
Mexico	21.1% ▲
Morocco	-48.6% ▼
Myanmar	-26.7% ▼
Namibia	-24.8% ▼

Investment Recipient	U.S. difference from OECD average
NIGERIA	9.0% ▲
Oman	-26.7% ▼
Pakistan	-40.2% ▼
Papua New Guinea	-21.3% ▼
Peru	7.9% ▲
Philippines	-5.5% ▼
Poland	-26.1% ▼
Qatar	-244.5% ▼
Romania	-20.9% ▼
Russian Federation	-29.6% ▼
SAUDI ARABIA	-4.4% ●
Senegal	17.5% ▲
Serbia	-24.6% ▼
Slovakia	-24.6% ▼
Slovenia	-26.7% ▼

Investment Recipient	U.S. difference from OECD average
SOUTH AFRICA	-18.9% ▼
South Sudan	-26.7% ▼
Sri Lanka	-20.7% ▼
Sudan	-26.7% ▼
Tanzania	16.7% ▲
Thailand	2.2% ●
Trinidad and Tobago	39.4% ▲
Tunisia	-145.4% ▼
Turkey	-10.7% ▼
Ukraine	-8.5% ▼
United Arab Emirates	5.2% ▲
Uruguay	-23.8% ▼
Venezuela	11.6% ▲
VIETNAM	-22.2% ▼
Zambia	-27.0% ▼

"Misperceptions about obstacles and difficulties are getting in the way of U.S. FDI."

– Mark Barnes, Partner in Charge HGMs, KPMG, LLP

Perceptions and reality in HGMs

Our in-country professionals identified eight HGMs where perceptions are getting in the way of real opportunities.

Focusing on the top six challenges by country, we show how survey respondents and KPMG professionals rate these challenges prior to companies instituting any mitigations or controls. *See EXECS pre-mitigation and KPMG POV pre-mitigation.*

We also provide "post-mitigation" ratings by KPMG professionals. In other words, KPMG in-country professionals consider the magnitude of each challenge assuming companies take appropriate mitigative action.

In almost all cases, mitigative actions and controls reduce the challenge levels to Medium or Low. This analysis puts the investability of each country in a more positive light than perceived by survey respondents.

See rationales for KPMG's post-mitigation ratings in **What KPMG in-country professionals say**, pages 6-21.

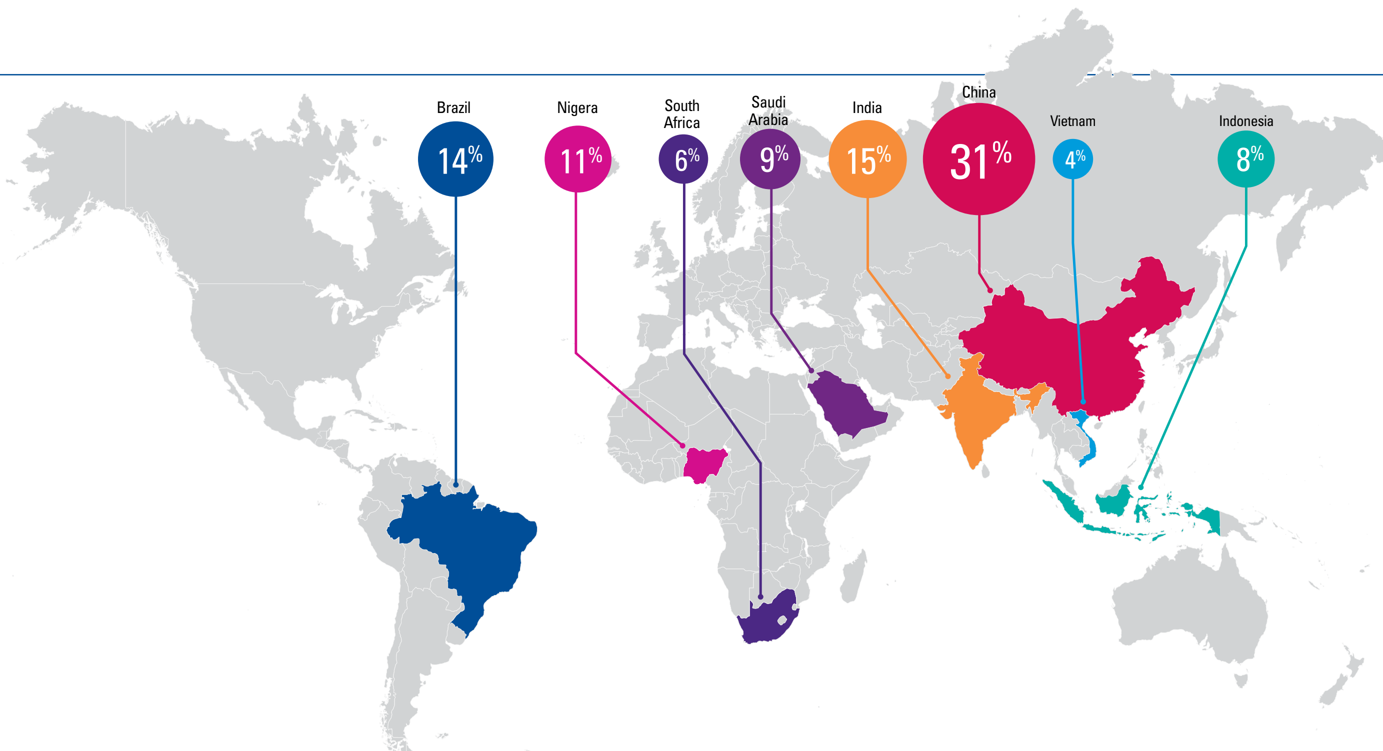
HGMs that present the most difficulty

We asked our U.S. respondents which countries were the most challenging to enter and invest in. Here is how they ranked them (higher percentages indicate greater challenge). *See map.*

Top six challenges by country

	Africa						Asia		
	NIGERIA			SOUTH AFRICA			CHINA		
	Middle Class Population – 10M			Middle Class Population – 4.3M			Middle Class Population – 108.8M		
	EXECS pre-mitigation	KPMG POV pre-mitigation	KPMG POV post-mitigation	EXECS pre-mitigation	KPMG POV pre-mitigation	KPMG POV post-mitigation	EXECS pre-mitigation	KPMG POV pre-mitigation	KPMG POV post-mitigation
Bribery, Fraud & Corruption	High	High	Low	High	Medium	Low	High	Medium	Low
Cost Management	High	High	Low						
Credit Risks									
Culture/Language									
Inflation/Exchange or Rise of Wages				High	High	Medium			
Infrastructure	High	High	Low						
IP Protection				Medium	Low	Low	High	High	Medium
Political Risk & Instability	High	High	Low	Medium	Medium	Low	High	Medium	Low
Regulatory Compliance				High	Medium	Low	High	High	Low
Role of Government & Bureaucracy	High	High	Low	High	Medium	Medium	High	Medium	Low
Slowing GDP	High	High	Low						
Supply Chain									
Tax Exposure & Compliance							High	High	Low

High Challenge/Barrier · Medium Challenge/Barrier · Low Challenge/Barrier



Asia			ASEAN						South America			Middle East		
INDIA			INDONESIA			VIETNAM			BRAZIL			SAUDI ARABIA		
Middle Class Population – 23.7M			Middle Class Population – 7.2M			Middle Class Population – 12M			Middle Class Population – 11.2M			Middle Class Population – 5.8M		
EXECS pre-mitigation	KPMG POV pre-mitigation	KPMG POV post-mitigation	EXECS pre-mitigation	KPMG POV pre-mitigation	KPMG POV post-mitigation	EXECS pre-mitigation	KPMG POV pre-mitigation	KPMG POV post-mitigation	EXECS pre-mitigation	KPMG POV pre-mitigation	KPMG POV post-mitigation	EXECS pre-mitigation	KPMG POV pre-mitigation	KPMG POV post-mitigation

Brazil

U.S. FDI flow
(versus OECD average)
-10.2%

Not for beginners

Brazil is in the midst of an economic, political and financial crisis. Lower gas and commodity prices and high inflation (above 10% in 2015) have led to the worst recession since 1901.[1] The largest corruption scandal in the country's history has reached as far as the President, Dilma Rousseff, who was impeached by the Senate and in August 2016 removed from office. Facing declining tax revenues, the interim government, despite a strong desire to make expected cuts in spending, has been unable to do so.

However, Brazil has a history of rebounding from crises, and long-term investors should not be deterred. Geopolitical forecasters have already factored in passage of impeachment. New economic data suggests that layoffs and lowered demand have finally started to have an effect on inflation. With the devaluation of the Real, assets with strong underlying fundamentals could present opportunities for investors with foreign currency. However, improved economic confidence is reflected in the recent increase in currency value from 4.06 to 3.15 to the dollar. We believe in the strong fundamentals of Brazil including the currency and the long term strategic view towards business consolidation. Private equity funds have increased priority allocations in healthcare and private Infrastructure and real estate has seen sizable transactions. Additionally, either as a result of the Lava Jato[2] scandals or simply lack of access to capital, companies have been forced to shed assets or look for strategic foreign partners. This has created further opportunity for international investors with experience in the country.

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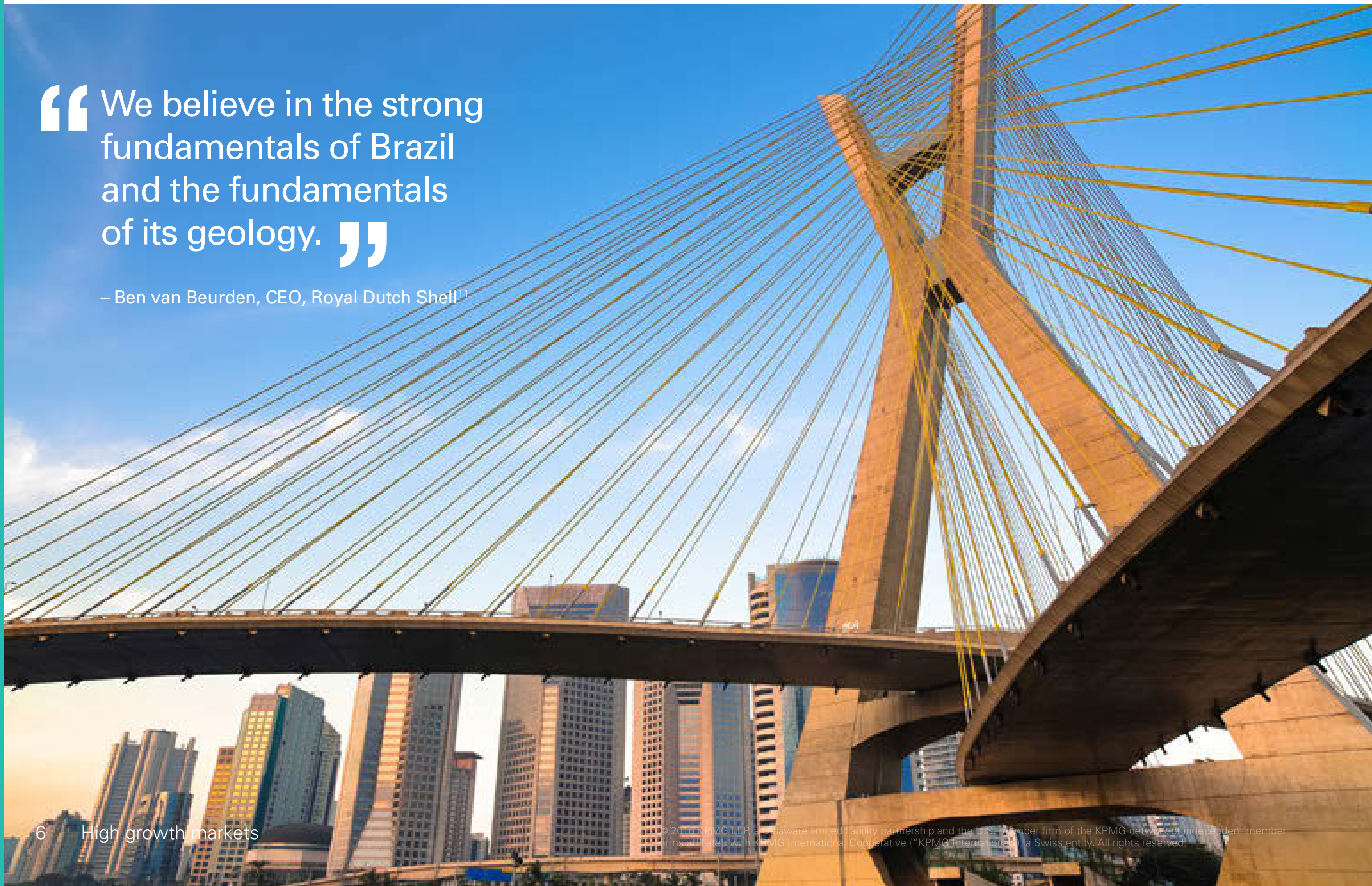
> "We believe in the strong fundamentals of Brazil and the fundamentals of its geology."
>
> – Ben van Beurden, CEO, Royal Dutch Shell[11]



Shell goes long on Brazil

It has become axiomatic that Brazil is not for beginners.[3] Shell Oil company had experience gained from over 100 years of oil exploration and partnering with oil drillers in Brazil. It had intimate knowledge of the local environment, political ebbs and flows, and the so-called "Custo Brasil."[4]

As a result of Brazil's ongoing crisis, inbound investment declined by 34 percent between January and September 2015. According to FDI Intelligence, Brazil was "witnessing much lower inflows coming from overseas companies that want to invest in the country for the first time."[5] Given Shell's history, it was not surprising that even in the midst of this economic turmoil, and even as it reduced its footprint worldwide, it was focusing on deep-water acquisitions in Brazil.

Shell set its sights on BG Group for that company's pre-salt[7] deposits, which were discovered by the state-owned oil company Petrobras in 2007. It saw a potential fire sale. All oil and gas companies had been affected by falling oil prices, but the impact was more acute in Brazil because of the slowdown of its largest trading partner, China. In addition, Petrobras was reeling from a corruption scandal,[8] had more than $100 billion in debt – more than any other oil company[9] – and had been downgraded to junk by S&P and Moodys.

The BG deal closed on February 15, 2016, allowing Shell to jump above Chevron to become the world's second largest public oil and gas company by market value. Today, the price of oil is below the $50 required for the deal to break even, but Shell is taking the long view.

Perceptions and realities of investing in Brazil

What executives say about investing:

Top incentives	
Stronger GDP growth	44%
Tax incentives	39%
R&D and innovation opportunities	37%
Faster growth of second tier cities	36%
Strong consumer market growth	32%

What KPMG in-country professionals say:

Top challenges		Magnitude of challenges post-mitigation
Regulatory compliance	41%	**LOW provided investors are in compliance with existing rules.** Central Bank rules are flexible and in some sectors regulations are in process of amendment (e.g. oil and gas local content rules).
Political risk and instability	39%	**MEDIUM given uncertainty surrounding impeachment.** A provisional government is ruling the country because of impeachment proceedings against the current President. After the August vote, the country will have more certainty and clarity in terms of macro-economic policies.
Bribery, fraud and corruption	34%	**LOW assuming sufficient internal controls and compliance tests are in place.** Various civil and criminal corruption investigations, followed by judiciary actions, are changing the landscape for the better. Also, Brazilian FCPA was recently approved, adding more controls and compliance requirements.
Role of government and bureaucracy	32%	**MEDIUM considering the political decision making process is focused now on the impeachment process.** Nevertheless, the Federal government is reviewing some regulations to allow investments in restricted sectors (e.g. aviation). .
IP Protection	31%	**LOW considering the rule-of-law is observed and enforced locally.** Registration at the National Patent Office (INPI) is a requirement and in accordance with international rules.
Tax exposure and compliance	25%	**MEDIUM** with strong IT systems and internal controls. Tax compliance based on e-filings can generate added scrutiny and penalties.

China

U.S. FDI flow -19.5%
(versus OECD average)

The new normal

A "new normal" has emerged in China, a slogan that is "shorthand for the government's plan to shift from high speed growth, driven by exports and infrastructure investment, to slower, cleaner growth powered by domestic consumption."[1] This new normal will open new collaboration and cooperation opportunities for foreign investors. Multinational corporations (MNCs) should focus acutely on the government's needs as it seeks to satisfy critical and growing social requirements. The need for quality and affordable healthcare and housing, improved transportation, environmental amelioration, a more inclusive society, and increased productivity and competitiveness of China's manufacturing sector are driving opportunities for well positioned MNCs that have the technology and know-how to help China achieve its ambitious goals. MNCs should emphasize innovation and differentiation as they face greater competition from Chinese domestic players that have rapidly moved up the value chain, have been quick to embrace e-commerce, and are increasingly globalizing. As China progresses through its next stage of reform, the companies that succeed will be those that have a clear direction and strategy, and an ability to implement and adapt to change.

__Honson To__ is the Chairman of KPMG China and serves on KPMG's Global Executive committee. Beginning his career with KPMG in Canada in 1990 and now based in Beijing, Honson has accumulated many years' experience servicing international clients investing in China and Chinese clients investing overseas.

Perceptions and realities of investing in China

What executives say about investing:

Top incentives	
Strong consumer market growth	49%
Government initiatives	48%
Tax incentives	38%
Stronger GDP growth	36%
Faster growth of smaller/second tier cities	35%

What KPMG in-country professionals say:

Top challenges		Magnitude of challenges post-mitigation
Political risk and instability	56%	**LOW within mainland China.** China has little political instability. Mid-range strategic objectives are broadcast to the market in Five Year Plans, with little revision between plans.
Role of government and bureaucracy	44%	**LOW if companies pay attention to the government's goals.** The government plays a different role in the market in China. It is an important stakeholder and its state-owned entities are major consumers of goods and services.
Bribery, fraud and corruption	33%	**LOW, assuming companies have standard anti-fraud policies and programs in place.** Corruption, fraud, and the need for bribery are not major concerns, when compared to other developing markets.
Tax exposure and compliance	31%	**LOW with the right local professional guidance and compliance functions.** China's tax reporting and regulatory compliance requirements are relatively straight forward.
Regulatory compliance	28%	**LOW with the right local professional guidance and compliance functions.** China's tax reporting and regulatory compliance requirements are relatively straight forward.
IP Protection	25%	**MEDIUM with careful planning for which technologies to expose to market.** IP protection can be a major challenge in China, and a source of significant loss if a company does not prepare.

Ford thrives through joint venture partnership

As the world's largest auto market, China has the attention of international brands, which have been currying favor with domestic consumers for years. Their success has grown with the rising affluence of the population and the reluctance of consumers to accept more Spartan models from domestic manufacturers.[2]

To help develop domestic automakers, China's Ministry of Commerce requires foreign automakers to operate in China through 50-50 joint ventures with domestic partners. State-controlled giants largely provide the labor and government connections for the joint ventures. MNCs provide most of the designs, engineering, and marketing.

Ford's strategy, like that of other automakers, was to build cars close to its customers.[3] Yet the government's 50-50 rule posed challenges. Working with a JV partner, would Ford be able to produce quality product? Respond to needs of customers? Be profitable in China?

In 2001, four years after GM and more than two decades after Volkswagen entered the market with joint-venture partnerships, Ford announced a 50-50 joint venture with Changan Automotive Group.

Ford opened a new assembly plant in Nanjing in 2007 and its largest-ever factory complex in the southwestern city of Chongqing in 2012. It opened a vehicle assembly plant in Hangzhou in 2015. In 2004, Ford made and sold in China just 51,000 passenger cars; by 2015, sales were up to 836,425. Between 2003 and the first quarter of 2015, Ford had increased market share among both domestic and JV automakers by more than 563 percent, and it continues to grow.

According to the automaker, the key to its success has been its wide range of product offerings, which allow it to effectively target first-time buyers.[4] To further increase its customer awareness, Ford plans to invest in a $100 million research and development expansion in Nanjing to better "anticipate and react faster to consumer and market changes in China."[5]

"With this investment in research and development, the next generation of Ford vehicles will be completely designed around our customers," said Mark Fields, president and CEO of Ford Motor Company. "They will be even better for the environment, in sync with their connected lifestyles, and packed with innovative technologies to keep our customers safe, help them park, and avoid collisions."[6]

"With this investment in research and development, the next generation of Ford vehicles will be completely designed around our customers."

– Mark Fields, president and CEO, Ford Motor Company

India

U.S. FDI flow -7.5%
(versus OECD average)

Xtreme FDI

India offers extremes of opportunity and challenge. On one hand, it is the fastest-growing major economy, with strong forex reserves, a rising middle class, and a young, educated, English speaking workforce. On the other hand, India ranks low – 130 out of 180 countries – for ease of doing business because of its bureaucratic regulatory environment. The new pro-business government of Prime Minister Modi, elected in 2014, has taken concrete steps to transform the business landscape, including increasing transparency, further liberalizing industry sectors, and launching manufacturing initiatives, such as Make in India – all of which have helped make India the # 1 FDI destination in the world. When all is said and done, a business case for direct investment in India rests on how well a company understands ground-level impediments – such as red tapism, lack of infrastructure and a changing tax and regulatory regime - and formulates a long-term strategy for dealing with them.

__Richard Rekhy__ is the Chief Executive Officer of KPMG in India and a member of KPMG International's EMA Regional Board and Global Board. He has over 28 years' experience serving clients across sectors including advertising, oil and gas, pharmaceuticals, technology, manufacturing and retail. He brings detailed knowledge of corporate governance, enterprise risk management, internal audit and business process re-engineering.

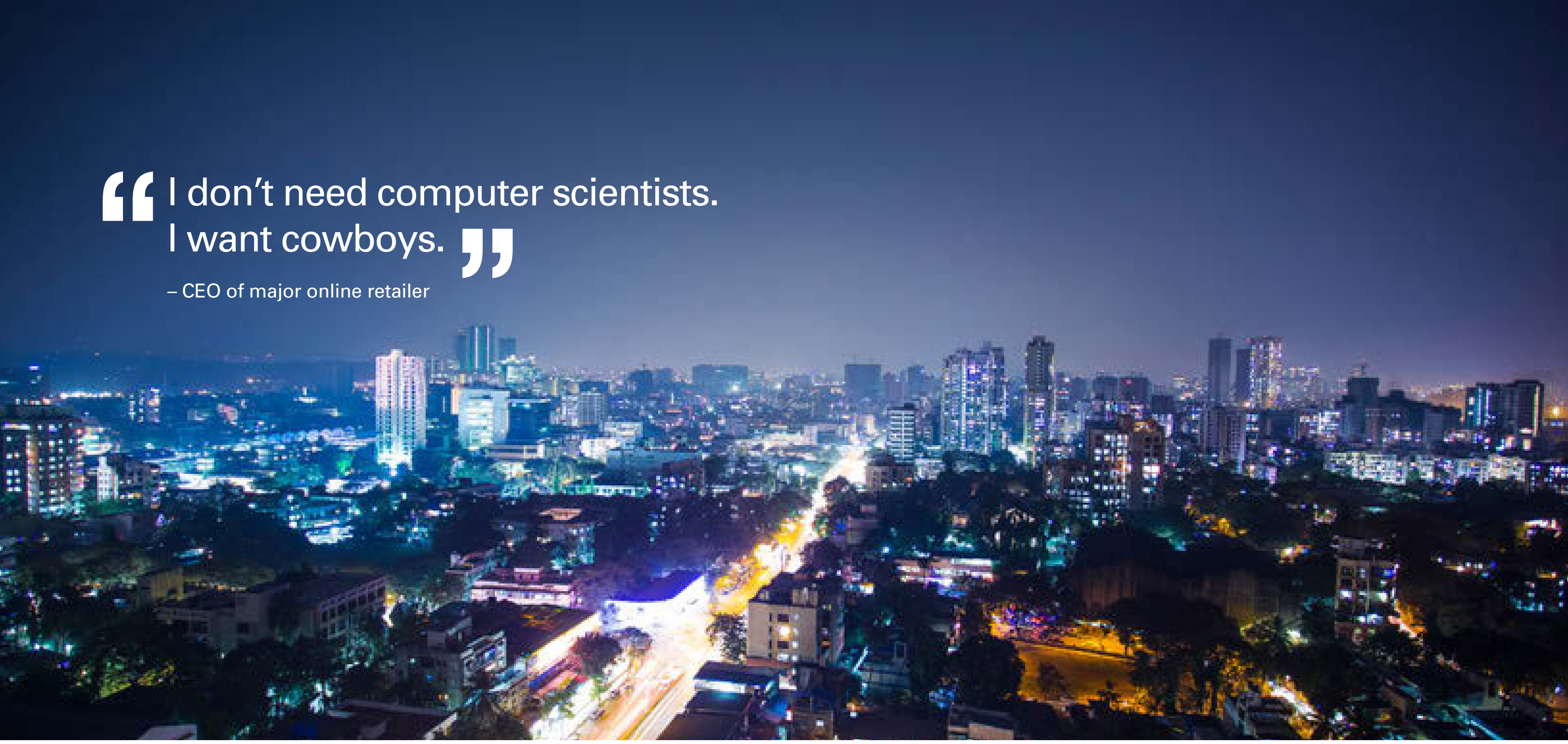
Perceptions and realities of investing in India

What executives say about investing:

Top incentives	
Strong consumer market growth	42%
Tax incentives	38%
Government initiatives	37%
Stronger GDP growth	33%
Special investment zones	28%

What KPMG in-country professionals say:

Top challenges		Magnitude of challenges post-mitigation
Bribery, fraud and corruption	38%	**MEDIUM if investors undertake thorough due diligence before making the investment and put in place robust internal anti-fraud controls and procedures.** While corruption continues to be a serious concern for India Inc., government's pro-governance stance has helped the country move in the right direction and improve its image.
Political risk and instability	35%	**LOW for companies willing to commit to the India market for the long term.** India is a stable democracy. Its political scenario is maturing, with widespread public support of a strong central government role, and alignment of major political parties with the growth agenda.
Role of government and bureaucracy	35%	**MEDIUM over the long term, given the pro-growth mindset at federal and state levels, including efforts to simplify and rationalize policies to make them more investor-friendly.** The government's focus has been on minimum government and maximum governance – reducing bureaucratic hurdles while improving the business environment. India's Ease of Doing Business (World Bank) has improved by 12 ranks to 130, as compared to 142 in 2015.
Tax exposure and compliance	30%	**MEDIUM due to the government's focus on creating an investment friendly tax environment by simplifying tax laws, moving away from retrospective taxation and bringing more certainty – thereby reducing the compliance burden.** Passage of the Goods and Services Tax (GST) Constitutional Amendment Bill in August 2016, puts India on the verge of a technology-enabled and unified indirect tax system.
Regulatory compliance	27%	**LOW considering government measures to build a robust regulatory framework, encourage foreign investment and sustain momentum on "ease of doing business."** Regulatory reforms are simplifying and rationalizing the process of foreign investment and increasing FDI through the automatic route.
Infrastructure	23%	**MEDIUM over the long term given the government's continued focus on building sustainable infrastructure and commitment towards addressing the funding needs.** The government is taking positive steps to improve bankability of projects and establish a robust dispute resolution system for PPP projects. It has launched infrastructure investment funds and systematically begun tracking frozen projects to remove bottlenecks.



India’s e-commerce wild west

Forrester Research estimates that online spending in India could jump to almost $75 billion by 2020, over six times the $12.1 billion the country spent last year.[6] A report on direct selling by the Federation of Indian Chambers of Commerce and Industry (FICCI) and consultancy firm KPMG forecasts a ten-fold growth in India’s e-commerce industry over the next five years to $100 billion.[7] The government’s Digital India project and the modernization of India Post, which together offer one-stop shopping for government services, are supporting this growth by bringing the internet, broadband and smartphones to remote rural parts of the country.[8] However, from a regulatory standpoint, the Indian government is struggling to keep up with this rapidly evolving industry, driven in part by opposition from politically powerful domestic retailers in both e-commerce and brick and mortar spaces.”

India bars companies with substantial foreign ownership from operating retail outlets that sell from their own inventories of goods. “To work around the restrictions,” the blog explains, online retailers billed themselves as “eBay-like websites that matched buyers with independent sellers.”[10]

In March 2016, regulators confirmed that such online marketplaces were legal, but they added a rule that no single seller could account for more than 25 percent of sales. It also limited the influence that online marketplaces could exert over the prices set by their sellers.[11] However, as Digitaltrends reported, “The bigger problem at hand … would appear to be the lack of time companies have been given to make adjustments to comply with the new rules.[12]” Likewise, Satish Meena, an analyst at Forrester Research in India, in an interview with the *New York Times*, commented, “They’ve not given any timeline for enforcement. There’s no proper instructions to companies about how to implement these things.”[13] The 25 percent ruling came with little or no warning, which made companies immediately non-compliant.

Internet executives in India say they do not expect an immediate government crackdown on the 25 percent rule and are not aware of the consequences for breaking it. Despite the uncertainty about enforcement, some thought it was helpful that the government had finally clarified its murky policies regarding foreign-owned e-commerce companies.

In any case, the Indian market is not one that any online retailer can afford to lose. One company recognized early on that it would need to radically revise its strategy to accommodate the wild-west chaos of India. “In India, where the infrastructure is overwhelmed, where the rules are opaque, where retailing is primitive,” the company’s methodical and precise playbook would flop. Leadership understood that in India it didn’t need computer scientists as much as “cowboys” who were not afraid to take risks – to fire and then take aim. Building smaller warehouses near customers, establishing informal drop-off locations, navigating clogged motorways with motorcycles, perfecting backpacks for delivery personnel, and delivering packages where addresses are only vaguely defined – these are just some of the wild-west improvisations that the company is doing to succeed in this growing market.

Indonesia

U.S. FDI flow
(versus OECD average)
-11.1%

The promise of "big bang" liberalization

On 18 May 2016, historically protectionist Indonesia removed 45 business lines from the Negative Investment List,[1] thereby allowing foreign companies to operate in those areas without restriction. Billed by President Joko Widodo ("Jokowi") as a "Big Bang" liberalization of the economy, the Negative List revisions represented the largest opening to international investment in 10 years.[2] The development occurred alongside Jokowi's massive infrastructure campaign to spur growth – by driving down logistics costs between the country's 13,500 islands and tying them more closely to the wealth and commerce of Java, where more than half the populace lives. His timing is good because of the country's "bumper crop of young people," according to *The Economist*,[3] which also predicts that Indonesia will become the world's fourth largest economy by 2050.[4] Despite Jokowi's best intentions, there is a risk that ongoing debate and lobbying by local investors could lead to some "about face" and tightening in a few sectors. Navigating the Negative List is fraught with danger because of regulatory complexities and deal execution risks. Yet for a multinational that gets it right, a not uncommon story is that its Indonesian investment can be its most favored and profitable in Southeast Asia.

***David East** is a partner and head of Transaction Services, Deal Advisory at KPMG in Indonesia and a director of KPMG Siddharta Advisory. He has 29 years' experience in deal advisory and transaction services, restructuring and insolvency, as well as auditing with KPMG in Australia and Indonesia. David has been in Indonesia since 1998 working with Indonesian corporates for foreign and local investors and lenders.*

Business and personal relationships open doors in Indonesia

A North American manufacturer of high-end supporting infrastructure was exporting to docks in Indonesia, but, for regulatory reasons, needed to manufacture domestically in Indonesia. This issue arose because its main customer, a large, well established U.S. natural resources company, had business licenses up for renewal under pressure from government regulators to increase "local content" by procuring imported materials from a local entity.

The U.S. natural resources company had been operating in Indonesia for many years and was well-connected. In a matter of weeks, it was able to identify potential partners for the North American manufacturer to approach, a process that can typically take months or years.

By drawing on relationships of its U.S. customer, the North American manufacturer was able to secure a local partner with which to begin manufacturing onshore in Indonesia, at better margins, while generating local jobs and tax revenues for the State.

> "Being connected by our customer with the right local contacts was a huge win-win."
>
> – Management, North American Supporting Infrastructure Company

Perceptions and realities of investing in Indonesia

What executives say about investing:

Top incentives	
R&D and innovation opportunities	38%
Tax incentives	38%
Access to technology	32%
Political change	29%
Government initiatives	26%

What KPMG in-country professionals say:

Top challenges		Magnitude of challenges post-mitigation
Supply chain	41%	**MEDIUM for companies that plan ahead and account for infrastructure limitations.** Poor roads and other basic infrastructure, particularly for perishable goods, present challenges. Stimulating infrastructure spending is key focus of government, but lead times will be long. Opportunities exist for U.S. funded logistics companies over and above basic trucking and warehousing.
Regulatory compliance	35%	**LOW for companies with effective internal regulatory compliance function.** Dealing with regulatory authorities can present challenges in any country, and Indonesia is no exception. Implementation of high corporate governance standards and policies required. Local Indonesian partner can play an important role.
Bribery, fraud and corruption	26%	**MEDIUM for companies with a robust internal anti-fraud program.** Facilitation payments are often poorly understood by senior head office management, but we have seen increased willingness to investigate and clean up instances of fraud. Younger generation Indonesian employees are less tolerant of fraud and whistle blowing schemes are proving effective.
Tax exposure & compliance	26%	**MEDIUM if a company has an effective tax function established from "day 1."** Robust tax files must be in place, including transfer pricing documentation supporting commerciality of related party transactions. Strong tax compliance policies and procedures, including preparation of monthly tax reconciliations, will help in the event of a tax audit.
IP protection	26%	**MEDIUM if technology assets are protected through implementation of proven global protocol models and controls.** One reason Indonesia ranks low on World Bank and other business indicators is due to high risks around IP protection. That said, KPMG has seen multinationals successfully operating in Indonesia using global IP assets and technology injected into a target company.
Credit risks	26%	**LOW with implementation of the right "know your customer" (KYC) and other credit practices and policies.** This is not a commonly discussed risk of doing business in Indonesia. However, attempting to enforce rights to recover debts through litigation or in the Indonesian courts is usually not effective and generally to be avoided at all costs.

Nigeria

U.S. FDI flow ▼ +9.0%

(versus OECD average)

Government to increase capex spend by 30 percent

Nigeria has the largest economy in Africa, with a GDP of over $500 billion, and is the key driver of international trade in West Africa. In 2014-15, it was the third fastest growing economy in the world. Oil represents 70 percent of government revenue and 90 percent of export revenue. With the fall in crude oil prices, growth is projected at 2.3 percent in 2016, the lowest rate in 15 years.[1] This has led to Naira devaluation and FX controls, and put pressure on government finances to fund the country's infrastructure deficit. At a KPMG-sponsored CFO forum in April,[2] Finance Minister Kemi Adeosun announced that, despite the headwinds, the government has committed to increasing its capex spend by 30 percent from last year. She pointed out that Nigeria did not want to repeat the mistakes it made 6-7 years ago when oil prices had peaked, and revenues were spent on domestic consumption rather than on infrastructure.

Foreign investors stand to benefit from this policy, as well as from sectorial reforms. Significantly, Nigeria received favorable press for its 2015 elections and the first peaceful transfer of power between rival parties in the nation's history.[3] President Buhari's first few months in office brought a strong crackdown on corruption, and his other key priority – reducing dependence on oil revenues – is gaining momentum. Security issues related to Boko Haram are improved as a result of a successful military campaign in the North.

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Perceptions and realities of investing in Nigeria

What executives say about investing:

Top incentives	
Political change	50%
Tax incentives	36%
Company policy change	36%
Access to local entrepreneurs/women	29%
Strong consumer market growth	21%

What KPMG in-country professionals say:

Top challenges		Magnitude of challenges post-mitigation
Political risk and instability	50%	**MEDIUM given positive governance trends.** Democratic institutions are evolving over time, with five democratically elected governments since 1999 and the executive branch learning how to work with the legislature.
Bribery, fraud and corruption	50%	**MEDIUM if working with a reputable professional services firm.** Risks are significant, but overcoming them is largely a technical matter of strict compliance with laws and regulations. Investors should work with professional firms that can assist in navigating the necessary processes in an ethical manner.
Role of government and bureaucracy	43%	**MEDIUM if interactions with government departments are managed proactively and professionally.** Significant challenges exist. When problems are not resolved, escalate to the appropriate authority level. If required, appoint local professionals of integrity to the board of the local subsidiary.
Infrastructure	21%	**MEDIUM for companies that plan ahead and choose their opportunities.** Inadequate energy, transportation and other infrastructure remain a significant obstacles but also present opportunities for reputable infrastructure service providers.
Cost management	21%	**LOW assuming the right know-how.** If a company has the expertise and capacity to manage costs effectively in an emerging market, cost management should not be an issue. Professional firms can provide assistance in this area.
Slowing GDP growth	21%	**LOW for companies in the right industries.** The risk of a slowing GDP depends on the sector of the economy. For example, infrastructure and power are critical and have the potential to grow at a faster rate than the slowing GDP rate.

Coke taps diverse and growing consumer market

In 2014, The Coca-Cola Company, the largest beverage maker in the world, faced sluggish sales. Health authorities were singling out sugary drinks for contributing to rising obesity and diabetes and were pressuring the company to expand beyond its core soda brands. Coke was increasingly targeting Africa for growth. It announced that it would invest $17 billion on the continent between 2010 and 2020 to tap into high economic growth rates and an expanding consumer class.

One African country where Coke saw opportunity was Nigeria, even though it had a history of political instability and risks around the role of government. Nigeria is arguably one of the most culturally diverse societies in the world, with approximately 250 ethnic groups among its estimated 180 million people. Coke recognized that products with broad appeal could be successful in that market.[4] Unemployment is 23 percent in Nigeria. However, it has a large informal sector ,[5] which provides consumers with cash to spend on inexpensive items.

In February 2016, in the midst of a severe economic slowdown in Nigeria, Coke bought a 40 percent stake in Nigeria's largest juice maker, Chi Ltd., which also sells evaporated milk, drinkable yogurt and snacks. Coke intends to buy the remaining 60 percent within three years. At the time, Kelvin Balogun, Coke's President, South and East Africa, said, "We are extremely optimistic about Africa's continued economic and social growth and recognize the importance of ensuring we stay one step ahead of evolving consumer tastes by broadening our portfolio and introducing new products."

According to Chi Ltd's press release, "The company has something to offer to almost everyone. Chi's products help to cater to the diverse needs & palates of every segment of this dynamic population, thus making Chi's brands most admired and providing a range of choices to each socio-economic and demographic consumer segment."

Coke appears to be well-positioned for a post-oil-boom market. Bex Nwawadu, a Lago-based private equity manager, assessed the Chi deal: "The local economy, ex-oil is actually pretty robust. Manufacturing locally and substituting imported products and ingredients mitigates – to a certain extent – the foreign exchange risks and allows companies to access the growth in the real consumer economy … If you look at the composition of the GDP, the oil sector was a high share of our FX earnings … but the economy ticks over nicely in its absence, day-to-day."[6]

"The local economy, ex-oil, is actually pretty robust."

– Bex Nwawadu, CEO, CBO Investment Managers[7]

Saudi Arabia

Crisis brings opportunity

U.S. FDI flow
(versus OECD average)
-4.4%

The fall in the price of oil has led to a budget deficit of 15 percent of GDP in the Kingdom of Saudi Arabia (KSA), a $100 billion decline in foreign reserves, and unsustainable public finances for more than a few years. According to *The Economist*, Prince Muhammad bin Salman, who wields the power in the kingdom, is in a hurry to respond to the crisis, and "no economic reform is taboo."[1] With the help of capital and expertise from foreign investors, he wants to develop alternatives to oil, drastically cut the public payroll, create jobs for a workforce that will double by 2030, increase private education, transform public health care into an insurance-based system, and sell stakes in state assets – from Aramco and land in Mecca to telecoms, power stations, and the national airline. The government encourages investment in nearly all economic sectors, with priority given to transportation, education, health, information and communications technology, life sciences, and energy, as well as in four new "Economic Cities" that are at various stages of development.[2] KSA has many characteristics of a developed country – 49th out of 189 countries for ease of doing business, 4th for macroeconomic stability, 39th on the Human Development index when not adjusted for inequality – and is one of the world's 20 largest economies. However, its fundamentalist Islamic culture and Sharia-based judicial system present obstacles to even modest reforms.

__Suhael Ahmed__ is KPMG's chief operating officer and head of Advisory for Middle East and South Asia. Suhael has over 30 years of experience in Gulf Cooperation Council (GCC) countries and the U.S. assisting financial services organizations and leading banks in the areas of business strategy, performance improvement, system selection, supply chain management and feasibility assessments.

Honeywell delivers higher education

Honeywell has been delivering technology solutions to Saudi Arabian industries and consumers since the 1970's. Key to Honeywell's success has been overcoming significant workforce challenges arising from government labor policies.

Honeywell required a labor force with advanced technical skills, which were in short supply among Saudi nationals. More than 70 percent of Saudi students major in humanities and social sciences[3] and nearly two-thirds of college graduates earn degrees in Islamic subjects.[4]

According to Reuters, in 2014, the official unemployment rate was around 12 percent, but only 30-40 percent of working-age Saudis held jobs or were actively seeking work.[5] A 2012 study by Karen Elliott House observed that "as in the old Soviet Union, nearly all Saudi official statistics are unreliable, so economists believe the real Saudi unemployment rate is closer to 40%."[6]

Given the shortage of technically trained Saudis, the economy is highly dependent on foreign workers, with most private sector jobs held by 10 million expatriates in the kingdom.[7]

Most Saudis are employed by the government, but with the fall in the price of oil, there have not been enough government jobs to go around. The IMF has warned that the private sector must meet future job demand.[8] Beginning in 1985, the government embarked on a policy of "Saudization," which called for replacing foreign workers with Saudi natives. However, despite government scholarships for study in foreign countries and massive investment in new schools, as of 2009, only about 20 per cent of the kingdom's graduates were in technical and scientific fields, too few to meet demand.

With too little local talent to draw on and limits on the number of foreign employees it could hire, Honeywell considered alternatives. In 2009, it announced the establishment of a new technical center at the King Fahd University of Petroleum and Minerals (KFUPM) in Dhahran to offer enhanced technical support, regional training services, and research and development collaboration with universities and customers in the region.[9]

Today, Honeywell offers educational programs designed to shape and develop the long-term future of Honeywell employees. One example is the Honeywell Global TECPro Program, first launched in 2015. In Saudi Arabia, the program supports regional training requirements and furthers the individual development of Honeywell's system, electrical, computer, and chemical engineering staff working in the country.

As of the end of 2015, Honeywell employed 600+ people in the kingdom, spread across ten offices in key locations serving all market segments. Saudi talent is a key contributor to the company's success. Continuous efforts are in place to recruit and develop more Saudis, especially in engineering and technical roles.

“We have found that Saudi [Arabia] presents a tremendous opportunity in terms of its local talent potential. The Saudi youth makes up more than 50 percent of the country’s population and this will provide a sustainable pipeline of talent to drive Saudi’s growth and economic diversification.”

– Norm Gilsdorf, President, High Growth Regions, Middle East, Russia, Central Asia, Honeywell

Perceptions and realities of investing in Saudi Arabia

What executives say about investing:

Top incentives	
Government initiatives	54%
Strong consumer market growth	42%
Special investment zones	42%
Stronger GDP growth	35%
Faster growth of second tier cities	35%

What KPMG in-country professionals say:

Top challenges		Magnitude of challenges post-mitigation
Role of government and bureaucracy	42%	**MEDIUM, assuming companies work with the right joint venture partner.** Investment guidelines are a grey area. Companies should work with a strong joint venture partner because they are used to dealing with ambiguity and can apply their knowledge of family run conglomerates and vertical markets, as well as their personal relationships, to help resolve issues.
Political risk and instability	31%	**LOW as the economy diversifies.** Political leadership and succession plans are established. Even with falling oil revenues and the government’s involvement in regional conflicts, Saudi Arabia is very stable compared to the rest of the Middle East.
Bribery, fraud & corruption	27%	**MEDIUM for companies that have a strong internal audit department.** The government established a National Anti-Corruption Commission in 2011 and is a signatory to the United Nations Conventions against Corruption (UNCAC). Because of concerns about leakage of government funds, regulators are increasing enforcement of anti-bribery laws.
Culture and language	27%	**LOW for companies with senior level local people who speak Arabic.** English is widely spoken at senior levels. At junior levels, and for negotiations with the government, Arabic speakers are required. Personal relationships and trust are key.
Regulatory compliance	23%	**MEDIUM challenge with labor issues.** Saudization rules are continually being updated, which adds to compliance costs. Companies should not try to game the system, but instead adopt a clear strategy for developing and retaining home-grown talent.
Cost management	23%	**MEDIUM assuming companies plan ahead and focus on operational efficiencies.** Investors need to pay attention to the higher costs and lower productivity of Saudi labor. They also need to be aware that some government subsidies have dried up as oil revenues have declined.

South Africa

U.S. FDI flow

(versus OECD average)

-18.9%

Obstacles into opportunities

South Africa's challenges – policy and leadership uncertainties, structural constraints, electricity shortages, skills shortages, labor unrest, and economic and social disparities that tend to undermine medium to long-term political stability – also provide an opportunity for foreign investors. Despite the global commodity price crunch, the country remains home to a wealth of natural resources – and the scope for increased value-adding domestically is vast. The slow growth environment and commodity price slump have pushed the government into a corner, which foreign entities can use to leverage favorable investment conditions. The Department of Trade and Industry will likely look to engage potential investors in the knowledge that the promise of high returns is no longer there to attract foreign investment. The government is investing heavily in electricity infrastructure out of necessity, creating opportunities in electricity generation, especially renewables. The skills shortage in South Africa is a remnant of centuries of unequal rights, and rebalancing has been slow. The country does not have enough tertiary education facilities and the lion's share of the population is in no position to afford the available ones. As such, educational solutions that are funded in partnerships between the government – which has a mandate to provide educational services – and the private sector – which is competing for scarce human resources – are potentially very rewarding for all involved.

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Walmart responds to regulatory surprises

In 2011, Walmart acquired Massmart, one of the largest wholesalers and retailers on the African continent. Walmart aimed to use its majority stake in Massmart, which has 403 stores in 13 African countries, to lead its expansion in sub-Saharan Africa.

In entering South Africa, Walmart had to overcome numerous challenges, not least of which was obtaining approval from anti-trust authorities against the opposition of the South African government and labor unions. President Jacob Zuma opposed Wal-Mart's entry on concern it could result in job losses.

As the largest retailer in the world, Walmart expected that challenge. However, Walmart faced other challenges that came as a surprise to the U.S. company. One of these was the sheer volume and complexity of regulatory and tax compliance requirements relating to temporary assignments of foreign employees in South Africa.

When Walmart took control of Massmart, it established a leadership team of 10-20 people to set up operations. Over the next five years, the team brought almost 100 Wal-Mart temporary employees from around the world to South Africa to help manage the transition. What took the U.S. company by surprise was the administrative burden of managing these temporary employees – including travel arrangements, expensing, passports, and tax compliance.

Tax compliance was the most pressing challenge, particularly issues that could arise when an executive attended even a day- or week-long conference. Salaries for its temporary workers, many of whom were high ranking executives, were based on home country salaries – in the U.S. or U.K., for example – which dwarfed local incomes. It soon became apparent that even in a few days, the gross revenue of an employee could exceed the annual tax threshold established by the South African Revenue Services to trigger the need to file a complete tax return.

Walmart called upon KPMG's High Growth Markets practice to help. KPMG assembled a team from both its U.S. and South Africa practices, which provided advice on local tax requirements, assisted with gathering employee data, and performed tax calculations for approximately 100 temporary workers.

"The urgency of maintaining strict tax compliance went far beyond fiscal issues," says KPMG's Emad Bibawi. With the threat of boycotts by the 2 million members of the Congress of South African Trade Unions, and concerns that Wal-Mart would harm local industries and suppliers, the company needed to uphold its reputation in every possible way. In the end, only a dozen or so employees out of hundreds of assignees each year required filing of full tax returns, yet the costly effort to make those compliance determinations was an important and necessary one.

> We are doing everything we can – in small ways and large – to earn the trust of South African regulators and the community.
>
> – Walmart executive

Perceptions and realities of investing in South Africa

What executives say about investing:

Top incentives	
Stronger GDP growth	39%
Government initiatives	
Tax incentives	
Strong consumer market growth	31%
Access to technology	28%

> There is relative stability among three major political parties.
>
> – SA country leader

What KPMG in-country professionals say:

Top challenges		Magnitude of challenges post-mitigation
Role of government and bureaucracy	33%	**MEDIUM for companies that make "localization" central to their business models in accordance with Broad-Based Black Economic Empowerment codes.** Localization includes job creation for black people, purchase of materials from local suppliers, skills transfer into local operations, and management of public perceptions and customer ratings around localization issues.
Bribery, fraud and corruption	25%	**LOW with robust anti-fraud program and internal audit department.** Because of limited resources and increased bureaucracy, government procurement may be susceptible. Remedies are straightforward. Fraud hotlines are common and most companies have outsourced these to encourage their use.
Regulatory compliance	25%	**LOW if a company establishes a compliance officer and program to ensure it stays abreast of and meets compliance requirements.** Government job creation initiatives result in substantial red tape and bureaucracy to manage and monitor growth in achieving objectives. However, regulation is consistent and transparent.
Inflation/ exchange or rise of wages	25%	**MEDIUM for capital intensive businesses that can adjust their prices to maintain margins.** Because of the devaluation of the rand, the real inflation from medical insurance, petrol price increases, and general cost of living is higher than that determined by the Consumer Price Index (CPI). Inflation is projected to fall from 6.6 percent in 2016 Q3 to 4.7 percent in 2020.
Political risk and instability	22%	**LOW given the continuity of the political system and the ability of the government to deal with terrorism if it occurs.** Worldwide Governance Indicators (WGI) ranked South Africa 43rd out of 215 countries in "political stability and absence of violence/terrorism." There is relative stability among the three major political parties. We expect the ANC to win the next national election in 2019, though the next president may not have a clear majority.
IP protection	22%	**LOW if companies establish strong internal legal departments and obtain professional advice from IP specialists.** South Africa ranks 24th out of 140 in protection of IP rights (GCR). UK Trade & Investment has issued a report, Intellectual Property Guide South Africa 2016, which details strategies for protecting IP, including use of civil law, Counterfeit Goods Act, Patents Act, Designs Act, and Plant Breeders' Rights Act.

Vietnam

U.S. FDI flow -22.2%
(versus OECD average)

The new "China" for manufacturers

With Vietnam's participation in recent trade agreements, especially the Trans-Pacific Partnerships (TPP), the country is tilting decisively toward the U.S. Vietnam sought trade and financial relations as early as 1976[1] but faced a U.S. trade embargo until 1994. Three-quarters of its population are too young to remember the "American War,"[2] and it is eager to welcome U.S. investors with open arms. However, U.S. companies have been slow to take advantage of the opportunities.[3] As China's economy slows and labor becomes more expensive,[4] Vietnam is becoming the go-to place for manufacturing, particularly in textiles and electronics. TPP, which does not include China or South Korea, goes well beyond WTO standards in expanding mutual market access among member countries. Vietnam stands to gain 10 percent in GDP from TPP, more than any other country.[5]

***Warrick Cleine** is the Chairman and CEO of KPMG in Vietnam and Cambodia, and is recognized as one of Vietnam's most prominent corporate advisors. He has been based in Vietnam since 1998, playing a pivotal role in driving KPMG's success as the leading professional services organization in the country, with 27 Partners and over 1,000 employees, providing audit, tax and advisory services.*

Perceptions and realities of investing in Vietnam

What executives say about investing:

Top incentives	
Stronger GDP growth	46%
Government initiatives	42%
Tax incentives	38%
Strong consumer market growth	33%
Political change	25%

What KPMG in-country professionals say:

Top challenges		Magnitude of challenges post-mitigation
Political risk and instability	46%	**MEDIUM if companies stay abreast of government goals, compliance requirements, and interpretation of reforms by enforcers.** In January 2016, the 12th congress of the ruling Communist Party of Vietnam (CPV) reaffirmed the country's status as a one-party socialist state. The World Bank rated Vietnam the most politically stable in ASEAN in 2014.
Role of government and bureaucracy	46%	**MEDIUM because of gradual improvement in the country's policies and regulatory framework, even though sometimes through trial and error.** Improvements are being made on codes, laws, and licensing procedures, which we believe will accelerate under external pressures of bilateral and multilateral trade ties.
Culture and language	38%	**LOW if companies resource local capabilities.** Especially in rural areas, companies have experienced challenges in both B2B and B2C, largely due to lingual and cultural factors. However, the current urbanization rate has lessened their impact.
Bribery, fraud and corruption	33%	**LOW RISK for companies with robust anti-fraud policies and programs.** The Government has ratified UNCAC and is gradually improving anti-corruption laws. Our advice to companies encountering corruption is simple – don't get involved. A range of foreign companies have managed to do business successfully in Vietnam by implementing and demonstrating strict standards of business integrity, professionalism and controls.
Tax exposure & compliance	21%	**HIGH, but companies can mitigate these with support of tax advisors and through dialogue and relationships with tax authorities.** The frequency, breadth and depth of tax audits have increased along with staff technical capabilities. Tax laws are changing for the better, but new taxes are being introduced. Trade ties with multiple countries and territories add to tax complexity. Compared to other ASEAN member states, tax rates are higher and incentives fewer.
Infrastructure	21%	**LOW for companies that participate in an industrial park or zone.** Vietnam's rapid growth has outpaced its infrastructure, but commercial hubs have attracted strong investment. For areas lacking infrastructure, PPPs offer incentives and opportunities.

> Our advice to companies encountering corruption is simple – don't get involved.
>
> – Tam Tran Thanh

Intel invests in education

Intel, headquartered in Santa Clara, California, was one of the first high tech companies to build a factory in Vietnam. At the invitation of the Vietnamese government in 2006, Intel began construction on a 500,000 square foot clean room assembly and test factory, the largest of its kind in the world. The factory opened in 2010 in Saigon Hi-Tech Park in Ho Chi Minh City.

In the view of the World Bank, the #1 "breakthrough" needed for development in Vietnam was "promoting human resources/skills development, particularly skills for modern industry and innovation."[6] This was an education issue more than a culture/language issue. According to Sherry Boger, general manager of the Vietnam factory, "Intel understood from the outset that there would be a need for capacity-building with regard to skills development."[7]

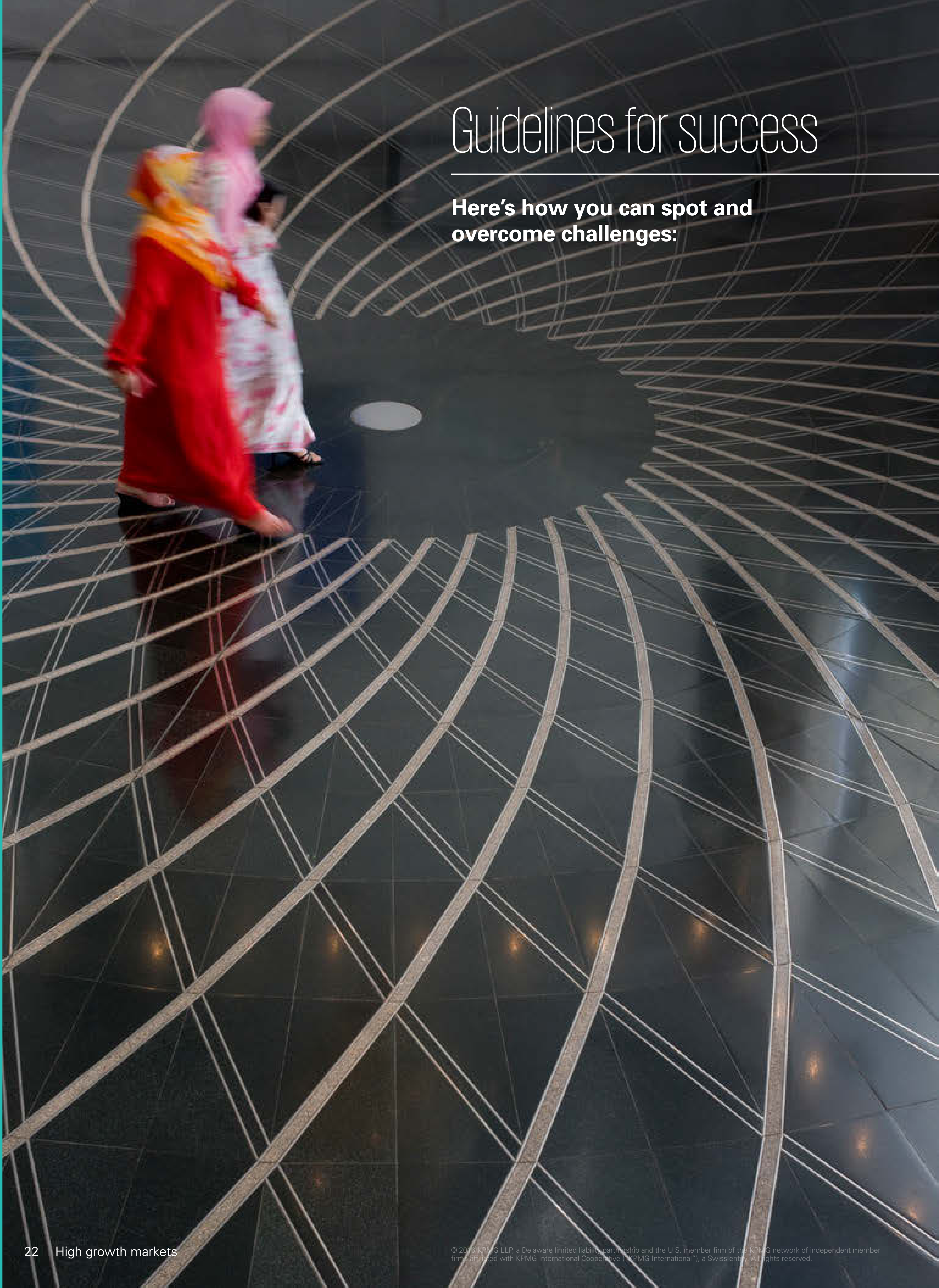
To date, Intel has invested over $22 million USD in education, notably in the Higher-Engineering Education Alliance Program (HEEAP), the first ever public private partnership in education; and the Intel Vietnam Study Abroad Program, which awarded scholarships to 114 students to study at Portland State University (PSU) and Royal Melbourne Institute of Technology (RMIT).[8]

Intel continues to make education its first priority. To help Vietnamese students achieve higher education degrees and employment opportunities, it has:

- Awarded 1,700 local scholarships and 114 international scholarships (PSU, RMIT)
- Conducted 5,000 colleges/university lectures and academic leadership development training sessions
- Through Higher Engineering Education Alliance Program (HEEAP), trained 290 faculty members in the US (2010-2015)[9]
- Trained 150,000 K-12 teachers in 28 provinces/cities. In 2016, 14 Vietnam students were chosen to participate in The Intel International Science and Engineering Fair (Intel ISEF) in Las Vegas in May 11-15. Intel ISEF is the world's largest international pre-college science competition.

The investment in education has paid off. In July 2014, Intel announced the first ever made-in-Vietnam CPU and the company is on track to produce 80 percent of its CPUs for the world market in Vietnam.

> Intel understood how to tap into one of Vietnam's greatest resources. Through education.
>
> – Warrick A. Cleine, Chairman & CEO, KPMG in Vietnam



Guidelines for success

Here's how you can spot and overcome challenges:

1 See the local country through HGM eyes

The lack of cultural understanding is a top reason for failures in HGMs, especially relevant now as executives are looking to a broader range of emerging and frontier markets than before. Establish a long-term local community presence and have local talent to guide important initiatives.

2 Blend local and U.S. leadership

Ensure that you have strong local HGM leaders, and leverage local managers and market experience while maintaining U.S. leadership. Develop strong communication between local country employees and host countries, and develop strong mentor-mentee relationships. Train local talent in the core business operations to help them take higher positions as soon as possible.

3 Be patient

Take a long-term perspective when considering the profitability of the investment. This includes taking the time to understand potential partners and the overall business environment.

4 Build a flexible business model

Make sure your business model can respond quickly to emerging competitive threats and the unique needs of individual HGMs. Observe local HGM companies to learn how to adapt.

5 Develop a strong employee retention program

Provide competitive compensation and benefits, opportunities for advancement, training, and programs that create optimism and a desire to stay at the company. Hire employees who are already comfortable working in a U.S. company and pay them a premium.

6 Raise capital for the long term

Assemble enough capital to support your long-term view. Adequate capital can also help you develop an adaptable business model, as well as attract and retain the right talent.

7 Understand the business environment

Audit the business environment prior to risking technology and capital. Help ensure that management and the board have the proper experience to provide international oversight.

8 Retain a local trusted advisor

A local trusted advisor can bring invaluable knowledge on a variety of issues. This includes regulatory and tax advice, as well as help dealing with local government officials. Work with your advisor to develop a thorough understanding of the political, cultural, legal, and business environments.

9 Know how to deal with the government

Ask what this HGM government needs. Build relationships through the help of a local advisor. Retain local or market experts to help manage the different government relationships and the bureaucracy.

10 Establish a robust anti-corruption policy

Maintain a non-negotiable set of global ethical standards through compliance training. Partner with a local advisor that has had longtime operations in the HGM and that shares the company's values. Communicate to local operations that there is no compromise on these rules.

11 Spend time in foreign operations

Take the time to visit foreign operations. Experiencing the culture, meeting the people, seeing the operations, and understanding what management is struggling with can provide executives with invaluable insight into their HGM operations.

12 Establish an up-front exit strategy

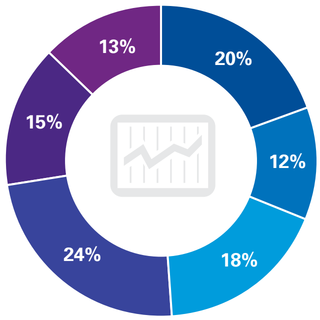
Develop an exit strategy to leave a country if a certain level of net profits is not achieved by a certain time. It is sometimes more difficult to exit a country than it is to establish an investment in that country. Companies must be clear-eyed about market entry or foreign acquisitions and know how to walk away.

Research methodologies

Survey

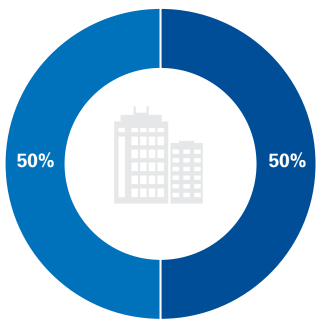
In November 2015, KPMG conducted a web survey of 200 senior executives in the United States.

Revenue



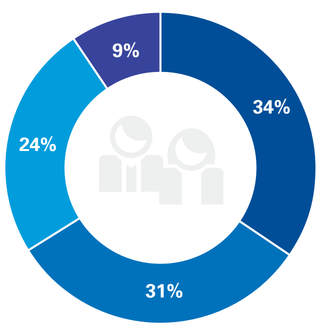
- Less than $100 million (0%, 2014 0%)
- $100 million to $249.9 million (20%, 2014 12%)
- $250 million to $499.9 million (12%, 2014 11%)
- $500 million to $999.9 million (18%, 2014 20%)
- $1 billion to $4.9 billion (24%, 2014 27%)
- $5 billion to $10 billion (15%, 2014 21%)
- More than $10 billion (13%, 2014 9%)

Company Type



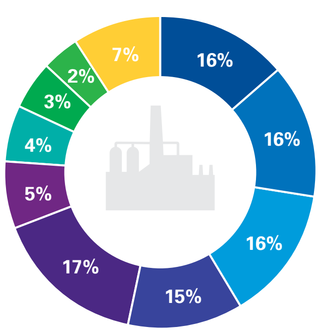
- Public (50%, 2014 42%)
- Private (50%, 2014 58%)

Title



- CEO, president (34%, 2014 23%)
- C-Class (CFO, OOO, CTO, etc.) (31%, 2014 22%)
- Executive vice president/ managing director level (24%, 2014 19%)
- Senior vice president or director level (9%, 2014 36%)

Industries



- Financial Services
- Energy and Utilities
- Industrial Manufacturing
- Consumer Products, Food and Drink
- Technology, Media and Telecommunications
- Business Services
- Retail
- Construction
- Healthcare
- Other

OECD analysis

Purpose

The purpose of this analysis was to compare U.S. FDI to high growth markets with FDI from other developed countries.

Source of data

The OECD, whose member states represent 34 of the most advanced economies in the world, gathers FDI data annually, which it publishes in its International Direct Investment Database. It tracks net FDI, which is the difference between incoming investment from, and outgoing investment to, target countries. Throughout this paper, FDI flow refers to net FDI. The OECD does not capture flows between non-OECD member countries.

Method

- We chose a five year period, rather than a shorter time period, to obtain a more accurate general trend and avoid disproportionate impacts of single large transactions into and out of smaller developed countries.
- For 2010-2012 reporting years, we used data as reported in the OECD International Direct Investment Database using its Benchmark Definition of FDI, 3rd edition (BMD3). This edition included so-called special purpose entities (SPEs). According to OECD explanatory notes, "SPEs are entities that have little or no employment, physical presence, or operations in a country but that do provide important services to the [multinational entity], such as holding assets and liabilities or raising capital. Examples of SPEs include brass plate companies, financing subsidiaries, conduits, holding companies, shelf companies, and shell companies."
- For 2013 and 2014 reporting years, we used net FDI data as reported in the OECD's Benchmark Definition of FDI, 4th edition (BMD4), which excluded SPEs except in instances where SPE information was not available (Ireland, Israel and Switzerland). According to OECD explanatory notes, "BMD4 recommends that countries compile FDI statistics separately for SPEs so that data for SPEs can be excluded, resulting in more meaningful measures of FDI."
- We narrowed our FDI targets to 74 countries that appear in widely used lists of emerging and frontier markets. See https://en.wikipedia.org/wiki/Emerging_markets and https://en.wikipedia.org/wiki/Frontier_markets.
- We determined FDI flow from each OECD member (including the U.S.) to each of the 74 emerging/frontier markets.
- For each of the 74 emerging/frontier markets, we determined the difference between the U.S. investment flow and the average OECD investment flow. We recorded this difference as a percentage above or below the OECD average. For example, in the case of Argentina, U.S. net FDI is 11.4 percent below the OECD average. In the case of Chile, it was 13.6 percent above the average.

References

Introduction

[1]Based on data from the Organization for Economic Cooperation and Development (OECD).

[2]This refers to net foreign direct investment (FDI), which is the difference between incoming investment from – and outgoing investment to – a high growth market country. Throughout this paper, FDI flow refers to net FDI.

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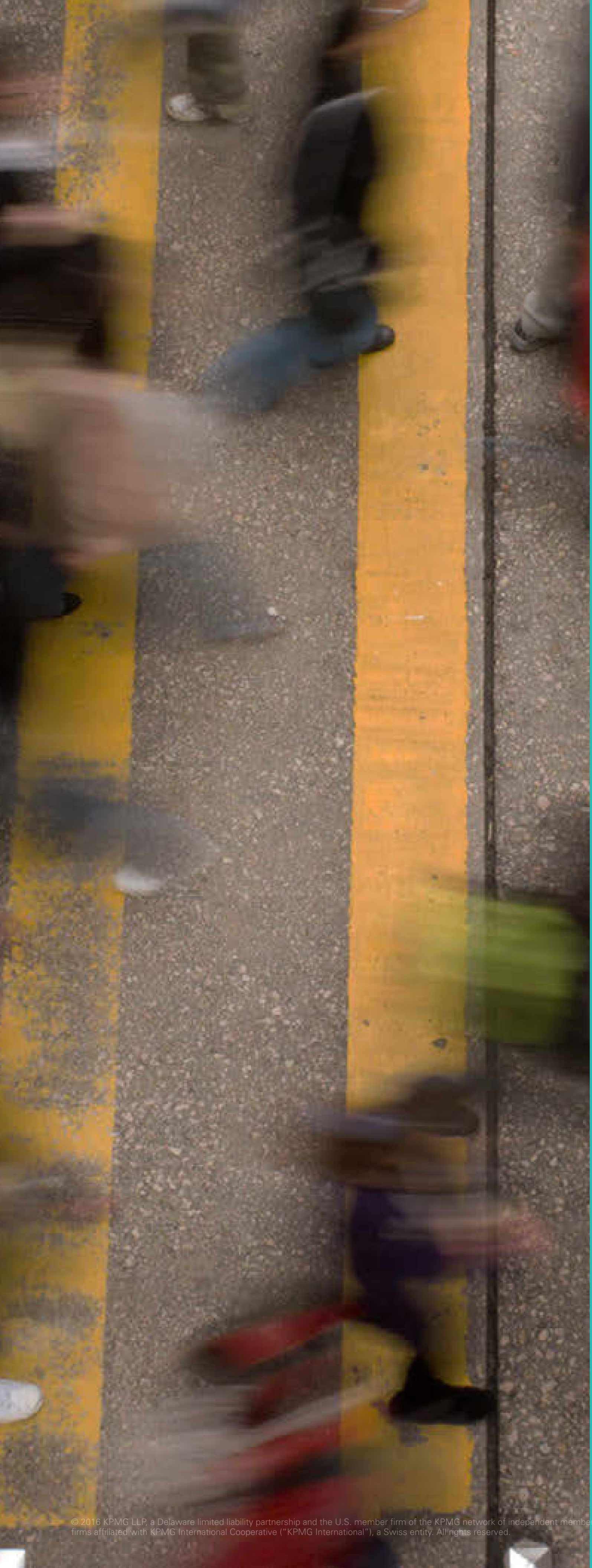

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