

Can you see the
mailstream?

EMERGING MULTINATIONALS
Fabio Barbosa & Brazil
Konstantin Panin & Russia
Narayana Murthy & India
Jack Perkowski & China
Antoine Van Agtmael - Moderator



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Gigantic shift in terms of global revolution. This crisis did not come from Mexico or Asia, this time it's part of how the world is changing, this crisis comes from the U.S. It's a very big one. It's not coming from emerging markets, it's going to emerging markets. We ignored our own prescriptions, not just a drop in housing prices, it goes much deeper than that. I believe that at the root of this financial crisis, is the fact that for decades, not just one or another Administration, the U.S. and the whole developed world have been over consuming, over borrowing and under saving. The emerging markets have been building their infrastructure. During the 20th Century we had all the wealth, infrastructure and emerging markets had debts, crisis, deficits, poor labor and roads. This is changing very rapidly, we are in the midst of the biggest shift in the global economy and global power since the industrial revolution. At that time it was a shift towards the developed world. The world is actually tilting, the playing field is changing. Seeing the re-emergence of China, will define our 21st Century. Emerging markets now own 75% of foreign exchange reserves, and catching up very fast. A shift not just in opportunities, think of where is manufacturing being done today, who has surplus in budget accounts, who has all the money and who are bailing out, who graduates most engineers, who are making acquisitions – it adds up a shift not just to opportunities but to risk. Brazil, Russia, India and China. Inflation used to be huge, now it is down to reasonable levels, reserves to over 3 trillion. Debt has gone up, current accounts and budgets from deficits to surpluses. American corporations face 3 new realities: (1) U.S. is no longer viewed as super power, (2) U.S. is no longer a credit????, (3) American consumer used to be king. We are in a process of creating a billion new consumers in emerging markets over the next decade, and this will continue. Brazil was an economic mess, that has changed, and in 25 years emerging markets will be more important than the whole developed world together. By the middle of the Century, they will be twice the size of the developed world, we have to start thinking about the idea of:

Myth #1 that the West will dominate the world.

Rise of The New Champions – from second-rate producers to truly world class corporations. 75% of companies now come from emerging markets, 28 from China alone. Potential for many existing world size to become world class. Examples: You've heard of Samsung, Lenovo, Embraer, Infosys. But some little known: Hon Hai, Yue Yuen, Modelo → dozens of companies from emerging markets that have the largest share in the world of their products. Other examples: Gtazprom, Vale, Tata, Televisa. 25 World Class Emerging Multinationals.

Myth #2: It's all about cheap labor. Only 4 of 25 rely on cheap labor???

Myth #3: Only imitators, not innovators. Biofuels: Brazil, Synfuels: Sasol in South Africa; Design Innovation: HTC, Tata Motor. Korea is at the same level as U.S., Taiwan close to it, China will be there. 25 now, probably 100 in a decade, world class companies today. Threat or opportunity? It's an opportunity. The need for a creative national response, innovation. The world is not a zero-sum game, protection failed; emerging markets more opportunities than threats.

National Competitive Campaign: (1) get rid of current account deficit, (2) clean up the financial mess, (3) fix legacy issues, (4) give infrastructure a face-lift, (5) out-innovate, support basic research, (6) set big goals, like "green" economy.

Corporate Response: Focus on niches others ignore, stay ahead in R&D, forge alliances, including joint design, have an emerging markets strategy, otherwise you miss out on most of the growth, develop a broad range of relationships with emerging multinational, beat your competitors in how fast you adapt. "Emerging multi-nationals will eat your lunch unless you make theirs – but better."

Panel Group: Fabio Barbosa & Brazil, Konstantin Panin & Russia, Narayana Murthy & India, Jack Perkowski & China

Moderator: You spend a long time in the Brazilian gov't and banking, saw Brazil go from a basket case to having a high credit rating, had you expected Brazil to come this far so fast?

Fabio/Brazil: It has been a long way, didn't start yesterday or year before, economic history has examples of failures and successes. I believe it is a result in this case of stabilization of economy that took place in 1994, that ensured we would grow on a sustainable basis. Vale – Brazilian Iron Ore Exporter to a major global diversified mining company, with operations and offices everywhere in the world. Vale is more globalized than the average large company in emerging market economies. Globalization is a consequence of growth supported by risk management and discipline in capital allocation. In N. & S. America, Europe, Australia, Asia and Africa; shareholders in all 50 U.S. states. Now 25th largest company in the world, a long way from 2002. We have a strong global expansion program, and the benefits are: new growth options, reduction of cost of capital due to a better risk perception, ownership of world's nickel reserves, entry into the coal business, etc. Challenges: Human capital, cultural integration, political risk management. We are facing a structural transformation driven by emerging market economies.

Konstantin Panin/Russia: Aligned with Russia's Modernization. In 10 years has grown from a single aluminum smelter to 6 sectors of energy, resources, manufacturing, finance, construction, aviation, with 300,000 employees worldwide, 100 companies on 5 continents. Focus is to be the preferred partner with Russia as they modernize themselves. Companies that can become preferred partners with Russia have good prospects for its business. Russia today greatly needs investment, has been devastated by years and years of under-investment. Once second largest economy when the oil price was high, suffered in the 90's from under-investment,

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and today a country that needs infrastructure. Four I's that are determined as platform for development: Institutions, Innovation, Infrastructure, Investments. Our Strategy: is being part of Russia's drive towards modernization, investing resources by partnering with some of the best international companies. We also count on our reputation, we are owner in shares of some of Russia's best known companies, such as Rusal. We can say to Russia, under our management these companies have grown, so we can do more for Russia. We also count on our relationships with partners. We are introducing new production technologies, modern production systems, and count on increasing the professional training and education of our employees. We count on partnerships with International companies, and there is relevance for U.S. business. Innovation will help Russian science become self-sufficient. Russia is and will continue to be a very important market for U.S. companies. Without U.S. partners, many of our projects would not be as successful as they are.. *"We are focused on Russia, for the sake of Russia's modernization but we do so with an open mind and work with international companies and look for foreign investors to make the country more globalized."*

Narayana Murthy/India: Infosys, development of large customized software applications, specialize in manufacturing, retail, banking, capital markets, etc. The objective of the company is to become the most respected company in the world. We will not shortchange customers; to work well with partners, to not violate laws of the land and live in harmony with society. Our company is built on principle of globalization, sourcing capital, talent, producing where it is most efficient, and selling to where it is most applicable. What this model does is split up a large project into 2 types of activities. (1) those that have tremendous interaction with customers, and (2) consists of those with little interaction with customers. Typical project is about 20-30% of effort with the customer, and 70-80% activities delved into remote countries like India, where it is cheaper. 95% of our projects are delivered on time. We operate in 70 countries, market capitalization is about \$21B, we compete with companies like IBM, Accenture, and consultancy services – and bring innovation in various ways. First company to articulate a 24 hour work day, combining prime time of this country and of our people. First to get to highest level of quality certification, first company on Nasdaq to produce a balance sheet that passes the accounting principles of 8 different countries.

Jack Perkowski/China: Asimco Technologies. It can be any industry, any product, same pattern will develop over next number of years. In 2001 China joined the World Trade Organization, it told the outside world it was not turning back on its reform program, and it also told every company in China that they would have to be protected and have to compete with every company in the world. Auto industry in China is made up of passenger cars at \$7.16M and commercial vehicles \$2.4M. We started in 1994, are now one of the largest independent suppliers to china's commercial vehicle industry. We are proud of what we call localizing management, and were name one of the 10 best employers in China in 1994. Almost all trucks and buses made in China, and the diesel engines, are made by purely local companies in China, the reason is that foreign investors can't get the price points that you need to get to be in China's marketplace. Close to 20% of trucks produced will be exported. Our key customers are the top 8 diesel companies in China and accounts for 2/3 of those top 8 the only one is not local. The 100 dollar bill and 100 rb are treated the same even though the exchange rate is low. The difference in price points gives China the opportunity to provide vehicles for global markets. The countries that make up U.S., Europe, Japan, etc. are the high income areas of the world, the emission standards are strictest, and they are high technology. But there are people in the rest of the world that have restrictions that look more like China, like Turkey or Africa. Lessons Learned: To be successful in China, your managers must have the same cost perspective as your customers and competitors. Develop and empower a local management team. If want long term success, your managers must have the same cost perspective as your competitors and management.

Moderator: How will you be able to scale up from a few hundred to close to 100,000?

India: We believe that execution is the most important instrument for success in the marketplace. Second, a good organization is one that can scale up in every aspect, more projects, customers, more employees, bigger buildings, more technology. We have managed to scale up using 3 instruments – (1) people (aspirations, enthusiasm, energy), (2) technology; (3) systems. We do about 4,000 projects, and every one we make sure there is quality and it's one time. We ensure our people are enthusiastic and customer focused. The trick is reaping the soul, the energy and enthusiasm of a small company in the body of a large company.

Moderator: Today, it's not easy to grow. Do you feel you are in the wrong zip code?

Brazil: We need to feel we have more presence, cost of capital was a labor issue. Being restricted was a major challenge, we had to seek diversification in projects, we faced it and today we can show a different profile. We are happy we are in Brazil. And we are glad we also have other countries in our portfolio, important to be a strong presence in Brazil and also have a global presence.

Moderator: If you had to give advice to setting up business in China what would they be?

China: You have to be in China in some way, point one. Do a good analysis of your company, what your strengths or weaknesses are, then put your business model aside. China's economy is in a different state of development, can't take a business model from somewhere else and overlay it, you have to look at it fresh. Second, localize the management, surround yourself with good local managers, that you trust, that can become loyal to your company. There is a big cultural difference. There are a lot of differences.