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TWO | **EMERGING ECONOMIES** | By Geoff Williams

Finding Opportunities in Emerging Economies

Emerging economies present plenty of opportunity—for those willing to **embrace new cultures, challenges and rules** of engagement.

25

The **number of countries classified** as emerging economies.
Source: S&P 500

If Botswana or El Salvador suddenly became a dramatically more competitive market, with its companies competing for your clients—and sometimes winning—would your company be ready?

For now, that situation may be hypothetical. But increasingly, countries that have not been considered emerging economies are showing up on the radar as markets that the C-suite needs to reckon with. Over the last decade, Morocco, for example, improved its position in the World Bank's *Ease of Doing Business* ranking, shooting up over 50 places, recently ranking 53rd out of 190 countries. While the pandemic slowed things down, the World Bank predicts that in 2022, the Moroccan economy could rebound to where it was before the pandemic.

Malaysia is also on the cusp of economic advancement, according to research conducted by the World Bank. The World Bank projects that Malaysia, which has been averaging growth of 5.4% each year for a decade, will transition from a middle-income to a high-income economy by 2024. Malaysia, too, was hammered by the pandemic, but its central bank is projecting 2022 growth to come in between 5.5% and 6.5%.

Nigeria is proving similarly dynamic. As the International Trade Administration, part of the U.S. Department of Commerce, says on its website, the country has a growing middle class, estimated to be about 50 million people. It notes that "Nigeria can be a lucrative market for companies that can learn to navigate a complex and evolving business environment." Poland, Mexico and Indonesia are other emerging markets that are filling with both opportunities and formidable competitors.

53RD

Over the last decade, **Morocco improved its position** in the World Bank's *Ease of Doing Business* ranking, shooting up over 50 places, recently ranking 53 out of 190. *Source: World Bank*

Despite rosy forecasts for several countries' economic growth, it's important to note that emerging economies as a whole have been hit especially hard by COVID-19. The total cost in lost global output because of the pandemic could be $4.5 trillion by 2025, according to a July 2021 report from the International Monetary Fund. Of that total, emerging and developing economies had a loss of approximately $3.5 trillion. Meanwhile, foreign investors have been shedding local currency bonds from their portfolios.

A Delicate Balance

China and India tend to get the most hype from the media and business universe as growing markets, but there's a wide world of emerging economies out there—and a whole host of new opportunities and pitfalls for business leaders to navigate. It's an exciting time, but it's also a frustrating one, in which a misstep could be financially devastating. It's all too possible to invest in a market only to have it suddenly closed off to your business. In the past few years, some countries have become more isolated—with protectionist rules sometimes designed to inhibit trade—and also walled off because of COVID-19.

All of which means that U.S. companies that intend to expand their horizons need to come up with new strategies to compete—even as supply chain issues remain a serious threat, along with a continuing pandemic.

"Multinational corporations headquartered in mature economies enter the emerging markets with lots of cash and well-established infrastructure for business success. Many of these companies look at their existing set of products and ask, 'How can we get consumers in developing markets to buy these goods?' That's a mistake," says **Insigniam consultant Greg Trueblood**. "To differentiate themselves, >>>

PREVIOUS SPREAD, KOHEI HARA/GETTY IMAGES; THIS SPREAD, VALENTINA BASSI/EYE EM/GETTY IMAGES

"If you're going to compete and survive, you really have to hire experts who understand each market and not rely on information that you garner superficially."

—**Usha C.V. Haley**, professor of management, Wichita State University

S&P 500 Emerging Economies

S&P 500 **considers the economies of these 25 countries** to be emerging.

- Brazil
- **Chile**
- China
- **Colombia**
- Czech Republic
- **Egypt**
- Greece
- **Hungary**
- India
- **Indonesia**
- Kuwait
- **Malaysia**
- Mexico
- **Pakistan**
- Peru
- **Philippines**
- Poland
- **Qatar**
- Russia
- **Saudi Arabia**
- South Africa
- **Taiwan**
- Thailand
- **Turkey**
- UAE

large corporations should look for opportunities to leverage their assets and infrastructure to support country-specific product offerings that meet local preferences."

For most businesses in more mature economies, emerging economies present a double-edged sword. The better off a country's residents are, the more lucrative the potential market and the profit potential. But that also means you're more likely to encounter new businesses located in these emerging economies that can compete effectively with yours. In recent years, the situation has become even dicier, with some economies shifting away from globalization.

The result: The geography of trade looks much different than it did just a few years ago.

Navigating the New Geography of Trade

There is no official list of emerging economies, but many organizations compile their own, with S&P 500 classifying 25 economies as "emerging." Outside of the more advanced economies, "the rest of the world is considered to be either emerging or developing, with population being basically the one thing separating them," says **Stuart Robles**, a **partner** at **Briggs Capital**, a mergers and acquisitions firm located in Dedham, Massachusetts. Mr. Robles is also the co-author of *The New World of Entrepreneurship: Insiders' Guide to Buying and Selling Your Own Business in the Digital Age* and formerly the owner of a 950-person call center in Central America.

When Mr. Robles says that population is the one thing separating emerging from developing economies, he means that countries with massive populations are generally considered emerging economies, while those with smaller populations are considered developing. Mr. Robles says those smaller countries are "too small to make a dent in growth and in increasing median income for the country as a whole."

China, an international powerhouse, is still considered emerging. That's because its GDP per capita in 2020 was $10,500, in contrast to the U.S. GDP per capita in 2020, which was just over $63,500. Says Mr. Robles, "China is still far away from having the median income that can afford them developed country status."

Every Country, First

Part of the difficulty of devising a strategy for productively working in emerging economies is the current resurgence of nationalistic trade protectionism. Even when countries have negotiated agreements that should encourage trade, they're still finding ways to block it. These measures are taken in the name of protecting the financial interests of their constituents, but it generally hurts everyone when companies and customers aren't allowed to engage. Working with your congressional representatives to help break logjams has never been more important.

But there are other barriers to succeeding in this new trade geography, such as the sheer volume of data and information necessary to engage in these countries. "I don't look at emerging markets as one basket," says **Usha C.V. Haley**, a **professor of management** at **Wichita State University** and co-author of *Subsidies to Chinese Industry: State Capitalism, Business Strategy, and Trade Policy*. "India and China, for instance, can't be grouped together. Vietnam is completely different from anywhere else. It doesn't make any sense to think of these emerging economies as lumped into one…If you're going to compete and survive, you really have to hire experts who understand each market and not rely on information that you garner superficially."

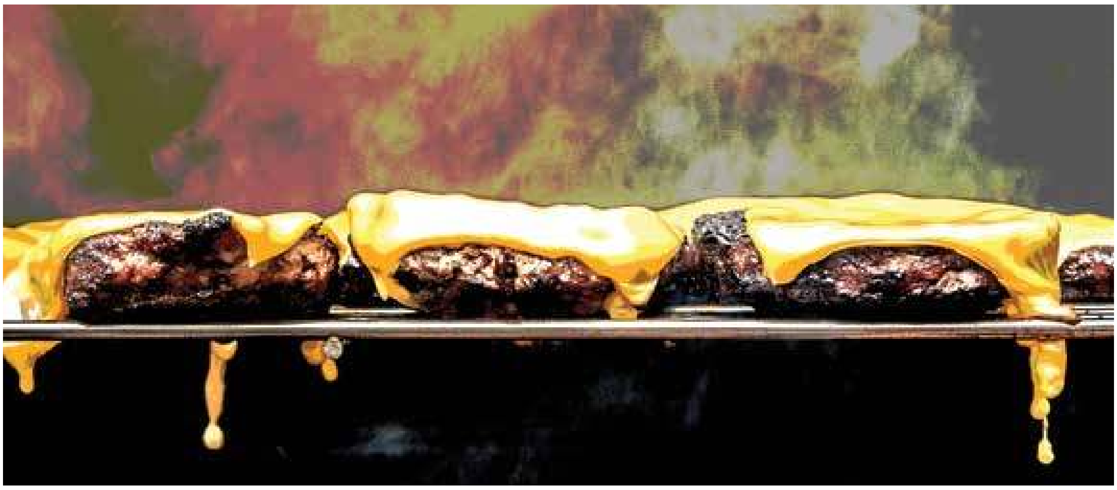
LEFT & RIGHT: ERIC SPROUL/GETTY IMAGES

China's GDP per capita in 2020 was $10,500, in contrast to the U.S. GDP per capita in 2020—just over $63,500. "China is still far away from having the median income that can afford them developed country status." —**Stuart Robles**, partner, Briggs Capital

The COVID-19 pandemic is another complicating factor. As Mr. Robles says, "Countries with the new COVID-brought protectionism restrictions are feeling a double whammy." The economies that have stumbled the most are those dealing with travel restrictions, says Mr. Robles. "Investors do not want to have anything to do with countries—developed and emerging alike—that they can't even visit."

A Zoom strategy for working with people you've never met before, in faraway lands, Mr. Robles adds, isn't cutting it: "Getting two parties to trust each other by looking each other in the eye through video, or worse, through voice, is much more challenging than a face-to-face meeting." As Ms. Haley says, "You need time to observe from the ground the lay of the land, and you should never invest more money in an emerging market than you're comfortable losing."

But Mr. Robles notes that countries that opened up to international air travel quickly after the first few months of last year's global shutdowns are seeing strong investor appetite. The fast-changing nature of the opportunities, and of investor sentiment, coupled with unpredictable geopolitics, underscores the importance of working with partners who have deep roots in your chosen markets. >>>



Emerging Markets Are on Wayback Burgers' Menu

Wayback Burgers, founded in Newark, Delaware, in 1991 as Jake's Hamburgers, has burger restaurants scattered across more than 30 states, Canada and a couple of European countries. But the fast-casual restaurant chain also has locations in Brunei, Morocco, Saudi Arabia and Pakistan.

Wayback Burgers has taken the path less traveled in becoming a global brand. It made a calculated decision to build its brand in emerging markets, rather than trying to compete in potentially more crowded markets such as England and Australia. Wayback Burgers has succeeded by identifying master franchisees who know the countries and region intimately—because they live in those countries—and by working with local partners and vendors. In 2022, Wayback Burgers will open its first location in Tokyo. IQ

Learning How the Other Players Play the Game

Ms. Haley warns that many executives fall into the trap of thinking that emerging economies are going to be so grateful to work with others that they'll be happy to play by the rules proposed by partners in economies that are more developed. "There has been a viewpoint that we're going to make a country like China more like us, when China is really not interested in becoming the United States," says Ms. Haley. If anything, she says, the predominant view in China may be that the U.S. should be more like them. "They would rather that we acknowledge their rules and learn how they play," Ms. Haley says.

A preference for a different rulebook doesn't necessarily mean that enthusiasm for protectionist trade policy is warranted. At least, that's how Mr. Robles sees it. "The U.S., China and the U.K. can afford to be protectionist, to exit the EU bloc, to fight with each other, and investors will still flock to them or do business in those markets," Mr. Robles says.

Amid the uncertainty caused by protectionist trade policies, other countries might gain new manufacturing plants that prefer to set up outside of China for better market access to the U.S., says Mr. Robles, but in general, emerging markets don't benefit when the U.S., U.K. or China becomes more protectionist. "Every country [trading with the U.K.] had to negotiate a new bilateral trade agreement with the U.K. after Brexit," he says. "For every single country to have to send delegates to negotiate, sacrifice certain products in the negotiations, and then have to change and reconfigure trade schemes, among other factors—all these costs are borne by the rest of the world."

$3.5T

Lost output by emerging economies from COVID-19. *Source: 2021 International Monetary Fund report*

And for companies that suddenly find their products regulated out of a market due to restrictions on trade or tariffs that make them cost-prohibitive to consumers? A financial reckoning could be in order. "Developed countries like the U.S., New Zealand and Italy can probably withstand the isolation, but countries like Argentina are suffering the consequences of double protectionism," Mr. Robles says, referring to both the protectionist policies and the consequences of the COVID-19 pandemic related to travel and trade. "Brazil and Turkey are suffering the politically motivated trade protectionist policies of populist governments while seeing a surge in tourism and venture dollars," Mr. Robles says. Meanwhile, the traditional mergers and acquisitions market hasn't seen similar growth.

This isn't to say you shouldn't be doing business in emerging markets. With their growing middle classes and economies, they can represent lucrative business opportunities. But before wading in, organizations need to educate themselves and tread carefully. Make sure you're up to speed about tariffs and trade agreements in any countries where you may want to do business, and get in touch with your congressional representatives to make sure any concerns are communicated. Find experts who understand your industry and the country where you wish to do business, and let them point you to the most suitable partners on the ground. Then be prepared to get on a plane yourself, and to adapt to new ways of working once you arrive. Despite the difficulties caused by protectionism, cultural differences and even time zones, doing business in an emerging market could be a big win for your company. And you certainly don't want to lose. **IQ34**

RIGHT, JETHUYNH/GETTY IMAGES

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