

Emerging markets: leading the way to recovery.

International Business Report 2010





Executive summary

The importance of the emerging markets to the world economy has been brought into sharper focus as the world emerges from recession. Not only have these economies been less severely hit, but they are also recovering more quickly, with growth rates over the next two years forecast to be well over double that of more mature economies.

As the demand for overseas investment in the emerging markets increases, the opportunities for businesses to get ahead, or to be left behind, only increase. The Grant Thornton emerging markets opportunity index ranks the level of opportunity for investors in 27 emerging economies across the globe. Taking account of key factors such as size, wealth, involvement in world trade, growth potential and levels of human development, it highlights these markets as investment prospects with their large, rapidly expanding and increasingly affluent economies.

The top five economies this year remain the same as in the 2008 emerging markets opportunity index. China leads the way thanks to its huge consumer market, increasingly open economy and staggering trade growth, followed by the other developing Asian powerhouse, India. Russia, thanks to its wealth of natural resources, is third, followed by the two largest economies in Latin America, Mexico and Brazil. Turkey, Egypt, Peru, Colombia, Argentina and Chile are the emerging markets moving up the most, indicating that Latin American economies are offering increased investment opportunities to businesses worldwide.

The International Business Report (IBR) 2010 results offer some relevant insights into the health of the business populations in the emerging markets. Optimism levels amongst businesses in emerging economies have been around 60 percentage points higher than those of their counterparts in more mature economies since 2007. This year, a balance of +57 per cent of emerging economy businesses are optimistic about the year ahead for their country's economy, compared with just +2 per cent of their peers in more mature economies. However, the survey reports that the growth prospects of businesses in emerging economies are being hampered by poor access to finance and a lack of highly-skilled workers to a much larger extent than their counterparts in more mature economies.

This optimism that is permeating the emerging markets, despite the finance and labour constraints businesses find themselves under, highlights the potential in these markets for investment. The opportunity for investors to feed off this optimism and help emerging economy businesses overcome the barriers they face as regards expansion are enormous. Indeed, these markets and their businesses are developing so rapidly and powerfully that not exploiting them represents a huge risk to long-term profitability.



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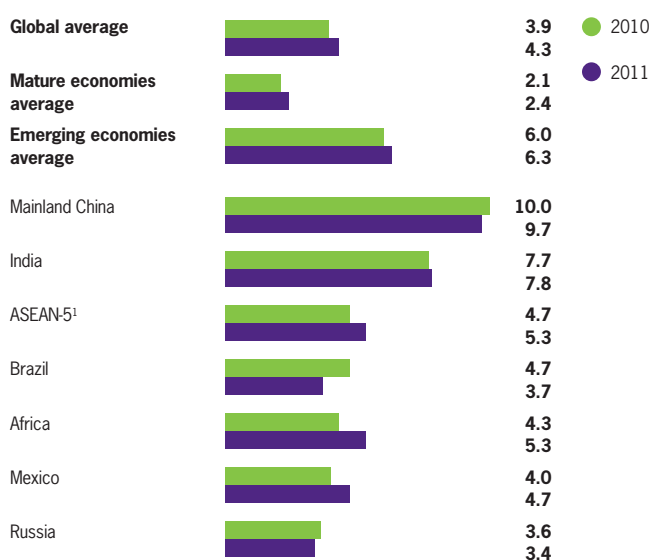
Emerging markets opportunity index

Growth prospects

As the world economy emerges from a severe downturn – output contracted by 0.8 per cent in 2009 (International Monetary Fund (IMF), 2010) – the importance of emerging economies to the recovery cannot be understated. For businesses around the world, these markets offer exciting, rapid growth prospects which are hard to ignore.

The IMF's January 2010 World Economic Outlook forecasts that emerging economies will grow by six per cent this year, accelerating to 6.3 per cent in 2011. By contrast, mature economies are forecast to grow by 2.1 per cent in 2010 and by 2.4 per cent next year. Mainland China and India are expected to lead the way for the emerging markets, but most emerging economies are forecast to expand more quickly than the global average.

Figure 1: Percentage growth year over year: 2010-2011

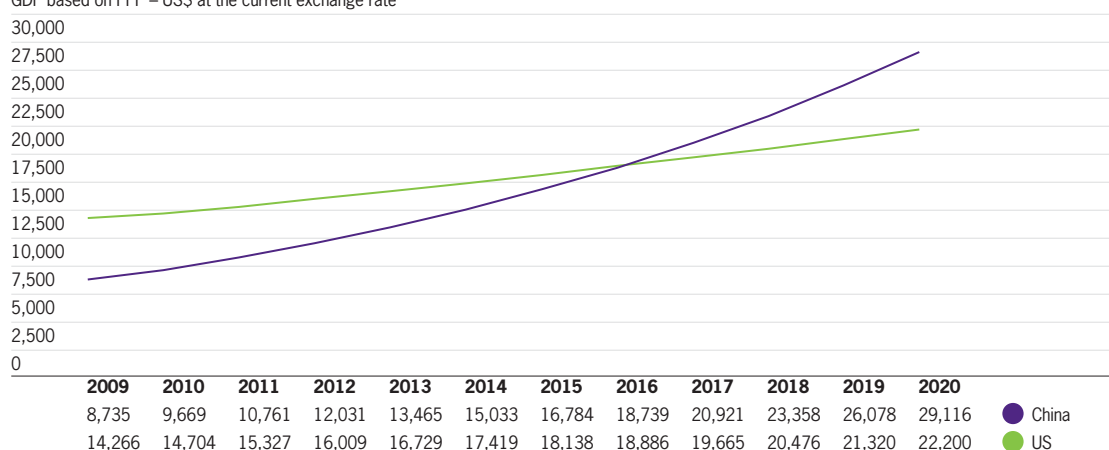


Source: IMF 2010

¹ the Association of Southeast Asian Nations-5 (ASEAN-5) comprises the Philippines, Indonesia, Malaysia, Singapore and Thailand.

Figure 2: In PPP terms, China is forecast to outstrip the US by 2017

GDP based on PPP – US\$ at the current exchange rate



Source: IMF 2010

Further, the downturn has served to highlight the growing shift in economic power from “west to east”; whilst advanced economies laboured through 2009, posting a contraction of 3.2 per cent, emerging economies actually grew by 2.1 per cent, led by mainland China (8.7 per cent) and India (5.6 per cent). Recent projections suggest that mainland China will boast the largest outright GDP in the world by 2030, whilst in Purchasing Power Parity (PPP) terms it will outstrip the United States of America (US) in 2017 (IMF, 2010). Meanwhile, the BRIC economies (Brazil, Russia, India and China) are forecast to contribute 61.3 per cent of global growth in 2008-2014, compared to a 12.8 per cent contribution from the G7 economies.



The emerging markets opportunity index

Taking account of key factors such as size, wealth, involvement in world trade, growth potential and levels of human development, the index suggests that at least 27 emerging economies offer opportunities for investment as well as being a source of increased competition with their large, rapidly expanding and increasingly affluent economies.

The top five economies remain unchanged; mainland China is once more some way ahead of the pack, thanks to its size and remarkably resistant GDP and trade growth, followed by India and Russia. Mexico again splits up the BRIC economies. Although Mexico's lead over Brazil has been cut from 12 to four points, it is not a force to be ignored. The major movers this year in comparison with 2008 include Turkey, which has moved up four places to sixth, Egypt – up five places to 18th – and four Latin American countries, namely Peru (up five), Colombia (up three), Argentina and Chile (both up one). One can only hope that the 2010 earthquake does not blunt Chile's resilience and that it will recover quickly to take its place in the growth economies. The presence of Poland at number seven also serves as a reminder that Asia and Latin America are not the only areas of the world which are leading growth and may be locations for investment opportunities.



The role of foreign direct investment

As these emerging economies expand, and households become increasingly wealthy, consumer demand is accelerating. Businesses around the globe that can supply the industrial equipment, consumer products and internationally tradable business and financial services that these countries need to support industry growth, are presented with a myriad of opportunities.

The Institute of International Finance (IIF) forecasted in January 2009 that net capital inflows to emerging economies would contract over the course of the year, badly damaging these countries' growth prospects. However, one year later, the IIF reported that "net private capital flows to emerging market economies rebounded through (the latter half of) 2009, and are expected to rise further in 2010 and 2011" – at US\$435 billion in 2009, flows were down on the US\$667 billion observed the previous year, but flows in 2010 are forecast to total US\$722 billion (IIF, 2010).

Foreign direct investment (FDI) is usually welcomed by rapidly growing countries as the benefits of closer integration into the global economy are appreciated and these figures highlight that businesses around the globe are taking advantage of this, through greenfield investment or through mergers and acquisitions. Moreover, as the demand for FDI in the emerging economies shows no signs of abating, the opportunities for businesses to get ahead, or to be left behind, only increase.

Figure 3: The Grant Thornton emerging markets opportunity index 2010

Rank	Country	Change in position (vs 2008)	Score 2010	Score 2008
1	Mainland China	►	454	496
2	India	►	222	234
3	Russia	►	163	142
4	Mexico	►	129	125
5	Brazil	►	125	113
6	Turkey	▲	106	89
7	Poland	▼	102	95
8	Malaysia	▲	95	91
9	Indonesia	▼	92	92
10	Thailand	▼	87	92
11	Argentina	▲	81	84
12	Hungary	▼	80	84
13	Iran	▲	79	76
14	Chile	▲	74	72
15	South Africa	▼	71	79
16	Vietnam	▲	68	68
17	Colombia	▲	67	63
18	Egypt	▲	65	59
19	Ukraine	▼	64	69
20	Peru	▲	64	57
21	Venezuela	▼	63	64
22	Romania	▼	62	63
23	Pakistan	▼	60	63
24	Algeria	►	60	58
25	Philippines	▼	56	69
26	Nigeria	▲	56	47
27	Bangladesh	▼	54	55

The Grant Thornton emerging markets opportunity index is based on a weighted calculation of key indicators including GDP, GDP per capita, population size, international trade, growth projections and the Human Development Index (HDI).

Please see the appendix for full details of the figures used to create the index.

Sources: World Development Indicators, World Bank; World Trade Organisation; Experian; HDI United Nations Human Development Report

IBR 2010 results

Optimism for the year ahead

The index indicates that the future appears healthy for the emerging economies and results from the Grant Thornton International Business Report 2010 survey show that businesses are in agreement. Whilst a balance² of just +2 per cent of businesses in mature economies³ were optimistic when asked “how optimistic are you for outlook of your country’s economy over the next 12 months?”

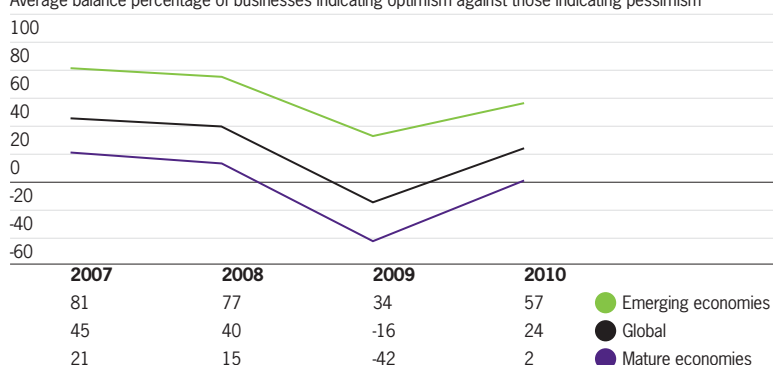
+57 per cent of businesses in emerging economies⁴ indicated optimism for the year ahead, significantly above the global average of +24 per cent. Even last year, when businesses were asked about prospects for 2009, emerging market businesses indicated optimism (+34 per cent), which was in stark contrast to the overwhelmingly negative sentiments amongst businesses in the mature economies (-42 per cent).

At an individual country level, emerging economies occupy four of the top five places in terms of optimism for the year ahead. Chile (+85 per cent), India (+84 per cent), Vietnam (+72 per cent) and Brazil (+71 per cent) are split only by Australia (+79 per cent) – and significantly the proportion of Australia’s exports going to emerging economies rose to 53 per cent in 2009 (up from 43 per cent ten years previously)⁵.

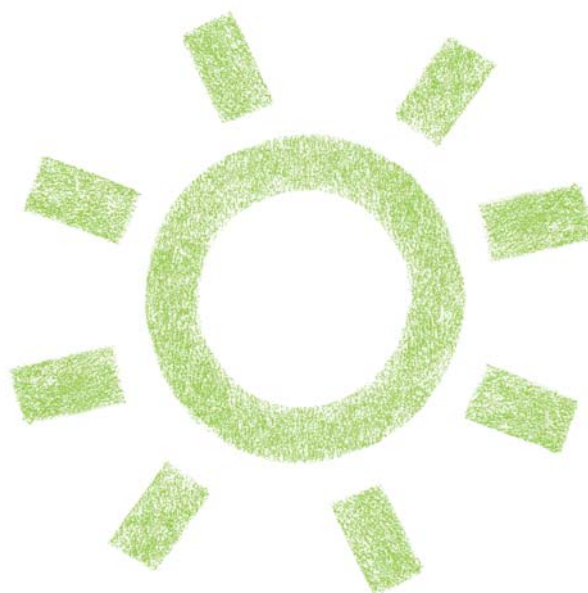
Of the other emerging economies, Botswana, mainland China, South Africa, Malaysia and Poland all boast optimism balances of more than 40 per cent.

Figure 4: Outlook for the economy over the next 12 months: 2007-2010

Average balance percentage of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2010



² those indicating optimism less those indicating pessimism

³ for the purpose of this analysis the term ‘mature economies’ refers to France, Germany, Japan, the United Kingdom and the United States of America

⁴ for the purpose of this analysis the term ‘emerging economies’ refers to Brazil, mainland China, India, Mexico and Russia

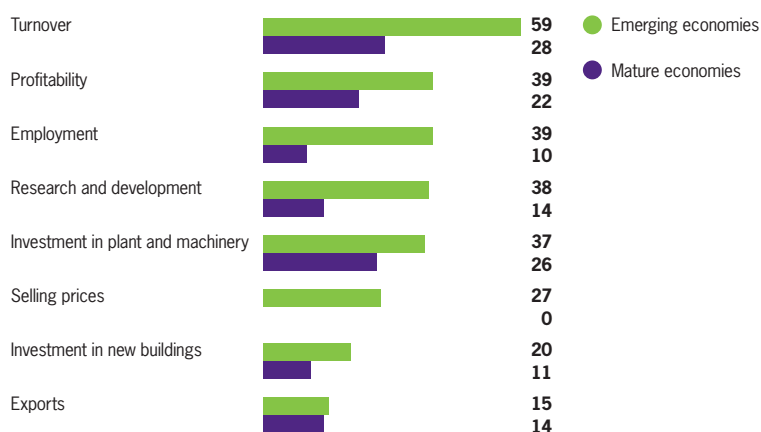
⁵ Source: <http://www.austrade.gov.au/China-s-Strength-Bodes-Well-for-Australia-s-Trade-Future/default.aspx>

Businesses in emerging markets are also more optimistic about the trend they expect over the next 12 months regarding a broad range of commercial factors. A balance of +59 per cent of businesses in emerging economies expect their turnover to increase over the course of 2010, compared with just +28 per cent of businesses in mature economies. Similarly, a balance of +27 per cent of emerging economy businesses expect to increase selling prices in 2010, compared with zero per cent of mature economy businesses. Perhaps most interestingly, bearing in mind the way that unemployment lags economic recoveries, and the negative impact this has on consumer spending, a balance of just +10 per cent of mature economy businesses expect their workforce to grow over the course of 2010, compared to +39 per cent in emerging economies.

The importance of emerging economies to world trade has been steadily increasing over recent years – between 1990 and 2010 the annual growth rate of exports and imports from and to mature economies averaged around five per cent, compared with over 7.5 per cent in emerging and developing economies (IMF, 2009). And whilst businesses in emerging economies are only slightly more optimistic regarding exports than their counterparts in more mature economies, businesses in Turkey (+47 per cent), Malaysia (+37 per cent) and the Philippines (+34 per cent) are all more optimistic than the second largest exporter in the world, Germany (+31 per cent).

Figure 5: Expectations regarding economic indicators

Average balance percentage of businesses indicating an increase against those indicating a decrease



Source: Grant Thornton IBR 2010

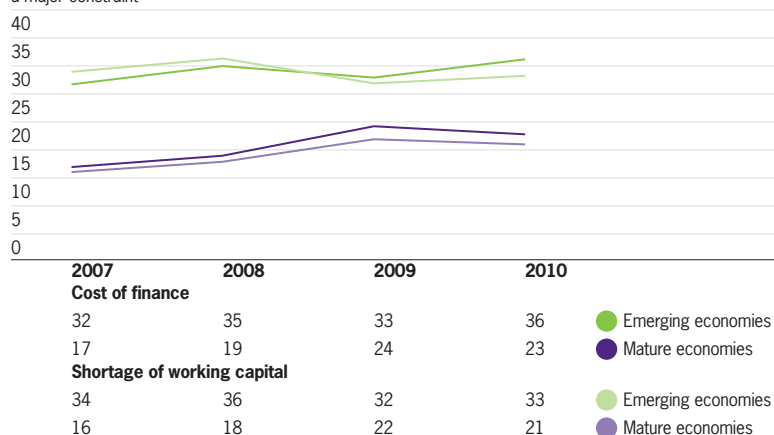
Due to the immaturity of financial institutions and markets, as well as the perceived extra risk in terms of lending to a business in an emerging market, businesses in these economies feel far more constrained by financial issues compared with their counterparts operating in more mature economies. Relative to a range of commercial issues, respondents were asked “to what extent are the following constraining your ability to expand/grow your business?” with businesses in emerging economies citing the cost of finance, a shortage of working capital and a shortage of long-term finance as more constraining than their peers in mature economies – supporting the assertion that investment opportunities do exist in emerging markets.

The cost of finance was cited as a major constraint by 36 per cent of emerging economy businesses, compared with 23 per cent of those in more mature economies, and a shortage of working capital by 33 per cent as opposed to 21 per cent in emerging and mature economies respectively. Interestingly, the gap between the standpoints of the two sets of economies narrowed last year, but this appears to have been reversed to a large extent this year (see figure 6).

Interestingly, the availability of a skilled workforce is cited as a major constraint by one quarter of businesses in the emerging markets – compared to just 16 per cent of those in more mature economies – suggesting that whilst labour is abundant in emerging economies, there is plenty of demand for higher skilled workers. Moreover, the only issue of significantly more importance to businesses in the more mature economies is a shortage of orders/reduced demand (45 per cent) – by contrast, just one third of businesses in the emerging markets cite this factor as a major constraint – indicating that consumer demand remains fairly buoyant.

Figure 6: Financial constraints on expansion: 2007-2010

Average percentage of businesses answering 4 or 5 on a scale of 1 to 5, where 1 is not a constraint and 5 is a major constraint

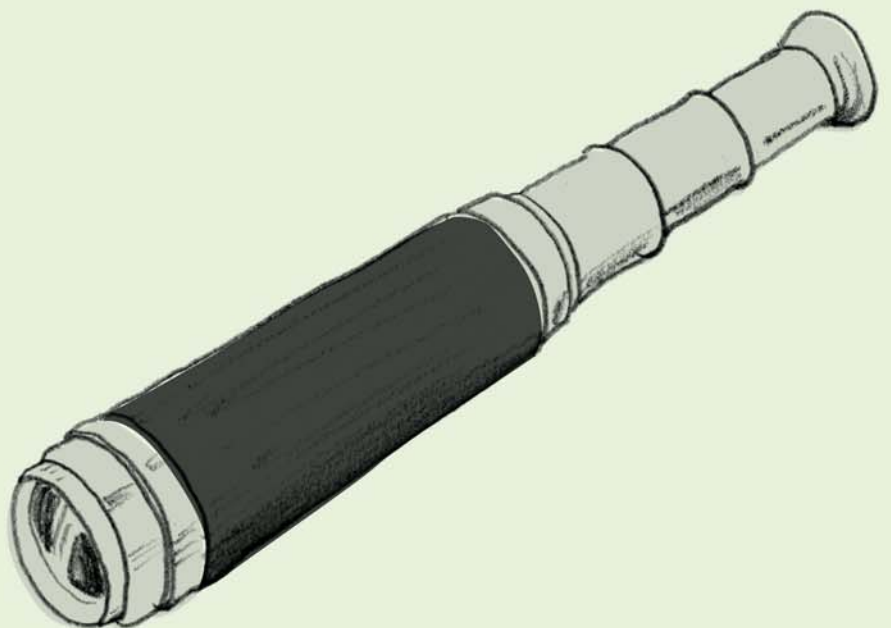


Source: Grant Thornton IBR 2010

IBR top 14 emerging markets

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Mainland China

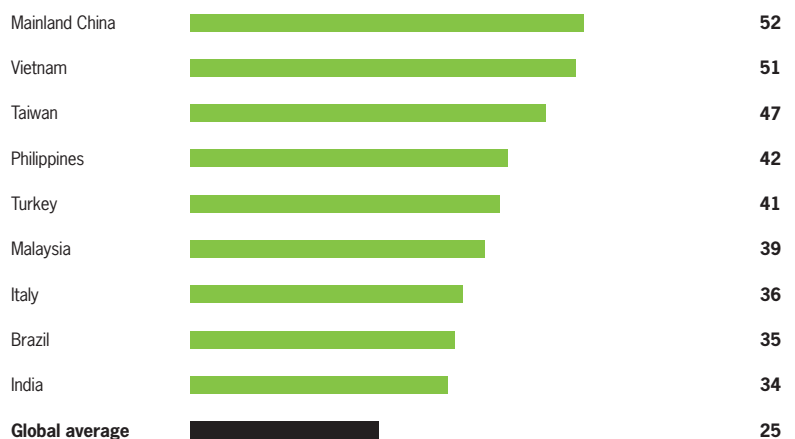
As in 2008, mainland China tops the Grant Thornton emerging markets opportunity index by a significant margin. The most populous country in the world, it is also home to the second largest economy in the world today. A huge consumer market, an increasingly open economy and its extremely rapid trade growth offer a myriad of business opportunities for potential investors. Between 1990 and 2000, inward FDI flows averaged US\$30 billion; by 2008 these had risen to US\$108 billion (United Nations Conference on Trade and Development – UNCTAD, 2009).

IBR survey results

Business optimism dropped sharply in mainland China last year as the threat of a drop-off in exports and FDI from credit-strapped investors took hold; a balance of +30 per cent of businesses in mainland China were optimistic about the year ahead in 2009, the lowest since surveying began in mainland China in 2006. However, this year businesses were much more optimistic (+60 per cent), reflecting the strong growth forecasts for the economy. In preparation for the upturn, 64 per cent of businesses in mainland China had looked at new target markets and 49 per cent at new products/services.

Figure 7: Expectations for research and development

Balance percentage of businesses indicating an increase against those indicating a decrease



Source: Grant Thornton IBR 2010



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“To develop quicker, foreign investors should be paying more attention to developing and training local talent.”



Prospects for turnover (+56 per cent) and employment (+40 per cent) amongst businesses in mainland China are also healthy but it is expectations for research and development (R&D) that really catch the eye: a balance of +52 per cent of businesses expect to increase R&D activity over the course of 2010, the highest of all economies surveyed, and more than double the global average. Increasing investment in areas such as R&D suggests that Chinese businesses are increasing their focus on innovation regarding new products, services and processes and reducing their focus on manufacturing. However, respondents in mainland China also report the greatest increase in stress; a balance of +72 per cent reported an increase compared to a global average of +45 per cent.

As in many emerging markets, finance issues are highlighted as the major factor preventing businesses from growing; the cost of finance (42 per cent) and a shortage of working capital (37 per cent) are cited as the two major constraints, both well above the respective global averages. Moreover, businesses in mainland China are amongst the most pessimistic of all economies surveyed in 2010 as regards to how accessible they believe finance will be over the next 12 months – just 23 per cent expect finance to become more accessible, with 40 per cent expecting credit lines to tighten. Compounding this, businesses in mainland China rate their lenders as less supportive than any other country surveyed; just 40 per cent of businesses class their lenders as supportive of their business, compared to a global average of 69 per cent.

Investing in mainland China

Benefits

1. The commercial environment has become much more amenable to foreign investment in recent years, in terms of rules and regulations.
2. China has a huge consumer market and per capita GDP is rising steadily.
3. Huge levels of investment have gone (and continue to go) into construction and transport infrastructure.

Investment tips

1. Get up-to-date commercial information – regulations, especially those regarding taxation and laws, are changing very fast and information gathered ten years ago may not be valid.
2. Perform robust background checks – areas of China are not homogenous, different provinces and even cities within provinces can have very different cultures.
3. Do not try to conquer all in one go.
4. Do not rely entirely on practices and methods which have worked in your home country or during previous foreign investments – China can be very different.
5. Ensure you have verified the opportunity meticulously – do not underestimate the value of visiting in person.
6. Combine local knowledge and expertise with world-class methods and strategies.

To obtain more information about the economy and the IBR 2010 results for mainland China, please download the IBR 2010 mainland China focus, available at:
<http://www.internationalbusinessreport.com/Reports/2010/Country-reports>

India

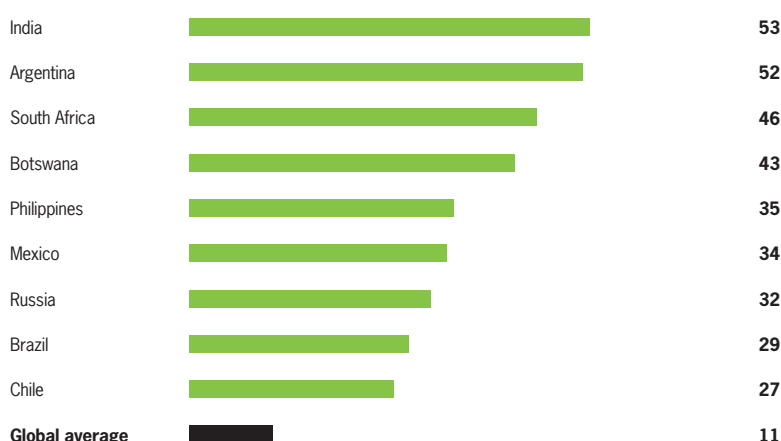
India, although a long way behind, is second only to mainland China in the Grant Thornton emerging markets opportunity index, its composite score of 222 is under half that of its larger neighbour. However, it has moved ahead of Germany as the fourth largest economy in the world in PPP terms, and it boasts a huge consumer market and a booming services sector which accounts for 55 per cent of GDP (compared to 40 per cent in mainland China). Between 1990 and 2000, inward FDI flows averaged US\$1.7 billion; by 2008 these had risen to US\$41.5 billion (UNCTAD, 2009).

IBR survey results

Business sentiment in the country remained resolutely robust last year as India topped the optimism chart for the sixth consecutive year at +83 per cent. This year it was knocked off the top by Chile (+85 per cent) but still remained overwhelmingly positive at +84 per cent. The strength of the recovery is highlighted by the fact that 73 per cent of businesses believed the global recovery would have started by the end of 2010 at the latest, compared to a global average of 62 per cent.

Figure 8: Expectations for selling prices

Balance percentage of businesses indicating an increase against those indicating a decrease



Source: Grant Thornton IBR 2010

Other economic indicators show that businesses in India are the second most optimistic as regards expectations for profitability (+65 per cent) behind Vietnam (+91 per cent), and the fourth most optimistic as regards turnover (+74 per cent) behind Vietnam again (+95 per cent), and two Latin American countries, Argentina (+80 per cent) and Chile (+77 per cent). However, Indian businesses are the most optimistic of all countries surveyed in terms of selling prices going up over the course of 2010; at +53 per cent, they are way above the global average (+11 per cent).



The labour market appears to have remained healthy during 2009; a balance of +33 per cent of respondents increased employment in the year, second only to Vietnam (+54 per cent). The outlook for 2010 seems equally as promising; a balance of +47 per cent expect to increase employment, whilst 62 per cent expect to increase employee salaries at least in line with inflation compared with a global average of 51 per cent.

To obtain more information about the economy and the IBR 2010 results for India, please download the IBR 2010 India focus, available at:
<http://www.internationalbusinessreport.com/Reports/2010/Country-reports>

Investing in India

Benefits

1. There are significant growth opportunities in key sectors (power, infrastructure, education and healthcare) which the country is looking to develop.
2. India has a large, segmented consumer base with a huge appetite for goods and services.
3. The labour force – the country has a young, well-educated talent pool.

Investment tips

1. India can be much more than a low factor-cost production centre if investors are prepared to spend time in exploring its potential.
2. Choosing suitable, reputable local partners and business start-up advisors is key to overcoming cultural barriers.



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“Growth opportunities in key sectors such as power, infrastructure, education and healthcare, offer tremendous opportunities to all stakeholders.”

Russia

Russia offers the third greatest level of opportunity to investors according to the Grant Thornton emerging markets opportunity index. It has a much smaller consumer base than either mainland China or India, but it boasts a GDP per capita which is more than double that of the former and five times as high as the latter. Between 1990 and 2000, inward FDI flows averaged US\$1.9 billion; by 2008 these had risen to US\$70.3 billion (UNCTAD, 2009).

IBR survey results

Optimism for the year ahead fell by 56 per cent (to -2 per cent) amongst businesses in Russia in 2009. However, business sentiment bounced back this year with a balance of +10 per cent indicating optimism for the Russian economy over the next 12 months, although this put it in the bottom quartile of all countries surveyed on this measure.

Businesses in Russia are more optimistic regarding selling prices in 2010 (+32 per cent) compared to the global average (+11 per cent). Expectations across most indicators are similar to the global average, although at just +7 per cent, expectations surrounding R&D are well below the global average.

Figure 9: Constraints on expansion

Percentage of businesses answering 4 or 5 on a scale of 1 to 5, where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2010

Meanwhile, growth prospects for businesses in Russia appear difficult. Respondents feel more constrained in their ability to expand their operations by all factors than both the global and emerging markets averages. The biggest constraint facing businesses is a shortage of orders/reduced demand which is cited by 51 per cent of businesses in Russia, with only Japan (79 per cent), Taiwan (60 per cent) and Italy (53 per cent) ahead of this measure. A shortage of long term finance is also cited as a major constraint by 39 per cent of businesses in Russia, well above the emerging markets average of 27 per cent.



Russian businesses reported the greatest contraction in employment of all emerging economies in 2009; a balance of -28 per cent of respondents reporting an increase in their workforce was the sixth lowest of all countries surveyed, behind more mature economies who were badly hit by the economic downturns such as the United States, the United Kingdom, Spain and Ireland. Expectations for employment growth in 2010 are more positive (+14 per cent), but remain below the emerging markets average (+39 per cent).

To obtain more information about the economy and the IBR 2010 results for Russia, please download the IBR 2010 Russia focus, available at: <http://www.internationalbusinessreport.com/Reports/2010/Country-reports>

Investing in Russia

Benefits

1. High levels of per capita consumption – close to the levels in the major cities of European mature economies.
2. Russia boasts well-educated, highly-qualified workforce.
3. Stable currency – the rouble has avoided volatility.

Investment tips

1. Fully investigate local taxation – investors need to think about the local situation, rather than about their country of origin.
2. Do not underestimate costs of production – some factor costs, such as labour and land near big cities, are actually quite expensive.



“The creation of a beneficial environment for foreign investors is considered a priority at government level.”

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Mexico

As in 2008, Mexico splits up the dominance of the BRIC economies at the head of the Grant Thornton emerging markets opportunity index. As a member of the North American Free Trade Agreement (NAFTA), the ‘forgotten BRIC in the economic world’ enjoys access to the large markets of both Canada and the United States, which together account for over 80 per cent of its total exports. Between 1990 and 2000, inward FDI flows averaged US\$9.3 billion; by 2008 these had risen to US\$21.9 billion (UNCTAD, 2009).

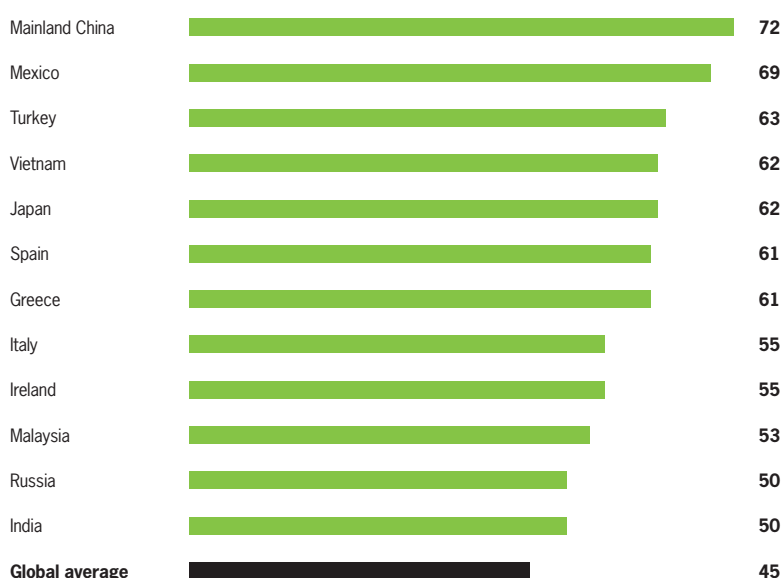
IBR survey results

Mexico’s close ties with the United States meant sentiment amongst businesses took a big hit last year as expectations for the year ahead turned negative (-7 per cent). However, the recovery of its major trading partner has seen optimism rebound to +20 per cent, although this is well behind the emerging markets average of +57 per cent.

Businesses in Mexico are particularly bullish regarding expectations for selling prices and exports. A balance of +34 per cent expect to see an increase in selling prices over the course of 2010 – higher than both the emerging markets average (+27 per cent) and the global average (+11 per cent) – making businesses in Mexico the sixth most optimistic in this regard. Meanwhile, expectations for exports, which stood at just +3 per cent in 2009, rebounded to +23 per cent this year, well above the emerging markets average (+15 per cent).

Figure 10: Stress levels now compared to one year ago

Percentage of businesses indicating an increase in stress levels



Source: Grant Thornton IBR 2010

Regulations/red tape is the biggest constraint businesses in Mexico are facing in terms of expanding their business; at 41 per cent, this is well above the emerging markets (31 per cent) and global (32 per cent) averages. It is therefore interesting to note that one third of businesses in Mexico plan to grow through acquisition over the next three years; 80 per cent of these businesses plan to acquire domestically, but 65 per cent plan to grow through cross-border acquisition – the highest level in the survey.



The economic downturn appears to have taken its toll on levels of stress felt by employers in Mexico. A balance of +69 per cent of respondents reported an increase in their level of stress compared with 12 months ago. This places Mexico behind only mainland China on this measure. Significantly, employers in Mexico took the least number of days holiday (seven) last year of all countries surveyed, half the global average (14).

To obtain more information about the economy and the IBR 2010 results for Mexico, please download the IBR 2010 Mexico focus, available at: <http://www.internationalbusinessreport.com/Reports/2010/Country-reports>

Investing in Mexico

Benefits

1. Strategic location – Mexico's close trading relationship and proximity to the United States give it an advantage over other developing economies.
2. Free-trade agreements – Mexico has the second greatest number (34) of such agreements in the world.

Investment tips

1. Workforce costs are low but the cost of extra government procedures and bureaucracy should not be forgotten, and neither should the strong influence of trade unions.
2. Social and cultural differences should always be considered when developing a market penetration strategy – what works at home may not necessarily work in Mexico.



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“Mexico has been increasing its participation in the global economy through the vast network of international trade agreements that it has with countries around the world.”

Brazil

Brazil completes the top five countries as identified by the Grant Thornton emerging markets opportunity index. As the largest economy in Latin America – characterised by an abundance of natural resources and large, well-developed primary sectors (agricultural, mining, manufacturing), Brazil enjoys an important regional and increasingly global presence. Between 1990 and 2000, inward FDI flows averaged US\$12 billion; by 2008 these had risen to US\$45 billion (UNCTAD, 2009).

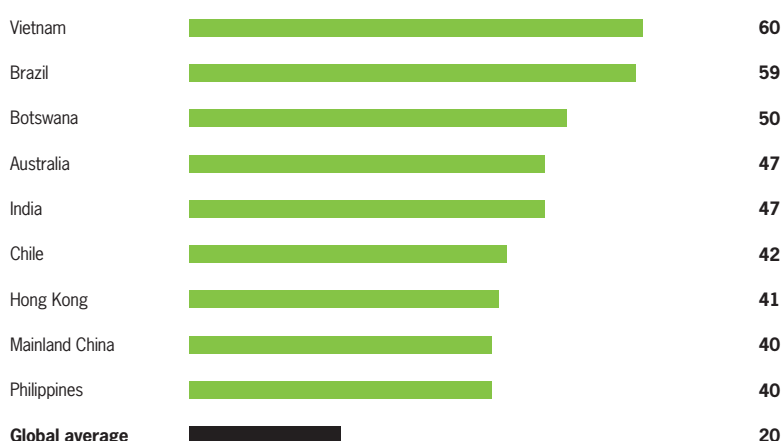
IBR survey results

Businesses in Brazil are the fifth most optimistic this year. Even last year, as foreign investors pulled out of Brazil due to the onset of the downturn, optimism remained high at +50 per cent, and this year it has climbed to +71 per cent, well above the emerging markets (+57 per cent) and global (+24 per cent) averages.

Businesses are very optimistic with respect to all economic indicators. A balance of +57 per cent of respondents expect to increase profitability over the course of 2010, compared with an emerging markets average of +39 per cent. Meanwhile, significant employment growth across the next 12 months looks likely; a balance of +59 per cent expect to expand their workforce, ranking Brazil second only to Vietnam (+60 per cent) on this measure. Further, +61 per cent of businesses expect to increase investment in plant and machinery during 2010, highest jointly with Poland.

Figure 11: Expectations for employment

Balance percentage of businesses indicating an increase against those indicating a decrease



Source: Grant Thornton IBR 2010



Similarly to their Latin American counterparts in Mexico, regulations/red tape is cited as the biggest constraint facing businesses in Brazil in terms of expansion (37 per cent). A shortage of working capital is cited as the second greatest constraint (36 per cent), an issue which applies to all emerging economies (33 per cent). However, Brazilian employers are amongst the least stressed in the world; a balance of just +9 per cent of businesses reported an increase in stress levels over the course of 2009, behind only Sweden (+6 per cent).

To obtain more information about the economy and the IBR 2010 results for Brazil, please download the IBR 2010 Brazil focus, available at: <http://www.internationalbusinessreport.com/Reports/2010/Country-reports>

Investing in Brazil

Benefits

1. The price of Brazilian businesses is competitive – many family-run businesses would welcome investment from an international partner as they seek greater professionalisation.
2. Investor security – Brazil has a solid, increasingly transparent financial system.
3. Burgeoning consumer demand – demand for goods and services is rapidly increasing as large, lower-income groups become wealthier.

Investment tips

1. Conduct an in-depth analysis of the territory – investors should get to know the market, competitors and the local culture.
2. Find a qualified professional to support the investment process – tax and labour laws especially can be quite difficult to understand.



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“To set up a business venture in Brazil, just like in any other country, investors should first get to know the market where they are going to operate, their competitors, and above all the local culture.”

Turkey

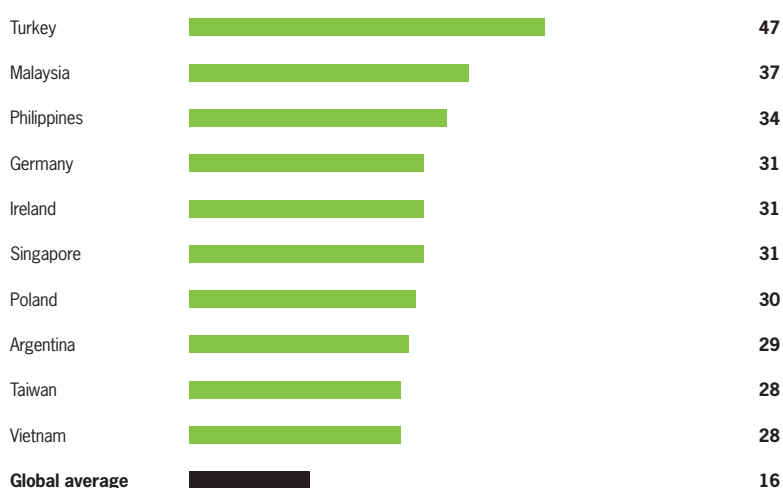
Turkey has risen to sixth position in the Grant Thornton emerging markets opportunity index from tenth in 2008. Its composite score of 106 now places it marginally ahead of Poland (score of 102) and is largely linked to its increase in GDP on the PPP measure used in this study from US\$661 billion in 2008 to US\$1,029 billion in 2009. By 2008, FDI inward flows had risen to US\$18.2 billion, up from US\$10 billion in 2005 (UNCTAD, 2009).

IBR survey results

Business sentiment dropped sharply in Turkey in 2009 (-24 per cent) as exports tumbled and unemployment increased sharply, the lowest since the survey began. However, this year businesses have been much more optimistic in comparison (+13 per cent), reflecting the strong growth forecasts for the economy and Turkey's recent economic transformation into a modern and resilient economy. In preparation for the global upturn, 63 per cent of businesses in Turkey had looked at new target markets and 57 per cent at the skills of their current workforce.

Figure 12: Expectations for exports

Balance percentage of businesses indicating an increase against those indicating a decrease



Source: Grant Thornton IBR 2010



Prospects for all economic indicators are positive and healthy for 2010, with a particularly positive outlook for revenue (+61 per cent) and exports (+47 per cent). Expectations about R&D activity over the course of 2010 are particularly strong with a balance of +41 per cent expecting to increase their activity, significantly higher than the global average (+25 per cent).

The cost of finance (41 per cent) is seen as a major factor constraining Turkish businesses' ability to grow in the coming 12 months, significantly higher than the global average (28 per cent). Only 65 per cent of businesses believe their lenders are supportive towards their business, similar to the global average of 69 per cent. More positively, 41 per cent of businesses expect finance to become more accessible in the coming 12 months, compared to a global average of 35 per cent.

To obtain more information about the economy and the IBR 2010 results for Turkey, please download the IBR 2010 Turkey focus, available at: <http://www.internationalbusinessreport.com/Reports/2010/Country-reports>

Investing in Turkey

Benefits

1. Low labour costs – the country has lower labour costs than its neighbours in the EU and presents value for money for potential investors.
2. The energy sector presents a good opportunity for investors as it is in need of development.
3. Strength of Turkish institutions – the country has a strong economy and infrastructure.
4. Access to other markets – particularly for retail, Turkey acts as a gateway to Africa and the Middle East.

Investment tips

1. Investors often assume that markets and services function in the same way as back home; more effort is needed to work with and understand the local markets and communities.
2. Investors need to spend more money on due diligence.
3. Turkey has a strong manufacturing base but services are often weaker, investors need to make sure they are utilising Turkey's strengths and developing the weaknesses.



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“With a much improved banking system and low labour costs, Turkey provides easy access to other markets and is often said to be the gateway to Africa and Asia.”

Poland

Poland offers the seventh greatest level of opportunity to investors according to the Grant Thornton emerging markets opportunity index. Poland has a large domestic consumer market for investors (38 million) and is the 30th largest market in the world. Although Poland has fallen one place since the index was originally compiled in 2008, it does receive about a third of all FDI flows to Central and Eastern Europe. Its inflows increased continuously by a remarkable 44 per cent per year on average from 1991-2000; and by 2008 these had risen to US\$16.5 billion, up from US\$10.2 billion in 2005 (UNCTAD, 2009).

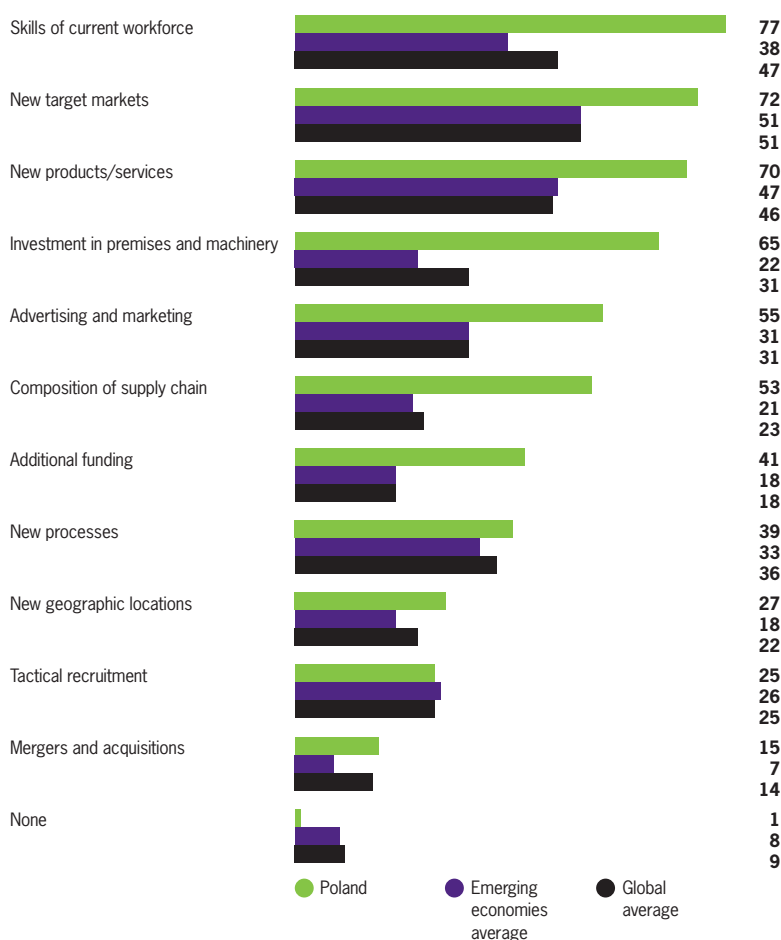
IBR survey results

Optimism levels fell by 90 per cent (to -12 per cent) amongst businesses in Poland in 2009. However, business sentiment has bounced back this year with a balance of +44 per cent being optimistic for the Polish economy over the next 12 months, the 15th out of the 36 economies participating in IBR 2010.

Polish businesses are amongst the most active in taking action in preparation for an upturn in the global economy. 77 per cent of businesses have put an increased focus on the skills of their current workforce, 72 per cent are targeting new markets whilst 70 per cent are developing new products and services. This compares to global averages of 47 per cent, 51 per cent and 46 per cent respectively.

Figure 13: Businesses' strategies in preparation for an upturn

Percentage of businesses focusing on the strategies below



Source: Grant Thornton IBR 2010



Other economic indicators show that businesses in Poland are the most optimistic with regards to expectations for investment in plant and machinery (+61 per cent). This is considerably higher than the global and emerging markets averages (+31 per cent and +37 per cent respectively). Expectations around revenue and exports are also strong (+39 per cent and +30 per cent) whilst profitability levels look set to increase following the decline last year (+17 per cent compared to -10 per cent in 2009).

With global employment levels expected to increase in 2010 (+20 per cent), it is a bit of a surprise that employment levels are expected to fall in Poland in 2010 (-3 per cent). Poland is one of only seven countries expecting employment numbers to decline in 2010 (all of which are European countries).

To obtain more information about the economy and the IBR 2010 results for Poland, please download the IBR 2010 Poland focus, available at: <http://www.internationalbusinessreport.com/Reports/2010/Country-reports>

Investing in Poland

Benefits

1. Strategic location – Poland's convenient location, in the very centre of Europe, makes the country a perfect investment destination for enterprises targeting both Western and Eastern parts of Europe.
2. Strong economy – since 2003 Poland has been experiencing a stable GDP growth hovering on average at five per cent.
3. Choice of incentives – investors can count on excellent conditions for investment and also gain direct support. Apart from investment incentives provided through local authority councils and various forms of aid, eg within the Special Economic Zones, firms can also receive assistance from the EU structural funds.
4. Well educated society – highly-qualified workers and well-educated specialists are easily available, with nearly 500 academic centres located in Poland.

Investment tips

1. Adapt procedures implemented in other countries.
2. Make sure you know the Polish legal system – different interpretations of the same states of affairs issued by the Minister, state offices as well as Provincial and Supreme Administrative Court.
3. Have a proper power of attorney for people responsible for running the business.
4. Be aware that incorrect tax declarations are not easily refundable.



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“Poland’s time is now. Poland is receiving EU funds, hosting the European Football Championship 2012 and is the only EU country that successfully avoided the global recession, as well as being one of the leading countries in all rankings on investment attractiveness. Many investors have been exploiting Poland’s opportunities. Those who are looking on the world map for the best location to invest now should place their finger on Poland.”

Malaysia

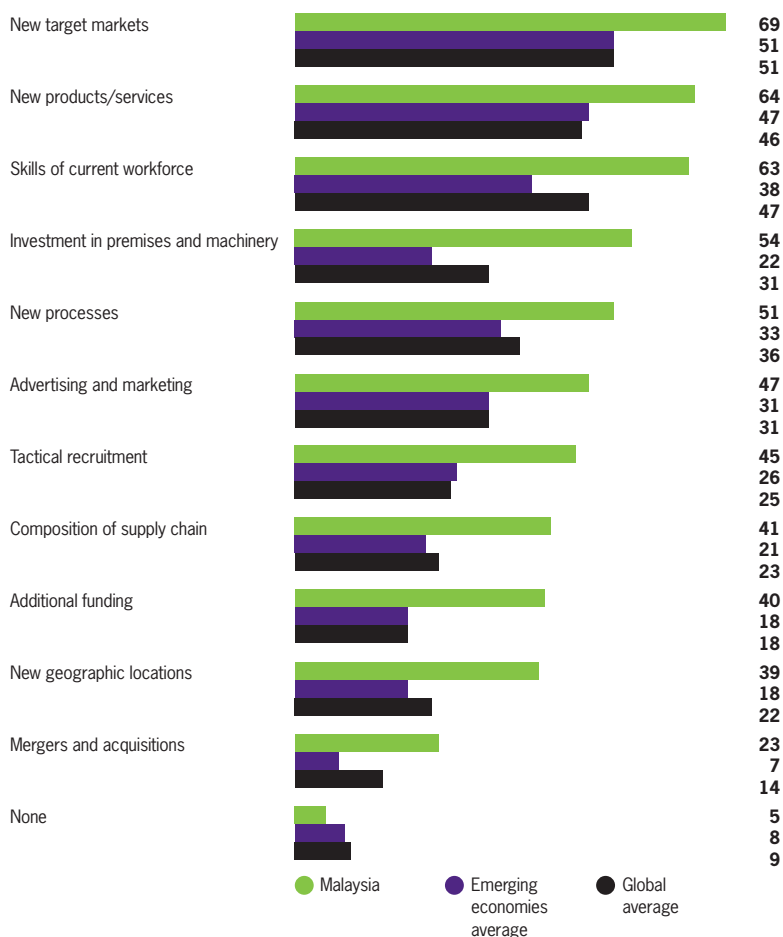
Malaysia offers the eighth greatest level of opportunity to investors according to the Grant Thornton emerging markets opportunity index. Malaysia has risen one place since the index was compiled in 2008 and has one of Southeast Asia's strongest education and healthcare systems. Its FDI inflows increased continuously by 18 per cent per year on average from 1991-2000; and by 2008 these had risen to US\$8 billion, up from US\$4 billion in 2005 (UNCTAD, 2009).

IBR survey results

Optimism levels fell by 40 per cent (to -2 per cent) amongst businesses in Malaysia in 2009. However, business sentiment has bounced back strongly this year with a balance of +49 per cent being optimistic for the Malaysian economy over the next 12 months, the 14th out of the 36 economies participating in IBR 2010.

Malaysian businesses are amongst the most active in taking action in preparation for an upturn in the global economy. 69 per cent of businesses have put an increased focus on targeting new markets, 64 per cent are targeting new products/services whilst 63 per cent are focusing on the skills of their current workforce; this compares to global averages of 51 per cent, 46 per cent and 47 per cent respectively.

Figure 14: Businesses' strategies in preparation for an upturn
Percentage of businesses focusing on the strategies below



Source: Grant Thornton IBR 2010



Other economic indicators show that businesses in Malaysia are among the most optimistic with regards to expectations for revenue over the coming year (+60 per cent). This is considerably higher than the global average (+40 per cent) and in line with the emerging markets average (+59 per cent). Expectations around exports and profitability are also positively strong for the coming year (balance of +37 per cent and +41 per cent respectively).

Employment expectations for the coming year are very strong amongst Malaysian businesses, a balance of +39 per cent expect employment levels to increase in the coming year, considerably higher than the global average (+20 per cent). Malaysian businesses have also seen a significant turnaround in relation to expectations about selling prices. In 2009, -27 per cent expected selling prices to decrease but this has increased to +18 per cent in 2010.

To obtain more information about the economy and the IBR 2010 results for Malaysia, please download the IBR 2010 Malaysia focus, available at: <http://www.internationalbusinessreport.com/Reports/2010/Country-reports>

Investing in Malaysia

Benefits

1. Natural resources – Malaysia has large natural resources including oil, petroleum, rubber and timber.
2. Human resources – a strong, hard working population.
3. Strategic location – Malaysia has traditionally been a strong exporting and importing nation and its location makes it ideally placed for conducting business with the other Asia Pacific nations.

Investment tips

1. Determining the market – investors need to produce an effective strategy and not rush into making quick decisions as this often leads to mistakes.
2. Making the most of incentives – there are a number of incentives on offer for investors which are not taken up as much as they should be, such as tax incentives, tax holidays and import duty waivers.
3. Choosing the right partners – investors need to make sure that projects are not left to be managed without the right partners and need to be aware of different and higher levels of bureaucracy.



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**“Failing to plan is planning to fail.
Investors need to ensure that they put into
place strategic plans to ensure investments
will succeed.”**

Thailand

Thailand offers the tenth greatest level of opportunity to investors according to the Grant Thornton emerging markets opportunity index. Thailand has fallen two places since the index was originally compiled but continues to be a strong exporter of rice, textiles and footwear, with rice being the most important crop for the country. Its FDI inflows increased continuously by seven per cent per year on average from 1991-2000; and by 2008 these had risen to US\$10 billion, up from US\$8 billion in 2005 (UNCTAD, 2009).

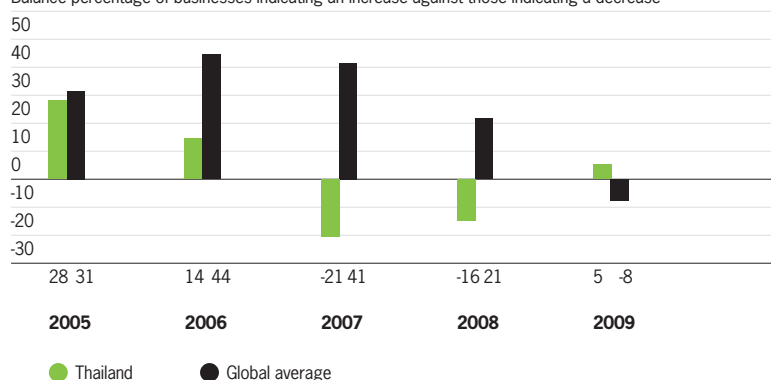
IBR survey results

Optimism levels fell by 33 per cent (to -63 per cent) amongst businesses in Thailand in 2009. However, business sentiment has rebounded strongly this year with a balance of +12 per cent being optimistic for the Thai economy over the next 12 months. This represents the sixth largest increase between 2009 and 2010 and takes optimism levels to their highest level since 2007.

Thai businesses have been active in their focus for preparing for an upturn in the global economy but have not been placing as much emphasis on this as businesses globally. 43 per cent of businesses have placed an increased focus on the skills of their current workforce (compared to 47 per cent of businesses globally), but 27 per cent have put an increasing focus on tactical recruitment, marginally higher than businesses globally (25 per cent).

Figure 15: Actual employment increases/decreases: 2005 - 2009

Balance percentage of businesses indicating an increase against those indicating a decrease



Source: Grant Thornton IBR 2010



Employment has increased over the past year in Thailand (+5 per cent), this is in contrast to the global economy where businesses have indicated a fall in employment levels (-8 per cent). Thai businesses also expect employment to continue to increase in the coming year (+28 per cent), even more so than businesses globally (+20 per cent).

Expectations around turnover are now positive (+39 per cent) compared to 2009 when expectations about turnover were negative (-14 per cent). Profitability expectations have also bounced back with +30 per cent expecting to see an increase compared to -20 per cent expecting increases in 2009.

More information about the economy and the IBR 2010 results for Thailand will be available in August 2010 at:
<http://www.internationalbusinessreport.com/Reports/2010/Country-reports>

Investing in Thailand

Benefits

1. Incentives to invest – investors can receive exemption from import duty and corporate tax breaks when investing in Thailand.
2. Low cost of labour and land – although the cost of labour may be cheaper in neighbouring countries, it is still competitive in Thailand and the available infrastructure is far superior.
3. Low levels of security threats – a low crime rate is attractive for investors, businesses and employees.

Investment tips

1. Understand the market structure – investors have often released cash to shareholders without doing the necessary due diligence, which has caused major issues for investors.
2. Get your business structure right – by getting your business structure correct and taking advantage of taxation rules, investors are more likely to start off in the right direction.
3. Understand cultural differences – there are certain ‘golden rules’ that need to be followed and all official documents have to be in Thai.



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“Thailand’s impressive infrastructure and low cost of labour, together with attractive tax incentives, make it an attractive place for investors.”

Argentina

Argentina offers the third greatest level of opportunity for investors in Latin America, according to the Grant Thornton emerging markets opportunity index. Argentina suffered a cataclysmic economic crisis in 2001 which rocked the entire nation, but its rich natural resources, well-educated workforce and well-diversified industrial base mean it is recovering relatively quickly. Between 1990 and 2000, inward FDI flows averaged US\$7 billion; by 2008 these had risen to US\$9 billion (UNCTAD, 2009).

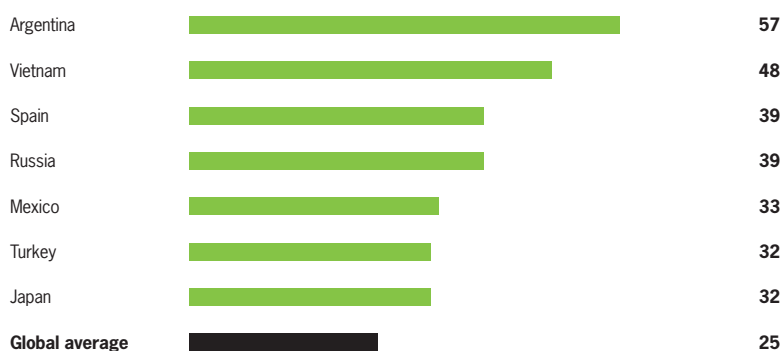
IBR survey results

Optimism for 2010 rebounded robustly in Argentina; the balance of businesses optimistic about the year ahead fell a staggering 96 per cent in 2009, but this year bounced back by 88 per cent to +31 per cent. Businesses in Argentina are also amongst the most optimistic in the world regarding the global upturn, 77 per cent believe it will have started by the end of 2010, compared with 62 per cent of businesses globally.

Businesses are particularly bullish as regards prospects for turnover in 2010; a balance of +80 per cent expect their turnover to increase, second only to Vietnam (+95 per cent) and well above the emerging markets average of +59 per cent. Further, +52 per cent of businesses expect to increase investment in plant and machinery across 2010, behind just Brazil and Poland on this measure (both +61 per cent) and well above the emerging markets average (+37 per cent).

Figure 16: Shortage of long term finance as a constraint on expansion

Percentage of businesses answering 4 or 5 on a scale of 1 to 5, where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2010



Businesses in Argentina felt overwhelmingly constrained by a shortage of long-term finance; 57 per cent of respondents cite this factor as a major constraint on expansion, compared to emerging markets and global averages of just 27 per cent and 25 per cent respectively. It is therefore interesting to note that businesses in Argentina believe their lenders are amongst the most unsupportive in the world; a balance of just +51 per cent rate lenders as supportive of their business, placing them in the bottom quartile of all countries surveyed on this measure.

To obtain more information about the economy and the IBR 2010 results for Argentina, please download the IBR 2010 Argentina focus, available at: <http://www.internationalbusinessreport.com/Reports/2010/Country-reports>

Investing in Argentina

Benefits

1. Skilled labour – Argentina has a highly-skilled, well-educated workforce.
2. Rich base of natural resources – strong supplier to other countries in minerals, water, meats.
3. Strategic position – Argentina is the largest Spanish-speaking country in South America, itself a continent largely free of conflict in recent times.

Investment tips

1. Do the correct background checking – investors often do not do enough research into the business environment. The economy and regulations are very different to Europe so it is imperative to choose the correct local partner.
2. Be aware of cultural differences – commerce tends to be more disorganised and the business environment is constantly changing.



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“Investors need to be flexible and aware of the opportunities. They must choose the right local partner and learn to react quickly or they will face legal and tax problems.”

Chile

Chile has moved up one place to 14th in the 2010 Grant Thornton emerging markets opportunity index. Chile's economy is based on the export of commodities; 40 per cent of GDP comes from exports and copper exports – much of which goes to China – account for one third of government revenue. Between 1990 and 2000, inward FDI flows averaged US\$3.4 billion; by 2008 these had risen to US\$16.8 billion (UNCTAD, 2009).

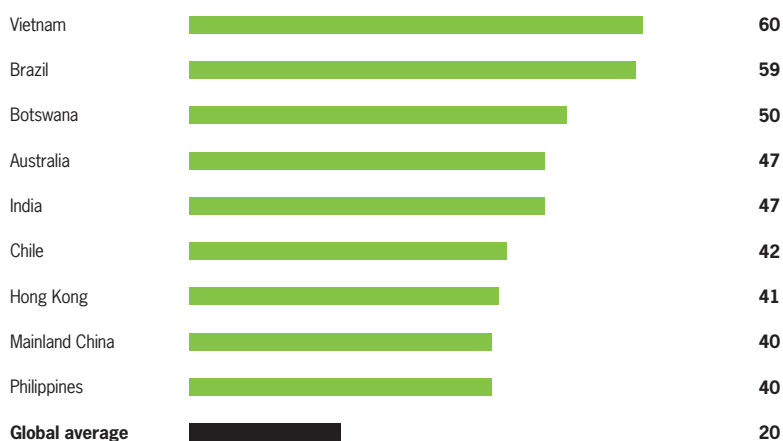
IBR survey results

Chile became the most optimistic country covered by the IBR in 2010. A balance of +85 per cent of businesses (up from -24 per cent in 2009) are optimistic about the next 12 months, compared with an emerging markets average of +57 per cent and a global average of just +24 per cent. Indeed, 84 per cent of businesses believed an upturn in the global economy would happen before the end of 2010, compared with just 62 per cent of businesses globally.

Businesses in Chile expect to increase both their business turnover and profitability over the course of 2010. A balance of +77 per cent of businesses expect to see revenue increase – compared with an emerging markets average of +59 per cent – whilst +56 per cent expect to see their profitability increase – compared with an emerging markets average of +39 per cent.

Figure 17: Expectations for employment

Balance percentage of businesses indicating an increase against those indicating a decrease



Source: Grant Thornton IBR 2010



The labour force appears to be fairly robust in Chile. A balance of +13 per cent of businesses increased the size of their workforce in 2009, placing Chile in the upper quartile on this measure, whilst a balance of +42 per cent expect to increase employment over the course of 2010, well above the global average of +20 per cent. Meanwhile, two-thirds of businesses will offer employees a pay rise at least in line with inflation, compared to just half of businesses globally.

To obtain more information about the economy and the IBR 2010 results for Chile, please download the IBR 2010 Chile focus, available at: <http://www.internationalbusinessreport.com/Reports/2010/Country-reports>

Investing in Chile

Benefits

1. Stable political and economic environment – Chile is characterised by its strong financial institutions and sound inflation and interest rate control.
2. An open, market-oriented economy – this allows for rapid integration into the market.
3. Copper – Chile's primary export stayed fairly stable during the economic downturn and has allowed the economy to bounce back strongly.

Investment tips

1. Beware of bureaucracy – investors must be aware of tight government regulations put in place to keep corruption to a minimum.
2. Beware of strong employment regulations – investors should consider and explore fully the very strict worker compensation laws.



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“Chile's main strength is its strong and stable political and economic climate, although the latter has been challenged with the recent natural disasters. However, growth is still viable this year with reduced risks to investors as corruption is kept to a minimum.”

South Africa

South Africa is the highest ranked country on the African continent according to the 2010 Grant Thornton emerging markets opportunity index. The South African economy is well-developed in many ways, with an abundance of natural resources, and robust financial, legal, communications and transport sectors, but it remains polarised with an unemployment rate touching 25 per cent. Between 1990 and 2000, inward FDI flows averaged US\$0.9 billion; by 2008 these had risen to US\$9.0 billion (UNCTAD, 2009).

IBR survey results

Having bucked the general trend by remaining broadly optimistic in 2009 (+35 per cent), a balance of +60 per cent of businesses in South Africa are optimistic about their economy over the course of 2010. This is slightly above the emerging markets average of +57 per cent, and well above the global average of +24 per cent. Moreover, 77 per cent of businesses expected to see an upturn in the global economy by the end of 2010 at the latest, compared to just 62 per cent of businesses globally.

Businesses are particularly optimistic regarding selling prices across 2010; a balance of +46 per cent of respondents expect selling prices to increase, compared to an emerging markets average of +27 per cent and a global average of just +11 per cent. Expectations for profits are also high; the balance of businesses expecting to increase the profitability of their operation has risen from +21 per cent in 2009 to +44 per cent this year.

Figure 18: A lack of skilled workers as a constraint on expansion

Percentage of businesses answering 4 or 5 on a scale of 1 to 5, where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2010



Problems persist in the labour market; a balance of just +2 per cent of businesses increased employment over the course of 2009, although this was higher than the global average of -8 per cent. A balance of +25 per cent of businesses expect to increase employment across 2010 but, whilst this is above the global average (+20 per cent), it is below the emerging markets average (+39 per cent). Further, the lack of availability of a skilled workforce is cited as the greatest constraint by businesses in South Africa (34 per cent), above the emerging markets average (25 per cent).

To obtain more information about the economy and the IBR 2010 results for South Africa, please download the IBR 2010 South Africa focus, available at: <http://www.internationalbusinessreport.com/Reports/2010/Country-reports>

Investing in South Africa

Benefits

1. Stable economy and banking system – this remained robust throughout the downturn.
2. Infrastructure – millions of dollars have been spent in recent years on upgrading roads, airports and ports.
3. Gateway to the rest of Africa – many companies from India and China have set up their African operations in South Africa.

Investment tips

1. Do background research – investing in South Africa is not the same as investing elsewhere, and high quality advisors need to be found to deal with the complex rules and regulations.
2. Consider the structure of the investment – many investors under-capitalise and are looking simply for short-term gains.



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“Many foreign investors have good general management teams but lack quality local management teams. Despite the South African skills shortage, the right people are available if investors look hard enough. And it is important that they do.”

Vietnam

Vietnam sits 16th in the 2010 emerging markets opportunity index. Its economy has become increasingly open in recent years – reinforced by accession to the World Trade Organisation in 2007 – and increasingly diversified, although agriculture still accounts for more than one-fifth of total output. Between 1990 and 2000, inward FDI flows averaged US\$1.3 billion; by 2008 these had risen to US\$8.1 billion (UNCTAD, 2009).

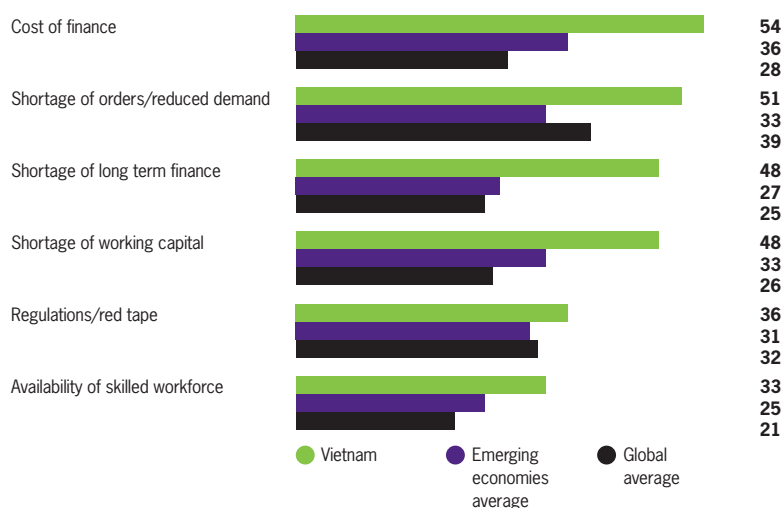
IBR survey results

Businesses in Vietnam are the fourth most optimistic as regards the outlook for their country's economy; a balance of +72 per cent indicate optimism compared with emerging markets and global averages of +57 per cent and +24 per cent respectively. Optimism is well up from +31 per cent last year, but behind the +87 per cent observed in 2008.

Businesses in Vietnam are the most optimistic in IBR 2010 as regards revenue prospects for the next 12 months; a balance of +95 per cent expect to increase the revenue of their operations, compared to an emerging markets average of +59 per cent, and a global average of +40 per cent. Optimism regarding profitability (+91 per cent) and employment (+60 per cent) are also the highest in this year's survey.

Figure 19: Constraints on expansion

Percentage of businesses answering 4 or 5 on a scale of 1 to 5, where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2010



Financial constraints are the greatest concern to businesses in Vietnam in terms of their ability to expand their operation. In fact, the cost of finance (54 per cent) and shortages of working capital (48 per cent) are of more concern to businesses in Vietnam than anywhere else in the world. By means of comparison, financial concerns are cited as major constraints by around 20 per cent more businesses in Vietnam than the emerging markets average. Poignantly, businesses in Vietnam rate their lenders as the fifth least supportive in the world: just 49 per cent class lenders as supportive of their business.

To obtain more information about the economy and the IBR 2010 results for Vietnam, please download the IBR 2010 Vietnam focus, available at: <http://www.internationalbusinessreport.com/Reports/2010/Country-reports>

Investing in Vietnam

Benefits

1. The workforce – there is a good supply of semi-skilled, low cost workers, whilst literacy, at approximately 96 per cent, is high.
2. Pro-FDI environment – the government has taken steps to make Vietnam attractive to the right investors, and by attempting to streamline bureaucracy.
3. Political stability – the political stability is higher in Vietnam than in many of its neighbours.

Investment tips

1. Do your background checking – investors should make use of local advisers and take time to check the background of potential business partners.
2. Understand the business environment – laws are changing rapidly in Vietnam as it becomes a centre for international business.



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“The government is trying hard to streamline bureaucracy, an example of this is Project 30: reviewing registration procedures and approvals with the overall aim to reduce the amount of regulation and red tape.”

Philippines

The Philippines is the biggest faller in the 2010 Grant Thornton emerging markets opportunity index, dropping from 17th to 25th place. The economy weathered the storm better than most of its neighbours over the course of 2008-2009 due to lower dependence on exports, but a continued reliance on remittances from an estimated five million Filipino workers overseas to fuel consumer demand is a significant risk to long-term economic growth. Between 1990 and 2000, inward FDI flows averaged US\$1.3 billion; by 2007 these had risen to US\$2.9 billion (UNCTAD, 2009).

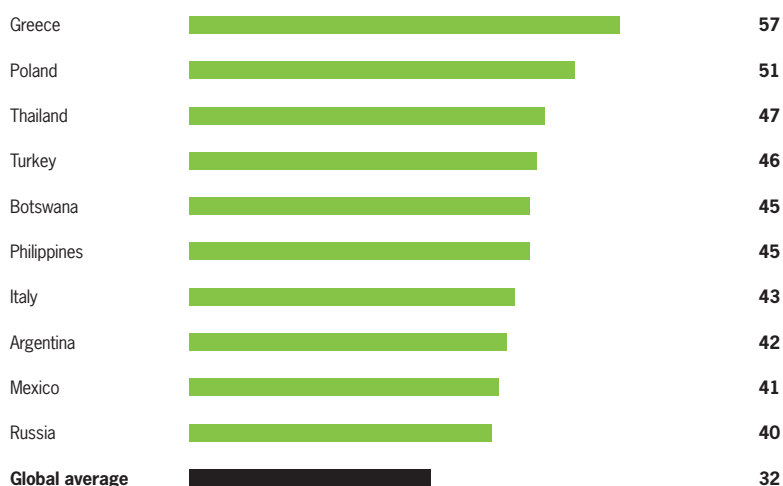
IBR survey results

Optimism in the Philippines remained fairly robust through the economic downturn, with a balance of +63 per cent of businesses indicating optimism for the year ahead in 2009. This year the balance has risen only slightly to +68 per cent (the global average increased by 40 per cent) but the Philippines is still the sixth most optimistic country.

Businesses in the Philippines are particularly optimistic regarding profitability in the next 12 months. A balance of +59 per cent expect their profits to increase over the course of 2010, below only Vietnam (+91 per cent) and India (+65 per cent). As the Philippines seek to further strengthen their economy it is interesting to note that +34 per cent of businesses expect to see exports increase across 2010, behind only Turkey (+47 per cent) and Malaysia (+37 per cent).

Figure 20: Bureaucracy as a constraint on expansion

Percentage of businesses answering 4 or 5 on a scale of 1 to 5, where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2010



The labour market appears to be fairly healthy in the Philippines. A balance of +29 per cent of businesses expanded their workforce in 2009, whilst this year a balance of +40 per cent are expecting to increase employment, and 70 per cent will increase salaries at least in line with inflation (compared to a global average of +51 per cent).

Regulations/red tape is cited as the major factor constraining businesses from growing in the Philippines. 45 per cent of businesses cite this as a major constraint, compared with the emerging markets average of 31 per cent.

To obtain more information about the economy and the IBR 2010 results for the Philippines, please download the IBR 2010 Philippines focus, available at: <http://www.internationalbusinessreport.com/Reports/2010/Country-reports>

Investing in the Philippines

Benefits

1. Strength in outsourcing – businesses in the Philippines are experienced in the business process of outsourcing, particularly with regard to call centres.
2. Utilities – a large and rapidly growing population has meant a lot of investment has poured into the power and communications sectors.
3. Low factor costs – semi-skilled labour is relatively cheap, as are transportation costs due to the Philippines' location close to the major markets of Japan, Singapore and Hong Kong.

Investment tips

1. Do not make assumptions – supportive labour laws and tax incentives are available in the Philippines but there are many conditions which need to be complied with.
2. Be aware of franchising – utilities require a franchise and this must be approved by congress, which is a lengthy and costly process.



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“Many supportive labour laws and tax incentives are available in the Philippines but there are many conditions which need to be complied with. These must be understood by investors to ensure that they successfully enjoy the available benefits.”

Appendix

Grant Thornton IBR

emerging markets index 2010

Values 2008								
Rank	Country	GDP (PPP) \$ billion	Population millions	GDP/head \$	Imports* \$ billion	Exports* \$ billion	Growth % Ave 2010-16	HDI
	Weight (%)	20	10	15	10	10	20	15
1	China	7,903	1,326	5,962	1,290	1,575	8	0.77
2	India	3,388	1,140	2,972	377	280	8	0.61
3	Russia	2,288	142	16,139	366	522	4	0.82
4	Mexico	1,542	106	14,495	348	310	3	0.85
5	Brazil	1,977	192	10,296	227	227	4	0.81
6	Turkey	1,029	74	13,920	218	167	5	0.81
7	Poland	672	38	17,625	234	203	4	0.88
8	Malaysia	384	27	14,215	186	229	6	0.83
9	Indonesia	907	228	3,975	143	144	5	0.73
10	Thailand	519	67	7,703	225	211	5	0.78
11	Argentina	572	40	14,333	70	82	4	0.87
12	Hungary	194	10	19,329	126	128	3	0.88
13	Iran	839	72	11,666	69	120	3	0.78
14	Chile	242	17	14,465	73	77	5	0.88
15	South Africa	492	49	10,109	116	93	4	0.68
16	Vietnam	240	86	2,785	89	69	7	0.73
17	Colombia	396	45	8,885	47	42	5	0.81
18	Egypt	442	82	5,416	64	49	5	0.70
19	Ukraine	336	46	7,271	101	84	4	0.80
20	Peru	245	29	8,507	35	35	6	0.81
21	Venezuela	358	28	12,804	57	95	2	0.84
22	Romania	303	52	5,874	94	62	4	0.84
23	Pakistan	439	166	2,644	51	23	5	0.57
24	Algeria	276	34	8,033	47	82	4	0.75
25	Philippines	317	90	3,510	69	59	4	0.75
26	Nigeria	315	151	2,082	56	87	5	0.51
27	Bangladesh	214	160	1,334	28	16	6	0.54
	Mean	994	167	9124	178	188	5	0.8

*goods and services

Sources: World Development Indicators, World Bank; World Trade Organisation; Experian; HDI United Nations Human Development Report

Countries included

The World Bank classifies countries into four income bands. The advanced economies and rich countries (eg those with large oil-related incomes), are in the 'high-income economies' group. These 60 countries are excluded from the model.

Having excluded the above, we then focused on the 27 largest economies ranked by PPP GDP in the World Bank's World Development Indicators database as at 15 September 2009.

Variables in the model

A country provides opportunities for trade and investment in proportion to its size, wealth and growth prospects. Risks (such as political instability, corruption, civil disturbance) are not included in this model.

- Size is measured by
 - PPP GDP¹ (weight 20 per cent)
 - population² (weight 10 per cent)
 - value of trade (both imports and exports)³ (weight 10 per cent each)
- Wealth is measured by
 - PPP GDP per head (weight 15 per cent)
 - HDI⁴ (weight 15 per cent)
- Growth prospects are measured by
 - forecast of annual average GDP growth 2010-16⁵ (weight 20 per cent)

Summary of weights

- Size
 - GDP 20 per cent
 - Population 10 per cent
 - Imports 10 per cent
 - Exports 10 per cent
 - Total 50 per cent
- Wealth
 - GDP/head 15 per cent
 - HDI 15 per cent
 - Total 30 per cent
- Growth prospects
 - Total 20 per cent

Index

GDP (PPP) \$ billion	Population millions	GDP/head \$	Imports* \$ billion	Exports* \$ billion	Growth % Ave 2010-16	HDI	Change in position (vs 2008)	Score 2010	Score 2008
20	10	15	10	10	20	15			
795	796	65	725	838	171	101	►	454	496
341	684	33	212	149	161	80	►	222	234
230	85	177	206	278	86	107	►	163	142
155	64	159	195	165	73	112	►	129	125
199	115	113	127	121	79	106	►	125	113
104	44	153	123	89	107	105	▲	106	89
68	23	193	132	108	79	115	▼	102	95
39	16	156	104	122	118	108	▲	95	91
91	137	44	80	77	116	96	▼	92	92
52	40	84	126	112	103	102	▼	87	92
58	24	157	39	44	90	113	▲	81	84
20	6	212	71	68	64	115	▼	80	84
84	43	128	39	64	64	102	▲	79	76
24	10	159	41	41	96	115	▲	74	72
50	29	111	65	49	86	89	▼	71	79
24	52	31	50	37	150	95	▲	68	68
40	27	97	26	22	107	106	▲	67	63
44	49	59	36	26	111	92	▲	65	59
34	28	80	57	45	86	104	▼	64	69
25	17	93	20	19	118	105	▲	64	57
36	17	140	32	51	43	110	▼	63	64
30	31	64	53	33	92	110	▼	62	63
44	100	29	29	12	107	75	▼	60	63
28	21	88	26	44	86	99	►	60	58
32	54	38	39	32	86	98	▼	56	69
32	91	23	31	46	96	67	▲	56	47
21	96	15	15	9	124	71	▼	54	55

Calculating the indexes

Each of the seven variables in the model was averaged and an index calculated using this average (mean) as 100.

Calculating the composite score

For each country, each of the seven indexes derived as shown above is multiplied by the weight allocated to that variable. The sum of the seven calculations is the composite score for that country.

- 1 Purchasing power parity (PPP) translates national currency GDP into dollars taking into account differences in the relative prices of goods and services. It provides a better measure of the comparative value of real output than conversion using market exchange rates.
- 2 Sourced from the World Bank's World Development Indicators database as at September 2009.
- 3 Sourced from the World Trade Organisation International Trade Statistics 2008.
- 4 HDI is a composite index (Human Development Index) calculated by the United Nations (UN), measuring life expectancy and health, knowledge and a decent standard of living. Sourced from the UN Human Development Report 2008/09 (figures from 2007).
- 5 Experian forecasts.

Further information

IBR methodology

Grant Thornton IBR 2010 surveyed a sample of over 7,400 chief executive officers, managing directors, chairmen or other senior executives in medium to large privately held businesses (PHBs) across 36 economies. This unique survey draws upon 18 years of trend data for most European participants and seven years for many non-European economies. The sample was randomly selected by number of employees or revenue of the businesses.

A minimum sample size of 100 per country was surveyed in order to guarantee statistical reliability, although this number was higher in larger economies. The global sample includes businesses from all industry sectors with robust global data available for ten industry sectors: construction and real estate, technology, retail, financial services,

healthcare, manufacturing, cleantech, food and beverage, transport and hospitality.

Data was collected using 15-minute telephone interviews in most countries, and face to face interviews or postal questionnaires where cultural differences required a different approach. Fieldwork was conducted locally from October to November 2009.

The survey was commissioned by Grant Thornton International and conducted by an independent market research agency, Experian Business Strategies.

Further details about the IBR methodology are available at:
www.internationalbusinessreport.com/Results

About Grant Thornton

Grant Thornton International Ltd (Grant Thornton International) is one of the world's leading organisations of independently owned and managed accounting and consulting firms. These firms provide assurance, tax and specialist business advice to privately held businesses and public interest entities. Clients of member and correspondent firms can access the knowledge and experience of more than 2,600 partners in over 100 countries and consistently receive a distinctive, high quality service wherever they choose to do business.

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This list represents the countries and territories where Grant Thornton International member and correspondent* firms currently have operations. March 2010.

Economies who participated in IBR 2010 are shown in **bold**.

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*for a detailed explanation of the differences between correspondent and member firms please visit www.gti.org

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