

WCD Board Strategy Briefing: Issue 1

Where Economic Growth Will
Come From in the Americas



In November 2013, **WomenCorporateDirectors** hosted its second annual Americas Institute, bringing together more than 125 directors, board chairs, and political and industry experts from around the world. This invitation-only forum, sponsored by KPMG LLP, explored business in the Americas in terms of its challenges, opportunities, and most promising areas of growth.

For a panel discussion on, “Where Growth Will Come From in the Americas,” KPMG Vice Chair, Market Development, **Robert Arning** brought together **Kathleen Barclay**, President of the AmCham Chile and Director of Bicecorp, Banco Bice, Geomar S.A., Austral Capital, and Alimentos Nutrabien; **Jodi Bond**, Vice President of the Americas for the International Division, U.S. Chamber of Commerce; **Ambassador Rose Likins**, former U.S. Ambassador to Peru and to El Salvador; and **Shannon O’Neil**, Senior Fellow for Latin American Studies at the Council on Foreign Relations.

The group tackled emerging developments occurring particularly in South America, and how shifting economic, cultural, and political realities are opening doors for companies both in the supply chain and in consumer markets. In this **WCD Board Strategy Briefing**, we highlight the big ideas coming out of the discussion—and to where boards should turn their attention in 2014.



1 Entering Brazil: The Rules of Engagement

The \$3 trillion economy of Brazil makes it a must-engage market and the number 1 investment target for many companies. The country's natural resources have long given it dominance in commodity exports, but Brazil's enormous consumer class is an additional lever for business growth for overseas companies.

However, there are some "absolutes for engagement" that companies must adopt when seeking to do business in Brazil:

- 1. Understanding the paths to influence.** The means of engagement in Brazil is through associations—this is how companies gain access and influence. Unlike the U.S. chambers of commerce, which are voluntary, associations in Brazil are mandatory, and play a vital role in serving as the voice for a company and an industry. One panelist described a typical impediment, "Most American companies think that bringing their CEO down for a meeting with Brazil's president is an easy path to winning new business, but then when the CEO can't get in to see President Rousseff, the Americans wonder why. It has to do with building relationships in a way that is culturally accepted in this part of the world."
- 2. Adapting to localization policies.** Forced localization in the form of "local content requirements" (LCRs) was implemented in Brazil to ward off competitive threats, primarily from China. But in addition to these state-mandated trade barriers are the *cultural* localization expectations in the market. A key requirement for foreign companies doing business in Brazil is to hire Brazilians—locals who really understand the culture, context and the way things work.
- 3. Political awareness.** The realities of the Brazilian economy—which, too, has suffered a downturn since the global financial crisis began—have revealed the inconsistency of Brazil's economic progress. The business community has had to operate amid huge pockets of dissatisfaction in Brazil's growing "Classe C" or middle class. Many of the political elite were blindsided by the 2013 riots across the country. These riots were in protest of a number of issues, including inadequate provision of social services.

2 Will the Next iPad™ be Made in Mexico?

Mexico, in many ways is China's competitor. While the business strategies of many other Latin American countries complement those of China, Mexico's strategies compete with China's due to their manufacturing efforts. Mexico has made a transition that Brazil and other countries have really yet to make: moving from a somewhat closed and commodity-driven economy to one that's incredibly open and dominated by manufactured goods. In fact, three out of every four dollars that Mexico sends out in exports are manufactured goods.

For the first decade of the 21st century, competing with China was a bad bet. Looking forward, it may not be as risky of a strategy as initially thought, particularly if North America becomes a much stronger and increasingly integrated and dynamic economic space with free trade agreements.

A major competitive advantage that Mexico has over its Latin American neighbors is its geography. Because of its proximity to the U.S., as well as NAFTA, Mexico is a key player in the North American market. While the U.S. thinks of China as its biggest trading partner, the U.S. actually sends approximately \$200 billion worth of goods to Mexico, which is \$100 billion more than what we deliver to China.

It's not just about sending finished goods back and forth, but also pieces and parts; production happens on both sides of the U.S./Mexico border. On average, for every product in the U.S. that is "Made in Mexico," 40 percent of the value added is made in the United States. Mexico is far and above the closest partner, not just for U.S. companies, but for U.S. workers.

The last few years have also seen a net zero flow from Mexico into the United States in terms of people—a similar number coming in as going out. The current immigration debates in the U.S. are based on old statistics; the high levels of movement into the U.S. were from ten years ago and have tapered off since. The reasons are several-fold: the U.S. economy, for example, has been relatively weak, while the Mexican economy has fared better. Another key factor is that demographics have changed in Mexico. In the 1970s the average family had seven children, whereas today the average is two children. The children are also staying in school twice as long as they were 20 years ago. The average 15-year-old in Mexico is more likely to be thinking about the test they have on Friday rather than whether it is time to migrate to the United States to find a job.

Recent political and economic reforms in Mexico, including the potential for relaxing the state oil monopoly, provide encouraging signals for Mexico's ongoing stability and increasing competitiveness, thereby signaling potential for increased business opportunity in the country.

3 Alliances Transforming Regional Competitiveness

Economic and commercial integration is an idea that will propel the region further. When there are such giant markets as Brazil and Mexico at play, companies often overlook the rest of the region, but trade blocs are creating pockets of enormous influence.

A number of countries have formed regional alliances to put them in a stronger competitive position globally. The Pacific Alliance member states include Chile, Colombia, Costa Rica, Mexico, and Peru. The four founding members of the Pacific Alliance combined (Costa Rica joined in 2013, two years after the group formed) would be the ninth largest economy in the world and represents 36 percent of Latin America's GNP. The countries of the Pacific Alliance are discussing a common stock exchange and common customs for member states.

Reaching across regions, the Trans-Pacific Partnership—which has been controversial in a number of its provisions including around intellectual property rights—includes member states from Asia, South America, and North America, including the U.S. When final, the Trans-Pacific Partnership will encompass 40 percent of trade on earth. These developments create enormously strong pull for investors and companies who are seeking this kind of weight in the region.

This type of economic integration is enticing not only to the investors in these groups but especially to those countries which have enhanced their ability to move goods and services across borders. This economic growth is driving achievement around the nations' social objectives for their middle class. And as businesses in these countries accumulate wealth, their domestic market may become too small for them. Chile is just one example of a country whose companies are significantly expanding regionally. The expansion of the middle class in countries across the region and the increasing cross-border nature of businesses there offer great opportunities for consumer products, education projects, and the financial markets.

4 The Right Partner, Right Relationships, and Right Messages

The companies that run into serious problems when going into a new market often made a mistake at the very beginning. Working with the wrong partner or cutting corners on legal advice can lead to serious issues; choosing the right professional advisors may be the most important decision a company can make.

Entering a new country is the same as moving into a new neighborhood: it's important to consider how to develop relationships over time. As companies plan their investment in a market, the investment needs to take into account time as well as money: getting to know the community, and letting them get to know the company in the right way. Investing in the best possible firm will pay off many times throughout the life of an engagement.

Whether one is investing in a manufacturing facility, a mine or an energy project, entry requires carefully "telling ones story." Local opponents may start to tell their own story about the "outsider company" coming in to "take all our water" or "pollute our environment." Early engagement is important through in-person interactions and robust social media. It's not about sending out pro-forma corporate press releases, but about authentic dialogue with the local stakeholders.

One underutilized resource for U.S. companies is the American embassy and its commercial affairs staff. These governmental partners bring the kind of network that companies can leverage to learn about everything from local laws and business practices to the "unofficial" ways of engaging local centers of influence.



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As global companies are shifting their expectations about Central and South America beyond oil and other natural resources, there are multiple opportunities to unlock value in these markets. Women are a great under-tapped asset in the region, and the growing political gains are underlining the power women are wielding in the workforce and as consumers. If Mexico increased the number of women in the workforce by five percent, Mexico's GDP would increase by 15 percent annually—which is equivalent to opening up the whole energy sector. Substandard infrastructure and connectivity issues still challenge the region, but these are also areas of opportunities for companies that choose to invest in and commit to these markets.

While opportunities abound, it is critical for companies to be aware of the playing field before entering the Latin American market. Circumstances effecting business success in Latin America include political strife, economic dissatisfaction, and the "rules" of business engagement. Boards that understand and adapt to these realities can open many doors for their companies in the region and create new revenue streams in markets truly hungry for investment.

For helpful guides and the latest trends on doing business in emerging markets, please visit KPMG's High Growth Markets portal, located at <http://www.kpmg.com/US/en/industry/High-Growth-Markets>

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During the WCD Americas Institute, these additional panels and speakers were featured.

• “Directors as News Sources”

- **Diane Brady (Moderator)**, Senior Editor/Content Chief, Bloomberg Businessweek
- **Kathy Bronstein**, Director, The Wet Seal, Inc.
- **Suzanne Gouin**, President and CEO, TV5 Quebec Canada; Director, Hydro-Quebec
- **Michelle Jordan**, Executive Advisor, Corporate Reputation Management Advisor
- **Ana Paula Pessoa**, Partner, Brunswick Group; Director, News Corporation
- **The Honorable Deborah Wince-Smith**, President and CEO, Council on Competitiveness; Former Director, NASDAQ OMX

• “Building Global Companies and Brands”

- **Rossana Fuentes-Berain (Moderator)**, Editorial Vice President, Expansion Group
- **Shelley Broader**, President and CEO, Walmart Canada Corp.; Director, Walmart de Mexico (Walmex), Raymond James Financial, Inc., The Retail Council of Canada, and Catalyst Canada
- **Martha Brooks**, Director, Bombardier Inc., Harley-Davidson, Inc., and Jabil Circuit Inc.
- **Adele Gulfo**, Regional President of Latin America, Emerging Markets Business Unit, Pfizer, Inc.; Former President of U.S. Primary Care Business, Pfizer, Inc.
- **Marianne Loner**, Director, Sura Asset Management

• “Compensation: What Boards Are and Should Be Talking About”

- **“A Conversation with Marty Evans,”** Rear Admiral, US Navy (Retired); Former President and CEO, American Red Cross; former National Executive Director, Girl Scouts of the United States of America; Director, Office Depot Inc., Weight Watchers, International Inc., and North Highland Co.; Former Director, Huntsman Corp., Lehman Brothers Holdings, Inc., May Department Stores Co., and AutoZone, Inc.

• “Boards and Blind Spots”

- **Michele Heid (Moderator)**, Partner, Heidrick & Struggles
- **Jan Babiak**, Director, Walgreens, Bank of Montreal, and Royal Mail Group
- **Betty DeVita**, President, Mastercard Canada
- **Sonia Maria Green**, Director, International Speedway Corp.

- **“A Conversation with Barbara Kux,”** former Member, Managing Board, Siemens; Director, Total S.A., Firmenich S.A., and Henkel AG

• “What Directors Need to Know about Connecting with Shareholders, Pension Funds, NGOs, Hedge Funds, and More”

- **Suzanne Hopgood (Moderator)**, President, The Hopgood Group, LLC; former Director of nine boards and former chairman of two
- **Ambassador Frances Cook**, former Non-Executive Chairman, LONRHO; Former U.S. Ambassador to Oman and Cameroon
- **Kim Goodwin**, Director, Banco Popular, Inc., PineBridge Investments, LLC, and Trustee, Allianz Global Investors Mutual Funds
- **Ambassador Donna Hrinak**, Vice President, Boeing International; President, Boeing Brazil; Former U.S. Ambassador to Brazil, Venezuela, Bolivia, and the Dominican Republic

Upcoming WCD Institutes include:

European Institute: March 5–6, 2014, in London

Global Institute: May 13–15, 2014, in New York City

Asia Institute: September 3–4, 2014, in Singapore

Americas Institute: November 11–12, 2014, in Miami

About WomenCorporateDirectors (WCD)

WomenCorporateDirectors is the only global membership organization and community of women corporate directors, comprised of more than 2,500 members serving on over 3,500 boards in 60 chapters around the world, with many more slated in the next two quarters. The aggregate market capitalization of public companies on whose boards WCD members serve is \$8 trillion – if WCD were a country, its economy would be the world's third largest, behind only the U.S. and China. In addition, WCD members serve on numerous boards of large private companies globally.

WCD membership provides a unique platform for learning from the intellectual capital of accomplished women from around the world, and WCD's mission is to increase courage, candor, inclusion, and cohesion in the boardroom. In 2012, WCD launched the Global Nominating Commission, a high-level task force of select corporate board nominating committee chairs and members from around the world, as well as CEOs, focused on proactively building diverse boards and candidate slates. KPMG is a Global Partner of WCD. Spencer Stuart is a Premier Partner, and WCD Strategic Partners include Marriott International and Pearl Meyer & Partners; WCD Alliance Partners include International Finance Corporation (IFC), JPMorgan Chase, and Northern Trust.

WCD has 60 global chapters, located in Arizona, Atlanta, Beijing, Boston, Charlotte, Chicago, Chile, Cleveland, Colombia, Columbus, Dallas/Fort Worth, Delhi, Denmark, Finland, France, Germany, Gulf Cooperation Council, Hanoi, Ho Chi Minh City, Hong Kong, Houston, Iceland, Indonesia, Israel, Japan, Kansas City, London, Los Angeles/Orange County, Malaysia, Melbourne, Mexico, Milan, Minnesota, Morocco, Mumbai, Netherlands, New York, New Zealand, Nigeria, Northern California, Peru, Philadelphia, Philippines, Quebec, Rome, San Diego, Sao Paulo, Seattle, Shanghai, Singapore, South Africa, South Florida, Switzerland, Sydney, Tennessee, Toronto, Turkey, Washington, D.C., and Western Canada. Upcoming chapters include Denver, North Florida/Southern Georgia, Panama, Puerto Rico, South Korea, and Thailand. For more information, visit www.womencorporatedirectors.com.

About KPMG LLP

KPMG LLP, the audit, tax and advisory firm (www.kpmg.com/us), is the U.S. member firm of KPMG International Cooperative ("KPMG International"). KPMG International's member firms have 155,000 professionals, including more than 8,600 partners, in 155 countries.

About KPMG's High Growth Markets

KPMG's High Growth Markets (HGM) practice helps companies navigate the complex challenges and risks of cross-border investments to, and from, high growth emerging markets. HGM provides audit, tax and advisory services to U.S.-based companies in their pursuit of outbound investment opportunities in high growth markets such as China, India, Korea, Brazil, Russia, Mexico, ASEAN, Africa and beyond, and high growth market-based companies with inbound investment interest in the United States.







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