Grow global:
building business in BRIC nations

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Assessing the opportunities and threats offered by the world's four leading emerging economies

The BRIC countries are a vast opportunity for UK business. Brazil, Russia, India and China are enormous markets that are rich in resources, but they pose significant and specific risks. Understanding those risks is key to unlocking their potential and tapping into the growth of their markets.

This report reveals those risks and opportunities. At a roundtable event, our experts in each BRIC nation answered real questions from UK businesses interested in dealing with these countries, and businesses planning to expand to BRICs in the future. The result is an insightful background into working with the BRIC countries today. Real-world expertise and insights will give you the best chance to succeed in these nations.

BRIC economies today

Our report will give you a solid overview of conditions in the BRIC economies today. While the surging growth of the 2000s has slowed in the BRICs, they still offer many businesses an opportunity when compared to the sluggish home markets. Even though labour costs are rising in some, and fiscal policies in others might reduce their competitiveness, there are still compelling reasons like language, culture, and a will to work with UK businesses that rebalance the BRIC offering.

Key issues facing UK businesses when expanding into the BRIC nations

After outlining the hard data and overall trends, we consider the real issues that affect businesses in BRIC countries. Areas of analysis include geography, infrastructure, language and business practices. We consulted our experts on each country, and brought in the comprehensive view from Nick Earlam, founder and chairman of Plexus Cotton. Having worked across the BRICs over a period of decades, Earlam is well positioned to reveal operational insights on the key topics.

Expert insights into BRIC expansion

Our regional experts give solutions to the problems that are worrying today's BRIC players – and the businesses that plan to reach out to BRICs tomorrow.

The BRICs in brief

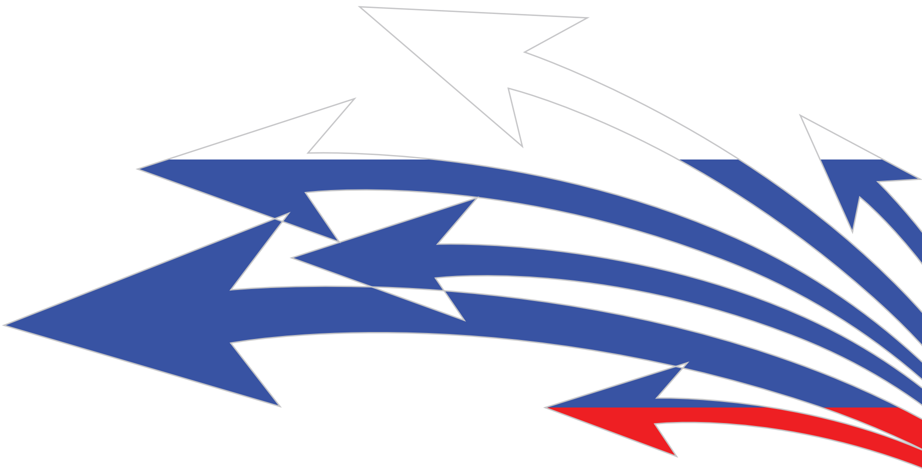
We highlight the key findings of this report; socio-economic, geographical and environmental characteristics that UK businesses should take into account when expanding into the BRIC nations.

Russia

- As the centre of the former Soviet Union, Russia still holds a very significant role among the Commonwealth of Independent States (CIS) surrounding it, with Russian spoken across the Caucasus and Central Asia
- Despite Russia's abundant resources, there has been a historic concern in the UK that it is a difficult place to do business. With the Eurozone stalled, Russia's ongoing economic growth and large consumer base should encourage UK businesses to reassess their risk and reward opportunities
- Russia has declared its appetite for new foreign investors to help to develop high-tech businesses, modernise the economy and create an international financial centre in Moscow, presenting real opportunities for UK businesses
- Natural resources continue to be a prime theme in the economy. Infrastructure replacement and retrofitting may be a gold mine for British engineering firms, financial and legal advisers who are experienced in project finance
- Russia is the key regional hub in Eastern Europe, pushing for its CIS neighbours to trade more and become more user-friendly, including the use of the Customs Union with Belarus and Kazakhstan. Wider access to the CIS can be launched from any of these three countries

Brazil

- A geographical asset is time zoning – for half of the year Brazil is in the closest time zone to GMT. Flight time to Rio is the same from the UK as it is from New York
- With a population of 192 million from incredibly diverse backgrounds of race, culture and class, the thing that unifies Brazilian culture is an effusive confidence, something that carries into their business culture
- There is concern that Brazil is already an expensive country and manufacturing is not competitive; however, manufacturing is still crucial as Brazil develops. High operational costs are countered by the ease of working there and the willingness of Brazil to open up to investment
- After suffering from hyperinflation in the 1970s and 1980s, Brazil now has a very sophisticated banking system with higher liquidity



India

- The linguistic legacy has been paramount for India in competing with other developing economies. English is rooted deep in India's working culture, along with many British business practices and shared legal heritage
- One major investment advantage of India over China is its governance, legal system and a stock market that is aligned with that of the United Kingdom. Indian capital and equities markets are also far more mature than China and its other BRIC counterparts
- India is rich in resources, but although a major producer of minerals and potentially of fossil fuels, it faces many challenges in its exploitation of this wealth
- Indian companies tend to be much more hierarchical in structure and culture than UK companies, with great importance placed on the position you hold
- One of the sectors where India enjoys an upper hand over China is the IT/BPO industry. India's earnings from the BPO sector alone in 2010 were USD 49.7 billion

China

- There has been significant government investment in infrastructure, including transport, telecommunications and utilities
- As the economy of China shifts from an agrarian to industrial base, natural resources are key, and the subject of much protective feeling among the Chinese
- Although Hong Kong is not the automatic choice it was a few years ago, it is still a good location for setting up offices, tax-efficient, and a very easy place to do business, with excellent transport links
- As China looks to move up the value chain to a more consumption-driven economy, it is becoming ever more interested in consumer brands and in the service sector. This brings fantastic opportunities for UK businesses
- Finding the right partners who you can trust to help you find your way into the market is an important first step. Real knowledge of China and good local connections are crucial

BRIC economies today

A snapshot of the current economic outlook in each nation and the challenges identified by Grant Thornton UK LLP

Brazil

Incentives to expand:

- GDP growth 2011: 2.7%
- Mid-year population 2011: 191.1 million
- Brazil overtook the UK in 2011 to become the world's sixth largest economy
- High interest rates offer the chance of boosting growth through policy, and Brazil's large and expanding population, vast natural resources and strong local industry all point to a rebound to pre-crisis growth levels

Watch out for:

- Growth has been lower than in comparable markets, which the Brazilian government is working to correct
- A very complicated tax system that is said to take several times as much work as the OECD average. Careful advice is required

Although growth has slowed, the growth BRICs have is sustainable. While legal and infrastructure questions can be an issue, the markets are showing true resilience to the global downturn. The HSBC Emerging Markets Index, published in April 2012, notes that urbanisation and access to global capital is still driving growth, while Group Chief Economist Stephen King points out that emerging nations "still have plenty of available ammunition including rate cuts, reserve ratio cuts and, if necessary, fiscal stimulus."

Sources

GDP Growth 2011
Source: FT.com

Mid-Year Population 2011; Value of Imports and Exports of Goods and Commercial Services; Inflows of FDI
Source: BRICS Joint Statistical Publication 2011

Russia

Incentives to expand:

- GDP growth 2011: 4.3%
- Mid-year population 2011: 142 million
- Government figures estimate GDP growth of 3.6-4% in 2012, compared with 4.3% in 2011. GDP per person rose from USD 7,500 in 2000 to USD 16,500 in 2011
- Those classified as middle class rose from some 15% of the population in 2000 to 25% in 2011 – 40% of the total workforce

Watch out for:

- High oil prices lend stability despite a slowdown in industrial output, but reliance on high prices for its resources leaves the economy open to volatility in the short-term
- Ratification of Russia's membership of the World Trade Organisation in August 2012 further opens the market but denies the State budget certain import tariffs

India

Incentives to expand:

- GDP growth March 2012: 6.5%
- Mid-year population 2011: 1.22 billion
- The growth rate of 6.5% this year is lower than the previous official predictions of 8% but still impressive
- Inflation continues to be high

Watch out for:

- Recent legislative and legal decisions appear to be edging India towards a more protectionist position. A plan recently announced that the Government might retrospectively demand tax from international firms such as Vodafone, while a confusing ban on cotton exports was met with shock by operators
- In March 2012, India's patent office ordered German pharma company Bayer to license a cheaper version of its anti-cancer drug Nexavar, inspiring concerns over IP issues

China

Incentives to expand:

- GDP growth 2011: 8.9%
- Mid-year population 2011: 1.33 billion
- China is the largest manufacturing nation in the world, after their output exceeded American rates for the first time in 2010
- While 2010's growth rate of 10.3% looks unlikely to be repeated this year, Prime Minister Wen Jiabao set out a 2012 target of 7.5%, well below the 8.9% recorded for 2011 but still high in the current climate

Watch out for:

- Wages have risen by 10% last year according to a Standard Chartered survey of 200 Hong Kong-based manufacturers
- China will become as expensive as manufacturing in the USA as early as 2015, according to The Economist

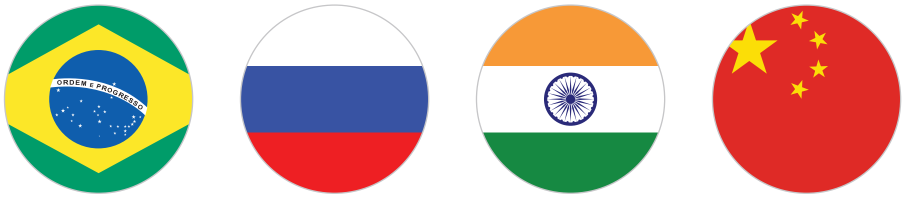
Key issues facing UK businesses when expanding into the BRIC nations

Dealing with BRIC countries requires very specific insights in terms of geography, culture, business practices and resources, and understanding each in turn is essential to build up a successful strategy for growth.

Changing to fit the BRIC challenges

Part of that learning process is about how to change as a business to suit these challenges. "The economic outlook is blurring in a world where, until recently, mature economies looked to emerging markets to tap into dizzying growth patterns as a matter of course, becoming swollen and complex businesses as a result", says Robert Fuller, UK International Business Centre Director at Grant Thornton UK LLP.

"Size and strength are no longer advantages. Speed and agility are what you now need to make rapid decisions," he says. "The Arab Spring, IMF leadership change, the deaths of Bin Laden and Steve Jobs, even the royal wedding has affected supply chains and increased volatility. But even in this more challenging environment, there is more cross-border business going on."



Geography and infrastructure

UK investment into China has traditionally been in the heavily urbanised eastern coastal region. However, as China looks to increase urbanisation and reduce the disparity of wealth between rural and urban areas, there has been significant government investment in infrastructure, including transport, telecommunications and utilities. The rate of high-speed rail building alone is impressively fast. This creates potential new opportunities for UK businesses in the less developed western parts of China, where costs are lower, incentives generally better, and Western companies may have a competitive advantage.

"China is investing huge sums in infrastructure – just look at some of the airports being built in second-tier cities, which would put the UK airport network to shame. This is opening up the vast hinterland areas, and giving China a real competitive edge over the other BRIC economies – it is just easier to get around," says Nick Farr, Head of China Britain Services Group at Grant Thornton UK LLP.

In the 1980s both China and India were very poor economies with India leading China in per capita GDP by USD 1 per day. However, China had already started its gradual economic reforms whereas India embarked on its economic liberalisation a decade later in 1991. While both economies have shown similar successful trends in GDP growth rate, the performance gap in the last three decades has been huge. China's GDP (USD 7.23 trillion) is 4.35 times bigger than Indian GDP (USD 1.67 trillion) and has grown at 10% per annum for the last three decades compared to 6% for India.

China has followed the traditional development model, whereas India tried to jump from an agriculture-based economy to a service dependent economy, resulting in low manufacturing and infrastructure growth. Unlike India, China is still investing vast amounts in manpower development and strengthening of infrastructure.

A growth comparison of Chinese and Indian infrastructure is worth making before any business considers their decision, see page overleaf (10).

When comparing BRIC nations, another key geographical asset is time zoning. Surprisingly, while many businesses cite Russia's proximity to the UK as a benefit, for half the year Brazil is in the closest time zone to GMT. Flight time to Rio is the same from the UK as it is from New York, so even though many businesses might initially believe that Brazil is a natural partner for US companies, its location is equally convenient for the British.

As the centre of the former Soviet Union, Russia still holds a very significant role among the Commonwealth of Independent States surrounding it. This is reflected in the fact that Russian is spoken across much of the wider region of the Caucasus and Central Asia. There is new momentum in the Customs Union with neighbours Belarus and Kazakhstan, although Ukraine is seeking a separate trade arrangement directly with the EU. Russia's recent entry into the World Trade Organisation (WTO) is likely to give a new boost to the UK's insurance, banking and telecom industry leaders, which will then enjoy much better market access to Russia.

A comparison of Chinese and Indian infrastructure

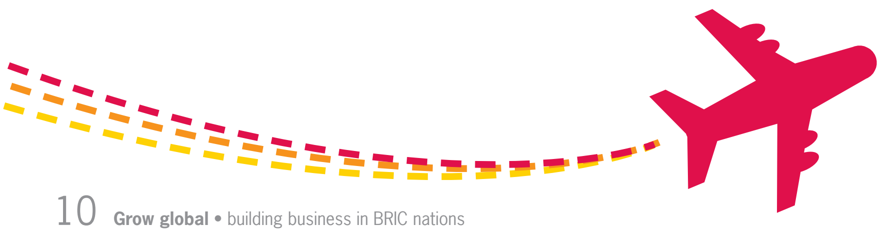
Power
India has a total installed capacity of around 200 GW, as against 1000 GW in China. Though India's installed capacity has increased by 40% in the last four years, India's overstressed power grid is one of the most obvious signs of their lagging infrastructure development. It takes five to six years in India to build a thermal power plant, as against two to three years in China and around four years in other countries. This is attributable to delays in acquiring sites and obtaining approvals, shortage of equipments and EPC bottlenecks. India, however, is the only BRIC country to have Power Trading Exchanges.

China has also shifted its focus to increasing renewable sources in its energy mix. It has led the way by occupying a 43% share of global wind capacity installed in 2011 as against India's 7% share. Global wind power growth looks very strong and is on a continued rise, largely because of China's incredible level of investment.

Roads
The Indian road network stands at 4.32 million km, with density of 0.66 km per square km of land. This is much greater than China, with 0.16 km per square km. In fact, the road network in China still ranks among the sparsest in the world relative to geographic area and population. However, most of the roads in India are congested and narrow with poor surface quality.

Railways
Indian Railways cover a total track of 65,000 km, against 91,000 km in China. As of 2007, India had 225,000 freight wagons, 45,000 passenger coaches and 8,300 locomotives, whereas Chinese Railways owned about 578,000 freight wagons, 44,000 coaches and 18,300 locomotives. India moved 750 million MT of freight while China moved 4.5 times that of India, at 3,300 million MT. Indian railways moved 6.2 billion passengers while China moved 1.4 billion passengers. Despite the Indian lead in passenger numbers, the quality of passenger travel in the Chinese Railway is far superior, and China has express trains with speeds of 300 kmh. The maximum speed of a passenger train in India is about half that of Chinese Railways at 160 kmh.

Civil Aviation
India has 128 airports, including 15 international airports that handled 143.4 million passengers in 2010-11. China has around 500 airports of all types and sizes and passenger throughputs reached 486 million. The trips per capita in India still remain very low (0.04) by the standards of other emerging markets, including China, which is at 0.15. China's domestic traffic is five times the size of traffic in India, despite having a population just 15% larger. This is reflected in the fact that India has one aircraft for every 2.89 million people, miniscule in comparison to 1.14 million in China.



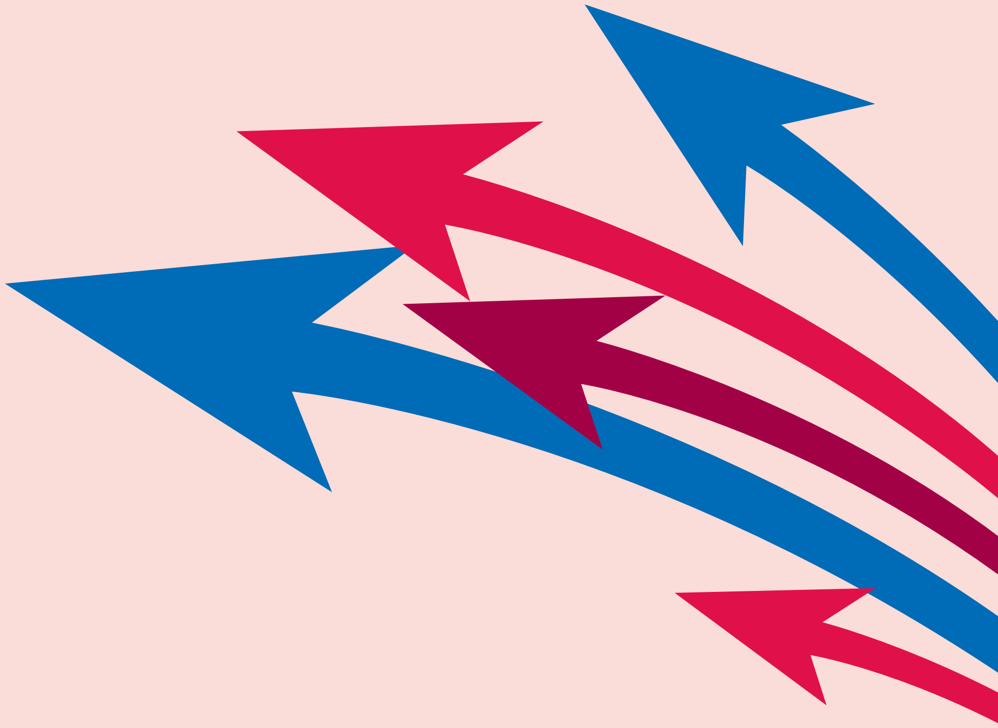
Ports
India has 12 major ports and 200 non-major ports (minor and intermediate ports) spread across nine coastal maritime states. The capacity of major ports has increased to 532.07 million tonnes per annum (MTPA) in 2007-08 (555.67 MTPA by 2008-09 – provisional) and the traffic during the same period touched 519.3 million tones, running at 97.6% of the total capacity.

China on the other hand has become one of the world's most dynamic shipping markets, with ocean shipping handling 95% of the country's foreign trade. Driven by higher exports and import of raw materials.

Telecommunication
China has around 700,000 3G mobile towers in comparison to India which has around 350,000 2G mobile towers as of 2011. India also has the world's second largest mobile phone user base, with over 919 million users as of March 2012. This compares to 1,020 million users in China, now the world's largest mobile phone user base. India has over 121 million internet users whereas China has over 450 million internet users as of December 2011. Indian telecom sector has however become the world's most competitive and in spite of this, India is one of the fastest growing telecom markets with a growth rate of over 26%.

IT/BPO
One of the sectors where India enjoys an upper hand over China is the IT/BPO industry. India's earnings from the BPO sector alone in 2010 were USD 49.7 billion, while China earned USD 35.76 billion. Seven Indian cites are ranked as the world's top ten BPOs, while only one city from China features on the list.

Culture and language



Location is not all that makes Brazil so convenient, "People often think that it's just for the Spanish or Portuguese to carve out markets in Latin America, but they're forgetting that there's already a lot of history between the British and Brazil," says Colin Johnson, Director at Grant Thornton UK LLP. "A Brazilian contact once explained to me that they just like dealing with the British, because we respect contracts.

Such insights reflect a truth about BRIC nations: despite many people thinking these economies are new and modern, they are often ancient and struggling under third-world inefficiencies. The key to good operation is to start slow, find the right people and build trust."

English as a business language

Language is perhaps the biggest factor that can be overlooked when dealing with China. While they are a dizzying cultural mix of Daoism, Confucianism, Buddhism, Marxism and Socialism – with a generous tradition of superstition over things such as numbers and colours thrown in – it is with language that many businesses fall down. "It's not a literal language: your translator doesn't just need to know English, he must be able to convey the exact meaning of your thoughts in Chinese, which is so much more," says Nick Farr.

Contrast this with working in India, where English is the business language. Rooted deep in their working culture, along with many British business practices and a shared legal heritage, it becomes a significant advantage. The linguistic legacy has been paramount for India in competing with other developing economies. However, Chinese authorities are ramping up English teaching in schools across the country, looking to tap into a growing international outsourcing and IT market.

The subtleties of Chinese culture are a far cry from the fun and adventurous spirit of the Brazilians, explains Nick Earlam, founder and chairman of Plexus Cotton: "It's my favourite place to do business in the BRIC countries, but risk-taking is a given there." With a population of 192 million from incredibly diverse backgrounds of race, culture and class, the thing that unifies Brazilian culture is this effusive confidence, something that carries into their business culture too.

"Such insights reflect a truth about BRIC nations: despite many people thinking these economies are new and modern, they are often ancient and struggling under third-world inefficiencies. The key to good operation is to start slow, find the right people and build trust."

Colin Johnson
Director, Grant Thornton UK LLP

Business practices

When dealing with Brazilians, says Earlam, you must have simpatico. Getting cross or confrontational won't work – your partners have to want to work with you. "It requires good relations with everyone, partners and employees. You have to make your interest their interest." It is a marked contrast to his views on Russian practices, however.

Earlam is not enthused by the prospect of working in a culture where he believes nothing is sacrosanct. "Though for some the opportunities outweigh the risks, the problem is that I believe if you are successful in Russia, someone else can come along and take it from you to own themselves."

One major investment advantage of India over China is its governance, legal system and a stock market that is aligned with that of the United Kingdom. While India's well-developed legal system is based on British legal roots, China has legal problems surrounding issues such as the low enforcement of IP protection. This is perhaps illustrated by the competitive strategies in China and India. Domestic Indian firms have been quicker than the Chinese counterparts to internationalise their businesses.

Indian capital and equities markets are also far more mature than China and its other BRIC counterparts. The Chinese capital market lags behind that of India both in terms of predictability and transparency. While the Indian stock market is based on international guidelines, in China it is more dependent on rules and regulations of the government, which is the majority stakeholder in listed State-owned companies.

The importance of transparency

Despite the distance, business in India is comparatively open and transparent, operating much along British lines. Many find they have the same thought processes as us. Their bureaucracy, however, is still a concern, according to Anuj Chande, Head of the South Asia Group at Grant Thornton UK LLP.

In China the risks are real for those who do not appreciate the differences in business practice. "China certainly has a very different business culture to the Anglo-Saxon world, but the differences are not as extreme as some commentators would lead you to believe. The key is to be prepared, and invest the time and effort to understand the market properly" says Nick Farr, Head of China Britain Services Group at Grant Thornton UK LLP. Industry and trading require real knowledge of China and having good local connections are important, both in business and, in some cases, political links. But for businesses that invest properly in China, the opportunities can be huge.

There is, some believe, a deficit of understanding. One important principle to remember is that the short-term profit motive is a significantly lower priority for the Chinese, dwarfed by the importance of status, of a desire to build long-term relationships and a real focus on building a strong balance sheet, be it through acquisition of strong global brands, cutting-edge intellectual property or of natural resources. There has been a real focus in recent years on accessing resources, which western governments ignore at their cost.

"China certainly has a very different business culture to the Anglo-Saxon world, but the differences are not as extreme as some commentators would lead you to believe. The key is to be prepared, and invest the time and effort to understand the market properly."

Nick Farr
Head of China Britain Services Group, Grant Thornton UK LLP

Resources

As the economy of China shifts from an agrarian to industrial base, natural resources are key, and the subject of much protective feeling among the Chinese. One only needs to look at the markets for rare earth metals to understand that the Chinese are playing a long game with their resources, while they simultaneously build strong links with resource-rich developing nations. “The Chinese have this long-term view of resources,” Earlam says. “There is a resource war being fought out there that they really understand – while China is the great new challenge of our time, it is only a challenge that realists can handle, people who can see the world in the way that they can.”

With the discovery of major oil reserves in Brazil, some fear that manufacturing competitiveness will decline. There is concern that Brazil is already an expensive country and manufacturing is not competitive; new oil reserves will add to currency and cost pressures. While the Brazilian government has worked to reduce the Real exchange rate, exporting large goods from Brazil may not be competitive enough, as has already been seen with car exports to Mexico.

Despite Russia’s abundant resources, there has been a historic concern in the UK that it is a difficult place to do business. With the Eurozone stalled, Russia’s ongoing economic growth and large consumer base should encourage UK businesses to reassess their risk and reward opportunities. While the WTO rules should ensure a more transparent and level playing field, Russia has also declared its appetite for new foreign investors to help to develop high-tech businesses, to modernise the economy and create an international financial centre in Moscow, all of which should represent real opportunities for the UK and other countries.

Russia has built up reserves of USD 145 billion in its Reserve and Welfare funds from oil and gas profits. So far, USD 40 billion has been allocated to shore up the economy if the eurozone crisis deepens and oil prices fail to support the State budget – which breaks even at USD 117 a barrel. Even with rebalancing efforts, natural resources will continue to be a prime theme in the economy and there is also significant infrastructure replacement and retrofitting due in Russia and across the region. This may be a gold mine for British engineering firms, financial and legal advisers who are experienced in project finance.

In India, multi-layered regulatory approvals and overlapping jurisdictions of states and central government mean that coal projects can take 8-12 years to commission, compared to 5-6 years in other countries.

There is also a lack of transparency in the allocation of concessions, with priority given to public sector companies, and inadequate mineral concession databases. Lastly, India lacks local risk capital for exploration companies, which already operate in a high risk and capital-intensive business. While the majors tend to focus on exploring late stage development projects, it is these capital-poor junior miners who have traditionally taken up grassroots exploration. India’s mineral wealth is there, and waiting for conditions to improve with investment: once these problems are overcome the gates are open.

Despite Russia’s abundant resources, there has been a historic concern in the UK that it is a difficult place to do business. With the Eurozone stalled, Russia’s ongoing economic growth and large consumer base should encourage UK businesses to reassess their risk and reward opportunities.

Expert insight into the BRIC expansion

We ask our regional experts to answer real questions from businesses aiming to maximise their BRIC strategies

Brazil

Colin Johnson

Colin Johnson has over twenty years' experience of investment in emerging markets, especially in relation to Latin America where he has acted as an investment manager, lender and advisor. He is Chairman of the Brazil and the Latin America Groups for CityUK and Brazil Financial Services Champion for UKTI. He also leads Grant Thornton International's energy sector.

Q How does the banking system make foreign investment more challenging?

A First, you have to understand that there is no country like it in Europe. They have different standards and expectations, and that carries over into the banking system. In fact they have a very sophisticated banking system, and with higher liquidity. After suffering from hyperinflation in the 1970s and 1980s, they have this in place to counter it.

Q Is manufacturing competitiveness declining in Brazil?

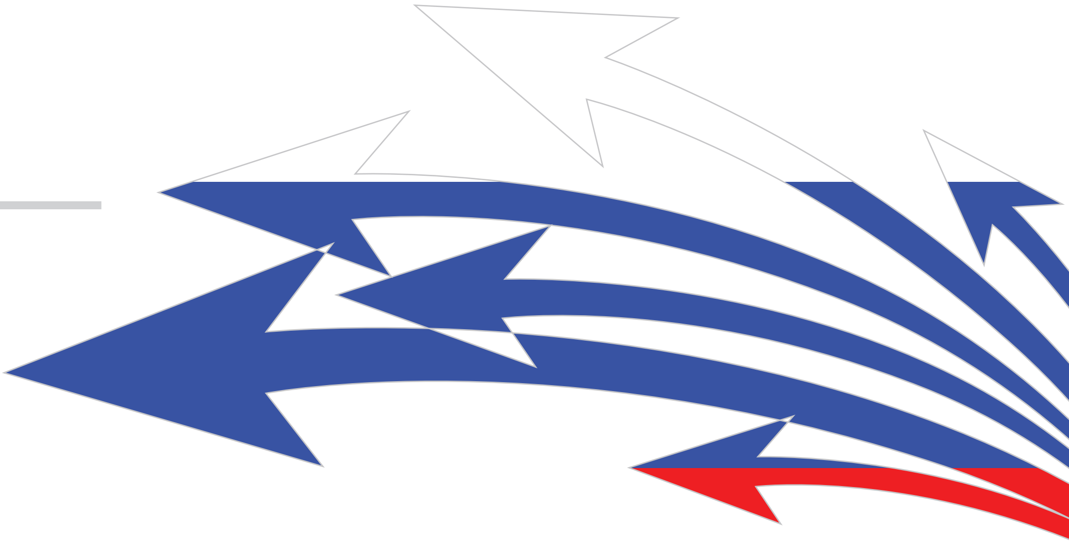
A One thing to remember is that your competitors are already there, from French and Canadians to the Dutch. They've all seen the opportunity. Despite the oil rush that may drive fast changes in the economy, manufacturing is still crucial as Brazil develops. Relatively high operating costs are countered by the ease of working there and the willingness of Brazil to open up to investment.

Q What are the challenges for UK companies working within the Brazilian tax system, and what would be the simplest ways to work around these problems?

A The taxes on imports of both goods and services are substantial. There are some ways around this, at least in part, but care needs to be taken in structuring business. Some companies have, for instance, started working on part-completed imports, but again careful structuring is needed.

Q Brazil is often referred to as being a high cost country to operate within – is this still accurate, and if so what are the benefits that outweigh these costs?

A Brazil is still high cost, but it is a very substantial market in its own right. It is still expected to see significant growth (though not at Chinese rates) and is also a substantial part of the Mercosur and Latin American marketplaces. So although it is high cost, it is often still cheaper than seeking to import items especially after taxation is taken into account.



Russia

Nigel Davies

Nigel works within Grant Thornton International to assist with cross border corporate and project finance opportunities for clients across the 27 member firms present in Central and South Eastern Europe and the Commonwealth of Independent states where he has previously lived and worked for 10 years. He has built close links to the international financial institutions and other key stakeholders active in the region.

Q How do you leverage Russia as a hub to drive business across the Commonwealth of Independent States (CIS)?

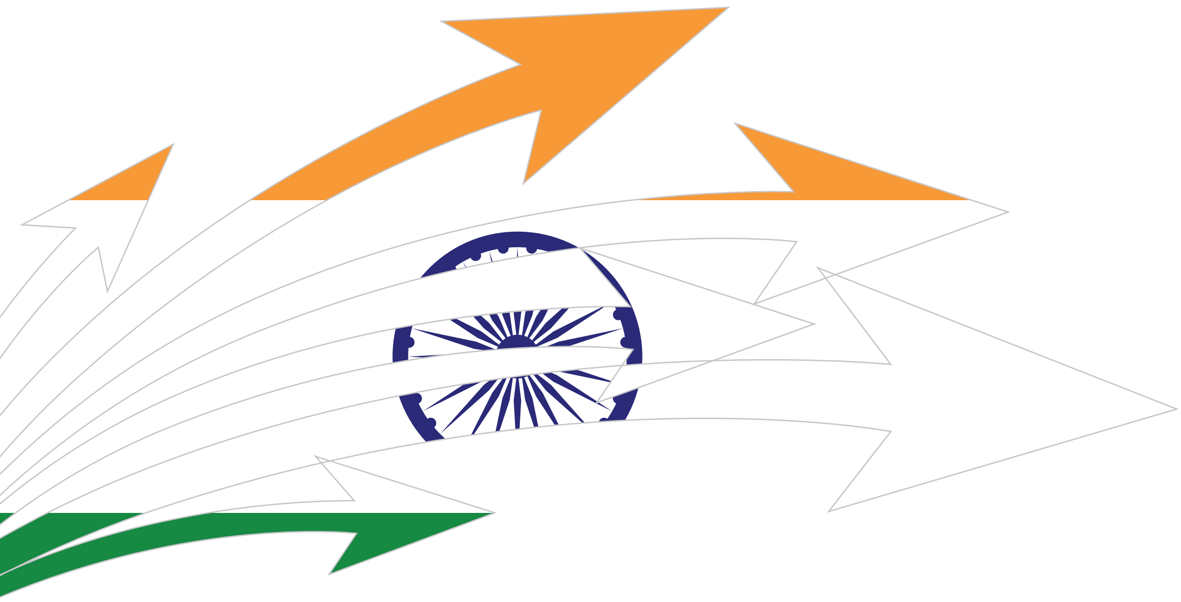
A Finding a regional team or advice from inside each country is key to managing the commercial, tax and legislative challenges in new markets. Some UK businesses have the advantage that their primary customers have already expanded across the region so they can follow in their footsteps, reducing the risks. Others may need to build up more organically and will need careful research into potential markets, local management and any JV partners. While Russia is not a member of the EU, they are the key regional CIS hub with strong existing distribution links. The mechanism of the Customs Union with Belarus and Kazakhstan allows wider access to the CIS from any of these three countries. Do not overlook the skilled and competitively priced workforce in Central and South East Europe, which may be a key component in many CIS supply chains.

Q What is the best way to secure growth in Russia?

A There are many examples of Western businesses who are achieving double digit revenue and bottom line growth in Russia, much stronger than in their home markets. Starting a business from scratch may be a little challenging but once you have broken through, the opportunities for growth are real, not just in Moscow but in many other major cities. Both the municipalities and citizens have money to pay for the right goods and services. The strategy to diversify the Russian economy into hi-tech and financial services is a real opportunity for growth for agile UK players. If you have a no-compromise policy from the beginning you can manage any corruption risks. Teaming with or hiring people with local experience should reduce any surprises behind import, distribution, plant, staff, and tax issues which will be less familiar to a UK HQ team.

Q Are there alternative safeguards to finding local partners?

A Foreign investment is always influenced by government strategy and market developments in the target country. Foreign Direct Investment (FDI) in Ukraine is falling at present because of uncertainty around government strategy but the basis for strong commercial expansion is still there. Russia is doing fairly well by comparison because economic growth and scale look more secure. However, seeking co-financing from some of the international financial institutions on the ground may reduce your risks. Embassies and trade associations are also a good source of information and advice, which can help you make informed decisions.



India

Anuj Chande

Anuj Chande has a broad range of experience from performing strategic and organisational reviews, grooming for IPO and raising funding both debt and equity, to M&A advice and disposals. Anuj is Head of the South Asia Group at Grant Thornton UK LLP.

Q What are the key drivers that make India attractive right now?

A India already has booming industries, they are in the process of deregulation and they already operate within similar structures to us. In those terms it's a familiar and secure place to operate, and getting better as time goes on and implementation of modern practices expands.

Q What are the main risks to operating in India?

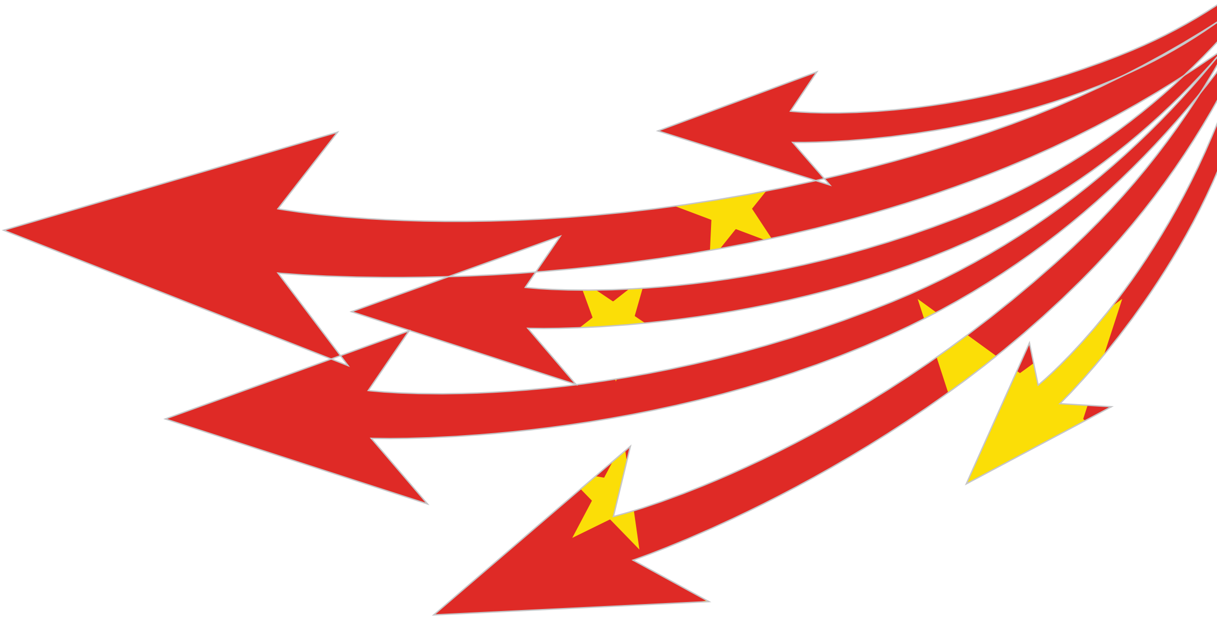
A Despite the attraction for outsiders of being a growth economy, there are aspects of operation that you ignore at your peril. Taxes are one such worry today. When you do the sums, it's frightening how fast costs can stack up, especially since state taxes often come on top of indirect taxes and local taxes from trading internally.

Q How do Indian companies compare to British ones in terms of people management, and what changes should UK companies be prepared to make to meet their expectations?

A Indian companies tend to be much more hierarchical in structure and culture than UK companies, with great importance placed on the position you hold. In addition, a significant proportion of Indian companies – including public ones – are family promoted and controlled. Family members working in the business are awarded a significant degree of importance and respect. In terms of people management, it's more about who is managing whom. Overall it is a less inclusive and consultative approach than in the UK.

Q How easy is it to set up in India as a British business, and what types of partnership are most common between UK and Indian businesses?

A Setting up in India is relatively easy. Investors have two choices which need to be carefully evaluated. They can set up as a foreign entity through a branch or project office, or as an Indian entity which is either wholly owned or a joint venture with a local partner, depending on the sector the company is in.



China

Nick Farr

Nick Farr specialises in international tax, with a particular focus on cross-border structuring. With over 15 years' experience, he has worked with a range of clients, from entrepreneurial start-ups to large listed multi-nationals. He has particular expertise advising companies expanding into China and Asia. Nick is Head of China Britain Services Group at Grant Thornton UK LLP.

Q Is Hong Kong still a good location for setting up offices?

A It's still an important gateway for a number of reasons. Firstly, it acts as a bridge between east and west, with a Mandarin and Cantonese-speaking Chinese community, but with extensive English-speaking and institutions built on the British model. Secondly, it is an easy place to do business, and very tax-efficient, with excellent transport links. Recent structural changes may mean Hong Kong is not the automatic choice it was a few years ago, but it still presents a strong case for many businesses investing in the region. If you want to focus on the Chinese mainland markets, it has great links, better than Singapore, but if you want access to, say, India, then Hong Kong will not be your first choice.

Q Is Germany becoming a better trading partner for China than the UK?

A China historically saw Germany as its first choice as an investment partner, especially given their economic strength and large manufacturing base. However there are signs that this is changing. Recent eurozone woes mean the UK currently offers more stability. More importantly, as China looks to move up the value chain to a more consumption-driven economy, it is becoming ever more interested in consumer brands and in the service sector. China has openly acknowledged that the UK has many leading brands, and that the UK is the second largest service exporter in the world. This is generating significant activity, both in the form of acquisition of leading UK brands such as Gieves & Hawkes and Weetabix, as well as significant investment by UK service sector clients in China. It is important for the UK to continue to capitalise on these opportunities.

Q How can a business put the operating risks of China into context?

A Nobody can deny that there is real opportunity in China, the world's fastest growing economy. The key is realising that it is not one market but many. The question is how best to access this large and disparate market, especially in the face of hurdles like bureaucracy and concerns about IP protection. Finding the right partners who you can trust to help you find your way into the market is an important first step. And doing your homework thoroughly is essential – for businesses that are properly prepared, the operating risks should be fully manageable.

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