Four Essential Principles of Emerging Market Success

Emerging markets are high risk and high reward. In my work as an attorney representing Western companies in emerging markets, I have concluded there are four essential elements to emerging market success: *a good partner, an open mind, active participation, and extreme patience.*

I have seen enough essential similarities between such diverse countries as Russia, Korea (ten years ago when it was still an emerging market country), Vietnam, and even the Gambia and Papua New Guinea, to believe certain core generalizations hold true for all or nearly all emerging market nations. Just as a good concept, a strong market, and good execution are necessary in all countries, so too are these four simple principles the keys to success in emerging market nations.

PRINCIPLE ONE: A Good Partner is the *sine qua non* of Success.

The quality of the local partner is the indispensable element for emerging market success. So where do you begin?

Start with *due diligence*. Before doing business with anyone, you must first determine what you need from your partner in the particular country in which you will be conducting business. In my experience, foreign companies need a local partner who is effective, cooperative, and (most important of all) trustworthy.

Emerging market countries almost always have less-than-fully-formed legal systems. Their laws are oftentimes slanted towards the government and away from free markets. Their courts are slow and often corrupt. Form takes precedence over substance in ways completely unfamiliar to Westerners. One small technical miscue on your part might eliminate your right to sue your partner for having stolen all of your money. It might even lead to you and your company being kicked out of the country, while your assets remain.

Of course you should do your best to avoid technical miscues, but the better strategy is to pick your partner well.

So what should you look for in a local partner? Political connections? Yes and no:

- Yes, because you probably will need someone with sufficient dexterity to maneuver around often-suffocating business laws and a bureaucracy that may try to cut in on your business at every turn.
- No, if you think that is all you will need. Just as in the West, the politically connected are usually more a "government type" than a business person. Partnering with someone in an emerging country with whom you would never consider partnering back home is a mistake.

Political clout in emerging market countries is often more effective for avoiding legal responsibility for something like a debt than it is in generating business revenues. I have seen countless instances where a foreign company partners with someone because he "is tight with the governor," only to see the business crushed by the *new* governor as part of his house cleaning. The best partner is politically connected only to the extent necessary for business success.

Your partner's character and reputation are your protection in countries where the court system is not. Do not partner in *any* sense of that term without having conducted thorough due diligence.

Get to know your potential partner. If he is legitimate and wants to work with you for the long term, he will expect you to want to get to know him better and think nothing of your wanting multiple meetings before signing any deal.

Use every source you have to find out about your potential partner. Check his references, particularly those of other foreign firms with whom he has worked. Hire a *local* lawyer or investigator to confirm he and his various businesses are in good standing with all creditors and taxing authorities. If your potential partner is in Vladivostok, Russia or Qingdao, China, hiring a lawyer in Moscow or Shanghai will probably not be good enough. Find someone you can trust with contacts where your potential partner conducts business.

PRINCIPLE TWO: Keep an Open Mind. Assume Nothing.

Doing business in an emerging market means taking nothing for granted. I have a mantra for my own legal work in these countries that translates well to the business world: "Assume nothing, but assume that you are assuming things without even realizing you are doing so."

Things will be different. Very different. Things you take for granted in your home country might not exist in the emerging market country. Things you take for granted in your home country might be the exact opposite in the emerging market country. Things you think will be totally different in the emerging market country may be exactly the same. Things you thought you knew about emerging market countries based on what you know from another emerging market country may be completely different in a neighboring country, or even in another region within the same country.

The principle, one more time: Keep an open mind, and assume nothing.

PRINCIPLE THREE: Participate in Everything.

In many emerging market countries, local businesses take advantage of corruption to avoid complying with laws. This may work for the locals, but it won't work for you. The easiest way for a local rival to drive you out is for you to do something illegal. Neither you nor your government will have good grounds to complain if your rival gets your business closed down due to your illegal activity. It might even be your own partner who reports you so he can assume full ownership and control of your business.

You must have your own people on the ground, leading, training, and instructing on business methods, business ethics, efficiency, and quality control, among other things.

We have a saying in our law office that one day of face-to-face meetings with local counsel is equivalent to one month of telephone calls and e-mails in terms of getting things done. This is equally true on the business front.

PRINCIPLE FOUR: Exercise Extreme Patience.

This principle stems from the maxim that everything takes twice as long as you think it will. If it takes twice as long in the West, triple that in emerging market countries. You'll go in both as a businessperson and a teacher—and in both roles, the learning curve of your partner will almost certainly take way more time to deal with than you think.

For example, many emerging market countries have a history where "bad business" meant "thinking long-term." A year or two after the fall of Soviet communism, I was involved in a matter where an investor put $250,000 into a Russian joint venture. The business very quickly was making good money and all indicators pointed towards steadily increasing profitability. But, quite quickly, the Russian company stole the $250,000. Was it so irrational for him to think so short term in a country where the government and tax systems had such a history of unpredictability?

Remember: It takes patience to encourage change of mindset. Extreme patience.

EMERGING MARKET SUCCESS

Emerging markets cannot be approached with a quick-kill mentality. Above all else, emerging market success demands a good partner, an open mind, a high degree of participation, and extreme patience.

It is certainly risky. It can also be very profitable.

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