



Economist Summit Speech

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Thank you, Daniel, for that introduction. It's great to be here in London, and to have the opportunity to discuss what all of us know is one of the hottest topics of our times: emerging markets. Based on the last few days of the financial markets, we may need a session on the re-emergence of the developed markets rather than focusing on only the "emerging" markets.

Great Companies are "learning" companies and as such, many of our current actions have a historical basis ... Something that you probably don't know is that back in the 1930s, the big "emerging area" for Dow wasn't even outside the U.S. – it was TEXAS – a state nearly 3 times the size of Great Britain.

What a lot of people don't know is that our Freeport, Texas, site – which is now the world's largest petrochemicals plant – almost didn't happen!

The Board was concerned that Texas was too far away from our headquarters in Michigan ... like being in "another country. And yes, it WAS like another country (still is) – right down to the way people walked, talked, dressed and did business.

But after many trips to the region, our leaders started to gain a much better understanding of the culture, people, and how to do business in that part of world. And that was critical to our decision to invest, and ultimately to our success. Today, Dow operates in 175 Countries at 250 sites and has over 500 plants. Sixty-eight percent of our sales are from outside the U.S. and our senior management of the Company is represented by 30 nationalities.

It's a model that has worked quite well for Dow. Today, we participate in every region of the world, and in virtually every quartile of risk as measured by the World Bank.

As you might have read in the news and elsewhere, ... , as we transform Dow for the future, we are accelerating our participation in virtually every emerging economy.

Today, I'd like to share three drivers of success that we've learned along the way to mitigate risk:

Total Risk Awareness, Adaptability and Local Engagement.

Total Risk Awareness

Let's start with Total Risk Awareness.

Everything worth doing involves risk – that's what all of us in this room do every day whether we acknowledge it or not, even in our personal lives. As Corporate leaders – it's what we are paid to do.

Total risk awareness, however, requires careful attention to both the “tangible” and the intangible areas of risk.

On the tangibles side, you have the more obvious financial and geopolitical issues. These often depend on the country:

- For example, China might have a better infrastructure than India, but India often beats China when it comes to technology and innovation.
- Vietnam has trade exposure, while Indonesia faces more political instability.
- Certain countries lack strong investment climates, international rules of law, or intellectual property protection.
- Others have different views on ethics and compliance.
- And across borders, we increasingly face perhaps the most serious issue of all -- the global war on talent – even in the United States.

Risk, though, is not always tangible. It is also related to the lens in which you personally view risk – which itself is predicated by your own cultural norms.

For example, when contracts are signed in the United States, we do it with a view of “protecting ourselves” financially and legally. To us, it identifies the constraints of a relationship. Other countries, however, view the contract as the start of a relationship and if too much focus is put on the “constraints,” it can be seen as an act of distrust ... slowing down the deal.

The point I am making here is that risk goes far beyond the financials. You are not just dealing with companies, you are dealing with completely different countries and cultures, where relationships often drive decisions. This is why it's important to clearly take the time to understand the culture, and how your actions will be interpreted.

And don't forget your Board. You need to educate them early in the process as well. Take them “on location,” for example, to experience the culture and meet key leaders. It will help validate your opinions, and speed up resolutions.

Adaptability to the Country

Now let's talk about the second driver to success: adaptability to the country.

When entering emerging economies, a lot of multinationals try to impose a "one size fits all" business model on the culture instead of adapting to local needs. Those are the companies that go astray and the examples are many.

Each situation and country is different – and you should resist the tendency to characterize several countries as one particular region.

You simply cannot develop or initiate a market penetration strategy, in an emerging country from a location thousands of miles away in which no one has seen and still be successful ... period.

You need to "Think and Act Globally but Implement Locally."

At Dow, we have found that adapting that kind of model to address local needs is the best approach for market entry. It forces you to do business across the value chain in a way that satisfies customers and accelerates results.

We have also found that Joint Ventures, acquisitions, and hiring local talent are the most effective strategies for driving growth ... and for quickly getting a strong foothold in an emerging region.

- Take, for example, the JV relationship that we have with PIC of Kuwait. This has opened the door to many other opportunities for Dow – including the K-Dow Petrochemicals JV, which we plan to close this year.
- In Saudi Arabia, we have an agreement with Saudi Aramco to build a world-scale petrochemicals facility at Ras Tanura.
- In China, we're working with Shenhua Group to build a world-scale coal-to-chemicals complex.
- In Brazil, we formed a JV with Crystalsev to mass-produce, for the first time, polyethylene made from sugar cane.
- And in India, we formed a JV with Gujarat Alkalies to build a manufacturing facility.

Forming such relationships not only reduces risk, but also delivers a win-win-win for the company, the partners and the local community.

And speaking of local community ...

Local Engagement

That brings me to the third driver for success: local engagement. The ability to create strong local networks is critical to competitive advantage, especially in emerging markets.

Emerging countries are indeed lands of opportunity. But, they are also where most of the world challenges reside – such as those related to food, water, shelter, and health.

As these centers of growth start to expand outward, the modern world of factories is starting to clash with the agrarian world of small farms and villages.

And, as companies like yours and mine enter these economies, we need to help address those issues by practicing Corporate Social Responsibility.

This begins with local engagement.

Engaging local stakeholders, for example, can help build schools ... ensure clean drinking water ... improve community success ... protect the environment ... shape trade policies ... and build strong pipelines of talent and innovation. In other words, you should participate fully in the local environment, which enables acceptance and success ... rather than being viewed as an “outsider”.

Responding quickly to local natural disasters – such as the typhoon in Thailand or the earthquake in China– can further elevate public confidence.

Again, it’s a win-win-win. If you do it right, local engagement will drive economic, social and environmental progress and thus, the long-term Reputation of your company.

People will want to do business with you. They will want to work for you. And, they will want you in their communities.

Closing

In closing, emerging economies are just that – they are emerging, developing and learning along the way. The situation is dynamic, and the issues are complex.

IF, however, you practice total risk awareness and take the time to understand the culture ...

IF you adapt your business model to local needs and develop strong local relationships ...

And IF you engage with the local community and practice Corporate Social Responsibility ...

Then you WILL significantly increase your odds for success.

Thank you.

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