



Slow but steady

Modest U.S. growth, new international players on scene

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While it's too early to predict how President Bush's second term may shake out in the world economy, the hard numbers point to modest growth among American firms for 2005. Business productivity slowed in the third quarter of '04 but still exceeded earlier economic forecasts. Growth in worker output per hour hadn't been as slow since the fourth quarter of 2002, which could signal a new wave of hirings to maintain output growth. When that growth occurs, American companies may be looking beyond the nation's borders for potential investments. Here's a peek at some of the major international players as well as a couple new faces to watch out for in 2005:

China

No longer a sleeping giant, the Middle Kingdom has emerged as a major player in the world economy. In 2004, the country registered a total gross domestic product of US\$1.3 trillion (an 8% growth rate in 2004)—just slightly lower than Italy's US\$1.46 trillion, according to the World Bank based in Washington, D.C. Its GDP is bigger than that of India, Brazil and Russia combined.

So far the United States has yet to match the level of foreign investment of other nations eager to ride the Chinese wave. According to the Washington, D.C.-based U.S.-China Business Council, Hong Kong, Taiwan and South Korea all have more contracts with Chinese companies than the United States.

Exports to China still look good in various sectors, such as electrical machinery and power generation equipment as well as the oil seeds sector. In 2005, the Chinese government plans to allow overseas-owned advertising firms to set up shop in the country.

In the past two decades the Chinese economy has barreled ahead, averaging an annual GDP growth of 9.5% and creating a current US\$100 billion trade surplus with the United States.

"It's huge and it's growing huger," says George Haley, marketing and international business professor at the University of New Haven in Connecticut.

"There is tremendous growth in construction and infrastructure for the Olympics and to tie Tibet into China," Haley says of the government's goal of building an extensive road system and train routes into the Tibetan plateau. The government has guaranteed to the Olympic Committee colossal amounts of growth in the corridor between Beijing and Shanghai.

American companies will have to be willing to share

their knowledge if they want to make inroads with the Chinese. "If you can go in and help them improve their performance ... you can usually get a pretty good deal from them," Haley says, citing examples such as support in getting a good location on land, tax benefits and breaks on utilities.

In the fourth quarter of 2004, the government was expected to loosen the yuan's tight peg to the dollar in hopes of easing tensions with the United States. As the dollar is expected to weaken further in 2005, any change in the valuation of the yuan could be felt worldwide. Meanwhile, the world waits for Beijing.

India

Boasting a US\$510 billion and a 4.6% growth rate in 2004, the Indian economy is inching closer to the list of the world's 10 largest economies.

Haley expects the economy to grow at a rate of about 5% to 8% in the coming years. Buoyed by a work force populated by 20- and 30-year-olds educated in English and familiar with American culture, the IT sector is booming as well. It produces 70,000 new engineers annually for a current total of nearly half a million nationwide, says Amar Vakil, founder of Lintas LLC, a

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Chicago-based business consulting firm.

"There is this huge IT work force, which is now working for multinational companies," Vakil says—but they're working for 25% less than what their peers are asking for in the United States, he says.

"Any knowledge-based industry is a good thing to invest in in India," Haley says. Yet with a "very intrusive bureaucracy," operating a business in India can be difficult, Haley warns. He encourages investment in sectors such as equipment manufacturers.

"Other than knowledge-based industries, look for any kind of investment that could enhance the profitability of India's agricultural sector," Haley suggests.

Outsourcing for clinical testing in the pharmaceutical sector "will skyrocket," Haley predicts. He downplays the hype about American jobs lost to other types of outsourcing, such as call centers. They have grown, he says, but several American companies have withdrawn their call centers in the last two years because of the need to interact with American customers. "They have to understand the culture and give advanced service," he says. "So the average run-of-the-mill (call centers) that don't require advanced interaction are the only ones moving over there."

Japan

The country's GDP in 2004 was US\$4 trillion—second worldwide only to the United States' US\$10.4 trillion. It was a modest 0.3% growth rate in 2004, a full 3% behind that of developing countries, though, and it doesn't look to be much better in 2005.

For some, the outlook for the Japanese economy in 2005 is shaky. "There are reports that economy is rebounding, but I'm worried about unreported government debt," says Haley of the University of New Haven. "They can't afford to let their interest rates rise. It's a high-risk investment until they get their government debt under control."

He advises American investors to focus on particularly successful, established companies such as Nissan, Toyota and Sony, "but sectors as a whole I'd worry about," he adds. "Government regulation tends to favor domestic investors. It's just not a market and a regulatory environment I trust."

Still, compared with its recent past, conditions are improving in Japan. Note the better-than-expected GDP, steady employment figures and higher consumer confidence.

Representing 18% of global gross domestic product, Japan appears to be on a rebound, albeit slowly, some analysts say. But recognize that slow growth is better than no growth.

A few emerging industries such as e-commerce and communications services are expected to continue to grow fairly well, largely because the typically small-cap companies that inhabit those sectors are highly active.

France

With the May 2004 expansion of the European Union—creating the world's largest common market with a combined GDP of US\$10.4 trillion—the French government is hoping to attract a new wave of firms, particularly those in the research and development sector, says Keith Yazmir, vice president of marketing and communications of Paris-based Invest in France, a French governmental agency designed to attract foreign investment.

Yazmir says the government hopes to boost R&D to a level at which it will account for at least 3% of the nation's GDP.

In 2004, the country's GDP was US\$1.4 trillion (with a modest 1.2% growth rate according to the World Bank), making it the world's fifth-largest economy. It's poised for more growth, some say, as it inches closer to the United Kingdom's \$1.6 trillion GDP (in U.S. dollars).

Despite the recent spike in crude oil prices and the weakening dollar, Prime Minister Jean-Pierre Raffarin has maintained that the French economy is expected to hit the government's target growth rate of 2.5%.

Foreign direct investment in France has been climbing steadily since 1998, placing the country second in the world just behind China, according to the Paris-based Organization for Cooperation and Economic Development.

The government put in place dozens of new measures in 2004 designed to lure foreign investment, from creating one of Europe's most aggressive research and development tax incentives for existing businesses, to offering startup business incen-

tives for research and development companies, to allowing work permits for family members of foreign-born executives.

Africa

South Africa's GDP placed it among the largest 30 economies at US\$106 billion GDP (3.6% growth rate). The largest African economy—but other African nations (excluding African Middle Eastern economies), such as Nigeria (US\$41 billion and 1.5% growth rate) and Sudan (US\$15 billion and 6% growth rate), are also in the early stages of growth.

That's something that Vakil says foreign investors should keep their eyes on.

Some African nations have the potential—though it's still a bit early to predict accurately—to foster the type of growth experienced in India in the early 1980s, when the govern-

ment's initiative to build the infrastructure for a technology sector halted the brain drain of engineers who had been fleeing to the United States.

"They need to build a work force ... but the government has to promote incentives for foreign investment as well," Vakil explains.

Yet it'll take more than that. Better educational opportunities and an infrastructure that is somehow more efficient than the current rudimentary system now in place throughout Africa are two paths to take, he advises. "It's going to take quite a bit of effort to step up to the plate in terms of positioning themselves as experts of something, but if they miss the boat now, such an opportunity may not come in the foreseeable future," he warns, as other developing regions—including the rapidly growing markets of India and China—take hold. ■

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