International

In decent shape

Tides turn for some players, U.S. economy healthy

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Despite two devastating hurricanes, a nagging federal budget deficit and a housing bubble that seems about to burst, the U.S. economy still wasn't shaken too drastically in 2005.

Real gross domestic product—the output of goods and services produced by labor and property—increased at an annual rate of 3.8% in the third quarter of 2005, slightly better than the 3.3% rate in the second quarter, according to the Washington, D.C.-based Bureau of Economic Analysis. Forecasts of GDP growth for the year hovered around 3.5% as of December. The American economy is moving ahead at a moderately healthy rate, many economists agree.

In addition, foreign direct investment by U.S. companies remains strong, particularly in the areas of manufacturing and finance. Increases in investment in Europe, Latin America and Asia have been steady since 2002.

Yet 2005 offered some surprises worldwide. As we head into 2006, some economies are faring better than expected while others struggle to meet high expectations. Here's this year's look at five international markets to watch in 2006:

China

The last decade has been fantastically good for China. The government's courting of the world's business leaders has laid the foundation of what could be the most storied love affair since Charles and Diana. But happily-ever-after seems unlikely here, too: After massive growth spurts in the nation's economy and in its trade with some of the world's healthiest partners, the honeymoon phase with capitalism's newest darling is nearing an end.

At the ground level, consumers remain in a tizzy, with spending—at least among the wealthier half of the population—continuing to increase. China's emerging urban middle class is clamoring for high-quality American products, namely personal care toiletries and consumer electronics. Retail sales in September for consumer goods rose 12.7% from a year earlier, according to China's National Bureau of Statistics.

Take a few steps back, though, and it's a different picture.

Massive overinvestment by state government and private companies has led to an overabundance of all sorts of durable goods, from cars to televisions.

Additionally, the Chinese economy is hypercompetitive in several key industries, leaving some domestic companies scrambling to maintain margins. The government is now urging Chinese companies to build their brands through mergers and acquisitions—both international and domestic—such as Lenovo Group Limited's acquisition of IBM's PC operations in May.

"The government makes no secret of its support of acquiring and developing high-quality brand names," says George Haley, professor of marketing and international business at the University of New Haven in Connecticut, making reference to government-issued loans with favorable interest rates.

While Haley isn't advising anyone to stop investing in China, he is realistic about its dubious long-term prospects. "There is a tremendous amount of investment into Beijing for the Olympics, for example," he says, warning, "but if you continue to pour money into the economy at that rate, it's going to eventually create a degree of inflation."

The National Bureau of Statistics reported that through October, investment in fixed assets (the nation's benchmark for spending on infrastructure projects such as roads and power plants) rose 27.6% year-over-year, to $690 billion.

In July, the manufacturing sector's annualized growth rate hit 16.1%—the highest of any major economy. Growth in the nation's GDP, pegged at 9.4% by the end of the year, finally leveled off after three years of steady growth, "but they have a whole host of problems." Many fear a real estate bubble. More people are coming to the conclusion that it won't be a soft landing," Haley adds.

India

Despite India's relatively low level of purchasing power (its per-capita GDP of $3,100 is even less than China's at $5,600), its predicted 11.7% GDP growth rate in 2005 has helped secure its place as a powerhouse among the world's emerging economies. For many companies and analysts, India is looking more attractive than its larger economic peer to the east.

"The economy is doing very well. The last quarter was just phenomenal: Manufacturing was good, agriculture was not doing badly, services were extremely well. All of this combined gave a significant boost to the economy," says Sumit Ganguly, director of the India Studies Program at Indiana University in Bloomington.

"With India's reforms, it is better in the long term (compared with China's more immediate investment opportunities)," Haley adds. "India has a better rule of law, tremendous university-level education and (a private sector that favors) intellectual property rights and the development of new technology, giving it the advantage over the long term."

It remains a knowledge-based economy, with a work force that produces 70,000 new engineers annually.

Looking ahead, "We need to see to what extent the government will grasp (the) nettle of privatization," Ganguly says. India's government is in a similar position to that of China as both nations grapple with the way they did business through most of the 20th century and the allure of the free market.

Additionally, the Indian government has yet to address labor law reform, which could continue to hinder the economy, according to Ganguly. "India is one of the most bloated labor forces in the world. At the manufacturing level, for example, factories have far more workers than they need," he says.

So despite the rapid growth, foreign companies need to be aware of a sticky bureaucracy in getting permission to invest, Ganguly warns. On the other hand, a highly trained, English-speaking work force, robust stock market, vast pool of managerial talent and huge numbers of scientifically trained individuals still makes India an attractive place, Ganguly says. "This is more than most third-world countries can offer."

Japan

Japan's economy has undergone a dramatic turnaround in the last two years, making for a hopeful return to its days of glory more than a decade ago. By the end of 2005, the nation's GDP was expected to have grown by about 3% over 2004's GDP, lifting the world's second-largest economy out of its 15-year economic drought in which stock market crashes and stagnant economic growth lowered wages and discouraged investment.

In October, Tokyo-based Bank of Japan showed that both exports and business confidence improved in the July-September quarter, although the results were weaker than forecast by economists. During its monthly report in October, the government maintained that the Japanese economy is in a moderate recovery. Boasting the world's second-largest economy and representing 18% of global gross domestic product, even a slow recovery is good for the region.

See INTERNATIONAL / Page 16

OUTLOOK / From page 14

Education/professional development

Using data analysis to predict customer behavior and ethical marketing practices will be the focus of college-level course development in 2006. Meanwhile, professionals will seek training in better ways to link customer value to business value and brand health.

◆ As the link between customer behavior and targeted marketing practices through database marketing and data mining become apparent, students will be prepared with more advanced topics in analysis, says Gene Laczniak, professor of marketing at Marquette University in Milwaukee. "People are starting to see so much more connection between the two of them and realize that they are part of the process," he says.

He suggests that more integrated courses between the two topics will emerge in 2006, such as consumer behavior courses that involve an element of market research.

◆ Attention in the classroom will also be drawn to the topics of ethical behavior and marketing transparency, due in part to the proliferation of hot 'stealth' marketing trends such as word-of-mouth marketing and product placement on television, which can blur the distinction between paid and unpaid endorsement. "What the marketers are trying to do is disassociate themselves from an ad. We're teaching that these techniques are not illegal but that marketers owe consumers more," Laczniak says.

◆ Professionals are interested in understanding how to align brand health and customer value with business performance, says Mitch Duckler, senior engagement manager at Prophet, a brand strategy consultancy based in San Francisco. "Developing a metric system so you can identify what problems are and how to course-correct (them) is of value," he says.

Ron Strauss, president of Atlanta-based Brandzone agrees. "It's about value-driven branding. I think what's changing is a growing realization on the part of corporations that the model of maximizing shareholder value is too short-term to be successful in the long run. More enlightened companies are balancing shareholder, employee and customer value," he says.

—A.E.

Event marketing

In 2006, event marketers will continue a trend of doing more groundwork to make each show, and the marketing for it, more effective. They'll also find profits from showing results through measurement, experts think.

Other thoughts on the industry next year include:

◆ Event marketers will make prearranged appointments with key opinion leaders, customers and prospects in their market segments, and otherwise do more homework, thinks Marc Goldberg, partner at Westboro, Mass.-based exhibitor training firm Marketech Inc.

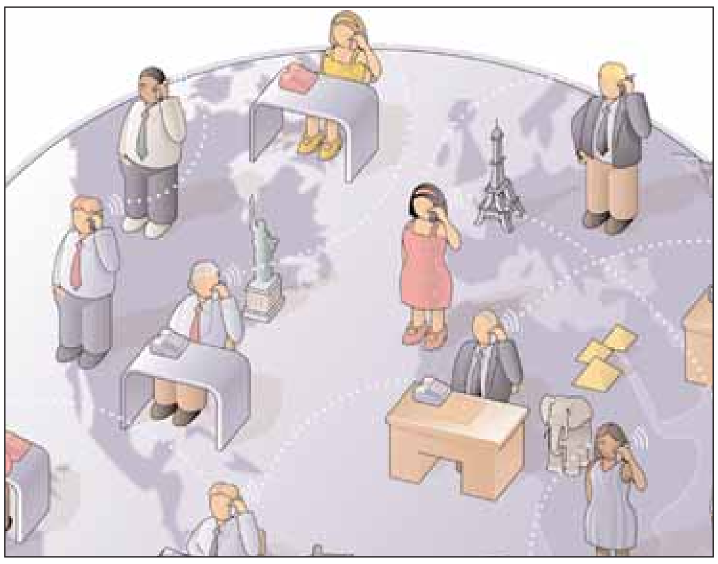
◆ Event marketers will be required to incorporate more creative pre-show promotions that start conversations before attendees arrive at the show or meeting, Goldberg says.

See OUTLOOK / Page 19

INTERNATIONAL / From page 15

Turkey prepares for EU, German economy improves

While growth has been slow in 2005—the GDP grew at an annual rate of just 1.1% in the second quarter—the economy has been expanding beyond simply exports and capital investment. Unemployment dropped to 4.2% from 5.5% in 2003. Full-time employment rose sharply this year, and there are more job offers per applicant than at any other time since 1992. Analysts predict that consumer prices finally will rise in 2006, something that the economy needs.



Turkey

The European Commission declared Turkey to be a "functioning market economy" for the first time in November, supporting economic stability and foreign investment. Having a functioning market economy is one of the conditions for European Union membership. The start of accession talks between Turkey and the EU in October was expected to accelerate the much-needed flow of foreign investment and strengthen economic stability.

Backed by the International Monetary Fund, Turkey has recovered well from two severe financial crises in 1999 and 2002. In 2004, it reduced high inflation to single digits—from 70% in 2001 to slightly more than 9% in 2004—and recorded a 9.9% growth rate, more than twice the average 4.4% of the United States in that year.

Through the end of the first quarter of 2005, worldwide export of textiles—the largest export sector—increased by 12.8% over the previous quarter, according to the Istanbul Textile and Apparel Exporters' Associations, despite a slight decrease in total exports over the previous 12 months.

Although the economy as a whole looked healthy, potential investors should be cautious. Analysts warn that the rise in the price of oil could cause a rise in the rate of inflation in 2006, leading to a deficit in the balance of trade and money in the country.

Still, predictions that 2005 would be the year of privatization haven't disappointed supporters of Turkey's entry into the EU. Investors have been buying up all sorts of enterprises. In August, state-run Turk Telekom sold a 55% share of its business to Saudi Oger and Telecom Italia for $6.55 billion. One month later, a consortium of Turkey's Koc Holding and Royal Dutch/Shell acquired a 51% stake in an oil refinery for $4.1 billion. By the end of the year, a total of $20 billion in privatization deals is expected to have been pushed through.

Germany

While the honeymoon phase with China is nearing an end, heads are beginning to turn toward a perennial bridesmaid: Germany. The Oct. 10 announcement of a power-sharing deal between the outgoing liberal Social Democrats and the victorious-by-a-slim-margin conservative Christian Democrats sparked a long-awaited hope among Germans that their beleaguered economy, Europe's biggest, could be taken off life support.

Economists are predicting 1.2% real growth in 2006—not impressive, but higher than the 1% they're expecting in 2005.

"The economy is definitely improving. It's not going to be a gangbuster economy, but it's a safe place to do business," explains Dorothee Heisenberg, assistant professor of European studies at Johns Hopkins University in Baltimore.

Angela Merkel's center-right coalition government now has the advantage of controlling the upper house Bundesrat, making it easier to push through legislative reforms. The opposition Social Democrats control the finance, labor, health and foreign ministries. "With the grand coalition there will be less radical reform, but there's a better chance of passing it," Heisenberg explains.

There's still a long way to go, though. Double-digit unemployment (at levels above 11%, it is twice that of the United States) and sluggish economic growth (1% in 2005, among the slowest rates in Europe) have stifled consumer spending.

Still, Germany's big companies have restructured to become more competitive: Relative unit labor costs have dropped consistently since 1999 while export volumes have risen at a healthy pace. Additionally, workers have accepted longer hours and wage cuts.

The results have been impressive—by German standards, at least—with rises in profits giving reason for hope. That's good news for the Euro-zone as a whole, since Germany accounts for nearly one-third of its gross domestic product.

Foreign direct investment in Germany has remained lackluster in the last several years. Domestic companies—notorious for being reluctant to sell assets to foreigners in general—are having a hard time finding buyers. So don't expect a new wave of investment, says Heisenberg, although she expects pent-up demand among consumers to drive the economy forward.

"People can only put off major purchases for so long," she says. "Germans are feeling more optimistic and will start to spend more in general. The whole economy is starting to shift into a different gear." ■