

Doing Economic Development in Asia Seminar:
*Developing a Market Presence in the Most Rapidly
Growing Region of the World*

Presented at:

**International Economic Development Council
2005 Annual Conference - Chicago, Illinois**

The Global Economy is Here - Now What!

September 2005

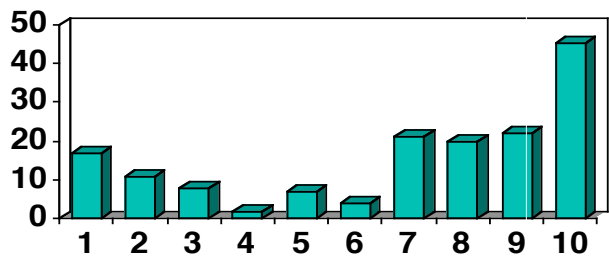
The Need for Top Line Growth Makes International Expansion Essential for Long-Term Success of US Firms

- Global market share will increasingly be gained by Asia and other emerging markets at expense of mature US and European economies;
- In addition to the rising living standards and “consumerism” in these markets, U.S. firms already initiated extensive restructuring efforts;
- Short of a unforeseen technological innovation -- there is little prospect U.S. firms can achieve sufficient productivity and earnings gains from incremental cost reduction or U.S. growth alone;
- This places U.S. firms at a disadvantage to many Japanese and European firms, who are just starting to rationalize their operations;
- International expansion represents a very real and essential option for US firms that enjoy effective market penetration in domestic market.

Asia Increasingly Represents Source of Marginal Growth in Global Industrial, Consumer and Luxury Consumption

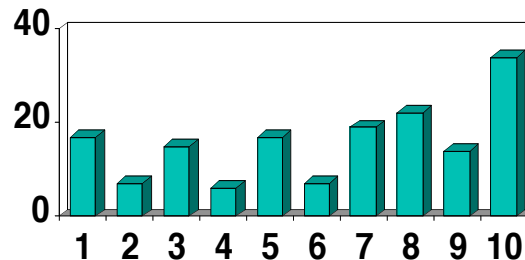
- **In unit terms, many physical markets already larger in China than US. This includes steel, TVs, refrigerators, radios, motorcycles and cellular phones. Then add in India, Japan, Korea and ASEAN;**
- **Only 5% of Chinese population is estimated to have flown on a plane and there are less than 200 airports compared to 10,000+ in US;**
- **Total Indian credit card usage rose from 4.3 to 9M from 2000/3. ICICI bank issued about 100K new cards every month in 2004. Only 53M people – less than 5% of India -- are estimated to have mobile phones;**
- **Indonesia's mobile telephone market has grown at a 70%+ compounded annual rate over last six years – yet still has one of the lowest penetration rates in the region;**
- **Wal-Mart has 45 outlets and Ermenegildo Zegna 50+ stores in China;**
- **Some analysts forecast market for luxury products in China will be larger than US in less than five years; and**
- **Even mature markets such as Japan and Korea have been showing more robust consumption and demand.**

While Coming to Understand this Reality, Fewer U.S. Firms Make International Expansion an Immediate Priority or Are Pleased with Success of Existing Efforts



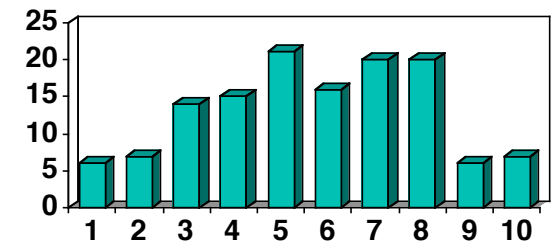
Responses 164 Median 8 Mean 6.93 St. Dev. 3.18

1) Do you believe international expansion is critical to the success of your business over the long term? (Please answer on a scale of 1-10, 1 indicating not at all important and 10 indicating extremely important.)



Responses 163 Median 7 Mean 6.31 St. Dev. 3.04

2) How important a priority is expanding your international business operations in the near future? (Please answer on a scale of 1-10, 1 indicating not at all important and 10 indicating extremely important.)



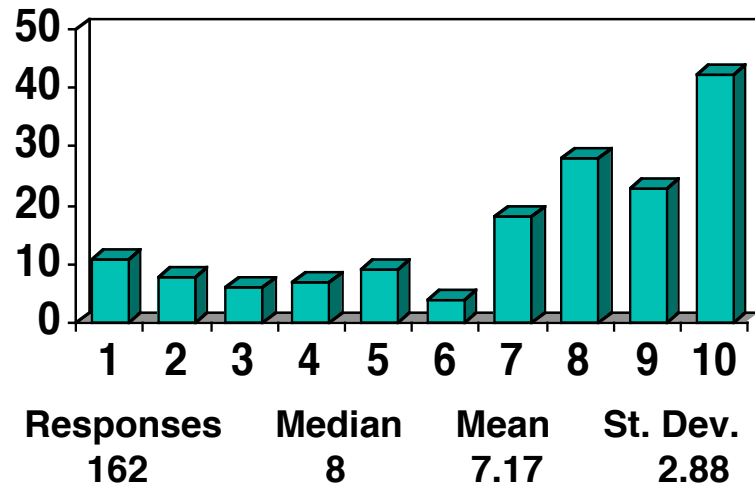
Responses 145 Median 6 Mean 5.66 St. Dev. 2.34

3) If you are already internationally active, are you pleased with results you have achieved? (Please answer on a scale of 1-10, 1 indicating not at all pleased and 10 indicating extremely pleased.)

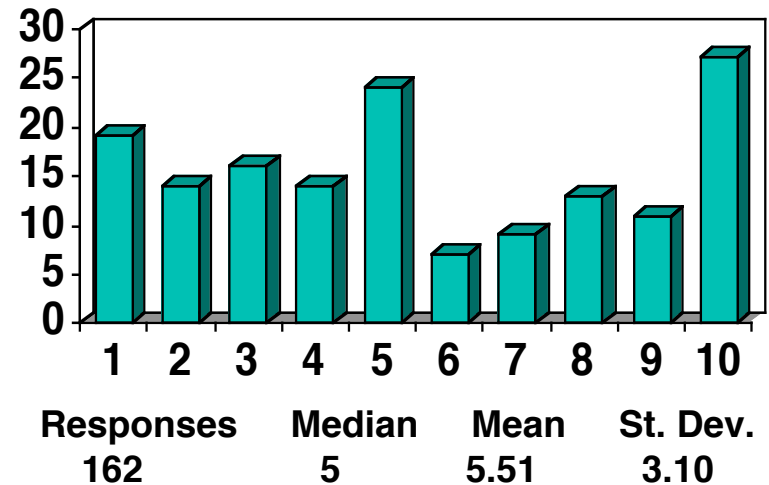
** Data generated from survey KWR is undertaking for CMP Media's Electronic Engineering Group on views of U.S. Technology/Electronics Executives on International Business Expansion and is used with their permission.. Complete Survey to be released in their Global Edition on October 31, 2005.*

Perhaps Due to Increased Complexity of a New Paradigm Emphasizing Market/Revenue Growth over Reducing Costs ...

New Markets/Revenue Growth



Reducing Costs



5) Please rate the following objectives according to their importance in motivating an expansion of your international business presence. (Please answer on a scale of 1-10, 1 indicating not at all important and 10 indicating extremely important.)

... Which Requires a Radically Different Orientation that is Difficult for Over-Stretched, Domestically-Focused Firms ...

- **U.S. firms have traditionally looked to Asia as a place they can outsource production for sale back in the U.S. and perhaps Europe;**
- **This allowed an “inward orientation”, consisting of close relations with one/two suppliers, occasional buying trips or perhaps a manufacturing plant and quality control/logistics operation;**
- **Market Entry is infinitely more complex, requiring an “outward orientation” and ability to represent oneself in foreign markets in different languages with different laws, customs and business practices;**
- **Even when one achieves success, there are numerous pitfalls and issues that need to be dealt with on an ongoing basis:**
 - **One cannot employ “Bridal Magazine” approach according great deal of attention and then moving on after initial implementation stage**
 - **Yahoo - China problems: implications back in US and other markets**
 - **“US Tech Firm in North Asia”: cannot just rely on financial statements**

... Who Find it Very Difficult to Accord the Resources and Attention Needed to Navigate Different Markets and Complexity of Issues Involved

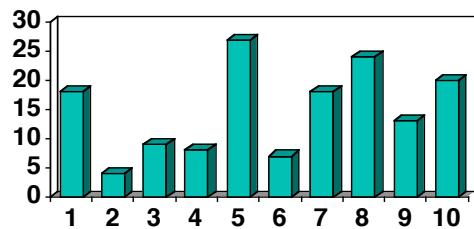
- **China**: Very Strong on Potential and Cost Competitiveness; Weak on IPR, Legal/Regulatory, and many Operational Considerations;
- **India**: Strong on Software, Technology & Services, More Familiar Legal/Corporate system, Weak on Infrastructure; Governance?
- **ASEAN**: Rich in Natural Resources, Manufacturing & Tourism Potential, Increased Integration, Underrated, 500 million Population
- **Japan**: World's Second Largest & Affluent Economy, Strong US Ally, Pent-up Demand, Restructuring, JV and Financial Opportunities
- **Korea**: Emerging Technology Leader, Strong Demand Given Market Size, Logistical/Manufacturing Potential, Cultural Exports, JVs?

In addition to country-specific considerations, there are also numerous additional cultural, social, legal, regulatory, political and other issues that must be addressed on an ongoing basis.

US-based Economic Development Agencies Can Help Address this Deficiency, Accentuating their Regional Competitiveness as a Result

- **Even large firms find it difficult to allocate sufficient resources, attention & assistance to international expansion, particularly in initial stages; and**
- **US Economic Development agencies can facilitate this process, while accentuating positive benefits of locating in their areas/regions as well.**

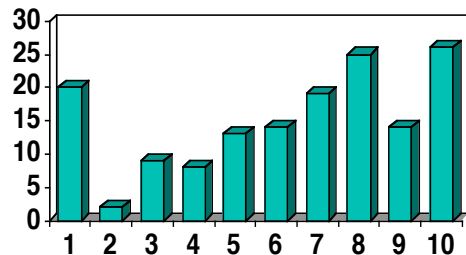
Site Visits



Responses 156 Median 7 Mean 6.34 St. Dev. 2.96

HIGHEST RATED FACTOR

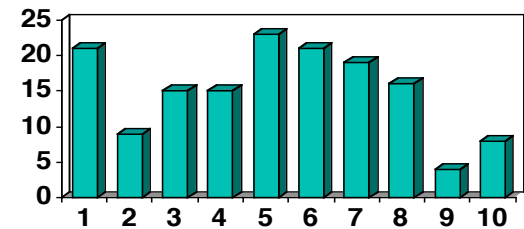
Local Government Support



Responses 154 Median 7 Mean 6.06 St. Dev. 2.86

2nd HIGHEST RATED FACTOR

Conferences/Seminars



Responses 157 Median 5 Mean 5.05 St. Dev. 2.58

LOWEST RATED FACTOR

14) Which of the following services would be most useful in helping you to expand, or optimize your international operations? (please answer on a scale of 1-10, 1 indicating not at all helpful and 10 indicating extremely helpful.)

For more information on KWR International and to receive a copy of the CMP International Expansion Survey of U.S. Technology/Electronics Executives, please visit <http://www.kwrintl.com> or contact: Keith W. Rabin, +1-212-532-3005, krabin@kwrintl.com

For advertising information concerning CMP's Global Competitiveness edition which will release this survey on 10/31/05, please contact: David Blaza, +1-415-947-6929, dblaza@cmp.com