

Sellex Update

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WHAT'S NEW

Hot Markets

Medical equipment has been identified as, not only a rapidly growing U.S. industry sector, but also as a high growth market for U.S. exports. The largest total import market for medical equipment is in Japan. The total Japanese import market is nearly twice the size of the German market, which ranks second. In terms of medical equipment imports from the U.S., Japan and Germany are again the top importers. In 1997, Japanese medical equipment imports from the U.S. reached 4.1 billion dollars. This represents about 69% of all Japanese medical equipment imports. Germany is much less dependent on U.S. imports. They imported \$980 million worth of medical equipment from the U.S., which constitutes about 26% of their total imports in this sector.

Medical equipment is one of the few industrial sectors in which the U.S. has a trade surplus with Japan. Several successful trade agreements have helped reduce barriers to market entry, which has spurred increased U.S. exporting to Japan. The import market for medical equipment in Japan is expected to grow by 3-5% annually over the next 5 years. The U.S. accounts for more than two-thirds of this Japanese import market. If the current market share is maintained, then the future looks very promising to U.S. medical equipment exporters.

Some of the newly industrialized countries (NIC's) also have promising import markets for medical equipment. A NIC is a country that has successfully embarked upon a course of economic development,

although the journey is not yet complete. The development of an industrial infrastructure has moved these countries into a position somewhere between the underdeveloped third world and the more fully developed countries of the first world. Brazil is an excellent example of a NIC and it has the third largest total market for medical equipment, behind Japan and Germany. Even though the total market is quite large, Brazil has the 8th largest overall import market for medical equipment and is the 6th largest recipient of U.S. imports.

Another NIC that will likely become a growing importer is India. The current Indian market for medical equipment is small, about \$202 million total market size compared to \$3.3 billion for Brazil. The economy of India is becoming increasingly market-oriented and many industrial sectors are exhibiting strong growth. India also has a very large population and a growing middle class, which has increased the public demands for an improved health care system. They are currently in the process of building numerous new hospitals, which is expected to accelerate the demands for all types of medical equipment. The total import market for this sector in India was \$133 million in 1997. Of this total, \$60 million, or 45%, was imported from the U.S. The U.S. already has a very strong foothold in the Indian market. Many physicians in India are trained in the West and are very knowledgeable about western medical technologies. Continued growth of the health care market in India will provide great exporting opportunities for U.S. suppliers and manufacturers.



US TRADE SNAPSHOT

The U.S. trade deficit, for goods and services, showed a significant increase to a record 168.6 billion in 1998, compared to 110.2 billion in 1997. The most recent available data from the U.S. Census Bureau, however, indicated the trade deficit decreased to 13.8 billion in December, from 15.3 billion in November. As indicated below, both imports and exports decreased from November to December offering some improvement over the record trade deficits posted earlier in 1998.

EXPORTS

	Nov.	Dec.
Goods	57.1	56.6
Services	21.8	21.9
Total	78.9	78.5

IMPORTS

	Nov.	Dec.
Goods	78.8	76.9
Services	15.4	15.4
Total	94.2	92.3

Figures in billions of US dollars

The persistent crisis in global financial markets has continued to decrease total US exports. Overseas economic problems have reduced demand for many US exports. US agriculture has been hit particularly hard. Imports have increased, by sector, in the apparel industry, pharmaceuticals, telecommunications and automobiles.

Top 10 countries with which the U.S. has a trade deficit

Dec. 1998 Deficit	1998 year to date Deficit
JAPAN	-5,876.79
CHINA	-3,975.19
GERMANY	-56,897.91

-2,546.42	-23,182.06
CANADA	
-2,177.77	-20,691.60
MEXICO	
-1,255.10	-15,698.58
TAIWAN	
-1,158.33	-14,965.77
ITALY	
-1,034.53	-11,985.79
MALAYSIA	
-949.75	-10,048.57
SWEDEN	
- 522.90	- 4,017.33
PHILIPPINES	
-336.24	- 5,212.71

Figures in millions of U.S. dollars

Top 10 countries with which the U.S. has a trade surplus

Dec 1998 Surplus	1998 year to date Surplus
NETHERLANDS	
1,026.59	11,412.79
BRAZIL	
563.94	5,034.54
SAUDI ARABIA	
459.63	4,185.96
AUSTRALIA	
428.10	6,547.44
BELGIUM	
365.67	5,496.20
HONG KONG	
330.43	2,385.08
SOUTH KOREA	
270.98	-7,398.19
EGYPT	
270.40	2,399.46
ARGENTINA	
260.26	3,633.19
SOUTH AFRICA	
196.28	570.63

Figures in millions of U.S. dollars

Top 10 U.S. Trading Partners

Dec 1998 Total	1998 year to date Total
CANADA	
27.14	329.00
JAPAN	
15.16	179.87
MEXICO	
14.34	173.72
GERMANY	
7.48	76.47
CHINA	
6.68	85.41
UNITED KINGDOM	
5.94	73.86
SOUTH KOREA	
4.51	40.47
TAIWAN	
4.50	51.28
FRANCE	
3.73	41.81
SINGAPORE	
3.06	34.03

Figures in billions of US dollars



WHY GO INTERNATIONAL?

No business can afford to be left behind!

The Global Export Imperative:

Exports are Critical to the Success of the U.S. Economy

Exports, in the 1990's, have grown at twice the rate of the overall U.S. economy. During this decade, exports have accounted for about 40% of the growth in the merchandise sector of the U.S. economy and for 58% of the growth in the service sector.

Exporting will continue to become more and more integral to U.S. economic growth, as well as the success of individual companies. Inactivity or poor performance in the global marketplace will loom as a serious threat to the continued economic viability of many small and medium-sized enterprises (SMEs). Non-exporters will increasingly face superior competition from SMEs that have seized international opportunities and become larger and stronger.

Exporting will increase the competitiveness of U.S. companies. Exposure to the technological and managerial innovations of foreign competitors, as well as the demands of overseas consumers, force U.S. firms to address internal weaknesses. Firms grow stronger and better able to accommodate evolutionary developments within their particular industries.

Economy of Scale

Exports expand the overall market for a given product thereby allowing a company to distribute production costs over a larger consumer

base, which increases returns on investment. If a company has excess productive capacity as well as relatively fixed capital costs, they can create an economy of scale and boost profits.

Diversification of customer base through exporting has an additional benefit of expanding the product life cycle. As a product becomes mature in the domestic U.S. market, companies can extend the marketability of that good by seizing international export opportunities. Exporting allows a company to capitalize on the economy of scale in production as well as extending the natural product life cycle. The growing revenue stream is preserved.

U.S. companies may also increase profits by extending the life span of aging technologies through exports. Increasingly obsolete manufacturing technologies can be transferred abroad via licensing agreements with the recipient country.

Market Diversification Spreads Risk

The year 1998 bears witness to a period in the cyclical global economy, which is an important indicator that the international business environment is very non-linear. The investment crises and recession in Asia, and also to a certain extent, in Latin America, warns that strong economies are vulnerable to the recurring downturns in the global economy.

Market diversification through exporting provides a cushion against business cycles, which often differ from country to country. The greater the level of diversification, the more easily a U.S. company can ride out and endure the periodic market slumps.

Domestic Market Saturation

The U.S. economy is so productive that companies eventually face static or diminishing market shares. The best solution for a company facing a saturated market with low future

growth potential is to find new overseas markets.

Recent research demonstrates that since 1970, manufactured goods have become less important to the overall U.S. economy¹. In 1970, U.S. consumers spent 46% of their outlays on manufactured goods and 54% on services. By 1991, consumers spent only 40.7% on goods and 59.3% on services. U.S. consumers spend less on goods because the price of goods relative to services has fallen by nearly 23%. Goods become cheaper because improvements in productivity have grown much faster in the manufacturing sector than in the service sector of the U.S. economy. Manufacturing has become more efficient which is reflected in the lowering of prices to consumers. As manufacturing enterprises face increasing difficulties due to these types of changes in the U.S. marketplace, exporting will increase market size and ultimately boost profits.

How Businesses Successfully Compete in the Global Market

Complete information is a key commodity. The international marketplace is a vast unknown landscape for most SMEs. Successful exporting requires a sophisticated research capability to illuminate this complex landscape. Most SMEs lack in-house research capability and cannot afford to have key management personnel diverted from domestic business responsibilities in order to develop an export strategy.

Sellex International provides all of the expertise and services to turnkey a complete exporting program. These services include:

- Business and marketing research to identify new trading opportunities and collect information on the best global markets for a given product;

- Develop a market entry strategy. Individual countries are unique and they vary in terms of economic systems, product markets and legal environments. Successful exporting requires a well-developed market entry strategy, designed to navigate all of the obstacles and efficiently accommodate the legal and economic environment of a particular country;
- Legal systems can vary greatly from country to country. Successful exporters need trade specialists who are well-versed in the complexities of international law. Sellex International provides the legal and transactional expertise to handle matters involving contracts, joint ventures, dispute resolution, business licensing and matters of intellectual property rights;
- Successful exporting also requires a sound financial infrastructure. Sellex International can assist companies in the arrangement of export financing along with expert advice on other corporate financial and tax matters;
- Sellex international also provides analysis of political and economic trends within targeted countries. Economic growth is always premised upon an underlying political order. Political structures and events often have a major effect on the economic stability of a country. One of the greatest threats to a local

economy, as well as global exporters, is political instability. The degree of governmental intervention and regulation of an economy is a critical variable affecting the success of exporters.

As we move into the 21st century, exporting will continue to become less a choice and more a central feature of corporate strategies for growth and survival.

U.S. businesses are currently not taking full advantage of existing export opportunities. According to the U.S. Department of Commerce, less than 1% of U.S. companies account for just over 70% of all manufactured goods exported. Only one in five American businesses participate in any international trade. Approximately 96% of US exporters are SME's, yet they only account for about one third of US exports. This indicates a lagging potential among the smaller and mid-sized exporters

The global market is four times larger than that of the U.S., which has the single largest domestic market in the world. Ample opportunities exist for U.S. businesses to internationalize and grow. Why are SME's so underrepresented in terms of US export performance? Is it possible that only the largest firms are able to successfully export?

Exporting is not exclusively for corporate giants

A conventional wisdom has persisted that about 250 companies are responsible for 80% of U.S. exports. These 250 companies would be among the very largest U.S. corporations. Exports are argued to be the exclusive province of companies with a high degree of capitalization to support expanded operations.

This conventional wisdom has been successfully challenged.² According to current estimates,

approximately 105,000 U.S. companies export. Of these, about 2000 are responsible for 82.5% of total U.S. exports. A further assault on the conventional wisdom reveals that the top 10% of U.S. exporters, about 10,000 companies, constitute 93% of U.S. export activity. The remaining 95,000 exporters account for the balance of U.S. exports. Most of these are SME's.

This new conventional wisdom posits that SME's are, in reality, extremely important business entities responsible for U.S. exports. They create about half of all export related jobs. Despite this numerical dominance, as mentioned earlier, the SME's only account for about a third of U.S. exports. There is room for improvement and growth, especially among the mid-sized companies with the financial resources to create a more aggressive export program. There are other economic incentives as well. The average sales growth for the 105,000 U.S. exporters has been 15% annually since 1990.

Even in the face of such incentives, the U.S. Dept. of Commerce estimates that there are at least 25,000 non-exporting U.S. companies with export worthy products. Most of these are SME's that could dramatically increase sales revenues and profits by taking advantage of global market opportunities.

¹ Paul Krugman, *Pop Internationalism*. Cambridge: The MIT Press, 1997 pp. 38-40

²Data in this argument taken from: *Exporting from Start to Finish* 3rd Ed. By L. Fargo Wells and Karin B. Dulat (New York: McGraw Hill, 1996). pp. 6-8.





trade liberalization, which subjected the country to the rigors of world market competition. State-owned companies were also privatized and inflation was brought under control. These measures initially brought about a serious recession.

By the mid-1990's, Argentina had recovered and is now experiencing a boom in economic growth. In 1997, the GDP growth rate reached 8.1%, but is expected to slow to between 4% and 5% through 2002.

This renewed economic strength has spurred new investments in Argentina's industrial infrastructure. The flow of direct foreign investment, averaging \$3.5 billion annually from 1990 to 1995, surpassed \$6 billion in 1997. Imports and exports have risen steadily.

equipment was about \$400 million U.S. dollars and imports accounted for \$210 million of this total. The U.S. supplied 71% or \$150 million of these imports.

In 1998, the total market for medical equipment in Argentina is projected to grow to \$445 million. Argentina is expected to reach an import level of \$260 million, of which 71%, or \$185 million, will come from the U.S. Exporters from the U.S. have typically faced little competition from local medical equipment suppliers. Argentina has also lowered many trade barriers in order to attract more high technology medical equipment imports. The U.S. should continue its dominance of this particular market.

Argentina Links

www.worldbank.org/html/extdr/offrep/1ac/argentin.htm

www.bacoweb.com/worbus/index2.html

www.georgetown.edu/LatAmerPolitical/Countries/argenti.html

www.teachersoft.com/Library/ref/atlas/samerica/ar.htm

www.indec.mecon.ar

GLOBAL SPOTLIGHT

ARGENTINA

Geographically, Argentina is the second largest country in South America. It has a population of 34.6 million.

Following years of poor economic performance and serious inflationary problems, Argentina began a significant period of economic restructuring in 1989. The changes brought forth in Argentina included

U.S. Trade with Argentina

TOTAL EXPORTS	
1997	1998
5807.8	5,885.3

TOTAL IMPORTS	
2212.4	2,252.12
million US dollars	

One of the fastest growing market sectors for U.S. exports to Argentina is medical equipment. In 1997, the total market size for medical



