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GOING GLOBAL

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2015 Outlook: World Economy Lacks Animal Spirits

The world economy is suffering – not from a lack of growth, but from a deficit of confidence says Marios Maratheftis, Global Head of Macro Research at Standard Chartered.

Looking ahead to 2015, there are plenty of positives. The world economy should improve, with growth picking up to 3.4 per cent from 2.9 per cent in 2014. But sometimes better indicators are not enough: confidence is crucial. What's missing is positive decisions made by investors, businesses and households – driven by the sort of spontaneous urge to act that the economist John Maynard Keynes called 'animal spirits'.

Policy makers can rekindle confidence

Generally, policy makers prefer to use monetary policy to manage the economic cycle. However, monetary policy can reach a point where it loses its desired effect on economic activity. In these cases, fiscal policy can play a role. If companies are not investing and households are not spending, governments should be buying goods and services to boost activity.

Europe plagued by lacklustre growth

In Europe interest rates have been kept close to zero and the central bank has taken the first steps toward quantitative easing, with more expected in 2015. Yet, the region is plagued by lacklustre growth and risks losing a generation to unemployment. Since 2007, the 11 largest euro-area economies have performed worse than they did during the Great Depression. On a positive note, 2015 should be the year that the US economic recovery gains some pace, with the Federal Reserve likely to start hiking interest rates from September.

China's policy makers want to avoid a hard landing

In China, confidence is bound to be affected by structural transformation amid cyclical headwinds. The country is rightly changing its economic model. The old model, which helped China become a middle-income country, was dependent on investment, manufacturing and exports. But if China is to avoid the dreaded middle-income trap – where developing economies become stuck in a cycle of low growth after a rapid rise in wages – it needs a new model in which domestic consumption and services become more important. We forecast GDP growth at 7.1 per cent in 2015, but it will probably feel slower.

Expect improved growth and low inflation in the world economy

A positive surprise for the world economy in 2015 could be India. Confidence is improving due to changes made by India's new government to reduce red tape and promote investment. We expect stronger growth and slower inflation in the coming years. Taken as a whole, 2015 is likely to bring improved growth and low inflation in the world economy. This should be positive for financial markets, with stronger US growth and resilient emerging markets in Asia, Africa and the Middle East underpinning market conditions. However, the lack of animal spirits is sobering. Confidence and positive action are crucial if the recovery is to gain momentum, and the risk of a policy mistake remains an important worry in 2015.

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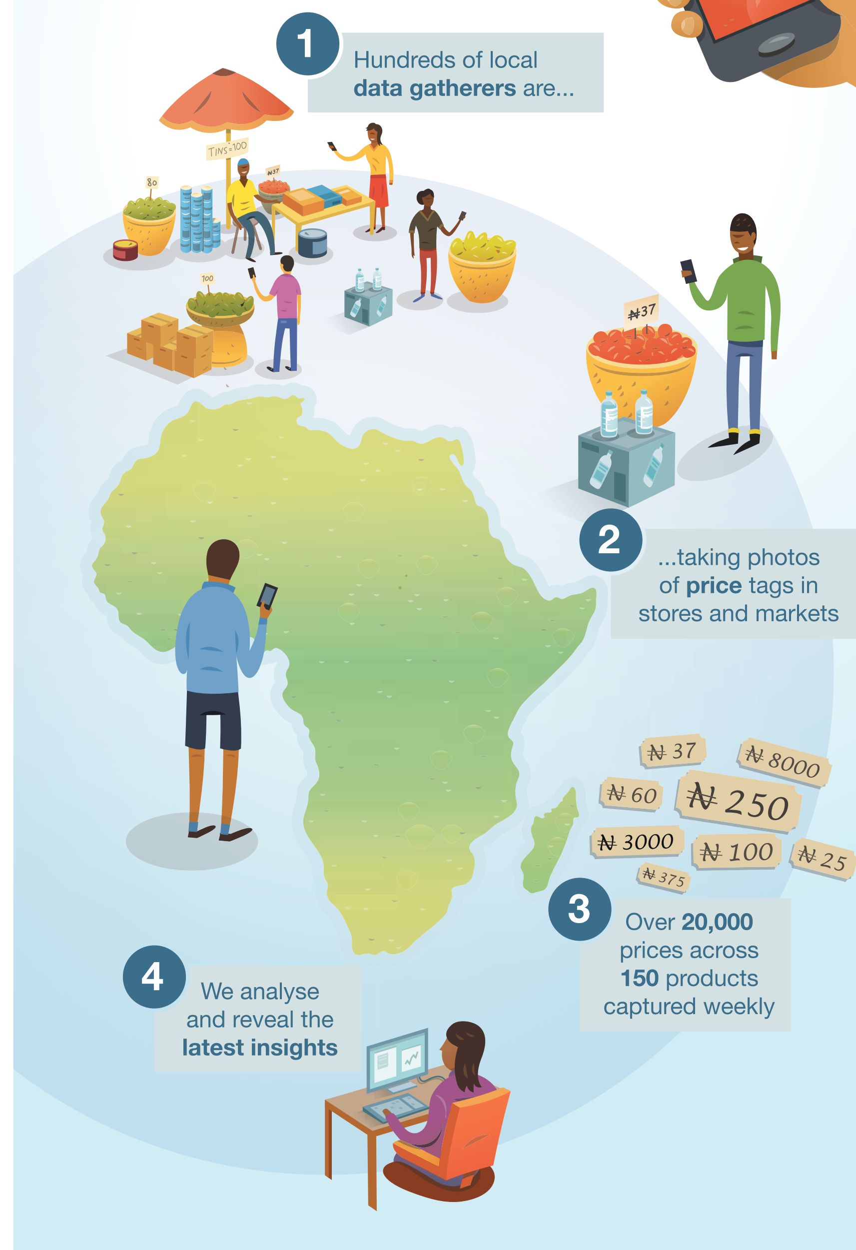

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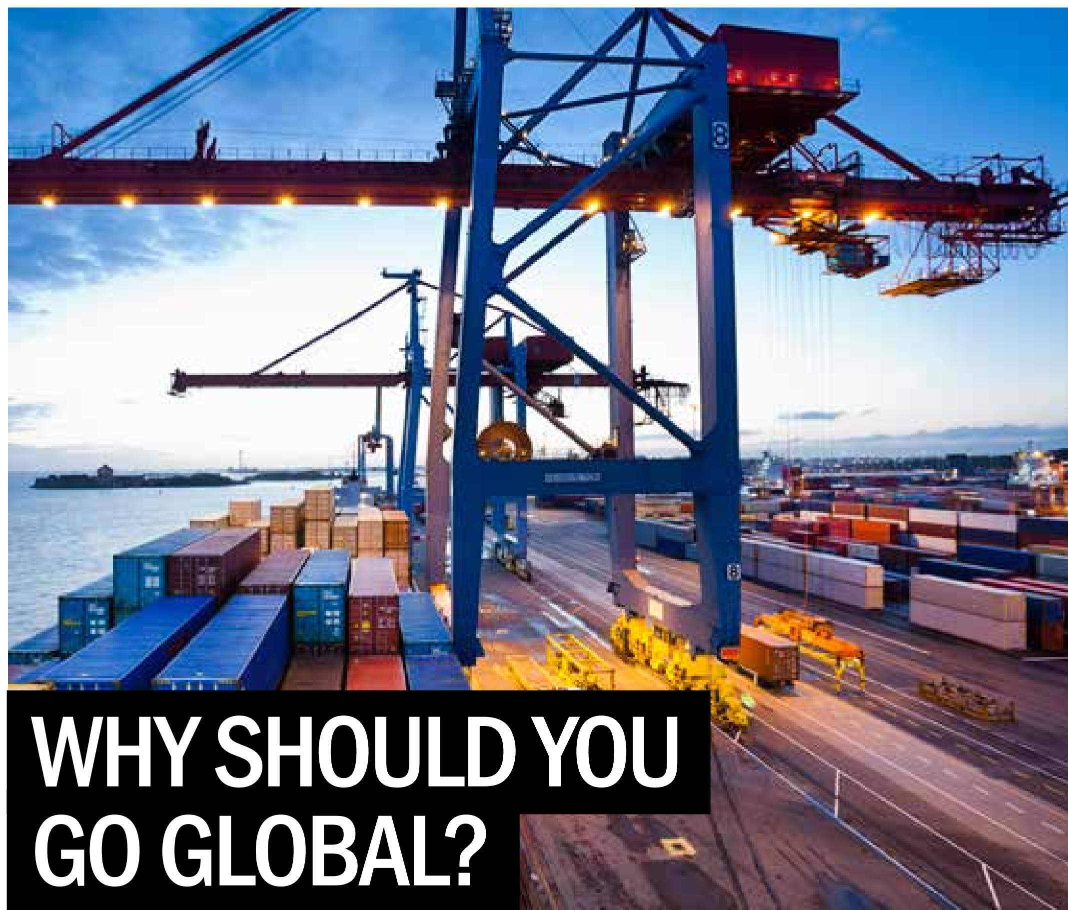
Overview



WHY SHOULD YOU GO GLOBAL?

Image: Getty

92% of companies with overseas ambitions view going global as essential to their future growth

Source: Truphone/FitFlop

37% of exporting small and medium-sized enterprises (SMEs) reached a growth ceiling in the UK within the first three years of trading

Source: Barclays Business

55% of exporting SMEs traded most with the United States

Source: Barclays Business

Businesses that boost exports and open offices abroad grow faster than those who stay at home, writes **Charles Orton-Jones**

Need a reason to export? Normally the spiel covers the money you'll make. The six billion consumers waiting for you. The emerging markets growing at double-digit pace. But what about the adventures?

Stephen Dawe has been globe-trotting on behalf of Morris Lubricants since 1992. The firm exports to 80 countries, accounting for £11 million of its £50-million turnover, and has taken Mr Dawe to the far corners of the world.

"One of my first treks was to a gold mine in Mauritania in West Africa," he says. "I was feeling quite elated because I had misheard and thought I was going to Mauritius. When I was delivered to the capital, there were two dead cattle by the side of the runway and it was an asbestos building.

"I came away with dysentery and had to stay there for two weeks in 52 degrees Celsius because the flight was cancelled."

So not always glamorous five-star living. But would he have so many tales to tell if he'd been stuck on the A5 outside Shrewsbury? Not likely.

Michael Oliver started selling to Norwegians because he was so ashamed of his terrible office. "When I set up Oliver Valves in 1979, I was put off at the thought of customers seeing our modest startup headquarters – also known as my family's garage – that it made me consider trading overseas," he says.

"I was keen to paint a picture of an established company with the resource and manpower to tempt top firms into working with me, so I did this by targeting businesses overseas. Our first order was for 24 valves from a Norwegian gas refinery.

STARTING OUT

"We might have delivered the products at a loss, but I've never regretted it as it was the first rung on the ladder and we might not be where we are today without that modest start."

Now the company has become an exporting powerhouse.

"Some 35 years later, 90 per cent of our £90-million turnover comes from overseas trade. Oliver Valves employs more than 350 people internationally and has ten offices around the world. We've also won regional and national awards for our work in the export market, including a Queen's Award for Excellence in Export," says Mr Oliver.

Exporting can help you hit economies of scale. When Tiffany London founded her glam maternity wear brand Tiffany Rose in 2003, she had £1,000 in the bank.

She says: "Increased sales has allowed us to grow our team and led to increased volume of production, which has opened the door to new fabric suppliers who can't work without minimum-order quantities, British manufacturing partners and international logistics partners such as DHL." The company now employs 14 people and exports make up 70 per cent of sales.

A huge advantage is that the economic cycles of overseas markets are so varied. As one struggles, another will be rising. Cressall Resistors has been making electrical products for more than a century and has come to rely on exports to keep the firm buoyant no matter what the economic weather.

> A huge advantage is that the economic cycles of overseas markets are so varied

Managing director Cy Wilkinson says: "The project-based nature of Cressall's work means the international markets it supplies can vary significantly from year to year."

Life is always changing for the firm. Exports now account for 57 per cent of sales. "Over the last few years, Cressall's key business partners and customers have come from the United States, Canada, Russia, Brazil and the Middle East," says Mr Wilkinson.

For smaller firms the best opportunities may be in the most exotic markets. Isle of Arran whisky is a late-comer to the export game. While the big guys carve up huge markets, such as China and the United States, boss Euan Mitchell says: "In those territories yet to fully embrace whisky, such as Taiwan, Arran has much more dominance. We are working towards exporting to new 'virgin territories' where we can establish ourselves as the go-to brand." Vietnam, Malaysia and Singapore are on his radar. The firm is using Facebook to organise tastings in remote locations.

There is an embarrassment of riches to make the export process easy. There are UK Trade & Investment grants, plus advice and on-the-ground support. Banks are obsessed with exporters. There are schemes, such as the Bond Support Scheme and UK Export Finance.

Best of all you can do it your way. Want to trek to Mauritania, or was it Mauritius? Go ahead. Or, as the Choc on Choc artisan chocolate brand proves, you can stay where you are if you prefer. Founder Flo Broughton bagged orders after foreign buyers saw her goods in John Lewis. She was a bit worried about shipping, so gets the buyer to handle that. She now has clients in Australia, the United States, Italy, Japan and Qatar.

It is a big world – and you can explore it how ever you wish.

Brand Britain

GREATNESS OF BRITAIN

The label "Made in Britain" commands respect and a premium price, as **Dan Matthews** discovers in search of an answer to why Brand Britain succeeds

Rightly or more normally wrongly, people revert to stereotypes to make sense of the world. We park individuals into meaningful groups because it helps quick assessments, allowing us to hit the ground running when we size-up new acquaintances.

It's hard not to judge people based on their profession, their hobbies or how they vote. Create a mental picture of an accountant who votes Lib Dem and plays golf, and you'll see what I mean. But arguably the biggest engine room of stereotypical slurs is someone's nationality.

The French are grumpy, Brits are awkward, Americans loud, Germans humourless and Russians cold. Swedes like saunas and are unfazed by nudity, Australians eat barbecued food and drink lager from cans, while Italians ride around on scooters saying "ciao".

This is silly, of course, and not particularly constructive, but not all grand generalisations are insulting and some are downright advantageous. One that favours Britain in particular is that we make really great, high-quality stuff.

For its size, Britain has a disproportionate number of world brands. We have blue-chip companies such as Vodafone, HSBC, BAE Systems and Shell, edgy fashion houses such as Burberry, Hackett and ASOS, education institutions including Eton, Oxford and Cambridge, as well as cultural centrepieces, notably the Millennium Stadium, the Edinburgh Festival and the Olympic Park.

ENDURING PHENOMENON

Brand Britain is a real phenomenon that has endured hundreds of years of change and upheaval, starting with the Industrial Revolution (we were first), empire (cultural and infrastructure exports, questionably delivered), two world wars (we were the goodies) and several iterations of the Royal Family.

"From the 16th century, there was a lot of migration within the country, so a sense of collective identity dates back to this era and probably before," explains James Withey at international branding consultancy Brash.

"Where this national identity developed an external manifestation was during the early age of empire, when people started thinking seriously about the image of the nation, the Royal Family and so on. Today, the meaning of 'Brand Britain' has substantially evolved, but its long history gives it a resonance internationally."

Jane Geraghty, president Europe, the Middle East and Africa at Landor Associates, adds: "One of our most enduring and famous British brand assets has to be the Royal Family. With royalty as ambassadors for Brand Britain, it's not surprising that one of the enduring characteristics of the brand is tradition.

"This, according to one of the largest brand databases in the world, BAV, is a top-three characteristic for Brand Britain today. Interestingly, it was also in the top three back in the 1920s."

> Brands which seize upon essential British stereotypes work the best

In October, Barclays Bank – a British business – published research into Brand Britain incorporating government data and a survey of 7,600 people in eight of the UK's big export markets. It concluded that consumers in developing economies were willing to spend an extra 7 per cent for products with the "Made in Britain" label.

At least 50 per cent of respondents in all countries perceived the quality of British goods to be "good" or "very good". And in an illustration of the branding power of Britain, specifically English, Welsh and Scottish brands scored less well on an individual basis.

Rob Phillips is managing director of Accutronics, a five-year-old manufacturer of custom rechargeable batteries for professional applications. The business's facility is in Stoke-on-Trent from where it exports to more than 30 countries.

Image: Getty

Senior members of the Royal Family, including the Duke and Duchess of Cambridge, are "brand assets" and help to sell Britain abroad

He says: "The main reasons for British brands' enduring reputation in overseas markets is a combination of a proven track record in technology and quality, combined with an international viewpoint that British firms are honest, trustworthy and operate within a proven, stable legal framework."

OTHER INDUSTRIES

Industries aside from manufacturing can benefit from this solid reputation too. Igloo Books is a publisher of children's literature which founded in 2003, and now has more than 100 employees and £30 million in annual sales.

"We export over 50 per cent of our business," says chief executive John Styring. "Our books are sold into 57 countries and this is expanding all the time. We have set up businesses direct to retail in the United States and Germany, and last year bought a French company, Elcy Editions.

"But Brand Britain is most valuable in the emerging markets, such as Brazil and India. These newer markets have a massive need for high-quality content and high standards, and the UK has become known as a provider of great quality goods."

The phenomenon even stretches to online retail and global virtual stores, such as eBay. UK sellers are expected to export £153 million of goods this Christmas, with just over four out of five British sellers exporting to four or more countries.

Fashion items, electronics and collectibles are the most sought-after goods for overseas buyers, while countries at the front of the queue are the United States, Australia, Italy, France and Germany.

But it is brands which seize upon essential British stereotypes that work the best, according to Allyson Stewart-Allen, a branding expert from the US now based in London. She points to the heritage and status of brands like Rolls-Royce, which are famed for ultimate levels of quality and craftsmanship.

A very traditional-sounding name, such as Thomas Pink, Charles Tyrwhitt and Anya Hindmarch, always helps, while a focus on British design quirkiness, such as Vivienne Westwood, generally goes down well. You don't even have to be a fan of Britain to benefit from its glow.

Ms Stewart-Allen says: "British brands that bring personality, character, great design and eccentricity, and a new perspective on the country's indigenous offering, will do really well."

So Brits might well be thought of as royalty-worshipping, roast beef-eating sociopaths with bad teeth, but while Brand Britain is also associated with quality, design, reliability and integrity, bring it on.

7%

premium paid in the UK's top export markets for the "Made in Britain" label

Source: Barclays

£13.9bn

of British exports in September 2014 alone

Source: Office for National Statistics

1.1bn

pints of craft beer exported to 113 countries in 2013

Source: Defra

Case Studies

FLYING THE FLAG

SELLING CRISPS TO FRENCH FOODIES

Image: Getty

Based on a small farm in Herefordshire, Tyrrells Crisps began its exporting story in France, shortly after the company was established in 2002. Twelve years later, it is now the UK's fastest growing hand-cooked premium crisp brand, available in 36 countries, including Germany, Russia, China, Saudi Arabia, the United States and most recently Australia. International business now accounts for more than 25 per cent of sales.

David Milner, chief executive, says: "Tyrrells has always focused on developing a brand that offers consumers around the world a little piece of Britain.

"We've found that promoting our heritage as well as our British humour appeals to the mass market – giving them that British quality and authenticity; a concept people across the world understand and find appealing.

"We would urge others to consider the same strategy. France has been particularly responsive to our British eccentricity and, by building on our heritage, it has significantly impacted on the growth of our business, reaching corners of the globe we never thought possible.

"As a result of looking at overseas opportunities, we have not only created a premium crisp category in France, it is now our biggest market outside the UK and our British roots have played a large part in this.

"One thing our international customers love is our use of old black-and-white images of humorous British scenes and characters. Far from making our brand old fashioned, when combined with vibrant pack colours and copy, we're told they convey a sense of 'Cool Britannia', which has definitely helped our international presence.

Britain is known for its quality and at Tyrrells we start with the very best raw materials, working with local family farms in Herefordshire, to select and grow the best potatoes and investing in production to create points of difference. We aim to continue to lean on our Britishness in the future and fly the flag overseas. So far, it's definitely working."

TAKING TEA TO CHINA

Image: Getty

Located in Cornwall, Tregothnan Estate is making a success of selling tea to the largest tea-drinking countries in the world, including China.

The estate, near Truro, has been owned by the Boscawen family since 1335. It has 25 acres of tea plants and is hoping to harvest ten tons of tea this year. Tregothnan exports to China, Japan, India, Brazil, Australia, South Africa and the United Arab Emirates, as well as EU countries.

Jonathon Jones, managing director, says: "Tregothnan Tea was launched in 2006 and has gained rapid momentum in recent years. Since the government's 'Great' campaign, coinciding with the London Olympics, our sales have really kicked off.

"I have just come back from Brazil, where the appetite for Britishness is very strong, especially in the run-up to the Rio Olympics, after the success of London 2012.

"We have passion and a long heritage behind us, but we are also outward facing and forward looking. The estate has been here for 700 years and we plan to be here for many more. We have been amazed at the response and a large factor of this is down to the heritage of the product.

"The fact that we grow British tea on British soil and have become experts in it is very attractive to our international markets, such as China – the birthplace of tea. Quite simply we are Britishness in a cup. Our product is enjoyable, distinct and opens up a whole new world to tea drinkers.

"In a homogenised world, which is increasingly international, people crave something identifiably British; it's what countries love and want to see more of. Hence why we use the Union Jack in our packaging – it's the first factor people judge the product on.

"We are poised to take the most British teas in history to 100 countries within three years – by 2020 we are aiming to be well known in all tea-drinking countries."

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EUROZONE GLOOM CASTS SHADOW ON UK RECOVERY

European Central Bank president Mario Draghi (right), pictured with Greek finance minister Gikas Hardouvelis, has a leading role to play in restoring the eurozone's economy

Britain is not immune from the economic problems which continue to plague the eurozone and some of the UK's major trading partners, writes Kathryn Hopkins

It wasn't too long ago that politicians declared the worse was over in the eurozone and that the zone was on the road to recovery. However, the situation once again appears to be bleak.

While it has not reached the same point as in 2011, when the 18-strong bloc was on the verge of breaking up, the eurozone is now in danger of falling into a Japanese-style deflationary spiral, as well as tipping into recession for the third time in six years.

The latest set of gloomy figures from Eurostat showed that inflation had fallen back to a five-month low of 0.3 per cent in November, down from 0.4 per cent in October and well below the 2 per cent official target of the European Central Bank (ECB).

> The situation has been hampering the growth of UK exporters for some time as the eurozone is their biggest market

Growth is also dangerously low, increasing by just 0.2 per cent in the third quarter of the year, with Germany, the eurozone's powerhouse economy, eking out a meagre 0.1 per cent expansion.

Debt-stricken Greece, which almost tore the zone apart, is also becoming a problem again, with hopes of exiting its bail-out programme early, when the European authorities and the International Monetary Fund are uncertain that the Hellenic nation will be ready.

All this adds to pressure on ECB president Mario Draghi to embark on a full-blown programme of quantitative easing (QE), similar to the US and UK, which he has so far been reluctant to do.

Most economists now believe that it is not a matter of if but when QE is introduced as the Frankfurt-based ECB has almost exhausted its toolbox in the battle to ward off the growing threat of deflation, including slashing interest rates to a record low.

Vitor Constâncio, vice-president of the ECB, has also conceded that the central bank would consider launching a QE programme if existing policies failed to stave off deflation and rekindle growth.

"Pressure for the ECB to take further stimulative action – and sooner rather than later – has been ramped up by the renewed drop in eurozone consumer price inflation to 0.3 per cent in November, ongoing weak economic news, a rise in unemployment in October and a continuing fall in bank lending to eurozone businesses," says Howard Archer, chief UK and European economist at IHS Global Insight.

"However, while Mario Draghi's comments in late November that eurozone inflation and inflation expectations need to rise as soon as possible stoked speculation that the ECB could take further major stimulative action at its December meeting, any substantial new initiatives look far more likely to happen in the early months of 2015."

Indeed, at the December 4 meeting, the ECB disappointed markets and failed to deliver QE for Christmas.

BRAKE ON UK EXPORTS

The situation has been hampering the growth of UK exporters for some time as the eurozone is their biggest market. Official figures from the Office for National Statistics (ONS) showed the UK's deficit on trade in goods and services widened to £2.8 billion in September, compared with £1.8 billion in August.

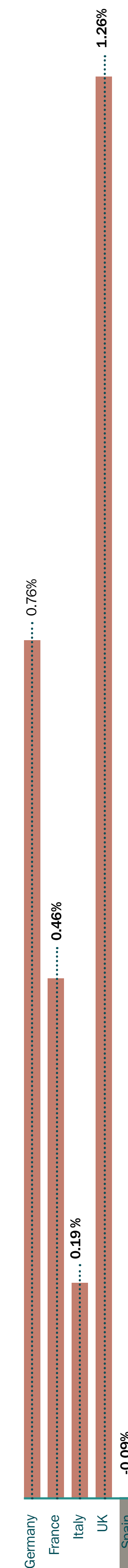
Worryingly, while Germany remains the UK's largest trading partner in terms of the value of goods exported and imported, the Britain recorded its largest-ever deficit with Germany in the third quarter of the year, reflecting a gradual decline in exports and rise in imports, according to the ONS.

As well as a declining economy in the eurozone, another burden for British businesses is the in or out referendum that Prime Minister David Cameron has promised if the Conservatives are still in power in 2017. There are concerns that this could put European businesses off striking deals with UK firms as they would not want to do business with a country that is no longer a member of the European Union.

Alisdair McIntosh, director of Business for New Europe, the group against a so-called Brexit or British exit from Europe, adds: "It would be impossible to negotiate the things that matter most to business while also negotiating to leave. Nobody is likely to agree to proposals from the UK to improve conditions for business in Europe, and to reform and improve the EU, if we have said that we intend to leave."

Consumer Price Index 2014

Source: Inflation.EU



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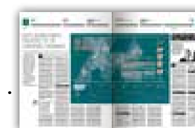


However, it is not all doom and gloom, and there will be some opportunities for UK exporters next year in the eurozone, according to EY.

Tom Rogers, senior economic adviser to the EY Eurozone Forecast, says Germany and Ireland will be two strong markets for UK exporters next year. While the euro is set to continue to depreciate, this will partly be offset in Germany by the fact that it plans to introduce its first-ever minimum wage in January. This will boost consumer spending and in turn increase imports.

Ireland, which has staged a dramatic transformation since having to go to the authorities with its begging bowl in 2010, will also be a strong export market, with its imports forecast to rise by 8 per cent this year and 4 per cent next year.

Commercial Feature

South-south trade: why you need a friend on the ground

Business between developing countries, known as south-south trade, is growing fast and companies looking to benefit are increasingly turning to **Standard Bank** because of its unique presence on the ground in Africa

As the economy of Africa continues to grow at a very impressive 6 per cent, according to the International Monetary Fund, in recent years south-south trade has emerged as a driving force behind this expansion.

Trade between Africa, Latin America, India and China has grown rapidly, in particular Brazil's trade with Sub-Saharan Africa increased between 2000 and 2010 from $2 billion to $12 billion, and is expected to grow in the coming years, says the World Bank. "South-south partnering will play a major role in global knowledge, trade and investments in the coming years," it says.

Meanwhile exports by African countries to their peers have surged by 32 per cent since the 2008 economic downturn.

South-south trade has become more sophisticated and complex, having "evolved over the past several decades from the simple paradigm of manufacturing a final product in one country and selling it in another, to a world in which products often cross several borders and accrue value addition in multiple international locations before going to market", according to the International Chamber of Commerce survey *Rethinking Trade and Finance 2014.*

This exciting new development is largely driven by trade increasing substantially between developing countries, in turn driven mainly by commodities, over the last few years. But such rapid development means that corporates, financial institutions and governments have had to review the way they do business. They're also having to educate themselves, and look at new ways of managing risk and extracting working capital from their business operations in a cash-conversion cycle.

Africa can be particularly challenging when it comes to risk management because African nations are at different stages of development. A risk management model that works for South Africa, for instance, may not be appropriate for Nigeria or Angola.

"Exporters and manufacturers have to consider country risk, currency risk as well as counterparty credit risk and hence look towards a solution provider that can help them manage these risks. The bank that can do this can add real value for its clients," says Vinod Madhavan, head of transactional products and services (TPS) in South Africa for Standard Bank, Africa's largest banking group by assets, which has more than 150 years' experience of working in the continent.

"The way to assess and underwrite risk effectively is to know the corporate well. But you also need to be present in the market and have local expertise on the ground. There's no substitute for this and we find that companies, especially those who might be new to doing business in Africa, really appreciate this."

These are issues that Standard Bank Group has been able to help an increasing number of corporates and financial institutions to handle, thanks to its experience and its strong presence in African countries, led by its network of more than 1,200 branches.

Hasan Khan, head of sales and head of Africa for Standard Bank's TPS business, points out that when Ghana experienced balance of payments difficulties earlier this year, Standard Bank was able to take a longer, more strategic view than many other banks, looking at the longer-term economic cycle and adopting a more considered view of the risk there. He puts this down to Standard Bank's deep level of market understanding, and its close working partnerships with clients and regulators.

"We work with stakeholders and regulators on the ground in-country rather than trying to do it remotely," says Neil Surgey, global head of TPS for Standard Bank. "This approach and the fact that Standard Bank has been around for over a century and a half, gives us legitimacy, built over the years, by partnering with our clients.

"The clients appreciate the fact that we've been working with stakeholders, industry participants and regulators in a number of situations, ranging from market infrastructure developments to banking crises. This means that we can offer our clients advice based on a deep understanding of the market and of the country, and on reliable information from a variety of sources."

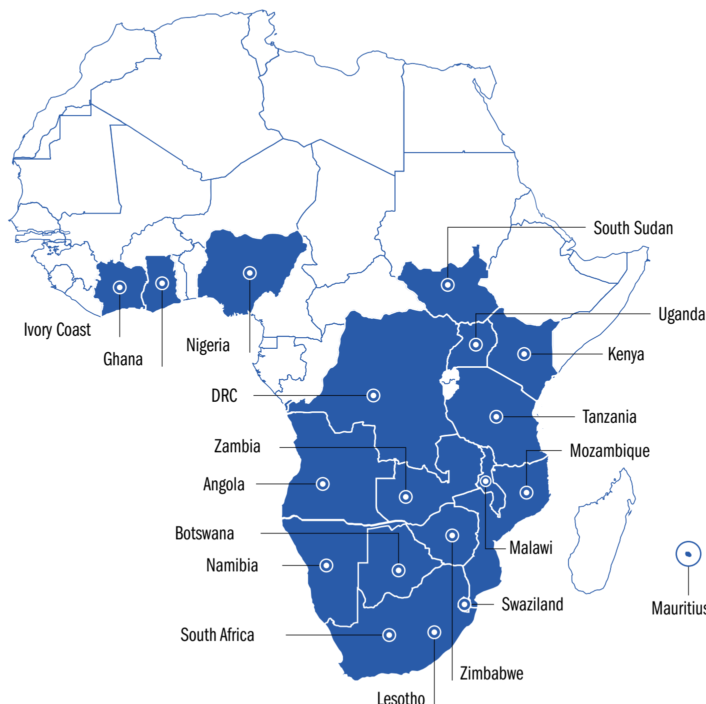
Alongside risk management, another important issue for corporates and financial institutions is working capital financing. This is particularly relevant as a key trend in cross-border trade, given the sharp growth of intra-Africa trade, especially over the last 12 to 18 months.

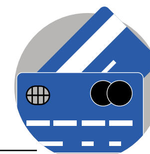
Previously companies exporting to markets in Africa, felt obliged to obtain confirmation of their letters of credit from countries such as the UK and United Arab Emirates, before exporting or executing on the trade, but now they are getting confirmation from a tier-one bank in South Africa. This is more commonplace as companies develop relationships and start getting comfortable with their counterparties.

"Because Standard Bank is present in all these markets, we have an understanding of the supply chain of the client," says Mr Madhavan. "It's very likely that a client's suppliers and distributors are also banking with us, so we have an overview of the total supply chain network. Clients find that because of this, we're more likely to be able to meet their working capital financing needs.

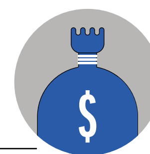
"As always, when you're trading in Africa, it's about having a trusted bank with a really strong presence on the ground."

STANDARD BANK GROUP BY NUMBERS

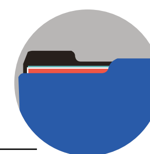




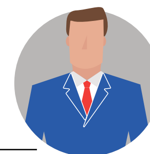
1,270
branches and 9,650 ATMs across the continent



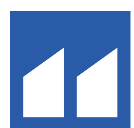
$20bn
market capitalisation



$166bn
Standard Bank Group assets at June 30



42,200+
banking employees



We can offer our clients advice based on a deep understanding of the market and of the country, and on reliable information from a variety of sources

Africa

INTO AFRICA WITH PROSPECTS OF GROWING DEMAND

The "Africa rising" narrative has been replaced by a more complex picture, as African economies experience growing pains and social unrest, but there are still huge opportunities for companies willing to take risks. Pete Guest reports

Cabo Verde is a tiny market, an archipelago nation off the west coast of Africa with a $2-billion economy built on fishing, tourism and a nascent textile manufacturing sector. For Charles Brewer, who heads the sub-Saharan Africa operations for the global logistics company DHL, it provides a case study of how multinationals often miss the latent demand in many of the region's markets, which are fragmented and sometimes weakly linked to each other and the global economy.

"We didn't have a flight going out there because the volumes didn't warrant it," Mr Brewer says. "Those planes have very large payloads and they cost a lot of money." Even so, the company took a gamble on the route, assigning a 737 once a week to bring freight in and out of the country.

"I now have enough experience here to know that if you build it, they will come," Mr Brewer adds. "We said, let's do it and see what happens, and manage the risk accordingly. We put the aircraft in and in two weeks it was full."

Most of the customers on the route had not previously been trading with Cabo Verde, but had taken advantage of a new air link to expand their businesses opportunistically. "One of the delights of working in Africa is that you have to be very nimble, very dynamic," Mr Brewer says.

> Economic growth has not always translated into resilience and social services

DHL is among a very exclusive club of companies with a presence in every single market, but it is a company that has built its business in part because of the region's inefficient infrastructure, fixing the logistical problems of other enterprises.

Sub-Saharan Africa, with 49 distinct countries, each with their own cultures, laws and regulatory idiosyncrasies, and each at different levels of economic and political development, can be a very challenging region to crack.

Since the turn of the millennium, sub-Saharan African economies have, almost without exception, been growing at a rapid rate. On aggregate, the region's gross domestic product growth has outpaced the global average every year since 2001. Driven by higher commodity prices and greater political stability, the region's economies expanded, creating a new rush of investor interest. While natural resources underpinned most of the boom, rising wealth in societies and urbanisation also prompted investment in financial services and consumer goods.

In 1980, 28 per cent of Africans lived in cities; in 2010 that was 40 per cent. By 2030, more than half the continent's population will be in urban areas, driving an enormous demand for retail goods, real estate and services.

AFRICAN MIDDLE CLASS

The McKinsey Global Institute forecasts that in 2030 the combined spending power of Africa's 18 largest cities will reach $1.3 trillion. Standard Bank research puts the total size of the African middle class, earning between $5,500 and $42,000 a year, at around 15 million households, growing to 22 million by 2030.

The promise of greater regional co-operation and economic integration between economic blocs also drove multinational companies to look deeper at sub-Saharan Africa. Tiny Rwanda, one of the most business-friendly countries on the continent, according to the World Bank, has an $8-billion economy and a population of 11 million, making it hard to justify a major investment. The East African Community, of which Rwanda is a member, has a population of 145 million and a GDP of $110 billion. The removal of barriers between these countries, which trade far more with the rest of the world than each other, would create huge market opportunities for multinationals and local businesses.

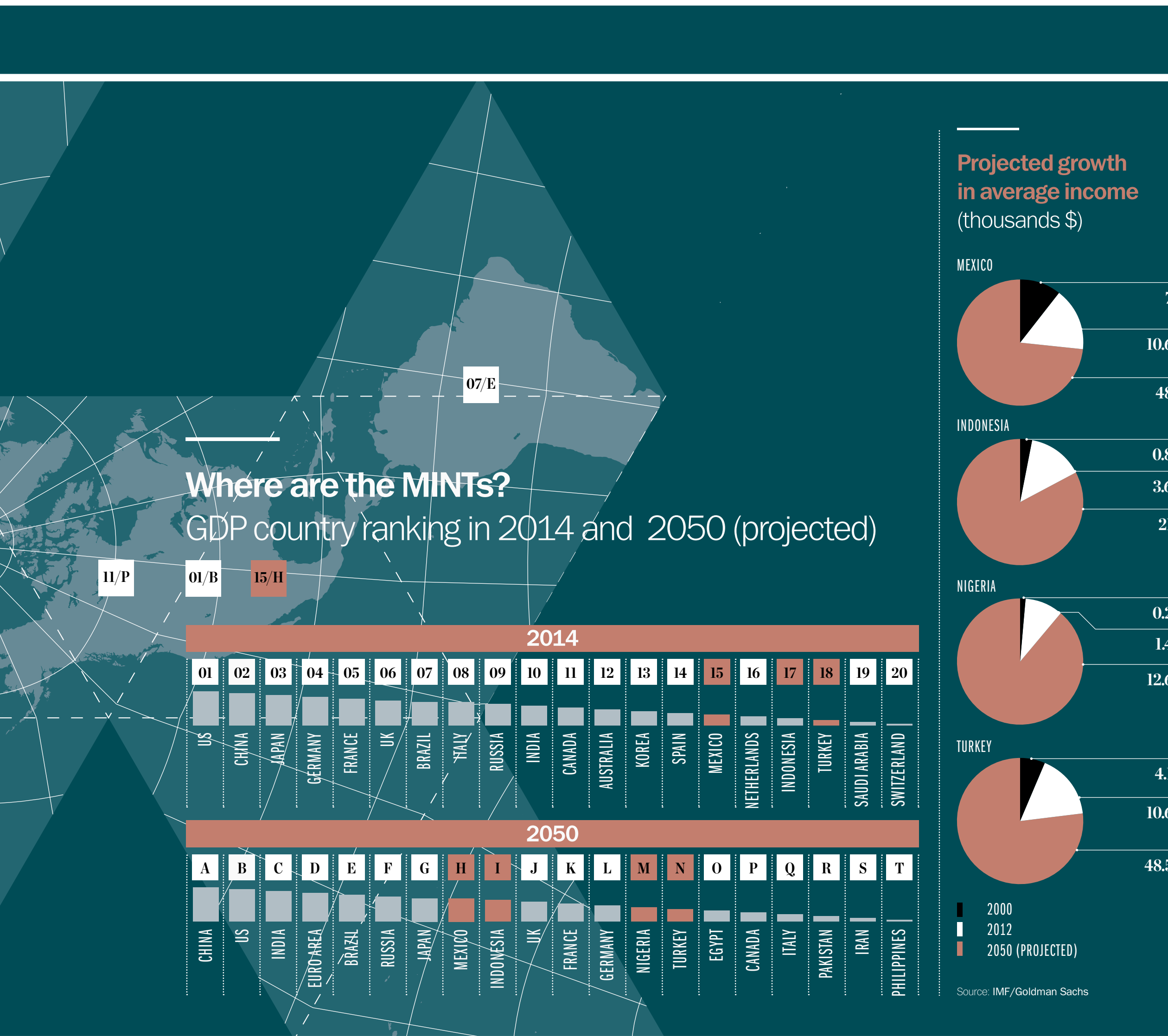
All of these trends have fed into a new positivity about sub-Saharan Africa and into a narrative of "Africa rising" that has gradually replaced the pessimism of the 1990s.

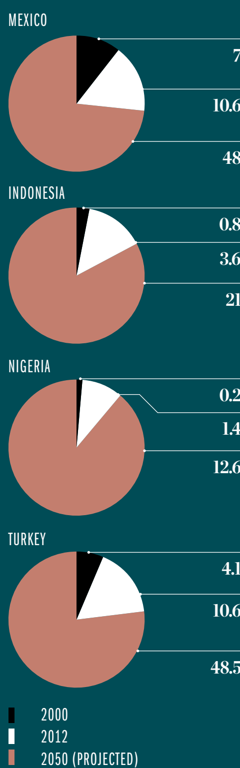
Over the last few years, however, the picture has become more clouded and the story more complex. For many of the genuinely positive trends, there are countervailing concerns.

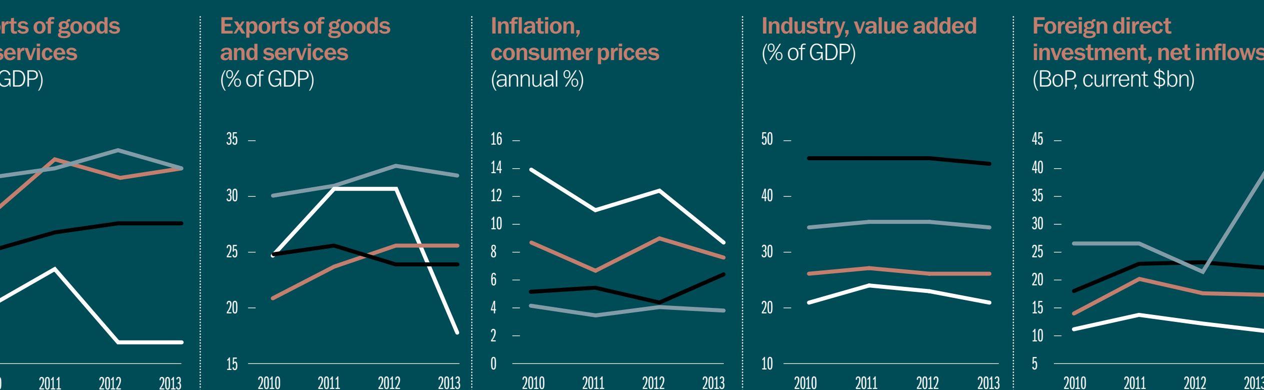
In some cases, the same trends that drive commercial interest can cause social tension, in particular demographics. East African economies are falling behind, as population growth outpaces wealth creation. Low income households make up 92 per cent of the population in Kenya, 96 per cent in Uganda, 97 per cent in Tanzania and 99 per cent in Ethiopia, which has consistently been one of the fastest growing economies on the continent over the last ten years.

"If you take GDP per capita over the past decade, some countries, such as the Central African Republic, even Benin and Gabon, Guinea-Bissau, Madagascar, Liberia and Swaziland, experienced virtually no growth," says Amadou Sy, senior fellow in the Africa Growth Initiative at the US Brookings Institution. "The growth engine did not really align with the location of the poor in Africa."

While the Ebola outbreak in the Mano River region of West Africa has affected only a small fraction of the continent, it has highlighted a weakness that is common to many African economies. Economic growth has not always translated into resil-







ience and social services. Likewise, the rise of terrorist groups, such as Boko Haram in Nigeria and Al Shabaab in East Africa, has its roots in social and political marginalisation in growing economies.

WEAK INSTITUTIONS

Suresh Kana, PWC's senior partner for Africa, says the weakness of institutions means when problems happen, the consequences can be amplified.

"These are very young democracies and that's why they're fragile – things go wrong," he says. "When an event or an incident strikes, it becomes very stark here because the institutions are not set up to deal with them in a sophisticated way."

But Mr Kana is still optimistic about the investment prospects for Africa's key markets. He takes the example of Nigeria, the continent's largest economy, with a population of 170 million people and an economy that is still heavily dependent on energy exports. Falling hydrocarbon prices have weakened Nigeria's prospects at a point when it is fighting a draining conflict with Boko Haram, and grappling with providing commercial and social infrastructure.

"The national grid in Nigeria provides less than 15 per cent of the country's needs. The rest of it is all running on generators and batteries," he says. This makes it a challenging place to do business, but also a place where providing basic services could be a massive opportunity.

Echoing Mr Brewer's notion that taking risks and pre-empting demand is a prerequisite for breaking into frontier markets, Mr Kana cites the example of the South African mobile operator MTN, which went into Nigeria in 1997 when the country was still under the military dictatorship of Sani Abacha, and when the market for mobile telephony barely existed. Today, 75 per cent of Nigerians own a mobile phone and MTN is the biggest player in the country.

MINT NATIONS FACE URGENT CHALLENGES

Professor Anil K. Gupta, of the University of Maryland's Smith School of Business, and **Haiyan Wang,** managing partner of the China India Institute in Washington, assess prospects of the so-called MINT nations

Notwithstanding the catchiness of the acronyms, it's hard for us to see much that's common to the MINT countries. Mexico, Indonesia, Nigeria and Turkey do share a superficial commonality in the sense that after the BRICs – Brazil, Russia, China and India – they make up four of the next five largest emerging economies in the world. Otherwise, however, they are a very diverse group, in terms of their current level of development, as well as the challenges that lie ahead.

We can compare the four MINT economies on some key dimensions. Turkey and Mexico are much richer and more developed than Indonesia and Nigeria. However, they are also growing at a much slower pace than the latter. We discuss here the most important bottlenecks that each economy needs to overcome.

MEXICO

Mexico is an emerging economy with a per capita income only one quarter that of the United States. Yet, during 2000-13, Mexico's economic growth (2.1 per cent) barely exceeded that of the US (1.7 per cent). The country's challenge is a very low rate of productivity growth. Many industries are highly concentrated and thus lack the incentives for innovation and efficiency. Mexico also suffers from a very high level of income inequality. The education system remains weak and the country's R&D expenditure is a tiny 0.5 per cent of GDP.

INDONESIA

Indonesia enjoys many advantages. It has a young population, and low labour costs are making it an attractive destination for foreign direct investment and one of the rising manufacturing hubs in Asia. However, given its stage of economic development, Indonesia's economy needs to grow at an 8 per cent or higher pace rather than the 5-6 per cent of the last decade. The challenge for Indonesia is weak transportation infrastructure, a complex regulatory environment, a high level of corruption and almost no attention to R&D.

NIGERIA

Having grown at an 8.3 per cent annual pace since 2000, Nigeria's economy appears to be a picture of robust health. Such a conclusion would be mistaken. While Nigeria has benefited from the oil boom, it has failed to diversify beyond natural resources. The recent fall in oil prices puts Nigeria in a precarious situation. The country's infrastructure is extremely weak and, as a result, so is the manufacturing sector. Nigeria's challenges also include a very weak educational system and, at 0.1 per cent of GDP, hardly any expenditure on R&D.

TURKEY

Over the last decade, Turkey has made great strides in improving its infrastructure. Turkey also enjoys strong engineering skills and a very capable private sector. Thus we see little risk of Turkey's growth falling below the 3.5-4 per cent range. But Turkey needs to move up the value chain and boost productivity at a faster pace. This requires beefing up the country's investment in research and development (R&D). At 0.9 per cent of GDP, it is much lower than the 3 per cent R&D-to-GDP ratio for South Korea at a similar stage of economic development.

> The MINT countries are a very diverse group, in terms oftheir current level of development, as well as the challenges that lie ahead

Commercial Feature

Payment experts on a global mission

Established payment providers and modern startups need to ensure they have fully integrated, flexible and secure platforms to help them flourish in the global era, says **BPC Banking Technologies**

Anatoly Loginov
President and chief executive
BPC Banking Technologies

Payments are the equivalent of the cardiovascular system of an economy. Until recently, payments in the global economy were dominated by a few well-established players who, driven by economies of scale, grew for several decades through mergers and acquisitions into their current formidable size.

Dominating the market, they have until now had little incentive to modernise their technology. Payment platforms for these institutions were often built, at best, in the late-1970s to the mid-1980s and have not been modernised since then, as there has been little motivation or need for these organisations to change the way they work.

Today, however, these established players are coming under threat from new entrants with "revolutionary" payment methods and technologies, from multi-application smart cards and mobile devices to virtual cards and currencies.

According to *Bloomberg Businessweek*, there are more than 1,500 startups now operating in the new payments methods space, ranging from $1-billion companies to smaller players with valuations in of just a few dozen million dollars. Often these startups stem from university room-mates trying to earn a bit of extra money, who invent some peer-to-peer transaction system, build a prototype model and sell it off to innovation-thirsty investors, much as happened in the internet and e-commerce startups boom story of the late-1990s.

These startups have quickly realised the need for a modern payments platform that is fully integrated and flexible, but also secure, robust and scalable, which can support their growth to help them become real rivals to incumbent players. This, in turn, has increased the pressure on established payment providers, who now also require modern payment platforms capable of supporting millions of business transactions a day.

Although the need for such technology platforms seems to be well recognised by both groups, it is still not clear where this platform should come from. Payment technology is a relatively conservative area, more akin to a traditional bricks-and-mortar type operation than a Silicon Valley startup. For decades the market was dominated by very few monopolies, which appeared impossible to break, making it unattractive to investors looking for short to mid-term exits to support.

The result of this has been that the industry has failed to evolve or mature and has created a situation where there is a strong demand for a new technology platform, but a lack of credible suppliers.

BPC BANKING TECHNOLOGIES

There is, though, one provider capable of delivering such innovation. BPC Banking Technologies with 140 customers – banks and payment processors – in 50 countries on five continents is a leading player in the narrow but extremely sensitive niche of payment technology, providing solutions for all kinds of retail electronic payments through cards, mobile, internet and virtual currency.

Developed and fully owned by BPC, its payment platform SmartVista has been consistently ranked by Gartner as a leading provider and in 2013 was named best technology payment platform by Ovum. It has a strong track record: in the last 15 years not a single customer has been lost to a competitor and in the past five years it has been growing at up to 70 per cent a year, despite the various twists in the geopolitical landscape and the global economy.

"But this is only beginning of the story," says Anatoly Loginov, chief executive of BPC Banking Technologies. "Although it took us nearly 15 years to get ready, we are now uniquely positioned to supply in full the global demand for new payments platforms."

Headquartered in Switzerland, with sales and implementation offices in major economic hubs, including Zurich, Madrid, Singapore, Dubai, London, Johannesburg, Panama and Miami, and development centres in Europe, Russia, the Middle East and Asia-Pacific, the company is well placed to help customers take advantage of new opportunities arising in any part of the globe.

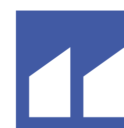
But how could all this happen? "We are almost a text-book story," says Mr Loginov. "What we have now is a result of a combination of extreme luck, ambitious long-term planning and strict adherence to very few, rather conservative, principles."

The company was created in the mid-1990s by ex-Digital Equipment Corporation employees, who were responsible for projects for the financial industry.

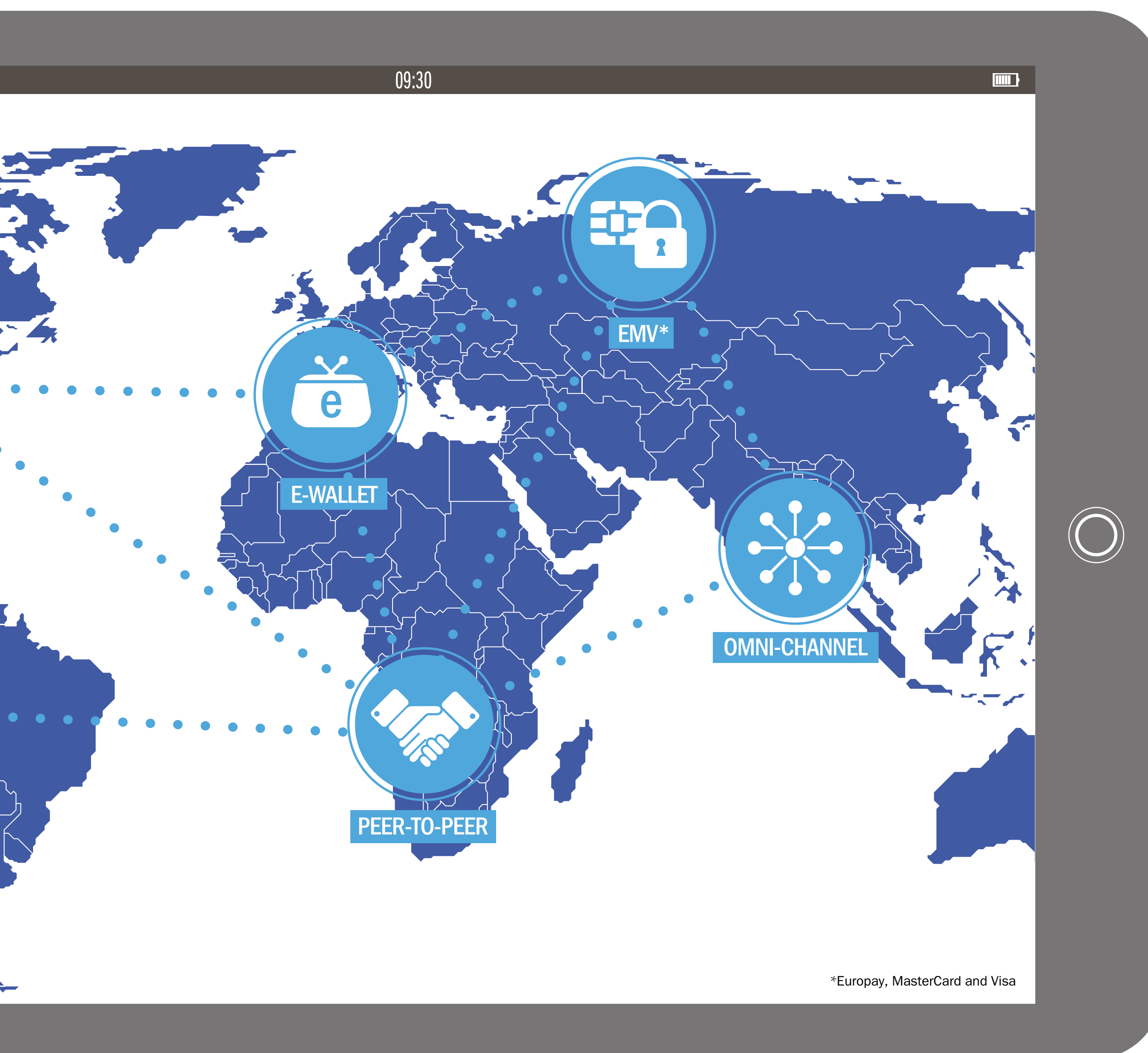
"From the very beginning, we wanted to challenge the global monopoly of a very few players with proprietary solutions, and create modern, fully integrated, flexible and scalable platforms that could handle both existing and future payment types," says Mr Loginov. "We also wanted to support or create any product they wanted and for them to be fully free to choose the environment they like – hardware, systems, peripherals, terminals, cards – all with the same or better functionality as existing proprietary solutions."

The business initially drew on the experience of its founders, but also benefited from the expertise of talented Russian software developers to construct the SmartVista platform. With a background in former Soviet Union space and physics research institutions, these skilled individuals helped implement the platform in software codes, securing some of the largest financial institutions in Eastern Europe were able to progress from nothing to using the most up-to-date solutions, as well as acting as a test-ground for the newly built platform.

The business initially focused on ensuring its technology was proven, with organisations that were willing to take advantage of being "first movers". One early customer was Sberbank in Russia, who from starting with fewer than 100 ATMs today uses the SmartVista plat-



With customers in 'banking breakthrough' countries, we have proved we can directly address any emerging technology needs, totally bypassing legacy systems



BPC BANKING TECHNOLOGIES OUR EXPERTISE

FINANCIAL INSTITUTIONS
from niche players to financial groups

NATIONAL PAYMENT INFRASTRUCTURES
from state initiatives to private schemes

GOVERNMENT PROJECTS
from central banks to government agencies

MICROFINANCE & E-COMMERCE
from small businesses to multinationals

TRANSPORT INDUSTRY
from airlines to fuel companies

form to handle more than 20 million transactions every day, from 70,000 ATMs, 10,000 kiosks and 300,000 point-of-sale terminals.

Neither is this confined to basic functionality as SmartVista enables the integration of interactive voice and video communications from Sberbank ATMs, using Adobe Flash Player and web browsers to create a voice-over-IP session between customers and call centre staff. "Essentially this system can be used to turn each ATM into a mini-branch, where customers can interact with bank staff remotely to get advice and assistance," Mr Loginov explains.

BREAKING NEW GROUND

BPC Banking Technologies, though, has a longer-term ambition to challenge the monopoly of existing payment technology providers and become a truly global player. "Many of our competitors, who mushroomed at the same time as us in the wake of opportunities in emerging markets, were tempted to build quick solutions to address the local and immediate needs of customers randomly scattered over the globe, who could not afford solutions from the dominant global providers," says Mr Loginov.

These businesses gained an initial advantage and market share, he says, but were unable to sustain their customers' growth when it came to more mature and diversified markets. "Now we do not see them anymore," he adds. "Our next ambition is to challenge the incumbent leading suppliers where they are strongest at first-tier global accounts."

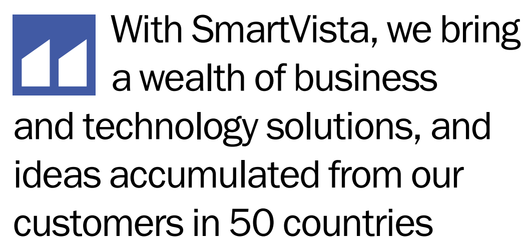
The business intends to achieve this goal by sticking to the same basic principles that served it so well at the beginning of its journey. "We will continue to build truly global, fully functional and flawlessly integrated solutions while staying customer focused and customer dependent," says Mr Loginov. "Often people assume 'global' means US focused, but with SmartVista, we bring a wealth of business and technology solutions, and ideas accumulated from our customers in 50 countries."

BPC certainly boasts an impressive international customer list, including ERSTE Group, where it is building a common card platform on a single site to replace multiple systems in seven banks acquired by the group in Eastern Europe, and the State Bank of Mauritius, where it has replaced 11 different applications with SmartVista to create a fully functional and seamlessly integrated solution.

Other notable examples of customer projects around the globe include a microfinance scheme in Cambodia where BPC was among the first to deploy biometric technology at ATMs, and other initiatives focused around purely mobile transactions in countries such as Kenya and Malawi, Afghanistan and Iraq.

"As Bill Gates said, with customers in 'banking breakthrough' countries, from Indonesia to Namibia, Botswana, Kenya and Malawi to Vietnam, Cambodia, Laos and Myanmar, we have proved we can directly address any emerging technology needs, totally by-passing legacy systems," says Mr Loginov.

The original database and built-in product parameterisation mechanism, which allows customers to incorporate new payment channels and products immediately, while maintaining integration with necessary infrastructure – something often neglected by startups – will also remain, allowing customers to maintain standards around issues such as security, throughput optimisation, auditing, reporting and analytics.



> With SmartVista, we bring a wealth of business and technology solutions, and ideas accumulated from our customers in 50 countries

In addition, the business, for now, will stay privately owned, adds Mr Loginov, meaning it can ensure its focus remains on helping customers and avoid any exposure to market fluctuations or other external forces beyond its control.

The business is now ready to take on the challenge of using SmartVista to replace legacy solutions, while supporting new payment methods. To date, established first-tier global payment providers and big-name payment startups have proved unwilling or unable to take the necessary steps, but Mr Loginov remains convinced they will soon realise this is the only way they can survive in the modern payments era.

"We are fully ready both to replace legacy systems for established players and build future-proof platforms for serious modern startups," he says. "They will come – because there is no one else who can offer the right platform for their needs."

Commercial Feature

Commodities: the brave new world

As the global commodities sector changes faster than ever, with greater opportunities and challenges opening up, international law firm **Reed Smith** provides some essential insights on the legal and regulatory issues market participants face

ReedSmith

Inventory or warehouse financing is a hot topic for the commodities sector these days. As finance from traditional sources becomes more difficult to obtain, because of deleveraging and tighter regulation on banks, corporates have looked at other ways of maintaining their working capital.

One such tool is a sale and repurchase transaction, known as a "repo". This is, in essence, a commodity sale by the corporate with a requirement or option that the seller repurchases a similar commodity at a later date. Repos are attractive to lenders because lenders should be well protected as the owner of the commodity. For most banks, the regulatory capital treatment of a commodity repo means they are required to hold less capital against the financing than they would for a conventional loan.

However, alongside this and other innovations are an increasing number of potential pitfalls. In particular, commodity inventory fraud has been making headline news. Why? Principally because commodity-backed inventory financing carries a unique set of risks. For example, commodities are fungible; in other words, they're easily traded. They're also a portable and, in some cases, perishable asset, which is relatively easy to monetise. This provides lenders with a liquid and flexible form of security, but at the same time makes that security vulnerable to risks such as misappropriation.

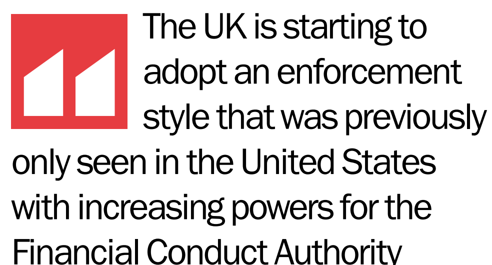
Lenders and others can protect themselves, though. How?

- Proper understanding of the "physicality" of the commodity is essential
- It's also important to be clear about the title of the goods, which involves understanding origination and supply chain obligations
- Being aware of how to obtain and protect whatever form of legal interest is recommended by local legal counsel is important too
- Knowing the access arrangements and the terms on which the goods are stored
- Carrying out due diligence on all counterparties and
- Proper understanding and use of other risk mitigants, such as insurance, are among the issues that lenders should "stress test" in this rapidly evolving market.

REGULATION

"Regulators slap $4.3-billion fines on six banks in global forex probe." "European banks wake up to the pain of US-sized fines." "UK financial regulators to police seven more benchmarks". Recent headlines such as these dramatically demonstrate the increasingly robust stance taken by regulators, and with new and more demanding regulations coming into force, participants in the commodities market are being kept on their toes more than ever.

This year saw the implementation of further obligations under the European Market Infrastructure Regulation (EMIR), which aims to increase transparency in the market.



The UK is starting to adopt an enforcement style that was previously only seen in the United States with increasing powers for the Financial Conduct Authority

The revised Markets in Financial Instruments Directive (MiFID II) was published in June and is due to come into force in January 2017. Many in the commodities sector have already started to prepare for the increased regulation this will impose, particularly on those trading commodity derivatives, given that many of them had previously relied on an exemption in the first version of MiFID, which has now been removed.

Alongside this, the UK is starting to adopt an enforcement style that was previously only seen in the United States with increasing powers for the Financial Conduct Authority (FCA). For example, the number of dawn raids being undertaken by the FCA has almost doubled in the past year. The UK's Serious Fraud Office is reported to have a number of cases in the pipeline against companies that are suspected to have breached the Bribery Act, which came into force in 2011.

So, among other things, market participants must ensure they are aware of, and that their contracts and standard forms comply with, all regulations to which they are subject, and that they conduct thorough due diligence on third parties.

SANCTIONS

The use of sanctions as a targeted political weapon is continuing to increase. Recent developments in Russia and Ukraine demonstrate this, and the new approaches being adopted.

Furthermore, fines imposed on banks for breaching sanctions have ranged from millions to almost $9 billion.

While sanctions are not new to the commodities market, "sectoral" measures, dealing with access to the capital markets, imposed as part of sanctions against Russia, are unprecedented, and add to an ever-expanding and more complex body of international rules for commodity market participants to navigate. Unlike other approaches, such as asset freezing, these sectoral sanctions prohibit only certain activities involving certain listed entities.

As well as this, players not previously directly affected by sanctions, such as lenders to the commodities market, are now being drawn in. Furthermore, new names continue to be added to the sanctions lists and, therefore, a contract that is lawful today might be unlawful tomorrow.

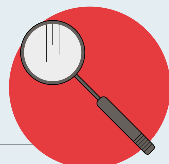
Another complication is that the EU and US positions on sanctions differ. Variations include:

- People subject to asset freezes
- Controls applicable to imports and investments in infrastructure and
- How the specific prohibitions are implemented by the respective government agencies.

In an unstable world, with sanctions set to become increasingly commonplace and stringently enforced, regularly updated advice and guidance is more important than ever.

This article has been written and developed by Reed Smith partners Kyri Evagora and Jonathan Solomon with associates Karen Ellison, Simone Goligorsky, Alex Gordon and Jessica Kenworthy

SANCTIONS TOP TIPS



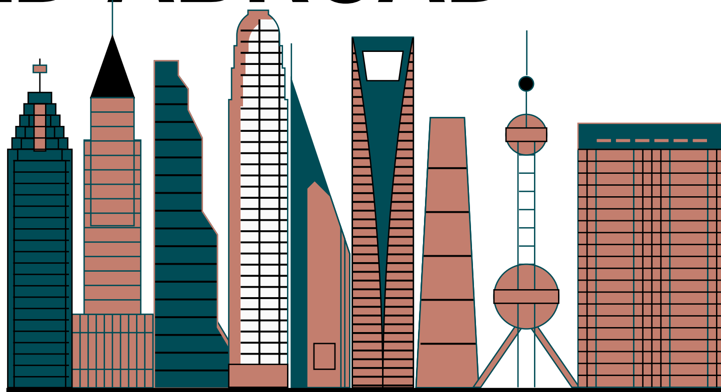
Monitor changes in sanctions

Ensure compliance with all applicable regimes

Confirm that contracts contain provisions to protect you if sanctions are imposed.

Ways to Export

HOW TO GET STARTED ABROAD



Breaking into an overseas market can be challenging, but there are varied strategies to establish a foothold, as **Rodrigo Amaral** reports

The first step abroad can be the toughest for aspiring exporters and can make or break an internationalisation plan.

Therefore making a decision on how to export is not a task to be taken lightly. Pick the wrong strategy and even the best product or service could end up a dud.

"Detailed knowledge of local business culture, regulatory requirements and potential partners is essential," says Ben Digby, head of group, international, at the Confederation of British Industry. "Different models will work in different places and businesses need to adapt their approach to the market."

Some ways of getting into new markets can demand a financial outlay and degree of maturity that new exporters hardly possess. But there are also options that are more accessible to the rookies. For example, smart use of the internet has been the "Xfactor" behind many a blossoming global firm.

"The web offers amazing new opportunities," says Richard Lynch, an emeritus professor of strategic management at Middlesex University. "Some have not been exploited yet and even small companies can benefit from them."

The internet has made it possible for Portsmouth-based Wiggle to evolve from a neighbourhood bike shop into a multinational retail business that has recently been acquired by a private equity fund.

Internet-based sales channels have also been one of the drivers behind the ascent of the Cambridge Satchel Company, which in 2008 was a kitchen-based manufacturer with capital of £600, but now is a booming luxury business with a turnover of £10 million a year.

The web can act as an invaluable tool to gather the information required to devise an export strategy. "For small companies, it is of essence to focus in the right markets in order to maximise the limited resources they have," says Florence-Claire Deniel, director of Huddersfield's Exportwise Consulting.

Finding an unexpected niche in a foreign market could prove a winning play for any company. Who knew that French cheese lovers adore the UK's cheddars and stiltons? Firms like Bruton-based Wyke Farms did and spotted the trend years ago.

LICENCES AND FRANCHISES

Other entry modes address the issue of finding the local partners that could help a company to succeed in a new market. Licensing and franchising enable companies to sell their products and services abroad via agreements with local business groups.

Firms can also set up joint-ventures with established companies who already know the way to riches. Or they can buy a business in the target country, thus acquiring a tested workforce and plenty of local expertise in addition to its physical facilities.

At the beginners' level, however, many firms prefer to rely on specialised distributors, based either in the UK or in the destination markets, to deal with red tape and to contact potential clients. Such partners can find themselves in a better position to assess the true potential of a product.

Tableware producer Steelite has employed a mix of wholly owned subsidiaries and distributors to expand globally. Seating leather-maker Bridge of Weir has established joint ventures in Mexico and China to have greater access to growing markets in the Americas and the Asia-Pacific region.

Even though joint ventures are usually seen as the safest way to operate in China, London-based Cath Kidston has opted to set up a wholly owned operation in that country. In other Asian markets, Cath Kidston works with different models of partnership with distributors.

But it is worth keeping in mind that each entry mode has its drawbacks. Companies that work with licensing and franchising can have their intellectual property stolen, if they fail to put in place costly controls that can prevent infringements.

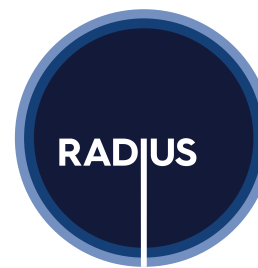
Firms that have entered into joint ventures in emerging markets have often been duped by local partners with powerful business or political connections. Others have purchased or set up units in foreign markets only to see their investments compromised by sudden regulatory changes.

Risk and Return
Page 14

Even the internet, for all its promise, creates particular challenges. Governments are increasingly looking for ways to tax online transactions, notes Kevin Smith, a senior partner at KPMG in London. Online fraud and hacker attacks can also haunt a business as it gains visibility on the web.

Deciding on the right entry mode can be a time-consuming job that delays the thrill of the first export sales. But when it comes to foreign markets, a firm should take its time to enter. Otherwise, it may be forced to make a quick exit in the future.

Smart use of the internet has been the 'Xfactor' behind many a blossoming global firm



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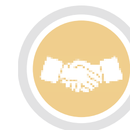
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KEEPING RISK UNDER CONTROL

Minimising risk in export markets through management best practices should maximise returns, writes **Elliot Wilson**, who points out the pitfalls

Risk is everywhere: as Al Pacino's character warns in the film *Heat*, you can get killed "walking your doggy". But it's also a necessary and even welcome facet of doing business. Without it there is literally no reward. What matters is how you manage and minimise the downside while maximising the upside.

Like ice cream, it comes in all shapes and forms. It lurks in basic financial risk – exposure to a tumbling currency or neglecting to secure insurance on an export shipment. Reputational or political risks are more nebulous, ranging from retail disasters – selling dangerous or unlicensed goods – through to breaching bribery laws to the hazards of offending foreign governments.

Take the primary challenge of selling into another market. Under the UK's 2010 Bribery Act, exporters must be able to see a product through to its final destination, whether a retail or industrial buyer. That might be simple in Germany or Ireland, members of the single European market, but in the Middle East or West Africa, regions with patchy infrastructure and myriad middlemen, the process is anything but straightforward.

As a market grows in importance, the next step is often to form a joint venture, spearheaded by a well-connected businessman. But choose your allies carefully. Under the Bribery Act, executives are on the hook for any illegal inducements offered by a local associate. Companies, notes Hugo Williamson, UK managing director at global risk advisory firm IPSA International, should "invest time and resources in developing the right sort of relationship with partners". That might mean bringing them back to the UK to show how governance systems work.

That issue works both ways. Any company foolish enough to bribe a foreign official runs a risk. But even if that goes unreported, you can still get burned. More than a few British firms have been blackmailed by a foreign subsidiary threatening to blow the whistle on their corrupt methods. All the more important then to sit down with a specialist law firm or one of the big-four auditors to assess risk parameters.

POLITICAL RISKS

Political dangers are harder to quantify, but no less damaging. Falling foul of a foreign state can set you back years or even decades in key markets – witness IBM's falling-out with India in the late-1970s or Google's with China 30 years later. Better to butter up an enraged government. When pharmaceutical major GlaxoSmithKline was found guilty of bribery in China and fined £297 million, it responded by working with officials to train local scientists, and transfer skills and knowledge to the Chinese market.

Perhaps the most insidious risk to any exporter involves trading in other currencies. Not long ago, this process was expensive and bafflingly opaque. Old-school brokers and banks, keen to turn a profit, kept costs high, luring customers with promises of low spreads – the gap between the bidding and asking price – then raising it over time. To all but the largest corporates, foreign exchange (FX) was a costly mystery, offering "zero value to clients", notes David Kyte, chairman of Hamilton Court FX, and leaving small firms entirely at the mercy of their banking provider.

All of that has changed. Faster and cheaper bandwidth along with a distrust of lenders led to the rise of FX specialists offering streaming market data on even the most basic PC or smartphone. One such outfit, Kantox, helps hedge currency costs by providing a live feed direct to customers' desktops. Philippe Gelis, the London firm's founder and chief executive, describes the service as an online tool to manage FX. "We provide an online dashboard showing you where currencies are trading and alert clients when the perfect conversion rate has been reached," he says.

> Falling foul of a foreign state can set you back years or even decades in key markets

Another way to offset risk is to take out credit insurance against, say, a shipment being damaged or going missing, or a buyer seeking to trick you on a payment. This is more common than you'd think, particularly when it comes to emerging markets. It might constitute an extra cost, but it does ensure that you get paid, one way or the other, notes Roman Itskovich, vice president at alternative trader and lender Ebury. "We offer credit insurance to all the companies we deal with and I am a big believer in it. With all the risks out there, it's the best way to stay safe," he concludes.

WHEN IN ROME OR EAST ASIA

Exporters should adapt to the local culture and business etiquette in their target markets, as **Elliot Wilson** discovers

One of the greatest fallacies in the globalised modern age is to assume that everyone is the same basic bag of atoms. This, believes Allyson Stewart-Allen, founder and chief executive of International Marketing Partners, a business consultancy with offices in London and Los Angeles, is a universal problem, stemming from the innate human assumption that "another culture or country is just like theirs".

They aren't, of course, and you probably noticed that the last time you went on holiday. But recognising this misconception and contorting your mind to adapt to local cultures can mean the difference between success and failure for export-minded companies.

First things first. For any exporter one simple, fundamental fact persists: we do business with people we like. "You need to make friends first," says Lara Morgan, who sold Pacific Direct, the global toiletries firm she founded at 23, for £20 million. "We buy from the person first, the product second and the company last. That's factually how we approach the buying decisions we make."

This friend factor is common to all cultures, but it's greater in some markets than others. Exporters looking to do business in East Asia typically have to build in more getting-to-know-you time than they might in Europe or North America, and look for shared values and philosophies. Expecting to do a deal before rapport is built is insulting in some markets, notes Ms Stewart-Allen, suggesting that you are willing to put business before relationships.

Being a good soul and a friendly face helps, of course, but it isn't a panacea to all ills. To sell successfully overseas you also need to have a range of weapons in your arsenal, each ever-shifting and constantly available. Ms Morgan, who now runs a business advisory outfit, Company Shortcuts, believes a successful exporter must be a "chameleon, using your brains and adapting to the world around you".

EMOTIONAL INTELLIGENCE

This flexibility of mind is more likely to be found in those with a diverse past or an innate sense of adventure. The trade-minded Dutch are famously good exporters, having retained their mercantilist spirit and adaptability. For others, it's the richness of their upbringing. Arnab Dutt, managing director of Texane, a Leicestershire-based firm that manufactures heavy wheels used on mass-transit railways including the Paris and New York metros, was brought up in north London speaking three languages. That instilled the sort of "cultural sensitivity and emotional intelligence" needed to do deals in far-off places, he believes.

Often, the key to success for any exporter – it's different for everyone – is to get the little things right. Don't be rude or assume – still a common British blunder – that shouting will get you understood. If you can't speak the language of the country you are presenting into, hire someone reliable who does. Preparation is key. Do your research before you leave home. Talk to local partners if you have them or in-country contacts.

Well-produced marketing literature is central to your integrity, so spend time and money on your website and brochures. "The first thing to go when you lose accuracy is your credibility," says Larry Gould, chief executive and founder of thebigword, a Leeds-based translation firm boasting FTSE 100 firms among its roster of clients. "If what you are saying is wrong, you'll lose out. It amazes me how many chief executives fly first class on business trips, but won't get stuff translated."

And don't try to do everything yourself. UK Trade & Investment, the government body, is a vital source of information, as are Britain's myriad specialist trade associations. All British embassies now have trade departments that are "vital sources of contacts for any aspiring exporter", says Texane's Mr Dutt, particularly in culturally complex regions, such as the Middle East. Official government trade missions can help, but keep a clear aim in mind to avoid wasting time and money.

> We buy from the person first, the product second and the company last

DON'T GIVE UP

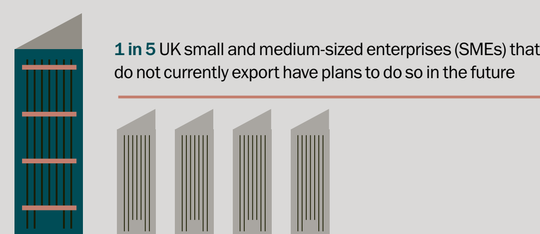
Think on your feet. "Speak to the concierge," when you arrive in a new market, suggests Company Shortcuts' Ms Morgan. "Find out what hours people work and what customs people hold dear." Irony and sarcasm may work in Britain, but usually get lost in a foreign boardroom; leave humour to comedians. And don't let rejection discourage you. Ms Morgan bombarded the Indian hotelier P.R.S. Oberoi with samples when building up Pacific Direct. "Eventually he gave me the time of day," she remembers. "You have to be persistent and we don't learn that well in Britain. A real entrepreneur always finds a way."

A host of other principles are also undervalued. How you present yourself – clothes, shoes, ties, handbags – is a proxy for communicating success and gaining trust in America, while in Europe, authenticity is built on getting to know people. In some countries, buyers typically place more emphasis on what a product promises to do, while in others it's all about hard and provable fact. German customers, notes Mr Dutt, want "solid evidence – proof, testing and science – that your products are the best; then they will talk to you".

Even the concept of time varies immensely from one region and country to another. In hard-headed America, notes International Marketing Partners' Ms Stewart-Allen, time is "tightly regulated" with business meetings "planned minutely and each slide or bullet point carefully choreographed". In Latin America, Asia and even Europe, clients care less if a meeting runs over or even has no endpoint at all, a cultural dynamic that can sometimes make all that hard work worthwhile.

For Mr Dutt, meetings with one French client start not in a boardroom but a restaurant. "We get through a bottle of champagne at lunch before even talking about business," he says. "I could get used to that sort of lifestyle."

EXPORT PLANS



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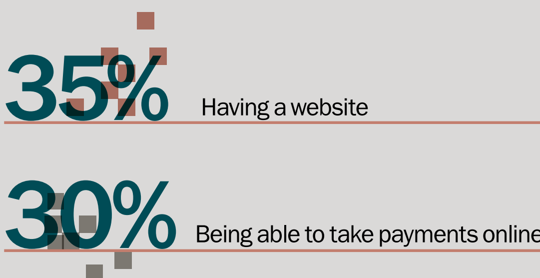

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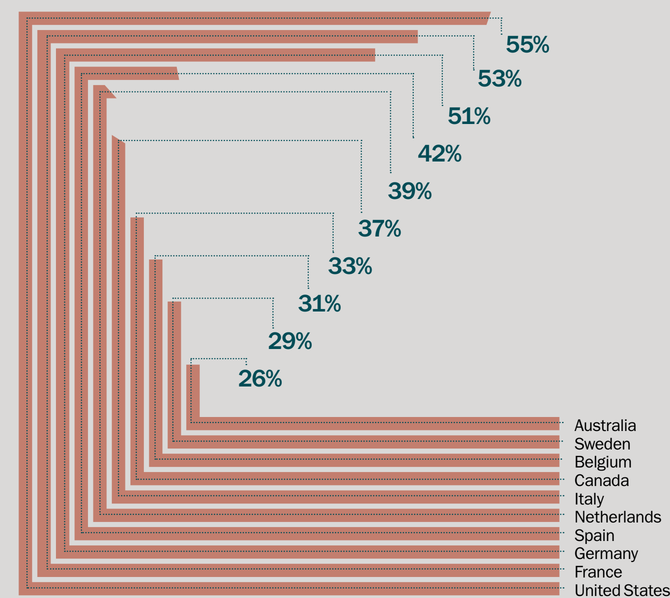

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As a recent CBI report points out: "hub airports serve on average nearly three times as many destinations as point-to-point airports."

Britain has one hub airport: Heathrow.

Right now, 4 in every 5 long-haul flights from Britain fly from Heathrow, via 82 airlines, carrying 73 million passengers a year.

Heathrow also carries £182 billion of exports and imports each year: including 26% of all UK exports, and two thirds of all air freight.

That's why 120 global companies have their European headquarters in the M4 corridor (and why this area has the highest full employment rate in the UK).

As Britain's hub airport, Heathrow is a magnet for global business; and a powerful engine of the British economy.

The problem is, if we don't expand it, we can't give British businesses the chance to take advantage of all these opportunities in new destinations.

The CBI describes the UK's lack of hub capacity as a "ticking time bomb."

And, if we don't do something about it, our competitors happily will.

France, Germany and The Netherlands have hub airports too. They also have the ambition (and political backing) to expand them. And they would love to take the growth that could – and should – be Britain's.

As the Airports Commission recently confirmed, a new runway at Heathrow will bring as much as £211 billion of economic benefits to the UK (not to mention up to 180,000 new jobs).

Every month we don't do it costs the British economy £1.25 billion in lost trade.

That's why we think it's time to stop talking. And get down to business.

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Sources: Goldman Sachs Global Investment Research, 2012; Frontier Economics, "Connecting for Growth", 2011; CBI, "Boosting capacity where it matters most – the nub is the hub," September 2014; Official Airline Guide; HMRC; Civil Aviation Authority; Freight Transport Association; Companies House; ONS Annual Population Survey; Airports Commission, "Heathrow Airport Extended Northern Runway: Business Case and Sustainability Assessment", November 2014; Frontier Economics, "Missing trade opportunities: The impact of Heathrow's capacity constraint on the UK economy," November 2012.