

EXPORT *America*[®]

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THE FEDERAL SOURCE FOR YOUR GLOBAL BUSINESS NEEDS

Chile

**A Reliable Partner
for U.S. Business**

INSIDE:

Telecommunications and
Information Technology in China

Now's the Time for Asia Now

Making Dough is Good for Business



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June 2003 Volume 4 Number 6 <http://exportamerica.doc.gov>

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he countries of the Western Hemisphere shares a history of colonization by European settlers; however, the ties within the regions remain sporadic, while those to Europe continue to be strong.

Within the past decade, the economic relationship within the Western Hemisphere has matured. The United States is establishing trade agreements with Chile and the countries of Central America in an effort to cultivate better cultural and economic bonds between the Americas.

Santiago, Easter Island, and Patagonia all evoke images of Chile. However, Chile is much more than a scenic landscape. Stability. Transparency. Predictability. These are just a few of the words that describe the Chilean economy in the last decade. Deregulation, privatization, and liberalization are some of the far-reaching changes that have taken place, transforming Chile into one of the most open economies in the world. Uninterrupted economic growth, low inflation and unemployment, high domestic savings and reserves are the outstanding results. Globalization has been a central feature in Chile's economic strategy. The United States and Chile recently completed negotiations for a free trade agreement. *Export America* reported on the benefits to U.S. and Chilean firms in our

February 2003 issue (see "U.S.-Chile Free Trade Agreement: Comprehensive Gains" on our Web site).

The economic relationship between Chile and the United States is flourishing. In addition to being Chile's main trading partner, representing nearly 20 percent of the country's total trade, the United States is also the principal foreign investor in the Chilean economy. Therefore, it is appropriate that this month our feature is on the commercial opportunities for U.S. firms in Chile.

In addition to our feature, Doug Barry tells us about a new service offered for the Asian market called Asia Now, and William Corley gives us an overview of the Czech Republic. We also include an overview of proposed changes to the patent system for the European Union in our Technical Advice segment. Next month we will look at the global telecommunications market and highlight some sectors and markets where U.S. firms are competitive. Until then, happy exporting and send any comments to us at export_america@ita.doc.gov.

Cory Churches

Cory Churches
Editor



GLOBAL NEWS LINE

BELGIUM

Belgium, roughly the size of Maryland, has a population of 10 million people driving 5.8 million cars. This puts the car-to-inhabitant ratio close to that of the United States. The total annual market for auto repair and maintenance equipment is worth \$50 million and is supplied almost entirely by imports, of which the United States has an estimated 5-percent market share. The end-user market includes more than 15,000 repair shops, many of which are new-car dealers. The others are franchises, independent garages, tire specialty service stations, and machine shops.

Demand for repair equipment is mainly driven by the Belgian regulation requiring all automobiles, four years or older, to pass an annual technical inspection. A change in the requirement for this affects the market for replacement parts. All secondhand cars are required to pass this inspection before they can be resold. In the repair and service equipment market, the most promising items are air-conditioning maintenance equipment, electronic diagnostic devices, emission testing equipment, and testing equipment for technical inspection stations.

Garages rely on laborsaving equipment, because hourly wages for garage mechanics range from \$15 to \$20. In Belgium, U.S. garage and repair products enjoy a reputation for quality. While most repair shops are interested in high-end products, price is still a concern. American products are at a slight disadvantage due to import tariffs of 2 to 10 percent. Due to differences in contract laws and the rights of distributors in Belgium, it is strongly suggested that local legal counsel be used in the drafting of any agreements.

GERMANY

The market for analytical and laboratory instruments is supported by robust growth in the pharmaceutical,

food processing, and biotechnology industries. Analytical and laboratory instruments usage is rising rapidly in many areas, including pollution monitoring and industrial quality control. In addition, private testing laboratories, offering drug analysis, constitute a growing market. On-line analytical instruments are penetrating the traditional process control market, as customers require faster and more accurate data to improve control of product processes for better quality and less waste. Accordingly, there will be increasing opportunities for U.S. analytical instruments.

SPAIN

The ever-increasing emphasis by the majority of companies to reduce costs is helping pave the way for on-line training. However, despite a substantial increase in industry revenues, progress has been disappointing. The low Internet penetration rate, infrastructure problems, scarcity of top-notch professionals, lack of public and private sector support, and the worldwide recession including the dot-com crisis are considered some of the reasons for its slow implementation in Spain. Apart from the corporate sector, universities are also focusing on e-learning. Industry sources are confident that this is just a passing phase and are generally optimistic as to future developments.

The small to medium-sized business sector continues to integrate information technology at a good pace, but there is still a great potential for training within the sector. Opportunities exist in the provision of quality programs and platforms to a variety of business sectors.

Some industry sources have also expressed confidence in the potential of the home market for e-learning. Contrary to the opinion of many, these sources believe that Spain has a greater potential for growth than in many other countries, mainly

because of university saturation and the need of young professionals to improve their competitiveness in the job market. Spanish human resources directors view graduate programs that make use of e-learning resources as an important competitive advantage for potential employees.

VIETNAM

Electricity of Vietnam (EVN) manages the power industry in Vietnam. EVN is a state-owned monopoly controlling 52 affiliates. The Ministry of Industry administers EVN. According to this ministry, Vietnam's estimated demand for electricity will grow 12 to 15 percent annually until 2010. Economic expansion, further industrialization, and Vietnam's plan to increase electrification in rural areas from the current 77.4 percent to 90 to 100 percent by 2010 fuel this growth. In response to this, the power industry will need about \$19 to 20 billion in investment to build 40 new power plants, construct about 15,000 km of 110–500 kV transmission lines and 300,000 km of distribution networks, as well as upgrade existing facilities to improve system efficiency and cut power loss.

The primary sources of finance for purchases are from official development assistance (ODA) grants and loans from various international financial institutions such as the World Bank and Asian Development Bank, foreign government aid, and Vietnamese government funds. EVN, which is presently considered financially weak, has to return its revenue to the central government and is then allocated an operating and investment budget. This practice may change in the future with more finance coming directly from EVN revenue.

To be successful in Vietnam, U.S. firms have to be flexible and committed to the market as well as conform to the International Electrotechnical Commission standards, which are

dominant in the country. Firms must also spend the time and exert the effort to cultivate effective relationships in the power industry. Moreover, American companies should take full advantage of their reputation for superior quality, innovative technologies, and expertise.

Understanding local business and procurement practices is also crucial to doing business successfully in Vietnam. Normally, procurement under ODA loan projects is governed by standard procedures and guidelines of the respective donors and is carried out through international competitive bidding. Procurement funded by the Vietnamese government budget is governed by regulations on investment, construction, bidding, and procurement. Purchases funded by the government are often carried out through open bidding, limited bidding, or direct contracting depending on value, types of goods, and projects. Contracts are often awarded to those who are familiar with project developers and, of course, can offer quality at a fair price.

CHINA

China is now the eighth-largest cosmetics producer in the world. Its cosmetics market has grown tremendously from annual sales of \$24.1 million in 1982 to approximately \$5.4 billion in 2002. With China's rapid economic



development, this market is expected to expand at an annual rate of 10 percent, with sales reaching \$9.7 billion by 2010. There are 3,500 to 4,000 manufacturers competing in this market. Several hundred of them are enterprises with foreign investment by major players from the United States, France, Germany, Japan, and South Korea. These foreign companies have captured about 80 percent of the market, while some 3,000 local companies share the remaining 20 percent.

Despite its fast growth, the Chinese cosmetics market is still at a very low level of development and is far from saturation. With potentially the largest customer base in the world and currently a low level of per capita spending of only \$4 on cosmetics, China provides tremendous business opportunities for foreign producers. Such opportunities mainly exist in the areas of imported or localized cosmetic ingredients; effective, safe, or health-oriented cosmetics made from natural, herb-based ingredients; instruments, devices, or products for body beauty centers, beauty clinics, and salons; and functional and low-end hair care products for specific consumer groups. Although the Chinese cosmetics market has become highly competitive, there is still plenty of potential for new entrants, provided that they adopt appropriate market entry strategies, find appropriate manufacturing or distribution partners, use effective marketing techniques, and make suitable products for various customer groups at reasonable prices.

THE PHILIPPINES

Although the Philippine market for insulation products has weakened in the last three years due to a slowdown in general construction activity, industry sources forecast 5-percent annual growth over the next three years.

Imports satisfy 60 percent of the demand for insulation products. There are several U.S. suppliers of insulation products in the Philippines. Price is the major purchase consideration of end users.

American companies with insulation products that have special applications or features have good prospects in the Philippine market. A U.S. company can sell to the country by appointing a Philippine distributor or through existing agents in Asia.

MEXICO

Pemex, the government-owned petroleum company, will continue investing during the next three years in large exploration, production, storage, and refining projects to modernize its infrastructure. Local manufacturing companies will focus more on the export market and selling to large local contractors that participate in Pemex projects.

Participating in domestic and international tenders published by Pemex subsidiaries will continue to be the best way to sell oil and gas equipment and services. To have access to the opportunities it is important to become registered as a Pemex equipment or service supplier, or to find a representative or distributor already registered. ■

NEED MORE DETAIL?

Ask a commercial officer at one of the Department of Commerce posts located around the globe. Contact information, including phone, fax and e-mail, is available by calling the Trade Information Center at (800) USA-TRAD(E).

■ Making Dough is Good for Business

San Francisco Firm Sells Better Batter to World Markets

by Curt Cultice
ITA Office of Public Affairs

Savvy businessman Ed Hernando likes the dough so much that he not only makes it but also sells it. Now, thanks to recent export successes, more and more people are cooking with his delectably delicious line of batter mixes.

“Vegetables, shrimp, soft-shelled crab, bean sprouts, and even bananas, are just waiting to be smothered in my batter mix,” Hernando says. “Go ahead, just try it, you’ll be glad you did.” Hernando Fine Foods’ seafood and vegetable batter mix, that is. “Yes, go ahead and treat yourself to the exceptional taste that will awaken your taste buds,” says Hernando’s literature.

More and more people are taking Hernando’s advice. Just mix batter with tap water, ice water, or beer, but don’t add egg, seasoning, or spices. Then dip and fry. The unique tempura-style batter “seals in” the food’s flavor, so several different foods in one dish can be battered—but each will retain its original flavor. One package of batter mix will coat about a pound of seafood, as one happy customer wrote: “The shrimp was fabulous and your batter made them perfect. I also

made some excellent Chile Rellenos and Cauliflower a la Sandia.”

As CEO of Hernando Fine Foods, a small firm in San Francisco, Ed Hernando has always had a penchant for food and cooking. “I was always pretty handy in the kitchen, cooking up different recipes,” he says. “I would cook up battered goodies for my family and friends, and it kind of grew from there.”

■ HAVE MIX, WILL TRAVEL

Well, one thing led to another, and he soon established his own family business in 1993.

Hernando Fine Foods had done well in the United States, but had never exported until three years ago it tapped the services of the U.S. Export Assistance Center in San Francisco and the Center for International Trade Development in San Mateo.



Ed Hernando (right), owner and founder of Hernando Fine Foods, and Stephen Johnson of the San Francisco Export Assistance Center show off Hernando’s batter mixes.

Photo courtesy of U.S. Commercial Service, San Francisco.

“We encouraged the company to participate in the U.S. Commerce Department’s Global Diversity Initiative, which teaches minority-owned firms the basics of exporting,” says Stephen Johnson, a trade specialist with the U.S. Export Assistance Center. “Mr. Hernando really took advantage of the GDI program to break new ground in exporting.”

Soon thereafter, Hernando participated in the San Francisco GDI trade delegation to São Paulo and Rio de Janeiro, Brazil, in November 2002. In São Paulo, the firm utilized the department’s Gold Key Service, which schedules customized appointments with potential business partners. As a result, Hernando Fine Foods is negotiating an agreement with Serra Morena, located in São Paulo, to distribute its products throughout Brazil.

Hernando also participated in the GDI trade mission to Guadalajara, Mexico, in May 2000. He is also negotiating an agreement with C.F. Import and Export, Inc., located in Guadalajara, to distribute its products in Mexico. The mission was partly organized by the U.S. Small Business Administration.

“The Global Diversity Initiative enabled me to get my batter mixes into foreign markets,” Hernando says. “In only several months, I’ve been able to obtain distributors in Brazil and Mexico, thanks to the San Francisco GDI program.”

Right now, Hernando blends his ingredients himself at a packaging company, but the growth of his company and its export potential will soon turn a dream into reality: Ed expects to have his own manufacturing facilities by next year.

That means more mixing, dipping, frying, and sampling at dinner tables the world over.

“People in the Bay area already purchase my batter mixes and send them

to relatives around the world,” he says. “Right now, I’m selling my mixes on my Web site and through distributors, but we’ll soon be marketing to specialty stores, the military, and supermarkets.” A six pack of the four-ounce mix sells for about \$10.

But not so fast. It’s one thing to please a palate in Brazil or Mexico, but what about all the other countries Hernando is thinking of selling to—people have different tastes, right?

“Sure, but I’ve done a lot of food-tasting research, and I have found almost universal appeal for my batter mixes,” he says. “So far, the only thing I did was change the outside of my packaging to Portuguese and Spanish languages.”

Yes, but what about cooking at home with Hernando’s family. Is it “batter up” every night?

“In the beginning, I ate it every night, but now we usually use it for special gatherings,” he says. “Um, those bananas were really delicious, think I’ll have another....” ■

Global Diversity Initiative

The U.S. Commercial Service promotes the export of goods and services from the United States, particularly by small and medium-sized businesses, through its network of 1,800 international trade professionals in the United States and in more than 70 countries.

The Global Diversity Initiative works at both the national and local levels to identify minority-owned firms that are ready to export.

The Global Diversity Initiative has three components: 1) developing, organizing, and recruiting minority-owned companies to attend trade missions and shows abroad; 2) providing aggressive outreach at minority-focused conferences and forums to inform minority-owned companies of GDI services; and 3) encouraging trade specialists to more aggressively recruit minority-owned companies as clients.

In the past year, the Commercial Service has organized two successful trade missions targeted for minority enterprises. These trade missions took several minority-owned companies to Botswana, South Africa, Italy, and Spain. These efforts helped companies identify potential partners as well as test new markets for their products.

Trade specialists working with the GDI continue to locate new clients by aggressively collaborating with national minority organizations. By working with these organizations, the Commercial Service increases its visibility within a targeted business environment and simultaneously identifies qualified minority-owned enterprises to become clients.

To learn more about joining the Global Diversity Initiative in your area, contact your local Export Assistance Center, a list of which is on the back cover of this magazine, or visit www.buyusa.gov.

Now's the Time for Asia Now

Program Helps Small Exporters Find Customers and Partners

by Doug Barry

U.S. Commercial Service

Hisham Fawzi, a Virginia-based businessman, wanted to make the most of a trip to Asia by meeting potential buyers in more than one market. So he contacted the Commerce Department's U.S. Commercial Service, which introduced him to the Asia Now program.

"Asia Now is a way for a small business like mine to find very qualified and motivated distributors and buyers in multiple Asian markets," Fawzi says. "For a little extra in travel money and time, the program helped generate a substantial number of new sales."

Asia Now makes sense for a number of different reasons, says Maria Cino, director general of the U.S. Commercial Service: "Asia has a population of over 2 billion people, huge purchasing power, and some of the world's fastest-growing economies, including China's." She also points out that 65 percent of all U.S. exporters only export to a single market. "So the reasoning is that if you make it easier to enter a second or third market in the same region, small companies will happily diversify."

MAKING THE MOST OF JET LAG

"It makes sense to us," says Fawzi, who is president and CEO of Excel Holdings, which makes a device that produces drinking water out of the

atmosphere. "If I fly the long distance to Singapore to meet with buyers whom the Commercial Service has found for me, it's cost-effective to ask them to do the same thing for me in nearby Malaysia and Indonesia."

Cino says that her offices in other Asian countries will have already received strong expressions of interest from buyers and distributors, so the probability of success is high and costs due to cultural and other differences low. Using existing services including the Gold Key, but doing them in multiple markets within the same region, provides clients like Fawzi meetings with qualified buyers and distributors, logistical support at each stop, interpreters who know the industry lingo where needed, targeted market research, and counseling before and after the meetings.

Fawzi says a big attraction of Asia Now is that you can fly into several unfamiliar cities and have most of what you need arranged ahead of time by representatives of the U.S. government. Next thing you know you're set up in a nice hotel, often at a preferential rate. "Dealing with folks at the U.S. embassy is a big advantage especially in these times," he notes. "It gives me and the local buyers a lot of confidence and trust in the process and in each other. It can be a decisive factor."

Fawzi and other small business owners active in the region are concerned

about current health and security issues in some of the countries. However, they insist that there are few alternatives with as much promise and that the region is large enough to allow them to mine plentiful opportunities while avoiding the trouble spots.

U.S. total exports to East Asian and Pacific countries totaled more than \$187 billion in 2002, a 2-percent drop from 2001. The top markets are Japan, China, and South Korea. In 2002, U.S. exports to Japan made up 26 percent of total exports to the region. U.S. exports to China and South Korea each comprised 12 percent.

The Commercial Service offices participating in Asia Now are located in these key markets: Australia, New Zealand, Singapore, the Philippines, Indonesia, Taiwan, South Korea, China, Hong Kong, Malaysia, India, Thailand, Vietnam, and Japan. This network represents a vast competitive advantage, especially for smaller companies for which even planning a sales trip to the region can seem like a monumental undertaking.

"It's important for U.S. companies to understand there are more opportunities in these markets than there are U.S. suppliers to take advantage of them," says William Zarit, senior commercial officer in Kuala Lumpur, Malaysia. "This market is a good example." Indeed, Malaysia, with \$34.5 billion in foreign reserves and

a 35-percent savings rate, is investing heavily in oil and gas, power, transportation, and other infrastructure projects.

Zarit likes the \$16.2 billion earmarked for domestic investment in the petroleum sector between 2001 and 2005, with \$600 million to be spent annually on imported equipment. And he likes health care, noting that the government plans to spend \$1.4 billion between 2001 and 2005, with the private sector expected to spend \$1 billion annually just on medical products and services.

Also under the Asia Now banner is a series of regional trade shows selected to appeal to a large number of smaller U.S. companies. The shows are mostly held in the regional trading centers of Singapore and Hong Kong, both with many direct flights and excellent facilities. U.S. Commercial Service officers and trade specialists bring delegations of buyers throughout the region to meet with U.S. exhibitors, who work out of U.S. pavilions at the trade shows.

TRADE SHOWS THAT DELIVER THE GOODS

During the recent retail and consumer goods show Rite Asia in Singapore, 12 U.S. companies attended and met with Commercial Service specialists from 14 countries in the region to develop plans for entering one or more of these markets. Show results from the U.S. exhibitors were excellent with some companies reporting sales off the floor and others announcing pending orders valued at \$2 million, according to George Ruffner, senior commercial officer in Singapore. In addition, they expect to conclude nearly 30 representation agreements with various Asian agents and distributors they met at Rite. The U.S. participants represented many products of interest to Asian buyers, including California wine, oral hygiene products, freeze-dried soups, and herbal remedies. During the show, U.S. Ambassador Franklin Lavin

briefed exhibitors on the opportunities and challenges of doing business in Singapore and the region.

Another service offered through Asia Now is the Asia Now Express Service, which provides U.S. businesses with an initial response to market questions within 24 hours. This free service provides advice on duty rates, general information on country standards for specific products, and more. The service is available in Australia, New Zealand, Singapore, the Philippines, Indonesia, Taiwan, South Korea, Hong Kong, and Malaysia.

Robert Connan, the senior commercial officer in Sydney, Australia, who piloted the service, says it was created to whet the appetites of U.S. businesspeople who might not give this part of the Asia Pacific a second thought. "When American business thinks of Asia it's usually China, then maybe Japan. But all of these countries, even ones whose economies have stumbled, still have vibrant sectors where people are buying. We know or can find these buyers, and more often than not they will have a preference for 'Made in USA.'"

Connan explains that the quick turnaround for answers to questions about the Australia market has generated for his office during the past several months more than 50 new clients for whom the country had not been on their radar screen. One of the clients has already made a sale and other clients are likely to follow, Connan says.

DON'T PROCRASTINATE

Cino says that the time for Asia Now has come, and that this marshaling of resources should appeal especially to smaller firms whose owners find international markets too risky and beyond their personal comfort zones. With China now a member of WTO, a bilateral trade agreement in force with Vietnam, a free trade agreement nearing implementation with Singapore, and other countries in various stages of

dismantling trade barriers, the emerging trend is clear: Asia will be a source of substantial new demand for U.S. goods and services, for many years to come. She adds: "Now you can make one call to your local Export Assistance Center or Commercial Service office in Asia and get access to 14 markets. There are tons of opportunities in this region. We know where they are, and we're ready to help more U.S. businesses take advantage of them."

Fawzi agrees: "We're putting a lot of effort into developing new business here, and the Commercial Service and Asia Now make it possible by lowering the costs and risks of entry."

The U.S. Commercial Service helps small and medium-sized companies export. With offices in 108 U.S. cities and 85 countries, the Commercial Service last year helped nearly 13,000 U.S. companies generate exports worth \$27 billion. ■

For more information, visit www.buyusa.gov/asianow.

Telecommunications and Information Technology in China

Market Opportunities for Small and Medium-sized Enterprises

by John Henry, Tu-Trang Phan, and Jeffrey Rohlmeier

Information Technology Industries, Trade Development

With 1.3 billion citizens, China is the most populous country in the world. It also has a booming economy that has brought stability to a region still recovering from financial turmoil. China had an increase in gross domestic product (GDP) of 8 percent in 2002 to \$1.2 trillion. Exports and foreign investment continue to boost economic growth. The privatization and reform of state-owned enterprises, as well as China's WTO membership, are expected to attract more foreign investment and reduce unemployment, currently at 4 percent.

INFORMATION TECHNOLOGY

The IT industry remains a leading economic segment for China and should have a value-added output exceeding \$76 billion in 2003. The Chinese government is very supportive of the development of the information industry; it addressed this development for the first time in its Tenth Five Year Plan (2001–2005). The Chinese government is establishing three new high-tech “belts” in the Zhujiang River Delta in southern China, the Yangtze River Delta in Jiangsu Province, and across Beijing to expand

electronics production. By 2005, the Chinese government expects that the industry will account for more than 7 percent of GDP, of which telecommunications will represent 4.7 percent and electronic products the remaining 2.5 percent.

TELECOMMUNICATIONS

According to the Ministry of Information Industry (MII), China will have an additional 33 million fixed-phone and 52 million mobile-phone subscribers this year and record \$198 billion in sales of information products. It will also continue to invest more than \$25 billion in fixed assets in the telecommunications sector. China's economic development is generating an increase in demand for communication services and equipment. A rise in living standards has also made it possible for a growing number of Chinese citizens to afford telephones. Finally, technological advances have contributed to network expansion by making available better equipment at lower prices.

China has one of the most competitive telecommunications equipment markets, which along with the explosive growth of the country's

telecommunications networks has drawn all of the major international equipment suppliers to establish joint venture manufacturing operations there since the 1980s. At the same time, the Chinese government has encouraged the development of domestic manufacturers, resulting in a wide range of tariffs and non-tariff barriers. Chinese manufacturers now compete more vigorously with foreign companies not only in the Chinese market, but also in third-country markets.

There is currently intense interest and speculation surrounding China's plans for third-generation (3G) wireless technologies, with three standards under evaluation by MII. The Chinese view WCDMA as a “European” standard, CDMA-2000 as an “American” one, and TD-SCDMA as “Chinese.” MII has indicated that it will issue four 3G licenses to Chinese wireless providers and will allow each operator to choose its preferred standard. However, most observers believe that pressure will be exerted on at least one operator to go with the TD-SCDMA standard. The stakes will be very high—not only for operators, but for equipment vendors.

IT MARKET

China is one of the world's fastest-growing IT markets and has surpassed Australia to become the Asia-Pacific region's second-largest IT market after Japan. According to International Data Corporation (IDC), China's market for IT products and services reached \$22 billion in 2002 and is expected to exceed \$40.2 billion by 2006. In 2002, hardware accounted for 73 percent of the market, followed by packaged software (10 percent) and IT services (17 percent). The Chinese government's emphasis on expanding the use of information technologies in schools, public sector agencies, and businesses has led to increased spending on computer equipment and should continue to affect demand. Personal computers have been a major focus of China's IT hardware spending activity. In 2001, China ranked fourth in the world for its installed base of PCs, third in the world for its installed base in the government and education market segments, and sixth in the household segment.

IT hardware trade between the United States and China nearly tripled between 1998 and 2002. As in telecommunications equipment, U.S. computer exports to China have grown much more slowly than imports from that country, leading to a significant U.S. trade deficit with China in this product area. China's WTO membership will boost this bilateral trade, allowing U.S. and Chinese IT firms to take advantage of tariff reductions on certain IT hardware and to be subject to the same legal and regulatory requirements and benefits as domestic suppliers.

Although much smaller than the IT hardware sector, China's software market has been growing much more rapidly and should increase to more than \$5 billion by 2006, according to IDC. The main growth factors will be the 2008 Olympic Games and China's WTO membership (and the changes it will progressively bring to the market). Most of the software



purchases in China have been in the low-end applications (e.g., accounting and financial management software) market segment, which domestic suppliers dominate.

China's market for IT services is expected to reach \$4.7 billion in 2003, representing an increase of nearly 25 percent over the previous year. In the next four years, China's IT services market is expected to reach \$11.7 billion. Implementation services represent the largest proportion of the IT services market in China, followed by operations management services. While IT services represent a relatively small portion of the total IT market compared with hardware, this segment is expected to grow substantially as the notion of procuring IT services becomes more widely accepted in China.

GROWTH OF THE INTERNET

Use of the Internet has been expanding rapidly. The number of Internet users in China grew from only 15,000 in 1995 to 59 million (or 5 percent of China's population) in January 2003. Most of these users currently access the Internet through a

dial-up connection. However, Strategy Analytics, a market research firm, predicts that nearly 37 million homes will have a broadband connection by 2008. The increasing availability of broadband and cheaper charges for Internet access will be key to the development of the Internet in China. One major barrier to the growth of Internet use could be the Chinese government's continuing regulation of content.

ELECTRONIC COMMERCE

With its extremely large population, China may have the greatest potential of all Asia-Pacific countries to experience exponential growth in electronic commerce. Among the reasons why Chinese businesses and consumers are not yet buying on-line are the use of credit payment systems is not widespread, on-line merchants are not yet fully trusted, the security of electronic payments cannot be guaranteed, and delivery systems are inefficient throughout most of the country. China has also yet to develop a legal, regulatory, or policy framework conducive to the rapid growth of e-commerce. Laws recognizing the validity of "e-contracting" tools and stressing

the importance of on-line security have been proposed, but not fully implemented.

Nevertheless, despite these challenges, the prospects for the expansion of e-commerce in China are good. While e-business in other countries has suffered due to the recent global economic downturn, some observers estimate that China's e-commerce sector (business-to-business and business-to-consumer) may grow from around \$16 billion in 2002 to \$99 billion in 2006. The Chinese government has taken action to encourage more businesses and consumers to go on-line by stepping up its national "informatization" campaign and has continued its efforts to construct an appropriate framework in which e-commerce can flourish.

MARKET OPPORTUNITIES

U.S. information and communications technology exporters may find substantial market opportunities in China, but they also will face tremendous challenges. While their products are generally well regarded in this country, U.S. firms must compete with offerings from European, Japanese, South Korean, Taiwanese, and Canadian companies, as well as those of Chinese manufacturers. As previously noted, local firms benefit from a variety of Chinese government policies that are designed to foster the development of an indigenous IT and communications industry. China's WTO membership has helped to reduce or eliminate many of the market access barriers to U.S. exporters, but significant hurdles still remain.

In the telecommunications area, the development of 3G wireless networks will offer opportunities not only for U.S. telecommunications equipment vendors, but also for companies supplying a wide range of associated software applications, including roaming, billing, and user applications packages. WTO accession has opened new opportunities for American telecommunications service providers to

invest in a Chinese market that had previously been closed to foreign participation. However, U.S. telecommunications firms should note that this market opening has been staged and that they should target value-added services first, because this sector will open the fastest and will have the highest investment limit.

According to IDC, China's increase in e-government spending of nearly 40 percent annually between 2001 and 2003 provides U.S. IT firms with the opportunity to introduce solutions that will help the national, provincial, and municipal governments offer on-line services to their citizens. These solutions include networking hardware and software, Chinese-language database software, Chinese-language content management tools, portal software, and network security solutions. Thanks to the market opening resulting from China's WTO membership, U.S. IT suppliers will have new business prospects in traditional industries, such as manufacturing and banking, that need to upgrade their systems to become competitive internationally. These industries will require solutions that will help them become more efficient in delivering products to customers and receiving inputs from their suppliers.

American IT suppliers should benefit from the \$24 million investment that China's Ministry of Science and Technology is making to bridge the country's digital divide through the wide variety of programs that are a part of the "Go West" initiative. IT solutions companies will be needed to educate communities, local governments, and businesses in western China in various uses of information technologies, as well as to train citizens on how to use computers and the Internet. Because of the large rural economy in this region, U.S. software firms will find substantial demand for Chinese-language software aimed at the agricultural sector and packages that would help farmers distribute their products more efficiently throughout China.

China's hosting of the 2008 Beijing Olympics will present U.S. IT companies with enormous opportunities to sell their equipment, software, and services. The IT projects envisioned by the municipal government of Beijing will require a wide range of products, such as smart card technologies, broadband applications, database applications, e-commerce platforms, network security solutions, simulation software, games software related to Olympic sports, and voice recognition software.

Finally, in the area of e-commerce, China's business-to-business market should continue to offer U.S. IT firms the best prospects for exports. Demand for U.S. Web developers, Web-hosting service providers, and e-commerce consultants is particularly high. E-commerce products and services localized for Chinese users should enjoy the most success.

U.S. suppliers interested in pursuing opportunities in China's IT and communications markets should recognize the differences in business and cultural styles between the United States and China and develop an appropriate market entry strategy. Some form of local presence is essential. Options include using agents and distributors; partnering with large IT firms, systems integrators, or consultants; partnering with like-minded small and medium-sized Chinese enterprises with complementary skills or products; or setting up a local office staffed by local employees to do marketing and training and to provide ongoing support. Even though China is a very large market, it is essential that businesses understand consumer behavior in the provinces or regions they are targeting. ■

This is an excerpt of the newly released *ExportIT* report on China, which is available in PDF and plain text format at www.export.gov/infotech.

Affairs of the Heart

A Peek at the Czech Republic

by William Corley

Export America

The Czech Republic, the midpoint of Europe, has emerged from four decades of Communist rule and more than a decade of economic and political reform to regain a preeminent role in Central Europe. Located at the crossroads of ancient trade routes and modern information highways, the capital city of Prague welcomes U.S. investors and exporters to a country that has not forgotten its democratic, free-market traditions.

STABILITY AND GROWTH

The transformation of the Czech Republic since the Czechoslovak “velvet revolution” in November 1989 and “velvet divorce” in January 1993 has been impressive. In 1991, on the eve of large-scale privatization, state-owned industry generated more than 90 percent of Czech GDP. Twelve years later, on the eve of accession to the European Union, the private sector dominates economic activity.

The Czech Republic has strung together several years of solid economic growth and accumulated foreign direct investment worth billions of dollars. Its economy experienced recession in the late 1990s, but even in recovery, GDP growth has averaged more than 2.5 percent in the last two years, meaning the Czech economy has outperformed the major advanced economies of the world. While unemployment is currently high, a recent

FACTS AND FIGURES

Total area: 78,866 square km (a little smaller than South Carolina)
Population: 10.3 million
GDP: \$91 billion (2003 forecast)
GDP by sector: services 55%, industry 41%, agriculture 4%
Main industries: metallurgy, machinery and equipment, motor vehicles, glass, armaments

EBRD forecast puts 2003 economic growth at 3 percent, with inflation at an annual rate of 1.3 percent. Such performance places the Czech Republic slightly below the EBRD average GDP growth forecast for Central and Eastern Europe, but much higher than that for the European Union. The Czech Ministry of Finance, noting the weak growth of the euro zone and in particular Germany, the largest trading partner of the Czech Republic, is less optimistic but still expects GDP growth of 2.3 percent this year and 3 percent in 2004.

THE HEART OF EUROPE

The Czech Republic has meanwhile rejoined Central Europe. Whereas the former Czechoslovakia spent the Cold War in Soviet-dominated “Eastern Europe,” the Czech Republic and its neighbors are now in “Central Europe.” Part of an old joke goes that Stalin placed Prague in Eastern Europe, despite the city being both north and west of Vienna, Austria, which was considered part of Western Europe during the Cold War. The

Exports: machinery and transportation equipment, intermediate manufactures, chemicals, raw materials, fuel

Imports: machinery and transportation equipment, intermediate manufactures, raw materials, fuels, chemicals

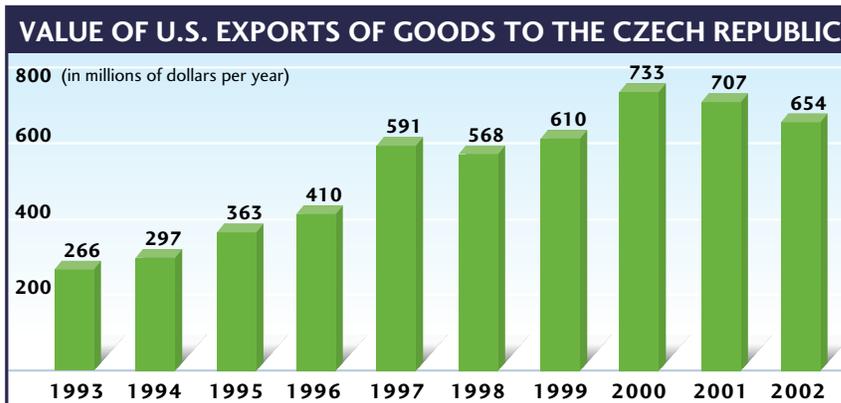
Sources: CIA, EIU.

humor is bittersweet, but the Czechs have the last laugh, since the country is geographically and culturally Central European. Appropriately, Prague is home to Charles University, the oldest university in Central Europe (established in 1348).

The Czech Republic has realigned its economic relations and foreign affairs with Western and Central Europe. Since 1993, Czech exports have boomed, with most now going to the European Union (which supplies two-thirds of imports). Exports make up more than 60 percent of Czech GDP. Meanwhile, the Czech Republic has become a WTO, OECD, and NATO member. The country is scheduled to become an EU member in May 2004.

MARKET PERSPECTIVES

The Czech Republic, despite its Soviet bloc antecedents, is a sophisticated marketplace. Its significant progress in moving from a socialist system to a capitalist market reflects the democratic and commercial traditions of the first Czechoslovak



Republic, from 1918 to 1938. (Older generations have not forgotten that interwar Czechoslovakia was more industrialized than Austria and one of the wealthiest nations in Central Europe.) Yet it is somewhere in this mix of strong tradition, socialist hang-over, and emerging-market capitalism that the Czech commercial climate is perhaps best understood.

The Czechs are hardworking, well-educated people. On average, Czechs work more hours (nearly 2,000) annually than Americans, Japanese, Britons, Swiss, and Germans. Czechs are quite productive, as measured in GDP per hour of work. They are less productive than Western Europeans and Americans, but more productive than South Koreans, Mexicans, and Poles, and the Czech Republic ranks just outside the top 20 productive nations in the world, according to the Conference Board. Meanwhile, elementary school attendance in the country is approximately 90 percent, according to UNICEF, a figure that is higher than that of Germany (long considered a nation of extremely high educational standards). OECD studies of literacy of youth as well as educational attainment of adults rank the Czech Republic well above the OECD average, and particularly high in scientific literacy of 15-year-old students. Political and societal norms tend toward the progressive and modern. For instance, women hold nearly a fifth of parliamentary seats, which translates into significantly more

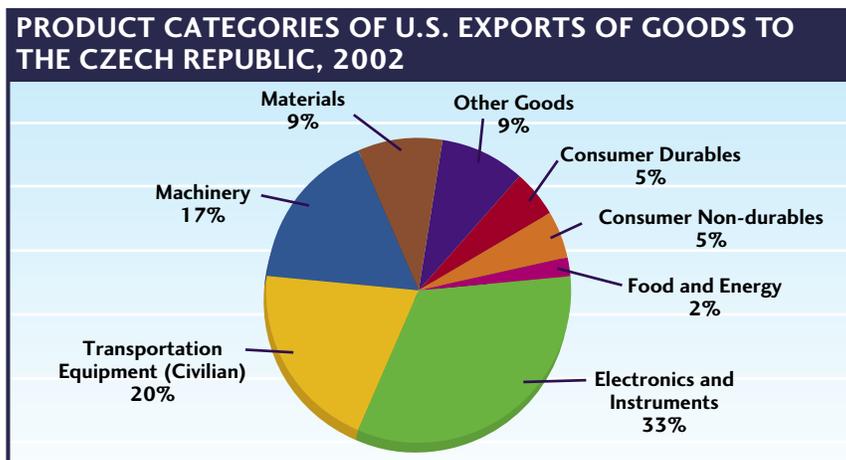
female participation in a federal representative assembly than in the United States, France, and Italy.

The Czech Republic is modern if not cutting-edge in other ways as well. Interestingly, the number of telephone lines per 1,000 inhabitants is under 400, a low figure in comparison with wealthy and industrialized Western European nations. This is due in part to the old fixed-line system, which entailed poor service and long waits for installation of new lines. However, Czechs have rapidly adopted new technologies. The cellular phone penetration rate is 80 percent, which is higher than that of Western Europe, according to *Global Mobile*. (Cellular penetration in the United States is about 50 percent.) Annual mobile-phone subscription growth is more than 35 percent, compared with less than 10 percent in Western Europe. Internet usage (perhaps 15 percent of the

population) is also relatively high in the Czech Republic in comparison with its Central-Eastern European neighbors and in view of the country's transition to capitalism. While Internet usage is well below the Western European average, it is comparable with that of Spain and Greece, two EU members since the 1980s. The Czech Republic spends approximately 4 percent of GDP on information technology, which is comparable with the EU average and much higher than that of neighboring countries of the former Soviet bloc.

Comparisons with Western Europe and the European Union in particular invariably raise the issue of the relative wealth of the Czech Republic. The Economist Intelligence Unit, in a forecast for 2003, calculates Czech GDP per capita at \$8,880 (which would make the Czech Republic wealthier than any other former Communist country in Central-Eastern Europe, except Slovenia with \$11,370 GDP per capita). However, Austria and Germany, the "Western" neighbors of the Czech Republic, both boast GDP per capita of just over \$29,000. (U.S. GDP per capita is estimated at \$37,000.)

Using 2000 data at purchasing-power parity, the World Bank sets Czech GDP per capita at \$13,780. By comparison, the EU average according to the same World Bank purchasing-power calculations is \$23,550, with the GDP



per capita of EU accession candidates Malta and Slovenia at \$16,530 and \$17,310, respectively, and that of EU members Portugal and Greece falling in between. Nevertheless, Czech GDP per capita, at 2002 purchasing-power parity, is only two-thirds of the 30-nation OECD average.

The silver lining to relative wages and living standards is that the Czech Republic is already a stable market for foreign consumer goods, a low-cost manufacturing base, and a gateway to both the European Union and Central-Eastern Europe. Further, EU accession is expected to accelerate economic growth and institutional change.

Wealthy or not, the Czech Republic is developing free-market institutions. Privatization, as noted, has transformed the Czech economy. Reform and restructuring continues in key industrial sectors, including telecommunications, energy, and transportation infrastructure. Change has not always been easy, but the country has taken on the challenges of harmonizing its laws, regulations, and standards with those of the European Union, all in preparation for pending accession.

“Right now could be a good time to for U.S. companies to enter the Czech market, develop strong relationships, and thus have brand recognition and market share before accession,” says Anthony Hemstad, founder

LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT

- Automotive parts, services, and equipment
- Financial services
- Manufacturing machinery
- Pollution control equipment and services
- Telecommunications equipment and services
- Security and safety equipment and services

Source: *Country Commercial Guide: The Czech Republic*, FY 2003.



Prague neighborhood with castle area in background.

and regional director of Eklektik Communications, a full-service public relations/affairs agency headquartered in Prague. “The Czech Republic is a low-crime, physically safe environment, and the laws are improving,” explains Hemstad, an American who has done business in Prague since 1991. “You still need a good contract, good local lawyers, and adjudication preferably outside the country.”

TRENDS AND OPPORTUNITIES

As the Czech economy has developed internally and expanded internationally, many commercial opportunities have arisen for foreign companies. Among emerging markets in Central and Eastern Europe, the Czech Republic is the most popular investment location, as measured by foreign direct investment per capita. The majority of foreign direct investment comes from the European Union. By country, the United States is the fifth-largest investor in the Czech Republic, according to the Czech National Bank, with \$2.5 billion of cumulative investment, 1993–2002. Key areas of foreign investment in the Czech Republic include transportation,

storage, and communications; financial intermediation; trade, hotels, and restaurants; machinery and equipment manufacturing; and real estate and other business services.

The U.S. Commercial Service contends that American companies will continue to profit from the ongoing transformation of the Czech economy, including upgrading of telecommunications equipment and services, pollution control equipment, energy production and distribution, housing, municipal infrastructure, and medical services. Continued privatization, particularly in transportation and energy sectors, should present several trade and investment opportunities for U.S. firms.

The latest *Country Commercial Guide* for the Czech Republic describes the top prospects for U.S. businesses in several sectors. Telecommunications is a particularly strong market, and U.S. exporters may find lucrative opportunities in the provision of network and wireless equipment, data and voice services, videoconferencing equipment, video telephones, and faxes.



Exporters of environmental technology may also wish to consider the Czech Republic. Like other countries in Central-Eastern Europe, the republic faces the task of adopting strict environmental standards in order to join the European Union.

The Czech government has invested heavily in the environment and infrastructure to make the country eligible for EU accession. The total cost of meeting EU environmental standards may run to several billion dollars, of which water and wastewater treatment could take more than one-third of investment. Conforming to EU standards for waste handling may cost several hundred million dollars and include biodegradable waste treatment, packaging, waste recycling, and used tire disposal.

Tourism, while significantly depressed by global recession, is another interesting sector. Czechs continue to spend a higher proportion of their incomes on vacations, and the high end of the tourism market has seen a wave of luxury cruises, ski trips, and overseas golf tours. Mag Consulting says that Czechs spent an average of 14,937 crowns (approximately \$538 at the current exchange rate) on vacations in 2001, compared with 13,998 crowns (\$503) in 2000. However, economical family holidays in the Czech Republic and nearby Slovakia have become increasingly popular among Czechs, and several local tourist agencies took to the Internet in the late 1990s to rent cottages in the countryside.

Given the growth of Internet usage and overall Internet sales (which exceed \$70 million annually in the Czech

Republic), U.S. travel and tourism providers may find lucrative opportunities in the Czech market. Prague dominates the Czech tourism industry and attracts more than three-quarters of all foreign visitors. According to most industry analysts, the Czech hotel market is saturated, although there may be still be some opportunities in small-scale accommodations and mid-range hotels. Additional prospects, according to the U.S. Commercial Service, include ticketing and reservation services, hotel management, amusement parks, golf courses, and sight-seeing tours.

U.S. companies interested in the Czech Republic should do their homework. "One of the biggest mistakes that small and medium-sized exporters to the Czech Republic make is that they don't do proper product tests to determine market demand and cultural fit," says Joel Ranck of Lincoln Park Communications, a Washington, D.C., firm with extensive ties to and experience in the Czech Republic.

The Czech Republic welcomes U.S. products and services. As EU accession approaches (pending a Czech referendum in mid-June 2003), the timing is right for U.S. businesses to consider the promising future of the heart of Europe.

This article drew from several sources, including among others the Czech National Bank, Organization for Economic Cooperation and Development, CzechInvest, *Country Commercial Guide: Czech Republic, FY 2003* (U.S. Commercial Service and U.S. Department of State, 2002), *The World in 2003* (The Economist Newspaper Ltd., 2002), *The World Factbook* (CIA, 2002), *Prague Business Journal*, and *Financial Times*. U.S. export statistics compiled by Howard Schreier, ITA Office of Trade and Economic Analysis (U.S. Census Bureau data; product categories based on end-use classification).

REALITY CHECK

- Strategic location
- EU accession prospects
- Stable and relatively prosperous
- Bureaucracy and corruption hinder commerce
- Kafkaesque legal system requires patience
- U.S. products well regarded
- More formal dress and manners than American business
- Democratic, free-market traditions
- Continued reform and bright future



CZECH NATIONAL HOLIDAYS

January 1

New Year's Day and Establishment Day (founding of the Czech Republic, 1993)

(Varies by Year)

Easter Monday

May 1

Labor Day

May 8

Liberation Day (end of World War II)

July 5

Cyril and Methodius Day (for the Christian missionaries of the ninth century A.D.)

July 6

Jan Hus Day (for the religious reformer and martyr)

September 28

St. Wenceslas Day (for the patron saint of the Czech nation)

October 28

Statehood Day (founding of Czechoslovakia, 1918)

November 17

Freedom and Democracy Day (for anti-Nazi demonstrations in 1939 and anti-Communist demonstrations in 1989)

December 24

Christmas Eve

December 25 and 26

Christmas Holidays

Source: Embassy of the Czech Republic, Washington, D.C.

WEB RESOURCES

**Central and Eastern Europe
Business Information Center**

This U.S. Commerce Department office offers extensive information about the Czech Republic and its neighbors, including export tips, trade leads, economic figures, and more. The site also has the latest *Country Commercial Guide* and several other resources.

www.export.gov/ceebic

U.S. Commercial Service Market Research

This site offers a wide range of country and industry information. The Market Research Report link provides access to the *Country Commercial Guide* and other information about business in the Czech Republic.

www.export.gov/marketresearch.html

U.S. Commercial Service in the Czech Republic

The Commercial Service operates out of the U.S. embassy in Prague. This site provides an introduction to Commercial Service programs, including links to www.buyusa.gov/czechrepublic/en and its on-line trade promotion offerings.

<http://prague.usembassy.gov/fcs/fcs.htm>

**American Chamber of Commerce
in the Czech Republic**

This independent association of businesses promotes commercial relations between the Czech Republic and the United States. Its activities include seminars, briefings, and other educational and networking events that facilitate doing business in the Czech Republic.

www.amcham.cz

Embassy of the Czech Republic in Washington, D.C.

This site contains a wealth of links, such as a trade directory, a "doing business in" guide, and historical/cultural facts.

www.mzv.cz/washington

CzechInvest

The Czech Ministry of Industry and Trade operates the CzechInvest agency to promote foreign direct investment in the Czech Republic. This site explains the advantages of investing in the country, describes key manufacturing and services sectors, and charts foreign investment by industry and region. CzechInvest services range from initial contact facilitation to post-investment consulting, available through several branch offices, including the Midwest (Chicago) and Silicon Valley (Campbell, Calif.).

www.czechinvest.org

Periodicals in English about the Czech Republic

Prague Business Journal (www.pbj.cz), a weekly, and *The Prague Tribune* (www.prague-tribune.cz), a monthly, both provide trade and investment news and free e-mail newsletters. *The Fleet Sheet* is a daily roundup of business and political news in the Czech Republic, and its Web site (www.fleet.cz) offers a free daily e-mail bulletin. *The Prague Post* (www.praguepost.com), a weekly newspaper, also covers business and offers an e-weekly.

EU Patent System

Creating a More Integrated Marketplace

by Elaine Wu

Office of International Relations, U.S. Patent and Trademark Office

Fifty years ago, the predecessor to what is now known as the European Union arose from the ashes of World War II as an economic, social, and political alliance of European countries representing one of the largest and most important markets in the world. In May 2004, the European Union will expand to include 10 new nations, with two more expected to join in 2007. By the end of the decade, the population of the European Union could increase by more than 100 million to half a billion people, becoming one of the world's largest and most competitive marketplaces.

Among the many goals and challenges of this integration of European countries is the creation of an open, competitive, and unified Europe that delivers new opportunities for business. During the past several decades, Europe's leaders have placed great emphasis on intellectual property rights protection as a way to nurture innovation and creativity and attract investment.

The Council of the European Union agreed in March 2003 on a common political approach to establishing a community patent. The community patent would give inventors the option of filing one application to receive a single patent that is legally valid through-

out the European Union. The agreement would also provide a new centralized community tribunal to oversee community patent disputes. While the community patent will not likely go into effect until 2010, this agreement paves the way toward it becoming a reality.

PROBLEMS WITH THE PRESENT PATENT SYSTEM

The current patent regime in Europe is unsatisfactory to many users for two primary reasons: exorbitant expense and legal uncertainty. Obtaining a patent in Europe is costly and can be prohibitively so for individuals and small companies.

Under the current rules, one of the common routes for obtaining a patent in Europe is the European Patent Office (EPO), under the provisions of the European Patent Convention. The EPO, established in the 1970s, is a vast trilingual patent office in Munich, Germany.

Applications filed at the EPO must be submitted either in one of three working languages (English, French, German) or in the official language of an EPO member state in which the applicant has a residence or principal place of business. The application will then be examined, granted, and published in one of these languages. A translation into one of the three working languages is necessary if the application is submitted in another official language.

When the patent is granted, the owner must file, with the patent office in the respective language of each country where protection is sought, a copy of the patent specification (the description and operation of the invention and drawings) and a copy of the patent claims (the scope of the invention) in the two other EPO languages. Thus, rather than being a single patent with European-wide validity, as its name would suggest, the European patent is treated as a bundle of national patents. This cumbersome process can make obtaining a European patent very expensive.

Under the current system, obtaining a patent valid in eight EU states costs in excess of \$50,000, which is three to five times higher than the cost of Japanese and U.S. patents. Moving to the community patent system has the potential of reducing the costs of obtaining a patent, which will be valid in up to 25 countries.

Another drawback to a European patent is legal uncertainty. At present, there is no central court of appeal in Europe responsible for patent validity or patent cases. Each of the EPO's 15 member nations has its own judicial system. Therefore, in theory, there could be 15 different legal proceedings, with different procedural outcomes and different decisions, which fosters a great deal of legal uncertainty as to a patent's status. The practical effect is that patent applicants often find patent litigation in Europe

complex, confusing, and costly. As a result, many American companies may hesitate to apply for patents and market their products in the European Union.

PROPOSED COMMUNITY PATENT

The community patent would remedy the problems of cost and legal uncertainty associated with the present system. According to the proceedings of the March 2003 Competitive Council meeting, a community patent would lower the costs to the inventor by issuing a single patent that is legally valid throughout the European Union through a process that would significantly reduce the costs of translations.

Under the proposal, the EPO would administer the community patent system. Once the system is implemented, a single patent that is legally valid throughout the European Union can be obtained by filing one application with the EPO. The application must still be filed in one of the three standard languages. However, the cost of translating an application into a standard language would not come directly from the applicant, but from revenues generated by the new system, resulting in savings for innovators.

Once the community patent is granted, only patent claims, and not the specifications, are required to be translated into the languages of the countries in which patent protection is sought. The translations will be filed with the EPO, and while the costs are borne by the patent owner, he can decide on the number and length of the claims to be included. Limiting required translations to claims and offering filers the flexibility to determine the number and breadth of the claims to be translated increases an applicant's control over these costs.

The community patent system also establishes a single community court to rule on community patent disputes.

In order to ensure the conformity of case law in specific areas, member states can, however, designate a limited number of national courts with jurisdiction limited to claims and infringement proceedings.

The proposal envisions that the Community Patent Court (CPC) will litigate community patents. The CPC will be attached to the European Court of Justice, in Luxembourg, and will have exclusive jurisdiction in actions and claims of patent validity or infringement proceedings, and other patent related claims. A community patent may also be the subject of proceedings of claims for damages. The CPC will be established by 2010 at the latest, until which time the jurisdiction will remain with member state courts.

The chambers of the CPC will sit in sections of three judges, with judges appointed on the basis of their expertise and taking into account their linguistic skills. The judges will be appointed by a unanimous decision of the Council of the European Union for fixed terms, and will be chosen from candidates exhibiting a high level of legal expertise in patent law. Proceedings at the CPC will be conducted in the official language of the member state where the defendant is domiciled, or in one to be chosen by the defendant in the case where a member state has two or more official languages.

The Council of the European Union is now due to agree upon and adopt the text of the proposed regulation on the community patent. In the meantime, the European Commission is scheduled to present proposals for the Council of the European Union to confer jurisdiction on the European Court of Justice, to rule on issues arising from community patents and to establish a specialized court to do so. For its part, the council will soon be proposing to the EPO that a diplomatic conference be convened to revise

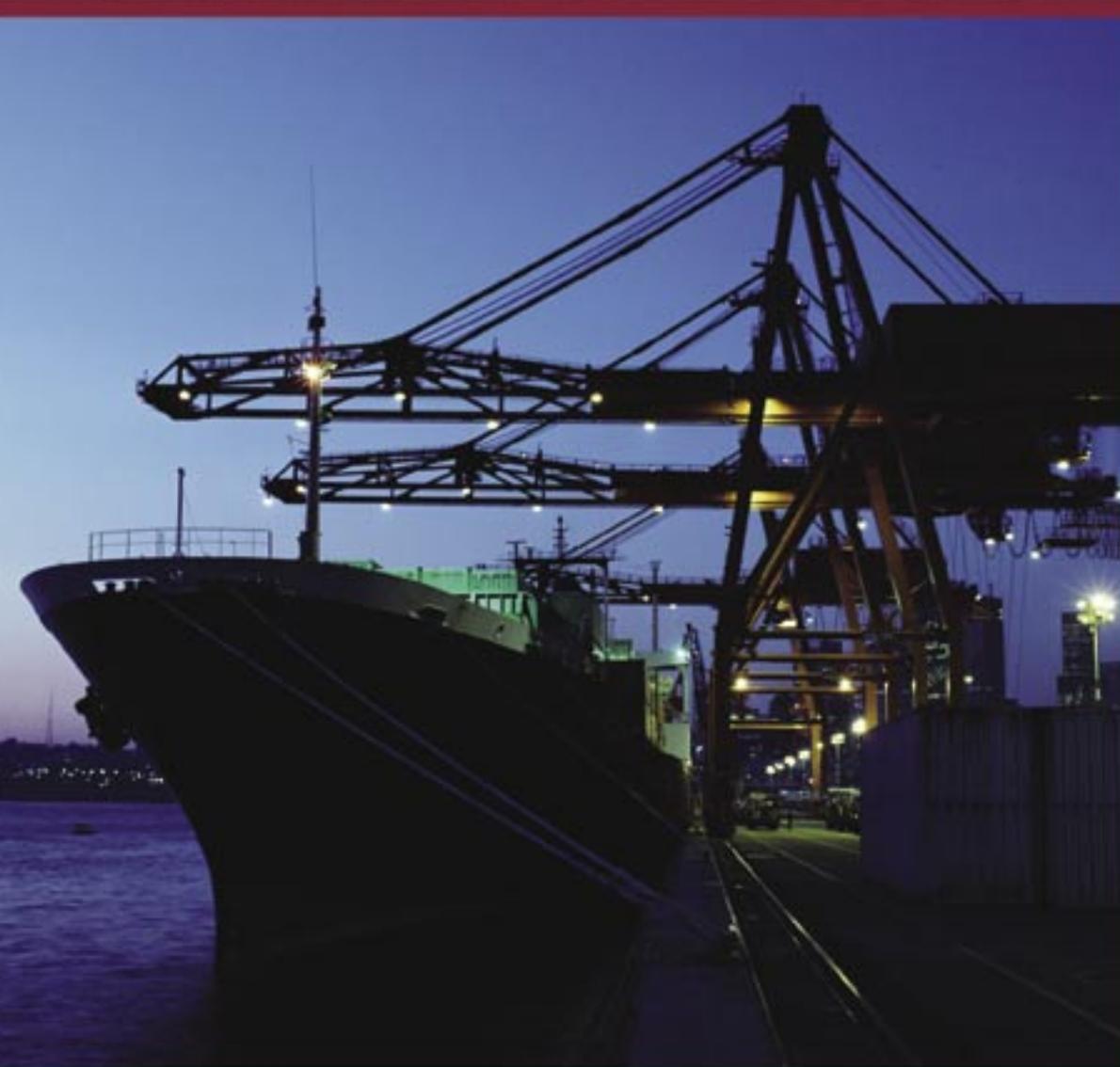
procedures so that it will be able to issue community patents.

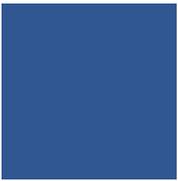
The creation of a community patent has the potential to reduce the costs to American innovators of EU-wide patent protection while guaranteeing a higher level of protection and legal certainty for investors. As the European Union enlarges, the community patent offers incentives for American investment in Europe, particularly for small U.S. businesses that are often the innovators of high technology in the new economy. Dynamic and competitive international markets foster American commerce abroad, fueling the U.S. economy and creating jobs for Americans. ■

Resources

The full text of the proposal for the community patent is available at http://europa.eu.int/comm/internal_market/en/indprop/patent/412en.pdf

European Commission community patent Web site: http://europa.eu.int/comm/internal_market/en/indprop/patent/index.htm





Chile

A Reliable Partner for U.S. Business

by the U.S. Commercial Service, Santiago

From deserts in the north, through the majestic Cordillera with the tallest peak in the Western Hemisphere at 22,000 feet, to the arctic conditions of Tierra del Fuego, Chile is one of Latin America's most dynamic and promising markets. Its strength and attractiveness lie not in its size (population of 15 million people) but in the energy and professionalism of its entrepreneurs, the transparency of its regulation, and the predictability of its decision-makers. Market-led reforms adopted close to 30 years ago and an increasingly diversified economy with strong ties to buyers and suppliers in the Americas, Europe, and Asia have given Chile a wide range of options for sustained growth. Prudent economic policy-making has secured long-term stability unknown elsewhere in Latin America.

This article presents 12 of the most promising industrial and service sectors of this diverse economy. The latest *Country Commercial Guide* for Chile provides detailed information on how to do business in Chile and is available at www.buyusa.gov/chile/en.

BILATERAL TRADE

U.S. exporters have over the past 10 years shipped as much merchandise to Chile as they have to India (a

nation of 1 billion people). Chileans, on a per-capita basis, buy two and three times more U.S. products as the average Argentinean and Brazilian, respectively.

The United States has enjoyed a \$500-million surplus in services trade with Chile over the last two years. U.S. private services exports to Chile in 2001 and 2002 totaled approximately \$1.3 billion, whereas U.S. services imports from Chile were about \$800 million. Business opportunities are available within the following service sectors: finance, insurance, telecommunications, education, law, accounting, advertising, engineering, express delivery, and investment.

SUSTAINED ECONOMIC GROWTH

Chile is the only investment-grade economy in South America. In January 2003, Standard & Poor's gave Chile an "A-" rating. Over the last 15 years, Chile has witnessed the most impressive real growth rates in its history. From 1987 to 1997, the country's

GDP grew an average of 7.9 percent. While the world economy entered recession, the Chilean economy managed to grow at an average of 2.6 percent from 1998 to 2002. The government of Chile and several independent economists estimate the economy will grow 2.5 to 3.5 percent in 2003.

The domestic savings and investment rate has hovered at 20 percent of GDP and is fueled by private pension funds created in 1981. International reserves remain constant at just above \$15 billion, which enables the government of Chile to maintain its policy of a structural budget surplus of 1 percent.

A strong, independent central bank maintains prudent fiscal management that keeps the country's inflation within a target range of 2 to 4 percent. The 2002 rate of inflation was 2.8 percent. The latest unemployment figures for April 2003 came in at 8.2 percent, lower than the same period for last year. Single-digit employment rates in Chile are the envy of Latin America—a region that struggles with

AN ANCHOR OF STABILITY IN LATIN AMERICA

Chile's GDP will expand 3.1 percent in 2003, according to forecasts by the International Monetary Fund in its latest *World Economic Outlook*. The same report scales Latin America's growth rate down to 1.5 percent from 3 percent. In a context in which "Latin America, as a whole, experienced in 2001–2002 its worst downturn in two decades, and prospects are still uncertain," the IMF estimates that Chilean GDP will grow 4.8 percent in 2004, thanks to an economic performance "underpinned by generally sound policies and high degrees of integration with the world economy."

SSA TO OPERATE AT CHILEAN PORT

With over 3,000 miles of coastline, Chile is a “seaport country.” Stevedoring Services of America (SSA) saw an opportunity in May 2002 to provide cargo container services in Chile and found a local partner to bid on and win a concession for the rights to operate in the Port of San Antonio and San Vicente in Chile. Thanks to SSA’s efforts and the assistance provided by the U.S. Commercial Service in Santiago, SSA now operates the largest volume container port in Chile—surpassing older and better-known neighboring ports.



Photo courtesy of U.S. Commercial Service, Santiago.

On top of SSA’s new \$6-million crane, left to right: Commercial Service staffers Mary Lou Lathrop, Americo Tadeu, and Jim Rigassio with Peter McGivern, general manager of SSA Chile.

unemployment double or triple the Chilean rate.

U.S.-CHILE FREE TRADE AGREEMENT

The United States and Chile concluded a free trade agreement (FTA) in December 2002. The FTA text is currently being prepared for signature by both countries. Expectations of the agreement remain positive. Although the United States remains Chile’s most important trading partner, U.S. goods and services have lost market share among other trading partners that now benefit from trade agreements with Chile. Chile has free trade agreements with Canada and Mexico, the United States’ two NAFTA partners, as well as with the European Union and South Korea, among others. The government of Chile remains active in negotiating other trade agreements around the world. Therefore, a U.S.-Chile free trade agreement, once approved by Congress, would put U.S. exporters on equal footing to enjoy very low import tariffs on most products. (Currently, U.S. exporters face a 6-percent tariff.) The full text of the

FTA can be viewed at www.ustr.gov. Read more about the U.S.-Chile FTA in the article “U.S.-Chile Free Trade Agreement: Comprehensive Gains,” published in the February 2003 issue of *Export America*.

A National Association of Manufacturers study estimates that the FTA will provide an additional 12,500 U.S. jobs annually. The University of Michigan states that the FTA could increase U.S. GDP by \$4.2 billion annually. Chilean news agencies predict that the FTA could increase trade between Chile and the United States by as much as 30 percent in its first year. Other significant gains will be in the area of investment. The U.S. Commercial Service in Santiago is drafting a series of opportunities for U.S. companies once the FTA takes effect. Stay tuned and visit www.buyusa.gov/chile/en for current news and hot topics.

OPPORTUNITIES BY SECTOR

Environmental Technologies

Opportunities exist in the privatization and upgrading of municipal water and wastewater treatment facilities. Chile

offers excellent opportunities for suppliers of air, solid waste, and water pollution control equipment. For example, new regulations require that by 2010 all water in Chile must be treated (only 20 percent of waste water is currently treated). Specifically, a total of \$2.5 billion will have to be invested in water infrastructure, \$400 million in water treatment, \$700 million in rainwater collection, and \$1.4 billion in potable water production. The two largest sanitation companies are Aguas Andinas and ESVAL, which were privatized and control more than 50 percent of the water supply market. Aguas Andinas plans to invest \$563 million in infrastructure and technologies for water supply and wastewater treatment by 2010. Aguayambiente, the largest environmental trade show in Chile, takes place in Santiago, June 25–28, 2003. Visit www.aguayambiente.cl for more information.

Telecommunications Equipment and Services

In 1988, Chile became the first country in Latin America to begin privatization of the telecommunications sector. The telecommunications sector in Chile is the most deregulated, advanced, and transparent in Latin America. The total market value of the telecommunications sector in 2002 was \$485 million. U.S. telecommunications products are well regarded. Total U.S. exports for this sector reached \$270 million. The lion’s share of investment was in mobile and fixed telephone services. Competition is fierce among telecommunications operators. The current market trend is to integrate services and to provide state-of-the-art products and services to consumers. In June 2002, Internet connections totaled almost 800,000, an increase of 39 percent over the previous year. Increasing telecommunications penetration rates—especially Internet access—is one of the highest government priorities.

Medical Equipment and Services

An aging population, a strong private

hospital sector, and planned hospital construction make this a dynamic sector. Chile currently spends approximately 7 percent of its GDP on health care, making it one of the largest areas of government expenditure. The Chilean government guarantees health care coverage as a constitutional right and is committed to improving the national public-health system that provides care for approximately 70 percent of the population. Several programs for large-scale purchases of modern equipment have received government approval as part of an effort to upgrade the public and private health sectors. The United States has for years been Chile's most important supplier of medical equipment. U.S. companies hold about half of the medical equipment market.

Computer Hardware, Software, and Services

Technologically advanced U.S. computer products find a receptive audience among IT buyers. The Chilean government has eliminated tariffs on computer equipment imports in order to support the development of high-tech skills and jobs.

Chile has Latin America's second-lowest software piracy rate (51 percent),

according to a recent study conducted by the Business Software Alliance and International Data Corporation. The report also indicates that cutting Chile's piracy rate from 51 to 41 percent could add another \$200 million to its economy, causing the local IT industry to grow to nearly \$ 1.6 billion by 2006. TecnoInternet-Softel is the largest IT trade show in Chile. It takes place in October. See www.tecnointernet.cl for more information.

Architectural, Engineering, and Construction (AEC) Services

This is an untapped market for U.S. firms. The AEC services market is estimated conservatively at \$200 million a year. European companies dominate this market. They provide architectural services for high-rise buildings, construction services for new public works, and engineering services for industries such as mining, water treatment, and waste management. The projected 2003 growth for construction is 4 percent—slightly higher than Chile's estimated GDP growth for this year. Sustained economic growth, an orientation towards U.S. construction standards, and expanding business and infrastructure needs provide a strong base for AEC service providers. The main trade events

Getting Closer to the United States

January and February are summer vacation months in Chile, where moss grows on the south side of trees and the water spins down the drain clockwise. Does this sound like a distant place to visit? The good news is that Chile is in the same time zone as Washington, D.C. The bad news is that Santiago is an eight-hour flight from Miami.

The U.S. Commercial Service in Santiago helps American firms get to know Chile without having to embark on an international flight. Videoconferencing is an excellent way to explore market potential and meet prospective business partners.

Since launching videoconferencing with the help of the U.S. Commercial Service Western Hemisphere team, the Santiago Commercial Service has hosted more than two dozen videoconference market briefings to link it with various Export Assistance Centers across the United States. After participating in a video market briefing, many firms choose to use matching services like the Gold Key, which makes traveling to Chile in person very worthwhile. Those executives not willing to add about 10,000 miles to their frequent-flier accounts can choose to "travel" by videoconference.

LENEL MARKETS VIA U.S. COMMERCIAL SERVICE

In March 2003, the Commercial Service in Santiago organized a single company promotion for Lenel Systems International, Inc., of Rochester, N.Y. The event, held over breakfast at a Santiago hotel, included more than 30 guests invited for their interest in Lenel's state-of-the-art automatic identification and access control integration software. Todd Smith, Lenel's vice president of international sales, and Victor Merino, Lenel's sales director for Latin America, were very impressed with the event. Todd Smith wrote in a follow-up e-mail: "Yes, the promotion was a great success. We had about 30 prospects in attendance. We did write almost immediately approximately \$50,000 in business (some of the orders arrived within a day of the seminar), thanks to your efforts in conjunction with our local partner. More importantly we have been able to prospect some substantial projects worth approximately \$250,000, which we are actively working on. That is in addition to the marketing goodwill the program has provided, which is as you can appreciate difficult to estimate in tangible terms. The professionalism and prestige afforded by our association with the U.S. Commercial Service has helped us in many areas of the world including Santiago. Lenel will continue to include Commercial Service resources as a valuable plank in our marketing platform."

SECRETARY EVANS' TRADE MISSION TO CHILE

U.S. Secretary of Commerce Donald L. Evans visited Santiago, December 4–5, 2002, leading a delegation of 14 U.S. companies interested in starting or expanding business in Chile. During the visit, Secretary Evans had a successful meeting with Chilean President Ricardo Lagos, spoke at a breakfast sponsored by the American Chamber of Commerce, discussed investment and FTA issues with Santiago businesspeople, and visited a children's burn clinic supported by ExxonMobil. While the trade mission was not planned to coincide with the final round of U.S.-Chile FTA negotiations, the presence of Secretary Evans in Chile during this crucial time in negotiations was interpreted in Chile as a sign of U.S. government commitment to the economic welfare of the country.



Photo courtesy of U.S. Commercial Service, Santiago.

U.S. Secretary of Commerce Donald Evans meets with members of Chile's national youth basketball league—a league created and sponsored by the U.S.-based energy company PSEG Global.

where U.S. exporters may exhibit are Expohormigon (October 2003, Santiago, www.expohormigon.cl) and Expomin (May 2004, Santiago, www.expomin.cl).

Food Processing Equipment and Services

Natural and phytosanitary conditions, worldwide demand, entrepreneurial experience, infrastructure, and off-season production have enabled Chile to become a key player in the export of agricultural and processed food products. Chile is a world leader in producing and exporting high-quality fresh fruit (\$1 billion in annual exports), and the world's second-largest producer and exporter of salmon and trout (\$1 billion in annual exports of this non-native species). Increasingly, Chilean wines are winning major international competitions. Chile exports \$600 million worth of wines a year. Chile's pork,

poultry, and exotic meats industries, as well as its dairy industry, have plans for export expansion. Chilean producers are all too aware that to remain competitive, they must maintain and update their processing and packaging plants. Especially given the trend toward producing value-added goods, significant commercial opportunities exist in the areas of cost reduction, production standards, safety, and final product quality.

Financial Services

Chile's domestic capital market has a value of more than \$50 billion. The privatized social security system represents the largest institutional investor, with nearly \$40 billion in assets under management. With assets of \$5 billion, the mutual funds industry is growing more than 20 percent annually. The factoring industry is also growing rapidly. Capital market reform in 2001

deregulated the industry, making it the most open and modern marketplace in the region.

Mining Equipment and Services

Mining is Chile's largest industry. It represents a \$700-million market. Imports total approximately \$450 million, of which U.S. companies supply more than 60 percent. Chile's principal mineral is copper, and it comprises 40 percent of all Chilean exports. Given the relatively low price of copper on the world market, solutions to save costs and thus increase profitability are in high demand. As the price of copper rebounds from current lows, investment in this sector will follow. Expomin is Latin America's largest mining show. In 2002, more than 200 American firms exhibited at the U.S. pavilion, which attracted buyers from all over the region. Visit www.expomin.cl for more information.

Power Generation

Power generation has not kept pace with demand. Supply shortages are creating new investment and trade opportunities. The Ministry of Economic Affairs is planning new projects to keep up with future demand. Some examples include two new 400 MW, gas-fired, combined-cycle power plants valued at \$400 million each. Major U.S. power companies are already in the power generation and distribution market.

Security Equipment and Services

The total market size for 2002 was \$34 million, of which imports made up 88 percent. The United States supplies 30 percent of all imports; China supplies 16 percent. The local market demand for this industry extends from personal safety products to industrial security solutions, such as access control, alarms, detectors, perimeter protection, security equipment for prisons, security equipment for airports and seaports, fire-fighting equipment, and more. There is no specific local trade event for this industry. However, Edifica (www.edifica.cl) is an international trade fair for construction

machinery and equipment. The show is held in Santiago, September 24–27, 2003, and is a great regional show for U.S. companies.

Material Handling Equipment and Logistics

The development of logistics, including the material-handling equipment industry as well as related services, is a key component of economic activity. Logistics has grown impressively over the last few years, covering the entire supply chain: airfreight, ocean transportation, warehousing, inventory management, surface transportation, management software, and more. Chilean companies require increasingly sophisticated processes and technologies to be cost-effective and efficient, improve economies of scale, and provide just-in-time delivery to domestic and international customers. The most important local trade show in this sector is Logisti-k, which is scheduled for October 14–17, 2003. Visit www.logistik.cl for more information.

E-Business Services

The government of Chile sees future job growth and prosperity tied to the digital sector. A new digital signature

law is helping business streamline operations by eliminating paper contracts. While business-to-consumer services are limited by a per-capita Internet penetration rate of 28 percent, business-to-business (B2B) services provide the engine for sales in this sector. The government is seriously looking to fulfill its modernization commitments agreed upon in the free trade pacts with the European Union, South Korea, and the United States. A Santiago Chamber of Commerce study states that B2B transactions in 2002 totaled \$2.47 billion within its 22 B2B e-marketplace sites. The study estimates that this year businesses will focus on digital technology to make traditional processes more efficient, and that traditional companies will augment their investment in digital technology.

This is not an all-inclusive list of commercial opportunities in Chile. For more information on Chile and to find out about the products and services offered to help American firms evaluate the market and develop successful relationships, contact the U.S. Commercial Service in Santiago at www.buyusa.gov/chile/en. ■

DSC IN COPPER MINING DEAL

In November 2002, Dredging Supply Co., Inc. (DSC) of Reserve, La., reported a new-to-market contract to supply two custom-made mining dredges with a combined value of \$2.8 million to a copper mine in Chile. To finance the cost of their construction, DSC obtained a \$1.2 million export working capital line from Bank One, secured by an U.S. Export-Import Bank guarantee.

DSC has a reputation for reliable, state-of-the-art equipment. Chile holds future sales opportunities with other mine operators. "In Chile, we have seen tremendous export activity, and we are currently negotiating several other contracts as well," notes Robert Wetta, chief operating officer of DSC.

DSC enjoys a solid working relationship with the U.S. Export Assistance Center in Baltimore, where the firm's international sales director is based. It is also on good terms with the U.S. Export Assistance Center in New Orleans, which is convenient to its shipyard and headquarters in Reserve. The U.S. Commercial Service office at the U.S. embassy in Santiago supported the Export Assistance Center trade specialists with market research, business briefings, and business referrals. "We appreciate the help, guidance, and advocacy we receive from the U.S. Department of Commerce in identifying and closing new export opportunities, such as our recent Chilean success," says company official Charles Sinunu.

U.S. Commercial Service in Santiago

Bookmark this site to monitor what we are doing for U.S. exporters, including information on the products and services available to meet your market entry needs.

www.buyusa.gov/chile/en

U.S. Embassy in Santiago

Find out what the U.S. mission in Santiago is doing. Read about the latest developments regarding the U.S.-Chile Free Trade Agreement.

www.usembassy.cl

U.S. Trade Representative

This site contains a full text of the U.S.-Chile Free Trade Agreement. See if your product qualifies for immediate tariff relief under the FTA.

www.ustr.gov

Foreign Investment Committee

This is a Chilean government-sponsored, English-language site that highlights international approval and favorable Wall Street analysis of Chile's economy.

www.foreigninvestment.cl

Chilean-American Chamber of Commerce

This is the premier U.S. business association in Chile. The Web site provides information on how U.S. firms will benefit from a bilateral free trade agreement.

www.amchamchile.cl

Upcoming Trade Events

June 2003–January 2004

DATES	EVENT	LOCATION
June 22–28, 2003	Manufacturing Trade Mission This week-long mission to three major manufacturing centers in Mexico is intended for U.S. exporters of a broad range of products and services for the manufacturing sector.	Monterrey, Mexico City, and Guadalajara, Mexico
June 29–July 1, 2003	ISPO International Trade Fair Each year at the ISPO Summer in Munich, the sports equipment and fashion industry sets the tone for the following summer season. Exhibitors from over 40 countries present products for both summer and non-seasonal sports.	Munich, Germany
July 15–18, 2003	Oil and Gas Malaysia 2003 Oil and Gas Malaysia 2003 will attract exhibitors from all over the world. This event is an excellent networking and meeting place for industry leaders, suppliers, and decision-makers in the petroleum industry.	Kuala Lumpur, Malaysia
July 21–25, 2003	Electric Power Mission The mission will include representatives of U.S. electric power companies and equipment manufacturers interested in entering or expanding their presence in Vietnam and Thailand.	Vietnam and Thailand
August 11–19, 2003	Food Processing and Packaging Equipment Trade Mission This mission will target the U.S. food processing and packaging equipment industry. The focus of the mission will be to match U.S. companies with potential agents, distributors, representatives, and joint venture partners.	Vietnam; Thailand; the Philippines
August 12–14, 2003	Security 2003 Security 2003 is the 17th Annual Conference and Exhibition of the Australian Security Industry Association. This important event attracts more than 4,000 visitors, including the Australian security industry's key decision makers, suppliers, and customers.	Sydney, Australia
August 23, 2003	Telemedicine Virtual Trade Mission The Colombian government program known as the Connectivity Agenda is establishing telecommunications infrastructure in remote rural areas and small towns. This infrastructure is expected to be in full operation by 2003, facilitating telemedicine services to be provided to these areas where inexpensive and fast health care services are in high demand. U.S. participants should be companies that provide telemedicine services.	Bogotá, Colombia
September 6–9, 2003	Deco Contract Deco Contract, organized in conjunction with Decosit, was held for the first time in 2001. It is an international textile contract furnishing show.	Brussels, Belgium
September 8–12, 2003	ACE 2003 This a very important event for those involved in airline maintenance, engineering, and supply personnel, as well as for commercial, charter, and fixed-based operators. There will be conferences and seminars with sessions focused on current regulatory requirements and technical issues to improve safety, reliability, and productivity.	Montreal, Canada
September 9–12, 2003	AIMEX 2003 AIMEX is an international mining exhibition. AIMEX has been a major event in Australia since the 1970s and is recognized as one of the most important mining shows in the world. The show used to focus heavily on Australia. Australia is now considered to be a regional center of excellence in mining, and the show is being redefined with an emphasis on the Asia-Pacific region.	Sydney, Australia
September 9–12, 2003	Chinaplas 2003 Chinaplas was launched in 1983 as an international exhibition for the plastics and rubber industries in China. Held annually, it rotates among the cities of Beijing, Shanghai, and Guangzhou.	Beijing, China
September 18–21, 2003	Expopharm 2003 Expopharm is the only major pharmaceutical industry event in Germany. The annual trade event usually counts over 500 exhibitors and roughly 20,000 strictly trade-only visitors. American manufacturers, wholesalers and exporters of pharmaceuticals, OTC products, health supplements, and cosmetics get a chance to present their products on the exhibition floor of this large international trade show.	Dusseldorf, Germany

HIGHLIGHTED EVENTS

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BUSINESS DEVELOPMENT MISSION**ROMANIA AND BULGARIA
JULY 14-19, 2003**

Deputy Secretary of Commerce Samuel Bodman; Assistant Secretary of Commerce and Director General of the U.S. Commercial Service, Maria Cino; and Assistant Secretary of Commerce for Market Access and Compliance, William Lash will lead a senior-level business development mission to Bucharest, Romania, and Sofia, Bulgaria.

The mission will help U.S. companies explore commercial opportunities in Romania and Bulgaria. The delegation will include 10 to 15 senior executives of small, medium-sized, and large U.S. firms representing these and other growth sectors: automotive parts and services, building products, information technology, telecommunications, defense, energy, medical products, pollution control, and tourism infrastructure.

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EXECUTIVE AEROSPACE TRADE MISSION**BEIJING AND CHENGDU, CHINA
SEPTEMBER 11-19, 2003**

This mission will include representatives from a variety of U.S. air traffic control and airport infrastructure development firms, service providers, and consultants who are interested in expanding their presence in China's rapidly growing air traffic control and airport infrastructure market. The mission plans to visit Beijing at the same time as Aviation Expo 2003, which will focus heavily on air traffic management.

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HEALTH CARE TECHNOLOGIES**UNITED KINGDOM AND IRELAND
SEPTEMBER 15-19, 2003**

This trade mission will target the health care technologies industries, with an emphasis on the telemedicine sector, which is experiencing strong growth in these markets. The focus of the delegation will be to match participating U.S. companies with qualified agents, distributors, representatives, licensees, and joint venture partners in these markets.

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DATES	EVENT	LOCATION
September 21–23, 2003	Franchising Trade Mission The Commercial Service is organizing a franchising trade mission to Singapore and Shanghai, China. In Singapore, the mission will coincide with the largest franchising show in Asia, Global Franchising 2003.	Singapore and China
September 23–26, 2003	U.S. Building Products Trade Mission Sales of building products and construction materials will continue to flourish during the next five years in Canada's buoyant residential and renovation construction market. U.S. exporters, with building products for the housing and renovation sectors, can profit from Canada's booming residential construction/renovation markets and increase their export sales in Canada by participating in this event.	Toronto and Montreal, Canada
September 24–27, 2003	Edifica 2003 This regional trade show includes building materials, construction equipment, and related services.	Santiago, Chile
October 5–7, 2003	Golf Europe The Office of Consumer Goods in conjunction with the U.S. Commercial Service in Munich, Germany, is sponsoring a U.S. product sample and literature center at Golf Europe. This promotion should help U.S. companies that are looking for distributors, joint venture partners, or new sales opportunities. Golf Europe is Europe's leading golf equipment trade show.	Munich, Germany
October 16–21, 2003	EquipAuto 2003 EquipAuto is the world's most comprehensive exhibition for the automotive industry, covering new technologies in original equipment, spare parts, customer service, and garage equipment. There will be two specialized U.S. pavilions for which the Commercial Service in France will provide support. EquipAuto will offer workshops, conferences, and seminars to bring together engineers, managers, buyers, and sellers.	Paris, France
November 12–14, 2003	Cosmoprof Asia 2003 This event is the Asia-Pacific region's largest showcase for products and services in cosmetics, toiletry, perfume, hairdressing, spa, and beauty sectors. Celebrating its eighth year in Asia, Cosmoprof will feature more than 600 exhibitors and a large-scale U.S. pavilion.	Hong Kong
November 13–17, 2003	InterCHARM 2003 The cosmetics market in Russia has great potential for U.S. companies. InterCHARM is the largest beauty and health products exhibition in Eastern Europe. In 2002, more than 600 companies from 23 countries participated, along with 65,000 visitors. The cosmetics and health products market is one of the fastest-growing markets in Russia.	St. Petersburg, Russia
November 20–22, 2003	Expo Pesca 2003 Expo Pesca 2003 is an international trade show of equipment, supplies, and services for the fishing and fish farming industries. The U.S. Commercial Service in Lima will have a booth at the show and will host a catalog exhibition for U.S. firms unable to exhibit directly. Fishing is the second-largest industry in Peru, representing more than 5 percent of the GDP and over 10 percent of total exports.	Lima, Peru
December 7–11, 2003	USA Trade Week Russia This is a comprehensive exhibition of U.S. products and services. The exhibition will be preceded by a two-day conference with workshops featuring an "A to Z" approach to doing business in Russia, as well as discussion of all aspects of trade between Russia and the United States. This is the only exhibition of its type for U.S. firms interested in Russia. It will attract qualified business visitors from all parts of Russia.	Moscow, Russia
January 9–11, 2004	Reisemarkt Rhein-Neckar-Pflaz This three-day regional consumer travel show attracts approximately 22,000 visitors from the Rhein-Neckar region of Germany (2 million inhabitants). In 2002, there were 240 exhibitors from 18 countries. U.S. tourism firms can benefit from increased exposure through a unified U.S. tourism presence. Literature should be in German if possible.	Mannheim, Germany

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THEME PARKS AND FUN CENTER SHOW 2003**UNITED ARAB EMIRATES
SEPTEMBER 29–OCTOBER 1, 2003**

The Theme Parks and Fun Center Show 2003 is the ninth international exhibition in the Middle East exclusively for the amusement and attractions industry. More than 120 companies from over 24 countries participated in the show in 2001. Due to the emphasis that governments in the Middle East have placed on the development of leisure facilities, U.S. companies should seize this opportunity to gain entry into an otherwise difficult region. Visitor numbers always exceed 5,000, with businesspeople from throughout the Middle East, North Africa, and Central Asia.

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OIL AND GAS EQUIPMENT/SERVICES MISSION**KAZAKHSTAN
OCTOBER 2–10, 2003**

The mission will include representatives from U.S. oil and gas equipment and service companies interested in entering or expanding their presence in Kazakhstan. While in Almaty, mission participants will visit the Kazakhstan International Oil and Gas Exhibition, and have the opportunity to display their catalogs in a booth run by U.S. Commercial Service staff.

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**TOURISM INFRASTRUCTURE
AND DEVELOPMENT CONFERENCE****GREECE
OCTOBER 17–20, 2003**

This event will introduce participating U.S. companies and industry association representatives to Greek business and government decision-makers. Participants will be able to identify and hear firsthand the business opportunities associated with the development, management, and operation of tourism infrastructure projects in Greece. A heavy emphasis will be given to setting up meetings between U.S. participants and key Greek government and private sector officials involved in projects related to tourism infrastructure.

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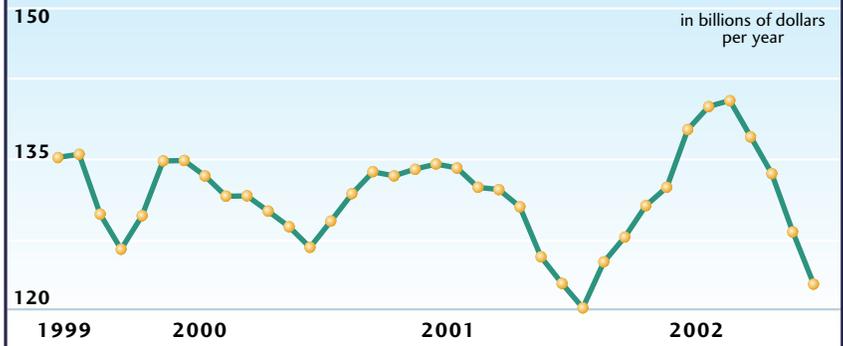
E-mail: Phillis.Bradley@mail.doc.gov

Quarterly Trade Data

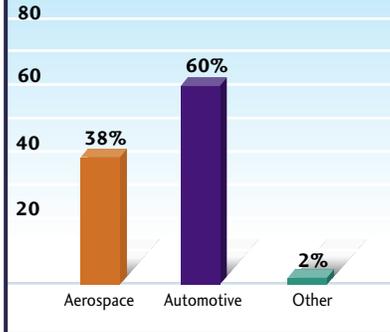
As of Fourth Quarter 2002

TRANSPORTATION EQUIPMENT (CIVILIAN)

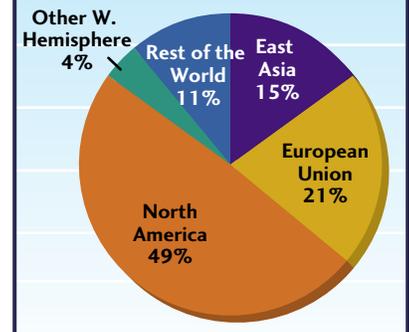
RECENT TRENDS



COMPOSITION



DESTINATION



CONSUMER DURABLES

Monthly data are centered three-month moving averages, based on seasonally adjusted figures and expressed as annual rates.

Product categories (except for services) are based on end-use classification. Commercial services include all private services.

North America: Canada and Mexico.

European Union: Austria, Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

East Asia: China, Hong Kong, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Taiwan, and Thailand.

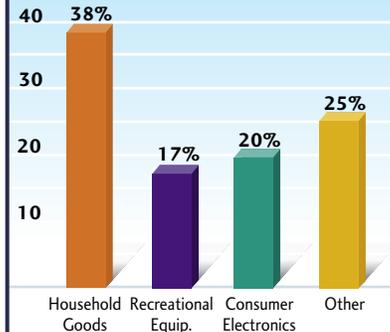
The chart showing exports of services by region is based on data for calendar year 2001. Other charts showing product mix and destination are based on data for the year ending January 2003.

Source: Bureau of the Census (goods), Bureau of Economic Analysis (services).

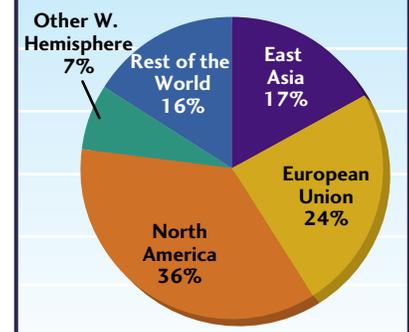
RECENT TRENDS



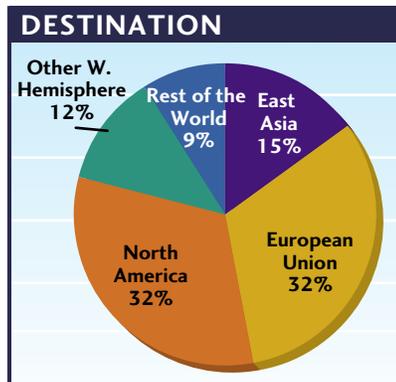
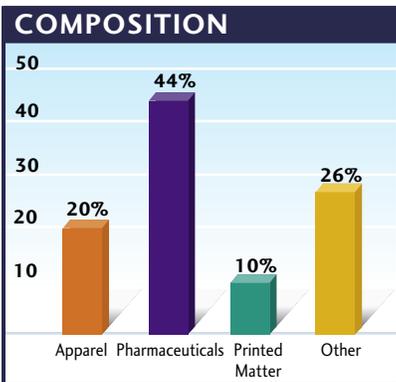
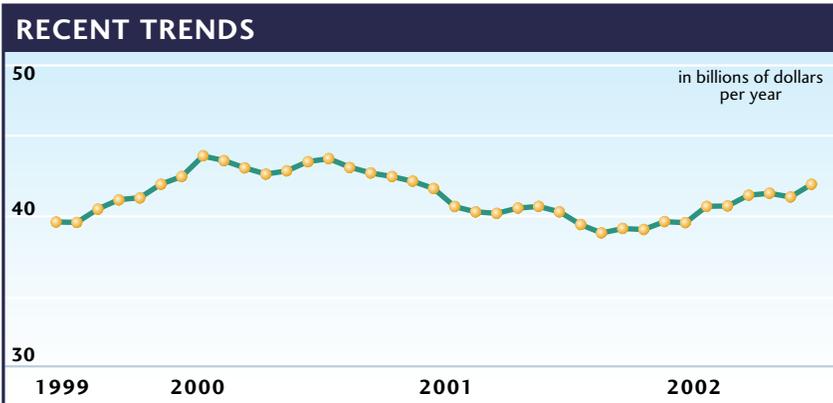
COMPOSITION



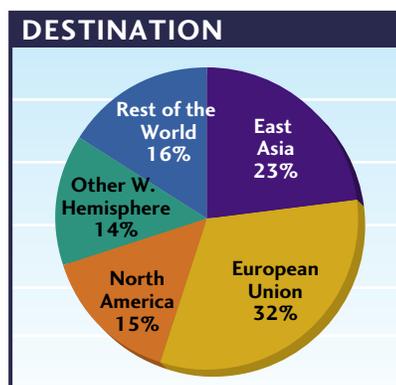
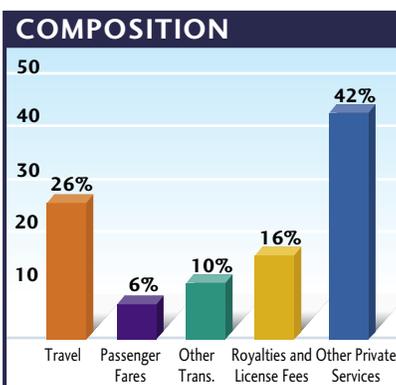
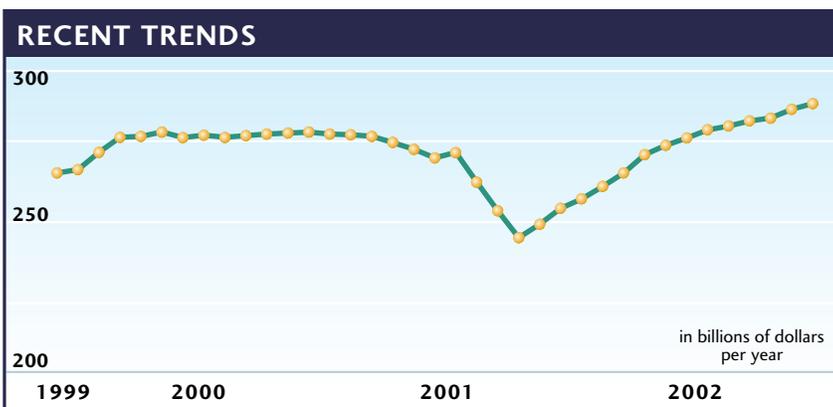
DESTINATION



CONSUMER NON-DURABLES



COMMERCIAL SERVICES



Additional information is available from the International Trade Administration (www.export.gov/tradestats), the Bureau of the Census (www.census.gov/foreign-trade/www), and the Bureau of Economic Analysis (www.bea.gov).

A Look at International Marketing

Getting Started

by Dennis R. Chrisbaum

U.S. Small Business Administration

As you begin exploring international business opportunities, consider attending export-training sessions in your community. These will connect you to the international business network in your local community. The U.S. Department of Commerce, U.S. Small Business Administration, state international trade offices, World Trade Centers, Small Business Development Centers, and local community colleges typically sponsor such programs. In addition, there are a number of Web sites that can help you get started.

One of the first things you will need before you export is a Schedule B number for your product, which will be put on your Shipper's Export Declaration. The Trade Information Center can help you research that number, or you can contact the U.S. Census Bureau (www.census.gov/foreign-trade/schedules/b) to locate the number. You also will be able to find your product's Harmonized System number there. This is used worldwide to classify products and determine local duty rates. With this number, you can then research the duty rates that your buyers will pay when importing your products. Depending on the duty, your

industry sector and country. You also will find a *Country Commercial Guide* for every major market, updated annually by U.S. embassy staffs worldwide, on how to do business in a given country and the best prospects for U.S. exports. And you will find a list of trade events and services that could help you identify buyers or representatives for your products abroad.

If you are involved in producing agricultural or food items, visit the Web site of the Foreign Agricultural Service, U.S. Department of Agriculture, which has an excellent international business plan on it. Go to www.fas.usda.gov,

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—Dennis R. Chrisbaum

U.S. Small Business Administration

For instance, *A Basic Guide to Exporting*, published by the U.S. Department of Commerce, can be downloaded from www.unzco.com/basicguide/index.html. Other information on the mechanics of exporting is available through the U.S. Commerce Department's international trade portal at www.export.gov. If you go to the “Export Basics Webcast” on this site, you will be able to sign up for four hours of free on-line training. Other sites offering good basic information are www.tradeport.org, www.globalspeak.com, and the Commerce Department's Trade Information Center at www.export.gov/tic.

products might or might not be competitive in a particular market. Also refer to “Classifying Your Product for Export” in the January 2003 issue of *Export America* for a guide to locating your product under the Harmonized System.

When you are familiar with some of the basics of exporting, you will want to begin doing market research on potential markets. The Internet has changed the way we do research; there is so much available on-line now. One of the best sites to begin your market research is www.export.gov, which provides market research by

and under “Exporter Assistance,” you will find an option to create your own export plan. In addition, you will find market research reports and trade leads at this site. Two other helpful resources for country information are www.countrywatch.com and *The World Factbook*, which can be found at www.cia.gov.

THE FOUR “P’s” OF MARKETING

Although international business is different from domestic business in some regards, certain business principles will not change. You still need to do proper market research, and you still need to address the four “P’s” of

marketing, which define marketing in any environment:

■ **Product** (and product modification):

One of the first laws of marketing is to ask what the customer wants. Americans frequently make the mistake of thinking if it sells here, it should sell abroad. Sometimes products have to be modified. In Japan, cars have steering wheels on the right side, so it does not make sense to try to sell them our standard models with steering wheels on the left. Another important difference is that outside of the United States, most of the world is on the metric system. So your products will need to be produced to metric standards. In much of Europe, ISO-9000 certification often is required before buyers will talk to you, and electrical standards vary around the world. Even in Canada, labeling must be in French and English, so packaging frequently will need to be adjusted as well.

■ **Placement** (distribution): Distribution channels are determined by industry and tradition and can vary greatly among markets. This is something you will have to research. What is the normal channel of distribution for your product in the targeted country? It might be quite different from the U.S. standard. Sometimes you can go around normal channels, but it should be a well-calculated risk. Will you try to sell directly to the end-user, or should you sign up an agent or distributor? Does your product require after-sales service? This is a critical question that may well dictate the distribution channel that you will need. Your local U.S. Export Assistance Center can help you locate qualified agents, distributors, or partners abroad. A list of their services is at www.export.gov. Also consider getting trade leads through the SBA's Trade Mission On-line program (www.sba.gov/oit) or the

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LG 302	LUXEMBURG		
AZ 419	TURIN		
LH 1122	NEAPEL		
LH 1906	MADRID		
LH 1022	STUTT GART HBF.		
AF 1701	LYON		
AY 822	HELSINKI		
AA 071	SFRANCISCO-DALLAS		
AF 743	PARIS		
LH 1116	VENEDIG		
DL 023	DALLAS		
GA 892	AMSTERDAM		

Commerce Department's BuyUSA program (www.buyusa.com).

■ **Promotion:** How will you promote your product in a particular country? Will you sell directly to potential buyers, or create buyer demand through advertising? Investigate how promotion is typically done for your product in the targeted country. For instance, if you have an industrial product and Germany is your target market, but you decide not to participate in the annual industrial trade shows, you are definitely making a mistake. The Germans have been doing trade shows for at least 1,000 years. Your participation, or lack of participation, will indicate the extent to which you are serious about the market. This is not necessarily the case in other countries. Contact your Export Assistance Center about programs for advice in this area.

■ **Pricing:** It is almost impossible to determine your pricing without primary research (having someone in the country evaluate your competition and the demand elasticity for your product). However, you should

be able to get a sense of whether you want to go into a market with a premium pricing, or a low pricing/high volume, strategy. How do you want buyers to view your product, related to its price and quality, compared to that of your competition? Also, remember that your buyer will need to absorb transportation costs and import duties. So, to keep your product competitive, you might need to back out your domestic marketing and overhead expenses, in order to arrive at acceptable pricing in a given market.

Market research is really at the heart of any international expansion plan, so make sure you devote adequate time to this effort. Unfortunately, if the market research is wrong, it is unlikely that your international sales efforts will succeed. Good luck as you begin what is sure to be an exciting adventure in global marketing. ■

U.S. DEPARTMENT OF COMMERCE
 INTERNATIONAL TRADE ADMINISTRATION
 Room 3414
 1401 Constitution Avenue, NW
 Washington, DC 20230



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