Global business, economics, politics: Perspectives from Europe, Asia and the US

Peter Widmer, James Rooney, Richard Bard

Globalization has produced new challenges in Europe, Asia and the United States. Discussing the issues that are impacting the economies and direction of these regions are panelists Peter Widmer, James Rooney and Richard Bard.

Peter Widmer - Europe: The gap widens

Peter Widmer is financial advisor to a small number of wealthy European families. He previously was chairman of Julius Baer Investment Management, Inc. and Member of the Executive Board of Julius Baer Holding in Zurich, responsible for the company’s institutional investment activities outside Switzerland. Prior to working for Julius Baer, Widmer was with Swiss Bank Corporation and London & Dominion Trust and Thomson-Schwab & Co. He holds the Commercial Diploma from the Swiss Business Association.

Slow growth describes the European Union economy for 2005, an average of 1.5-2.0 percent for the 25 member states as a whole, said Peter Widmer in his address to the Global Executive Forum. However, the figures are brighter for the 10 new members (Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Malta, Cyprus), when looked at as a separate bloc. For these countries, which were admitted May 1, 2004, “The average GDP growth for this year is estimated at 5.0-5.5 percent, which is above original expectations,” said Widmer noting that this points to the “widening gap between the new and the old Europe.”

It’s clear to many why this is happening. “The ECB (European Central Bank) rightly points out that the basic problem with growth lies in rigid labor markets, overregulation and taxation.” This is particularly true in France and Germany.

Germany, which had been the biggest economy in Europe, is now a drag on the EU’s GDP, with one of the slowest growing economies in the euro zone. Its deficit has risen above the euro zone’s debt limit of 3 percent of the GDP as required by the stability pact. According to Widmer, “the March meeting of the European Council in Brussels set new guidelines for the stability pact, basically rendering the old one obsolete and making it easier for new member states to join the euro. The softer guidelines specify 14 exemptions (vs. 3 previously) to the stability pact to allow for unexpected cyclical downturns in the local economy. The EC also modified the 2000 reform agenda which called for the EU to become the world’s most competitive economy by 2010, and agreed upon morerealistic goals.”

Before it can get its economy growing again, Germany has to solve a multitude of problems: integrating the eastern German economy into the rest of the country, chronic high unemployment, an aging population that has pushed social security payments in excess of contributions from workers, and a rigid labor market that has made it too costly for companies to do business there.

“Germany’s social program issues are very hard to work with,” said Widmer. “If you want to fire someone you have to give them 12 months notice.” On top of that, the labor force has an attitude problem. “The Germans believe they deserve to win. Many companies are moving out of the country because of these conditions.

Where are they moving to? Poland, Czech Republic and other central European countries that offer a much more friendly and flexible environment for business. France, too, has a more competitive business
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environment and more reasonable worker attitudes. “The people in France want to work. So country by country you’ll find very different attitudes.”

The new member states have come a long way in just 12 months. Their economies are looking good and “politically they are beginning to make an impact,” said Widmer. “In Brussels at the various committee meetings, they are all in the liberal Tony Blair camp which is for free markets and opening up the EU to the outside world.” This is counter to the French and German camp “which resists more liberal, outward looking and market oriented economic policies.”

Europe’s growth will come from the EU 10, said Widmer. “That’s where the pressure has to come from to nullify some of the rules within the old EU countries.” Above average rates of growth are expected in Slovakia, Latvia and Lithuania. Ukraine, Albania, Romania and Bulgaria, candidates for membership, are also expected to enjoy above average rates of growth.

“Romania and Bulgaria have signed the accession treaty, paving the way to become the 26th and 27th members on Jan. 1, 2007; however, entry could be delayed because of the lack of progress they have made on issues such as corruption and border controls.

Turkey’s entry has been pushed back by 10-15 years to allow it time to comply with EU standards relating to corruption, intellectual property rights, freedom of the press and women’s rights. No problem with its economy, though. “Turkey’s growth rate of 9.9 percent last year makes it the fastest growing economy of all the EU countries and on a par with China. The per capita income in Turkey is US$7,000, only 50 percent of the average of the new member states. This is the highest it has ever been, but the income is very unevenly distributed.

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“I think it was wise of the EU to set a timetable of 10-15 years for Turkey to become a member because there’s no phase-in period. On Day One, all members have to accept all existing EU legislation.”

Despite the fact that EU entry requirements are so stringent, it does not deter new candidates from knocking on the door. “The attractiveness of the EU to these countries is freedom, open markets, reliable political and economic structures,” said Widmer. “Ukraine has made a very strong declaration that they would like to join the EU as soon as possible.”

The EU stands in sharp contrast to Russia, “which is increasingly seen as authoritarian, unreliable, hostile. So they’re in a hurry to get under the umbrella of the EU and into NATO.”

And what’s the prognosis for the EU constitution which went through several drafts before member states agreed to put it before their respective electorates? “Under the guidance of France’s former President Valery Giscard d’Estaing, the constitution aims at securing the smooth running of the EU in its expanded form today and as it continues to expand into the future,” said Widmer. “French President Jacques Chirac
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is terrified that a ‘No’ result on May 29 would be interpreted as a vote of no confidence against him and his government.

“If the constitution fails, a less ambitious, simpler and less detailed version would then be drawn up, but there is no Plan B at present. In the meantime, the euro will not crumble; you don’t need a constitution to do business.”

Note: On May 29, 2005, French voters rejected the EU constitution, and on June 1 voters in the Netherlands also turned it down.

James Rooney - Asia: Year of the Rooster

James Rooney is chairman of J.P. Rooney & Associates, Ltd., a business advisory firm offering corporate and financial advisory services throughout Asia, and Taxplan Ltd., a subsidiary which provides US tax services in Bangkok, Singapore and Manila. He is a director of Bangkok Airways, Thai Country Club, American Universities Association Language Center, Bangkok YMCA, and has served as a member or director of other business and community organizations.

As Southeast Asia looks for ways to ensure its economic growth, it must deal with “serious issues concerning country-to-country relationships, the global economic slowdown and oil prices,” James Rooney said in his address to the Global Executive Forum.

Relationships

The Southeast Asian countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam) have a positioning problem relating to the major -- and often unpredictable -- powers of China, Japan and the United States.

Tensions exist between China and Japan, between China and the US, and between Japan and the US. “How does Southeast Asia avoid getting caught up in a conflict between any of those relationships? It’s a very difficult position for them to play.”

Even if Southeast Asia can successfully sidestep being drawn into other nations’ disputes, it must still contend with the separate interests and clout of the three powers while defending its own interests in the region.

“China is the big kid on the block, Japan is a grandfather figure whose best days may be behind her but who can still be counted on for support, and the US on any given day might be Southeast Asia’s best friend or worst critic,” said Rooney.

“There is a feeling in Southeast Asia that it’s probably better to have the US as a mistress than as a wife because the relationship with the US can be a very rocky one. The US will praise you one day and will criticize you the next day. In Southeast Asia, you never know when you wake up in the morning whether the US will be your friend that day or your critic.”
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The US stance on China’s currency is problematic for Southeast Asia. “The US is pushing China to devalue its currency but Southeast Asians fear such a move will throw the Asian currency markets into a state of chaos,” said Rooney. “So do they try to get the US to reevaluate their position or do they stand back and do nothing?”

Free trade agreements in Asia are another source of anxiety. Thailand is currently negotiating free trade agreements with Japan and the US. China has negotiated a free trade agreement with ASEAN (Association of Southeast Asian Nations) which covers a broad number of industries and includes a sensitive industries list specifying those industries that the respective countries are not ready to open. The Chinese have been much more clever in trade than most people give them credit for. They’ve learned how to use non-tariff barriers very effectively to let things in that they want and to make it difficult for other goods to get into the country. So the free trade agreement has not been quite as free as some of the Southeast Asian countries had hoped it would be.

“In a sense, China is not playing the game fairly, but it’s hard for small countries to stand up to the big kid on the block and tell him he’s not following the rules. So they have to look at other mechanisms to try to make this relationship work.”

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Southeast Asia’s relationship with Japan is also difficult. “Japan is important to Southeast Asia in two ways: It is a very significant contributor of capital investment and it represents a significant market in some areas for the Southeast Asian nations, and they don’t want to throw this away. So when China and Japan argue, Southeast Asia is a bit worried. There’s a great phrase in Asia that when elephants fight, the grass gets trampled. And these small Southeastern countries are the grass.

“I think the greatest concern, which overrides everything else with the Southeast Asian nations, is how they can eventually strike economic cooperation agreements with China. Because China, in a blink of the eye, could wipe out all the export markets for any of these nations with the exception perhaps of Indonesia which has hydrocarbons.

“We are all realizing that we’re no longer living in an era where economic change is gradual and predictable. You have to be much quicker to react to external changes and have definitive policies to deal with them when they occur.”

**Global slowdown, oil prices**

Based on the global slowdown and rising oil prices, GDP growth rates in Southeast Asia this year may fall as low as 3.5 percent in some countries from their current high of 5.5-6.5 percent. If global economic growth drops to around 4 percent, as recently forecast by the World Bank, this would hurt Southeast Asia because the region is dependent both on foreign direct investment and on exports,” said Rooney.
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"Inflation, while still relatively low, will likely increase by 1.0-1.5 percent in most of the Southeast Asian countries as a direct result of oil prices. But for the moment, with varying degrees of success, the region has gotten past the 1997-98 economic collapse.

“At this time, Southeast Asia sees its future linked more strongly to China than to India. However, if India does develop into a global economy they will be looking to India as a potential market. But I don’t think we can expect to see the types of capital flows between Southeast Asian nations and India that we see between Southeast Asia and China.

So it’s shaping up to be a classic Year of the Rooster, which is supposed to be a confrontational year with a number of changes along the way."

Richard Bard - US: Okay but not robust

Richard Bard is founder and manager of Bard Capital Partners LLC, a private investment company that has been involved in the acquisition and operation of several significant private and publicly traded businesses and real estate investments over the last 20 years. He is also chairman and CEO of WG Global, Inc., a privately owned company which is the leading global provider of surface preparation solutions and equipment to the automotive, aerospace and foundry industries throughout the US, Europe and Asia. He has served as chairman of the board of the Federal Reserve Bank of Kansas City and is now the deputy chair. Bard has an MBA in finance from Bernard M. Baruch College at the City University of New York and a Bachelor of Science degree in civil engineering from The Pennsylvania State University. In 2001, he was selected by the University of Colorado Board of Regents to receive the degree of Doctor of Humane Letters.

To gain insights into how the US economy looked from the perspective of business people in the trenches worldwide, Richard Bard sent written surveys to the management team of his two global companies Blastrac Global and Wheelabrator Group, Inc. “About 50 middle managers gave me a personal view of what they see for the economy in 2005, 2006,” said Bard, addressing the Global Executive Forum.

“I didn’t see the word ‘robust’ anywhere in the survey responses. Across the board, the feeling is that there is a slowing of the economy because of energy costs. The auto industry and the pressure it’s putting on suppliers is huge. One of our major foundry customers went bankrupt last week.”

Most people are surprised to learn that “Canada, not Saudi Arabia, is the largest supplier of oil to the United States,” said Bard, adding “Canada has tremendous natural resources.” It’s not just the cost of energy that’s putting a damper on the economy and corporate earnings, said Bard. “I think there are a lot of non-monetary issues, perhaps non-liquidity issues that are affecting business and business decisions.”

Among these is “the price of health care, which is gigantic. The cost of insurance has been going up, and there’s a huge swelling of supply chain costs. Virtually every supplier is attempting to put some price increases through the system. The costs of steel and some basic commodities are up 100 percent in some cases from January 2004.”

As far as the Federal Reserve Bank is concerned, “the economy remains robust. For the past 23 months manufacturing in the US has shown growth. The April numbers showed a slowing in manufacturing
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growth but still growth. It’s pretty much the same for retail. Retail sales are up; in fact shopping center growth across the country is huge.

“Home building permits, new home starts, re-sales have all been strong. There’s a nice curve in terms of growth in non-defense capital spending.”

“The question is not if a company will outsource but where they will outsource. So the growth of the outsourcing trend will continue to be big.”

In his own companies, Bard said, “The infrastructure businesses have been the strongest. The rail industry has probably been our biggest growth engine. The aerospace industry is strong, particularly the military sector.” Nevertheless, Bard believes “a soft patch is coming because of the burden of operating costs on corporate earnings.”

Other pressures

In addition to what Bard calls “cost inflation,” other pressures are impacting corporate earnings. “There is strong pent-up demand for employee raises and bonuses, which wasn’t an issue a couple of years ago when there was an acute shortage of jobs.

“The strongest hiring market is in the northwest; the weakest in the south and southeast which have lost many of their manufacturing companies to Mexico, China and Southeast Asia. So I think the south and southeast may be looking at different growth curves than the rest of the US.

“The word ‘outsourcing’ showed up in many different survey responses. The question is not if a company will outsource but where they will outsource. So the growth of the outsourcing trend will continue to be big.”

During the most recent US economic slump, consumers’ spending habits prevented the economy from sliding too deeply into recession. But that has a downside. “I think there is now some worry about the high debt burden and low savings of the average consumer,” said Bard. “It’s a pretty interesting phenomenon in terms of people living off the equity in their homes and accumulating debt.”

Looking to the future of the global economy, Bard sees the US maintaining its leadership role. “Europe will return as a dominant trading partner which is good for the US in the long term. Certainly China will be a strong economic player, as will India in time.”
**Colorado looking good**

The turnaround in the Colorado economy is accelerating, said Richard Bard. “In March of this year, Colorado created 14,000 new jobs, which was 10 percent of the growth of the whole United States.” The state is rich in natural resources and “the prices of uranium and iron ore and coal are driving more exploration and more mining investment in Colorado.

“The real estate market has been strong from retail to industrial. Downtown Denver has been the strongest part of the commercial real estate market. We still have a soft patch up towards Boulder, but mountain properties have done very well,” said Bard. People are buying homes in Vail and Beaver Creek and Aspen. Prices in these communities were up 11 percent last year.

According to the Colorado Office of Economic Development and International Trade, “Colorado companies shipped $6.7 billion in manufactured, agricultural and mineral products to international markets during 2004, breaking the previous record of $6.6 billion set in 2000.” Exports to Canada, the state’s largest international market, increased by 16% in 2004. Exports to Mexico, Colorado’s second largest market, rose by 21%. Exports to China (including Hong Kong), the state’s third largest market, jumped by 41%.

“So generally speaking, the Colorado economy looks pretty good,” said Bard.